Management Discussion & Analysis

Financial Year Ended September 30, 2014 and Thirteen-Month Fiscal Period Ended September 30, 2013
(expressed in Canadian Dollars)

BluMetric Environmental Inc.

February 2, 2015

On November 6, 2012, with shareholder approval, Seprotech Systems Incorporated ("Seprotech") filed Articles of Amendment changing its name to BluMetric Environmental Inc. ("BluMetric" or the "Company"). On November 16, 2012, BluMetric completed a reverse take-over (the "RTO") with WESA Group Inc. ("WESA"). On November 17, 2012 BluMetric and WESA were amalgamated. In accordance with IFRS 3, comparative historical financial information referred to in this discussion and analysis reflects the results for WESA for the respective periods, except that results for the former Seprotech have been included from November 17, 2012.

This discussion is dated as of February 2, 2015, and explains the material changes in BluMetric's financial condition and results of operations for the financial year ended September 30, 2014 (the "FY 2014") and compares these results to the previous 13-month fiscal period ended September 30, 2013 (the "FP 2013"). The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. The consolidated financial statements and notes thereto constitute an integral part of the discussion and should be read in conjunction with these comments.

This discussion and analysis of the financial condition and the results of operations contain forward-looking statements about expected future events and the financial and operating performance of the Company. These statements, which include descriptions of the Company's business strategy, potential variances impacting the Company's internal and external performance drivers, and the Company's ability to meet its ongoing working capital needs through the ensuing 12 months, are included in the "Selected Financial Information", "Liquidity", and "Business Outlook" sections which follow. These statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements.

No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented here.

Description of Business

BluMetric Environmental Inc. (www.blumetric.ca), a cleantech company, delivers sustainable solutions to complex environmental issues. The Company serves clients in many industrial sectors, and at all levels of government, in Canada and abroad. The Company and/or its predecessors have been in business since 1976.

The Company's business is executed by a staff of approximately 160. Operations are located in eight offices in Canada (Ottawa – Headquarters, Toronto, Montreal, Kitchener, Gatineau, Kingston, Sudbury, and Yellowknife), and through an office in El Salvador which services projects in the Central American region.

Within the overall organizational envelope, the various offices have a high degree of autonomy, and each office's respective market focus is slightly different in response to the industrial sector opportunities particular to its location. For example, the Yellowknife office is focused on northern contaminated site remediation and mining projects in the north; the Kitchener office services a variety of commercial and industrial sectors such as auto parts manufacturing, land development, and waste management; other regional offices show a similar sensitivity to local needs.

While the Company's current geographical focus is the Americas, historically the Company has also undertaken significant project assignments internationally in the United States, Africa, the Middle East, Central America, and the Caribbean.

The Company's geographic and market focus distribution provides a degree of risk mitigation as a result of this diversification, as some industrial sectors and regions are more active than others at any given time. No one industry sector accounts for more than 25 percent of the Company's revenues.

The head office of BluMetric is at 3108 Carp Road, Ottawa, Ontario, K0A 1L0.

Core Business Units and Their Products and Services

Water is the Company's primary focus although business strengths also include other media such as soil and air. BluMetric delivers its product and service offerings through two operating groups, as follows:

1. The Professional Services group provides environmental earth sciences and engineering solutions, contaminated site remediation, water resource management, occupational health& safety, renewable energy expertise, and services in sub-disciplines such as Geomatics and unmanned aerial vehicle (UAV) data gathering.

2. The Water Systems group is focused on military contracts, design-build, and pre-engineered solutions to industrial/commercial water and wastewater treatment needs,

as well as the development and marketing of specialised products for water, wastewater, and waste treatment.

BluMetric Professional Services Group

This group comprises scientists, engineers, industrial hygienists, environmental auditors, project managers, financial specialists, and support personnel. BluMetric prides itself on finding cost-effective, practical, and sustainable solutions to each client's environmental issues. BluMetric offers a wide range of environmental professional services, including but not limited to:

- Hydrogeology and hydrology
- Environmental assessment and due diligence
- Engineering, rehabilitation, and design
- Renewable energy, waterpower, and hydraulic structures
- Geomatics, bathymetrics, and UAV data collection
- Industrial hygiene and occupational health & safety
- Management systems

BluMetric Water Systems Group

BluMetric's Water Systems group designs, manufactures, and implements water and wastewater treatment systems for industrial, commercial, and government clients. Focus is on the selection of the most appropriate technologies and processes for each client's needs. The group provides a single-source solution from process definition through construction, commissioning, and on-going support. In general, the services provided fall under the following headings:

- Equipment, product, and technology offerings
- Service offerings

In addition to the above, the Water Systems group provides extensive service to the Canadian Armed Forces under long-term contracts for the maintenance, repair, refurbishment, and upgrading of the Canadian Army's Reverse Osmosis Water Purification Units (ROWPU) and for the Navy's Shipboard Reverse Osmosis Desalination (SROD) systems.

Strategic Update

The Company's short-to-medium-term strategy is focused on returning the Company to profitability using a variety of tactical measures (including pricing/margin management, SG&A cost reduction, and project management adjustments) as well as focusing on high growth, high margin services. This turnaround phase is expected to take some time to complete, although there are already signs of progress. (Please see "Results of Operations" below).

Diversity is viewed by management as a long-term strategic differentiator between BluMetric and the competition. To support this diversity, management views a top line of $40 million as necessary for sustainable profitability. The most expedient pathway to this revenue target is to grow the Water Systems group to high-margin revenue of $18+ million, built on an existing strong project backlog in military and new growth in the design-build and aftermarket parts businesses.

At the same time, management will reinforce and support the Professional Services group to steady revenues of $22 million, a modest growth of 5%. Efforts will be directed toward improving margins and project management.

The growth in the Water Systems Group is expected to occur over a period of 12-to-18 months from the third quarter of FY2014. This lag is a product of the longer project cycle in the Water Systems Group (6 to 12 months plus in most cases). The initial growth is anticipated to originate from the existing project pipeline, estimated to be on the order of $46.0 million at the end of FY2014. Like Professional Services, this growth will not be allowed to occur at the expense of targeted margins.

Professional Services will strengthen its existing markets in the near to medium term and will focus expansion activities on some key service lines, most notably Geomatics (data acquisition facilitated by unmanned aerial vehicles (UAVs) and bathymetric platforms and hydrology. Water Systems will focus initially in the industrial markets catering to food and beverage, mining, and residential development, with an integrated package of products.

The Company is in the process of developing a stronger representative network (currently three in California, two in the American north-east, two in Central America and one in Peru) to deliver its design-build water and wastewater treatment solutions and products, particularly in the Americas. This is expected to take advantage of the growing recovery of the United States economy, and that country's urgent need to repair or replace aging infrastructure, thereby facilitating measured and financially feasible reconstruction. There is a similar need for new solutions in infrastructure in the growing economies of South and Central America. These economies have a growing middle class and have recently signed trade agreements which require them to participate fully in environmental initiatives often driven by North American based project owners and clients. This is being done with the introduction of new products such as COBRA (combined membrane bioreactor) and the H4 (Heavy Fuel Oil Recovery Unit).

The Company's working capital is expected to support planned business operations through fiscal 2015, provided it is able to complete a number of financing initiatives currently in progress. While the Company continued to report a working capital deficit at the end of the 12-month financial year ended September 30, 2014, this was largely due to the re-classification of bank term debt as a current liability, in light of a cross-default (financial covenant out of compliance) with the operating line of credit.

Key Performance Drivers

Management believes that the Company's business segments continue to be somewhat insulated from international economic and commodity demand factors, since much of its revenues are in Canadian dollars and derived from the fee-for-service business which does not generally have raw materials cost exposure. As the business grows, especially in the US and Latin America, the Company will gain some positive impact from recent adjustments in exchange rates, assuming continued relative strength in the U.S. dollar compared with the Canadian dollar. All international projects are quoted in U.S. dollars historically and in the future. Other external performance drivers include the interplay between regional and global economic conditions and the degree to which potential clients place emphasis on environmental issues (regulatory or otherwise) in their business practices.

To the extent that major customer segments (e.g. the mining industry) are impacted by external performance drivers (such as global commodity prices), there could be an impact on some components of the business, and particularly with regard to the mining sector. However, the product pipeline remains robust, and there are several mining jobs being bid. As mentioned before, such effects continue to be somewhat mitigated by the diverse nature of the Company's product and service offerings, which typically results in the various customer segments not experiencing adverse business conditions at the same time.

Beyond these external and international factors, some key performance drivers remain:

- the ability of the Company to continue to retain high-quality staff;
- the development and application of new, disruptive technology and services such as UAV services and the application of geomatics (which embrace alternative schemes for information collection analysis and management), ;
- success of management efforts to further streamline the organization;
- competitive pricing (often a reflection of an innovative approach to the selected solution);
- management's ability and skill in developing the Company's market presence and in delivering client service and design-build projects;
- tight control of project and overhead costs, assisted by information management systems and preferential pricing offered by suppliers and partners;
- adequate and available working capital;
- maintenance of a high level of customer satisfaction; and
- ongoing strong commitment to environmental and social responsibility.

In the near term, successful execution with respect to these performance drivers is expected to result in a return to the positive cash flow and earnings that the Company recorded historically over many years prior to the RTO, and shortly thereafter a return to revenue and profit growth.

Capability to Deliver Results

Board of Directors

The Board of Directors consists of five members, four of whom are independent. The independent directors reflect a wide range of expertise – financial, entrepreneurial, operational, and governance – both inside and outside the environmental sector. The Company is actively seeking to recruit one or two additional board members having complementary experience.

Executive Management

Composition of the Executive Management team is unchanged from the last fiscal period end.

The Executive Management team comprises: Roger M. Woeller, CEO; Nell van Walsum, President, Professional Services group; Dan Scroggins, President, Water Systems group; and Ian W. Malone, Chief Financial Officer. (Subsequent to year-end, and as previously disclosed, Mr. Malone is retiring as CFO and is being replaced by Ms Vivian Karaiskos.) This team is supported by well-qualified and highly experienced individuals leading business development and operations. BluMetric has strong representation in each of the Company's branch offices and major service sectors.

Employees

The Company has a team of approximately 160 full-time equivalent staff. Staffing levels fluctuate seasonally with the hiring of temporary staff (primarily students) to meet peak demand periods. Pre-RTO, the two companies had combined staff of approximately 150 full-time equivalents. New hires grew the staff complement to a peak of approx. 196 by the first quarter of 2014 (including seasonal hires). This proved to be too-rapid an expansion and staff levels have been reduced successively through fiscal 2014 to the current level. This is net of new hires in certain growth areas (geomatics and hydrology). The redefinition of roles and authorities company-wide has resulted in a more streamlined structure and operations based upon strengthened project and client management practices and improvements to staff sharing, financial monitoring and forecasting activities.

Diversity

The Company has a history of commitment to cultural and gender diversity, the latter in recognition of the superior results that can be expected to flow from embracing the benefits of the intellectual knowledge, skills and experience of both genders. Among the Company's two groups, one, our Professional Services group, is headed by a woman, Nell van Walsum, one of the four members of the Executive Management team. As noted above, Ms Vivian Karaiskos is taking over the CFO role, which will further improve the gender balance of the senior management team.

Jane Pagel, a director of the Company, is Chair of the Nominating and Governance Committee and will take appropriate initiatives to improve gender balance at the board level as a matter of course.

The Company intends to be in compliance with pending regulatory changes in this area of governance, as quickly as feasible following formal imposition of such changes.

Selected Annual Information

The following table shows selected consolidated financial data for BluMetric for the three most recently completed fiscal periods; it should be noted that the following amounts only include consolidation of financial results of the former Seprotech since the date of the RTO (November 16, 2012). Since the RTO took place prior to the end of WESA's 2012 fiscal year, no comparative annual information for the year ended November 30, 2012 was filed; however, audited financial statements for WESA Group Inc. for the nine months ended August 31, 2012 have been filed and are summarised below.

For the twelve months ended September 30, 2014, the thirteen months ended September 30, 2013, and the nine months ended August 31, 2012:

	2014 (12 months)	2013 (13 months)	2012 (9 months)
	$	$	$
Total revenue	27,308,777	31,549,194	16,645,601
Gross margin	5,520,786	5,612,915	2,892,789
Gross margin percentage of total revenue	20%	18%	17%
Total SG&A expenses	7,500,905	7,410,718	2,826,070
Net income (loss)	(6,938,737)	(2,316,252)	(114,104)
Common shares outstanding	25,191,656	23,592,713	16,988,758
Net income per share	(0.28)	(0.10)	(0.01)
Total assets	12,816,907	20,244,378	13,948,908
Working capital	(2,374,792)	(1,787,469)	2,550,543
Long term debt	3,479,369	2,517,603	1,706,722
Shareholders' equity (deficit)	(512,842)	6,223,730	5,309,825

Readers are reminded that the 2013 fiscal period was one-month longer than the comparative prior period, which may distort comparative analysis.

Results of Operations

For the three and twelve months ended September 30, 2014 and the four and thirteen months ended September 30, 2013

Highlights - Fourth Quarter 2014

	Three Months Ended				Twelve Months Ended			
	Sep 30, 2014	Sep 30, 2013[1]	Change	Change	Sep 30, 2014	Sep 30, 2013[2]	Change	Change
	$	$	$	%	$	$	$	%
Revenue	6,567,668	11,949,713	(5,382,045)	-45%	27,308,777	31,549,194	(4,240,417)	-13%
Gross margin	1,027,386	1,904,229	(876,843)	-46%	5,520,786	5,612,915	(92,129)	-2%
Gross margin %	16%	16%			20%	18%		
SG&A expenses	2,151,905	2,945,376	(793,471)	-27%	7,500,905	7,410,718	90,187	1%
Net loss	(5,680,773)	(1,229,476)	(4,451,297)	-362%	(6,938,737)	(2,316,252)	(4,622,485)	-200%
Common shares outstanding	25,191,656	25,191,656	-		25,191,656	23,592,713	1,598,943	
Net loss per share	(0.23)	(0.05)	(0.18)		(0.28)	(0.10)	(0.18)	
Total assets					12,816,907	20,244,378	(7,427,471)	
Working capital					(2,374,792)	(1,787,469)	(587,323)	
Long term debt					3,479,369	2,517,603	961,766	
Shareholders' equity (deficit)					(512,842)	6,223,730	(6,736,572)	

(1) 4 month period
(2) 13 month period

Revenues in the fourth quarter were $6,567,668, compared with $11,949,713 for the four-month period ended September 30, 2013, a decrease of $5,382,045, or 45%. The lower revenue was largely a reflection of contract delays outside the Company's control. The gross margin period-over-period was unchanged at 16%. The revenue split between the Water Systems and Professional Services groups was 25% and 75% respectively.

Activity in the Professional Services group was moderate during most of the quarter, but experienced some softness in August. The Water Systems group was behind targeted revenue, and reported considerable margin weakness primarily as a result of client- generated project delays and the ongoing maintenance of budgeted SG&A and direct project expenses.

SG&A expenses of $2,151,904 incurred during the quarter reflect continuation of the measures implemented to reduce overhead, including a series of staff reductions, office consolidations and associated expenses. These overhead reductions represent a significant improvement (27%) over the $2,945,376 incurred in the prior four-month period and benefits are expected to continue into FY2015 where a further positive impact should be realized.

The Company has taken a $4,324,567 million impairment of goodwill which was allocated to the Water Systems group at the time of the RTO. This write-down has no cash impact on the Company's operations.

The net loss for the quarter was $5,680,773 compared with net loss of $1,229,476 for the comparable prior four-month period, which is a significant deterioration. This loss is largely attributed to the non-cash goodwill impairment described above as well as the delay of revenue in the Water Systems group where several key projects were deferred due to client imposed delays beyond the Company's control.

Highlights – Financial Year Ended September 30, 2014

During the financial year ended September 30, 2014 the Company was slightly below target with consolidated revenues generated reaching $27.3 million. The operating loss for the period was $6.3 million, compared with $2.0 million for the 13 months ended September 30, 2013. The net loss and comprehensive loss for the period were $6.9 million, and $2.3 million respectively.

Discussion of Results and Financial Condition for the Financial Year Ended September 30, 2014

This analysis compares the financial year ended September 30, 2014 with the 13-month financial period ended September 30, 2013.

During the financial year ended September 30, 2014, total revenues were $27.3 million (13 months ended September 30, 2013 - $31.5 million) a decrease of approximately $4.2 million

(13%), largely attributable to customer-driven contract delays as well as competitive conditions on contracts being bid. The contribution to revenue for the period was approximately $6.9 million from the Water Systems group and approximately $20.4 million from the Professional Services group, a slight decrease from the amount that was attributable to the former WESA alone for the comparable period.

Gross margin for the financial year ended September 30, 2014 was $5.5 million, or 20% (13 months ended September 30, 2013 - $5.6 million or 18%), which represents a modest year-over-year improvement from 2013.

SG&A expenses for the financial year ended September 30, 2014 were $7.5 million, which was almost unchanged when compared with the 13 months ended September 30, 2013, reflecting the inherent delay in the recognition of the impact of cost-reduction measures associated with staff and occupancy costs. Occupancy cost reductions, for example, were only first realized in August of 2014 and cost savings associated with personnel reductions are ongoing.

The Company has taken a $4.3 million non-cash write-down of goodwill with respect to the portion of goodwill that had been allocated to the Water Systems group at the time of the RTO. This write-down has no cash impact on the Company's operations.

Finance costs of $539,064 for the financial year ended September 30, 2014 were significantly higher than the $357,244 reported for the 13 months ended September 30, 2013, reflecting higher credit utilization and increased interest rates applicable to a number of the Company's debt obligations.

The result was a net loss of $6.9 million for the financial year ended September 30, 2014 compared with a loss of $2.3 million for the 13 months ended September 30, 2013.

Shareholders' equity decreased to a deficit of $512,842 as at September 30, 2014 (September 30, 2013, equity of $6.2 million), reflecting the impact of the reported loss.

The Consolidated Statement of Financial Position as at September 30, 2014 reflects a working capital deficit of approximately $2.4 million which is a deterioration from the $1.8 million reported at September 30, 2013. Working capital for both years includes long-term bank debt/mortgages that have been re-classified as current (result of cross-default triggered by the Company's failure to meet its financial covenants).

Segmented Information

Revenue

	For the twelve months ended September 30, 2014	For the thirteen months ended September 30, 2013
	$	$
Professional Services	**20,443,591**	21,410,154
Water Systems	**6,865,186**	10,139,040
	27,308,777	31,549,194

Geographical Segmentation

The Company operates in three principal geographical areas, Canada (country of domicile), the United States, and other international, which represent wide distribution.

Sales reported by client location based on origin of purchase (i.e. domicile of contracting party, not final destination of equipment) are as follows:

	For the twelve months ended September 30, 2014	For the thirteen months ended September 30, 2013
	$	$
Canada	24,564,709	28,412,835
International	1,670,438	2,202,366
United States	1,073,630	933,993
	27,308,777	31,549,194

Technology and Innovation

The Company operates in a business environment (environmental geosciences and engineering, water treatment, occupational health and safety, etc.) and market areas (a wide variety of industrial sectors) that are continually being influenced by technological advancement and innovation, improvements in best practices, changes in environmental regulatory requirements, and the like. The future success of the Company will be partially dependent upon its ability to continue to expand its knowledge in the fields in which it operates.

Maintenance investment will continue in traditional product and service lines but a modest and focused investment in emerging products, services, and technology will be made to secure our future and to keep us on the cutting edge of our business. Emphasis on identification and development of disruptive technologies will support this strategy. *"A disruptive technology is a* *significant innovation, discovery or technology that creates new markets and displaces a previous technology or manual process."* The Company will adopt new and disruptive technologies and services that are currently in later stages of development and fully develop them as strong revenue contributors. Examples of this strategy include:

- The development of our geomatics service area which has extensively displaced photogrametry and other more traditional methods of data collection and analysis,
- We are adding rainfall intensity measurement to our flood prediction and hydrological services, far superior to static rain gauge approaches,
- We have adapted drone or UAV technology to displace more traditional, expensive and restricted data collection platforms such as manned helicopters and light fixed wing aircraft. To this end we have purchased a second UAV and tasked it to agriculture, aggregate, mining, drainage projects.
- We have invested in the testing and design of our membrane bioreactor systems (COBRA TM) in conjunction with our variable depth reactor for industrial and domestic waste water treatment.
- We completed the prototyping, de-risking and development of the first commercial site for the H4 TM (Heavy Oil Recovery Process) for maritime bunkering and thermo-electric generation facilities,
- We are currently in the process of patent protection for a process that involves ammonia reduction to extremely low levels.

These investments represent a very modest investment in excess of $100,000 in FY2014 but will extend into 2015. Specific focus by each group is as follows.

Professional Services Group

In FY2014 and moving into FY2015 the group's strategy of technical and market development has been focused on five specific growth areas. These are:

- Northern projects;
- Mining sector;
- Data collection platforms and analysis (UAV, bathymetric systems), geomatics applications;
- Hydrology (urban flood prediction and management in conjunction with geomatics);
- Water treatment support services.

Water Systems Group

The strategy in 2014 and moving forward into 2015 is as follows.

- The group's major focus has been and will continue to be developing products, marketing materials (print, electronic, video), and contracts in the areas of high client demand, including;
    - H4 (heavy fuel oil recovery unit);
    - COBRA (combined membrane bioreactor);
    - Enhanced ammonia treatment unit.

- The group will invest, in the context of a reconstituted R&D environment, the group's new and emerging technologies, processes, and products will include;
    - Resource recovery and management, energy management/BOD reduction, and energy production;
    - Ammonia reduction (next generation);
    - RDC and sludge handling products for the municipal, food and beverage, land development, and mining sectors;
    - Technology licensing of emerging technology (such as the successful exclusive licencing of next generation LG™ membranes).

- We will maintain our traditional products look for enhancements as they relate to specific opportunities in our chosen sectors (mining, food processing, development, military) Products include;
    - Rotating Biological Contactor (RBC)
    - associated military products and services such as Shipboard Reverse Osmosis Desalinization (SROD), Reverse Osmosis Water Purification Units (ROWP
    - The military mini-wastewater treatment plants (MWWTP).

Cost Reduction and Margin Improvement Strategies

The Company is actively pursuing growth and expects certain costs to increase in advance of revenue growth. That said, and in view of the escalation of overhead costs since the RTO, the Company is continuing to review its cost structure with a view to optimizing internal efficiency. As indicated above, the Professional Services group must continue to perform as it has done historically and for the short term focus on continued margin improvement, whereas the Water Systems group has been extensively modified to operate at both higher levels of revenue growth and greater efficiency. The process undertaken was accomplished in two phases. First, management identified where immediate cost savings could be achieved, and second moved to increase margins by putting into play longer-term structural and process changes and efficiencies with better systems and better use of personnel, software, and other tools.
The details of the modifications are described below by group.

Professional Services Group

- Appointed a Manager of Operations to tighten process and focus on project management. The increase in gross margins has been realized with the identification of opportunity and efficiency;
- Administrative tasks of senior staff will be reduced by reallocating tasks to office administration staff. Utilization rates of senior staff have been increased accordingly;
- Centralized support functions for contract administration and human resources will be implemented;

- Project reporting will be improved to ensure timely information for project managers by project and by service area.

Water Systems Group

- Appointed Manager of Operations and Engineering in May 2014 to report directly to the President of the group;
- Consolidated production and manufacturing for all four Water Systems group business lines under a single Manager of Production at one location resulting in improved utilization of staff and clearer lines of authority;
- Diverted heavy manufacturing off-shore close to client sites where appropriate, while maintaining the high IP functions in Ottawa, including the ability to prototype;
- Reduced occupancy costs. Water Systems group space has been reduced from 28,000 to 14,500 square feet;
- Consolidated engineering, project management, and production at Carp Road, Ottawa.
- Reduced staff head count from 58 to 35 full time equivalents (FTE).
- Structure projects to minimize working capital demands and optimize cash flow. All new projects undergo rigorous assessment before selection and contracting and are being quoted at a minimum gross margin;
- Improve project management processes. Process flow from sale to commissioning has been formalized and is clearly shown for all staff. Reporting tools from finance will continue to be developed and modified to provide project managers with timely information regarding project profitability;
- We have developed and will continue to develop standardized products and processes to offer a service that is specific to clients' needs but with processes based on standard designs or standard component parts. We have optimized our engineering process to offer readily available designs into customized solutions.

Sales and Marketing

Historically, the Company's business has been developed largely through existing client relationships, word-of-mouth, and marketplace presence.

The Company has expanded its Corporate Development function to guide overall business development and growth initiatives (both organic and merger and acquisition activities), and to introduce major sales opportunities to operating units and provide marketing materials, market research, and similar kinds of support. As indicated above in the strategic intent section, the operating premise for FY2014 and FY2015 is to focus on servicing a strong and loyal client base and to broadening these relationships to strengthen recurring revenues. We have and will continue to add to our highly competitive and disruptive services to this end and replace those that are less profitable.

The Business Development team will be supported by a proposal generation group. This group began in FY2014 and has a greater than 50% success rate on submissions to date. Further development of this group is planned for FY2015.

Professional Services
The Professional Services group is targeting a modest growth in revenue over fiscal 2014. Such an increase is historically supported. As mentioned above, the focus will continue to be gross margin improvements.

Water Systems
The Water Systems group has four main areas of business and has implemented a well-defined business development structure to exploit these areas. The current project backlog going into FY2015 is $10.0 million; the "stretch" objective for FY2015 is to develop an additional $10 million of new work. Steps supporting this target were outlined above, with the following additional items:

- One senior manager will monitor and drive the pipeline and guide pipeline conversion opportunities into backlog projects for FY2015;
- A new Vice President of Commercial in the Water Systems group, hired in the third quarter of FY2014 will identify and promote future product offerings, opportunities, and projects; and
- Business development investment is expected to be focused in areas of demand, specifically but not exclusively including the following:
  - Mining;
  - Food and Beverage;
  - Land development and wastewater treatment; and
  - Energy (thermo-electric waste treatment and BOD conversion).

Quarterly Results – $000's (Except Earnings (Loss) per share)

Quarterly financial information for the eight quarters ended September 30, 2014
(in 000's, except as otherwise indicated)

	Q4 2014 Sep 30, 2014	Q3 2014 June 30, 2014	Q2 2014 Mar 31, 2014	Q1 2014 Dec 31, 2013
Revenue	6,568	6,498	6,618	7,625
Cost of sales	5,541	5,005	5,474	5,768
Gross margin	1,027	1,493	1,144	1,857
Gross margin %	16%	23%	17%	24%
SG&A expenses	2,152	1,650	1,991	1,708
Finance costs	156	127	137	119
Net income (loss)	(5,681)	(291)	(985)	18
Weighted average common shares	25,191,656	25,191,656	25,191,656	25,191,656
Income (loss) per share	(0.23)	(0.01)	(0.04)	0.00

	Q4 2013 Sept 30, 2013[1]	Q3 2013 May 31, 2013	Q2 2013 Feb 28, 2013	Q1 2013 Nov 30, 2012
Revenue	11,948	7,267	6,024	6,310
Cost of sales	10,045	6,016	4,945	4,930
Gross margin	1,905	1,250	1,079	1,379
Gross margin %	16%	17%	18%	22%
SG&A expenses	2,946	1,971	1,466	1,028
Finance costs	123	52	73	110
Net income (loss)	(1,229)	(773)	(490)	176
Weighted average common shares	25,191,656	25,191,656	25,191,656	18,323,761
Income (loss) per share	(0.05)	(0.03)	(0.02)	0.01

(1) 4 month period

Quarterly Trend Analysis

Quarterly trend analysis over the past eight quarters is affected by the completion of the reverse takeover during the quarter ended November 30, 2012. The three-month fiscal period ended December 31, 2013 reflects consolidated operations for the amalgamated entities for the entire period. Results for the three-month period ended November 30, 2012 only include results for the former Seprotech from November 17 to November 30, 2012. The Corporation changed its year end from August 31 to September 30 and consequently the current and comparative quarters are misaligned by one month. As a result of these factors, comparisons with prior periods may not provide a meaningful indication of relative performance. In addition, there are differences of a seasonal nature which are more prevalent in the Professional Services group than in the Water Systems group, which further affect comparative analysis.

Historically, the Company's business has followed a seasonal cycle which dictated that its former quarters, ended February 28 and May 31 respectively, experienced relatively lower levels of activity when compared to the balance of the year. This seasonal cycle is partly weather-related, as it is easier and more productive to conduct outdoor environmental investigations, site remediation activities, and various construction-related projects in Canada during the summer; additionally, the December holiday downtime period has a significant impact on the level of activity possible in that quarter each year (1st Quarter BluMetric).

Gross margin is lowest in the winter and spring quarters, and highest in the summer and fall quarters. This pattern reflects the reality that the Company's staff as a whole can achieve much higher "utilization" (percentage of time actively engaged in revenue-producing projects) during the summer and fall quarters.

In 2012, quarterly results followed the typical seasonal cycle of the Professional Services group. While the quarter ended November 30, 2012 reported lower revenue than for the same period in the previous year, the gross margin improved from 19% to 22%. Activities to complete the RTO during the late spring, summer, and autumn of 2012 contributed some disruption to normal activities.

Quarterly 2013 results were significantly impacted by activities associated with the RTO which closed in November 2012, with revenue for the first quarter largely reflecting pre-RTO WESA performance, and a small profit of $176,000 reported.

The second quarter 2013 results reflect the full consolidation of the amalgamated entities, as well as the usual negative seasonal impact on the Professional Services group. Revenues of approximately $6.0 million reflected on-budget performance from the Water Systems Group, but below-target revenue in the Professional Services group. The net loss of $490,000 was comparable with the prior year interim period net loss of $403,000, such a loss being normal course for that time of year.

The third quarter 2013 results reflect strong revenue growth relative to both the same period in 2012 and to the second quarter in 2013, with the Professional Services group moving closer to target as spring progressed. The Water Systems group, while still meeting revenue targets, experienced lower gross margins related to a change in the mix of work during the quarter. This, coupled with increases in certain overhead costs, resulted in a net loss of $773,000.

The fourth quarter ended September 30, 2013 was a four-month interval; hence, the results reflect an extra month. Gross margin increased to $1.9 million in the period from $1.3 million in the prior period, but in percentage terms slipped from 17% to 16%. SG&A expenses continued to grow, from $2.0 million at the end of the prior period, to $2.9 million for the period ended September 30, 2013. The reduction in gross margin, when combined with the increase in SG&A expenses, resulted in a net loss for the quarter of $1.2 million, or $0.05 per share.

First quarter fiscal 2014 results reflect consolidated revenue of $7.6 million, a $1.3 million or 21% improvement over the $6.3 million reported for the comparable prior period. The gross margin of $1.9 million or 24% was a 2-point improvement over the 22% gross margin reported for the first quarter of 2013.

Second quarter 2014 results reflect consolidated revenue of $6.6 million and a gross margin of $1.1 million (17%). SG&A expenses increased from $1.5 million in 2013 to $2.0 million in the quarter ended March 31, 2014. The continuing high level of overhead is expected to moderate as expenses related to staff reductions and facilities rationalization/monetization work through the system.

Third quarter 2014 results reflect a slight decline in revenues, from $7.3 million for the three months ended May 31, 2013 to $6.5 million for the three months ended June 30, 2014; the decline from the immediately prior period, which reported revenues of $6.6 million, was negligible. Gross margins were 23% for the quarter ended June 30, 2014, and 17% and 18% for the quarters ended March 31, 2014 and February 28, 2013 respectively. The improvements reflect a shift in management focus to improving margins at the expense of near-term growth objectives. Third quarter SG&A expenses also declined to $1.7 million from $2.0 million in the prior quarter and were slightly lower than for the comparable 2013 quarter. The net loss for the period was $291,000 compared with a net loss of $985,000 for the prior quarter, and a net loss of $773,000 for the comparable 2013 period.

Fourth quarter 2014 results report revenue of $6,567,668, which is lower than the four-month 2013 quarter. Gross margin improved year over year by 2%, reflecting a shift in corporate focus to higher-margin business. SG&A expenses were lower than for the four months ended September 30, 2013, but higher than reported for the immediately prior quarter, mainly due to an increase in bad debt expense for some receivables, mainly foreign ones (Mexico) deemed uncollectible and an increase in office and related expenses. Interest costs are trending up, and are expected to be higher going forward, reflecting adverse changes to some of the Company's banking arrangements.

Liquidity

The Corporation had a working capital deficit of $2.4 million at September 30, 2014, which as noted above is a significant increase from the $1.8 million reported at September 30, 2013.

The Company has an operating line-of-credit facility, provided by a Canadian chartered bank, with a limit of $2.0 million under normal margin and compliance requirements. As at year end, the Company was fully compliant with asset coverage requirements, and the facility was undrawn a number of times during the year. However, as noted above, the Company is not in compliance with bank financial covenants, which has resulted in a cross default of term loans provided by the bank such that approximately $673,000 had to be re-classified as current liabilities, which contributed significantly to the working capital deficit at period end.

During the financial year ended September 30, 2014, the Company re-mortgaged its head office building for net proceeds of $836,383. In addition it is taking several steps to improve its working capital position, including the following:

- Pursuing additional leverage of the Company's other assets; and
- Planning for additional equity or quasi-equity funding.

There can be no assurance that the Company will be successful in any or all of these efforts.

The recurring seasonal/cyclical patterns of the business typically result in one unprofitable quarter (January – March), one roughly break-even quarter (April – June), and two successive profitable quarters (July – December) in each fiscal year. Use of bank lines of credit generally increases during the busier and more-profitable period of each year, and cash usage reduces during the slower periods of the year as receivables are collected and expenses decline. With the smoothing of revenues, seasonal swings in revenue and cash usage are expected to moderate.

Business Outlook

The following comments include forward-looking information and users are cautioned that actual results may vary.

The Company's operating performance is subject to internal factors, which can be controlled, and external factors, which are less controllable, but can in some cases be anticipated and corrective action taken.

External Environment

The Company primarily operates in Canada and in South America, and through fiscal 2014 has continued to see signs of a significant increase in activity in the United States. The latter activity primarily comprises sale of wastewater treatment, and until recently water treatment, facilities. Typical clients for wastewater treatment plants are municipalities in the U.S. and Canada; mines in remote locations; and food processing and resort complexes in Latin America. Typical clients for water treatment plants are mines and industrial manufacturers who require clean water as part of their manufacturing process but are precluded from using the region's fresh-water resources for environmental reasons. This would potentially be a reverse osmosis facility using salt water input, for example. We have not included this highly competitive "fresh-water market" in our strategic approach for FY2014 and going forward outside of development of our Canadian military applications.

Internal Environment

The Professional Services group is managing its field staff more closely and focusing on developing growth areas such as geomatics, hydrology, northern projects, mining sector projects, and water and wastewater treatment projects (with synergies with the Water Systems

Group) specifically in the mining, food and beverage, and development sectors. As has been noted elsewhere, the winter months are typically the slowest months in the Professional Services group; however, this has been somewhat mitigated in 2014 by the award of two large contracts which will provide revenue through this slower period.

The Water Systems group has made significant progress in getting costs under control, by cutting at least two layers out of the management structure, better aligning headcount, and rationalizing occupancy costs. Cost reductions began to be felt in late FY2014 and will continue into FY2015. In 2015, this group's activities will focus on pushing higher value-add products into existing and new markets and retaining high IP and prototyping capacity in Canada. The development and sales of our COBRA and H4 systems reflect this approach in the immediate term going forward. Our outsourcing of heavy manufacturing, such as tankage and large assembly to a limited number of specialty subcontractors has bettered our margins by reducing production and transportation costs without compromising quality. South and Central America were targeted geographically in FY2014 and this focus continues into FY2015, as in the previously announced Panama Canal project.

Corporate Focus

In the coming quarters, the Company is targeting organic revenue growth as well as growth through association and co-venturing with technology suppliers in allied fields and sectors. This will require:

- Continuing to improve margins and tightly manage overhead, with careful cost-structuring in existing operations and branch offices in both groups;
- Maintaining margins in the Professional Services group and growing Water Systems group preliminarily with the existing technical and sales staff;
- Supporting and increasing the existing client base;
- Focusing our attention on the Americas and the Canadian north;
- Selectively increasing staff complements in existing operations in high-growth and high-margin pursuits to increase revenues and gross margins and build earnings; and
- Partnering with complementary businesses that also have disruptive or compelling technology in strategically important sectors or locations.

A new metric, the BluMetric Project Pipeline, is prepared by management and used to build Company revenue forecasts. Updated on a bi-monthly schedule, it forms the source of all predicted project-related business. No single forecasting tool can adequately represent what can be expected from this vibrant and expanding business, but the Company is trying to provide a representation of the potential growth management sees within reach.

The Pipeline as constituted assumes the Company will have generated sufficient working capital to support the underlying activities necessary to achieve the respective targets. The key to BluMetric's progress as a company is a joint effort generated by continued profitable performance by the Professional Services group, and revenue and margin growth in the Water Systems group, both making maximum use of the existing infrastructure

In developing the Pipeline, BluMetric management saw strategic benefit in having the two BluMetric groups working in concert for business development and technical/scientific problem solving and engineering design. Business development has been shown to benefit from intergroup opportunity identification and generation, while client delivery has benefitted from the combined technical and scientific and engineering problem solving expertise of both groups.

There is additional background input for both backlog and pipeline estimates, as below:

The following comments include forward-looking information and users are cautioned that actual results may vary.

Backlog
The backlog for the Water Systems group at the conclusion of FY2014 is approximately $10.0 million broken out as follows: $6.0 million for Military and $4.0 million for design-build, standard products, and after-market support.

Pipeline

The total value of all potential projects within the Water System group pipeline currently exceeds $47 million. However, only a portion of these potential projects can be expected to convert to revenue. Management has a system of weighting the probability of jobs which results in a projected potential value in the $15-20 million range for fiscal 2015 (i.e. potentially booked in fiscal 2015, with revenue recognized in fiscal 2016). The pipeline especially as it relates to international projects is solid in its numerical valuation but somewhat less predictable in its timing. This expectation has been included in our forecasting to the best of our ability, but given current trends in the economy, as well as the continuing fragility of the recovery in the U.S., there can be no assurance that these opportunities will materialize.

Capital Resources

The Company had a shareholder deficit at the end of FY2014, largely as a result of a non cash impairment charge of goodwill of $4.3 million as well as continuing negative earnings. However, despite the working capital deficit, management is continuing to explore opportunities to raise additional capital to support corporate growth.

While ongoing fixed asset needs are modest, and typically relate to purchase of computer and office equipment for either replacement purposes or to equip new staff, the Company's future growth strategy contemplates both business acquisitions and internal growth. Accordingly, the Company may opportunistically approach the capital markets for additional equity funding if conditions are favourable.

Business Risks

The Company is subject to a number of risks and uncertainties in the normal course of business which could materially affect the financial condition of the Company. These risks and uncertainties, include, but may not be limited to, the following:

- The Company's continuing ability to negotiate and secure contracts, and to maintain or grow revenues organically and through strategic alliances, mergers. and/or acquisitions;
- The Company's ability to control costs and to return to generating positive and increased profit margins;
- Reliance on key personnel;
- The ability to grow revenues through network of sales representatives, particularly in the US;
- The ability to maintain the working capital line of credit at the current or a higher level;
- Competition from companies which are better-financed; and
- Sustained economic recovery in the U.S.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

All related-party transactions are conducted under terms and conditions reflecting prevailing market conditions at the transaction date and are recorded at fair market value.

On November 15, 2012, the Company reached agreement with a number of creditors with respect to repayment terms for outstanding amounts payable, in the aggregate amount of $958,285. Of this amount, $450,452 is owed to related parties. The agreement requires the Company to repay this amount on a monthly basis, with blended payments of $22,947 principal and interest at 7% per annum such that repayment in full will be effected in four years. A gain on restructuring was recognized in the thirteen-month period ended September 30, 2013 in the amount of $133,754. Effective March 1, 2013, payments were suspended and the outstanding balances have been postponed in favour of the Company's bank.

Proposed Transactions

As at September 30, 2014 there were no significant assets or business acquisitions or dispositions being considered by the Company.

Inter-Corporate Relationships

BluMetric has one wholly owned subsidiary, WESA Tecnologias S.A. de C.V., located in El Salvador

Financial Instruments

The following table summarizes information regarding the carrying values of the Company's financial instruments:

Classification	Measurement	Carrying Value Sep 30,2014 $	Fair Value Sep 30,2014 $	Carrying Value Sep 30,2013 $	Fair Value Sep 30,2013 $
Loans and receivables					
Accounts receivable	Amortized cost	**5,038,457**	**5,038,457**	7,204,156	7,204,156
		5,038,457	**5,038,457**	7,204,156	7,204,156
Financial Assets Through Profit and Loss					
Investment held for sale	Fair Value (L1)	**33,626**	**33,626**	-	-
		33,626	**33,626**	-	-
Other Financial Liabilities					
Bank indebtedness	Amortized cost	**180,626**	**180,626**	1,258,471	1,258,471
Credit facilities	Amortized cost	**780,000**	**780,000**	1,520,000	1,520,000
Trade and other payables	Amortized cost	**5,358,891**	**5,358,891**	6,230,676	6,230,676
Note, advances and loans payable	Amortized cost	**517,737**	**517,737**	337,971	337,971
Long term debt	Amortized cost	**3,479,369**	**3,479,369**	2,517,603	2,517,603
Convertible debenture	Amortized cost	**1,231,949**	**1,231,949**	1,130,684	1,130,684
Due to shareholders	Amortized cost	**269,531**	**269,531**	269,531	269,531
Contingent consideration	Amortized cost	**156,282**	**156,282**	156,282	156,282
		11,974,385	**11,974,385**	13,421,218	13,421,218

Risk Management

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarised below. The main types of risk are Credit Risk, Market Risk and Liquidity Risk.

The Company's risk management is co-ordinated in close cooperation with the board of directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The financial instrument that potentially exposes the Company to credit risk is accounts receivable.

The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its receivables in order to mitigate any possible credit losses.

The Company's management considers that all financial assets which are not impaired or past due for each of the September 30, 2014 and September 30, 2013 reporting dates under review are of good credit quality.

Accounts receivable that are past due and present a potential credit risk are as follows:

	2014	2013
	$	$
Past due 61 to 90 days	**522,319**	471,056
Past due greater than 90 days	**577,332**	1,311,643
Allowance for doubtful accounts	**(911,559)**	(415,965)
	188,092	1,366,734

The continuity of the allowance for doubtful accounts is as follows:

	2014	2013
	$	$
Opening balance	**415,965**	187,678
Bad debt expense provision	**949,721**	885,149
Accounts written off	**(454,127)**	(656,862)
Closing balance	**911,559**	415,965

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and bank indebtedness. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

The following table outlines the liquidity risk associated with the Company's payment obligations as at September 30, 2014 and September 30, 2013 respectively.

September 30, 2014			**Payment Due**		
	Total	**In less than 3 months**	**4 - 12 Months**	**2 - 5 Years**	**Over 5 Years**
	$	**$**	**$**	**$**	**$**
Credit facilities	780,000	780,000	-	-	-
Trade and other payables	5,358,891	4,396,606	962,285	-	-
Note, advances and loans payable	517,737	10,000	161,550	121,867	224,320
Finance lease obligation	8,918	991	2,972	4,955	-
Long-term debt	4,586,013	156,862	461,745	2,910,335	1,057,071
Convertible debenture	1,623,000	32,175	96,525	1,494,300	-
Due to shareholders	269,531	-	-	269,531	-
Contingent consideration	156,282	-		156,282	-
	13,300,372	5,376,634	1,685,077	4,957,270	1,281,391

September 30, 2013			**Payment Due**		
	Total	**In less than 3 months**	**4 - 12 Months**	**2 - 5 Years**	**Over 5 Years**
	$	**$**	**$**	**$**	**$**
Credit facilities	1,258,471	1,258,471	-	-	-
Trade and other payables	5,544,725	4,287,262	1,257,463	-	-
Note, loans payable and secured debenture	337,971	337,971		-	-
Finance lease obligation	25,122	3,835	11,505	9,782	
Long-term debt	2,785,152	205,606	603,774	1,610,218	365,554
Convertible debenture	1,751,750	32,175	96,525	1,623,050	
Due to shareholders	269,531		269,531		
Contingent consideration	156,282			156,282	
	12,129,004	6,125,320	2,238,798	3,399,332	365,554

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in interest rates. As at September 30, 2014 the Company had $780,000 in outstanding revolving credit facilities and $1,748,372 in long term debt which were floating rate obligations. A 1% increase in interest rates during the reporting period would increase the net loss and reduce equity for the period by approximately $25,000.

Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in currency exchange rates.

The Company operates internationally and is therefore subject to foreign currency risk as follows:

	September 30, 2014 CAD $	**September 30, 2014 US $**	September 30, 2013 CAD $	September 30, 2013 US $
Cash	(9,244)	(8,254)	(165,775)	(170,798)
Accounts receivable	505,533	451,369	1,083,293	1,116,117
Accounts payable	441,355	394,067	410,544	422,983

The Company incurs expenses and earns revenues in Canadian and U.S. dollars. To date the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure, but it endeavours to create natural hedges where there are opportunities to do so.

A 10% strengthening of the US dollar against the Canadian dollar would have decreased the net loss and increased equity during the reporting period by approximately $5,500.

Capital Management

The Company's objective is to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as comprising the Company's total shareholders' equity, credit facilities, note and loans payable, long term debt and the convertible debenture. In order to maintain or adjust its capital structure, the Company could issue new shares, or obtain new debt. To date, no dividends have been paid to the Company's shareholders and none are planned.

The Company's goal is to achieve a debt to equity ratio not in excess of 2:1. There were no changes in the Company's approach to capital management during the fiscal years ended September 30, 2014 and September 30, 2013.

Summary of Outstanding Shares and Dilutive Instruments

The Company currently has the following shares and dilutive instruments outstanding:

Shares: 25,191,656 common shares

Warrants: 131,875 broker warrants

Options: 2,081,775 options

Additional Information

Additional information on the Company can be found at www.blumetric.ca and at www.sedar.com

Management's Responsibility for Financial Reporting

The consolidated financial statements of BluMetric Environmental Inc. ("BluMetric" – formerly Seprotech Systems Incorporated) and all the information in this annual financial report have been prepared by management, which is solely responsible for the integrity and fairness of the data presented, including the many amounts, which due to necessity, are based on estimates and judgments. The accounting policies followed in the preparation of these consolidated financial statements conform to International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those that it deems most appropriate in the circumstances. Financial information presented throughout this report is consistent with that in the consolidated financial statements.

BluMetric maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that transactions are authorized, assets are safeguarded, and proper records are maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibility principally through its Audit Committee.

BluMetric's external auditors, MNP LLP, have conducted an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an audit opinion. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Roger M. Woeller
Chief Executive Officer

Ian W. Malone
Chief Financial Officer