

Management Discussion & Analysis

**Three and
Nine Month Periods Ended June
30, 2014 and Three and Nine
Month Periods Ended June 30,
2014 and
May 31, 2013**
(expressed in Canadian Dollars)



August 28, 2014

On November 6, 2012, subsequent to receiving 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-to-30, 2012.

This discussion is dated as of August 28 , 2014, and explains the material changes in BluMetric's financial condition and results of operations for the three- and nine-month periods ended June 30, 2014 ("Q3 2014") and compares these results to the three- and nine-month interim periods ended May 31, 2013 ("Q3 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 contains 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 herein.

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 169, including a temporary summer student workforce of 10. 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 the region in which it is located. For example, the Yellowknife office is focussed 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 also provides a degree of risk mitigation through diversification, insofar 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; BluMetric delivers its product and service offerings through two operating divisions, as follows:

1. The BluMetric Professional Services group provides environmental earth sciences and engineering solutions, contaminated site remediation, water resource management and industrial hygiene, occupational health & safety, and renewable energy expertise.
2. The BluMetric Water group is focussed on design-build and pre-engineered solutions to industrial/commercial water and wastewater treatment needs.

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
- Industrial Hygiene, and Occupational Health & Safety
- Management Systems

BluMetric Water Group

BluMetric's Water 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. We provide 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 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

While the Company's medium-to-long-term strategy remains unchanged, the driving need continues to be returning the Company to profitability, using a variety of tactical measures (including pricing/margin management, cost reduction, and project management).

In the near and medium term, the Company intends to continue with its strategy of increasing the geographic scope of its activities. Professional Services will be expanding further into Northern Canada, as well as strengthening existing markets such as the Windsor to Quebec City Corridor. The Company is in the process of developing a strong representative network to deliver design-build water and waste water treatment solutions and products, particularly in the United States. This is expected to take advantage of the growing recovery of the United States economy, and that country's urgent need to replace aging infrastructure, ahead of which the gap will be bridged with solutions which can extend the life of existing plants, thereby facilitating measured and financially feasible reconstruction. This is being done with the introduction of new products afforded through strategic alliances and research and development programs.

The Company's working capital is expected to support planned business operations through the current fiscal year and into fiscal 2015. While the Company continued to report a working capital deficit at the end of the nine-month fiscal period ended June 30, 2014, this was largely mitigated shortly after the quarter end by the re-mortgage of the Company's Head Office building in Ottawa, Ontario for gross proceeds of \$1,060,000. (See also below under "Liquidity".)

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 exchange rates and commodity prices, assuming continued relative strength in the U.S. dollar compared with the Canadian dollar. 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
- 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 executing 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 WESA recorded historically over many years prior to the RTO, and shortly thereafter a return to revenue 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 water industry.

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 group; and Ian W. Malone, Chief Financial Officer. This team is supported by well-qualified and highly experienced individuals leading each of the Company's branch offices and major service sectors.

Employees

The Company has built a team of approximately 169 (130 pre-RTO) dedicated staff, and until completion of the RTO, was owned entirely by employees active in the business, resulting in key employees having developed a very strong identity with the Company.

The Company implemented a 10% staff reduction late in the first quarter of 2014, and a further 8% reduction in the second quarter of 2014. These coincided with the typically slower winter and early spring periods. Incremental staffing needs for the Professional Services division during the busier summer months have been met by the use of temporary employees, which numbered approximately 13 at the peak. Also, the redefinition of roles and authorities Company-wide has resulted in a more streamlined structure and operations based upon strengthened project and client management principles, and near-term improvements to financial monitoring and forecasting activities

Gender Diversity

The Company has a history of commitment to gender diversity, in recognition of the superior results that can be expected to flow from embracing the benefits of intellectual knowledge of both genders. Among the Company's two groups, one, our Professional Services group, is headed by a woman, Nell van Walsum, which makes her one of the four members of the Executive Management team. Earlier in the year, BluMetric appointed Jane Pagel, a well-respected cleantech executive with a background in business and government, to the Company's Board of Directors. This appointment helps the Board to begin to reflect the diversity of BluMetric's middle management, which has a nearly even distribution of men and women.

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 Quarterly Information

The following table shows selected consolidated financial data for BluMetric for the three- and nine-month interim periods ended June 30, 2014 and May 31, 2013.

For the three and nine months ended June 30, 2014 and May 31, 2013

	Three Months Ended				Nine Months Ended			
	June 30,	May 31,	Change	Change	June 30,	May 31,	Change	Change
	2014	2013			2014	2013		
	\$	\$	\$	%	\$	\$	\$	%
Revenue	6,497,910	7,266,666	(768,756)	-11%	20,741,109	19,599,481	1,141,628	6%
Gross margin	1,492,804	1,250,363	242,441	19%	4,493,400	3,708,686	784,714	21%
Gross margin %	23%	17%			22%	19%		
SG&A expenses	1,650,188	1,970,842	320,654	16%	5,349,000	4,465,342	(883,658)	-20%
Net loss	(291,397)	(772,831)	481,434	62%	(1,257,964)	(1,086,776)	(171,188)	-16%
Common shares outstanding	25,191,656	25,191,656	-		25,191,656	22,902,358	2,289,298	
Net loss per share	(0.01)	(0.03)	0.02		(0.05)	(0.05)	(0.00)	
Total assets					17,182,210	17,967,021	(784,811)	
Working capital					(1,940,124)	(229,335)	(1,710,789)	
Long term debt					2,200,331	2,234,692	34,361	
Shareholders' equity					5,110,468	7,295,298	(2,184,830)	

Results of Operations

While the global business environment remained volatile, the ongoing enactment and implementation of environmental regulations has continued to create strong demand for the Company's service and product offerings. This trend is expected to continue, and the Company is working to ensure it can take advantage of opportunities as they arise.

Highlights

Three-month period ended June 30, 2014

The Company is continuing to fine-tune many aspects of its business, and during the quarter continued to shift emphasis away from revenue growth to focus on ensuring the right measures are in place to return to profitability.

Revenue in the third quarter 2014 was \$6.5 million compared with \$7.3 million for the quarter ended May 31, 2013, a decrease of \$0.8 million, or 11%. Most of the decline in revenue was attributable to the Water Division which, unlike in 2013, did not have the benefit of a positive bulge in military contract revenues during the current interim period, and in addition experienced customer-driven delays in the execution of two major contracts. The revenue split in the third quarter between the professional services and water divisions was 79% and 21% respectively.

Professional Services had a strong quarter, with divisional revenues of \$5.1 million being more than 7% higher than the \$4.8 million reported for Q3, 2013 and 11% higher than the \$4.6 million reported for Q2, 2014.

The consolidated gross margin of \$1.5 million (23%) for the quarter ended June 30, 2014, was a considerable improvement over both the \$1.3 million (17%) reported for the quarter ended May 31, 2013 and the \$1.1 million (17%) reported for the immediately prior quarter.

SG&A expenses of \$1.7 million incurred during the quarter were \$300,000 lower than the \$2.0 million reported for the quarter ended May 31, 2013. Compared with the immediately prior interim period ended March 31, 2014, SG&A expenses also decreased by \$300,000, largely reflecting actions taken to reduce overhead expenses. Interest expense for the quarter was \$127,000 compared with \$52,000 for the comparable prior period, reflecting higher loan utilization and borrowing costs.

The net loss for the quarter was \$291,000 compared with a net loss of \$773,000 for the comparable prior period. Despite the improvement in gross margin, and the reduction in overhead, these improvements were not quite sufficient to achieve a positive bottom line. Management is continuing to take steps to improve margins and to reduce the financial impact of underperforming parts of the business.

Nine-month period ended June 30, 2014

During the nine months ended June 30, 2014, the Company reported revenues of \$20.7 million, compared with \$19.6 million for the prior nine-month period, an increase of 6%.

Segmented Information

Revenue

The Company currently operates under a single reportable segment consisting of the following revenue streams:

	For the three months ended June 30, 2014	For the three months ended May 31, 2013	For the nine months ended June 30, 2014	For the nine months ended May 31, 2013
Consulting services	\$ 5,104,685	\$ 4,755,136	\$ 14,733,926	\$ 13,196,405
Design/build services	1,393,225	2,511,530	6,007,183	6,403,076
	\$ 6,497,910	\$ 7,266,666	\$ 20,741,109	\$ 19,599,481

Geographical Segmentation

The Company operates in three principal geographical areas, Canada (Country of domicile), the United States, and internationally, which represents wide distribution. The Company focus during the three- and nine-month periods ended June 30, 2014 was primarily in the Americas.

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 three months ended June 30, 2014	For the three months ended May 31, 2013	For the nine months ended June 30, 2014	For the nine months ended May 30, 2013	For the six months ended February 28, 2013
Canada	\$ 6,003,660	\$ 6,845,276	\$ 18,613,544	\$ 17,810,638	\$ 10,965,362
International	387,819	265,325	1,582,154	1,568,285	1,302,960
United States	106,431	156,065	545,411	220,558	64,493
	\$ 6,497,910	\$ 7,266,666	\$ 20,741,109	\$ 19,599,481	\$ 12,332,815

Technology and Innovation

The Company operates in a business environment (predominantly water focused environmental sciences and engineering, treatment, industrial hygiene, etc.) and market areas (a wide variety of industrial sectors) that are continually being influenced by such factors as technological advancement and innovation, improvements in best-practices, and changes in environmental regulatory requirements. The Company will need to continue expanding its knowledge in the fields in which it operates so that it can create innovative solutions for its clients. As part of our ongoing process improvement efforts, the Company is working to strengthen technical teams in our most successful service areas, such as mining and food processing, especially as that market is expected to improve in coming quarters. This would include strategic hires where appropriate.

Innovation is found in both divisions and includes the development of new processes, new applications of technology, new tools, and new services. Two important examples include:

1) the use of Unmanned Aerial Vehicles (UAV) for data collection. When integrated into our geomatics data management and analysis this tool provides low-cost alternatives and a competitive advantage over traditional data-collection methods. The technology is most recently being applied in a wide variety of BluMetric services and business sectors. Examples include the small hydroelectric power generation business, baseline environmental and watershed assessment, agriculture, mining, and bathymetric analysis using multi-spectral imaging and various sensors.

2) the development of alliances such as LG, utilizing their flat-sheet low-pressure membranes which, when integrated with BluMetric's other processes and products, give a reduced footprint, high effluent quality, and low energy alternatives to traditional waste water treatment approaches at a highly competitive price point.

Cost Reduction Strategies

As previously indicated, the Company has actively reviewed its cost structure with a view to optimizing internal efficiency. The first phase of the process involved rationalizing headcount and real estate. By quarter end, there was a further reduction in employees (now 169 compared with a peak of 196 last year). During the quarter, two leased Ottawa manufacturing and production facilities were closed and operations consolidated into a third location close to the head office campus. Some employees from the closed facilities were re-located. In addition, two owned branch facilities have been listed for sale. The benefits of these decisions will be realized over the balance of the remaining fiscal year and subsequently. The Company continues to seek ways where longer-term efficiencies can be realized through the use of software and other tools.

Sales and Marketing

The Company's business has developed on the strength of existing client relationships, word-of-mouth, and respect in the marketplace. However, as announced during the previous quarter, the Company has engaged the services of a seasoned marketing executive with extensive relevant business development expertise who is responsible for driving new business. Integration of the Marketing and Business Development functions remains a goal and a priority.

The Company's executive has specific responsibility to guide the overall business development and growth initiatives, and to introduce major sales opportunities to operating units, providing marketing materials, market research, and similar kinds of support. Specific initiatives currently in progress include internal consolidation and expansion of the Company's representative network in the U.S., where a significant upturn in business activity is underway, and the development of product agency agreements like one related to the supply of pumps for the water and waste water treatment equipment for BluMetric designs and third-party users in Canada and Latin America.

Summary of Quarterly Results

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

	Q3 2014	Q2 2014	Q1 2014	Q4 2013
	June 30, 2014	Mar 31, 2014	Dec 31, 2013	Sept 30, 2013¹
Revenue	6,498	6,618	7,625	11,918
Cost of sales	5,005	5,474	5,768	10,045
Gross margin	1,493	1,144	1,857	1,873
Gross margin %	23%	17%	24%	16%
SG&A expenses	1,650	1,991	1,708	2,663
Interest expense	127	137	119	196
Net income (loss)	(291)	(985)	18	(1,302)
Weighted average common shares	25,191,656	25,191,656	25,191,656	25,191,656
Income (loss) per share	(0.01)	(0.04)	0.00	(0.05)
	Q3 2013	Q2 2013	Q1 2013	Q4 2012
	May 31, 2013	Feb 28, 2013	Nov 30, 2012	Aug 31, 2012
Revenue	7,267	6,024	6,310	6,327
Cost of sales	6,016	4,945	4,930	5,176
Gross margin	1,250	1,079	1,379	1,152
Gross margin %	17%	18%	22%	18%
SG&A expenses	1,971	1,466	1,028	654
Interest expense	52	73	110	32
Net income (loss)	(773)	(490)	176	241
Weighted average common shares	25,191,656	25,191,656	18,323,761	16,988,758
Income (loss) per share	(0.03)	(0.02)	0.01	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 all 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 group, which further affects comparative analysis.

Historically, the Company's business has followed a seasonal cycle which dictated that its former quarters ended February 28 and May 31 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.

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 follow 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 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 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.

The third quarter 2013 results reflect strong revenue growth relative to both the same period in 2012 and also to the second quarter in 2013, with the Professional Services group moving closer to target as spring progressed. The Water 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 quarter; hence, the results reflect an extra month. The 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 \$2.7 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 \$1.3 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. Growth has been negatively impacted in both business streams, the Professional Services activities being slow to recover from a long winter, with no offset this year from the strong Water Division results which were experienced over the comparable prior period. The Water Division had challenges unrelated to weather, the slow-down there reflecting delayed starts on its two largest contracts. These delays were entirely the result of the respective major contractors adjusting project schedules in response to external factors outside the control of the company.

Gross margins were 23% for the quarter ended June 30, 2014, and 17% for each of the quarters ended March 31, 2014 and May 31, 2013 respectively. The improvements reflect a shift in management focus to improving margins at the expense near-term of 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.

Management continues to work to ensure that costs are in line with revenue, consistent with its growth strategy. In that regard, the Water group continues to have a robust pipeline of projects, and subsequent to the quarter-end activity levels were high in the Professional Services group. During the quarter the executive management team continued to take a voluntary 15% cut in salary.

Liquidity

The Company had a working capital deficit of \$1.9 million at June 30, 2014, compared with a working capital deficit of \$1.8 million at September 30, 2013. The slight deterioration largely reflects the negative earnings reported for the interim period.

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. While the Company has been able to consistently meet receivables margin requirements, it has been unable to meet a tangible net worth covenant since completion of the RTO. Accounting for the RTO resulted in creation of \$4.3 million of goodwill, which adversely impacted tangible net worth. The Company continues to work closely with its bank in efforts to return to a positive compliance position by the end of fiscal 2014. The Company's inability to meet its bank covenants resulted in a cross default of term loans provided by the bank such that \$863,000 has been re-classified as current liabilities, which continued to negatively impact the working capital deficit at quarter end.

Despite the working capital deficit, the Company has been able to manage its payables by working closely with stakeholders, with several key suppliers supporting payment plans for old payables.

The Company recognizes that it will still need to complete incremental funding during the fourth quarter or subsequently by way of debt, equity, or some combination of both. Shortly after the quarter end, the Company realised gross proceeds of \$1,060,000 from re-mortgaging its head office building. The Company is actively pursuing additional initiatives with a view to further improving working capital, including provision of subordinated debt financing, and/or sale and lease back of two other real estate properties owned by the Company. Initial focus is on improving working capital, with subsequent focus on improvement of overall capital structure.

The Company's ability to continue operating is dependent upon again generating operational profitability, raising additional capital, and continuing to satisfy creditors. The Company's efforts to grow revenues have been somewhat tempered by the need to improve margins and control costs. There is clear evidence that progress is being made with these metrics. However, there can be no assurance these efforts will continue, or will be sufficient to have a sustainable, positive impact on financial performance.

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 the Americas, and as reported previously continues to note a significant increase in activity in the United States. Typical Company activities affected by the external environment would include sale of wastewater treatment and water treatment facilities. Typical clients for wastewater treatment plants are municipalities in the U.S. and Canada; mines in remote locations; and resort complexes in Latin America. Typical clients for water treatment plants are 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. Another potentially significant user of the Company's services is the industrial sector, which is actively pursuing wastewater treatment for surcharge reduction or beneficial re-use of waste water in their facilities. BluMetric processes and technologies include traditional (RO and ultrafiltration) and new products (membrane bioreactors and the specific application of resins) which are integral to this initiative.

Internal Environment

Significant operational changes have been implemented in the Professional Services group, including tighter management of field staff, more involvement in business planning from middle management, and focus on developing growth areas such as geomatics, as well as incremental opportunities which are expected to expand an existing strong presence in the Canadian north. As has been noted elsewhere, the winter months are typically the slowest months for the Professional Services group, and the most recent winter was particularly difficult, having adversely impacted all companies in the sector

The Water group has made significant progress in getting costs under control, partly by better aligning headcount with orders on hand and also by rationalizing occupancy costs. During the third quarter headcount was increased by 2 full-time, and 2 part-time employees. The Company vacated surplus manufacturing facilities in Ottawa by the end of the quarter. The Water group's activities for the remainder of 2014 and beyond will continue to focus on pushing higher value-add products into existing and new markets. The Americas are being targeted geographically, which includes incremental work on the previously announced Panama Canal project. The commercialisation program for the LG product (state-of-the art membrane technology) is continuing, and the division has been actively quoting membrane bio-reactors and engaging in serving the replacement membrane cassette market where the Company has a distinct price advantage. The Company expects the fully commercialized product line will be launched in selected regions during the Fall of 2014.

Corporate Focus

In the coming quarters, the Company will continue to target organic revenue growth and potentially in the longer term, growth through acquisitions. This will require:

- Continued improvement in margins, tightly managed overhead, and careful cost controls in existing operations and branch offices;
- Maintaining and increasing the existing client base, particularly in Canada which currently accounts for nearly 90% of consolidated revenues;
- Expanding geographic reach, particularly in the U.S. through development of the BluMetric representative network;
- In the longer term, acquisition of complementary businesses in strategically important sectors or locations.

These objectives assume the Company will have generated sufficient working capital to support the underlying activities necessary to achieve the respective targets.

Capital Resources

The Company had positive shareholder equity as at June 30, 2014. However, in light of the continuing working capital deficit, in the near term, management will continue to explore cost-effective opportunities to raise additional capital to support the corporate growth strategy.

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 strategy contemplates

potential business acquisitions/merger and internal growth in the longer term. Accordingly, and as stated above, 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 profitable 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 consistently generating positive and increased profit margins;
- Reliance on key personnel;
- The ability to grow revenue through a network of sales representatives, particularly in the United States;
- The ability to maintain and increase working capital funding from external sources;
- Competition from companies which are better-financed; and
- Sustained economic recovery in the United States.

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, \$666,771 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 of \$133,754. Effective March 1, 2013, payments were suspended and the outstanding balances have been postponed in favour of the Company's bank. Repayment is not expected to re-commence until such time as the Company is in compliance with its bank covenants.

Proposed Transactions

As at June 30, 2014 there were no significant assets or business acquisitions or dispositions being considered by the Company, other than with respect to monetization of certain real estate assets, as noted above.

Inter-Corporate Relationships

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

Summary of Outstanding Shares and Dilutive Instruments

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

Shares:	25,191,656 common shares
Convertible debentures:	\$1,430,000
Warrants:	198,059 broker warrants
Options:	2,103,775 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.



Roger M. Woeller
Co-Chief Executive Officer



Ian W. Malone
Chief Financial Officer