

# **Management Discussion & Analysis**

**2015 Third Quarter Report**  
**Three and nine month periods**  
**ended June 30, 2015 and 2014**  
(expressed in Canadian Dollars)



August 28, 2015

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This Management Discussion and Analysis "MD&A" explains the material changes in BluMetric's financial condition and results of operations for the quarter ended June 30, 2015 ("Q3:15"). The MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements and related notes for the quarter ended June 30, 2015 as well as the MD&A and audited consolidated financial statements and notes for the year ended September 30, 2014. The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company.

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. This MD&A also makes reference to certain non-IFRS measures to assist users in assessing BluMetric's performance. Non-IFRS measures do not have any standard meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Financial Terms and Definitions".

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](http://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

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:

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

This group comprises scientists, engineers, industrial hygienists, environmental auditors, project managers, financial specialists, and support personnel who pride themselves on finding

cost-effective, practical, and sustainable solutions to each client's environmental issues.

**The 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 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 continues to focus on returning the Company to consistent profitability using a variety of tactical measures (including pricing/margin management, SG&A cost control, and project management adjustments) as well as expanding high growth, high margin services. The results to the end of Q3 2015 reflect progress in this regard. (Please see "Results of Operations" below).

Management has targeted a top line revenue objective of \$40.0 million as the basis for sustainable growth and continued profitability. The most expedient pathway to this revenue target is to grow the Water Systems group to high-margin revenue of \$18.0+ million, building on an existing project backlog in military and new growth in the design-build and aftermarket parts businesses. At the same time, service lines in the Professional Services group are expected to continue producing steady revenues and more modest year-over-year growth.

Professional Services continues to strengthen its existing markets and is focusing growth on a select number of key, high margin, high growth service lines. The Water Systems group has focused on the industrial markets catering to food and beverage, mining, and residential development.

The Company views establishing a strong representative network in the United States and in Central and South America as fundamental to its ability to broaden its customer base. The Company now has six reps in the United States, two in Central America and two in South America. This rep network will continue to expand with a mandate to sell design-build water and wastewater treatment solutions and products.

This network will position the Company to take advantage of the growing recovery of the United States economy, and that country's urgent need to repair or replace aging infrastructure, as well as recently signed trade agreements in South and Central America that require countries to participate fully in environmental initiatives often driven by North American project owners and client.

The Company also views forming strategic alliances with other companies in niche technologies as a key element to delivering innovative solutions to customers. In this respect, the Company signed, and announced, a cooperation agreement with Aquarion AG on July 2, 2015. The Company expects to sign similar agreements for complementary technologies.

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.

### **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. 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.

The Company's product and service offerings are diverse, as are the Company's customer segments. This mitigates the potential negative effects of external performance drivers since generally not all customer segments will experience the same 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;
- financial design of projects to reduce working capital demands;
- maintenance of a high level of customer satisfaction; and
- ongoing strong commitment to environmental and social responsibility.

Successful execution with respect to these performance drivers is expected to result in a consistent 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 senior experience in public- and private-company management, with special expertise in finance, operations, and governance both inside and outside the environmental sector.

### **Executive Management**

The Senior Management team comprises: Roger M. Woeller, CEO; Vivian Karaikos, Chief Financial Officer; David Haig, President and Chief Operating Officer; Nell van Walsum, Senior Vice President, Operations; Jim Hotchkies, Senior Vice President, Business Development and Growth; and Dan Scroggins, Senior Vice President, Research and Innovation. David Haig was appointed to his role on the Executive Team subsequent to quarter end (announced July 8, 2015).

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.

### **Diversity**

The Company has a history of commitment to cultural and gender diversity at all levels of the organization (Board, management and staff) in recognition of the superior results that can be expected to flow from embracing the benefits of the intellectual knowledge, skills and experience that emerge from this diversity.

## Results of Operations

### Highlights Third Quarter 2015

	Three Months Ended				Nine Months Ended			
	June 30, 2015	June 30, 2014	Change	Change	June 30, 2015	June 30, 2014	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Revenue	8,675,022	6,497,910	2,177,112	34%	24,235,823	20,741,109	3,494,714	17%
Gross profit	2,011,499	1,275,804	735,695	58%	5,320,170	3,848,400	1,471,770	38%
Gross margin %	23%	20%			22%	19%		
SG&A expenses	1,510,330	1,433,188	77,142	5%	4,086,008	4,704,000	(617,992)	-13%
EBITDA <sup>1</sup>	661,479	54,264	607,215	-1119%	1,837,317	(226,441)	2,063,758	911%
Adjusted EBITDA <sup>2</sup>	628,330	95,919	532,411	-555%	1,662,287	(117,230)	1,779,517	1518%
Net income (loss)	322,068	(291,397)	613,465	211%	681,912	(1,257,964)	1,939,876	154%
Common shares outstanding	25,191,656	25,191,656			25,191,656	25,191,656		
Net income (loss) per share	0.01	(0.01)			0.03	(0.05)		
Total assets					11,522,969	17,182,210	(5,659,241)	-33%
Working capital					(450,660)	(1,940,124)	1,489,464	77%
Long term debt					3,045,411	2,652,606	392,805	15%
Shareholders' equity (deficit)					288,699	5,110,468	(4,821,769)	-94%

Note 1: EBITDA is a non-IFRS measure (see "Financial Terms and Definitions") and is calculated as net income before interest expense, income taxes, depreciation, and amortization.

Note 2: Adjusted EBITDA is a non-IFRS measure ("see Financial Terms and Definitions") and is calculated as EBITDA before gain or loss on foreign exchange, stock based compensation, gain or loss on sale of property, plant and equipment and unrealized gains on investments held for sale.

Note 3: Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for June 30, 2015.

Revenues in the third quarter were \$8,675,022, compared with \$6,497,910 for the quarter ended June 30, 2014, an increase of \$2,177,112 or 34%. The higher revenue is mainly a result of ongoing design build projects, which traditionally yield higher margins than fee for service work. There were no comparable projects in Q3 2014. As well, revenue in Q3 2015 includes approximately \$500,000 related to the results of favourable negotiations of a significant contract. The gross margin period-over-period increased 3% from 20% to 23% in the quarter ended June 30, 2015

Sales, General and Administrative "SG&A" expenses increased slightly from \$1,433,188 incurred during Q3 2014 to \$1,510,330 in Q3 2015, reflecting steady cost control.

Finance costs of \$160,213 were higher than the \$126,844 reported for the three months ended June 30, 2014, reflecting interest costs on a new mortgage, as well as increased interest rates applicable to a number of the Company's debt obligations. Interest costs are expected to continue to be high going forward, reflecting adverse changes to some of the Company's banking arrangements.

The net income for the quarter was \$322,068 compared with net loss of (\$291,397) for the comparable prior quarter.

Shareholders' equity of \$288,699 at June 30, 2015 compared to equity of \$5,110,468 as at June 30, 2014 is primarily related to a \$4,324,567 non-cash impairment of goodwill recognized at September 30, 2014 and discussed in the MD&A for that period.

The Consolidated Statement of Financial Position as at June 30, 2015 reflects a working capital deficit of \$450,660 which is an improvement from the \$1.9 million deficit reported at June 30, 2014. This reduction is due in part to the use of proceeds from the sale and leaseback of the Kitchener office in Q2 2015 to pay down debt as well as more favourable operating results.

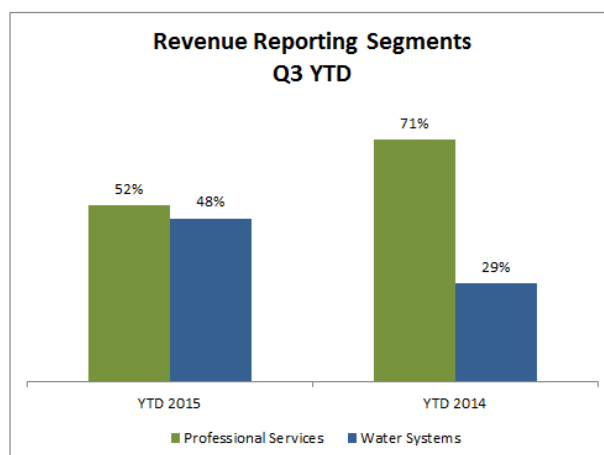
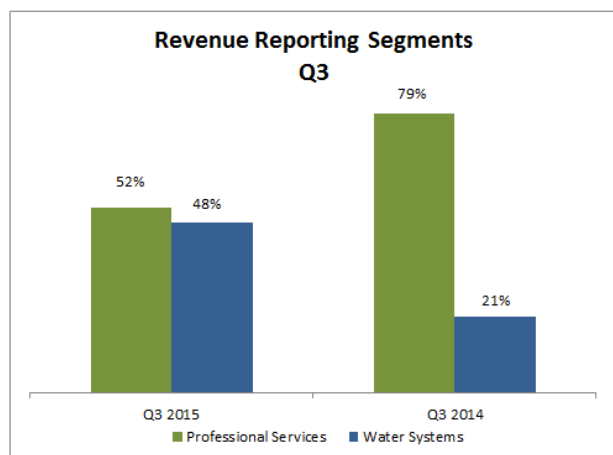
### EBITDA and Adjusted EBITDA (see "Financial Terms and Definitions")

	For the three months ended		For the nine months ended	
	June 30		June 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Net income (loss)	322,068	(291,397)	681,912	(1,257,964)
Depreciation of property, plant and equipment	94,134	132,905	343,838	392,105
Amortization of intangible assets	85,064	85,912	302,502	256,656
Finance costs	160,213	126,844	509,065	382,762
EBITDA	<b>661,479</b>	54,264	<b>1,837,317</b>	(226,441)
Foreign exchange loss (gain)	(47,791)	17,461	(60,208)	(44,377)
Share-based compensation	14,642	24,194	119,629	144,702
Loss (gain) on disposal of property, plant and equipment	-	-	(247,481)	8,886
Unrealized loss (gain) on investment held for sale	-	-	13,030	-
Adjusted EBITDA	<b>628,330</b>	95,919	<b>1,662,287</b>	(117,230)

The Company recorded adjusted EBITDA of \$628,330 and \$1.7 million for the three and nine months ended June 30, 2015, a significant improvement from the adjusted EBITDA recorded for the same periods in 2014.

### Segmented Information

#### Revenue





The revenue split between the Professional Services and Water Systems was 52% and 48% respectively at Q3 2015, compared to 79% and 21% for Q3 2014. This revenue shift is consistent with the Company's direction to increase Water Systems revenue which is traditionally higher margined.

### Geographical Segmentation

The Company principally operates in three 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 three months ended		For the nine months ended	
	June 30		June 30	
	2015	2014	2015	2014
	\$	\$	\$	\$
Canada	7,098,022	6,003,660	21,424,457	18,613,544
International	1,300,000	387,819	2,171,186	1,582,154
United States	277,000	106,431	640,180	545,411
	<b>8,675,022</b>	<b>6,497,910</b>	<b>24,235,823</b>	<b>20,741,109</b>

### Technology and Innovation

The Company operates in service lines and industry 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.

The Company will continue to maintain its investment 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. The Company considers a disruptive technology as a significant innovation, discovery or technology that creates new markets and displaces a previous technology or manual process. Examples of the Company's early success in adopting these disruptive technologies and services include:

- Developing our geomatics service area which has extensively displaced photogrammetry and other more traditional methods of data collection and analysis (we have improved software and software analytical capability).
- Through strategic partnership, adding rainfall intensity measurement to our flood prediction and hydrological services, far superior to static rain gauge approaches.
- Adapting drone or UAV technology to displace more traditional, expensive and restricted data collection platforms such as manned helicopters and light fixed wing aircraft.

- Investing in design and testing of our membrane bioreactor systems (COBRA™) in conjunction with our Variable Depth Reactor (VDR) for industrial and domestic waste water treatment, receiving our first order for the food processing industry in Central America.
- Completing the development of the first commercial site for the H4™ (Heavy Fuel Oil Recovery Process) for a thermo-electric generating facility. This facility is currently operating as per design.
- Successfully trademarking H4 and COBRA in Canada and the US.
- Completing the patent application for a process that reduces ammonia to extremely low levels and eliminates the need for some downstream treatment equipment, primarily for the mining sector.
- Engaging in an initiative with technology partners to develop treatment technology for the reduction of cyanide to extremely low levels, without creating toxic by-products.
- The creation of international strategic alliances like the one with Aquarion (announced July 2, 2015), that further our development of designs, processes and products designed to reduce energy, water and dimensional (space) footprints and provide for resource recovery.

Where possible, the Company will continue to foster and develop strategic alliances and partnerships with respect to new and emerging technologies in order to provide cost effective and unique solutions to the market.

### **Cost Reduction and Margin Improvement Strategies**

The Company consistently reviews its cost structure to ensure it is optimized while at the same time supporting revenue growth.

Structural and process changes that are expected to drive an increase in margins over the longer term include:

- Appointed a Manager of Operations to tighten process and focus on project management, increasing gross margins by the identification of opportunity and efficiency;
- Consolidated production and manufacturing 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;
- We will continue to focus on the process flow from sale to commissioning/project delivery and improve project management processes.
- We will continue to standardize our products which will streamline our engineering process.
- We will continue to implement more robust information systems to allow metrics to be tracked on a timely basis.

## Sales and Marketing

The Company Business Development team is focused on growth initiatives. Historically, the Company's business has been developed largely through existing client relationships, word-of-mouth, and marketplace presence. These relationships will continue to be fostered and leveraged to introduce cross-selling opportunities and generate new clients in the Company's existing industry sectors. In addition, the Business Development team will be expanded, both internally and through strategic alliances and partnerships, and will focus in areas of demand including:

- Mining;
- Food and beverage;
- Land development and wastewater treatment; and
- Energy (thermo-electric waste treatment and BOD conversion).

The Business Development team is supported by a proposal generation group, which to date has a greater than 50% success rate on submissions to date.

## Quarterly Results

Quarterly financial information for the eight quarters ended June 30, 2015  
(in 000's, except as otherwise indicated)

	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>	<b>Q4 2014</b>
	<b>June 30, 2015</b>	<b>Mar 31, 2015</b>	<b>Dec 31, 2014</b>	<b>Sep 30, 2014</b>
Revenue	8,675	7,781	7,779	6,568
Cost of sales	6,664	6,197	6,055	5,684
Gross profit	2,011	1,584	1,725	884
Gross margin %	23%	20%	22%	13%
SG&A expenses	1,510	1,140	1,435	2,009
Finance costs	160	184	165	156
Net income (loss)	322	246	114	(5,681)
Weighted average common shares	25,191,656	25,191,656	25,191,656	25,191,656
Income (loss) per share	0.01	0.01	0.00	(0.23)
	<b>Q3 2014</b>	<b>Q2 2014</b>	<b>Q1 2014</b>	<b>Q4 2013</b>
	<b>June 30, 2014</b>	<b>Mar 31, 2014</b>	<b>Dec 31, 2013</b>	<b>Sept 30, 2013<sup>1</sup></b>
Revenue	6,498	6,618	7,625	11,948
Cost of sales	5,222	5,675	5,995	10,045
Gross profit	1,276	943	1,630	1,903
Gross margin %	20%	14%	21%	16%
SG&A expenses	1,433	1,790	1,481	2,946
Finance costs	127	137	119	123
Net income (loss)	(291)	(985)	18	(1,229)
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)

(1) 4 month period

Note: Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for March 31, 2015.

## Quarterly Trend Analysis

Historically, the Company's Professional Services business has followed a seasonal cycle which dictated that its second and third quarters ended March 31 and June 30 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

can have a significant impact on the level of activity possible in that quarter each year (BluMetric's first quarter) depending on how it falls in the month.

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

**Q3 15 vs Q3 14:**

Third quarter 2015 results reported revenue of \$8.7 million, an increase of \$2.2 million over Q3 2014. The increase can be attributed to a higher volume of Water Systems projects compared to Q3 2014, as well as the favourable negotiation of a significant contract of approximately \$500,000. SG&A expenses remained fairly constant despite the increase in revenue, reflecting continued cost control. Net income improved from a loss of \$291,000 in Q3 2014 to an income of \$322,000 in Q3 2015.

**Q2 15 vs Q2 14:**

Results for Q2 2014 reflect the seasonality impacts as described, where 70% of the revenue earned was attributed to Professional Services. In Q2 2015, these effects were minimized by the significant activity in the Water Systems group, which is somewhat insulated from the impacts of the winter. These higher margin projects contributed to improved gross margins over Q2 2014. SG&A expenses for Q2 2015 reflect a gain on the sale of the Company's Kitchener office building of approximately \$247,000. In addition to the positive effect of this gain, SG&A expenses were lower than both Q1 2015 and Q2 2014. Net income improved from \$114,000 in Q1 2015 to \$246,000 in Q2 2015.

**Q1 15 vs Q1 14:**

First quarter 2015 results reported revenue of \$7.8 million, which was slightly higher than the first quarter of 2014 at \$7.6 million. SG&A expenses were slightly lower than for the quarter ended December 31, 2014 at 1,435,000 compared to 1,481,000. Net income improved from 18,000 to 114,000.

**Q4 14 vs Q4 13:**

Fourth quarter 2014 results posted revenue of \$6.6 million, lower than the four-month 2013 quarter. 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 deemed uncollectible as well as an increase in office and related expenses.

**Liquidity**

The Corporation had a working capital deficit of \$443,541 at June 30, 2015, compared to the working capital deficit of \$2.4 million at September 30, 2014.

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 is fully compliant with asset coverage requirements, it 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 \$250,000 had to be re-classified as current liabilities. In addition, at March 31, 2015, two letters of guarantee totalling US \$306,800 have been carved out of the operating line of credit. These letters expire on December 31, 2015. As a condition of the Company's bank, the Company invested in term deposits in the amount of US \$306,800 to secure these letters.

The Company 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.

### **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 for Professional Services and in North America and Central America for Water Systems. Typical clients for wastewater treatment plants are mines in remote locations; food processing and resort complexes in Latin America; and developers and municipalities in the U.S. and Canada.

### **Internal Environment**

Internally, the Company continues to focus on targeting areas of high margin and high growth; generating efficiencies in project execution; establishing clear roles, responsibilities and accountabilities for employees and maintaining effective cost control strategies.

### **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 involve:

- 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 revenues primarily 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
- Developing our own technologies as well as partnering with complementary businesses that also have disruptive or compelling technology in strategically important sectors or locations.

The BluMetric Project Pipeline is updated on a bi-monthly schedule and forms the basis of all predicted project-related business. No single forecasting tool can adequately represent what can be expected from this unique and expanding business, but the Pipeline is intended to provide a representation of the potential growth that 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 combined with revenue and margin growth in the Water Systems group, both making maximum use of common existing infrastructure and synergies between them.

In developing the Pipeline, BluMetric management believes there is significant untapped strategic potential in having one BluMetric team for business development, 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. That said, because the fastest growth is originating from the Water Systems group, their Pipeline and Backlog measures are more relevant than Professional Services' to predicting overall corporate growth. Consequently, for the time being these measures relate more to Water Systems than the steadily growing revenue line of Professional Services.

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. Additionally, Backlog and Pipeline are non-IFRS measures and are defined in the "Financial Terms and Definitions" section of this MD&A.***

## **Backlog**

The Water Systems group began fiscal year 2015 with a backlog of \$10.0 million. Much of this backlog has been recognized in year to date revenue. The Water Systems group continues to bring these projects to completion, as well as deliver new projects converted during the year.

## **Pipeline**

The total unfactored value of all qualified projects within the Water Systems group pipeline continues to be around \$50.0 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 which, if converted, may be booked over the next 12 months for delivery beginning mid to late-fiscal 2016. The pipeline, especially as it relates to international projects, is qualified in terms of numerical value but less predictable in its timing. 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 in value or in timing.

## **Capital Resources**

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 investment in various technologies and processes which will require capital for prototyping purposes. 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:

- Macroeconomic risk of recession in key markets or economy as a whole;
- Loss of key personnel;
- Inability to maintain the working capital line of credit at the current or a higher level;
- Competition from companies which are better-financed or have disruptive technologies;
- Major swings in currency valuations after setting the price of foreign contracts; and
- Inability to execute plans to increase revenues, control costs and manage projects efficiently.



## **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 13 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 and Subsequent Events**

As at March 31, 2015 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

## **Capital Management**

The Company's objective is to maintain a capital base sufficient 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.

There has been no change to the Company's approach to capital management during the quarter ended June 30, 2015.

## 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:	nil
Options:	2,011,457 options

## Financial Terms and Definitions

### Definition of Additional IFRS Measures

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings, and subtotals when such presentation is relevant to an understanding of a company's financial position and performance. Because IFRS requires such additional GAAP measures, the measures are considered additional IFRS measures rather than non-IFRS measures. We believe that the measures defined here are useful for providing investors with additional information to assist them in understanding components of our financial results.

**Gross Profit.** Gross profit is calculated as gross revenue minus direct expenses and direct payroll costs. Direct expenses are certain costs we incur in the delivery of our services such as subcontractors, equipment and other expenditures that are recoverable directly from our clients. Direct payroll costs include the cost of salaries and related fringe benefits for employees within the operating groups. We monitor our gross margin percentage levels to ensure that they are within the established acceptable range for the profitability of our operations.

### Definition of Non-IFRS Measures

This Management Discussion and Analysis includes reference to and uses terms that are not specifically defined in IFRS and do not have any standardized meaning prescribed by IFRS. These non-IFRS measures may not be comparable to similar measures presented by other companies. We believe that the measures defined here are useful for providing investors with additional information to assist them in understanding components of our financial results.

**EBITDA.** EBITDA represents net income before interest expense, income taxes, depreciation of property and equipment and amortization of intangible assets. We use this measure as part of our assessment of our operating performance. There is no direct comparable IFRS measure for EBITDA.

**Adjusted EBITDA.** Adjusted EBITDA additionally excludes items that are significant and irregular (such as the sale of a building or goodwill impairment), non-cash based (such as share-based compensation), or non-operational in nature (such as foreign exchange gains and losses).

Management believes that Adjusted EBITDA as defined above is an important indicator of our ability to generate liquidity through operating cash flow to fund future working capital needs, service outstanding debt and fund future capital expenditures and uses the metric for this purpose. Adjusted EBITDA is also used by investors and analysts for valuation purposes. The intent of the Adjusted EBITDA is to provide additional useful information to investors and analysts and the measure does not have any standardized meaning under IFRS. Adjusted EBITDA should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other issuers may calculate Adjusted EBITDA differently.

**Backlog.** Backlog is defined as the total value of work that has been awarded to the Company, as evidenced through a binding arrangement, that has not yet been completed.

**Pipeline.** Pipeline is defined as the total value of all potential future projects being pursued by the Company that have not yet been secured.

### **Management's Responsibility for Financial Reporting**

The consolidated condensed interim financial statements of BluMetric Environmental Inc. and all the information in this Management Discussion and Analysis 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 condensed interim 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 financial reporting responsibility principally through its Audit Committee.

### **Additional Information**

Additional information on the Company can be found at [www.blumetric.ca](http://www.blumetric.ca) and at [www.sedar.com](http://www.sedar.com)