Fiscal 2017 First Quarter Report
Three Months Ended December 31, 2016 and 2015
(expressed in Canadian Dollars)

February 28, 2017

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Report to Shareholders

We are pleased to report results for the first quarter of our 2017 fiscal year. For the three months ending December 31, 2016, BluMetric posted a profit of $228,000 or $0.01 a share. Both total profit and revenue rose sequentially from Q4 in 2016, and from Q1 in 2015. Gross margin, an important metric of how efficiently we operate, also improved, rising to 20% from 19% a year earlier and 15% in Q4 of fiscal 2016.

Turning to operations, the Company achieved an important milestone in the first quarter, commissioning the first full scale COBRA wastewater treatment plant for a food and beverage industry client in Guatemala. COBRA improves wastewater effluent quality with lower operating and capital costs than traditional treatment methods, making it an attractive option. COBRA represents leading edge technology and several potential Central American clients have toured the facility as part of their decision-making processes on new procurements. This product will form a significant building block of our future platform for water solutions.

Our Professional Services group continued to benefit from a number of significant contract wins, especially in the mining sector and in the Canadian North. In the quarter, we undertook a hazardous materials handling and disposal project for the Government of the Northwest Territories. The project was awarded in part based on reputation and the ability to execute on a short timeline.

We are encouraged by the outlook for the clean tech industry, and for our specialties in water quality improvement and efficient resource management. There is increased commercial activity in the Arctic, a key target market. Potential clients are seeking operating cost reductions through product and energy recovery, another BluMetric specialty. Governments are also increasingly focused on First Nations and northern community water quality improvements.

We believe the digital revolution has arrived to the water business. Future value is not going to result only from selling services or pieces of equipment, but from the information generated by installations. This is a promising development as our systems generate huge amounts of valuable data, information that provides clients the opportunity to better manage processes and drive improvements in their own operations, resulting in lower operating costs.

Our new banking and lending arrangements are another positive for the Company. We are looking forward to using our improved position to seek and win new business opportunities.

The Company is positioned for continued growth. We have a substantial new product pipeline, with three newly commercialized products, five more in the process of commercialization and another five in the early development stage.

On a final note, our position in the market place is a testament to our diverse and loyal employees. We would like to thank each of them for their dedicated efforts, without which these results would not have been possible.

Sincerely,

Roger M. Woeller	Murray Malley
CEO	Board Chair

Management’s Discussion and Analysis

February 28, 2017

This Management’s Discussion and Analysis “MD&A” explains the material changes in BluMetric’s financial condition and results of operations for the three months ended December 31, 2016. The MD&A should be read in conjunction with the Company’s consolidated condensed interim financial statements and related notes for the three months ended December 31, 2016 as well as the MD&A and audited consolidated financial statements and notes for the year ended September 30, 2016. 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.

Business Overview and Strategy

BluMetric Environmental Inc. (www.blumetric.ca) is a Canadian cleantech company providing industry-leading engineering services and proprietary equipment for sustainable solutions to environmental challenges.

Since 1976, BluMetric, and its award winning team of over 170 professionals, have provided cost-effective and sustainable programs for our clients' environmental and business challenges. We have served clients throughout the world in a wide range of industrial and governmental sectors.

We are internationally known for cutting-edge work in water/wastewater treatment, professional environmental services, and for dealing with extreme climates, complex treatment issues, and remote and difficult regions.

From Yellowknife to San Salvador, BluMetric operates ten offices in North America. Each autonomous office has specific strengths in a respective technology or market. These strengths allow each office to focus on opportunities specific to local clients, while also augmenting the Company's overall technical expertise.

While BluMetric serves clients mainly in Canada, the United States and Central America, we also have extensive international project experience in Europe, Africa and the Middle East.

Our geographic and market focus distribution provides a degree of risk mitigation, as some sectors and regions are more active than others at any given time.

BluMetric's team consists of highly experienced and motivated scientists, engineers, industrial hygienists, environmental auditors, project managers, financial specialists, and support personnel. Our staff are experts in a comprehensive range of environmental services and engineered solutions, from contaminated site remediation, hydrogeology, or geomatics to complete turn-key wastewater treatment systems across a diverse range of industrial, municipal, commercial, and defence sectors.

We provide extensive services to the Canadian Military under long-term contracts for the maintenance, repair, refurbishment, and upgrading of water purification units for the Army and shipboard desalination units for the Navy.

We are also well known for our ability to provide high-quality service and solutions in North America's most sensitive and challenging environments from the Panama Canal to the Arctic Circle.

With a depth of expertise that enables us to innovate and customize solutions for specific client needs, BluMetric is active in all stages of the analysis, planning, economic evaluation, design, construction, and execution of wastewater projects as well as the provision of specialized data management, hydrology, hydrogeology, occupational health and safety, and other development and compliance services for clients domestically and abroad.

Our head office address is: 3108 Carp Road, Ottawa, Ontario, K0A 1L0.

The Company's strategic objectives are to 1) expand geographically, and 2) increase our product and service portfolio.

1) We believe the greatest potential for geographic growth is in Canada, United States and Central and South America. Our chosen sectors (food, beverage & agriculture, mining, and industrial waste, water, and wastewater treatment) are well represented here and are rapidly growing markets.

2) We believe that increasing our product and service portfolio through the Engineered Solutions part of our business is the most expedient path to growth. This work is less predictable given a much longer project cycle, but this irregularity can be accommodated with growth and more opportunities.

Planned growth is essential for the continued development of BluMetric, attracting exceptional staff, and product- and service area development. Our growth plan is intended to mitigate seasonal variability and allow us to focus on the higher margins from Engineered Solutions while supporting the stability and growth opportunities of the Professional Services side of our business.

BluMetric views strategic alliances and partnerships with other companies in niche or complementary technologies, sectors and geographies as key elements in increasing our portfolio and in delivering innovative solutions to customers.

BluMetric's working capital is expected to support planned business operations through fiscal 2017.

Technology and Innovation

The Company's focus on innovation has enabled us to develop industry leading products that are well differentiated in the marketplace. We are in the process of securing trademarks on CR3, BluMod and Activator. The MARS and CR3 patent applications have been submitted and are awaiting approval from the Canadian and US Patent offices. In total, the Company has five products in the commercialization stage and another five in the initiation stage.

Ammonia Removal Systems

A key focus for the Company has been ammonia removal systems, a global market worth over $10 billion. Ammonia is a plant nutrient responsible for damaging algae blooms in streams, rivers, and lakes throughout the world. These blooms have caused closures of recreational areas, water treatment plants, and fisheries. Consequently, regulatory agencies have implemented strict ammonia wastewater discharge limits. Ammonia is a by-product of protein degradation in domestic sewage, feedlot run-off, landfill leachate, food processing wastewater, rendering, and chemical manufacturing. It is also found in mines due to the use of ammonium nitrate as a blasting agent. Both the MARS and CR3 products remove ammonia to levels below current and expected future discharge limits.

- MARS – this membrane-based system reduces ammonia by direct absorption. The design can cut capital costs of a traditional treatment plant by 40%. On a plant for a city with a 100,000 population, MARS could reduce capital costs by $20 million. MARS operating costs are approximately 50% lower than a standard activated sludge plant of comparable size. MARS can be retro-fitted on existing facilities facing lower ammonia limits. Prime applications are in the food and beverage, commercial, land development, municipal, and landfill leachate markets.
- CR3 – is an ion selective resin exchange ammonia removal system designed for mining. It is attractive to clients because of its low capital costs and reliability, while not creating durable toxic by-products. A major project with an Ontario-based gold miner is currently underway, with an installation target of Spring, 2017. Like MARS, CR3 gives BluMetric a marketplace competitive edge.

Wastewater Treatment Systems

Another proprietary equipment focus for BluMetric is wastewater treatment technology.

- COBRA – is a water treatment innovation that is more cost effective than traditional activated sludge biological systems because it lowers capital and operating expenses. It provides clients with higher quality effluent, at a lower life cycle cost and a smaller footprint.

  Commissioning of the first full scale COBRA plant in the food and beverage sector took place in Q1. The plant, located in Guatemala, was a host site for an industrial and environmental reception sponsored by the Canadian government.

- BluMod – is a standalone, integrated membrane treatment package designed for the commercial and land development markets. It also serves as a bolt-on modification or retro-fit on existing treatment plants to increase the flow and/or enhance the degree of treatment, extending service life of the systems in growing communities.
- Activator – is an integral part of the patented Variable Depth Reactor (VDR) technology licensed to BluMetric. In dozens of VDR installations, the Activator manages influent flow and load variations, while jump starting the biological treatment process. Activator allows clients the option to modify the treatment process years after the installation to better address changing loads or effluent requirements.

Energy Recovery System
BluMetric has developed a proven technology platform that significantly reduces the environmental impact of heavy fuel oil waste from marine and industrial applications.

- H4 – is an energy recovery product with applications in the power generation and marine propulsion markets. These units usually have a payback period of less than 18-months and we have recently engaged a sales agent to promote this product in targeted markets.
- EPT – (Enhanced Primary Treatment) is an array of products that reduce the load to the treatment plant by intercepting, removing, and recovering thermal and organic energy from the wastewater. The reduction of the load reduces operating costs, while the recovery of product and energy generates additional revenue.

BluMetric continues to pursue new opportunities by conducting research and pilot work. Currently, we are working with the Canadian Government and a major international chemical company on both the biodegradation and physical removal of cyanide from mining wastewater. BluMetric has developed a method to remove PFOA and PFOS, which are suspected carcinogens, from contaminated groundwater. We are running pilots test on livestock wastes to recover nutrients and usable water. We are also working with a technology partner in the oil and gas sector to recycle contaminated water by removing dissolved solids and brine.

These initiatives are driven by increased regulations in our targeted industries, as well as business demand for capital and operating expense reductions.

BluMetric will continue to foster and develop strategic partnerships where these alliances either augment the Company's technologies or expand the Company's geographic reach.

Sales and Marketing

The Company develops business by cultivating strong, long-term relationships with clients in key markets and by leveraging a range of indirect channel-to-market mechanisms, including industry reps, complementary partnerships and licensees. Historically, the Company's business has been developed through existing client relationships, word-of-mouth, and marketplace presence. We continue to foster these relationships and leverage them to introduce cross-selling opportunities and generate new clients in targeted industry sectors.

These include:

- Metals and Mining;
- Agriculture;
- Food and Beverage;
- Industrial, Commercial and Institutional water and wastewater solutions;
- Military water and wastewater solutions;
- Government services.

Our business development activity is supported by sales professionals in the key focus areas identified above, who have had a greater than 50% success rate on submissions. We believe we have developed a competitive advantage by being responsive and innovative with clients, creating respect for our integrity and the solutions we provide.

Board of Directors

The Board of Directors currently consists of seven members, six of whom are independent. The independent directors reflect a wide range of senior experience in public- and private-company management, with expertise in finance, operations, and governance both inside and outside the environmental sector.

Executive Management

The Senior Management team comprises: Roger M. Woeller, Chief Executive Officer; Vivian Karaiskos, Chief Financial Officer; Jim Hotchkies, Senior Vice President, Business Development and Growth; and Dan Scroggins, Senior Vice President, Research and Innovation.

This team is supported by well-qualified and highly experienced individuals leading business development and operations in each of the Company's branch offices and major service sectors.

Our People

The Company has a team of approximately 170 full-time equivalent staff. Staffing levels fluctuate seasonally with the hiring of contract staff and students to meet peak demand periods. The Company strives to recruit and retain highly skilled employees, able to use their technical expertise to deliver creative product solutions to clients. Along with the wide range of skills and abilities of our staff, our strong inter-disciplinary processes and integrated leadership across sectors is a key competitive asset. BluMetric combines small-company flexibility with big-picture knowledge. Our greatest attribute is the quality of our employees and their trusted ability to serve our clients.

Diversity

The Company is committed to achieving a diversity of knowledge, expertise, and perspectives from its Board, management, and staff. The Company also needs the best minds to achieve its forward-thinking objectives. To achieve this diversity, the Company focuses on recruiting individuals who bring a varied mix of skills and competencies. Appointments are based on merit. The Company supports the benefits that diversity brings at the board, management and staff levels and prides itself on representing the communities that it serves. Our senior management, employees and board reflect our commitment to all aspects of diversity.

RESULTS

Overall Performance

The following are the Company's major achievements during the quarter:

- **Continued profitability.** The Company consistently reviews its cost structure to ensure it is optimized while at the same time supporting revenue growth. We believe we have a solid platform to continue to deliver sustained future growth.

- **Significantly improved financial position.** New financing arrangements concluded in September, 2016, have provided the Company with a new banking facility, as well as a secured five year term loan that provides approximately $1 million in funds that will be used to maximize growth, both organically and, where appropriate, through acquisitions. The Company has positive working capital and is in compliance with all financial covenants.

- **Continued innovation.** We have a steady flow of new product and service innovations. All of our current research and innovation activities are based on demands from the market, which are driven by regulations and economics.

Results of Operations

	Three Months Ended			
	Dec 31, 2016	Dec 31, 2015	Change	Change
	$	$	$	%
Revenue	8,288,465	7,937,197	351,268	4%
Gross profit	1,696,714	1,476,258	220,456	15%
Gross margin %	20%	19%		
Operating Costs	1,280,081	1,236,913	43,168	3%
EBITDA[1]	514,904	380,908	133,996	35%
Adjusted EBITDA[2]	480,254	273,278	206,976	76%
Net income	228,464	15,779	212,685	1348%
Common shares outstanding	27,880,140	27,880,140		
Net income per share	0.01	0.00		
Total assets	13,325,202	15,207,572		
Working capital	3,702,919	(1,695,488)		
Long term debt	4,473,951	3,757,275		
Shareholders' equity	2,262,490	1,395,426		

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, unrealized gains on investments held for sale and impairment of good will.

Discussion of Results and Financial Condition for the Quarter Ended September December 31, 2016

This analysis compares the quarter ended December 31, 2016 with the quarter ended December 31, 2015.

Revenue

During the quarter ended December 31, 2016, total revenue was $8.3 million (December 31, 2015 - $7.9 million), an increase of approximately $0.4 million (4%). The higher revenue is mainly due to an increase in the manufacturing and production projects in the Water Systems group. The Professional Services group saw a smaller increase in revenue over the same quarter last year. Professional Services achieved revenue of approximately $6.4 million and Water Systems posted $1.9 million.

The revenue split between Professional Services and Water Systems was 77% and 23% respectively for Q1 2017, compared to 79% and 21% for Q1 2016. While this split is fairly consistent quarter over quarter, the Company is working toward raising the percentage for Water Systems' revenue over the coming year.

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

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 December 31	
	2016	2015
	$	$
Canada	**8,166,157**	7,305,691
International	**110,628**	133,473
United States	**11,680**	498,033
	8,288,465	7,937,197

Gross profit for the quarter ended December 31, 2016 was $1.7 million, or 20% (December 31, 2015 - $1.5 million or 19%), which represents a quarter-over-quarter increase of $0.2 million. The increase in gross profit is due to higher revenues but also due to substantially higher gross margins for similar revenue levels from the Professional Services group.

Operating costs for the quarter ended December 31, 2016 were $1.3 million, and only slightly higher than $1.2 million reported the same quarter last year.

Finance costs of $188,169 for the quarter ended December 31, 2016 were slightly lower than the $212,744 reported a year earlier. Interest costs are expected to remain comparable going forward with new banking arrangements providing a mix of charges that will result in similar overall cost.

Net income for the quarter ended December 31, 2016 was $228,464 compared with net income of $15,779 in the same quarter the previous year.

Shareholders' equity increased to $2.3 million at December 31, 2016 from $1.4 million at December 31, 2015. The improvement is a result of continued profitability.

The Consolidated Statement of Financial Position as at December 31, 2016 showed working capital of $3.7 million, a significant improvement from a deficit of $1.7 million a year earlier. The year-earlier deficit reflected a current liability classification of the $1.4 million convertible debentures and a $1.0 million mortgage both coming due within 12 months. The convertible debenture has been extinguished and replaced by new long term debt. The mortgage was renegotiated for a term greater than one year, allowing for its return to long-term classification.

The Company's improved position is a result of using the proceeds from the sale of the Sudbury office in Q2 2016 to pay down existing debt, an infusion of growth capital as part of the new refinancing arrangements that occurred on September 12, 2016, as well as continued profitability.

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

	For the three months ended Dec 31	
	2016	2015
	$	$
Net income	**228,464**	15,779
Depreciation of property, plant and equipment	**33,964**	66,886
Amortization of intangible assets	**64,307**	85,499
Finance costs	**188,169**	212,744
EBITDA	**514,904**	380,908
Foreign exchange gain	**(34,030)**	(119,277)
Share-based compensation	**11,936**	14,955
Unrealized gain on investment held for sale	**(12,556)**	(3,308)
Adjusted EBITDA	**480,254**	273,278

The Company recorded adjusted EBITDA of $480,000 for the three months ended December 31, 2016, an increase from the same period in 2015 due largely to higher net income.

Quarterly Results

Quarterly financial information for the eight quarters ended December 31, 2016
(in 000's, except as otherwise indicated)

	Q1 2017	**Q4 2016**	**Q3 2016**	**Q2 2016**
	Dec 31, 2016	**Sept 30, 2016**	**June 30, 2016**	**Mar 31, 2016**
Revenue	8,288	7,258	8,378	7,920
Cost of sales	6,592	6,170	6,507	6,007
Gross profit	1,697	1,089	1,871	1,913
Gross margin %	20%	15%	22%	24%
Operating expenses	1,280	1,053	1,269	1,368
Finance costs	188	122	231	247
Net income (loss)	228	(87)	371	289
Weighted average common shares	27,880,140	27,880,140	27,880,140	27,880,140
Income (loss) per share	0.01	(0.00)	0.01	0.00

	Q1 2016	**Q4 2015**	**Q3 2015**	**Q2 2015**
	Dec 31, 2015	**Sept 30, 2015**	**June 30, 2015**	**Mar 31, 2015**
Revenue	7,937	9,243	8,675	7,781
Cost of sales	6,461	7,184	6,664	6,197
Gross profit	1,476	2,059	2,011	1,584
Gross margin %	19%	22%	23%	20%
Operating expenses	1,237	1,662	1,510	1,140
Finance costs	213	220	160	184
Net income	16	334	322	246
Weighted average common shares	25,235,850	25,235,850	25,191,656	25,191,656
Income (loss) per share	0.01	0.01	0.01	0.00

Quarterly Trend Analysis

Historically, the Company's professional services practice has followed a seasonal pattern with the second and third quarters, ended March 31 and June 30 respectively, experiencing relatively lower levels of activity when compared to the balance of the year. This seasonality is partly weather-related, as it is easier and more productive to conduct outdoor environmental investigations, site remediation, and construction-related projects in Canada during the summer. In addition, the December holiday period can have a significant impact on activity levels possible in that quarter (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 for the professional services side of the business. This pattern reflects the Company's historical experience that staff can achieve higher utilization (percentage of time actively engaged in revenue-producing projects) during the summer and fall quarters.

Q1 17 vs Q1 16

For the first quarter of 2017 revenue was $8.3 million compared to $7.9 million in the first quarter of FY 2016. The $400,000 increase was due to a $300,000 increase from Water Systems and a $100,000 increase from Professional Services. Within Water Systems, manufacturing and assembly projects saw an overall revenue increase of $700,000, offset by a decrease in revenue from engineered solutions projects of $400,000. This decline is due to a slower than anticipated ramp up of new engineered solutions projects. Net income for Q1 2017 was $228,000 compared to $15,000 for Q1 2016. This increase is almost entirely due to higher gross profit achieved by the Professional Services group.

Q4 16 vs Q4 15

Fourth quarter 2016 revenue was $7.3 million compared to $9.2 million in Q4 2015. The Company experienced a $1.5 million drop in Professional Services revenue and a $400,000 drop in Water Systems revenue. Within Water Systems the drop was mainly in engineered solutions projects, as a number of assignments have been coming to a close over the year and new contracts had not been finalized, a reflection of the pattern of workflow of the engineered systems projects. There was a partial offset from an increase in manufacturing and assembly projects over the prior year same quarter. Within the Professional Services group, the main cause was the timing of projects, which resulted in a busier Q3 2016. Net loss in Q4 2016 was $87,000 compared to net income of $334,000 in Q4 2015. The drop is largely due to lower revenue and gross margin offset by lower operating costs.

Q3 16 vs Q3 15

Third quarter 2016 revenue was $8.4 million compared to $8.7 million in Q3 2015. The decrease quarter over quarter was caused by a decline in revenues from the engineered solutions in the Water Systems group, offset by a significant revenue increase from the Professional Services group which continued to benefit from a number of large contract wins. Net income in Q3 2016 was $371,000 compared to $322,000. These similar net incomes are a result of a 1% lower gross margin and increased finance costs, offset by lower selling and general administration costs.

Q2 16 vs Q2 15

The second quarter of fiscal 2016 saw a departure from the Company's typical revenue trend, as outlined above. The warmer winter, coupled with winter field work in Canada's sub-arctic and strong continuing contract work for government and mining clients allowed Professional Services to increase revenue to $5.1 million in Q2 2016 from $3.8 million in Q2 2015. This growth was offset by less revenue from engineered solutions contracts in Q2 2016 compared to Q2 2015 in the Water Systems group. Overall, quarterly revenue increased to $7.9 million from $7.8 million in Q2 2015. Net income in Q2 2016 was $289,000 compared to $246,000 in Q2 2015.

Liquidity

The Company's short-term credit facilities consist of an operating demand loan of $2,500,000, with a $500,000 sublimit for letters of credit. Each letter of credit is 100% guaranteed through a separate program. This replaces a previous credit facility that consisted of a $2,000,000 operating line of credit.

The operating demand loan is supported through a separate program by way of account performance security guarantees in favour of the bank.

The operating demand loan carries a floating rate of interest of prime plus 2.25% and is secured by a general security agreement over the Company's assets. The previous line of credit carried a floating rate of interest of prime plus 3.50%.

In addition to the operating demand loan, the Company entered into an agreement with another institution on September 12, 2016 for a secured five-year term loan of $2,500,000. This loan bears a 10% interest rate and requires the Company to pay royalty fees on gross revenue beginning February 2018. The royalty rate is tiered and applies at a rate of 0.35% of gross revenue up to $38,000,000, and then decreases to 0.15% on gross revenue in excess of this amount. Part of this loan was used to repay the Company's 9% Convertible Unsecured Debentures in the amount of $1,430,000.

The Company has certain covenants in accordance with its new credit and loan arrangements on both a quarterly basis as well as rolling quarterly basis. As at December 31, 2016, the Company is in compliance with its covenants.

The Company has generated positive earnings for the three months ended December 31, 2016, as well as the two years ended September 30, 2016 and September 30, 2015. The Company anticipates having sufficient funds over the next twelve months to discharge its liabilities, as well as sufficient earnings to meet all debt covenants.

Business Outlook

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

The Company is targeting both organic revenue growth and growth through association and co-venturing with technology suppliers in allied fields and sectors. Our focus will continue to be on improving margins and tightly managing overhead, with careful cost control in existing operations and branch offices. Another key focus will be maintaining margins on the supply of professional services while increasing revenues on the higher-margin engineered solutions business, primarily with existing staff.

BluMetric is noting increased interest among clients and potential clients in the out-sourcing of non-core activities to specialist service providers. In the water space, for example, companies are looking to outsource wastewater services, including the running and monitoring of their systems, rather than purchasing outright, a benefit to our long term service support capabilities. Increased commercial activity is occurring in the Arctic, another key focus area.

The Company views its biggest opportunities in offering solutions that reduce client operating expenses, as well as where there are regulatory requirements for improved levels of environmental performance.

Capital Resources

The Company's future growth strategy contemplates investment in various technologies and processes requiring capital for prototyping purposes. Accordingly, the Company may opportunistically approach capital markets for additional equity funding if conditions are favourable.

Business Risks

The Company is subject to risks and uncertainties in the normal course of business that 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 the economy as a whole;
- Failure to retain and develop key personnel;
- Competition from companies which are better-financed or have disruptive technologies;
- Major swings in currency valuations after setting the price of foreign contracts; and
- Cybersecurity threats.

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 the amounts agreed upon by the parties.

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 was 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. On September 25, 2015 approximately $332,002 of this debt was converted to shares of the company as part of a larger debt-to-equity transaction, as below.

On September 25, 2015, the Company concluded a debt conversion whereby $892,025 of certain existing debt was converted into 2,688,484 Common Shares at an agreed conversion price of $0.29 per share. Of this amount, $807,215 was owed to related parties. The share price on September 25, 2015 was $0.28 per share, resulting in a gain on debt conversion of $26,885. These Common Shares were subject to a hold period ending January 26, 2016. Share capital increased by $726,629, which is net of share issue costs of $26,146.

Proposed Transactions and Subsequent Events

As at December 31, 2016 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.

Summary of Outstanding Shares and Dilutive Instruments

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

Shares:	27,880,140 common shares
Warrants:	nil
Options:	1,528,425 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.

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, principally through its Audit Committee, for ensuring that management fulfills its financial reporting responsibility.

Additional Information

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