Management Discussion & Analysis

Thirteen-and Nine-Month Periods Ended September 30, 2013 and August 31, 2012
(expressed in Canadian Dollars)

BluMetric Environmental Inc.

February 7, 2014

On November 6, 2012, and subsequent to having received shareholder approval to do so, 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 17-30, 2012.

This discussion is dated as of February [7], 2014, and explains the material changes in BluMetric's financial condition and results of operations for the 13-month period ended September 30, 2013 (the "FY 2013") and compares these results to the previous 9 month interim period ended August 31, 2012 (the "FP 2012"). 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 head office of BluMetric is at 3108 Carp Road, Ottawa, Ontario, K0A 1L0.

Core Services & Products

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 (Design/Build)

The BluMetric's Water group designs, manufactures and implements water and wastewater and waste treatment systems for industrial, commercial and government clients. Our 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 we provide 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.

Core Business Units and Strategy

The Company 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, water resource management and industrial hygiene, occupational health & safety, and renewable energy expertise. It also operates under the names “WESA”, and “Envir-Eau”.

The Water group is focussed on design-build and pre-engineered solutions to industrial/commercial water and wastewater treatment needs. It also operates under the names “WESAtech” and “Seprotech”.

The Company’s business is executed by a staff of approximately 170, located in nine offices in Canada (Ottawa – Headquarters, Toronto, Montreal, Kitchener, Gatineau, Kingston, Sudbury, Barrie and Yellowknife), and through an office in El Salvador which services a growing number of projects in the Central American region.

The business has grown significantly over the past decade - approximately 50 staff in five offices in 2002, approximately 130 staff in eight offices in 2008). The company’s strategy was then shaped by economic conditions, which in 2008 caused management to purposely curtail growth until the outcome of the global financial crisis became more apparent. Despite volatile economic conditions, the Company was able to take advantage of opportunities which enabled it to achieve better performance than expected including modest growth and increased operating profit from 2009 through 2011.

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.

Over the years, 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.

In the near and medium term, the Company intends to continue with its strategy of increasing geographic scope of its activities by expanding further into Western Canada and Northern Canada, both organically and by way of strategic acquisition, as well as abroad.

The Company’s working capital is expected to support planned business operations into the next fiscal year. While the Company reported a working capital deficit at the end of the 13-month fiscal period ended September 30, 2013 this largely reflects the re-classification of long-term debt held by the Company’s bank to a short term liability, due to the cross-default arising from a failure to meet one of its financial covenants. (See below under “Liquidity”)

Key Performance Drivers

Management believes that the Company's growth strategy continues to be somewhat insulated from international economic and commodity demand factors, since much of its revenues are in Canadian dollars and derive from the fee-for-service business which does not generally have raw materials cost exposure. As the business grows, some sensitivity to exchange rates and commodity prices may develop. 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 such external performance drivers (such as global commodity prices) there could be an impact on some components of the business. However, 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 firm to continue to attract high-quality staff; unique technical and managerial approaches to project planning and execution; 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; adequate and available working capital; maintenance of a high level of customer satisfaction; and an ongoing strong commitment to environmental and social responsibility.

These performance drivers are expected to result in continued revenue growth and a return to the positive cash flow and earnings as demonstrated by WESA historically over many years. The balance sheet reflected positive working capital over the same historical period, and while it was significantly negatively impacted by the RTO, is now demonstrating recovery subsequent to the reporting period.

Capability to Deliver Results

Board of Directors

The Board of Directors consists of six members, having recently been expanded with the addition of two new independent directors (for a total of four independent directors), one of whom brings financial and entrepreneurial expertise, the other extensive public and private sector experience in the water industry.

Executive Management

Members of the senior management team are: Roger M. Woeller, Co-CEO; William M. Touzel, Co-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.

Since 2001, the WESA management team built annual revenues from approximately $5 million to pre-RTO levels of greater than $20 million. The Company was consistently profitable through this extended period of growth.

On September 11, 2013, Harry Marshall retired as President, Water Division, but continued as a consultant to the Company. He was succeeded as President of the Water Division by Dan Scroggins, who was formerly the Chief Technology Officer.

Subsequent to the September 30, 2013 fiscal year end, from roughly mid November 2013 to the end of January 2014, except for Board related duties, Mr. Touzel has been on leave for personal reasons.

Employees

The Company has built a team of approximately 170 (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 business.

The Company offers competitive and attractive employment arrangements, and has been able to attract high-quality employees at all its locations.

Gender Diversity

Given a recent proposal by the Ontario Securities Commission to implement Comply or Explain governance disclosure requirements on gender diversity, management sees both its historical and current performance as pertinent. 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 three members of the senior operational team. Moreover, BluMetric has just appointed Jane Pagel, a well-respected cleantech executive with a background in business and government, as an independent member of 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.

Selected Annual Information

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

For the year ended November 30, 2011, the nine months ended August 31, 2012, and the 13 months ended September 30, 2013

	2013 (13 Months)		2012 (9 Months)		2011 (11 Months)
	$		$		$
Total revenue	31,549,194		16,645,601		22,472,195
Gross margin	5,612,915		2,892,789		4,464,150
Gross margin percentage of total revenue	18%		17%		20%
Total SG&A expenses	6,500,643		2,654,091		3,734,653
Net income (loss)	(2,316,252)		(114,104)		794,586
Common shares outstanding	25,191,656		634,468		634,468
Net income per share	(0.12)		(0.20)		$1.10
Total assets	19,798,751		13,948,908		11,841,205
Working capital	(1,787,469)		2,550,543		2,811,700
Long term debt	2,153,732		1,706,722		1,654,373
Shareholders' equity	6,223,730		5,309,825		5,394,717

Results of Operations

While the Company substantially met its revenue targets for FY 2013, it did not achieve satisfactory margins or profitability. A significant part of the Company's business (Professional Services) is subject to seasonal influences, hence the second and third quarters reflected a customary downturn which was not completely offset by the Water group's performance. When a similar result became evident in the third quarter results, it became clear that the negative performance reflected more than a seasonal fluctuation. During the fourth quarter and beyond the reporting period, management took steps to curtail costs, including trimming of the workforce, which as the date of this analysis was 170 compared with 195 as at September 30, 2013.

While the global business environment remained volatile, the ongoing enactment and implementation of environmental regulation 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 - Fourth Quarter 2013

For comparison purposes, the fourth quarter 2013 was a four-month quarter as a result of the Company changing its fiscal year end to September 30. The comparable quarter is the three months ended August 31, 2012. These factors result in fiscal periods which are not directly comparable, and readers are cautioned that these factors may skew the analysis and conclusions from such analysis which follow.
Revenues in the fourth quarter were $11,918,000 compared with $6,327,000 for the prior quarter ended August 31, 2012, an increase of $5,591,000, or 88%. While the 2013 result partially reflected the extra month in the reporting period, and the prior period did not include the former Seprotech's results,

the improved revenue was in line with targets. The revenue split between the water and professional services divisions was 29% and 71% respectively.

Activity in the professional services division was high during the quarter, this typically being a peak period for the various services offered by this division, although margins were a little below target. Water division was also busy, however margins were compromised by significant labour cost over-runs on a single project. As a result, the consolidated gross margin was $1,873, 000 or 16%. Steps have been taken by management to ensure this problem doesn't recur in the future.

SG&A expenses of $2,663,000 incurred during the quarter exceeded budgets, reflecting a combination of incremental overhead salaries, a write-off of technology deemed not to be patentable ($81,838) and follow-on expenses resulting from the merger and otherwise ($252,586), many of which are expected to be non-recurring.

The net loss for the quarter was $1,302,000 compared with net income of $241,000 for the comparable prior period.

Highlights - 13 Month period ended September 30, 2013

During the 13 months ended September 30, 2013 the Company was substantially on target with revenues generated reaching $31.5 million. In addition to recurring business there was significant progress in both operating divisions. The Water group announced completion of five reverse osmosis contracts in South America worth $1.6 million; the award of a $1.0 million wastewater treatment contract in New York and a $1.38 million reverse osmosis contract in Peru. During the same period the Professional Services Division announced the award of an environmental investigation and site monitoring project worth $600,000 for a long-time client, new contracts exceeding $1.5 million in the Northern Territories, thereby expanding our client list and services provided in the north, and mining related environmental projects exceeding $3.0 million for a Sudbury-based mining company. BluMetric also established local sales capability in the Middle East during the period.

Discussion of Results and Financial Condition for the 13 Month Period Ended September 30, 2013

Under RTO accounting rules, the continuing entity (BluMetric) compares its financial results to the historical results of the accounting acquirer (WESA Group Inc.). Upon closing the RTO, the August 31 year end used by the former Seprotech was adopted by the continuing entity, which subsequently changed its fiscal year end to September 30. This analysis accordingly compares the 13 month period ended September 30, 2013 with the 9 month period ended August 31, 2012. Prior fiscal periods for WESA Group Inc. discussed in this MD&A reflect a November 30 year end. Readers of this analysis are accordingly cautioned that the various reporting periods are not generally directly comparable to the various prior periods and that trend analysis may be distorted by the varying length of the respective fiscal periods.

During the 13 month period ended September 30, 2013, total revenues were $31.5 million (9 months ended August 31, 2012 - $16.6 million) an increase of approximately $15.0 million (90%), which was attributable to strong sales performance in both divisions. The contribution to revenue from the Water

Division was approximately $10.0 million for the period, and the contribution to revenue from the Professional Services division was approximately $21.0 million, a slight decrease from the amount that was attributable to the former WESA alone for the comparable period.

The level of activity of the Professional Services group is historically slower during the winter months, however during the late spring and summer months, both divisions ramped up activities as is typical of the summer field season.

Gross Margin for the 13 month period was $5.6 million, or 18% (9 months ended August 31, 2012 - $2.9 million or 17%), essentially unchanged from the comparable period in 2012. The stable gross margin percentage was below expectations in both divisions and resulted in the company being unable to fully cover its operating expenses.

SG&A expenses for the 13 months ended September 30, 2013 were $6.5 million compared with $2.7 million for the nine months ended August 31, 2012, which reflected an increase in headcount required to achieve and execute anticipated business growth which did not fully materialise; increases in several overhead cost categories, some non-recurring costs associated with both the RTO and the debenture which closed in June, 2013, and an increase in amortization.

Finance costs of $357,244 for the 13 month period ended September 30, 2013 were significantly higher than the $65,144 reported for the 9 months ended August 31, 2012, reflecting interest costs on debt assumed from Seprotech at the time of and subsequent to the RTO, as well as higher credit line utilization during the most recent fiscal period.

The result was a net loss of $2.3 million for the 13 months ended September 30, 2013 compared with a loss of $114,104 for the 9 months ended August 31, 2012.

Shareholders' equity increased to approximately $6.2 million as at September 30, 2013 (August 31, 2012, $5.1 million), reflecting the impact of the RTO and the concurrent equity raise.

The Consolidated Statement of Financial Position as at September 30, 2013 reflects the consolidation arising from the RTO, and indicates a working capital deficit of $1.8 million (as compared with a working capital surplus of approximately $2.6 million at August 31, 2012). This reflected a number of items, including the absorption of the former Seprotech's significant working capital deficit; the re-classification of long-term bank debt/mortgages as short-term debt (result of cross-default triggered by company's failure to meet one of its financial covenants), as well as reflecting the negative earnings for the period.

Events having a significant one-time financial impact during the period included the following:

- Costs of merger and subsequent integration, including extra audit services
- Write-down of technology deemed to be unpatentable;
- Buy-out of minority shareholders of OEL-HydroSys; and
- Gain on debt restructuring

Segmented Information

Geographical Segmentation

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

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

Thirteen months ending September 30, 2013

	Canada	Int'l	US	Total
Revenue	28,412,835	2,202,366	933,993	31,549,194

Nine months ending August 31, 2012

	Canada	Int'l	US	Total
Revenue	14,355,757	2,207,378	82,466	16,645,601

Technology and Innovation

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

Cost Reduction Strategies

The Company is actively pursuing growth and expects certain costs to increase in advance of revenue growth. That said, and in view of the escalation of overhead costs since the RTO, the Company is actively reviewing its cost structure with a view to optimising internal efficiency. The process will be undertaken in two phases to identify first where immediate cost savings can be achieved, and second where longer term efficiencies can be realized through use of software and other tools.

Sales and Marketing

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

The Company has expanded its Corporate Development group with specific responsibility to guide the overall business development and growth initiatives (both organic and by merger and acquisition activities), and to introduce major sales opportunities to operating units, providing marketing materials, market research, .and similar kinds of support.

Summary of Quarterly Results

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

	2013				2012			
Quarter Ended	**Sept 30(1)**	**May 31**	**Feb 28**	**Nov 30**	**Aug 31**	**May 31**	**Feb 28**	**Nov 30**
Total revenue	11,918	7,267	6,024	6,340	6,327	5,832	4,487	6,940
Total cost of sales	10,045	6,016	4,945	4,930	5,176	4,725	3,852	5,543
Gross margin	1,873	1,250	1,079	1,410	1,152	1,106	635	1,314
GM % of total revenue	16%	17%	18%	22%	18%	19%	14%	19%
S,G &A Expenses	2,663	1,723	1,331	784	654	977	1,023	881
Interest expense	196	52	73	36	32	18	15	15
Net Income (loss)	(1,302)	(773)	(490)	249	241	48	(403)	(427)
Weighted Average Common Shares	25,191,656	25,191,656	25,191,656	18,510,451	16,988,758	16,988,758	16,988,758	634,468
Income (loss) per share (1)	$(0.05)	$(0.03)	$(0.02)	$0.01	$0.01	$0.00	$(0.02)	$(0.67)

(1) 4 Month period

Quarterly Trend Analysis

Quarterly trend analysis over the past eight quarters is affected by the completion of the reverse RTO during the quarter ended November 30, 2012. The 13-month fiscal period ended September 30, 2013 reflects consolidated operations for the amalgamated entities for the entire period, except for the short pre-amalgamation period in the first quarter. Results for the 9-month period ended August 31, 2012 do not include any results for the former Seprotech. The Corporation changed its year end from August 31 to September 30 and consequently the quarter ended September 30, 2013 is a 4 month quarter. 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 Professional Services than in Water/Wastewater Products, 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 obviously considerably 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.

Quarterly 2012 results follow the typical seasonal cycle. 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 to date were significantly impacted by the RTO which closed in November 2012, with revenues for the first quarter largely reflecting pre-RTO WESA performance, and a small profit $249,000 reported compared with a loss of $428,000 for the prior period quarter.

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 revenues 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 prior period 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 the previously noted increases in certain overhead costs, resulted in a net loss of $773,000.

As noted above, the fourth quarter ended September 30, 2013 was a four-month quarter; hence, the results reflect an extra month. However, even if the results were pro-rated to reflect a three-month period, revenues were significantly improved from both the previous quarter, and the comparable quarter in 2012 ($12.0 million as compared with $6.7 million). The gross margin increased to $1.9 million in the period from $1.6 million in the prior period, but in percentage terms slipped from 23% to 16%. SG&A expenses continued to grow, from $1.5 million at the end of the prior period, to $2.4 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 loss for the quarter of $1.3 million, or a loss of $0.05 per share.

The Company has made significant progress in meeting its integration goals following completion of the RTO, notably the fitting up of a new office adjacent to the existing head office building, and the re-location/consolidation of Ottawa-based staff among the various locations. In addition to one-time costs associated with these activities, the Company has absorbed significant transaction costs over the last 13 months, as well as the incremental costs of being a public company.

Management is focussed on ways to ensure that costs are in line with revenues on a go-forward basis, consistent with its growth strategy. In that regard, the Water Division has a robust pipeline of projects, and the Professional Services Division is continuing to ramp up its activities as is typical of the season. Early indications subsequent to the fiscal period end are encouraging.

Liquidity

The Corporation had a working capital deficit of $1.8 million at September 30, 2013, compared with positive working capital of $2.6 million at August 31, 2012. As noted above, the significant decline reflects several factors:

- The Company assumed liability for a significant working capital deficit in Seprotech upon completion of the RTO
- The reclassification of $1,222,319 of long term debt/mortgages held by the bank to current liabilities resulting from cross default of financial covenants; and
- The negative earnings from the last three interim fiscal periods

The impact of the reduction in working capital was partially offset by completion in June 2013 of a private placement of convertible debentures for gross proceeds of $1,430,000.

Subsequent to the fiscal period end, internally generated cash flow, and working capital are expected to recover as the effects of the merger continue to be absorbed, and as financial statements reflect the various actions taken by management to improve margins during the latter half of the 13-month fiscal period ended September 30, 2013.

The Company has an operating line-of-credit facility provided by a Canadian chartered bank with a limit of $2.0 million under normal margin and compliance requirements. As noted above the Company is not in compliance with its bank covenants, but is working closely with the bank in efforts to return to a positive compliance position in 2014. The Company's inability to meet its bank covenants resulted in a cross default of term loans provided by the bank such that $1,222,319 had to be re-classified as current liabilities, which contributed significantly to the working capital deficit at period end.

BluMetric has incurred significant operating losses for the fiscal period ended September 30, 2013 and the Company is currently in violation of one of its debt covenants. This has triggered a cross default clause and has resulted in long-term debt being reclassified to current debt in these financial statements. As a result of this reclassification, the Company's working capital is in a deficit position of $1.8 million. The Company's ability to continue operating is dependent upon regaining profitable operations, raising additional capital and continuing to satisfy creditors. The Company continues to report significant stable revenues, and is working to control costs and restructure itsoperations. However, there can be no assurance it will be successful in these efforts.

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

Business Outlook

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

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

External Environment

The Company primarily operates in Canada and in South America, and is beginning to see signs of a significant increase in activity in the United States. The latter activity primarily comprises sale of wastewater treatment, and until recently water treatment, facilities. Typical clients for wastewater treatment plants are municipalities in the U.S. and Canada; mines in remote locations; and 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. This would potentially be a reverse osmosis facility using salt water input, for example.

Internal Environment

Significant changes have been introduced into how the Professional Services group is being conducted, including tighter management of field staff 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 in the Professional Services group, however this has been somewhat mitigated in 2014 by the award of two large contracts which will provide revenue through this slower period.

The Water group has made significant progress in getting costs under control, partly by better aligning headcount with orders on hand and rationalizing occupancy costs. This activity will continue into 2014. This group's activities in 2014 will focus on pushing higher value-add products into existing and new markets. South and Central America are being targeted geographically, with the previously announced Panama Canal project being a case in point.

Corporate Focus

In the coming quarters, the Company is targeting organic revenue growth as well as growth through acquisitions. This will require:

- Improving margins and tightly managing overhead, and careful cost structure in existing operations and branch offices

- Maintaining and increasing the existing client base;
- Expanding its geographic reach;
- Selectively increasing staff complement in existing operations and branch offices to assist in increasing revenues and gross margins and growing earnings;
- Addition of new branch offices in strategically important locations;
- 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 at the end of FY 2013. However, in light of the diminished working capital position, management will continue to explore 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 growth strategy contemplates both business acquisitions and internal growth. Accordingly, the Company may opportunistically approach the capital markets for additional equity funding if conditions are favourable.

Business Risks

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

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

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

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

On November 15, 2012, the Company reached agreement with a number of creditors with respect to repayment terms for outstanding amounts payable, in the aggregate amount of $958,285. Of this amount, $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.

Proposed Transactions

As at September 30, 2013 there were no significant assets or business acquisitions or dispositions being considered by the Company.

Inter-corporate Relationships

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

Financial Instruments

Financial Assets and Financial Liabilities

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

	September 30, 2013	August 31, 2012
	$	$
Accounts receivable	**7,204,156**	7,057,884
Total loans and receivables	**7,204,156**	7,057,884
Bank indebtedness	**1,258,471**	259,471
Credit facilities	**1,520,000**	2,780,000
Accounts payable and accrued liabilities	**5,544,725**	3,045,055
Note and loans payable	**337,971**	-
Debt	**2,517,603**	1,437,431
Convertible debenture	**1,130,684**	-
Due to shareholders	**269,531**	441,627
Contingent consideration	**156,282**	78,141
Total financial liabilities at amortized cost	**$ 12,735,267**	$ 8,041,725
Long term investments available for sale	**11,085**	11,085

Fair Value

The carrying amounts for accounts receivable, bank indebtedness, credit facilities, accounts payable and accrued liabilities, note and loans payable approximate fair value because of the short-term maturity of these instruments.

The fair values of obligations under long-term debt are determined by discounting future cash flows using rates that are implicit in the specific contracts. The carrying value approximates their fair value.

The fair value of amounts due to shareholders was $234,375 at September 30, 2013 ($384,000 at August 31, 2012), determined by discounting the amounts by the Company's borrowing rate over the expected payment term.

The fair values of the convertible debenture and the contingent consideration approximate their book values, determined by discounting the amounts by the Company's borrowing rate over the expected payment term.

Risk Management Objectives and Policies

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

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

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

Credit Risk

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

The Company typically has a limited number of customers resulting in concentration of customers in revenue and receivables, as disclosed in Note 23 to the accompanying financial statements.

The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its receivables in order to mitigate any possible credit losses. The allowance for doubtful accounts and past due receivables are reviewed by management at each reporting date. The Company updates its estimate of the allowance for doubtful accounts based on an examination of the aged accounts receivable listing, considering such factors as customer payment history, status of pending litigation and the current financial condition of the customers. Accounts receivable are written off once determined not to be collectible.

Accounts receivable disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Company has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is more than 60 days outstanding) are still considered recoverable. There are no credit issue concerns regarding amounts due to the company which are current.

The Company's management considers that all financial assets which are not impaired or past due for each of the September 30, 2013 and August 31, 2012 reporting dates under review are of good credit quality.

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

	September 30, 2013	August 31, 2012
	$	$
Past due 61 to 90 days	**471,056**	1,381,915
Past due greater than 90 days	**1,311,643**	640,086
Allowance for doubtful accounts	**(415,965)**	(187,678)
	1,366,734	1,834,323

Of the past due accounts receivable greater than 90 days of $1,311,643, none is contractually held back pending completion of certain customer terms and conditions.

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

	September 30, 2013	August 31, 2012
	$	$
Opening balance	**187,678**	67,638
Bad debt expense provision	**885,149**	141,566
Accounts written off	**(656,862)**	(21,526)
Closing balance	**415,965**	187,678

Liquidity Risk

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

The following table outlines the liquidity risk associated with the Company's payment obligations as at the periods ended September 30, 2013 and August 31, 2012 respectively.

September 30, 2013				**Payment Due**		
	Total	**In less than 3 months**	**4 - 12 Months**	**2 - 5 Years**	**Over 5 Years**	**Total**
Credit facilities and bank loans	$ 2,778,471	$ 2,778,471	$ -	$ -	$ -	$ 2,778,471
Trade and other payables	5,544,725	4,287,262	1,257,463	-	-	5,544,725
Note, loans payable and secured debenture	337,971	337,971		-	-	337,971
Finance lease obligation	25,122	3,835	11,505	9,782		25,122
Long-term debt	$ 2,785,152	$ 205,606	$ 603,774	$ 1,610,218	$ 365,554	2,785,152
Convertible debenture	1,620,199	32,175	96,525	128,700	1,362,799	1,620,199
Due to related party	269,531		269,531			269,531
Contingent consideration	156,282			156,282		156,282
	$ 13,517,453	$ 7,645,320	$ 2,238,798	$ 1,904,982	$ 1,728,353	$ 13,517,453

August 31, 2012				**Payment Due**		
	Total	**In less than 3 months**	**4 - 12 Months**	**2 - 5 Years**	**Over 5 Years**	**Total**
Credit facilities and bank loans	$ 3,039,471	$ 3,039,471	$ -	$ -	$ -	$ 3,039,471
Trade and other payables	3,045,055	3,045,055	-	-	-	3,045,055
Long-term debt	$ 1,624,201	$ 82,922	$ 245,140	$ 816,300	$ 479,839	1,624,201
Due to related party	441,627	-	441,627	-	-	441,627
Contingent consideration	78,141	-	-	78,141	-	78,141
	$ 8,228,495	$ 6,167,448	$ 686,767	$ 894,441	$ 479,839	$ 8,228,495

Market Risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in interest rates. At the end of the thirteen month period ended September 30, 2013 the Company had $1,520,000 in outstanding revolving credit facilities and $2,517,603 in long term debt which were floating rate obligations and $337,971 in outstanding note and loans payable which was a fixed rate obligation. A 1% increase in interest rates at the reporting date would increase the net loss and reduce equity for the period by $20,532.

Foreign currency risk

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

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

	September 30, 2013	**September 30, 2013**	**August 31, 2012**	**August 31, 2012**
	CAD	**US**	CAD	US
	$	**$**	$	$
Cash	(165,775)	(170,798)	98,741	97,526
Accounts receivable	1,083,293	1,116,117	29,547	29,184
Accounts payable	410,544	422,983	75,303	74,326

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

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nevertheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

A 10% strengthening of the US dollar against the Canadian dollar would have decreased the net loss and increased equity by $ 52,234.

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: 198,059 broker warrants

Options: 455,667 options

Additional Information

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

Management's Responsibility for Financial Reporting

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

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

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

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

Roger M. Woeller
Chief Executive Officer

Ian W. Malone
Chief Financial Officer