BIOREM Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")

For the Quarter Ended September 30, 2018

Introduction

This Management Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operation and financial condition. This discussion should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2017 and the accompanying notes, which are prepared in accordance with International Financial Reporting Standards or "IFRS" and the Company's condensed consolidated interim financial statements for the period ended September 30, 2018. This discussion is based on information available to management as of November 6, 2018, unless otherwise indicated.

Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars.

The core business of the Company is to provide advanced technology biological filters for removal of odors, volatile organic compounds (VOCs), hazardous air pollutants (HAPs) and for the conditioning of biogas renewable energy. With over 1,200 installed systems and over a decade of experience, the Company's groundbreaking biofilters are the technology of choice for wastewater treatment plants across North America. Additional information about the Company, including our most recently filed Annual Report, is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are used to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this MD&A, November 6, 2018. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances.

Non-IFRS Measures

"EBITDA," "Order Bookings," "Order Backlog" and "Working capital" do not have any standardized meaning prescribed by IFRS and may not be comparable to measures presented by other companies.

EBITDA is used to denote earnings (loss) from operations before interest, income taxes, foreign exchange gains and losses, depreciation and amortization. This measure is important to the Company since it is used by potential investors and lenders to evaluate the ongoing cash generating capability of the Company and thus the amounts they are willing to invest and lend to the Company.

Order Bookings and Order Backlog are non-IFRS measures that the Company uses to evaluate its sales performance. Order Bookings are those binding contracts that the Company enters into during a fiscal year with a third party for the delivery of our products or services. As Order Bookings are received, the contract value (before any associated sales taxes) is included in the Order Backlog. The Order Backlog is reduced by the revenue that is recognized on each project and is also adjusted for foreign exchange changes in the period presented.

Overview

Biorem is a leading clean technology company that designs, manufactures and distributes a comprehensive line of high-efficiency emissions control systems used to eliminate odors, volatile organic compounds (VOCs) and hazardous air pollutants (HAPs). Biorem also offers Biogas Conditioning technologies specializing in biological treatment of hydrogen sulfide.

Biorem offers a selection of products that can be tailored to suit application specific requirements. Biorem ensures optimized long-term performance on every application by custom-designing systems to meet the individual needs of their clients.

Biorem has sales and manufacturing offices across North America and in China, a dedicated research facility, a worldwide sales representative network, and a dedicated service and support division. As a result, Biorem has the resources available to ensure that projects are handled promptly and professionally from conception to completion.

The Company has more than 1,200 installed systems worldwide.

Significant Events For The Third Quarter 2018

Key events of note in Q3 2018 include the following:

- Order bookings for the quarter were $10.4 million, including $1.8 million from China

  - Order backlog at the end of the quarter stood at $28.7 million.

  - Net earnings for the quarter were $232,000.

  - Working capital remained unchanged at $7.5 million.

  - The Company invested $176,000 in manufacturing equipment to increase both production capacity and quality of its proprietary filter media.

  - Cash on hand remained virtually unchanged at $3.6 million at September 30, 2018 compared to $3.7 million on June 30, 2018.

  - The plaintiff for a statement of claim against Biorem for $12 million in damages related to an explosion that occurred at a water pollution control plant in Ontario in 2014 have agreed to a dismissal of the claim without costs.

Selected Quarterly Information (Unaudited)

Selected Balance Sheet Information as at

(in ,000's)	September 30 2018	June 30 2018	March 31 2018	December 31 2017	September 30 2017	June 30 2017
Cash and cash equivalents	3,618	3,656	5,795	3,568	2,316	2,423
Accounts receivable	4,816	4,607	3,326	8,011	5,986	4,899
Unbilled revenue	3,272	3,522	2,653	2,622	2,881	2,604
Working capital	7,589	7,581	7,209	7,219	6,042	5,606
Total assets	14,144	13,198	12,866	15,662	12,727	11,301
Accounts payable	2,642	2,481	2,005	4,012	2,936	2,937
Accrued liabilities	1,162	1,331	1,327	1,345	1,223	978
Deferred revenue	1,978	499	1,714	2,542	2,098	1,301
Shareholders' equity	7,853	7,677	7,308	7,299	6,117	5,691

Selected Statement of Operations information for the three month periods ended

(in ,000's)	September 30 2018	June 30 2018	March 31 2018	December 31 2017	September 30 2017	June 30 2017
Revenue	4,392	5,185	3,883	8,538	5,265	5,672
Cost of goods sold	3,343	4,065	3,068	6,129	3,786	4,411
Gross margin	1,049	1,120	815	2,409	1,479	1,261
Total operating expenses	816	852	981	1,356	925	1,329
Other items	1	1	3	1	2	-
Net earnings (loss)	232	267	(169)	1,028	553	(68)
EPS-basic	0.01	0.01	(0.01)	0.03	0.01	0.00
EPS- fully diluted	0.01	0.01	(0.01)	0.03	0.01	0.00

All amounts except Working capital have been determined under IFRS.

Financial Results For The Three Months Ended September 30, 2018

The following analysis of the results of operations for the three months ended September 30, 2018 includes comparisons to the three months ended June 30, 2018 and September 30, 2017.

Revenues

Revenues for the quarter were $4.4 million, a decrease of $793,000 or 15% over the previous quarter and $873,000 or 16.6% below the three months ended September 30, 2017. Revenues for the nine months totaled $13.5 compared to $14.0 million in 2017. The difference in Q3 2018 revenues from the previous quarter and nine month revenue to September 30, 2018 compared to the previous year was largely the result of delayed delivery by certain of Biorems suppliers that resulted in delays in delivery of equipment to customer sites in September. This backlog is expected to be caught up in the fourth quarter of 2018.

Revenue by Geography

	September 2018	June 2018	September 2017
Canada	$577,000	$607,000	$1,526,000
United States	2,859,000	2,151,000	3,443,000
China	786,000	729,000	99,000
Other	170,000	1,698,000	197,000
Total Revenue	$4,392,000	$5,185,000	$5,265,000

Biorem's core market is the North American municipal odour control market with international distribution established in China, Middle East, Americas and South Africa as well as opportunistically in other jurisdictions. Project delivery mix varies from quarter to quarter but from the data it is evident that the Company relies heavily on the USA and Canada. The project mix in the current backlog of the Company is consistent with the geographic mix shown in the table.

A number of factors contribute to variations in the Company's quarterly results: customer scheduling and delivery of our products, the Company's mix of product and service offerings, the currency in which the revenue is earned and the timing of revenue recognition.

Bookings and Backlog

Order Bookings	September 2018	June 2018	September 2017
	$10,400,000	$6,300,000	$4,500,000

Order Bookings are those binding contracts that the Company enters into with a third party for the delivery of our products or services. Bookings can vary considerably from quarter to quarter, due to both the size of the contracts won and the timing of the awarding of the contracts.

Bookings in the third quarter were $10.4 million, $4.1 million higher than the immediately prior quarter and $5.9 million above the third quarter 2017 bookings. Year to date bookings total $22.7 million compared to $18.5 million in the same period in 2017. The orders booked during the quarter include $1.8 million booked in China and a $2.7 million odour control project in the United States. The Company's bidding activity over the last four months continued to be robust.

Order Backlog	September 2018	June 2018	September 2017
	$28,700,000	$22,460,000	$21,000,000

The value of the Company's $28.7 million order backlog at September 30, 2018 represents a 28% increase over the order backlog on June 30, 2018 and a 37% increase over the order backlog on September 30, 2017. The increase in the backlog is due to both the significant increase in bookings during the quarter as well as some delays in deliveries of projects in September that were pushed into October 2018.

Due to variability in customer scheduling, the Company cannot provide precise guidance as to the quarters when the Backlog will be converted into revenue however management's current estimate is that majority of the Backlog will be converted into revenue during the next 12 months.

Gross Profit and Operating Expenses

Gross Profit	September 2018	June 2018	September 2017
	$1,049,000	$1,120,000	$1,480,000

Gross profit for the quarter was 23.9% of revenue compared to 21.6% for the quarter ended June 30, 2018 and 28.1% for the quarter ended September 30, 2017. The slight increase in gross profit percentage over the prior quarter was due to a mix of projects in the quarter with higher gross margins than the previous quarter that was offset by a small increase in fixed engineering costs during the period. The decrease in gross margin percentage from the same period a year ago was due to a $188,000 favourable warranty expense in the prior period.

The fixed component of cost of goods sold which includes engineering and project management costs was $695,000 in the quarter.

Sales and Marketing	September 2018	June 2018	September 2017
	$391,000	$516,000	$543,000

The Company's sales and marketing expenditures are composed of two significant categories; variable selling costs and sales department expenditures.

Variable selling costs represent amounts that are paid to both internal sales employees and external manufacturer representatives. These costs are incurred when the project revenue is recognized during the period. Sales department expenditures relate primarily to departmental salaries and advertising expenses.

Sales and marketing costs for the third quarter of 2018 totaled $391,000 and represented 9.9% of revenue compared to the 10.3% of revenue that sales and marketing costs represented for the first nine months of 2018 and 10.8% for the first nine months in 2017. The lower % of sales and marketing expenditures to revenue recorded in the quarter was largely due to lower sales and marketing costs related to the revenues recorded in the quarter from the China operations

General and Administrative	September 2018	June 2018	September 2017
	$425,000	$403,000	$451,000

General and Administration expenditures include administrative salaries, consulting, office supplies, regulatory and transfer fees, travel and corporate affairs.

General and administrative expenses for the first nine months of 2018 totaled $1,472,000 and were consistent with expenditures incurred in the first nine months of 2017. General and administrative costs were higher for the three months ended September 30, 2018 compared to the quarter ended June 30, 2018 due to an increase in legal expenses.

Other Expense(Income)	September 2018	June 2018	September 2017
	$(24,000)	$(156,000)	$(172,000)

Other expense (income) in the quarter of $24,000 comprised $14,000 in investment tax credits and $10,000 in foreign exchange gains.

Liquidity

The Company finances its operations and capital expenditures through cash generated from operations and equity and debt financings.

2018 Cash flow

Cash and cash equivalents	September 2018	June 2018	September 2017
	$3,618,000	$3,656,000	$2,316,000

Consolidated cash on hand decreased by $38,000 to $3,618,000 at September 30, 2018 from $3,656,000 at June 30, 2018.

The sources and uses of cash for the quarters ended are summarized below:

	September 2018	June 2018	September 2017
Cash provided by (used in) operating activities	$58,000	$(2,158,000)	$7,000
Cash provided by (used in) investing activities	(176,000)	(10,000)	-
Cash provided by (used in) financing activities	-	-	7,000
Foreign exchange gain (loss) on cash	80,000	29,000	(121,000)
Net increase (decrease) in cash	$38,000	$(2,139,000)	$(107,000)

Cash provided by operating activities - Earnings from operating activities during the quarter provided $169,000 of cash and $112,000 of cash was used to fund non-cash working capital. In particular $257,000 was used to fund an increase in accounts receivable, $537,000 to fund an increase in inventory, $339,000 to fund an increase in prepaid expenses and $164,000 to reduce accrued liabilities. The cash used to fund these increases in non-cash working capital was partially offset by a $784,000 increase in unearned revenue and a $178,000 decrease in accounts payable.

Cash used in investing activities – During the quarter the Company invested $176,000 in manufacturing equipment. The manufacturing equipment is being used to increase production capacity as well as quality of the Company's proprietary media.

Cash provided by financing activities – There were no financing activities during the quarter.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business including proposals on major investments. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company's objectives of managing liquidity risk are to forecast the liquidity position as accurately as possible and to maintain sufficient resources to pursue its growth strategy. The Company's financial liabilities include accounts payable and accrued liabilities, unearned revenue and contract advances as well as long and short term debt.

The Company's net current assets (liabilities) are summarized below.

	September 2018	**June 2018**	**September 2017**
Cash and cash equivalents	$3,618,000	$3,656,000	$2,316,000
Working capital	7,589,000	7,581,000	6,042,000
Net current assets (liabilities)	$7,589,000	$7,581,000	$6,042,000

(1) Working capital represents total current assets less total current liabilities.

A maturity analysis as at September 30, 2018 of the Company's financial liabilities based on gross, undiscounted cash flows is presented below. The maturity analysis is based on the earliest date that liabilities may be due.

	Carrying Amount	Contractual Cash Flow	Less than 1 month	1-3 months	3 months to 1 year	1+ years	Total
	$	$	$	$	$	$	$
September 2018							
Accounts payable	2,641,979	2,641,979	2,641,979	-	-	-	2,641,979
Accrued liabilities	1,161,597	1,161,597	1,161,597	-	-	-	1,161,597
	3,803,576	3,803,576	3,803,576	-	-	-	3,803,576
December 2017							
Accounts payable	4,012,166	4,012,166	4,012,166	-	-	-	4,012,166
Accrued liabilities	1,345,046	1,345,046	1,345,046	-	-	-	1,345,046
	5,357,212	5,357,212	5,357,212	-	-	-	5,357,212

Capital Resources

The Company currently does not have any undrawn debt facilities. The Company does not have any significant capital expenditure projects underway or forecasted in 2018.

Financial instruments

At September 30, 2018 the Company held no forward exchange contracts.

Commitments

Commitments include operating leases for office equipment and facilities, bank guarantees, and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Aside from the aforementioned, the Company does not have any other business arrangements or any equity interests in unconsolidated companies that would have a significant effect on its assets and liabilities as at September 30, 2018.

Off-Balance Sheet Arrangements

As a general practice, the Company does not enter into off-balance sheet financing arrangements. Except for operating leases and letters of credit, all commitments are reflected on the balance sheet.

Transactions with Related Parties

The Company did not have any material related party transactions during the three months ended September 30, 2018.

Outstanding Share Data

	September 30 2018	December 31 2017	September 30 2017
Common shares	38,661,558	38,661,558	38,661,558
Employee stock options (1)	3,441,998	3,478,180	3,554,181
	42,103,556	42,139,738	42,215,739

(1) Assumes 100% conversion of outstanding options

There have been no material changes to the Company's outstanding share data from September 30, 2018 to the date of this MD&A.

Significant Accounting Policies and Estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related contingent assets and liabilities. On an on-going basis, management evaluates the estimates including those related to long-term revenue contracts, intangible assets, goodwill, bad debts, warranty obligations and income taxes. The estimates are based on historical experience and on various other factors that are believed to be reasonable in the circumstances. Actual results may differ from these estimates. The following critical accounting policies include those which involve management's more significant judgments and estimates:

a) Revenue recognition: The Company derives revenue from long-term contracts which require performance over a time span which may extend beyond one or more accounting periods. The Company recognizes revenue on long-term contracts using the percentage-of-completion method, based on costs incurred relative to the estimated total contract costs. Management has concluded that costs incurred are the best available measure of progress toward completion of these contracts. Estimated total direct contract costs is subjective and requires the use of our best judgments based upon the information we have available at that point in time. Management's estimate of total direct contract costs has a direct impact on the revenue recognized by the Company. . Changes in estimates are reflected in the period in which they are made and would affect revenue and cost of sales and unbilled or unearned revenue.
The Company also provides for estimated losses on incomplete contracts in the period in which such losses are determined.

b) Deferred income taxes: Deferred income tax assets are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying value of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment. The income tax bases of assets and liabilities are based upon the interpretation of income tax legislation across various jurisdictions. The deferred income tax assets and liabilities are also impacted by expectations about future operating results and the timing for reversal of temporary differences as well as possible audits of tax filings by the regulatory authorities. In accessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax assets, projected future taxable income and tax planning strategies in making this assessment. The Company has not recorded deferred tax assets as at September 30, 2018.

c) Investment tax credits: In the normal course of operations, the Company's Scientific Research & Experimental Development (SR&ED) expense claims are subject to review by federal and provincial government authorities. Reviews of certain of the Company's SR&ED claims are incomplete at September 30, 2018 and as such, amounts disclosed may be subject to change, pending the outcome of such reviews.

d) Warranty obligations: Management routinely assesses and adjusts for its anticipated warranty costs based on experience and estimates of the potential warranty obligations for its installations.

e) Bad debt expense: Management routinely reviews accounts receivable and sets up a reserve for bad debts on a customer-by-customer basis. This is an estimate since some of the reserved accounts may be collected and we may subsequently find that some accounts currently deemed collectible become uncollectible.

f) Long lived assets: Management reviews the carrying value of long lived assets including plant and equipment and amortizable intangible assets for impairment to determine if the carrying value of an asset may not be recoverable due to changes in the current and expected future use of the asset, external valuations of the asset, and the obsolescence or physical damage to the asset. If such indicators of impairment exist, the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit exceeds its estimated recoverable amount.

g) Compound financial instruments: The financial liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component, representing the holders' option to convert into common shares, is recognized initially at fair value determined as the excess of the face value of the compound financial instrument and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is included within contributed surplus and is not re-measured subsequent to initial recognition.

h) Interest, as well as any gains and losses relating to the financial liability are recognized in profit or loss.

i) There were no new accounting policies adopted during the period.

Outlook

With an order backlog of $28.7 million on September 30, 2018 revenues and earnings are expected to be very strong in the fourth quarter 2018 and into fiscal 2019. However, from quarter to quarter there can be a significant variability given the various factors that can impact the timing of delivery to customers, most of which are out of Biorem's control. Bidding activity continues to be robust. The Company is continuing to build out staffing and capabilities in our China operations and while we expect continued growth in that market we expect it to be lumpy from quarter to quarter as the Company continues to establish market presence,

Business development costs are planned to increase but other costs and operating margins are expected to remain fairly constant and we do not expect any significant deviation from the immediately prior quarters.

Risks and Uncertainties

Liquidity risk

At September 30, 2018 the Company had working capital of $7,589,000. Management believes the Company has sufficient working capital to meet all of its operational needs.

Sales Cycle

The Company's long sales cycle may cause revenue fluctuations period over period – since operating expenses are largely based on anticipated revenue trends and a significant portion of expenses are, and will continue to be, fixed, any delay in generating or recognizing revenues could negatively impact our business, operating results, financial condition or prospects.

Order Backlog

As of September 30, 2018 the Company's Order Backlog was $28.7 million. However, the expected future revenue from the Company's Order Backlog may not be realized or, if realized, may not result in net earnings. Projects could remain in Order Backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur from time to time with respect to contracts reflected in the Company's Order Backlog. Cancellation or delay of contracts may have a material adverse effect on our financial status.

Delays or Defaults in customer payments affecting liquidity

Due to the nature of our contracts, at times we commit resources to projects prior to receiving payments from our customers in amounts sufficient to cover expenditures as they are incurred. Delays in customer payments may require us to make a working capital investment. If a customer defaults in making payments on a project to which we have devoted significant resources, it could have a material negative effect on our liquidity as well as the results from operations.

Reputation

The Company's reputation for technical expertise, high level of service and the lower life cycle cost of products compared to our competitors products is one of our most valuable business development assets. The loss of this reputation due to client dissatisfaction represents a risk to our ability to win additional business both from existing clients and from future clients.

Patents and Proprietary Right

The Company relies on a combination of patents, trademarks, trade secrets and knowledge to protect its proprietary technology and rights. There can be no assurance that the Company's patents will not be infringed upon, that the Company would have adequate remedies for any such infringement, or that its trade secrets will not otherwise become known or independently developed by its competitors. There can also be no assurance that any patents now or hereafter issued to, licensed by or applied for by the Company will be upheld, if challenged, or that the protections afforded thereby will not be circumvented by others.

Dependence on Subcontractors

The Company does not directly engage in field construction but relies on field construction subcontractors operating under the supervision of the Company's employees. The unavailability of field construction subcontractors, or a substantial increase in pricing by a significant number of these subcontractors could adversely affect the Company. In addition, failure of subcontractors to properly perform work that has been subcontracted to them could adversely affect the Company by increasing the costs to the Company of completing a project and by damaging the Company's reputation.

Product Liability

If there are defects in our systems or if significant reliability, quality or performance problems develop with respect to our systems, there may be a number of negative effects on our business. Our products are often installed in corrosive or flammable environments. The Company carries product liability insurance, which includes coverage for sudden or accidental pollution impact. It is possible that a customers' inability to comply with applicable pollution control laws or regulations stemming from failure or non-performance of the Company's products or systems may subject the Company to liability for any fines imposed upon such customer by regulatory authority or for damages asserted to have been incurred by any third party adversely affected.

Competition

Virtually all contracts for the Company's products are obtained through competitive bidding. Although the Company competes on technical expertise, reputation for service and lower life cycle cost, there can be no assurance that the Company will maintain its competitive position in its principal markets.

Fixed Price Contracts may result in losses

The Company's receipt of a fixed price contract as a consequence of being the successful bidder carries the inherent risk that the Company's actual performance cost may exceed the estimates upon which its bid was based. To the extent that contract performance costs exceed projected costs, the Company's profitability could be materially affected.

Foreign Exchange

The Company is subject to risk of exchange rate fluctuations related to anticipated revenues, Order Backlog and existing assets and liabilities denominated in currencies other than Canadian dollars. At September 30, 2018, the Company had US dollar denominated net monetary assets of $3,068,000.

Stock Trading Volume is low

The monthly average trading volume of the BIOREM common shares on the Toronto Venture Exchange was 273,000 shares in the first nine months of 2018. Due to the low trading volume the price of the common shares could be subject to wide price fluctuations in response to business development announcements, competitors, quarterly variations in operating results, and other events or factors.

Risk to Product Development

Corporate resources are currently being expended on the development of the new media technologies. These technologies are constantly in development and have not yet been fully commercialized. There can be no guarantee that the new media technology will achieve the performance criteria which the Company believes is necessary for it to be a successful product in the market. In addition, there are risks associated with commercializing any product including the risk that full scale production may not be achieved at an acceptable cost level. Failure to successfully commercialize the new media technologies may materially and adversely affect the Company's financial condition and results of operations.

Acceptance of new products by the Market

Market risk exists for new products such as the new media. There is no assurance that new products will be accepted by the market, that desired volumes will be realized over the product life or that the product life will not be shorter than expected due to product obsolescence. New products that are launched by the Company's competitors may also have price or other advantages over the Company's products. In addition, new product offerings may also require more significant marketing and sales efforts to gain market acceptance.

Dependency on key personnel

The success of the Company is dependent upon the attraction and retention of highly skilled personnel in a number of key areas including management positions. The unexpected loss or departure of any of the Company's key officers or employees could have a material adverse effect on the future operations of the Company. The success of the Company's business will depend, in part, upon the Company's ability to attract and retain qualified personnel as they are needed. There can be no assurance that the Company will be able to engage the services of such personnel or retain its current personnel.