# MANAGEMENT DISCUSSIONS & ANALYSIS

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, 2008 and the accompanying notes. This discussion is based on information available to management at February 26, 2009, unless otherwise indicated.

Certain information contained in this MD&A is forward-looking in nature and is subject to a number of risks and uncertainties. Forward-looking information includes information concerning the Company's future financial performance, business strategy, plans, goals and objectives. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such forward-looking statements. Accordingly, readers of this MD&A should not place undue reliance on forward-looking statements. The Company does not update forward-looking statements should circumstances or management's assumptions, expectations or estimates change.

# RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying consolidated financial statements.

# DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President & CEO ("CEO") and the Chief Financial Officer ("CFO"), together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures for the year ended December 31, 2008. Based on that evaluation, they have concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as of December 31, 2008 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known by them.

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Additionally, the CEO and CFO, together with other members of management, have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports in accordance with GAAP. In anticipation of meeting the certification requirements, the following material weakness was identified:

Due to its small size and limited financial resources, the Company's CFO, a member of management, had been the only employee involved in accounting and financial reporting. As a result, there was no segregation of duties within the accounting function, leaving all aspects of financial reporting and physical control of cash in the hands of the same employee. Usually, this lack of segregation of duties represents a material weakness; however, as a compensating control the Company retained the services of a controller on a contract basis who independently prepared bank reconciliations and routine month-end journal entries. As well, the CEO and the Directors approve large financial transactions and along with other members of management have an in-depth understanding of the operations and can make inquiries and observations with respect to variances from the operating plan.

The Company has taken steps to address this weakness in our internal controls over financial reporting in the quarter ended September 2008. As of July 1, 2008, the Company hired an Accounting Manager who independently prepares bank reconciliations and month-end journal entries. The Accounting Manager also prepares all cheque runs with the assistance of an Accounts Payable clerk. The Company's CFO does not have access to the creation of vendors in the Company's accounting system nor the ability to produce a cheque run.

We will continue to periodically review our disclosure controls and procedures and internal control over financial reporting and make modifications from time to time considered necessary or desirable.

# ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company is currently in the stage of planning its approach for evaluating and assessing the impact the adoption of IFRS will have on its financial position, financial statement disclosure requirements, accounting processes and internal controls over financial reporting.

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The Company has retained KPMG to provide professional services to assist with our International Financial Reporting Standards ("IFRS") conversion project. The objective of this engagement is to assist the Company to identify areas where conversion to IFRS may have a significant impact or present a significant challenge and the specific areas where the Company will have to make decisions and adjustments as part of their IFRS convergence. KPMG has prepared its first phase report for this conversion project. After review of this report, the Company is confident that full compliance with IFRS will be obtained in fiscal 2009.

# GENERAL

BIOREM Inc. (the "Company") was incorporated under the laws of the Province of Ontario with the name Ontario Capital Opportunities Inc on December 18, 2003. On December 16, 2004, the name of the Company was changed to BIOREM Inc. On January 17, 2005, the Company completed a share purchase agreement for all the common shares of BIOREM Technologies Inc. in exchange for an equal number of consideration shares. As a result of this transaction BIOREM Technologies Inc., became a wholly owned subsidiary of the Company. BIOREM Technologies Inc was incorporated under the laws of the Province of Ontario on November 1, 1990.

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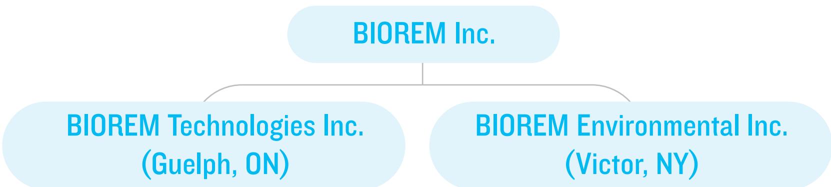
The Company incorporated a new, wholly owned, subsidiary under the laws of the State of Delaware with the name of BIOREM Environmental Inc. On July 1, 2005, the Company completed an asset purchase agreement to acquire the net assets and business of Biocube LLC. Currently, the corporate structure of the company is as follows:



The core business of the Company is to design and manufacture a comprehensive line of high efficiency air pollution control systems that are used to eliminate odors, volatile organic compounds and other hazardous contaminants from municipal and industrial air streams. The Company offers both biotrickling filters and biofilters and designs compact, modular or field erected systems.

A biofilter is a biomechanical device designed to support the capture and biological destruction of contaminants in an air stream. A biofilter system incorporates a specialized filter media contained in a closed vessel or open basin. The media is produced containing selective microbes which have the ability to biologically degrade the target contaminants. Contaminated air is pre-conditioned and forced through the filter media by means of a conventional fan and duct system. The airborne contaminants are transferred from the air stream to the moist surface of the media where they are accumulated and serve as a food source for the microbes. The metabolic process of the microbes oxidizes the accumulated organics and forms carbon dioxide, water and inorganic salts.

A functional biofilter system required effective process design, high removal efficiency, long lasting media and an appropriate control system. The advantages of biofiltration over competitive technologies includes very low operating cost, low maintenance, ability to handle wide load swings and no harmful by-product emission.

The following is a description of each of the Company's product lines:

BIOFILTAIR™ - is a custom engineered biofilter for airflows over 10,000 cfm. Constructed from reinforced, corrosion resistant concrete, it has a patented strong, slotted support which is guaranteed against acidic corrosion for 10 years and can handle the weight of bobcat-type machines for easy media placement and removal.

The BASYS™ - biofilter is a compact modular integrated system for airflows 2,000 to 15,000 cfm. It controls Hydrogen Sulfide ($H_2S$) and odors at wastewater treatment plants and pumping stations all across North America. The BASYS™ system features a compact, durable, epoxy painted stainless steel casing containing a high-performance BIOSORBENS® media.

BIOCUBE® - biofilter consists of five patented biofiltration media trays stacked into a compact footprint and is designed for airflows under 2,000 cfm. Hydrogen Sulfide ($H_2S$) contaminated air, warmed and moisturized in a separate Moisture Integrator enters the top of the BIOCUBE® system, filtering down from tray to tray through bioorganic media. The patented tray design minimizes media compaction and channeling, which promotes even air distribution and maximum efficiency.

MYTILUS® - is a modular combination bioscrubber/biotrickling filter for $H_2S$ and other water-soluble compounds that is suitable for airflows from 1,000 to 12,000 cfm.

The Company is contractually responsible to its customers for all phases of the design, fabrication and, if included in the scope of the Company's contract, field installation of its product. The Company's successful completion of its contractual obligation is generally determined by a performance test that is conducted either by its customer or by a customer selected independent testing agency. The Company manufactures the biofilter media and purchases components consisting of both off-the-shelf items and items which are made to design and specifications by third party manufacturers and fabricators. The Company enters into subcontracts for field construction, for which it supervises and manages all technical, physical and commercial aspects of the performance of its contracts.

The Company offers warranties to assure its customers that it stands behind its products. The Company will typically warrant that the product will meet specified performance criteria in terms of odor removal. The Company passes along the one-year warranty it receives from its suppliers on the components. BIOSORBENS® biofilter media is warranted for a period of ten years. Over the past seven years of installing BIOSORBENS® media there have not been any significant replacement costs incurred.

The price on the Company's product is finalized through a competitive bidding process and gross margins can vary project to project depending on competitive activity and the scope of work.

## OPERATING RESULTS

**New sales bookings in 2008 were $17,377,000 compared to $12,000,000 in 2007, which represents a 45% increase. The improvement in the Company's bookings results from the revised sales structure of Regional Sales Managers covering the United States with a network of sales representatives. This has created higher awareness of the Company's products as well as giving the Company better visibility into potential projects occurring in the United States.**

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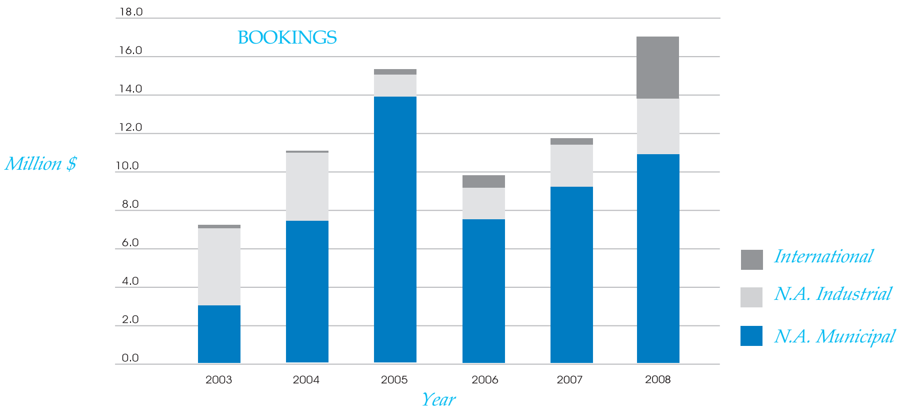
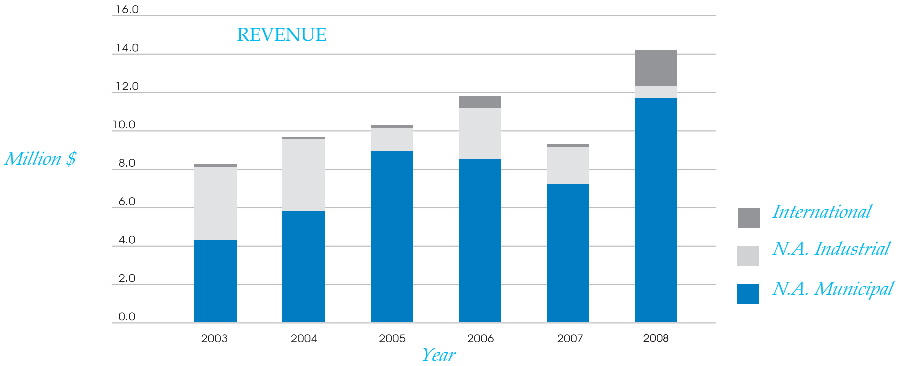
During fiscal 2008, the Company had numerous material sales bookings ranging from $840,000 to $3,309,000 in the municipal market segment, and bookings from $685,000 to $977,000 in the industrial market segment.



Greater sales bookings in 2008 resulted in an increase in the sales order backlog at year-end. At December 31, 2008, the amount of the Company's sales order backlog was approximately $14,803,000 compared to $10,000,000 at December 31, 2007. As backlog is a non-GAAP measurement, the Company calculates it as the cumulative Bookings less revenue adjusted for foreign exchange movements. Due to the decrease in value of the Canadian dollar vs. US dollar, the Backlog was adjusted upwards by $1,610,000. Backlog represents work for which the Company, has entered into a signed agreement or has received a purchase order to proceed. Approximately 80% of the Company's backlog is anticipated to be completed prior to December 31, 2009.

Revenue in 2008 was $14,400,000 compared to $9,470,000 in 2007, which is a 52% increase. The increase in revenue in 2008 is attributable to the increase in bookings from 2006 to 2007 as well as an upward adjustment of $1,151,000 in revenue as a result of the increase in the US dollar value, of which $916,000 was incurred in the fourth quarter of 2008.

The following chart reflects the approximate amounts of the Company's revenue derived from its principal customer categories:




Gross profit in 2008 was $5,769,000 compared to $3,347,000 in 2007, which is a $2,422,000 (72%) increase. Gross margin was 40% of sales in 2008, which is an improvement from 35% in 2007. This can be attributed to the Company's sales efforts of prior years being focused on obtaining higher gross margins for new orders.

Cost of sales includes the cost of material required to meet customer's sales orders and the cost of personnel assigned to operational functions.

The Company's operating expenses were $5,549,000 in 2008 compared to $5,236,000 in 2007, which is an increase of $313,000 or 6%. The major components of the change relate to:

- $930,000 increase in variable selling expenses which are attributed to increased commissions due to higher bookings and revenue recorded;
- $1,000,000 positive variance for the recording of a gain in 2008 vs. a loss in 2007 on foreign exchange;
- $111,000 net increase in research and development expenditures;
- $146,000 increase in general and administration for increased variable incentives to employees; and
- $91,000 increase in stock option benefits which is a result of issuing more stock options during the year.

The Company's marketing and sales efforts are technical in nature and involve senior management and technical professionals, supported by independent sales representatives. The Company's contractual arrangements with its network of independent sales representative organizations accord each a defined territory within which to sell some or all of the Company's products. These arrangements provide for the payment of agreed upon commissions and are terminable by either party upon a relatively short prior written notice. The sales representatives do not have authority to execute contracts on the Company's behalf. A significant portion of the Company's sales are made through the recommendation of engineering firms, which play a significant role in the specification and implementation of air pollution control solutions and in a customer's selection of the vendors of products. The period between the initial customer contact and issuance of an order varies widely, but is generally between six months and three years. Virtually all contracts for the Company's products are obtained through competitive bidding. Although price is an important factor, it is not the sole criteria and a contract may be awarded based on efficiency or reliability of the products and the engineering and technical expertise of the bidder. As well, the Company competes based on "life cycle" cost and service.

Research and Development expense consists of:

| | 2008 | 2007 |
|---|---|---|
| Research and development expenses | $ 1,032,714 | $ 921,283 |
| Government funding | (348,262) | (320,356) |
| Provincial SR&ED tax credits | (110,000) | (79,896) |
| Total | 574,452 | 521,031 |

The increase in research and development expenses is largely attributable to costs that are no longer being charged to jobs under operations as research and development is focusing more on research and development functions instead of supporting operations.

Pilot plant operations are conducted generally at customers' facilities on a small scale to verify the feasibility of the Company's technology and to develop process design detail. The Company has developed an expertise in scaling these pilot plant operations to a full-scale facility. The Company intends to continue to pursue technology advancement and remain the technology leader in biofilter design and application.

A patent application has been filed describing further enhancements to the performance of the BIOSORBENS® technology acquired in 2005. Another patent was acquired as part of the Biocube LLC acquisition in 2005. In the fourth quarter of 2006, the Company filed two new patent applications which incorporate a new advanced media for removal of hydrogen sulphide from air streams in biofilter and biotrickling filter applications. Two additional provisional patent applications were submitted in 2007. The Company has also invested in developing predictive capabilities of biofilters. With this data, we are able to demonstrate to our customers the expected performance of our systems on their air emissions.

Total interest and amortization expenses for 2008 amounted to $649,000 and increased $79,000 versus 2007 primarily because of interest as a result of the Company entering into a long-term debt commitment in 2008.

During 2008 there were no cash taxes paid by the Company. There were significant one-time variances in the Company's historical effective tax rates during the past five years which affect the net earnings trend, and are summarized in the following table:

| | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Net income (loss) before tax | $(429,000) | $ (2,459,000) | $ (870,000) | $ 589,000 |
| Income tax | 3,000 | 542,000 | (100,000) | 245,000 |
| Tax rate | n/a | 22% | 11% | 42% |
| Net earnings | (432,000) | (3,001,000) | (770,000) | 344,000 |

The effective tax rate in 2005 was higher than the statutory rate due to impact of non-deductible expenses. In 2006, an income tax valuation allowance was recorded against the future tax asset. The valuation allowance reduced the effective income tax rate in the year. In 2007, a full valuation allowance was recognized against the future tax assets. In 2008, the full valuation allowance was maintained.

## RISKS AND UNCERTAINTIES

**Our long sales cycle may cause revenue fluctuations period over period – since our operating expenses are largely based on anticipated revenue trends and a significant portion of our 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.**

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Our Backlog is subject to unexpected adjustments and cancellations – as of December 31, 2008 the Company's backlog was $14,803,000. However, the revenue projected in our backlog may not be realized or, if realized, may not result in profits. Projects remain in 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 our backlog. Cancellation or delay of contracts may have a material adverse effect on our financial status.

Delays or defaults in customer payments, could affect liquidity – because of 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 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. To date, the Company has not had any significant bad debts in which a total write-off for an accounts receivable was necessary.

Damage to reputation due to client dissatisfaction could materially affect our ability to win additional business - the reputation of the Company’s technical expertise, high level of service and the lower life cycle cost of our products is one of our most valuable business development assets. The loss of this reputation due to client dissatisfaction represents a significant risk to our ability to win additional business both from existing clients and from those with whom we may have dealings in the future.

Limited protection of patents and proprietary rights – 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 engage in field construction but relies on field construction subcontractors operating under the supervision of the Company’s employees. The unavailability of the service, 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. 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 rates – the Company is subject to risk of price fluctuations related to anticipated revenues, sales order backlog and existing assets and liabilities denominated in currencies other than Canadian dollars. The Company does not participate in any foreign currency forward exchange contracts to manage these exposures.

Stock trading volume is low – the monthly average trading volume of the BIOREM common shares on the Toronto Venture Exchange was 1,570 shares in 2008. 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.

There is risk to product development– substantial 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.

There is no assurance that new products will be accepted 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.

There is a 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 in 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.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's operations in 2008 are primarily financed through this year's long-term debt commitment. Cashflow used by operating activities was $2,658,000 in 2008 compared to cash used of $2,070,000 in 2007. The primary reason for the reduction in cash is the increase in Unbilled Revenue at the end of 2008 to $3,810,000 from $128,000 at December 31, 2007.

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Unbilled Revenue represents work that has been completed and recognized as revenue under the percentage-of-completion method but not yet invoiced to customers. This timing difference is due to sales invoicing that must be delayed as per a schedule that was agreed upon in the contract terms. Unbilled Revenue is a contractual obligation of our customers and will be turned into cash over the short term. This high level of Unbilled Revenue is a result of increased project activity and larger sized contracts. The Company is moving to a more progressive billing process with respect to customers' contracts in order to improve the cash flows.

At December 31, 2008, the Company held cash and cash equivalents of $2,199,000, a decrease of $62,000 from $2,261,000 on hand in the prior year. Cash invested in capital assets was $83,000.

The Company has entered into a long-term debt agreement of $3,000,000 to provide the necessary funding required for working capital. Total working capital at December 31, 2008 is $6,935,000, which is up $3,072,000 over last year. This balance available to the Company is considered adequate to fund future operating requirements of the business throughout 2009 and beyond.

## 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.**

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On an on-going basis, management evaluates the estimates including those related to long-term contracts, intangible assets, goodwill, bad debts, warranty obligations, income taxes and contingencies. 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 affect 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. We believe 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. Our estimate of total direct contract costs has a direct impact on the revenue we recognize. If our current estimates of total direct contract costs turns out to be higher or lower than our previous estimates, we would have over or under recognized revenue from the previous period. We also provide for estimated losses on incomplete contracts in the period in which such losses are determined. Changes in our estimates are reflected in the period in which they are made and would affect our revenue and cost and estimated earning in excess of billings.

b) Goodwill: In fiscal 2005, the Company completed the acquisition of the net assets and business of Biocube LLC and recorded goodwill as the excess of the purchase price over the carrying value of net assets acquired. An annual impairment test was completed on the Goodwill balance in fiscal 2008. The conclusion reached was that there has not been an impairment of goodwill.

c) Future income taxes: Future 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. Future 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 future 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 current and future 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 future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future 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 future tax assets, projected future taxable income and tax planning strategies in making this assessment. The amount of future tax asset could change materially in the near term based on future taxable income during the carry forward period.

d) Investment tax credits: In the normal course of operations, the Company's 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 December 31, 2008 and as such, amounts disclosed may be subject to change, pending the outcome of such reviews.

e) Warranty obligations: Management routinely assesses customer satisfaction levels and makes provisions for anticipated warranty costs based on experience and estimates of the potential warranty obligations for its installations. To date the Company has not experienced any significant warranty claims from its customers.

f) 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.

# SELECTED ANNUAL INFORMATION

| | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Bookings | $ 17,377,000 | $ 12,000,000 | $ 10,100,000 | $ 15,500,000 |
| Revenue | 14,400,071 | 9,469,955 | 12,008,313 | 10,712,854 |
| EBITDA | 219,682 | (1,888,503) | (297,823) | 1,143,799 |
| Net earnings | (432,236) | (3,001,422) | (769,674) | 343,886 |
| Total assets | 16,928,209 | 11,521,853 | 14,601,646 | 11,969,393 |
| Long term liabilities | 2,287,191 | - | - | - |

As of December 31, 2008 and 2007, the Company does not have any off-balance sheet arrangements.

The following table presents the maximum number of common shares that would be outstanding if all instruments outstanding at December 31, 2008 were exercised:

| | |
|---|---|
| Common shares currently outstanding | 11,978,299 |
| Employee stock options | 1,322,667 |
| Share purchase warrants | 1,153,846 |
| Total | 14,454,812 |

# SUMMARY OF QUARTERLY RESULTS

| CDN thousand $ except per share data | Q1 | | Q2 | | Q3 | | Q4 | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenue | 3,184 | 1,770 | 2,472 | 2,215 | 4,105 | 2,547 | 4,639 | 2,938 | 14,400 | 9,470 |
| Gross margin | 1,455 | 618 | 807 | 727 | 1,753 | 755 | 1,754 | 1,247 | 5,769 | 3,347 |
| EBITDA | 236 | (336) | (741) | ( 795) | 287 | (834) | 438 | 77 | 220 | (1,889) |
| Net income | 104 | (375) | (870) | ( 736) | 144 | (1,737) | 191 | (153) | (432) | (3,001) |
| EPS | 0.01 | (0.03) | (0.07) | (0.06) | 0.01 | (0.15) | 0.02 | (0.01) | (0.04) | (0.25) |

# RESULTS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2008

Revenue of $4,639,000 and gross profit of $1,754,000 in the quarter are higher than in the fourth quarter of 2007 by $1,701,000 and $507,000 respectively.

This resulted in Net Earnings for the quarter of $191,000 being a substantial improvement from a net loss of $153,000 from the prior year. The fourth quarter gross margin of 38% is in line with previous quarters in 2008 and resulted in the Company obtaining its highest annual gross margin in three years. Operating expenses in the quarter of $1,315,000 are up $147,000 compared to 2007, primarily due to increased sales commissions.

# OUTLOOK

Biorem focused 2008 on building its sales organization, operational skill sets and product Research and Development. In each area, the Company is pleased with the progress having recorded the highest ever level of bookings ($17,377,000) and grown its average project gross margins to 40% in 2008 from 38% in 2007, which is a clear measure of operational performance. In addition, the Company launched two major innovations: XLD biological media and the Unity Technology Platform.

Taking a stronger company into 2009 was an essential mandate for management over the course of 2008. The Company enters the year with a solid balance sheet and a record order backlog. Given the current economic environment, this is an enviable position. The market is evolving with a number of forces acting on our market drivers. Municipalities are being more cautious with their capital expenditures, most industrial clients are conserving cash by reducing capital spending and regulators are considered to be less assertive in enforcing environmental regulations that might jeopardize employment. Helping to mitigate these forces is a series of massive investments by federal governments around the world into infrastructure as a means for creating employment.

Arising out of this complex market is a new series of opportunities that on balance will favor Biorem particularly in the last two quarters of 2009 as the infrastructure spending moves into implementation. The ongoing efforts of the Company in product development, product standardization and improvements in purchasing buy-downs have increased competitiveness, which will serve to insulate gross margins in an environment where price pressure will be a factor.

The Company has committed to pursue the North American thermal oxidizer market which is the traditional technology of choice for the elimination of air borne Volatile Organic Compounds (VOCs) in industrial air emissions. However, these applications are primarily in pulp & paper, automotive and chemical industries. Each of these verticals is experiencing downturns, which will result in nominal booking opportunities for the first half of 2009 from these sectors. The Company is still optimistic for this market in the long-term as we were successful in winning two VOC removal contracts in Brazil in 2008.

The international markets being pursued by Biorem will offer growth opportunities over the coming year. Biorem has invested in a Representative Office in China and has been active over the past year achieving four orders valued at approximately $1 million. With a dramatic expansion of our sales representative network in China from two to 11, the Company expects a growing pipeline of opportunities, particularly for the new XLD technology which enables a very small footprint, a key selling advantage in China. China offers greater industrial treatment opportunities as well and these segments are being actively pursued. In addition to China, Biorem has been building its sales capacities in Mexico, the Middle East, South America and South Africa.

Overall, the sales pipeline remains healthy with the risk mainly being that of bookings in North America slipping possibly out to future quarters. As of January 2009, the Company is tracking over 590 projects with a total estimated value exceeding $200 million. The greatest increase is seen from our international target markets through more than 40 Representative Organizations worldwide.

The Company will continue an ambitious Research and Development program throughout 2009 building upon previous successes. New product announcements are expected for WEFTEC 2009 in Orlando, Florida. We are currently installing two additional XLD systems, which will provide our sales and marketing team with three commercial reference sites for our new technologies.

The management team at Biorem is confident about the prospects for 2009 and is looking forward to building upon the successes of 2008.