Management Discussion & Analysis of:

BIOREM INC.

Year ended December 31, 2009

# BIOREM Inc.
# MANAGEMENT DISCUSSION & ANALYSIS

## 1. 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, 2009 and the accompanying notes. This discussion is based on information available to management as of April 7, 2010, 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.

## 2. 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.

## 3. Non-GAAP Measures

“EBITDA,” “Order Bookings,” and “Order Backlog” do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (“GAAP”) and may not be comparable to measures presented by other companies.

EBITDA is used to denote earnings (loss) from operations and represents earnings before interest, income taxes, foreign exchange gains and losses, depreciation and amortization. EBITDA should not be construed as a substitute for net income determined in accordance with GAAP. 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. A reconciliation of EBITDA to total Company revenue and earnings from operations is contained in the MD&A when this measure is being used.

Order Bookings and Order Backlog are non-GAAP measures that the Company uses to evaluate its sales performance. Order Bookings are those binding contracts that the Company enters into 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 quarter.

## 4. Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The President & Chief Executive Officer ("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, 2009. 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, 2009 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known by them.

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.

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

## 5. 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 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 earnings 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 2009. 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 assessing 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. Management has recorded a full valuation allowance related to its future tax assets. 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, 2009 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.

## 6. International Financial Reporting Standards ("IFRS")

### *Background, project structure and project progress*

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. The Company will issue consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") for the first quarter ended March 31, 2011, with comparative information.

The Company has completed the assessment phase of its conversion project for all standards that affect the transition. The Company will focus its effort throughout 2010 on the solutions development and implementation of IFRS that will have an impact on Biorem's financial statements. To date, the project is progressing according to plan.

### *Potential accounting changes as a result of IFRS*

The Company has identified certain IFRS standards that may have a significant impact on its financial statements. A general discussion of these standards and key differences are summarized below. The summarized list is not comprehensive and does not include all the standards that may have a financial impact. As well, additional differences may be identified based on further detailed analysis or as a result of changes to IFRS prior to January 1, 2011.

- **Impairment of Assets** – IFRS requires an entity to recognize an impairment charge if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value-in-use, is less than its carrying value. IFRS requires that assets be tested at the level of the cash generating unit, which is the lowest level grouping of assets, which is the lowest level of assets that generate largely independent cash flows. In some cases, this requirement could result in the identification of impairment under IFRS for assets that were not considered impaired under Canadian GAAP. This may result in more frequent write-downs in the carrying value of assets under IFRS. In addition, under IFRS, previous impairment losses (except for losses recognized for goodwill) may be reversed where circumstances change such that impairment is reduced. The Company is not able to estimate the impact of this potential change in measurement criteria to the financial results at this time.

- **Revenue recognition** – Current accounting policies are in-line with the requirements under IFRS. The analysis performed by the company did not reveal any situations where revenue was being calculated in a manner inconsistent with IFRS and therefore the Company does not expect to have any measurement differences as a result of the transition to IFRS.

- **Presentation and disclosure** – IFRS requires significantly more disclosure for certain standards. As well, on transition, the Company must include notes disclosing transitional information and disclosure of all new IFRS accounting policies. The increased disclosure requirements will cause the company to change current processes and implement new financial reporting processes to ensure the appropriate data is collected for disclosure purposes.

- **Plant and equipment** – The financial impact of this change will be minimal as many of the Company's assets where "component accounting" is required are already being accounted for in accordance with IFRS.

- **First time adoption of IFRS – Plant and Equipment** – At the date of transition to IFRS the Company may elect to measure an item of plant and equipment at its fair value and use the fair value as its deemed cost at that date, instead of actual cost. This option can be applied on an asset-by-asset basis. The impact of applying this elective option is currently being evaluated.

- **First time adoption of IFRS – Business Combinations** – At the date of transition to IFRS the Company may elect to not apply IFRS 3 retrospectively to business combinations that occurred before January 1, 2010 and may carry forward its previous accounting for business combinations that occurred prior to that date. The Company has not yet completed its evaluation of the various accounting policy choices under business combinations and therefore the full financial impact of adopting IFRS cannot be determined at this time.

### *Impact of IFRS on financial statements*

As the Company continues to evaluate accounting policy choices under IFRS and electives under IFRS 1, results of this evaluation will be reported throughout 2010. The Company will meet a project milestone of preparing the first draft of the IFRS Opening Balance Sheet and explanatory notes, in the summer of 2010 and be in the position to disclose qualitative analysis on the impacts of the transition to IFRS with quantitative information disclosed late in 2010. While the Company believes it has done an appropriate level of analysis to this point, IASB projects may force changes or adjustments to the Opening Balance Sheet and quarterly restatements.

### *Impact on information systems and technology*

Upon conversion to IFRS in 2011 some modifications to the existing general ledger account structures will be necessary to facilitate capture of the required information. As well reports will need to be modified to assist in the preparation of the increased disclosure requirements. It is anticipated that the overall impact on information systems and technology will be minimal at this time.

### *Impact on internal controls*

The Company's transaction-level controls will not be affected by the transition to IFRS in any material way. As noted, the transition to IFRS for the Company mainly affects the presentation and disclosure of its financial statements. This may lead to significant presentation and process changes to report more detailed information in the notes to the financial statements, but it is not currently expected to lead to many measurement or fundamental differences in the accounting processes used by the Company.

## 7. The Biorem Business

### *Core Business*

The Company designs and supplies a comprehensive line of high-efficiency air emissions control systems that are used to eliminate odors, volatile organic compounds (VOCs) and other hazardous air pollutants (HAPs). Utilizing the Company's proprietary, engineered, permanent media(s), the Company is able to offer custom designed solutions for air emissions control.

### *Company's Product Lines*

The Company provides air emissions control solutions; at the heart of each of these solutions is the Company's patented, inorganic, permanent media:

- Biosorbens® is a proprietary top performing, engineered inorganic permanent biofilter media which delivers reliable consistent performance over the life of the media. Biosorbens® is ideal for applications where total odor removal is required. It is guaranteed to perform and carries a 10 year warranty.

- XLD is a high performance engineered biofiltration media specifically designed for biosolids applications where the removal of high odor, low $H_2S$ and reduced sulfur compounds are critical. Total odor removal efficiencies of up to 99% can be achieved in 30 seconds, and greater than 95% in 20 seconds or less, allowing XLD to achieve higher total odor removal in less than half the time of conventional inorganic biofiltration media(s). XLD's short retention times and lightweight design allows for small footprints and unique bed configurations to meet specific site requirements. XLD is guaranteed and carries a 10 year warranty.

- LWE is an engineered synthetic media specifically designed for Biorem's biotrickling filters. LWE is an extremely lightweight rigid material that allows for increased bed depth within the vessel. The rigidity of the media eliminates compaction which prevents damages during shipping and loading. The fluid characteristics of the media allow the material to take the shape of the vessel eliminating problems associated with gaps and poor fit. LWE is guaranteed and carries a 10 year warranty.

### *Marketing and Sales*

The Company's sales efforts are supported by Regional Sales Managers throughout North America who work with and look after the Company's world-wide independent sales representative network. The Company's contractual arrangements with its independent sales representative organizations accord each a defined territory within which to sell. 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 the authority to execute contracts on the Company's behalf. A 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 emissions control solutions and aids in a customer's selection of the vendor or products.

The Company's sales cycle are long and complex in nature, the period between the initial customer contract and issuance of an order varies widely, but can generally be anywhere from six months to 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 for a contract being awarded. The Company is also able to compete based on "life cycle" costs, service, efficiency and proven reliability of the product in the field.

### *The Company's Performance within the Global Economic Crisis*

This year was a difficult year for economies all over the world as governments were faced with a global recession. Governments attempted to mitigate this downturn within their own countries by way of increased spending in public infrastructure.

However, the release of these infrastructure funds was slower than most had predicted due to the trickle-down effect of allocating funds from federal governments to regional governments and then finally to municipal governments to spend. As a result, the total number of projects available to the Company was smaller than historical average, with many projects being pushed to 2010.

Even with this smaller pool of projects being available, the Company won a majority share of the available projects proving that Biorem's technology and product offering still leads the way in the marketplace.

The Company is also diversified in numerous countries around the world. We leveraged these footholds in strategic markets, which resulted in encouraging bookings for 2009 at $16.2 million (compared to $17.4 million in 2008). Although the Backlog decreased 31% from 2008, it is still fundamentally strong at $10.2 million for 2009 year-end, which will allow the Company to continue its future planned growth.

The Company had superior revenue growth in 2009 to $18.9 million (31% increase over 2008), and maintained an attractive gross margin of 40% in a year of immense global economic challenges. Furthermore, the Company completed an outstanding year of cash generation from operations of $1.8 million. The Company has $4.0 million of cash and working capital of $7.1 million at the end of 2009, which is considered more than adequate to fund its operational needs for the core business. The excellent cash generation demonstrated by the Company is further emphasized by the fact that all four quarters in 2009 had an increased cash position. The strong balance sheet will serve as a solid base in ensuring the Company achieves its growth strategies.

## 8. Growth Strategy

The Company's mission is to become the world's leading clean technology, air emissions control company. The Company has completed the first phase of corporate development by providing a solid foundation of building an existing strong management team, world-wide sales network, proprietary air emission control technologies and continued investment in research and development.

Investment initiatives in research and development have given the Company the opportunity to expand its business from odor removal to total air emissions control, tapping into rapidly growing key markets such as methane (biogas) emission management and VOCs. An updated corporate marketing message established at the end of 2009 will transition the Company's public perspective from odor removal to emissions control and assist in entering these new markets. These new markets add diversity to the Company's business and provides for the opportunity to capitalize on large market opportunities.

These important factors will allow the Company to execute its mission to be an emissions control leader through growth over the coming years in the following areas:

- **Methane (Biogas) Emissions** – The removal of impurities and conditioning of the biogas helps to improve the recoverable value of the resource through greatly reduced operation and maintenance costs for downstream equipment, such as reciprocating engines and turbines. The Biorem approach uses a biological solution that offers reliable and simple operation without the use of chemicals or costly consumable media(s).

- **Volatile Organic Compounds** – Biorem offers a removal system to manage emissions containing high levels of VOCs. The system combines biological technology with activated re-generable carbon, which yields a removal rate that exceeds all regulatory jurisdiction requirements in our marketplace. Each VOC treatment system is custom designed to meet the facilities' specific needs.

- **China** – With the opening of the China office in late 2008, the Company has established a recognized foothold in one of the largest geographic markets in the world. The Company was pleased with Bookings from China in 2009 and expects to further capitalize and grow within this geographic area going forward.

- **Advancing product designs –** In late 2009, the Company launched the SK Series, a skid-mounted, two-stage biofilter. This product line benefits from the use of the Company's permanent XLD media, and the systems are pre-assembled on a self-contained skid and shipped complete to site for rapid installation. The added values expected to be derived from this product include; significantly lower overall installed capital costs, applications in new market niches and shorter sales to revenue cycles.

## 9. Operating Results – Income Statement

### *Revenue*

| | | |
|---|---|---|
| 2009: $18,878,218 | 2008: $14,400,071 | Increase: 31.1% |

During 2009, the Company completed, or substantially completed, 91 projects (of the larger systems) in comparison to 73 projects in 2008. The 2009 average revenue from these projects was $178,000, which was approximately the same amount as 2008.

### *Gross Margins*

| | | |
|---|---|---|
| 2009: 40% | 2008: 40% | No change |

Although competition is heavy in the air emissions control market, the Company maintained its gross margins at the same level as last year. There will be continued price pressure in the marketplace and as such, in 2009, the Company enacted a comprehensive supply chain management plan. As part of this plan, the Company hired a Vice President of Operations in late 2009 with a specific skill set to execute effective cost management. By successfully managing costs and finding new ways to delivery projects more efficiently, Biorem anticipates it will retain a similar gross margin level in 2010.

### *Sales and Marketing*

| | | |
|---|---|---|
| 2009: $3,620,060 | 2008: $3,323,177 | Increase: 8.9% |

The increase in sales and marketing expenses year-over-year is attributed to Biorem's China office being fully operational for the entire 2009 year, as well as increased commissions due to greater revenue. Commissions are recorded by the Company as an expense to match revenue earned. Commissions are paid to respective parties by the Company when cash is received from the customer. All other marketing costs in 2009 were held at the 2008 level or lower.

*Research and Development*

| | | |
|---|---|---|
| 2009: $1,191,540 | 2008: $1,032,714 | Increase: 15.4% |

Increased expenditures in research and development are a result of the Company improving its process configuration and biotrickling media to support the Company's growth initiatives into 2010 and beyond.

Govern*ment Funding*

| | | |
|---|---|---|
| 2009: $995,397 | 2008: $458,262 | Increase: 117.2% |

In response to increasing public pressure for governments to take action against activities that are harming the planet, the governments are providing funding for companies completing research in this area. Biorem was recognized by federal and provincial levels of government as a leader in air emissions control technology and consequently received increased funding in 2009 from 2008.

*General and Administrative*

| | | |
|---|---|---|
| 2009: $2,153,917 | 2008: $1,878,411 | Increase: 14.7% |

A typical 2% to 3% increase in overall general and administrative occurred during 2009. In addition to this overall increase, the Company started its first investment relation program and enhanced its information technology services with both security and information technology upgrades in 2009.

*Foreign Exchange*

| | | |
|---|---|---|
| 2009: $808,829 Loss | 2008: $506,769 Gain | Increase: 259.6% |

The weakening of the US dollar versus the Canadian dollar resulted in foreign exchange losses in 2009 versus a gain in 2008. The losses are translational to account for changes in the exchange rate of US monetary assets to Canadian dollars that were unrealized at the time of the reporting period. In addition, the losses relate to the net impact of the payment of US denominated payables and receipt of US denominated receivables. The Company employs a natural hedge of matching US contracts with US suppliers as much as possible; the result of this natural hedge is reflected in the fact that gross margins remained at 40%. The Company is also completing a detailed analysis in association with its auditors, KPMG, on the foreign exchange impact on its 2009 results. From this analysis, the Company will determine if financial hedging strategies will be employed in 2010.

## 10. Operating Results – Liquidity

*Cash*

| | | |
|---|---|---|
| 2009: $4,030,814 | 2008: $2,199,287 | Increase: 83.3% |

Cash generation is one of the primary metrics monitored by Biorem. The Company is pleased to report that increasing cash balances were generated in four straight quarters as outlined below.

| | | | |
|---|---|---|---|
| Q1: $82,233 | Q2: $250,237 | Q3: $400,842 | Q4: $1,098,215 |

### *Accounts Receivable*

| | | |
|---|---|---|
| 2009: $2,897,842 | 2008: $5,419,027 | Decrease: 43.7% |

Because the Company's products are often installed as part of an overall larger construction contract, the Company is subject to holdbacks on amounts billed to customers. These holdbacks represent 72% of the amounts due over 90 days and are on a fixed timetable for collection by the Company. The decrease in Accounts Receivable in 2009 was a result of larger projects being billed to customers in the final two months of 2008 and the receipt of a large number of holdbacks in 2009 that were outstanding at the end of 2008.

### *Unbilled Revenue*

| | | |
|---|---|---|
| 2009: $3,448,529 | 2008: $3,809,711 | Decrease: 9.5% |

Due to the Company's accounting policy for revenue recognition being percentage-of-completion, this causes temporary differences between when revenue is recognized and billed to customers for payment. The unbilled revenue balance represents revenue that has been earned but not yet been billed to the Company's customers as per the contract terms. Unbilled revenue is contractual obligation of Biorem's customers and will be turned into cash over the short-term. In 2009, nearly 70% of the balance of the unbilled revenue was made up of five active projects totaling $2.3 million.

### *Inventory*

| | | |
|---|---|---|
| 2009: $649,374 | 2008: $596,972 | Increase: 10.6% |

The Company primarily builds systems to customer order, and therefore minimizes inventory levels. In order to ensure timely short-term delivery of future orders, the Company increased its media inventory during the fourth quarter.

### *Accounts Payable and Accrued Liabilities*

| | | |
|---|---|---|
| 2009: $3,816,368 | 2008: $4,516,450 | Decrease: 15.5% |

Trade payables accounted for a major decrease in payables from $3.0 million in 2008 to $2.5 million in 2009. Commissions payable decreased from $1.0 million in 2008 to $800,000 in 2009 as commissions are paid to respective parties as cash is received by the Company.

### *Unearned Revenue*

| | | |
|---|---|---|
| 2009: $287,031 | 2008: $1,335,116 | Decrease: 78.5% |

The Company's accounting policy regarding revenue recognition will cause temporary differences between when revenue is recognized and billed to customers for payment. The unearned revenue balance represents amounts that have been billed by the Company to its customers but not earned as revenue. The drop in the balance was largely attributed to there being 10 projects in 2008 and only five projects in 2009 in which unearned revenue balances were generated.

## 11. Bookings and Backlog

### *Bookings*

| | | |
|---|---|---|
| 2009: $16,176,000 | 2008: $17,377,000 | Decrease: 6.9% |

Bookings for the year decreased due to the poor economic environment in the first quarter of 2009. Once funding from federal governments reached municipal levels of government in the second half of 2009, bookings rose to par with historical averages for the Company. Bookings in North America were $13.1 million in 2009 (compared to $14.0 million in 2008) for a decrease of $900,000 or 6.5%, while International Bookings were $3.1 million ($3.3 million in 2008) for a decrease of $200,000 or 6.1%. Bookings in China accounted for 27.4% of the International orders in 2009 compared to 33.0% in 2008.

### *Backlog*

| | | |
|---|---|---|
| 2009: $10,187,000 | 2008: $14,803,000 | Decrease: 31.1% |

As backlog is a non-GAAP measurement, the Company calculates it as the cumulative Bookings less revenue adjusted for foreign exchange movements. The Backlog decreased during the year as a result of decreased Bookings and the significant increase in Revenue. Although the Backlog is lower, the Company does not anticipate that this will result in lower Revenue in 2010.

## 12. Summary of Quarterly Results

| CDN thousand $ (prior years adjusted) | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| Except share data | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenue | 4,252 | 4,910 | 5,678 | 4,038 | 4,639 | 4,105 | 2,472 | 3,184 |
| Gross Margin | 1,608 | 2,348 | 2,326 | 1,306 | 1,754 | 1,753 | 807 | 1,455 |
| EBITDA | (2) | 959 | 457 | (27) | 54 | 238 | (710) | 131 |
| Net Income | (360) | 520 | (238) | (425) | 191 | 144 | (870) | 104 |
| EPS | (0.04) | 0.04 | (0.02) | (0.04) | 0.02 | 0.01 | (0.07) | 0.01 |

The Company has now reported, for the first time in its history, four straight quarters of Revenue, totaling more than $4.0 million per quarter in 2009.

## 13. Outlook

Biorem has now established itself as one of the world's leading Cleantech air emissions technology companies with best-in-class products derived from research and development activities. The competitive philosophy is to continuously derive new applications for biological air treatment through continuous development of new media, and more importantly, by driving down costs so as to enable the entry into new and larger market niches. This competitive focus will continue throughout 2010 as we press hard into market spaces where biofiltration can develop competitive advantage over existing technologies.

Biorem will commit substantial resources to product development in methane (biogas) emissions and volatile organic compound (VOC) removal technologies in 2010 with investment in pilots, research, intellectual property and marketing. Product development in these two categories will focus on price and performance as benchmarked against competing older technologies, as well as against other biological solutions now offered in these two markets.

Bookings in 2009 were down from 2008 which will lead to a flatter growth curve in Biorem's core business of odor control. However, the market in 2010 is rebounding and we anticipate a rebuilding of Biorem's backlog as the year progresses. The Company does not expect significant sales in 2010 for the two new market targets of biogas and VOC control as the sales infrastructure is now in the development stage. The focus on the Company this year is investing in the sales systems in order to build up the pipeline of opportunities and laying the groundwork for growth in 2011 and beyond. Biorem has recruited a sales professional to focus on supporting its current international sales representatives, and added new representatives in target markets. In addition, new sales personnel, focused on industrial VOC sales, are being recruited in the US.

Biorem has committed itself to achieving an ISO certification as it believes in the value of instilling sustainable discipline, procedures and excellence in every area of the Company. The process is expected to be completed by late 2010 or early 2011. We believe that as Biorem continues to grow a disciplined approach to business process management, this will optimize resources and support economies of scale within the organization and help to drive down costs.

Biorem will form a Wholly Foreign Owned Enterprise (WFOE) in China in order to enable Biorem to enter into local currency projects and to source from local suppliers for those projects. Previously, Biorem had established a Legal Representative Office in Beijing. It is a continuing part of the Company's strategy to source from local suppliers in jurisdictions in which it operates - an important part of being cost and price competitive. The WFOE is expected to be established by the second quarter of 2010.

The Company is additionally investing business development resources into the evaluation of non-biological clean technologies being offered by other companies around the world, which could lead to future partnerships, strategic alliances and possible acquisitions. Biorem has signed a partnership agreement with a company in Norway, to evaluate combined systems solutions using their non-thermal plasma reactor as a pre-oxidation stage to a biological unit.

Biorem performed very well in 2009, in a market fraught with uncertainty and economic pressure, which in many ways contributed to a stronger, more aggressive, disciplined organization. Biorem is taking the next step in 2010 with confidence and the capability of executing on its growth plan of significant investment in sales and product development for biogas and VOC control.

## 14. Risks and Uncertainties

### *Sales Cycle*

Biorem's long sales cycle may cause revenue fluctuations quarter over quarter – 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 Revenue, could negatively impact Biorem's business, operating results, financial condition or prospects.

### *Backlog*

As of December 31, 2009 the Company's backlog was $10,300,000. However, the Revenue projected in the 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 the backlog. Cancellation or delay of contracts may have a material adverse effect on Biorem's financial status.

### *Delays or Defaults in Customer Payments affecting Liquidity*

Due to the nature of the contracts, at times, Biorem commits sufficient resources to cover expenditures as they are incurred, prior to receiving payments from its customers. Delays in customer payments may require Biorem to make a working capital investment. If a customer defaults in making payments on a project to which Biorem has devoted significant resources, it could have a material negative effect on the

Company's 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.

### *Reputation*

The reputation of Biorem's technical expertise, high level of service, and the lower life cycle cost of its products, are the Company's most valuable business development assets. The loss of this reputation due to customer dissatisfaction represents a significant risk to the Company's ability to win additional business both from existing customers and those with whom the Company may deal with in the future.

### *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 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 Biorem's systems, or if significant reliability, quality or performance problems develop with respect to the systems, there may be a number of negative effects on the 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*

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 monitors its foreign exchange exposure and to date, does not participate in 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 130,000 shares in 2009. 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*

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.

## *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 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.