BIOREM Inc.
MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")

For the Year Ended December 31, 2011

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, 2011 and the accompanying notes, which are prepared in accordance with International Financial Reporting Standards or "IFRS". This discussion is based on information available to management as of April 30th, 2012, 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 600 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, April 30th, 2012. 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

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

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

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 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

The market for biological odor control systems remained depressed through the first half of 2011, however we have seen an increase in both bookings and backlog in the latter half of 2011 and the beginning of 2012. 2011 revenues declined by 30% over 2010 due to lower bookings in 2011 and a change in our operational processes that deferred our project manufacturing process in our third and fourth quarters. The Company also experienced fewer projects from municipalities due to the tightening of municipal budgets. During this down market that persisted through 2010 and 2011, the Company continued to build its order backlog, however, the backlog was at lower margins due to competitive pressures. A reduction in the number of large scale projects also negatively impacted our margins as traditionally Biorem earns higher than average margins on these projects due to sole source specification. In the latter half of 2011 the Company made a conscious decision to alter its manufacturing scheduling process to improve its production, order fulfillment and delivery processes. These changes assisted the Company in reducing its working capital requirements, however this had a negative impact on revenues in the short term (see further discussion below) To offset the impact of declining revenues and margins, the Company initiated an efficiency program which included reductions in staffing, improvements to internal operating systems, organizational role re-allocations and other changes intended to scale the Company to a lower margin core business.

The disappointing operating results in 2011 and the failure to meet its bank covenants at December 31, 2011 have put a strain on the Company's working capital. Management is actively addressing this through a planned private placement. (See Liquidity section of MD&A)

Selected Annual Information

	2011	2010	2009
Revenue	$12,045,000	$17,360,000	$18,878,000*
Net Income (Loss)	(3,369,000)	(3,063,000)	(503,000)*
Total Assets	10,368,000	14,125,000	13,429,645
Debenture	1,750,000	1,833,000	2,498,000
Loss per Share	(0.28)	(0.26)	(0.04)*

*Amounts have been determined using the Company's historical Canadian Generally Accepted Accounting Principles. All other amounts have been determined under IFRS.

As discussed above, in 2011 the Company experienced a 30% reduction in revenues over 2010. The reduction in revenues resulted in operating losses of $3,369,000 in 2011. These losses accompanied by the repayments of our debenture in the amount of $1,250,000 during the period from December 2010 to the end of 2011 contributed to pressure on our working capital. Management took positive steps to address this matter in the third and four quarters of 2011 and is currently actively seeking additional financing through a private placement of up to 1,400 Units at a price per Unit of $1,000 for gross proceeds of up to $1.4 million. Each Unit will consist of $1,000 principal amount of 8.00% convertible extendible secured subordinated debentures with a maturity date two years from the date of issuance and 2,808 common share purchase warrants. Also, on April 30, 2012, the Company obtained an amendment to the 12.75% debenture agreement amending the repayment terms and the financial covenants. The amendments to the terms and conditions of the 12.75% debenture and the waiver of the covenant breaches are conditional on the Company's requirement to raise a minimum of $500,000 under the Private Placement by May 7, 2012. . (see Liquidity section).

Operating Results

	2011	2010	Percent Change
Revenue	$12,045,000	$17,360,000	(30.6%)

Revenue by Geography

	2011	2010	2009*
Canada	$ 3,536,000	$ 6,977,000	$ 6,548,000
United States	6,903,000	7,893,000	9,543,000
International	1,606,000	2,469,000	2,787,000
Total Revenue	$12,045,000	$17,359,000	$18,878,000

*Amounts have been determined using the Company's historical Canadian Generally Accepted Accounting Principles. All other amounts have been determined under IFRS.

Revenues were lower in 2011 compared to 2010 partly due to lower overall bookings in 2011 compared to 2010. However, a significant portion of the decline in revenue was attributed to the Company taking action in the third and fourth quarter of 2011 to realign its production, order fulfillment and delivery processes to improve its cash flow management. For the Company's larger non-standard revenue projects that are accounted for under the percentage of completion methodology, materials and related revenue project costs are now being incurred closer to the anticipated customer installation dates. This has resulted in a shift in the timing of when contract revenues are recognized under percentage complete calculations. These changes in operational processes significantly impacted our revenues in the third quarter of 2011 where revenues of only $963,000 were recognized compared to revenues of $3,732,000, $3,901,000 and $3,448,000 in Q1, Q2 and Q4 of 2011 respectively. The Company believes that the operational changes impact on revenues has been fully absorbed into its revenue process. These actions achieved the intended result of reducing Biorem's investment in working capital. Specifically, the Company reduced its unbilled revenue from $4,602,000 at December 31, 2010 to $1,115,000 at December 31, 2011, a reduction of $3,487,000. These actions also increased the unearned revenue balance year-over-year by $1,081,000 or 138% as contract advances where not drawn down as quickly as had been in the past. When combined, these activities positively impacted working capital for the year ended December 31, 2011 by $4,568,000.

Bookings and Backlog

Bookings	2011	2010	Percent Change
	$16,300,000	$19,712,000	(17.3%)

Bookings are those binding contracts that the Company enters into with a third party for the delivery of our products or services.

Bookings in 2011 decreased 17.3% year-over-year as a result of the economic conditions.

Backlog	2011	2010	Percent Change
	$15,000,000	$12,147,000	23.5%

Backlog is a non-IFRS measurement; the Company calculates it as the cumulative Bookings less revenue adjusted for foreign exchange movements.

The Company has increased its Backlog by 23.5% year over year versus December 31, 2010 due to both the impact of $16.3 million in new bookings in the year as well as the impact caused by our operational changes to improve our production, order fulfillment and delivery processes that resulted in the deferral of project activities towards the end of the fiscal year slowing the execution against our backlog.. Due to customer scheduling, the Company cannot provide guidance as to the quarters when the Backlog will be converted into revenue. However, Management's current estimate is that the majority of the Backlog will be realized into revenue by the end of fiscal 2012.

Gross Margin	2011	2010	Percent Change
	24%	29%	(20.7%)

Gross margin for 2011 was 24% compared to 29% in 2010. The decrease in 2011 gross margin versus 2010 can be attributed to two main factors. The first factor includes the acceptance of revenue projects in 2011 and 2010 that were strategically accepted at lower gross margins; one of which was an investment of a demonstration project so the Company could gain entry into the Biogas Sweetening Market. The second factor contributing to the lower gross margin in 2011 was the fixed component of the cost of goods sold. Cost of goods sold comprises direct material costs and operations costs such as engineering, procurement and project management. Operations costs in 2011 were $1.5 million representing 12.8% of revenue compared to $1.7 million in 2010 representing 9.6% of revenue. The Company expects gross margins to increase in 2012 as annual revenues are expected to exceed 2011 thereby reducing the impact of the fixed operating costs and the Company is experiencing higher margins on new Bookings. Further improvements in gross margin are also expected through improved cost management and less passthrough project costs that generally are at low margins,

Adjusted EBITDA	2011	2010	Percent Change
	$(2,367,000)	$(1,523,000)	55%

The decrease in 2011 Adjusted EBITDA versus 2010 was primarily the result of lower gross margin earned in 2011 of $2,869,000 compared to $5,044,000 in 2010, a decline of $2,175.000, due to both lower sales and the negative impact on gross margins discussed above offset by a reduction of sales and marketing, general and administration, and research and development costs (net of government assistance) in the amount of $1,291,000. A reconciliation of adjusted EBITDA to net income is provided below.

Reconciliation of Adjusted EBITDA to Net Income

	2011	2010
Net income (loss)	(3,369,000)	(3,063,000)
Add (deduct)		
Amortization of long-term assets	556,000	546,000
Loss (gain) on foreign exchange	(57,000)	19,000
Accretion of deferred financing and warrant costs	84,000	335,000
Loss on re-measurement of debenture	157,000	-
Interest expense	262,000	390,000
Write down of investment tax credit asset	-	250,000
Adjusted EBITDA	(2,367,000)	(1,524,000)

Sales and Marketing	2011	2010	Percent Change
	$2,617,000	$3,561,000	(26.5%)

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.

Variable selling costs in 2011 were $608,000 below 2010 due to lower sales volumes and sales department expenditures were $336,000 less than the previous year due to cost restructuring of the sales department. Variable selling costs are expected to increase in 2012 in line with the expected increase in sales volume while sales department expenditures will be at or below the expenditure levels of 2011.

Research and Development	2011	2010	Percent Change
	$1,072,000	$1,892,000	(43.3%)

Research and Development expenditures include research and development salaries, material and laboratory costs as well as subcontractor costs for the development of and installation of demonstration sites.

Research and development expenditures in 2011 declined to approximately the same level recorded in 2009 as initial activities into the development of advanced biofiltration methods that began in 2010 have been concluded successfully.

Government Assistance	2011	2010	Percent Change

	$768,000	$1,134,000	32.3%

Government Assistance partially offsets the Research and Development expenditures. The Government Assistance relates to several programs which are offered by the Canadian Federal and Ontario Provincial governments. The assistance from these programs can fluctuate on a yearly basis depending on the activity that takes place during the year and the terms of the assistance programs.

The Company also applies for Government Assistance under the Scientific Research and Experimental Development program at each taxation year end and records these as amounts receivable during each period. Management uses its past experience when preparing the estimated receivables and the scientific research and experimental development credits achieved in the past have been consistent with those previously claimed.

General and Administrative	2011	2010	Percent Change
	$2,848,000	$2,758,000	3.3%

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

During the year the increase in general and administrative can be attributed to the Company increasing its allowance for doubtful accounts provision by $160,000 and $241,000 in costs related to the establishment of an office and premises in Beijing to facilitate projects undertaken in China. All other expenditures in aggregate remained flat year over year.

Summary of Quarterly Results

CDN thousand $ (prior years adjusted)	2011				2010			
Except share data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	3,448	963	3,901	3,732	4,603	4,948	4,560	3,248
Gross Margin	533	(57)	1,027	1,366	919	1,816	1,202	1,147
Net Income	(1,196)	(1,501)	(496)	(19)	(1,526)	(205)	(514)	(892)
EPS	(0.11)	(0.12)	(0.04)	0.0	(0.13)	(0.02)	(0.04)	(0.07)

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. The significant decrease in revenues in Q3 of 2011 is described above under Revenue.

Fourth Quarter 2011

Revenue in the fourth quarter was $3.4 million compared to $4.6 million in the fourth quarter of 2010. The decrease in revenue was attributable to the Company's efforts to reduce unbilled revenue and manage cash flow better.

The loss for the quarter of $1.2 million included a charge of $214,000 to increase the allowance for doubtful accounts, a $50,000 provision down for inventory obsolescence and a $184,000 write down of pilot plant assets to estimated net book value.

Liquidity

2011 Cash flow

Cash	2011	2010	Percent Change
	$924,000	$831,000	11.2%

Cash increased by $93,000 to $0.9 million as at December 31, 2011 from $0.8 million as at December 31, 2010. The majority of the Company's cash is denominated in US dollars as at December 31, 2011.

The increase in cash is primarily due to net cash inflows from operating, investing and financing activities as follows:

	2011	2010
Cash provided by (used in) operations	$905,000	$(1,448,000)
Cash used in investing activities	(312,000)	(342,000)
Cash used in financing activities	(512,000)	(1,390,000)
Net Increase (Decrease) in cash	93,000	(3,200,000)

Although the Company's loss for the year was not very different year over year (loss of $3,369,000 in 2011 compared to $3,063,000 in 2010) the Company was able to improve its cash flow from operations by effectively managing its working capital as more fully explained above under the revenue section of this MD&A.

Cash used in operations - *Cash flow generated by operations was $905,000 for fiscal 2011 and was primarily generated by the reduction of unbilled revenue by $3,487,000 offset by cash operations loss of $2,283,000. Accounts payable decreased by $185,000 and accrued liabilities decreased by $1,907,000 primarily due to lower accrued project costs at the end of 2011 which is consistent with the lower revenue amounts in the latter half of 2011 compared to 2010.*

Cash used in investing activities - During the year the Company used $245,000 in investing activities associated with its research and development activities to generate Biogas Sweetening and VOC pilots, and $67,000 in assets to set up the Beijing facility.

Cash used in financing activities - During the year the Company used $250,000 to pay a portion of the outstanding balance of its debenture liability (2010 - $1,000,000). The remaining balance relates to interest paid on debt.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. 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 reserve borrowing facilities, 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.

	2011	2010
Cash	924,000	831,000
Restricted cash	1,152,000	500,000
Working capital	(584,000)	2,236,000
Short term debt	(649,000)	-
Debentures	(1,750,000)	(1,833,000)
Net current assets (liabilities)	(584,000)	1,735,000

In 2011, restricted cash includes $503,750 in cash which has been deposited as collateral for a letter of credit issued to an insurance company under the terms of a performance bond and US$637,500 for a letter of credit issued to a supplier. This cash is not available for general use by the Company. To fund the US$637,500 letter of credit, the Company obtained project financing in the form of a promissory note having an interest rate of 17.75%, maturing on May 8, 2012.

As at December 31, 2011 the Company is not in compliance with its debt covenants.

A maturity analysis as at December 31, 2011 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 although the Company expects some of its liabilities to be paid later than the earliest date on which the entity can be required to pay.

	Carrying Amount	Contractual Cash Flow	Less than 1 month	1-3 months	3 months to 1 year	1+ years	Total
	$	$	$	$	$	$	$
2011							
Accounts payable	2,984,040	2,984,040	2,984,040	-	-	-	2,984,040
Accrued liabilities	1,907,231	1,907,231	1,907,231	-	-	-	1,907,231
Short-term debt	648,591	698,991	9,600	28,800	660,591	-	698,991
Long-term debt	1,750,000	1,750,000	1,750,000	-	-	-	1,750,000
	7,289,862	7,340,262	6,650,871	28,800	660,591	-	7,340,262
2010							
Accounts payable	3,818,041	3,818,041	3,818,041	-	-	-	3,818,041
Accrued liabilities	3,415,635	3,415,635	3,415,635	-	-	-	3,415,635
Short-term debt	-	-	-	-	-	-	-
Long-term debt	1,833,128	2,000,000	21,250	63,750	2,148,750	-	2,233,750
	9,066,804	9,233,676	7,254,926	63,750	2,148,750	-	9,467,426

The Company has assessed that in addition to cashflow expected from future operations, it requires additional financing to fund its working capital.

On April 20, 2012, the Company announced a proposed private placement of up to 1,400 Units at a price per Unit of $1,000 for gross proceeds of up to $1.4 million (the "Private Placement"). Each Unit will consist of $1,000 principal amount of 8.00% convertible extendible secured subordinated debentures (the "**Debentures**") with a maturity date two years from the date of issuance and 2,808 common share purchase warrants (the "**Warrants**"). The Debentures will be convertible into fully paid and non-assessable Common Shares of the Company at the option of the holder at any time over their term at a price of $0.178 per Common Share. Each Warrant entitles the holder to purchase one common share at a price of $0.178 per share for a period of two years from issuance. The private placement is subject to raising a minimum of $500,000 of gross proceeds. The private placement is subject to regulatory approval. There is no certainty that the Private Placement will be successful.

On April 30, 2012, the Company obtained an amendment to the 12.75% debenture agreement amending the repayment terms and the financial covenants. The Company also obtained a waiver of the covenant breaches at both December 31, 2011 and March 31, 2012 effectively waiving the debenture holder's rights under the debenture in respect of any non-compliance with such covenants. The amendments to the terms and conditions of the 12.75% debenture and the waiver of the covenant breaches are conditional on the Company's requirement to raise a minimum of $500,000 under the Private Placement by May 7, 2012. The 12.75% debenture is repayable in monthly installments of $60,000 plus interest commencing September 30, 2012 with the balance of $550,000 due on May 5, 2014. The Company must maintain an unrestricted cash balance of $400,000 at the end of each quarter. The Company must maintain a minimum tangible net worth or negative $450,000 at June 30, 2012, negative $350,000 at September 30, 2012 and negative $250,000 thereafter. The Company must maintain as at the end of each quarter a sum of unrestricted cash and accounts receivable that is equal to at least twice the outstanding debenture balance.

Should the Private Placement not be successful, Management will look to other sources of funding including items such as project financing and receivable factoring. Management would also look to reduce discretionary spending and further rationalize its operations. Through these activities, along with expected cash flow from operations, Management believes that it will obtain adequate sources of funds to meet its liabilities as they come due, however there is no certainty that these strategies will be successful.
,

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 2012.

Financial instruments

At December 31, 2011 the Company held no forward exchange contracts. The Company plans to evaluate the use of forward exchange contracts in the future.

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, we do not have any other business arrangements or any equity interests in unconsolidated companies that would have a significant effect on our assets and liabilities as at December 31, 2011.

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 twelve months ended December 31, 2011.

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, 2011. 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, 2011 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 our disclosure controls and procedures and internal control over financial reporting and make modifications from time to time that are considered necessary or desirable.

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 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) 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. 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.

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 December 31, 2011 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) Intangible assets: Management reviews the carrying value of amortizable intangible assets for impairment to determine if the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. Any change in estimate which causes the undiscounted expected future cash flows to be less than the carrying value, would result in an impairment loss being recognized equal to the amount by which the carrying value of the asset exceeds the fair value of the asset.

Outlook

The Company made a decision to adjust its production cycle in order to improve liquidity and to better match shipments to customer required delivery dates. This caused a substantial reduction in revenue for the overall fiscal year as the Company focused on improving liquidity during the final two quarters. Bookings for the year were good, albeit at gross margins lower than historical. The adjustment in the change in production cycle and the resulting lower revenues increased the backlog substantially to $15 million as of December 31, 2011.

The Company was disappointed with the drawn out slowdown in economies but early indicators for 2012 indicate the USA and Canadian Municipal markets are regaining some strength, with first quarter orders in hand exceeding $4million at improved gross margins. The Company projects that bookings will grow moderately in the core odour control market which is a positive change from earlier projections and anticipates continued steady growth in the biogas conditioning market, largely due to the investment by the United States into energy self-sustainability projects. The VOC market is significant, even in this down economy, and Biorem is focused on building an installed base from which to penetrate this market.

Biorem, like its competitors, has struggled over the past 3 years during what should be considered a significant recession in the key market economies and accentuated significantly in the municipal markets in the United States. Many projects put on hold over the past 3 years are now moving forward, bringing optimism about bookings and the return of better gross margins.

Tough challenges remain for Biorem. Working capital erosion has created pressure on important and key vendors who provide critical equipment and services to Biorem. We feel that sales and gross margins on sales are very important to our future success but rebuilding the confidence of our vendors through improved working capital positions is the key focus of management. Steps taken to improve our position include;

- Reducing our cost structure significantly from previous years. In 2012 we project our total operating and overhead costs including sales and marketing to be 37% lower than just two years ago in 2010. Our sales organization continues to provide new orders and have positioned us well to achieve a good year in new orders.
- The Company is undertaking a capital raise to bolster working capital to help build supplier confidence and allow Biorem to convert its record high backlog into revenue and contribution. This capital raise is underway at this time.
- The Company has worked closely with its key Lender, Wellington Financial and has renegotiated its debenture facility with covenants representative of the current market conditions.

These activities are the source of our optimism going forward. A leaner organization, new orders at a good gross margin and the best technology on the market at a competitive price offer the company the opportunity to come out of the harsh recession with confidence in a good future for the company, its staff and our customers.

Risks and Uncertainties

Sales Cycle

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.

Backlog

As of December 31, 2011 the Company's backlog was $18.4 million. 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 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. 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 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 arisk to our ability to win additional business both from existing clients and from those with whom we may have dealings 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 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

The Company is subject to risk of exchange rate fluctuations related to anticipated revenues, sales order backlog and existing assets and liabilities denominated in currencies other than Canadian dollars. At December 31, 2011, the Company had US dollar denominated net monetary assets of $3,709,000.

Stock Trading Volume is low

The monthly average trading volume of the BIOREM common shares on the Toronto Venture Exchange was 56,713 shares in 2011. 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 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 risk

The Company is currently experiencing a working capital deficiency. This deficiency has arisen as a result of the economic slowdown impacting our operating results and the repayment of our long term debt by $1,250,000 ($1,000,000 in December 2010 and $250,000 in November 2011). This working capital deficiency may result in an inability to secure acceptable credit terms with our suppliers. Although our suppliers have been willing to continue to work with us on acceptable terms, if we do not address our working capital issue we may lose the support of several of our key supplies. Management is currently addressing this risk through the initiation of a convertible debt raise in the amount of $1,400,000. (see liquidity section of MD&A)