BIOREM Inc.

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

For the Year Ended December 31, 2016

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 operations and financial condition. This discussion should be read in conjunction with the Consolidated Financial Statements for the years ended December 31, 2016 and 2015 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 3, 2017, 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) and hazardous air pollutants (HAPs) and for the conditioning of biogas renewable energy. With over 1,000 installed systems and over two decades of experience, the Company's groundbreaking biofilters are the technology of choice for wastewater treatment plants across North America and worldwide. 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. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances.

Non-IFRS Measures

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

EBITDA is used to denote earnings (loss) from operations before interest, income taxes, foreign exchange gains and losses, depreciation and amortization. Adjusted EBITDA, which includes additional adjustments for any gains or losses on re-measurements of debentures, should not be construed as a substitute for net earnings determined in accordance with IFRS. These measures are important to the Company since they are 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 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 during a fiscal year with a third party for the delivery of our products or services. As Order Bookings are received, the contract value (before any associated sales taxes) is included in the Order Backlog. The Order Backlog is reduced by the revenue that is recognized on each project and is also adjusted for foreign exchange changes.

Overview

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

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

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

The Company has more than 1,000 installed systems worldwide.

Significant Events For The Year

Key events of note in 2016 include the following;

- Revenue for the year was $15.9 million
- Order bookings during the year totaled $17.1 million
- Order backlog at the end of the year stood at $17.4 million
- Strategic partner/investor secured for market in China
- The Company made long-term debt repayments of $895,000.
- Immediately after year end all convertible debentures were converted to common shares leaving the Company debt free
- The Company's working capital after conversion of the convertible debentures in January 2017 was $4.5 million

Selected Annual Information

	2016	2015	2014
Revenue	$15,896,000	$16,880,000	$10,683,000
Net earnings (loss)	547,000	1,689,000	(1,722,000)
Total Assets	11,343,000	9,295,000	7,689,000
Current portion LTD	2,166,000	2,874,000	2,424,000
Long-Term Debt (LTD)	-	-	1,109,000
Earnings(loss)per share			
- basic	$0.04	$0.13	$(0.13)
- diluted	$0.02	$0.06	$(0.13)

Operating Results

Revenue	2016	2015	Percent Change
	$15,896,000	$16,880,000	(5.8)%

Revenue by Geography

	2016	2015	2014
Canada	$6,897,000	$4,958,000	$1,519,000
United States	5,031,000	6,160,000	6,316,000
China	687,000	2,665,000	938,000
Other international	3,281,000	3,097,000	1,910,000
Total Revenue	$15,896,000	$16,880,000	$10,683,000

Biorem's core market is the North American municipal odour control market with international distribution established in China, Middle East, Americas and South Africa as well as opportunistically in other jurisdictions. Project delivery mix varies from period to period, however overall the Company relies heavily on the American and Canadian markets to generate revenue. The geographic mix in the current Order Backlog of the Company is consistent with the geographic mix for 2016 shown in the above table.

A number of factors contribute to variations in the Company's period over period 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.

Revenue decreased by 5.8% or $984,000 in 2016 over 2015 largely as a result of lower bookings in 2016 compared to 2015 and to the differences in the period during the year when bookings were made. In 2016 38% or $6.5 million of the Company's bookings were made in the fourth quarter of the year compared to only 13% or $2.4 million in 2015. A larger percentage of 2015 bookings were able to be delivered and recognized as revenue during the year than in 2016.

In 2016 fifty six percent of revenue was derived from eight customers while in 2015 fifty one percent of revenues came from ten customers.

Order Bookings	2016	2015	Percent Change
	$17,100,000	$18,400,000	(7.1)%

Order Bookings can vary considerably from period to period, due to both the size of the contracts won and the timing of the awarding of the contracts. Bookings in 2016 decreased by $1.3 million dollars from the Company's 2015 bookings. The decrease in bookings largely came from Canada and China.

Order Backlog	2016	2015	Percent Change
	17,426,000	16,700,000	4.3%

The Company's Order Backlog at December 31, 2016 increased by $726,000 to $17.4 million from the same measurement date a year ago. Order Backlog can vary significantly from period to period both due to the timing of the receipt of contracts and due to the completion date of the projects under contract. The increase in Order Backlog at December 31, 2016 compared to December 31, 2015 is due to the difference in the timing of the bookings received in each of the two years. In 2016 the Company booked $7.6 million of orders in the first half of the year compared to $9.0 million in the first half of 2015. Orders booked in the first half of the year are more likely to be delivered in the same year and removed from backlog by December 31.Due to customer scheduling, the Company cannot provide guidance as to the quarters when the Order Backlog will be converted into revenue. Management's current estimate is that the majority of the Order Backlog at December 31, 2016 will be realized as revenue by the end of fiscal 2017.

Gross Profit	2016	2015	Percent Change
	$4,107,000	$5,995,000	(31.5)%

Costs of goods sold is comprised of 2 main components; direct material costs that are in direct proportion to revenue recognized, and the cost of operations which includes engineering and project management costs that are relatively fixed.

Gross profit of $4.1 million in 2016 was $1.9 million less than the gross profit recorded in 2015. This decrease in gross profit for the year was the result of the three factors, volume, pricing and costs. The decrease in dollar volume of projects completed in 2016 compared to 2015 accounted for $ 520,000 of the decrease in gross profit in 2016. Lower average pricing and consequently lower margins accounted for $630,000 of the decrease and budget overruns and operational costs reduced gross margins by $550,000.

As a percentage of revenue, gross profit in 2016 was 25.8% compared to 35.5% in 2015. Gross profit before the fixed costs of engineering and project management as a percentage of revenue was 41% compared to 46% in 2015. Project management and engineering costs represented 12.9% of revenue in 2016 compared to 11.5% in 2015.

Adjusted EBITDA	2016	2015	Percent Change
	$723,000	$2,244,000	(67.8)%

Adjusted EBITDA decreased by $1.5 million in 2016 to $723,000 from $2.2 million in 2015. The decrease was the result of lower revenues and a corresponding $1.9 million decrease in gross profit. The $1.9 million decrease in gross profit was partially offset by a decrease in sales marketing costs of $24,000 a decrease in general and administration expenses of $428,000, and a decrease of $57,000 in research and development costs. A reconciliation of Adjusted EBITDA to net earnings is provided below.

Reconciliation of Adjusted EBITDA to net earnings

	2016	2015
Net earnings	$547,000	$1,689,000
Add (deduct)		
Depreciation and amortization	51,000	122,000
Loss (gain) on foreign exchange	(153,000)	(76,000)
Interest expense	278,000	509,000
Adjusted EBITDA	$723,000	$2,244,000

Sales and Marketing	2016	2015	Percent Change
	$1,883,000	$1,907,000	(1.30)%

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

Variable selling costs represent commissions that are paid to both internal sales employees and external manufacturer representatives. These expenses are recognized over the course of the related contract. Sales Department expenditures relate primarily to departmental salaries and advertising expenses.

Total sales and marketing costs of $1.9 million in 2016 were unchanged from the $1.9 million in expenditures in 2015.

Sales and marketing activities in fiscal 2016 were comparable to the activities conducted in 2015. Sales and marketing expenses in 2016 represented 11.8% of revenue compared to 11.3% in 2015. As a percentage of bookings, sales and marketing expense in 2016 were 11.0% compared to 10.4% in 2015.

Research and Development	2016	2015	Percent Change
	$387,000	$444,000	(12.8)%

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

R&D activities during 2016 included continued work on high temperature treatment of volatile organic compounds and testing of advanced biofiltration media. Program on development of biotrickling filtration technology for high concentrations of hydrogen sulphide were expanded through pilots in the Middle East and North America. New biotrickling filtration media were incorporated in our products as a result of this work and enhanced product competitiveness.

Mechanistic studies were undertaken to improve understanding of biotrickling and biofiltration technologies in order to achieve significant improvements in system performance.

Other Income	2016	2015	Percent Change
	$357,000	$352,000	1.4%

Other income comprises foreign exchange gains, government assistance and investment tax credits.

Government Assistance is used to help fund the Company's Research and Development expenses. 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 has been approved for funding through the Industrial Research Assistance Program (IRAP). The funding is to support the Company's research into advanced biological technologies for the control of odour and volatile organic compounds. The Company receives contributions of 50% of the eligible costs. The Company has recorded $147,000 as other income during the year (2015 - $192,000).

General and Administration	2016	2015	Percent Change
	$1,370,000	$1,798,000	(23.8)%

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

The $428,000 decrease in general and administration expenses in 2016 compared to 2015 was primarily due to a $389,000 reduction in bad debt expense in 2016 compared to 2015. As well, depreciation and amortization of technology was $30,000 lower in 2016 than in 2015.

Summary of Quarterly Results

Thousands $ Except share data	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	4,759	4,003	2,942	4,192	3,311	4,171	4,709	4,689
Gross profit	1,090	1,020	554	1,443	1,300	1,508	1,656	1,531
Net earnings (loss)	61	225	(113)	374	125	318	718	528
EPS (loss) - basic	0.00	0.02	(0.01)	0.02	0.02	0.02	0.05	0.04
EPS (loss) - diluted	0.00	0.01	(0.01)	0.01	0.01	0.01	0.02	0.02

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

Fourth Quarter 2016

Revenue in the fourth quarter of 2016 was $4.8 million compared to $4.0 million in the previous quarter and $4.7 million in the fourth quarter of 2015. The increase in fourth quarter 2016 revenue compared to the previous two quarters was attributable to the delivery and completion of projects in the fourth quarter that had been delayed from Q2 and Q3 for reasons beyond Biorem's control.

The gross profit of $1.1 million in the fourth quarter amounted to 23% of revenue, a decline from the 25 % previous quarter but in line with the gross profit margins achieved in 2015. The decline in margin in the fourth quarter was due to both a change in project mix and a cost overrun on an international project.

The fixed component of cost of goods sold which includes engineering and project management costs has averaged $500,000 per quarter over the last four quarters, and was consistent in the fourth quarter.

With the exception of the variable portion of sales and marketing expenses, operating expenses for the quarter were in line with the previous quarters.

Liquidity

2016 Cash flow

Cash and cash equivalents	2016	2015	Percent Change
	$1,100,000	$2,700,000	(59.6)%

Cash and cash equivalents decreased by $1.6 million to $1.1 million as at December 31, 2016 from $2.7 million on December 31, 2015. Approximately 69% of the Company's cash is denominated in Canadian and 24% in US dollars as at December 31, 2016 compared to approximately 43% in US dollars at December 31, 2015. The decrease in percentage in US dollars held at December 31, 2016 compared to December 31, 2015 is due to the higher percentage of $ Canadian denominated contracts completed in 2016 compared to 2015.

The change in cash for the year is due to net cash flows from operating, investing and financing activities as follows:

	2016	2015
Cash provided by (used in) operating activities	$(778,000)	$2,149,000
Cash provided by (used in) investing activities	(12,000)	-
Cash provided by (used in) financing activities	(924,000)	(788,000)
Foreign exchange gain on foreign cash	107,000	151,000
Net increase (decrease) in cash	$(1,607,000)	$1,513,000

Cash provided by (used in) operating activities – During 2016, operating activities before changes in non-cash operating working capital generated $727,000 in cash compared to $2,247,000 generated in 2015. Changes in non-cash operating working capital used $1.5 million of cash compared to $98,000 of cash used in 2015. A reduction in restricted cash, unbilled revenue and inventories provided $809,000 of cash. An increase in accounts payable and unearned revenue contributed a further $2,558,000 in cash from operating activities. These operating sources of cash were offset by cash used to fund an increase in accounts receivable of $4,474,000 and a decrease in accrued liabilities of $441,000.

Cash provided by (used in) investing activities - During 2016 the Company used $12,000 to purchase equipment compared to $6,000 used to purchase equipment in 2015.

Cash provided by (used in) financing activities - During the year the Company used $885,000 to make principal payments and $50,000 to pay interest on the 12.75% debentures, compared to $770,000 of principal repayments and $181,000 of interest payments in 2015. The Company also used $13,520 to pay principal and accrued interest on series 1 convertible debentures.
The Company received $24,000 from the exercise of share purchase warrants.

With the exception of $437,000 related to holdbacks the majority of the $7.1 million of accounts receivable outstanding on December 31, 2016 was collected during the first quarter of 2017.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business including proposals on major investments. The Company manages liquidity risk by maintaining adequate capital, 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 liabilities include accounts payable and accrued liabilities, and unearned revenue as well as long and short term debt.

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

	2016	2015
Cash	$1,118,000	$2,725,000
Restricted cash	528,000	715,000
Working capital	2,322,000	1,786,000
Current portion long term debt	2,166,000	2,874,000
Net current assets	$2,322,000	$1,786,000

At December 31, 2016, restricted cash includes $500,000 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. Restricted cash is not available for general use by the Company.

The Company was subject to a debt covenant in connection with its 12.75% debenture, as described in note 10 to the consolidated financial statements, which required the Company to maintain an unrestricted cash balance of $200,000 at the end of each quarter. The 12.75% debenture was repaid in full during 2016.

The $536,000 increase in working capital at December 31, 2016 compared to December 31, 2015 is due to cash generated from operations in 2016.

In January 2017 all of the outstanding 8% series 1 and 2 convertible debentures plus accrued interest were converted into common shares. See note 23 subsequent events of the December 31 financial statements.

A maturity analysis as at December 31, 2016 of the Company's financial liabilities based on gross, undiscounted cash flows is presented below. The maturity analysis is based on the earliest date that liabilities may be due.

	Carrying Amount	Contractual Cash Flow	Less than 1 month	1-3 months	3 months to 1 year	1+ years	Total
	$	$	$	$	$	$	$
2016							
Accounts payable	2,963,576	2,963,576	2,963,576	-	-	-	2,963,576
Accrued liabilities	711,949	711,949	711,949	-	-	-	711,949
Current portion LTD	2,165,571	2,171,131	2,171,131	-	-	-	2,171,131
Long term debt	-	-	-	-	-	-	-
	5,841,096	5,846,656	5,846,656	-	-	-	5,846,656
2015							
Accounts payable	1,794,540	1,794,540	1,794,540	-	-	-	1,794,540
Accrued liabilities	1,040,870	1,040,870	1,040,870	-	-	-	1,040,870
Current portion LTD	2,874,416	3,102,874	-	283,319	2,819,555	-	3,102,874
Long term debt	-	-	-	-	-	-	-
	5,709,826	5,938,284	2,835,410	283,319	2,819,555	-	5,938,284

In the normal course of business, management will continue to look to other sources of funding including items such as project financing. Management is also continuing to improve the efficiency of all aspects of the Company's operations to ensure the most effective use of its' working capital. 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 and the Company does not have any significant capital expenditure projects underway or forecasted in 2017.

Financial instruments

At December 31, 2016 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 by financial institutions in connection with facility leases and contracts with public sector customers. Aside from the aforementioned, the Company does not have any other business arrangements or any equity interests in unconsolidated companies that would have a significant effect on its assets and liabilities as at December 31, 2016.

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 year ended December 31, 2016.

Outstanding Share Data

as at	April 3, 2017
Common shares	38,594,558
Employee stock options	3,607,001
Total	42,201,559

Significant Accounting Policies and Estimates

The preparation of the Company's 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, bad debts, warranty provisions and income taxes. The estimates are based on historical experience and on various other factors that are believed to be reasonable in the circumstances. Actual results may differ from these estimates. The following critical accounting policies include those which involve management's more significant judgments and estimates:

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

   The Company also provides for estimated losses on incomplete contracts in the period in which such losses are determined.

b) Deferred income taxes: Deferred income tax assets are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying value of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment. The income tax bases of assets and liabilities are based upon the interpretation of income tax legislation across various jurisdictions. The deferred income tax assets and liabilities are also impacted by expectations about future operating results and the timing for reversal of temporary differences as well as possible audits of tax filings by the regulatory authorities. In accessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax assets, projected future taxable income and tax planning strategies in making this assessment. The Company has not recorded deferred tax assets as at December 31, 2016.

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, 2016 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 it may subsequently be found that some accounts currently deemed collectible become uncollectible.

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

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

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

Outlook

The Company's healthy order backlog and strong bidding activity provides a strong foundation for growth in 2017. Overall market demand remains strong in waste water treatment, biogas conditioning and organic waste processing. Significant opportunities are expected to be found through our new strategic investor, Tus Holdings, not only in China but in other areas including North America. Their experience, resources and reach of their group of companies promises to expand the market we operate in as well as expand our geographical reach. Research and development is expected to bring several new product innovations to the market in 2017.

Risks and Uncertainties

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its objectives of profitability and growth. The principal risks to which the Company is described below.

Liquidity risk

At December 31, 2016 the Company had working capital of $2,322,000, which is net of the $2,166,000 current portion of the Company's long-term debt. Excluding the current portion of long-term debt the Company had working capital of $4,488,000 on December 31, 2016. All of the Company's long-term debt was converted into common shares in January 2017.

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.

Order Backlog

As of December 31, 2016 the Company's Order Backlog was $17.4 million. However, the expected future revenue from the Company's Order Backlog may not be realized or, if realized, may not result in net earnings. Projects could remain in Order Backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur from time to time with respect to contracts reflected in the Company's Order Backlog. Cancellation or delay of contracts may have a material adverse effect on our financial status.

Delays or Defaults in customer payments affecting liquidity

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

Reputation

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

Patents and Proprietary Right

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

Dependence on Subcontractors

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

Product Liability

If there are defects in our systems or if significant reliability, quality or performance problems develop with respect to our systems, there may be a number of negative effects on our business.

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.

The Company, along with multiple other defendants, is subject to Statement of Claim for $12 million in damages related to an explosion that occurred at a water pollution control plant in Ontario in 2014. The Company believes the allegations against it in the statement of claim are without merit and plans to vigorously defend itself.

Competition

Virtually all contracts for the Company's products and services 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 actual contract costs exceed estimated costs, the Company's profitability could be materially affected.

Foreign Exchange

The Company is subject to risk of exchange rate fluctuations related to anticipated revenues, Order Backlog and existing assets and liabilities denominated in currencies other than Canadian dollars. At December 31, 2016, the Company had US dollar denominated net monetary assets of $3,495,000.

Stock Trading Volume is low

The monthly average trading volume of the BIOREM common shares on the Toronto Venture Exchange was 307,000 shares in 2016. 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 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. 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.