AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Biorem Inc. as at December 31, 2007 and December 31, 2006 and the consolidated statements of operations and comprehensive loss, the statements of shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and December 31, 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Waterloo, Canada
February 15, 2008

STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS OF

BIOREM INC.

Years ended December 31, 2007 and 2006

BIOREM INC.

Consolidated Balance Sheets
December 31, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and short-term investments	$ 2,261,135	$ 4,448,976
Accounts receivable	3,454,446	3,352,926
Income taxes recoverable	67,712	70,000
Unbilled revenue	128,020	574,218
Inventory	769,649	393,188
Prepaid expenses	36,099	49,021
Investment tax credits recoverable	149,896	85,000
Future income taxes (note 7)	-	115,000
	6,866,957	9,088,329
Plant and equipment (note 4)	1,204,414	1,400,480
Investment tax credits recoverable	250,000	419,948
Future income taxes (note 7)	-	240,000
Technology, patents and other assets (note 5)	1,772,482	2,024,889
Goodwill	1,428,000	1,428,000
	$ 11,521,853	$ 14,601,646

	2007	2006
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,685,095	$ 3,076,379
Unearned revenue and contract advances	318,255	194,493
	3,003,350	3,270,872
Shareholders' equity:		
Common shares (note 9)	13,171,212	13,171,212
Contributed surplus	506,218	317,067
Deficit	(5,158,927)	(2,157,505)
	8,518,503	11,330,774
Commitments (note 15)		
	$ 11,521,853	$ 14,601,646

See accompanying notes to consolidated financial statements.

Peter Bruijns - President & CEO

Robert B. Nally - Chairman

BIOREM INC.

Consolidated Statements of Operations and Comprehensive Loss
Years ended December 31, 2007 and 2006

	2007	2006
Revenue	$ 9,469,955	$ 12,008,313
Cost of goods sold	6,125,552	7,876,583
	3,344,403	4,131,730
Expenses:		
Sales and marketing	2,301,558	2,104,956
Research and development (note 11)	921,343	559,738
Government assistance (note 11)	(400,252)	(355,089)
General and administration	1,917,461	2,141,735
Loss (gain) on foreign exchange	492,796	(21,787)
Total operating expenses	5,232,906	4,429,553
Loss before the following	(1,888,503)	(297,823)
Amortization	566,524	548,694
Interest	4,159	20,157
Amortization of discount on convertible promissory notes payable	-	3,000
Total interest and amortization expense	570,683	571,851
Loss before income taxes	(2,459,186)	(869,674)
Future income tax expense (recovery) (note 7)	542,236	(100,000)
Net loss and comprehensive loss	$ (3,001,422)	$ (769,674)
Earnings per share: (note 12)		
Basic	$ (0.25)	$ (0.07)
Diluted	(0.25)	(0.07)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity
Years ended December 31, 2007 and 2006

	Share Capital	Contributed Surplus	Deficit	Total
Balance as at January 1, 2006	$ 9,804,950	$ 217,129	$ (1,387,831)	$ 8,634,248
Loss for the year ended December 31, 2006	-	-	(769,674)	(769,674)
Issuance of common shares	3,366,262	-	-	3,366,262
Stock option compensation costs	-	99,938	-	99,938
Balance as at December 31, 2006	13,171,212	317,067	(2,157,505)	11,330,774
Loss for the year ended December 31, 2007	-	-	(3,001,422)	(3,001,422)
Stock option compensation costs	-	189,151	-	189,151
Balance as at December 31, 2007	$13,171,212	$ 506,218	$ (5,158,927)	$ 8,518,503

See accompanying notes to consolidated financial statements.

BIOREM INC.

Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net loss	$ (3,001,422)	$ (769,674)
Items not involving cash:		
Amortization	566,524	548,694
Amortization of discount on convertible promissory notes payable	-	3,000
Stock option compensation costs	189,151	99,938
Future income taxes	355,000	(100,000)
	(1,890,747)	(218,042)
Net changes in operating assets and liabilities (note 13)	(179,043)	1,369,509
	(2,069,790)	1,151,467
Investing:		
Patents filed	-	(52,029)
Purchase of plant and equipment	(118,051)	(281,746)
	(118,051)	(333,775)
Financing:		
Repayment of capital lease obligations	-	(19,893)
Repayment of long-term debt	-	(86,663)
Issue of share capital net of issuing costs	-	3,366,262
	-	3,259,706
Increase (decrease) in cash	(2,187,841)	4,077,398
Cash and short-term investments, beginning of year	4,448,976	371,578
Cash and short-term investments, end of year	$ 2,261,135	$ 4,448,976

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements
Years ended December 31, 2007 and 2006

BIOREM Inc. was incorporated on December 18, 2003 as a Capital Pool Company of the TSX Venture Exchange Inc. (“Exchange”) under the laws of the Province of Ontario. BIOREM Technologies Inc. is incorporated under the laws of the Province of Ontario and BIOREM Environmental Inc. is incorporated under the laws of the State of Delaware. BIOREM Inc. and its subsidiaries (collectively the "Company") supply biological solutions to environmental problems. The primary market is for the treatment of contaminated air streams with biological air filters.

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries BIOREM Technologies Inc. and BIOREM Environmental Inc.

(b) Inventory:

Inventory is stated at the lower of cost, on a first-in, first-out basis, and replacement cost.

(c) Plant and equipment:

Plant and equipment are recorded at acquisition cost less any applicable government assistance or investment tax credits. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Research equipment	Declining balance	20%
Production equipment	Declining balance	20%
Office furniture	Declining balance	20%
Computer hardware	Declining balance	20%
Computer software	Straight-line	3 years
Leasehold improvements	Straight-line	10 years

A half year's amortization is charged in the year of acquisition.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(d) Technology, patents and other assets:

Technology, patents and other assets are recorded at acquisition cost. Amortization is provided using the following method and annual rates:

Asset	Basis	Rate
Technology	Straight-line	10 years
Patents	Straight-line	10 years
Trademarks	Straight-line	10 years
Customer lists	Straight-line	10 years

(e) Goodwill:

Goodwill represents the excess of the purchase price consideration over the fair value of net assets of the acquired business. Goodwill is not subject to amortization but is subject to an annual assessment for impairment by applying a fair-value test. Any impairment in the value of goodwill would be charged to income.

(f) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(g) Foreign currency translation:

The Canadian dollar is the Company's functional and reporting currency. Monetary assets and liabilities denominated in foreign currency are translated using the exchange rate in effect at the balance sheet date, non-monetary assets and liabilities denominated in foreign currency are translated using the historical exchange rate and revenues and expenses at the rates of exchange prevailing when the transaction occurred.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(g) Foreign currency translation (continued):

The Company's foreign operation, located in the United States is deemed to be an integrated foreign operation and, therefore its financial statements are translated using the temporal method. Under this method all asset, liability, revenue and expense items are translated at the exchange rate in effect at the transaction date. At the balance sheet dates, monetary assets and liabilities are adjusted to reflect the year end exchange rate. The gain or loss resulting from translation is included in the determination of income for the current period.

(h) Revenue recognition:

Revenues include the sales of biofilter systems, Biosorbens™ media, service and license fees. For contracts of short duration, revenue is recorded when products are shipped, services are performed or billings rendered, which approximates actual performance.

Certain of the Company's contracts are long-term in nature. 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. Contract price and cost estimates are reviewed periodically as the work progresses and adjustments proportionate to the percentage of completion are reflected in the period when such estimates are revised. Current provisions are made for all known or anticipated losses on contracts which have not been completed. When the company recognizes revenue, it also records a provision for potential warranty claims. It bases the provision on warranty terms and claims experience.

Unbilled revenue represents work that has been recognized as revenue under the percentage-of-completion method but not yet invoiced to clients. Unearned revenue and contract advances represent amounts billed in excess of revenue earned and work-in-process balances.

Service revenues are derived from service agreements commencing after the warranty period expires. Revenue is recognized on these agreements ratably over the term of the agreements. Revenues from other services are recognized when the services are performed.

(i) Research and development:

Research and development costs, other than capital expenditures, are expensed as incurred unless they meet generally accepted accounting principles for deferral. Research and development expenditures are reduced by investment tax credits and related government grants. Investment tax credits for scientific research and experimental development are recognized in the period qualifying expenditures are incurred and there is reasonable assurance that they will be realized.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(j) Stock based compensation:

The Company has a stock based compensation plan, which is described in note 10.

The Company has adopted the amended recommendations of the CICA Handbook Section 3870, "*Stock based Compensation and Other Stock Based Payments*". Under the amended standards of this Section, the fair value of all stock based awards granted are estimated using the Black-Scholes model and are recorded in operations over their vesting periods. Any compensation cost related to share purchase options granted after January 1, 2004 is recorded in operating expenses.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Estimates are reviewed on a regular basis and, as adjustments become necessary, they are reported in income in the periods in which they become known. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include accounts receivable, inventory, plant and equipment, technology, patents and other assets, goodwill, accounts payable and accrued liabilities and future income taxes. In addition, significant estimates are required in determining the percentage of completion and the corresponding recognition of revenue in relation to the Company's long-term contracts and determination of stock compensation expense.

2. CHANGES IN ACCOUNTING POLICIES:

Effective January 1, 2007, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530 "*Comprehensive Income*", 3251 "*Equity*", 3855 "*Financial Instruments – Recognition and Measurement*", 3861 "*Financial Instruments – Disclosure and Presentation*" and 3865 "*Hedges*". These CICA Handbook Sections establish the accounting and reporting standards for financial instruments and hedging activities, and require the initial recognition of financial instruments at fair value on the consolidated balance sheet. The comparative consolidated financial statements have not been restated. The adoption of the new standards did not result in any adjustments as of January 1, 2007.

CICA Handbook Section 1530 requires the presentation of comprehensive income and its components in a financial statement. Comprehensive income is composed of the Company's net income and other comprehensive income which includes changes in the fair value of the effective portion of cash flow hedging instruments and changes in unrealized gains (losses) on available-for-sale financial assets measured at fair value.

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED):

CICA Handbook Section 3251 provides standards for the presentation of equity and changes in equity during the reporting period.

CICA Handbook Section 3855 establishes standards for recognizing and measuring financial instruments including derivatives. Under the new standard, all financial instruments are initially recorded on the consolidated balance sheet at fair value except for certain related party transactions. They are subsequently valued either at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for-sale" or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities".

Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the consolidated statements of operations. Financial assets classified as "held-to-maturity" or "loans and receivables" and financial liabilities classified as "other liabilities" are subsequently measured at amortized cost using the effective interest method. "Available-for-sale" financial assets that have a quoted price in an active market are measured at fair value with changes in fair value recorded in other comprehensive income. Such gains and losses are reclassified to earnings when the related financial asset is disposed of or when the decline in value is considered to be other-than-temporary. Equity instruments classified as "available-for-sale" that do not have a quoted price in active market are subsequently measured at cost.

The Company has classified its financial instruments as follows:

- Cash and cash equivalents are classified as "held-for-trading".
- Accounts receivable and unbilled revenue are classified as "loans and receivables".
- Accounts payable and accrued liabilities, unearned revenue and contract advances are classified as "other liabilities".

The Company has elected to use trade date accounting for regular-way purchases and sales of financial assets.

Fair value:

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

3. FUTURE CHANGES IN ACCOUNTING POLICY AND DISCLOSURE:

The CICA has issued the following new Handbook Sections that will become effective January 1, 2008 for the Company:

- Handbook Section 1535 "*Capital Disclosures*"
- Handbook Section 3862 "*Financial Instruments – Disclosures*"
- Handbook Section 3863 "*Financial Instruments – Presentation*"

Handbook Section 1535 requires the following disclosures: (i) qualitative information about an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Handbook Sections 3862 and 3863 replace Handbook Section 3861, "*Financial Instruments – Disclosure and Presentation*". These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Handbook Section 3862 requires qualitative and quantitative disclosure of: (i) exposures to risks arising from financial instruments, how they arose and the potential impact on the amount, timing and certainty of future cash flows; (ii) information about the risk management function and the reporting and measurement systems used; (iii) the entity's policies for hedging or mitigating risk and avoiding concentrations of risk; and (iv) the sensitivity to individual market risk factors together with the methodology for performing the analysis. Handbook Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

- Handbook Section 3031 "*Inventories*"

The standard provides more guidance on the measurement and disclosure requirements of inventory. The Company is currently evaluating the impact of adoption of this new section on its financial statements.

4. PLANT AND EQUIPMENT:

			2007
	Cost	Accumulated amortization	Net book value
Research equipment	$ 188,010	$ 140,925	$ 47,085
Production equipment	1,072,159	430,618	641,541
Office equipment	678,451	370,395	308,056
Leasehold improvements	329,093	121,361	207,732
	$ 2,267,713	$ 1,063,299	$ 1,204,414

			2006
	Cost	Accumulated amortization	Net book value
Research equipment	$ 177,586	$ 126,246	$ 51,340
Production equipment	1,114,694	316,513	798,181
Office equipment	528,290	217,263	311,027
Leasehold improvements	329,092	89,160	239,932
	$ 2,149,662	$ 749,182	$ 1,400,480

Amortization on plant and equipment was $314,117 (2006 - $298,858)

5. TECHNOLOGY, PATENTS AND OTHER ASSETS:

			2007
	Cost	Accumulated amortization	Net book value
Technology	$ 1,426,416	$ 422,616	$ 1,003,800
Patents	359,528	98,233	261,295
Trademark	61,500	16,911	44,589
Customer lists	615,000	152,202	462,798
	$ 2,462,444	$ 689,962	$ 1,772,482

			2006
	Cost	Accumulated amortization	Net book value
Technology	$ 1,426,416	$ 279,216	$ 1,147,200
Patents	359,528	56,871	302,657
Trademark	61,500	9,224	52,276
Customer lists	615,000	92,244	522,756
	$ 2,462,444	$ 437,555	$ 2,024,889

Amortization on technology, patents and other assets was $252,407 (2006 - $249,836)

6. BANK INDEBTEDNESS:

The Company has an authorized bank facility of $2,500,000 which, when drawn, bears interest at bank prime (6.25% at December 31, 2007) plus 0.5%. Advances under this facility are secured by a general security agreement covering all assets of the Company. Bank indebtedness as at December 31, 2007 was $nil (December 31, 2006 - $nil).

7. INCOME TAXES:

Income tax expense differs from the amount that would be computed by applying the federal, state and provincial statutory tax rates of 36.1% (2006 – 36.1%) to earnings before income taxes. The reasons for the differences and related tax effects are as follows:

	2007	2006
Computed tax expense	$ (888,000)	$ (320,000)
Non-deductible expenses for tax purposes	74,000	45,000
Tax rate differential in foreign subsidiary	(24,000)	(16,000)
Change in tax rates	92,000	-
Valuation allowance	854,000	160,000
Write-off of investment tax credits	255,000	-
Rate differential on losses	143,000	-
Other	36,236	31,000
	$ 542,236	$ (100,000)

The tax effects of temporary differences that give rise to significant portions of the future tax asset at December 31, 2007 and December 31, 2006 are presented below:

	2007	2006
Future tax assets:		
Loss carry forwards available in future years	$ 1,050,000	$ 380,000
Scientific research and experimental development expenditures not yet deducted for tax purposes	295,000	258,000
Provisions not yet deducted for tax purposes	87,000	192,000
Share issue costs	93,000	186,000
	1,525,000	1,016,000
Future tax liabilities:		
Capital assets - differences in net book value and undepreciated capital cost	(268,000)	(258,000)
	1,257,000	758,000
Less: valuation allowance	(1,257,000)	(403,000)
	-	355,000
Less: current portion of future tax assets	-	115,000
Long-term portion of future tax assets	$ -	$ 240,000

7. INCOME TAXES (CONTINUED):

As at December 31, 2007, the Company has income tax losses available to reduce future years' taxable income, which expire as follows:

	Canada	U.S.	Total
2025	$ -	$ 203,000	$ 203,000
2026	290,000	362,000	652,000
2027	1,680,000	600,000	2,280,000
Indefinite	1,015,000	-	1,015,000
	$ 2,985,000	$ 1,165,000	$ 4,150,000

In addition, the Company has Canadian investment tax credits available to be applied against future income taxes payable in the amount of approximately $713,000, which expire as follows:

2013	$ 7,500
2014	142,000
2015	260,500
2026	183,000
2027	120,000
	$ 713,000

The benefit of $250,000 of these investment tax credits has been recognized in the consolidated financial statements.

8. RELATED PARTY TRANSACTIONS:

Transactions with related parties in the year include administration services to Petrozyme Technologies Inc., an affiliated company, of $nil (2006 - $9,477); subcontracting services from Petrozyme of $78,100 (2006 - $88,014).

9. SHARE CAPITAL:

	2007	2006
Authorized:		
Unlimited number of common shares		
Issued:		
11,978,299 common shares (2006 – 11,978,299)	$ 13,171,212	$ 13,171,212

In 2006, the Company completed a private placement of 1,700,000 common shares at $2.00 per share for gross cash proceeds of $3,400,000. Costs associated with the transaction net of the future tax effect reduced the share capital resulting from the transaction by $33,738.

10. STOCK BASED COMPENSATION:

The Company uses a stock option plan to attract and retain key employees, senior executives and directors. Under the terms of the plan, the aggregate number of shares reserved for issuance has been established to a maximum of 10% of the number of common shares issued and outstanding of the Company with the maximum reserved for issuance to any one person at 5% of the common shares outstanding at the time of the grant. The stock option exercise price is the closing market price of the Company's common shares on the day prior to the date of the grant. Options granted under the plan may be exercised during a period not exceeding ten years from the date of grant, subject to earlier termination upon the optionee ceasing to be a director, senior executive or employee of the Company and have vesting periods of at least three years. Options issued under the plan are non-transferable.

10. STOCK BASED COMPENSATION (CONTINUED):

i) The following table illustrates the significant assumptions underlying the Company's accounting policy for stock based compensation:

	2007	2006
Weighted average fair value of each option	$ 1.03	$ 0.93
Assumptions:		
Expected volatility	45%	40%
Risk free interest rate	4.0% - 4.4%	3.6% - 4.0%
Expected life in years	10 years	5 - 10 years
Expected dividend yield	0%	0%

ii) The following table summarizes the continuity of options issued under the plan:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	411,000	$ 2.70	284,000	$ 3.11
Options cancelled	(102,000)	2.77	(45,000)	2.99
Granted during the year	718,000	1.57	172,000	2.09
Outstanding, end of year	1,027,000	$ 1.90	411,000	$ 2.70
Exercisable, end of year	180,500	$ 2.86	116,858	$ 3.15

Options outstanding and exercisable at December 31, 2007:

	Options outstanding		Options exercisable	
Exercise Price	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price
$ 1.11	100,000	9.9	-	-
1.50 - 1.75	683,000	9.2	26,667	$ 1.50
2.50 - 2.95	118,500	3.0	53,500	2.79
3.00 - 3.27	125,500	2.2	100,333	3.25
	1,027,000	7.7	180,500	$ 2.86

11. RESEARCH AND DEVELOPMENT EXPENSES:

	2007	2006
Expenses incurred	$ 921,343	$ 559,738
Less:		
Government funding	(320,356)	(155,089)
Investment tax credits	(79,896)	(200,000)
	$ 521,091	$ 204,649

The Company is eligible for Federal investment tax credits at a rate of 20% of qualifying scientific research and experimental development expenditures conducted in Canada, in addition to investment tax credits or deductions available from provincial jurisdictions. Federal investment tax credits are only available to the Company to be applied against future income taxes payable.

The Company has been approved for funding with Natural Resources Canada. The funding is to support the Company's research and development efforts in the automotive sector. The Company receives contributions of 50% of the specified costs of the development project to a maximum of $480,000. The Company has agreed to pay royalties to a cumulative value of $480,000 at a rate of 5% of future related product revenues. The royalty period is scheduled to begin on March 31, 2008 and ends March 31, 2018, or when the royalty maximum has been reached, whichever occurs first.

12. EARNINGS PER SHARE:

The computations for basic and diluted earnings per share are as follows:

	2007	2006
Net loss	$ (3,001,422)	$ (769,674)
Average number of common shares outstanding:		
Basic	11,978,299	10,781,313
Effect of stock options	-	-
Diluted	$ 11,978,299	$ 10,781,313
Earnings per share:		
Basic	$ (0.25)	$ (0.07)
Diluted	(0.25)	(0.07)

13. NET CHANGE IN OPERATING ASSETS AND LIABILITIES:

	2007	2006
Cash provided by (applied to):		
Accounts receivable	$ (101,520)	$ (61,492)
Income taxes recoverable	2,288	(58,416)
Unbilled revenue	446,198	1,442,640
Inventory	(376,461)	156,757
Prepaid expenses	12,922	(11,038)
Investment tax credits recoverable	105,052	(138,225)
Accounts payable and accrued liabilities	(391,284)	(24,414)
Unearned revenue and contract advances	123,762	63,697
	$ (179,043)	$ 1,369,509

14. SUPPLEMENTAL CASH FLOW INFORMATION:

	2007	2006
Cash paid for:		
Interest	$ 3,853	$ 20,157

15. COMMITMENTS:

The Company is committed under operating leases for the rental of a building, property and computer equipment. The aggregate minimum annual commitments for the next four years are as follows:

2008	$ 153,226
2009	107,979
2010	30,209
2011	5,374
Total future minimum lease payments	$ 296,788

Operating lease expense in 2007 was $163,073 (2006 - $152,300).

16. FINANCIAL INSTRUMENTS:

a) Fair values

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

b) Foreign exchange risk

The Company operates internationally, which gives rise to the risk that cash flows may be adversely impacted by exchange rate fluctuations. The Company has not entered into any forward foreign exchange contracts or other derivative financial instruments to mitigate its exposure to changes in foreign exchange.

As at December 31, 2007, accounts receivable include US $2,103,371 (2006 - US $2,502,384) and accounts payables include US $611,172 (2006 - US $575,231).

c) Credit risk:

Credit risk arises from the possibility that the Company's customers may experience difficulty and be unable to fulfill their contractual obligations. In order to manage its risk, the Company has adopted credit policies that include regular review and follow up of outstanding project receivable balances. The majority of the Company's invoicing is for municipal projects. The Company's accounts receivable are not subject to significant concentration of credit risk and the Company has not incurred any significant bad debts to date.

d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's budget and cash flow forecasts indicate it has and will generate sufficient cash flows to meet its obligations during 2008, taking into consideration cash and cash equivalents available to the Company as at December 31, 2007 as well as its available credit facility.

17. SEGMENTED INFORMATION:

Management has determined that the Company operates in one dominant industry segment, which involves the manufacture and sale of industrial machinery.

The Company's revenue and capital assets breaks down geographically as follows:

	Revenue		Capital assets [1]	
	2007	2006	2007	2006
Canada	$ 2,679,205	$ 2,765,000	$ 1,766,532	$ 2,026,085
United States	6,235,477	8,561,313	2,638,364	2,827,284
Other	589,273	682,000	-	-
Total	$ 9,503,955	$ 12,008,313	$ 4,404,896	$ 4,853,369

[1] Includes plant and equipment, goodwill, technology, patents and other assets

In 2007, revenues from two customers represent 26% of total revenue (2006 - a single customer represents 10% of total revenue). Two customers accounted for 32% of accounts receivable as at December 31, 2007 (2006 - two customers accounted for 36%).

18. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

CORPORATE INFORMATION

Officers
Peter A. Bruijns
President & CEO

Edward S. Corbett
CFO & Secretary

Board of Directors
Robert B. Nally
Chairman

Jeffrey I. Dreben

Bernardo H. Llovera

Peter A. Bruijns

H. J. (Hank) Vander Laan

Auditors
KPMG LLP, Waterloo, Ontario

Shares
The shares are listed on the TSX Venture Exchange (TSX-V) under the symbol BRM.

Annual Shareholders' Meeting
We are pleased to invite all shareholders to the Annual General Meeting on May 6, 2008 at 4:30 p.m. located at The Fairmont Royal York, 100 Front Street West, Toronto, Ontario, M5J 1E3.

For further information, please contact:

Ed Corbett, Chief Financial Officer
BIOREM Inc.
7496 Wellington Road 34, RR#3
Guelph, ON, N1H 6H9
ecorbett@biorem.biz
Tel: (519) 767-9100 x275
www.biorem.biz

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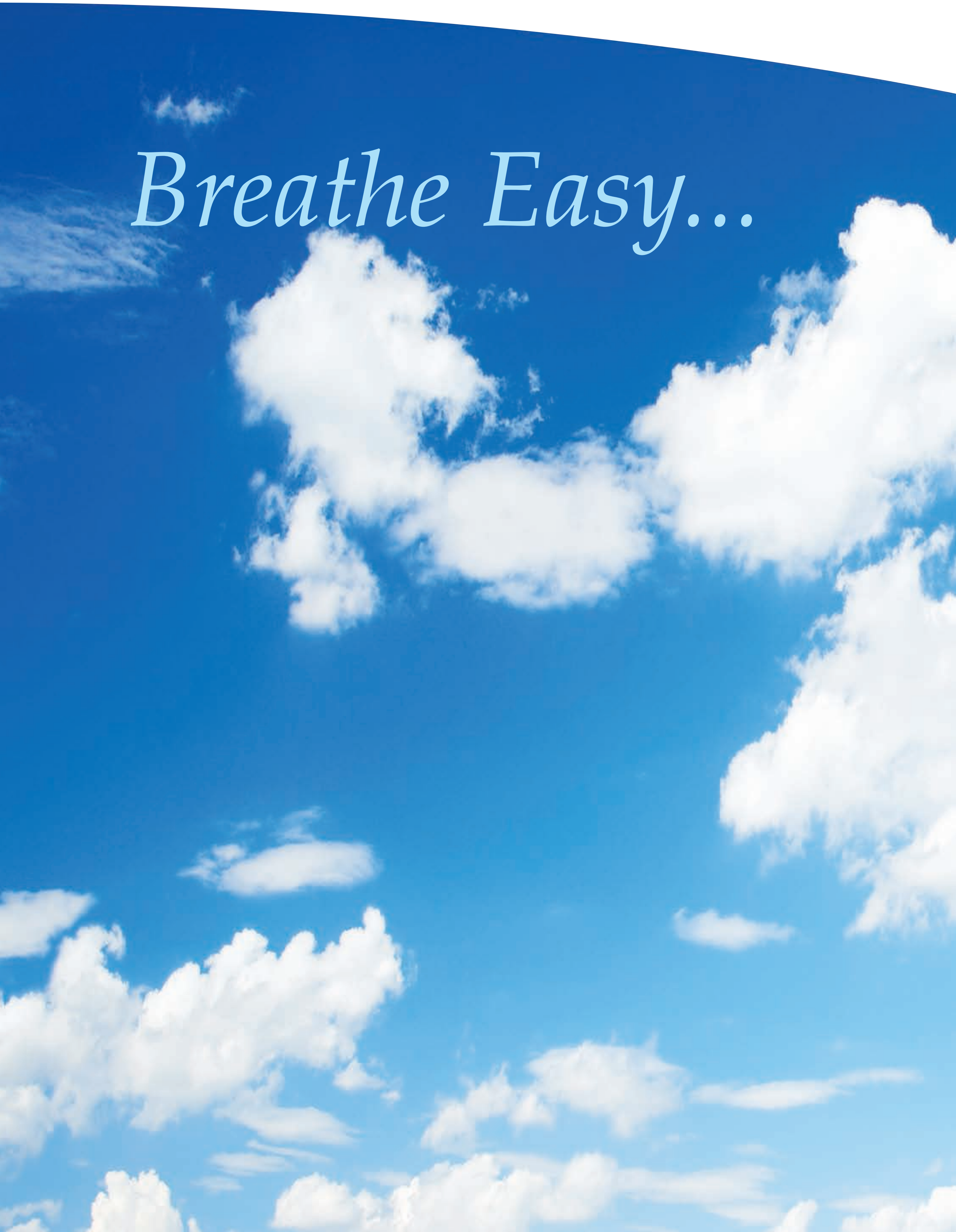
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