MANAGEMENT DISCUSSIONS & ANALYSIS

This Management Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operation and financial condition. This discussion should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2007 and the accompanying notes. This discussion is based on information available to management at March 25, 2008, unless otherwise indicated.

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President & CEO ("CEO") and the Chief Financial Officer ("CFO"), together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures for the year ended December 31, 2007. 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, 2007 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. In anticipation of meeting the certification requirements, the following material weakness was identified:

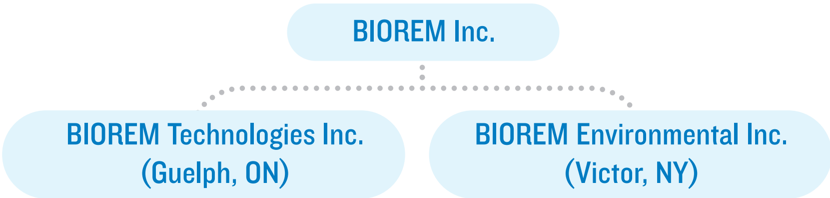
Due to its small size and limited financial resources, the Company's CFO, a member of management, had been the only employee involved in accounting and financial reporting. As a result, there is no segregation of duties within the accounting function, leaving all aspects of financial reporting and physical control of cash in the hands of the same employee. This lack of segregation of duties usually represents a material weakness. As a compensating control, however, the Company retains the services of a controller on a contract basis who independently prepares bank reconciliations and month-end journal entries. As well, the CEO and other members of management have an in depth understanding of the operations and can make inquiries and observations with respect to variances from the operating plan. The CEO exercised additional controls over the accounting function in the period between CFOs from November 2007 to February 2008.

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

GENERAL

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

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



The core business of the Company is to provide advanced technology biological and other types of filters for the removal of odours and organic contaminants from municipal and industrial air streams. The Company offers both modular packaged or custom field erected systems. A biofilter is a biomechanical device designed to support the capture and biological destruction of contaminants in an air stream. A biofilter system incorporates a specialized filter media contained in a closed vessel or open basin. The media is produced containing selective microbes which have the ability to biologically degrade the target contaminants. Contaminated air is pre-conditioned and forced through the filter media by means of a conventional fan and duct system. The airborne contaminants are transferred from the air stream to the moist surface of the media where they are accumulated and serve as a food source for the microbes. The metabolic process of the microbes oxidizes the accumulated organics and forms carbon dioxide, water and inorganic salts.

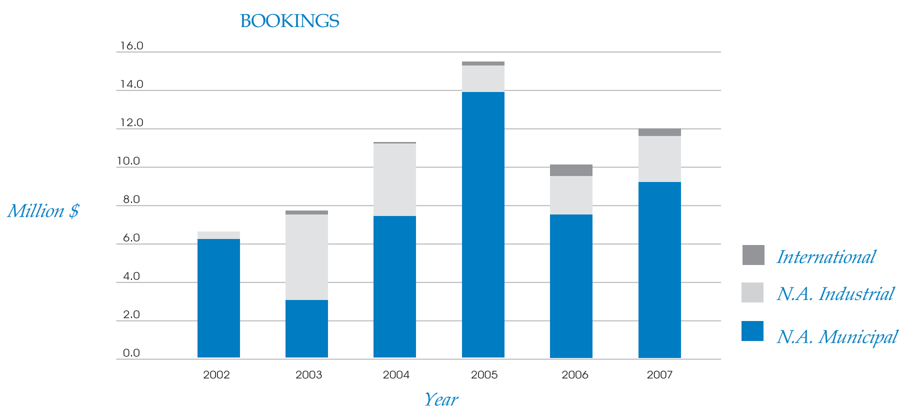
A functional biofilter system requires effective process design, high removal efficiency, long lasting media and an appropriate control system. The advantages of biofiltration over competitive technologies include very low operating cost, low maintenance, ability to handle wide load swings and no harmful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

OPERATING RESULTS

New sales bookings in 2007 were $12,000,000 compared to $10,100,000 in 2006, which represents a 19% increase. The improvement in the Company's bookings results from the revised sales structure of Regional Sales Managers covering the United States with a network of sales representatives. This has created higher awareness of the Company's products as well as giving the Company better visibility into potential projects occurring in the United States.

During fiscal 2007 the Company announced the following new material sales bookings:

• Municipal system – Ontario	630,000
• Municipal system – Hawaii	1,630,000
• Municipal system – New York	730,000
• Municipal system – Nevada	675,000
• Industrial system – Ontario	1,430,000



Greater sales bookings in 2007 resulted in an increase in the sales order backlog at year end. At December 31, 2007, the amount of the Company's sales order backlog was approximately $10,000,000 compared to $7,500,000 at December 31, 2006. Backlog represents work for which the Company has a signed letter of intent, has entered into a signed agreement or has received a purchase order to proceed. Approximately 80% of the Company's backlog is anticipated to be completed prior to December 31, 2008.

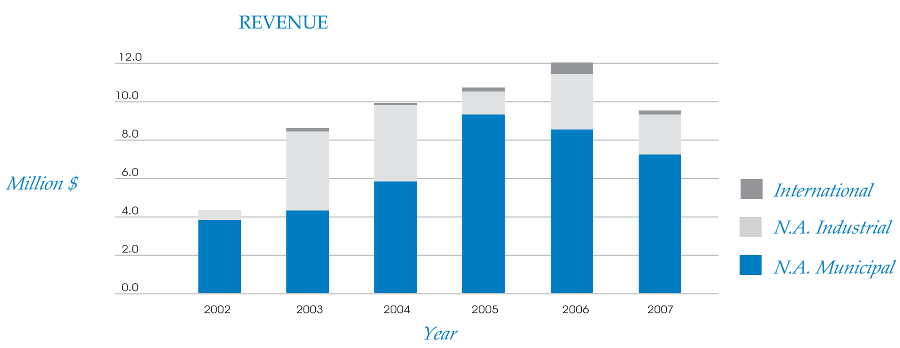
Revenue in 2007 was $9,470,000 compared to $12,008,000 in 2006, which is a 21% decrease. The decrease in revenue in 2007 is primarily attributable to the large drop in bookings from 2005 to 2006. The instability in the sales network at the end of 2005 and into 2006 caused lower bookings for 2006. Due to the length of our sales cycle, which can range from six months to three years, the result was a decrease in revenue in 2007. The Company has taken numerous steps to restructure the sales process as set out below:

- Revamped the manufacturer sales representative network by replacing smaller, low productivity firms with larger companies
- Strengthened the commitment to selling through manufacturer representatives
- Formulated programs to build relationships and educate industry consultants on the Biorem products and advantages
- Focused activities on ensuring the Company was considered early in the sales cycles to increase instances where Biorem has been pre-selected as the preferred vendor
- Implemented a targeted sales initiative towards major US and Canadian cities for large projects

Other substantial major business activities in 2007 were:

- Culminated the initiative for waste management/organics processing into several opportunities in the Ontario odour control market segment with placed orders of approximately $1,800,000 and current bids of $1,500,000.
- Developed formal relationships with significant international companies (Veolia North America and Ecovation, Inc.) thereby securing several orders for municipal work of approximately $1,100,000 and approximately $500,000 in the domestic food and beverage market segment.
- Continued our international diversification resulting in three orders from China with an approximate value of $500,000.

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



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

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

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

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

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

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

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

Gross profit in 2007 was $3,334,000 compared to $4,132,000 in 2006, which is a $798,000 (19%) decrease. Gross margin was 35% of sales in 2007, which is an improvement from 34% in 2006. The price on the Company's product is finalized through a competitive bidding process and gross margins can vary project to project depending on competitive activity and the scope of work. The gross margin was also negatively affected in 2007 due to the strong appreciation of the Canadian dollar versus the US dollar. This results from project pricing generally being set in a prior year due to our long sales cycle.

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

The Company's operating expenses were $5,233,000 in 2007 compared to $4,430,000 in 2006, which is an increase of $803,000 or 18%. The major components of the change relate to the $316,000 increase in research and development costs outlined below and a $515,000 negative swing to a loss on foreign exchange. In addition, increased sales and marketing costs of $197,000 as a result of salaries and travel costs associated with additional sales staff are offset by a reduction of $225,000 in general and administration costs which resulted from a one-time re-organization expense in 2006.

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

Research and Development expense consists of:

	2007	2006
Research and development expenses	921,343	559,738
Government funding	(320,356)	(155,089)
SR&ED tax credits	(79,896)	(200,000)
Total	521,091	204,649

The increase in research and development expenses is largely attributable to costs associated with a research project funded in part by Natural Resources Canada. Approximately 43% of the gross expenses in the year were recovered through government funding and tax credits. The company conducted several industrial pilot plant operations in 2007 in support of technology development.

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

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

General and Administrative expenses decreased $224,000 to $1,917,000 in 2007. The Company incurred a one-time re-organizational cost of $211,000 in 2006.

Total interest and amortization expenses for 2007 amounted to $571,000 remaining at the same level as in 2006.

During 2007 there were no cash taxes paid by the Company. There were significant one-time variances in the Company's historical effective tax rates during the past five years which impact the net earnings trend, and are summarized in the following table:

	2003	2004	2005	2006	2007
Net income (loss) before tax	1,264	1,353	589	(870)	(2,459)
Income tax	(661)	381	245	(100)	542
Tax rate	n/a	28%	42%	11%	22%
Net earnings	1,926	972	344	(770)	(3,001)

In 2003 the Company recorded a one time future income tax asset related to the expected future benefit of prior years' accumulated tax benefits. The value of the future tax assets are amortized to income to offset the tax liability incurred. The effective tax rate in 2005 was higher than the statutory rate due to impact of non deductible expenses. In 2006 an income tax valuation allowance was recognized against the future tax asset. The valuation allowance reduced the effective income tax rate in the year. In 2007, a full valuation allowance was recognized against the future tax assets.

RISKS AND UNCERTAINTIES

Our long sales cycle may cause revenue fluctuations period over period – since our operating expenses are largely based on anticipated revenue trends and a significant portion of our expenses are, and will continue to be, fixed, any delay in generating or recognizing revenues could negatively impact our business, operating results, financial condition or prospects.

Our Backlog is subject to unexpected adjustments and cancellations – as of December 31, 2007 the Company's backlog was approximately $10 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.

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

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

Limited protection of patents and proprietary rights – the Company relies on a combination of patents, trademarks, trade secrets and know-how 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.

Product Liability - if there are defects in our systems or if significant reliability, quality or performance problems develop with respect to our systems, there may be a number of negative effects on our business. The Company carries product liability insurance, which includes coverage for sudden or accidental pollution impact. It is possible that a customers' inability to comply with applicable pollution control laws or regulations stemming from failure or non-performance of the Company's products or systems may subject the Company to liability for any fines imposed upon such customer by regulatory authority or for damages asserted to have been incurred by any third party adversely affected.

Competition – virtually all contracts for the Company's products are obtained through competitive bidding. Although the Company competes on technical expertise, reputation for service and lower life cycle cost, there can be no assurance that the Company will maintain its competitive position in its principal markets.

Fixed price contracts may result in losses – the Company's receipt of a fixed price contract as a consequence of being the successful bidder carries the inherent risk that the Company's actual performance cost may exceed the estimates upon which its bid was based. To the extent that contract performance costs exceed projected costs, the Company's profitability could be materially affected.

Foreign exchange rates – the Company is subject to risk of price fluctuations related to anticipated revenues, sales order backlog and existing assets and liabilities denominated in currencies other than Canadian dollars. The Company does not participate in any foreign currency forward exchange contracts to manage these exposures.

Stock trading volume is low – the monthly average trading volume of the BIOREM® common shares on the Toronto Venture Exchange was 48,000 shares in 2007. 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operations are primarily financed through prior year's sale of share capital and operating cash flow. Cash flow used by operating activities was $2,070,000 in 2007 compared to cash provided by operations of $1,151,000 in 2006.

At December 31, 2007 the Company held cash and cash equivalents of $2,261,000, a decrease of $2,188,000 from $4,449,000 on hand in the prior year. The majority of the decrease is attributable to the drop in revenue in 2007. Cash invested in capital assets was $118,000.

The Company has established an operating line of credit with its bankers of $2,500,000 secured by inventory and accounts receivable to provide the necessary funding required for working capital. At year end, there was no borrowing against this operating line of credit. This cash balance and the unused credit facilities available to the Company are considered adequate to fund future operating requirements of the business throughout 2008.

Total working capital at December 31, 2007 is $3,864,000, which is down $1,953,000 over last year. Unbilled revenue represents work that has been completed and recognized as revenue under the percentage-of-completion method but not yet invoiced to clients.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related contingent assets and liabilities. On an on-going basis, management evaluates the estimates including those related to long term contracts, intangible assets, goodwill, bad debts, warranty obligations, income taxes and contingencies. The estimates are based on historical experience and on various other factors that are believed to be reasonable in the circumstances. Actual results may differ from these estimates. The following critical accounting policies affect more significant judgments and estimates:

a) Revenue recognition: The Company derives revenue from long-term contracts which require performance over a time span which may extend beyond one or more accounting periods. The Company recognizes revenue on long-term contracts using the percentage of completion method, based on costs incurred relative to the estimated total contract costs. We believe that costs incurred are the best available measure of progress toward completion of these contracts. Estimated total direct contract costs is subjective and requires the use of our best judgments based upon the information we have available at that point in time. Our estimate of total direct contract costs has a direct impact on the revenue we recognize. If our current estimates of total direct contract costs turns out to be higher or lower than our previous estimates, we would have over or under recognized revenue from the previous period. We also provide for estimated losses on incomplete contracts in the period in which such losses are determined. Changes in our estimates are reflected in the period in which they are made and would affect our revenue and cost and estimated earning in excess of billings.

b) Goodwill: In fiscal 2005 the Company completed the acquisition of the net assets and business of Biocube LLC and recorded goodwill as the excess of the purchase price over the carrying value of net assets acquired. An annual impairment test was completed on the Goodwill balance in fiscal 2007. The conclusion reached was that there has not been an impairment of goodwill.

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

d) Investment tax credits: In the normal course of operations, the Company's SR&ED expense claims are subject to review by federal and provincial government authorities. Reviews of certain of the Company's SR&ED claims are incomplete at December 31, 2007 and as such amounts disclosed may be subject to change, pending the outcome of such reviews.

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

f) Bad debt expense: Management routinely reviews accounts receivable and sets up a reserve for bad debts on a customer by customer basis. This is an estimate since some of the reserved accounts may be collected and we may subsequently find that some accounts currently deemed collectible become uncollectible.

CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2007, the Company adopted 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 adoption of the new standards had no effect on the Company's financial statements as at January 1, 2007.

In December 2006, the CICA issued Handbook Section 3862, "*Financial Instruments – Disclosures*" and Section 3863, "*Financial Instruments – Presentation*". These new standards require increased disclosure of financial instruments, with particular emphasis on the risks associated with recognized and unrecognized financial instruments and how these risks are managed. In addition the CICA issued Handbook Section 1535, "*Capital Disclosures*" requiring disclosure of an entity's capital and the objectives, policies and processes of managing capital. These standards become effective for the Company on January 1, 2008.

In May 2007, the CICA issued Handbook Section 3031 "*Inventories*". The standard introduces changes to the measurement and disclosure of inventory and converges with the international accounting standards. The standard is effective for the Company for periods begining January 1, 2008. The company has not yet determined the impact the adoption of this standard will have on its financial statements.

SELECTED ANNUAL INFORMATION

	2007	2006	2005	2004
Revenue	9,469,955	12,008,313	10,712,854	9,933,594
Earnings before tax	(2,459,186)	(869,674)	588,886	1,353,389
Net earnings	(3,001,422)	(769,674)	343,886	972,097
Total assets	11,521,853	14,601,646	11,969,393	6,347,134
Long term liabilities	-	-	-	2,204,393

The 2004 comparative financial results are the unconsolidated financial results of BIOREM Technologies Inc. On January 17, 2005 the Company completed the Qualifying Transaction, which was accounted for as a Reverse Takeover by BIOREM Technologies Inc. Prior to the close of this transaction, all options, convertible debt and other rights to acquire securities in the capital of the Company were cancelled or exercised, which resulted in the long term debt being converted to equity.

As of December 31, 2007 and 2006, the Company does not have any off-balance sheet arrangements.

The following table presents the maximum number of common shares that would be outstanding if all instruments outstanding at December 31, 2007 were exercised:

Common shares currently outstanding	11,978,299
Employee stock options	1,027,000
Total	13,005,299

SUMMARY OF QUARTERLY RESULTS & 2007 FOURTH QUARTER RESULTS

CDN thousand $ except per share data	Q1		Q2		Q3		Q4		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Revenue	1,770	3,262	2,215	2,770	2,547	2,763	2,938	3,213	9,470	12,008
Gross margin	618	861	727	666	755	1,087	1,244	1,518	3,344	4,132
EBITDA	(336)	(179)	(795)	(611)	(834)	(178)	77	670	(1,888)	(298)
Net income	(375)	(200)	(736)	(596)	(1,737)	(320)	(153)	346	(3,001)	(770)
EPS	(0.03)	(0.02)	(0.06)	(0.06)	(0.15)	(0.03)	(0.01)	0.03	(0.25)	(0.07)

Revenue of $2,938,000 and gross profit of $1,244,000 in the quarter are lower than in the fourth quarter of 2006 by $275,000 and $274,000 respectively. Net loss for the quarter of $153,000 is down from net earnings of $346,000 from the prior year. The fourth quarter gross margin of 42% is an improvement over the first three quarters of 2007. Operating expenses in the quarter of $1,168,000 are up $320,000 compared to 2006, primarily due to an increased focus on research and development combined with a lower offset of investment tax credits. In addition, there was a $210,000 change from a foreign exchange gain in the fourth quarter of 2006 of $132,000 to a foreign exchange loss in the fourth quarter of 2007 of $78,000. This reflects a decrease in the value of US $ denominated net current assets.

OUTLOOK

Taking Biorem forward largely consists of balancing opportunities with resources and capitalizing on the advantages we build at every stage of development. We have and are continuously building on three core pillars: Sales Organization, Operational Skill Sets and Product Research and Development.

The business environment is generally healthy with the current economic downturn likely to have a moderate effect on 2008 business activities. However, the increasingly favourable regulatory environment, move towards green technologies and the acceptance by municipalities and engineering firms of biological air treatment as a technology of choice offset the downturn. Biorem management feels optimistic about the market opportunities of the coming years and is continuously making adjustments to the market conditions that arise. Opportunity exists in the municipal odour control market place. Biorem has over 500 installations world wide yet in North America alone there are more than 22,000 Waste Water Treatment Plants which utilize various older or inadequate forms of odour control technologies.

Strength in the sales organization is a key element in building success for Biorem beginning with a quality sales representative network across all our key geographies, both in North America and internationally. Over the past year, Biorem has rebuilt its sales organization and has invested in sales staffing to ensure strong market coverage and excellent bidding and closing skills. The early success of this series of investment decisions is demonstrated by a strong booking rate which we project will remain strong throughout 2008. Converting leads to revenue is a long cycle in the municipal market, often taking two years. Long lags occur between each step of the selling process. At Biorem we publicize backlog numbers on a regular basis as purchase orders come in for bid and won projects. However, at any given time there are a volume of projects awaiting confirmation, final negotiations and then purchase orders. As of March 25, 2008 this volume approached $10 million, the majority of which we typically expect to convert to purchase orders within two quarters.

During 2008, Biorem will be expanding its sales initiatives into certain new industrial applications where we plan to become a participant in the green house gas mitigation marketplace. In this fiscal year we expect to install several systems which will validate biofiltration technologies in these new industrial segments. Once validation data is acquired from these sites Biorem expects to make further investments into a sales organization tailored for these markets.

Our Operations group is undergoing a transition as we build our systems and capabilities to handle a greater volumes of projects. Longer sales cycles offer our Operations group a clear idea of what is approaching in terms of project size, mix and complexity. This allows time for staffing adjustments and the orderly introduction of organizational solutions. Biorem is investing in stronger information systems to improve cost management, tracking and to improve staff efficiencies that will better integrate the entire organization.

Product Research and Development investments are seen as a key element to sustain and improve our competitive position in the market. 2008 will see Biorem making significant investments in various aspects of Product Development with advanced filtration media research taking precedence. All research goals are driven by market solutions selected as offering the greatest payback for our shareholders. Key elements of our research decision making are biofiltration efficiency improvements leading to cost reduction and increases in performance. New product introductions are expected to occur in 2008 as a direct result of research work. Biorem partners with the Province of Ontario, the Federal Government, Universities and Supply Partners to leverage its R&D resources.