BIOREM Inc.

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

Introduction

This Management Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operation and financial condition. This discussion should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2010 and the accompanying notes, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This discussion is based on information available to management as of April 13th, 2011, unless otherwise indicated.

Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars.

The core business of the Company is to provide advanced technology biological filters for removal of odors, volatile organic compounds (VOCs), hazardous air pollutants (HAPs) and for the conditioning of biogas renewable energy. With over 600 installed systems and over a decade of experience, the Company's groundbreaking biofilters are the technology of choice for wastewater treatment plants across North America. Additional information about the Company, including our most recently filed Annual report, is available on SEDAR ar www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are used to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this MD&A, April 13th, 2011. 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-GAAP Measures

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

Adjusted EBITDA is used to denote earnings (loss) from operations before interest, income taxes, foreign exchange gains and losses, depreciation and amortization. Adjusted EBITDA should not be construed as

a substitute for net income determined in accordance with GAAP. This measure is important to the Company since it is used by potential investors and lenders to evaluate the ongoing cash generating capability of the Company and thus the amounts they are willing to invest and lend to the Company. A reconciliation of Adjusted EBITDA to total Company revenue and earnings from operations is contained in the MD&A when this measure is being used.

Order Bookings and Order Backlog are non-GAAP measures that the Company uses to evaluate its sales performance. Order Bookings are those binding contracts that the Company enters into with a third party for the delivery of our products or services. As Order Bookings are received, the contract value (before any associated sales taxes) is included in the Order Backlog. The Order Backlog is reduced by the revenue that is recognized on each project and is also adjusted for foreign exchange changes in the period presented.

Overview

The market for biological odor control systems remained flat throughout 2010 due to the economic downturn that exists in the United States. 2010 Revenue is largely driven from Orders taken by the Company in the 2nd half of the 2009 year leading to a lower backlog coming into 2010. The Company had anticipated a moderate increase in Orders through 2010 which occurred but a larger proportion of these orders were to be delivered in 2011 than first anticipated. This lead to the higher backlog at the end of the year but contributed to the dampened Revenues in 2010.

Key operational changes made during the year included steps taken to reduce overhead costs, creating infrastructure to increase cash balances, as well as building an international sales network to continue growing the Company going forward into 2011.

Selected Annual Information

	2010	2009	2008
Revenue	$17,360,000	$18,878,000	$14,400,000
Net Income (Loss)	(3,138,000)	(503,000)	(432,000)
Total Assets	16,058,000	15,149,000	16,928,000
Long-term Liabilities	-	2,498,000	2,287,000
Earnings per Share	(0.26)	(0.04)	(0.04)

Revenue increases from 2008 to 2009 were a result of the Company re-organizing its domestic sales structure creating more awareness of the Company's products resulting in higher revenues in 2009. Net losses in 2009 were negatively impacted by foreign exchange losses from a depreciation of the US dollar against Canadian dollar and full year interest charges from the Company's debenture in 2009 that was in place for 2 months in 2008. The total asset decrease in 2009 from 2008 was a result of the Company decreasing its accounts receivable and prepaid balances.

As outlined below revenue decreases in 2010 from 2009 are a result of the low backlog the Company began with in 2010 compared to 2009. The net loss increase in 2010 can be attributed to lower gross margins on strategic projects and adjustments to the warranty and commissioning provisions discussed below. The total asset increase in 2010 is a result of increased receivables and unbilled revenue. The long-term debt was decreased by a principal repayment of $1,000,000 in the fourth quarter of 2010. The remaining long-term debt has been classified as current as the balance is due on October 31, 2011.

Operating Results – Income Statement

Revenue	2010	2009	Percent Change
	$17,360,000	$18,878,000	-8.0%

Revenue by Geography

	2010	2009	2008
Canada	$ 6,977,000	$ 6,548,000	$ 2,110,000
United States	7,893,000	9,543,000	10,051,000
International	2,489,000	2,787,000	2,239,000
Total Revenue	$17,360,000	$18,878,000	$14,400,000

The decrease in revenue from 2009 to 2010 is partially attributed to the lower level of bookings ($17.4 million) and backlog ($10.2 million) at the end of 2009 compared to 2008. The lower bookings and backlog at the end of 2009 was attributed to the overall global economic downturn.

Consolidated sales reported in Canadian dollars were also negatively impacted as a result of the foreign exchange movements between the Canadian and US dollars. US customer revenue, as reported in Canadian dollars, decreased by 17% from 2009 to 2010. A portion of this decrease is attributable to the strengthening of the Canadain dollar against the US doillar. The average US to Canadian exchange rate for 2010 was $1.030 versus $1.145 in 2009, a decline of 10%.

The Company's standard small treatment systems revenue comprised 7.5% of revenue in 2010 compared to 14.8% in 2009. Revenue from standard small treatment systems was lower than in the previous year and the 2010 decrease contributed to the decrease in the revenue for the Company as a whole. The 2010 revenue for this product was more in line with historical norms.

Gross Margin	2010	2009	Percent Change
	29%	40%	-33.8%

The Company's gross margin percentage is impacted by two main factors: direct material and the Operations Department expenses. The direct material expenses are costs incurred to make the Company's products. The Operations Department costs relate primarily to departmental salaries for those employees who are responsible for both project and supply chain management. These costs are generally fixed from period-to-period and as a result can impact the overall gross margin percentage.

Gross margin for 2010 was 29% compared to 40% in 2009. The decrease in 2010 gross margin versus 2009 can be attributed to two main factors. The first main factor includes the acceptance of 3 revenue projects in 2010 that were strategically accepted at lower gross margins; one of which was an investment of a demonstration project so the Company could gain entry into the Biogas Sweetening Market. The second factor contributing to the lower gross margin in 2010 was the change in estimate related to the calculation of the warranty and commissioning provision. The revised estimate has taken into account updated historical experience rates as well as the inclusion of additional indirect and direct costs relating to items such as travel and internal labour which were previously not factored into the warranty estimate. Management believes that the revised methodology provides a better estimate of the warranty and commissioning costs. The additional provision in the fourth quarter of 2010 resulted in a 3% reduction in the annual gross margin percentage.

Adjusted EBITDA	2010	2009	Percent Change
	$(1,544,000)	$1,387,000	-211.4%

The decrease in 2010 Adjusted EBITDA versus 2009 was primarily the result the of lower Gross Margin earned in 2010 of $2,503,951 due to both lower sales and the negative impact on Gross Margins discussed above and an increase in net research and development expenses of $305,187. A reconciliation of adjusted EBITDA to net income is provided below.

Reconciliation of Adjusted EBITDA to Net Income

	2010	2009
Net income (loss)	(3,137,781)	(502,838)
Add (deduct)		
Amortization of long-term assets	585,682	476,339
Loss on foreign exchange	33,060	808,829
Accretion of deferred financing and warrant costs	334,901	211,036
Interest expense	390,055	393,227
Write down of investment tax credit asset	250,000	-
Adjusted EBITDA	(1,544,083)	1,386,593

Sales and Marketing	2010	2009	Percent Change
	$3,561,000	$3,620,000	-1.6%

The Company's Sales and Marketing expenditures are composed of two significant categories; variable selling costs and Sales Department expenditures.

Variable selling costs represent amounts that are paid to both internal sales employees and external manufacturer representatives. These costs are incurred when the project revenue is recognized during the period. Sales Department expenditures relate primarily to departmental salaries and advertising expenses.

During 2010 the Company increased its sales support for growth initiatives in the Biogas Sweetening, VOC and International markets through the employment of two additional sales staff, one specializing in international markets, the other specializing in industrial applications. Also as part of the Company's growth strategy a significant investment was also made in establishing the Company's formal structure in the Chinese market.

Research and Development	2010	2009	Percent Change
	$1,759,000	$1,192,000	47.6%

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

The primary reason for the increase in research and development year over year was due to the Company significantly focusing on research into proprietary technology for use in Biogas Sweetening and VOC applications which were identified as targeted growth markets under the Company's diversification plan. These investments were partially funded through government assistance programs.

Government Assistance	2010	2009	Percent Change
	$(1,134,000)	$(995,000)	13.9%

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

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

General and Administrative	2010	2009	Percent Change
	$2,260,000	$2,153,000	4.9%

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

During the year the increase in general and administrative can be attributed to the Company increasing its allowance for doubtful accounts provision. All other expenditures in aggregate remained flat year over year.

Liquidity

Cash decreased by $3.2 million to $0.8 million as at December 31, 2010 from $4.0 million as at December 31, 2009. The majority of the Company's cash is denominated in US dollars as at December 31, 2010.

A comparison of cash is outlined below:

Cash	2010	2009	Percent Change
	$831,000	$4,031,000	-79.4%

The decrease in cash is primarily due to net cash outflows from operating activities and financing as follows:

	2010	2009
Cash provided by (used in) operations	$(1,857,163)	$2,123,311
Cash used in investing activities	(342,308)	(291,784)
Cash used in financing activities	(1,000,000)	-
Net Increase (Decrease) in cash	$(3,199,471)	2,199,287

Cash used in operations

Cash flow used in operations was $1.9 million for fiscal 2010 and was primarily the result of the Company's net loss for the year. Increases in the accounts receivable balance of $5.0 million in 2010 (2009 - $2.9 million) and Unbilled Revenue of $4.6 million (2009 – $2.3 million) were a result of the Company's fourth quarter year over year revenue increase and the timing of the equipment delivery within

the quarter. Management anticipates converting these receivables and unbilled revenue amounts to cash in order to fund operations in 2011. As the Company manages cash inflows from Accounts Receivable and Unbilled Revenue to cash outflows, a rise in these asset balances will also give rise to increases in Accounts Payables and Accrued Liabilities. Due to the fourth quarter year over year revenue increase, this correspondingly increased the Company's Accounts Payable balance to $3.8 million (2009 -$1.6 million) and Accrued Liabilities of $3.8 million (2009 - $2.2 million) as of December 31, 2010.

Cash used in investing activities

During the year the Company used $0.3 million in investing activities associated with its research and development activities to generate Biogas Sweetening and VOC pilots.

Cash used in financing activities

During the year the Company used $1.0 million to pay a portion of the outstanding balance of its debenture liability. On October 31, 2011 the Company will be required to pay the outstanding balance of this debenture in the amount of $2.0 million. The Company intends to use cash from operations and other sources of debt as needed to pay this outstanding balance at the time the debenture comes due.

Capital Resources

Management has increased its focus to manage the balance sheet to improve its cash position and believes there is adequate capital and alternate sources of funding to support the Company as needed. The Company also will continue to receive funds from Innovation and Demonstration Funding for its research and development activities.

Bookings and Backlog

Bookings	2010	2009	Percent Change
	$19,712,000	$16,176,000	21.9%

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

Bookings in 2010 increased 22.3% year-over-year as a result of the improving economic conditions and the increased Municipal spending in 2010 resulting from the delayed stimulus spending by Municipalities in the last half of 2009.

Backlog	2010	2009	Percent Change
	$12,147,000	$10,187,000	19.2%

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

The Company has increased its Backlog by 17.7% year over year versus December 31, 2009 due to a strong year of Bookings. Due to customer scheduling, the Company cannot provide guidance as to the quarters when the Backlog will be converted into revenue. However, Management's current estimate is that the majority of the Backlog will be realized into revenue by the end of fiscal 2011.

Summary of Quarterly Results

CDN thousand $ (prior years adjusted)	2010				2009			
Except share data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	4,603	4,948	4,560	3,248	4,252	4,910	5,678	4,038
Gross Margin	919	1,816	1,202	1,147	1,608	2,348	2,326	1,306
EBITDA	(858)	122	(323)	(485)	(2)	959	457	(27)
Net Income	(1,526)	(205)	(514)	(892)	(360)	520	(238)	(425)
EPS	(0.13)	(0.02)	(0.04)	(0.07)	(0.04)	0.04	(0.02)	(0.04)

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

Fourth Quarter 2010

The net loss in Q4, 2010 was negatively impacted by an increase in our allowance for bad debts and the following non-cash items; the increase in the warranty and commissioning provisions due to the change in estimate, a partial write-down of the deferred financing costs in connection with the debt repayment and the write down of the investment tax credit asset.

During the fourth quarter of 2010 the Company changed the estimate related to the calculation of the warranty and commissioning provisions. This revised estimate has taken into account historical rates as well as the inclusion of additional indirect and direct costs previously not included in the estimate.

Financial Instruments

The Company has two foreign exchange forward contracts to sell $250,000 of CD dollars at a fixed rate on December 31, 2010 to further mitigate its foreign currency risk.

Commitments

Commitments include operating leases for office equipment and facilities, bank guarantees, and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Aside from the aforementioned, we do not have any other business arrangements or any equity interests in unconsolidated companies that would have a significant effect on our assets and liabilities as at December 31, 2010.

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 does not have any material related party transactions during the nine months ended December 31, 2010.

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, 2010. 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, 2010 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known by them.

Additionally, the CEO and CFO, together with other members of management, have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports in accordance with GAAP.

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

Significant Accounting Policies and Estimates

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

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

b) 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 2010. The conclusion reached was that there has not been an impairment of goodwill under Canadian GAAP (See “International Financial Reporting Standards” section below).

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 the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax assets, projected future taxable income and tax planning strategies in making this assessment. Management has recorded a full valuation allowance related to its future tax assets. The amount of future tax asset could change materially in the near term based on future taxable income during the carry forward period.

d) Investment tax credits: In the normal course of operations, the Company’s 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, 2010 and as such, amounts disclosed may be subject to change, pending the outcome of such reviews.

   Warranty obligations: Management routinely assesses and adjusts for its anticipated warranty costs based on experience and estimates of the potential warranty obligations for its installations.

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

f) Intangible assets: We also review the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. Any change in estimate which causes the undiscounted expected future cash flows to be less than the carrying value, would result in an impairment loss being recognized equal to the amount by which the carrying value of the asset exceeds the fair value of the asset.

Outlook

During 2010 Biorem focused on streamlining internal business processes which has brought the Company into 2011 with a reduced cost structure. The Company will continue to find internal efficiencies in 2011 towards improving its financial results.

Our markets are regaining strength with China committed to environmental improvements, growth in our international sales capacity and the emergence of Biogas as a legitamite market niche. Our first Biogas unit was installed in 2010 and our top tier representative network is trained and is building a sales pipeline.

In China, Biorem recently completed the registration process of its Wholly Owned Foreign Enterprise (WOFE) which now allows the company to accept purchase order contracts in local currency and to enter into supplier contracts with domestic companies thereby significantly reducing product cost structure. This increases in-country competitiveness substantially and multiplies the number of commercial opportunities Biorem can compete for. Biorem has now completed 14 projects in China and continues to expand its sales channels within the country.

In 2009 we launched the SK series of packaged low cfm Odor Control systems. Over the past year sales and market acceptance has been building and we anticipate growing orders throughout the coming year for this cost effective technology.

Internationally, we continue to incrementally build out the sales and distribution channels into markets where opportunity exists. In 2010, we added sales representation in Australia, Middle East and new areas in South America. Opening key international opportunities will assist the Company with the anticipated challenging US market in 2011.

Research and Development activities continue to yield significant technology for commercialization. A key priority in 2011 will be the introduction to the market of the VOC emissions technology solutions. Our full scale demonstration site, being supported by funding from the Province of Ontario under the Innovation and Demonstration Funding program will be installed and operational in Q2, 2011 for validation and final design development.

Biorem is optimistic about the prospects for 2011. We continue to anticipate that the US market will remain a challenge, however our competitive position remains excellent, our product performance remains the leader in the industry and our focused staff are fully capable of delivering improved financial results for our shareholders in 2011.

Risks and Uncertainties

Sales Cycle

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

Backlog

As of December 31, 2010 the Company's backlog was $12,593,000. However, the revenue projected in our backlog may not be realized or, if realized, may not result in profits. Projects remain in backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur from time to time with respect to contracts reflected in our backlog. Cancellation or delay of contracts may have a material adverse effect on our financial status.

Delays or Defaults in customer payments affecting liquidity

Due to the nature of our contracts, at times we commit resources to projects prior to receiving payments from our customers in amounts sufficient to cover expenditures as they are incurred. Delays in customer payments may require us to make a working capital investment. If a customer defaults in making payments on a project to which we have devoted significant resources, it could have a material negative effect on our liquidity as well as the results from operations. To date, the Company has not had any significant bad debts in which a total write-off for an accounts receivable was necessary.

Reputation

The reputation of the Company's technical expertise, high level of service and the lower life cycle cost of our products is one of our most valuable business development assets. The loss of this reputation due to client dissatisfaction represents 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.

Patents and Proprietary Right

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

Dependence on Subcontractors

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

Product Liability

If there are defects in our systems or if significant reliability, quality or performance problems develop with respect to our systems, there may be a number of negative effects on our business. The Company carries product liability insurance, which includes coverage for sudden or accidental pollution impact. It is

possible that a customers' inability to comply with applicable pollution control laws or regulations stemming from failure or non-performance of the Company's products or systems may subject the Company to liability for any fines imposed upon such customer by regulatory authority or for damages asserted to have been incurred by any third party adversely affected.

Competition

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

Fixed Price Contracts may result in losses

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

Foreign Exchange

The Company is subject to risk of exchange rate fluctuations related to anticipated revenues, sales order backlog and existing assets and liabilities denominated in currencies other than Canadian dollars. At December 31, 2010, the Company holds 2 contracts to sell CD, one contract to sell CD $150,000 at an exchange rate of 1.011 and one contract to sell CD $100,000 at an exchange rate of 1.0125. As at December 31, 2010, the exchange rate was 0.9946.

Stock Trading Volume is low

The monthly average trading volume of the BIOREM common shares on the Toronto Venture Exchange was 172,000 shares in 2010. Due to the low trading volume the price of the common shares could be subject to wide price fluctuations in response to business development announcements, competitors, quarterly variations in operating results, and other events or factors.

Risk to Product Development

Substantial corporate resources are currently being expended on the development of the new media technologies. These technologies are constantly in development and have not yet been fully commercialized. There can be no guarantee that the new media technology will achieve the performance criteria which the Company believes is necessary for it to be a successful product in the market. In addition, there are risks associated with commercializing any product including the risk that full scale production may not be achieved at an acceptable cost level. Failure to successfully commercialize the new media technologies may materially and adversely affect the Company's financial condition and results of operations.

Acceptance of new products by the Market

Market risk exists for new products such as the new media. There is no assurance that new products will be accepted by the market, that desired volumes will be realized over the product life or that the product

life will not be shorter than expected due to product obsolescence. New products that are launched by the Company's competitors may also have price or other advantages over the Company's products. In addition, new product offerings may also require more significant marketing and sales efforts to gain market acceptance.

Dependency on key personnel

The success of the Company is dependent upon the attraction and retention of highly skilled personnel in a number of key areas including management positions. The unexpected loss or departure of any of the Company's key officers or employees could have a material adverse effect on the future operations of the Company. The success of the Company's business will depend, in part, upon the Company's ability to attract and retain qualified personnel as they are needed. There can be no assurance that the Company will be able to engage the services of such personnel or retain its current personnel.

International Financial Reporting Standards ("IFRS")

Background, project structure and project progress

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

The Company has completed the assessment phase of its conversion project for all standards that affect the transition. As part of this assessment phase, the Company developed an education program to ensure that the Audit Committee and Board of Directors of the Company were sufficiently knowledgeable about IFRS and the impact upon transition from Canadian GAAP. Education of management's accounting policy choices under IFRS has occurred throughout the year and will continue to be communicated until the implementation of IFRS is complete. To date, the project is progressing according to plan.

Potential accounting changes as a result of IFRS and the Company's Progress

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

- **Impairment of Goodwill** – IFRS requires an entity to recognize an impairment charge if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value-in-use, is less than its carrying value. IFRS requires that Goodwill be tested at the level of the cash generating unit, which is the lowest level grouping of assets that generate largely independent cash flows. In some cases, this requirement could result in the identification of impairment under IFRS for assets that were not considered impaired under Canadian GAAP.

The Company chose to use the value-in-use methodology for calculating Goodwill Impairment since there is no active market in which the Company can trade its Goodwill. This value-in-use calculation under IFRS requires Management estimates to predict future cash flows and determine discount rates to calculate the net present value of these cash flows. After the present value calculations are completed, Goodwill is evaluated for impairment.

The Company completed its analysis of Goodwill Impairment upon transition in the fourth quarter of 2010. Due to the requirement to assess impairment at a more granular level under IFRS (cash generating unit) as compared to Canadian GAAP (reporting unit which is one level below an operating segment), the effect upon transition from Canadian GAAP to IFRS will be that the entire Goodwill amount of $1,428,000 will be impaired at the time of transition and will therefore be an adjustment to the opening retained earnings upon transition.

- **IFRS 2 Share-Based Transactions** – IFRS and Canadian GAAP largely converge on the accounting treatment for share-based transactions with only a few differences. Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. IFRS requires companies to follow the accelerated method of amortization with no option to amortize under a straight line method for this expense. Also under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur. The Company will begin using the estimate of forfeitures starting January 1, 2010 when determining the number of equity instruments expected to vest.

  The Company has completed the necessary analysis with respect to the transition from the straight-line method to the accelerated amortization method under IFRS. It has been determined that the adjustment needed from Canadian GAAP to IFRS will not be significant.

- **IFRS 21 The Effects of Changes in Foreign Exchange Rates** - Under IFRS, there are various indicators to be considered in determining the appropriate functional currency of an entity and its subsidiaries. When the indicators are mixed and the functional currency is not obvious, priority should be given to indicators that have a greater weighting, such as primary indicators including the currency that most influences sales prices, the currency of the market in which the goods are sold, and the currency that mainly influences expenses. Canadian GAAP has similar indicators as IFRS in determining functional currency. However, Canadian GAAP does not have a defined hierarchy of indicators under which certain indicators are given priority.

  Based on our analysis of the functional currency under IFRS, the functional currency of the Company's foreign subsidiary will change from Canadian dollars to US dollars. The Company is currently assessing the impact this change will have on its translational opening balance sheet.

Accounting changes adopted by the Company on Transition to IFRS

During the year the Company had finished its analysis and has decided to adopt the following accounting standards upon transition to IFRS. A general discussion of these standards and implications to the Company are summarized below. As well, additional differences may be identified based on further detailed analysis or as a result of changes to IFRS after January 1, 2011.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards" – The Company has decided to elect the following optional exemptions:

- Business Combinations – At the date of transition to IFRS the Company may elect to not apply IFRS 3 retrospectively to business combinations that occurred before January 1, 2010 and may carry its previous accounting for business combinations that occurred prior to that date. The Company has elected to take this election upon transition to IFRS.
- Fair value as deemed cost – At the date of transition to IFRS the Company may elect to measure an item of plant and equipment at its fair value and use the fair value as its deemed cost at that date, instead of actual cost. This option can be applied on an asset-by-asset basis. The Company has determined the carrying value of the assets listed on the balance sheet accurately depict the true value of the asset and that this election will not be taken upon transition to IFRS.
- Share-based payment transactions – At the date of transition the Company need not apply the requirements of IFRS 2 to equity instruments that were granted after November 7th, 2002 and that had vested before the date of transition. The Company will be using this election for its current stock options while applying IFRS 2 to stock options issued after January 1, 2008.

Accounting Policies chosen upon transition to IFRS

Revenue recognition – The Company predominately recognizes revenue using the percent complete method under Canadian GAAP. This accounting policy is in line with requirements under IFRS and the Company will be choosing the same policy upon transition. This will result in no change from the Company's Canadian GAAP statements to IFRS and no adjustment through retained earnings will be recorded.

Functional Currency – Upon transition to IFRS companies are required to evaluate their functional currency for presentation purposes and whether or not the functional currency used under Canadian GAAP is still applicable. After an analysis based on sales, direct materials, labour and financing, Management had determined that the dominating currency for the Company was Canadian dollars and therefore the presentation currency will not change..

Plant & Equipment – Listed below are the impacts of plant and equipment upon transition to IFRS from Canadian GAAP:

- Under IFRS companies have the option to value their tangible capital assets at either historical cost less amortization or by adjusting capital asset values up or down with fair market value changes. The Company has concluded that revaluing the Company's assets at each reporting period will not differ significantly from the historical costs of those said assets. Therefore the Company will be choosing the historical cost method in valuing its fixed assets upon transition to IFRS.

- Under IFRS companies must break down their tangible capital assets to basic components and account for these component assets separately on the Balance Sheet. It has been determined through analysis that the impact of breaking down assets into major components is minimal as outlined in IFRS standards. Therefore the Company will not be componentizing any of its assets

as the impact of doing so will not provide additional information to the users of our financial statements. The Company will continue to evaluate this on a prospective basis.

- Under IFRS companies must evaluate the residual value of its assets at the end of each reporting date. The Company has determined that each of its assets will be used to its fullest economic life and that the residual value of the asset will close to or equal to zero. Therefore the residual value of each of the Company's group of assets is zero for the purposes of amortizing the asset. Should the impact of changing a residual value from zero be indentified to provide additional information to the users of our financial statements; the Company will then re-evaluate this methodology of assigning residual values.

- Under IFRS companies must capitalize borrowing costs on qualifying self-constructed assets and these borrowing costs must become part of the initial cost of the asset. The Company has determined that its definition of a qualifying self-constructed asset is any asset where the time frame it takes to construct the asset is more than one year. At this time the Company does not have qualifying self-constructed assets.

Impact on information systems and technology

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

Impact on internal controls

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