

For the Year Ended December 31, 2013

Introduction

This Management Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. This discussion should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2013 and the accompanying notes, which are prepared in accordance with International Financial Reporting Standards or "IFRS". This discussion is based on information available to management as of April 2, 2014, unless otherwise indicated.

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

The core business of the Company is to provide advanced technology biological filters for removal of odors, volatile organic compounds (VOCs) and hazardous air pollutants (HAPs) and for the conditioning of biogas renewable energy. With over 800 installed systems and over a decade of experience, the Company's groundbreaking biofilters are the technology of choice for wastewater treatment plants across North America. Additional information about the Company, including our most recently filed Annual report, is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are used to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances.

Non-IFRS Measures

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

EBITDA is used to denote earnings (loss) from operations before interest, income taxes, foreign exchange gains and losses, depreciation and amortization. Adjusted EBITDA, which includes additional adjustments for any gains or losses on re-measurements of debentures, should not be construed as a substitute for net earnings determined in accordance with IFRS. These measures are important to the Company since they are used by potential investors and lenders to evaluate the ongoing cash generating capability of the Company and thus the amounts they are willing to invest and lend to the Company. A reconciliation of Adjusted EBITDA to total Company earnings is contained in the MD&A when this measure is being used.

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

Overview

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

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

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

The Company has more than 800 installed systems worldwide.

Significant Events For The Year

Key events of note in 2013 include the following;

- The Company focused on maintaining a consistent positive EBITDA and achieved this in all four quarters with an EBITDA exceeding \$1.7 million for the year.
- Gross profit as a percentage of revenue increased successively in all four quarters during the year.
- Three of the Company's quarters had positive net earnings with net earnings for the year totaling \$718,000.
- Significant progress was made through research and development activities in developing the Company's next generation of biological filter media.
- Order Bookings for the year totaled \$13.8 million and Order Backlog stood at \$10 million on December 31, 2013.
- The Company recruited two key staff additions in Q1. The first being an experienced Manager to work with our existing team and help lead our China activities and the second an experienced Business Development Manager to help grow our sales pipeline to support future growth. These staff investments are key to underpinning the Company's growth and profitability objectives.

Selected Annual Information

	2013	2012	2011
Revenue	\$19,596,000	\$15,418,000	\$12,045,000
Net earnings (loss)	718,000	(830,000)	(3,369,000)
Total Assets	8,910,000	9,780,000	10,368,000
Current portion LTD	3,548,000	1,220,000	1,750,000
Long-Term Debt (LTD)	-	2,368,000	-
Earnings(loss)per share – basic	.06	(0.07)	(0.28)
- diluted	.03	(0.07)	(0.28)

In 2013 the Company achieved a 27% increase in revenues over 2012 and a 69.8% increase in gross profit over 2012.

Operating Results

Revenue	2013	2012	Percent Change
		\$19,596,000	\$15,418,000

Revenue by Geography

	2013	2012	2011
Canada	\$7,727,000	\$3,399,000	\$ 3,536,000
United States	7,402,000	7,240,000	6,903,000
China	977,000	1,062,000	335,000
Other international	3,490,000	3,717,000	1,271,000
Total Revenue	\$19,596,000	\$15,418,000	\$12,045,000

Biorem's core market is the North American municipal odour control market with international distribution established in China, Middle East, Americas and South Africa as well as opportunistically in other jurisdictions. Project delivery mix varies from period to period, however overall the Company relies heavily on the American and Canadian markets to generate revenue. The geographic mix in the current Order Backlog of the Company is consistent with the geographic mix shown in the above table for 2013.

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

Revenue increased by 27.0% or \$4,178,000 in 2013 over 2012 as a result of the large Order Backlog at the beginning of the year. The revenue increase was virtually all attributable to construction contracts in Canada. \$852,000 of revenue was from a Biogas project booked in 2013, \$894,000 was from an industrial application of the Company's odour control systems booked in 2012 and \$3.6 million of revenue came from three large municipal projects in Ontario that had been booked prior to 2013. Revenues derived in the United States, China and other international locations were largely unchanged at \$11.9 million compared to \$12.0 million in 2012. Fifty percent of 2013 revenues came from eight customers while in 2012 two customers accounted for 12% of total revenues.

Order Bookings	2013	2012	Percent Change
		\$13,805,000	\$18,878,000

Order Bookings can vary considerably from period to period, due to both the size of the contracts won and the timing of the awarding of the contracts. Bookings in 2012 included a \$2.8 million order that was removed from the Company's Order Backlog in 2013 due to the termination of the order as a result of unsuccessful renegotiations of payment terms with the international customer. Municipalities continue to experience tight capital expenditure budgets and are delaying or deferring some capital projects resulting in fewer projects bid in Biorem's core business segment. Bookings were also lower in 2013 compared to the prior year as several large pending contracts were delayed into 2014 by the end user.

Order Backlog	2013	2012	Percent Change
	\$9,969,000	\$17,767,000	(43.9)

The Company's Order Backlog at December 31, 2013 decreased by \$7.8 million to \$10 million from the same measurement date a year ago. Order Backlog can vary significantly from period to period both due to the timing of the receipt of contracts and due to the completion date of the projects under contract. The decrease in Order Backlog at December 31, 2013 is due to fewer projects bid and won in 2013 and due to the awarding of several large contracts being delayed into 2014. As well, a \$2.8 million order booked in 2012 was removed from the Order Backlog in 2013 because agreement could not be reached over payment terms. Due to customer scheduling, the Company cannot provide guidance as to the quarters when the Order Backlog will be converted into revenue. However, Management's current estimate is that the majority of the Order Backlog at December 31, 2013 will be realized as revenue by the end of fiscal 2014.

Gross Profit	2013	2012	Percent Change
	\$5,866,000	\$3,495,000	67.8

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

Gross profit of \$5.9 million in 2013 was \$2.4 million greater than the gross profit recorded in 2012. As a percentage of revenue, gross profit in 2013 was 29.8% compared to 22.7% in 2012. Of the \$2.4 million increase in gross profit in 2013, \$1.5 million was attributable to the increase in project work completed during 2013 and \$940,000 was attributable to the increase in average gross profit percentage realized on project revenue. These increases in gross profit were partly offset by an increase of \$112,000 in project management and engineering costs. Project management and engineering costs represented 11.2% of revenue in 2013 compared to 13.6% in 2012. The increase in average gross profit percentage on projects was achieved through a number of the Company's recent initiatives, including better and more efficient sourcing of components and media, tighter project management and a better pricing model for the higher value add components of the projects completed

Adjusted EBITDA	2013	2012	Percent Change
	\$1,734,000	\$157,000	1004%

The \$1,577,000 increase in 2013 Adjusted EBITDA versus 2012 was primarily the result of a higher gross profit earned in 2013 of \$5.9 million compared to \$3.5 million in 2012. This increase in gross profit was partially offset by an increase in general and administrative expenses of \$471,000, an increase of \$243,000 in sales and marketing expenses and a reduction of

government assistance of \$215,000.(see below for explanation of changes in sales and marketing, general and administration expenses and government assistance) A reconciliation of Adjusted EBITDA to net earnings (loss) is provided below.

Reconciliation of Adjusted EBITDA to net earnings (loss)

	2013	2012
Net earnings (loss)	\$718,000	\$(830,000)
Add (deduct)		
Depreciation and amortization	408,000	523,000
Loss (gain) on foreign exchange	21,000	11,000
Interest expense	587,000	453,000
Adjusted EBITDA	1,734,000	157,000

Sales and Marketing	2013	2012	Percent Change
	\$1,846,000	\$1,602,000	15.2

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

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

Total sales and marketing costs in 2013 were \$244,000 above the amount incurred in 2012 almost entirely due to the increased commission expense on the increased revenues in 2013. Commission expense in 2013 was \$1.0 million and \$787,000 in 2012. Travel and accommodation expenses were \$50,000 higher in 2013 than 2012 due to the increased activities of the sales and marketing team.

Fixed sales and marketing expenses remained unchanged in 2013 over 2012 resulting in total sales and marketing expenses as a percentage of revenue at 8.3% compared to 9.1% of revenue in 2012.

Research and Development	2013	2012	Percent Change
	\$587,000	\$803,000	(23.9)

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

Research and Development activities into Biorem's next generation of odour control technology continued in 2013 and significant progress was made. The \$216,000 reduction in research and development expenses in 2013 compared to 2012 was primarily the result of an \$82,000 reduction in pilot plant operations and a reduction of \$100,000 in depreciation of pilot plants compared to 2012.

Government Assistance	2013	2012	Percent Change
	\$88,000	\$287,000	(69.3)

Government Assistance is used to help fund the Company's Research and Development expenses. The Government Assistance relates to several programs which are offered by the Canadian Federal and Ontario Provincial governments. The assistance from these programs can fluctuate on a yearly basis depending on the activity that takes place during the year and the terms of the assistance programs.

The Company is eligible for investment tax credits under the Scientific Research and Experimental Development program at each taxation year end and records the refundable portion of the tax credits as amounts recoverable during each period. Management uses its past experience when preparing the estimated amounts recoverable and the scientific research and experimental development credits recovered in the past have been consistent with those previously claimed. During 2013 the Canada Revenue Agency reassessed the Company's 2009 and 2010 claims for qualifying expenditures for scientific and experimental development investment tax credits. The reassessment resulted in certain expenditures being disallowed and as a result \$92,027 of investment tax credits previously recognized as other income was repaid in 2013. In addition, during the year the Company's 2011 and 2012 claims were processed, and \$64,539 of investment tax credits previously recognized as recoverable were reversed as an expense through other income.

The Company has been approved for financial assistance in the form of forgivable loans with the Ministry of Research and Innovation. In 2013 the Company has recorded \$126,499 (2012-\$136,532) related to a forgivable loan to support the Company's development and demonstration of a potential long-term solution for the treatment of volatile organic compounds.

The Company has been approved for funding through the Industrial Research Assistance Program (IRAP). The funding is to support the Company's research into advanced biological technologies for the control of odour and volatile organic compounds. The Company receives contributions of 50% of the eligible costs. The Company has recorded \$102,841 as other income during the year (2012 - \$140,711).

General and Administration	2013	2012	Percent Change
	\$2,196,000	\$1,740,000	26.1

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

The \$456,000 increase in general and administration expenses in 2013 compared to 2012 reflects a \$82,000 decrease in general and administration expenses for the North American operations and a \$539,000 increase in expenses related to the Company's China operations.

North American general and administration expenses were lower due to the collection of an accounts receivable of \$196,000 that had in prior years been provided for as a doubtful account. This recovery was partially offset by an increase in wages and severance costs of \$171,000.

General and administration expenses in the Company's China operations were impacted by the recording of a provision of \$414,000 against several project accounts receivable that management believes may prove to be uncollectible. As well, during the year the Company hired a full time general manager for the China operations and this resulted in an additional \$125,000 of administrative costs incurred during 2013 compared to 2012.

Summary of Quarterly Results

Thousands \$ Except share data	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	5,121	5,281	5,009	4,185	4,386	4,892	2,873	3,267
Gross profit	1,703	1,579	1,484	1,100	1,539	1,318	489	380
Net earnings (loss)	213	282	254	(31)	315	77	(680)	(544)
EPS (loss) - basic	0.02	0.02	0.02	0.00	0.02	0.01	(0.06)	(0.04)
EPS (loss) - diluted	0.01	0.01	0.01	0.00	0.02	0.01	(0.06)	(0.04)

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

Fourth Quarter 2013

Revenue in the fourth quarter of 2013 was \$5.1 million compared to \$4.3 million in the fourth quarter of 2012. The increase in fourth quarter 2013 revenue was attributable to the Company's strong backlog at the beginning of the quarter as compared to the backlog at the beginning of the fourth quarter in 2012 and improved operating effectiveness that allowed the completion of more projects in the fourth quarter 2013 compared to the fourth quarter 2012.

The gross profit amount and gross profit percentage has improved in each of the four consecutive quarters of 2013 as compared to each immediately preceding quarter.

Gross profit for the quarter ended December 31, 2013 was 33.3% compared to 29.9 % for the previous quarter ended September 30, 2013 and 35.1% for the three months ended December 31, 2012. The higher gross profit recorded during the fourth quarter compared to the third

quarter was due to improved operational efficiencies within the Company and to the completion of projects with higher gross profits.

The fixed component of cost of goods sold which includes engineering and project management costs has averaged \$540,000 per quarter, over the last four quarters. The cost of engineering and project management recorded during the fourth quarter of 2013 was \$20,000 higher than the average due to an extra pay period in the quarter compared to an average quarter.

The net earnings of \$213,000 for the fourth quarter of 2013 included a charge of \$414,000 to increase the allowance for doubtful accounts and a provision for related unbilled revenue due to management's concerns over collectability of certain accounts receivable as noted previously.

Liquidity

2013 Cash flow

Cash and cash equivalents	2013	2012	Percent Change
	\$1,640,000	\$1,501,000	9.3

Cash and cash equivalents increased by \$139,000 to \$1.6 million as at December 31, 2013 from \$1.5 million as at December 31, 2012. Approximately 50% of the Company's cash is denominated in US dollars as at December 31, 2013 compared to approximately 90% at December 31, 2012. The difference in US dollars held at December 31, 2013 compared to December 31, 2012 is due to the lower percentage of \$US denominated contracts completed in the latter half of 2013 compared to the latter half of 2012.

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

	2013	2012
Cash provided by (used in) operating activities	\$733,000	(\$530,000)
Cash provided by used in investing activities	(6,000)	549,000
Cash provided by (used in) financing activities	(655,000)	1,010,000
Foreign exchange gain(loss) on foreign cash	67,000	(52,000)
Net increase (decrease) in cash	\$139,000	\$977,000

Cash provided by (used in) operating activities – During 2013, operating activities before changes in non-cash operating working capital provided \$1.8 million in cash compared to only \$195,000 in 2012. Non-cash operating working capital provided an additional \$733,000 of cash compared to a \$530,000 use of cash in 2012. A reduction in inventory levels provided \$747,000 of cash from operating activities and a reduction in accounts receivable contributed a further \$164,000 in cash from operating activities. These operating sources of cash were offset by cash used to fund an increase in unbilled revenue of \$451,000, and a decrease in accounts payable and accrued liabilities and provision of \$539,000 and \$172,000 respectively.

Cash provided by (used in) investing activities - During 2013 the Company used \$26,000 to purchase equipment compared to \$6,000 used to purchase equipment in 2012. \$20,000 was

received from the sale of equipment that had been used in research and development activities. In 2012 \$555,000 of cash was provided by the expiry of a letter of credit that had been provided as security for a performance bond on a construction contract.

Cash provided by (used in) financing activities -

During the year, the Company used \$380,000 to pay a portion of the outstanding balance of the debenture compared to a repayment of \$240,000 in 2012.

During the year ended December 31, 2013 the Company used \$275,000 to pay interest on the debentures, compared to a \$288,000 interest payment in 2012.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business including proposals on major investments. The Company manages liquidity risk by maintaining adequate capital, by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company's objectives of managing liquidity risk are to forecast the liquidity position as accurately as possible and to maintain sufficient resources to pursue its growth strategy. The Company's liabilities include accounts payable and accrued liabilities, and unearned revenue as well as long and short term debt.

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

	2013	2012
Cash	\$1,640,000	\$1,501,000
Restricted cash	997,000	997,000
Working capital	274,000	1,420,000
Current portion long term debt	3,548,000	1,220,000
Net current assets (liabilities)	\$274,000	\$1,420,000

At December 31, 2013, restricted cash includes \$500,000 in cash which has been deposited as collateral for a letter of credit issued to an insurance company under the terms of a performance bond and US\$97,000 for a letter of credit issued to a customer for a performance guarantee. Restricted cash is not available for general use by the Company.

The Company is subject to a debt covenant in connection with its 12.75% debenture, as described in note 17 to the consolidated financial statements, which requires the Company to maintain an unrestricted cash balance of \$400,000 at the end of each quarter. Given this amount is required to be on hand and otherwise unencumbered at each reporting period, the Company has presented this amount within restricted cash.

The decrease in working capital is primarily because all of the Company's long-term debt is due between May and August 2014. Management expects that the long-term debt will be refinanced through, other sources of financing, revised payment terms and extension of the maturity dates of the debt, or other methods. However there is no certainty that the long-term debt will be refinanced or refinanced at terms that are acceptable to the Company. The uncertainty related to the refinancing of the long-term debt may cast doubt about the appropriateness of the use of the going concern assumption. (see note 2. a) to the consolidated financial statements.)

A maturity analysis as at December 31, 2013 of the Company's financial liabilities based on gross, undiscounted cash flows is presented below. The maturity analysis is based on the earliest date that liabilities may be due.

	Carrying Amount	Contractual Cash Flow	Less than 1 month	1-3 months	3 months to 1 year	1+ years	Total
	\$	\$	\$	\$	\$	\$	\$
2013							
Accounts payable	2,377,708	2,377,708	2,377,708	-	-	-	2,377,708
Accrued liabilities	851,785	851,785	851,785	-	-	-	851,785
Current portion LTD	3,548,343	3,833,229	-	51,956	3,781,273	-	3,833,229
Long term debt	-	-	-	-	-	-	-
	<u>6,777,836</u>	<u>7,062,722</u>	<u>3,229,493</u>	<u>51,956</u>	<u>3,781,273</u>	<u>-</u>	<u>7,062,722</u>
2012							
Accounts payable	2,916,624	2,916,624	2,916,624	-	-	-	2,916,624
Accrued liabilities	1,024,184	1,024,184	1,024,184	-	-	-	1,024,184
Current portion LTD	1,220,000	1,220,000	-	380,000	840,000	-	1,220,000
Long term debt	2,368,029	3,040,994	-	59,500	115,706	2,865,788	3,040,994
	<u>7,528,837</u>	<u>8,201,802</u>	<u>3,940,808</u>	<u>439,500</u>	<u>955,706</u>	<u>2,865,788</u>	<u>8,201,802</u>

In the normal course of business, management will continue to look to other sources of funding including items such as project financing. Management is also continuing to improve the efficiency of all aspects of the Company's operations to ensure the most effective use of its' working capital. Through these activities, along with expected cash flow from operations, management believes that it will obtain adequate sources of funds to meet its liabilities as they come due, however there is no certainty that these strategies will be successful.

Capital Resources

The Company currently does not have any undrawn debt facilities. The Company does not have any significant capital expenditure projects underway or forecasted in 2014.

Financial instruments

At December 31, 2013 the Company held no forward exchange contracts. The Company plans to evaluate the use of forward exchange contracts in the future.

Commitments

Commitments include operating leases for office equipment and facilities, bank guarantees, and performance bonds issued by financial institutions in connection with facility leases and contracts with public sector customers. Aside from the aforementioned, the Company does not have any other business arrangements or any equity interests in unconsolidated companies that would have a significant effect on its assets and liabilities as at December 31, 2013.

Off-Balance Sheet Arrangements

As a general practice, the Company does not enter into off-balance sheet financing arrangements. Except for operating leases and letters of credit, all commitments are reflected on the balance sheet.

Transactions with Related Parties

The Company did not have any material related party transactions during the year ended December 31, 2013.

Outstanding Share Data

as at	April 2, 2014
Common shares	12,989,064
Employee stock options	1,095,998
Special warrants	6,922,692
	21,007,754
Convertible debentures	14,247,702
Total	35,255,456

Significant Accounting Policies and Estimates

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

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

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

- b) Deferred income taxes: Deferred income tax assets are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying value of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment. The income tax bases of assets and liabilities are based upon the interpretation of income tax legislation across various jurisdictions. The deferred income tax assets and liabilities are also impacted by expectations about future operating results and the timing for reversal of temporary differences as well as possible audits of tax filings by the regulatory authorities. In accessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax assets, projected future taxable income and tax planning strategies in making this assessment. The Company has not recorded deferred tax assets as at December 31, 2013.
- c) Investment tax credits: In the normal course of operations, the Company's Scientific Research & Experimental Development (SR&ED) expense claims are subject to review by federal and provincial government authorities. Reviews of certain of the Company's SR&ED claims are incomplete at December 31, 2013 and as such, amounts disclosed may be subject to change, pending the outcome of such reviews.

- d) Warranty obligations: Management routinely assesses and adjusts for its anticipated warranty costs based on experience and estimates of the potential warranty obligations for its installations.
- e) Bad debt expense: Management routinely reviews accounts receivable and sets up a reserve for bad debts on a customer-by-customer basis. This is an estimate since some of the reserved accounts may be collected and it may subsequently be found that some accounts currently deemed collectible become uncollectible.
- f) Long lived assets: Management reviews the carrying value of long lived assets including plant and equipment and amortizable intangible assets for impairment to determine if the carrying value of an asset may not be recoverable due to changes in the current and expected future use of the asset, external valuations of the asset, and the obsolescence or physical damage to the asset. If such indicators of impairment exist, the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit exceeds its estimated recoverable amount.
- g) Compound financial instruments: The financial liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component, representing the holders' option to convert into common shares, is recognized initially at fair value determined as the excess of the face value of the compound financial instrument and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is included within contributed surplus and is not re-measured subsequent to initial recognition.

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

Outlook

The Company delivered much improved financial results in fiscal 2013, largely due to a large Order Backlog built in 2012. Municipalities continue to experience tight restrictions on cash available for capital investment and therefore are delaying or deferring projects, affecting Biorem's traditional core business. In the latter half of 2013, new orders slowed down reducing Order Backlog entering 2014 to \$10 million which is substantially lower than the \$18 million at the beginning of 2013. This will have a negative effect on the Company's short term performance as it works to rebuild the Order Backlog. The Company does anticipate improvement in orders as the year progresses leading to a healthy Order Backlog going into 2015.

The Company continues to streamline its delivery process and reduce its cost structure to enable it to manage cash flow and profitability in 2014.

Risks and Uncertainties

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

Liquidity risk

At December 31, 2013 the Company had working capital of \$274,000, which includes the current portion of the Company's long-term debt.

All of the Company's long-term debt is due between May and August 2014. Management expects that the long-term debt will be refinanced through other sources of financing, revised payment terms and extension of the maturity dates of the debt, or other methods. However there is no certainty that the long-term debt will be refinanced or refinanced at terms that are acceptable to the Company.

Sales Cycle

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

Order Backlog

As of December 31, 2013 the Company's Order Backlog was \$10 million. However, the expected future revenue from the Company's Order Backlog may not be realized or, if realized, may not result in net earnings. Projects could remain in Order Backlog for an extended period of time. In addition, project cancellations or scope adjustments may occur from time to time with respect to contracts reflected in the Company's Order Backlog. Cancellation or delay of contracts may have a material adverse effect on our financial status.

Delays or Defaults in customer payments affecting liquidity

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

Reputation

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

Patents and Proprietary Right

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

Dependence on Subcontractors

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

Product Liability

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

Competition

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

Fixed Price Contracts may result in losses

The Company's receipt of a fixed price contract as a consequence of being the successful bidder carries the inherent risk that the Company's actual performance cost may exceed the estimates upon which its

bid was based. To the extent that actual contract costs exceed estimated costs, the Company's profitability could be materially affected.

Foreign Exchange

The Company is subject to risk of exchange rate fluctuations related to anticipated revenues, Order Backlog and existing assets and liabilities denominated in currencies other than Canadian dollars. At December 31, 2013, the Company had US dollar denominated net monetary assets of \$2,255,000.

Stock Trading Volume is low

The monthly average trading volume of the BIOREM common shares on the Toronto Venture Exchange was 72,300 shares in 2013. Due to the low trading volume the price of the common shares could be subject to wide price fluctuations in response to business development announcements, competitors, quarterly variations in operating results, and other events or factors.

Risk to Product Development

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

Acceptance of new products by the Market

Market risk exists for new products such as the new media. There is no assurance that new products will be accepted by the market, that desired volumes will be realized over the product life or that the product life will not be shorter than expected due to product obsolescence. New products that are launched by the Company's competitors may also have price or other advantages over the Company's products. In addition, new product offerings may also require more significant marketing and sales efforts to gain market acceptance.

Dependency on key personnel

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