

Condensed consolidated interim financial statements of

**Biorem Inc.**

Periods ended June 30, 2017 and 2016

(Unaudited)

# Biorem Inc.

June 30, 2017 and 2016

(Unaudited)

## Table of contents

Condensed consolidated interim statements of financial position.....	3
Condensed consolidated interim statements of operations .....	4
Condensed consolidated interim statements of comprehensive income (loss) .....	5
Condensed consolidated interim statements of changes in shareholders' equity.....	6
Condensed consolidated interim statements of cash flows .....	7
Notes to the condensed consolidated interim financial statements .....	8-11

The accompanying condensed consolidated interim financial statements of Biorem Inc. have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of Chartered Accountants ("CICA") for a review of interim financial statements by an entity's auditor. -36-3-

# Biorem Inc.

## Condensed consolidated interim statements of financial position June 30, 2017 and December 31, 2016

(In Canadian dollars, unaudited)	Notes	2017	2016
		\$	\$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		2,423,327	1,118,297
Restricted cash and cash equivalents		-	528,023
Accounts receivable		4,899,450	7,124,365
Unbilled revenue		2,604,371	1,762,979
Inventories		684,743	464,315
Prepaid expenses and deposits		604,379	213,825
Investment tax credits recoverable		-	27,023
		<u>11,216,270</u>	<u>11,238,827</u>
Non-current assets			
Equipment and leasehold improvements		85,176	104,548
<b>Total assets</b>		<u>11,301,446</u>	<u>11,343,375</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable		2,937,278	2,963,576
Accrued liabilities		977,833	711,949
Provisions	7	393,747	504,052
Unearned revenue		1,301,215	2,571,279
Current portion long term debt	6	-	2,165,571
		<u>5,610,073</u>	<u>8,916,427</u>
Non-current liabilities			
Long term debt	6	-	-
<b>Shareholders' equity</b>			
Common shares		17,192,514	13,789,081
Share purchase warrants		-	51,351
Contributed surplus		1,900,830	2,368,659
Accumulated other comprehensive loss		617,818	187,147
Deficit		(14,019,789)	(13,969,290)
<b>Total shareholders' equity</b>		<u>5,691,373</u>	<u>2,426,948</u>
<b>Total liabilities and shareholders' equity</b>			
		<u>11,301,446</u>	<u>11,343,375</u>

# Biorem Inc.

## Condensed consolidated interim statements of operations Three and six months ended June 30, 2017 and 2016

(In Canadian dollars, unaudited)	Notes	Three months ended		Six months ended	
		2017	2016	2017	2016
		\$	\$	\$	\$
Revenue		5,672,267	2,942,241	8,755,316	7,134,233
Cost of goods sold		4,410,795	2,388,250	6,350,007	5,136,896
Gross profit		1,261,472	553,991	2,405,309	1,997,337
Expenses (income)					
Sales and marketing		531,535	348,303	968,358	769,478
Research and development		96,267	80,271	191,294	156,088
General and administration		425,676	328,788	1,023,097	688,329
Other expense (income)	5	275,426	(185,076)	277,881	(73,652)
Total operating expenses		1,328,904	572,286	2,460,630	1,540,243
Earnings (loss) from operations		(67,432)	(18,295)	(55,321)	457,094
Finance costs		88	94,623	(4,822)	196,436
Net earnings (loss)		(67,520)	(112,918)	(50,499)	260,658
Earnings (loss) per share, basic	9	\$ -	\$ (0.01)	\$ -	\$ 0.02
Earnings (loss) per share, diluted	9	\$ -	\$ (0.01)	\$ -	\$ 0.01

# Biorem Inc.

## Condensed consolidated interim statements of comprehensive income (loss)

Three and six months ended June 30, 2017 and 2016

(In Canadian dollars, unaudited)	Three months ended		Six months ended	
	2017	2016	2017	2016
Net earnings (loss)	\$ (67,520)	\$ (112,918)	\$ (50,499)	\$ 260,658
Other comprehensive income				
Item which may be reclassified into profit and loss:				
Foreign currency translation loss on foreign operations	363,058	(43,029)	430,671	(70,683)
Total comprehensive income (loss) for the period	295,538	(155,947)	380,172	189,975

# Biorem Inc.

## Condensed Consolidated interim statements of shareholders' equity

Six months ended June 30, 2017 and 2016

(In Canadian dollars, unaudited)	Share capital	Share purchase warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	\$		\$	\$	\$	\$
<b>Balance, as at January 1, 2016</b>	13,723,800	54,146	2,364,591	307,433	(14,516,565)	1,933,405
<b>Total comprehensive income for the period</b>						
Earnings for the period	-	-	-	-	373,576	373,576
Foreign currency translation differences on foreign operations	-	-	-	(27,654)	-	(27,654)
<b>Total comprehensive income for the period</b>	-	-	-	(27,654)	373,576	345,922
Conversion of debentures	24,504					24,504
Warrants exercised	10,453	(955)	-	-	-	9,498
Stock-based compensation	-	-	923	-	-	923
<b>Balance, as at June 30, 2016</b>	<b>13,758,757</b>	<b>54,146</b>	<b>2,365,514</b>	<b>279,779</b>	<b>(14,142,989)</b>	<b>2,314,252</b>
<b>Balance, as at January 1, 2017</b>	13,789,081	51,351	2,368,659	187,147	(13,969,290)	2,426,948
<b>Total comprehensive income for the period</b>						
Income for the period	-	-	-	-	(50,499)	(50,499)
Foreign currency translation differences on foreign operations	-	-	-	430,671	-	430,671
<b>Total comprehensive income for the period</b>	-	-	-	430,671	(50,499)	380,172
Conversion of debentures	2,624,142	-	(506,853)	-	-	2,117,289
Warrants exercised	758,728	(51,351)	-	-	-	707,377
Stock options exercised	20,961	-	(8,961)	-	-	12,000
Stock-based compensation	-	-	47,985	-	-	47,985
<b>Balance, as at June 30, 2017</b>	<b>17,192,912</b>	<b>-</b>	<b>1,900,830</b>	<b>617,818</b>	<b>(14,019,789)</b>	<b>5,691,771</b>

# Biorem Inc.

## Condensed consolidated interim statements of cash flows

Six months ended June 30, 2017 and 2016

(In Canadian dollars, unaudited)	Notes	2017	2016
		\$	\$
<b>Operating activities</b>			
Net earnings (loss)		(50,499)	260,658
Items not involving cash:			
Depreciation		17,796	24,595
Finance costs		(4,278)	196,436
Stock option compensation		47,985	1,845
Foreign exchange loss(gain)		254,137	3,747
		265,141	487,281
<b>Change in non-cash operating working capital</b>			
Restricted cash		528,023	-
Accounts receivable		2,224,915	(710,973)
Unbilled revenue		(841,392)	(59,969)
Inventories		(220,428)	(72,713)
Prepaid expenses and deposits		(390,554)	(406,449)
Investment tax credits recoverable		27,023	-
Accounts payable		(26,298)	492,511
Accrued liabilities		265,884	(493,346)
Provisions		(110,306)	(28,938)
Unearned revenue		(1,270,064)	278,467
<b>Cash provided by (used in) operations</b>		451,944	(514,129)
<b>Investing activities</b>			
Purchase of equipment		-	(11,960)
		-	(11,960)
<b>Financing activities</b>			
Repayment of debenture		-	(450,000)
Proceeds from issuance of common shares on exercise of warrants		707,377	9,498
Proceeds from issuance of common shares on exercise of options		12,000	-
Interest paid		-	(45,782)
		719,377	(486,284)
Foreign exchange gain(loss) on foreign denominated cash and cash equivalents		133,709	35,414
<b>Increase(decrease) in cash and cash equivalents</b>		1,305,030	(976,959)
Cash and cash equivalents, beginning of year		1,118,297	2,725,043
<b>Cash and cash equivalents, end of period</b>		2,423,327	1,748,084

# Biorem Inc.

## Notes to the condensed consolidated interim financial statements

June 30, 2017 and 2016

(Unaudited)

### 1. General information

BIOREM Inc. ("BIOREM") is a company with its head office domiciled in Canada.

The address of BIOREM's registered office is R.R. # 3, 7496 Wellington Road 34, Guelph, Ontario. The Company's common shares are listed on the Toronto Stock Exchange and trade under the symbol BRM.V. The condensed consolidated interim financial statements of BIOREM comprise BIOREM and its subsidiaries (together referred to as "the Company"). The Company is primarily involved in the manufacturing of a comprehensive line of high efficiency air pollution control systems that are used to eliminate odorous and harmful contaminants.

### 2. Basis of preparation

#### a) *Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "*Interim Financial Reporting*". The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements have been prepared following the same accounting principles and methods of computation as the Company's 2016 annual consolidated financial statements and should be read in conjunction with those audited consolidated financial statements which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR").

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issuance on August 29, 2017.

#### b) *Basis of measurement*

These condensed consolidated interim financial statements have been prepared on the historical cost basis of accounting, with the exception of financial instruments classified as fair value through profit and loss, which are recorded at fair value.

#### c) *Functional and presentation currency*

The functional currency of BIOREM and its subsidiaries is the currency of their primary economic environment. These condensed consolidated interim financial statements are presented in Canadian dollars, which is BIOREM's functional currency. The functional currency of BIOREM's subsidiary located in the United States is the U.S. dollar and the functional currency of BIOREM's subsidiary located in China is the Chinese renminbi.

#### d) *Basis of consolidation*

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the condensed consolidated financial statements from the date that control commences until the date that control ceases. Accordingly, the consolidated interim financial statements include the accounts of Biorem Technologies Inc., Biorem Environmental Inc., Biorem Hong Kong, and Biorem (Beijing) Technologies Company Limited in addition to those of BIOREM. All significant inter-company transactions and balances have been eliminated.

### 3. Significant accounting policies

The significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2016 annual consolidated financial statements except as set out below, and have been applied consistently to all periods presented in these condensed consolidated interim financial statements. The accounting policies have been applied consistently by the Company's subsidiaries.



# Biorem Inc.

## Notes to the condensed consolidated interim financial statements

June 30, 2017 and 2016

(Unaudited)

#### 4. Segmented information

Management has determined that the Company operates in one reportable segment, which involves the manufacture and sale of pollution control systems.

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

Revenue	Three months ending		Six months ending	
	June 2017	June 2016	June 2017	June 2016
	\$	\$	\$	\$
Canada	567,742	762,942	1,640,463	1,257,679
United States	4,056,571	1,403,627	5,507,164	4,123,804
China	1,316	360,357	7,801	486,635
Other	1,046,638	415,316	1,599,888	1,266,115
Total	5,672,267	2,942,242	8,755,316	7,134,233

Capital assets (1)	Period ending	
	June 2017	June 2016
	\$	\$
Canada	46,271	69,927
United States	29,256	33,986
China	9,649	23,249
Total	85,176	127,162

(1) Includes plant and equipment and intangible assets

#### 5. Other income

The composition of other income is as follows:

	Three months ended		Six months ended	
	June 2017	June 2016	June 2017	June 2016
			\$	\$
Government funding	6,125	36,929	13,716	77,399
Foreign exchange gain (loss)	(281,551)	148,147	(291,597)	(3,747)
Total	(275,426)	185,076	(277,881)	73,652

# Biorem Inc.

## Notes to the condensed consolidated interim financial statements June 30, 2017 and 2016 (Unaudited)

### 6. Long-term debt

	June 2017	December 2016
	\$	\$
8% Convertible debentures series 1	-	700,370
8% Convertible debentures Series 2	-	1,465,199
	-	2,165,569
Less: current portion	-	(2,165,569)
Long-term debt	-	-

- On January 5, 2017, the maturity dates of the Series 1 and 2 convertible debentures were extended to January 16, 2017.
- On January 16, 2017, the maturity dates of the Series 1 and 2 convertible debentures were extended to January 30, 2017.
- In January 2017 \$2,159,929 of convertible debentures including accrued interest were converted into common shares resulting in the issuance of 17,203,304 common shares.

### 7. Provisions

Warranty	2017	2016
	\$	\$
At December 31	504,052	379,411
Provisions used during the period	(21,110)	(63,373)
Provisions made during the period	(89,196)	35,604
At June 30	\$ 393,746	\$ 351,642

# Biorem Inc.

## Notes to the condensed consolidated interim financial statements June 30, 2017 and 2016 (Unaudited)

### 8. Financial Instruments

#### *Fair value of financial instruments*

	June 30, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	2,423,327	2,423,327	1,118,297	1,118,297
Restricted cash and cash equivalents	-	-	528,023	528,023
Accounts receivable	4,899,450	4,899,450	7,124,365	7,124,365
	<u>7,322,777</u>	<u>7,322,777</u>	<u>8,770,685</u>	<u>8,770,685</u>
Financial liabilities				
Accounts payable and accrued liabilities	3,915,111	3,915,111	3,675,525	3,675,525
Long term-debt including current portion	-	-	2,165,569	2,165,569
	<u>3,915,111</u>	<u>3,915,111</u>	<u>5,841,094</u>	<u>5,841,094</u>

The Company has determined that the fair value of its short term financial assets and liabilities approximates their respective carrying because of the short term maturity of those instruments. The fair value of short- term debt has been determined based on current market conditions.

### 9. Earnings per share

	Three months ended		Six months ended	
	June 2017	June 2016	June 2017	June 2016
	\$	\$	\$	\$
Net earnings (loss)	(57,520)	(112,918)	(50,499)	260,658
Interest on convertible debentures	-	-	-	150,725
Total	<u>(57,520)</u>	<u>(112,918)</u>	<u>(50,499)</u>	<u>411,383</u>
Common shares outstanding	38,594,558	15,295,498	38,594,558	15,337,649
Dilutive Options	41,259	22,966	41,259	22,966
Dilutive special warrants	-	3,342,398	-	3,342,398
Dilutive shares on conversion convertible debentures	-	-	-	16,951,409
Total	<u>38,635,817</u>	<u>18,660,862</u>	<u>38,635,817</u>	<u>35,654,422</u>