

Condensed consolidated interim financial statements of

Biorem Inc.

Periods ended September 30, 2017 and 2016

(Unaudited)

Biorem Inc.

September 30, 2017 and 2016

(Unaudited)

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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.

Biorem Inc.

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

(In Canadian dollars, unaudited)	Notes	2017	2016
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,316,480	1,118,297
Restricted cash and cash equivalents		-	528,023
Accounts receivable		5,985,942	7,124,365
Unbilled revenue		2,881,129	1,762,979
Inventories		1,385,562	464,315
Prepaid expenses and deposits		82,999	213,825
Investment tax credits recoverable		-	27,023
		12,652,112	11,238,827
Non-current assets			
Plant and equipment		74,918	104,548
Total assets		12,727,030	11,343,375
Liabilities			
Current liabilities			
Accounts payable		2,936,452	2,963,576
Accrued liabilities		1,222,833	711,949
Provisions	7	352,947	504,052
Unearned revenue		2,097,741	2,571,279
Current portion long term debt	6	-	2,165,571
		6,609,973	8,916,427
Non-current liabilities			
Long term debt	6	-	-
Shareholders' equity			
Common shares		17,204,855	13,789,081
Share purchase warrants		-	51,351
Contributed surplus		1,922,296	2,368,659
Accumulated other comprehensive loss		480,045	187,147
Deficit		(13,490,139)	(13,969,290)
Total shareholders' equity		6,117,057	2,426,948
Total liabilities and shareholders' equity			
		12,727,030	11,343,375

Biorem Inc.

Condensed consolidated interim statements of operations Three and nine months ended September 30, 2017 and 2016

(In Canadian dollars, unaudited)	Notes	Three months ended		Nine months ended	
		2017	2016	2017	2016
		\$	\$	\$	\$
Revenue		5,265,364	4,002,564	14,020,680	11,136,797
Cost of goods sold		3,785,651	2,983,102	10,158,905	8,119,998
Gross profit		1,479,713	1,019,462	3,861,775	3,016,799
Expenses (income)					
Sales and marketing		542,767	442,046	1,511,124	1,211,524
Research and development		103,580	128,501	294,875	284,588
General and administration		450,766	208,413	1,473,863	896,742
Other expense (income)	5	(171,799)	(37,859)	106,082	(111,512)
Total operating expenses		925,314	741,101	3,385,944	2,281,342
Earnings from operations		554,399	278,361	475,831	735,457
Finance costs		1,502	53,441	(3,320)	249,875
Net earnings		552,897	224,920	479,151	485,582
Earnings per share, basic	9	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03
Earning per share, diluted	9	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02

Biorem Inc.

Condensed consolidated interim statements of comprehensive income (loss) Three and nine months ended September 30, 2017 and 2016

(In Canadian dollars, unaudited)	Three months ended		Nine months ended	
	2017	2016	2017	2016
	\$	\$	\$	\$
Net earnings	552,897	224,920	479,151	485,582
Other comprehensive income				
Item which may be reclassified into profit and loss:				
Foreign currency translation gain (loss) on foreign operations	(161,020)	(140,975)	292,898	(211,659)
Total comprehensive income for the period	391,877	83,945	772,049	273,923

Biorem Inc.

Condensed Consolidated interim statements of shareholders' equity

Nine months ended September 30, 2017 and 2016

(In Canadian dollars, unaudited)	Share capital	Share purchase warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	\$		\$	\$	\$	\$
Balance, as at January 1, 2016	13,723,800	54,146	2,364,591	307,433	(14,516,565)	1,933,405
Total comprehensive income for the period						
Earnings for the period	-	-	-	-	485,582	485,582
Foreign currency translation differences on foreign operations	-	-	-	(211,659)	-	(211,659)
Total comprehensive income for the period	-	-	-	(211,659)	485,582	273,923
Conversion of debentures	24,504	-	-	-	-	24,504
Warrants exercised	10,453	(955)	-	-	-	9,498
Stock option compensation	-	-	3,145	-	-	3,145
Balance, as at September 30, 2016	13,758,757	53,191	2,367,736	95,774	(14,030,983)	2,244,475
Balance, as at January 1, 2017	13,789,081	51,351	2,368,659	187,147	(13,969,290)	2,426,948
Total comprehensive income for the period						
Income for the period	-	-	-	-	479,151	479,151
Foreign currency translation differences on foreign operations	-	-	-	292,898	-	292,898
Total comprehensive income for the period	-	-	-	292,898	479,151	772,049
Conversion of debentures	2,624,142	-	(506,853)	-	-	2,117,289
Warrants exercised	758,728	(51,351)	-	-	-	707,377
Stock options exercised	32,904	-	(13,544)	-	-	19,360
Stock-based compensation	-	-	74,034	-	-	74,034
Balance, as at September 30, 2017	17,204,855	-	1,922,296	480,045	(13,490,139)	6,117,057

Biorem Inc.

Condensed consolidated interim statements of cash flows

Nine months ended September 30, 2017 and 2016

(In Canadian dollars, unaudited)	Notes	2017	2016
		\$	\$
Operating activities			
Net earnings		479,151	485,582
Items not involving cash:			
Depreciation		26,692	23,901
Finance costs			249,877
Stock option compensation		74,034	3,145
Foreign exchange loss (gain)		184,821	18,006
		<u>764,698</u>	<u>780,511</u>
Change in non-cash operating working capital			
Restricted cash		528,023	-
Accounts receivable		1,064,805	(1,691,730)
Unbilled revenue		(1,236,331)	(70,735)
Inventories		(915,603)	(333,381)
Prepaid expenses and deposits		98,521	(76,162)
Investment tax credits		27,023	-
Accounts payable		109,094	497,530
Accrued liabilities and provision		508,518	(307,046)
Provisions		(69,509)	24,717
Unearned revenue		(420,303)	173,330
Cash provided by (used in) operations		<u>458,936</u>	<u>(1,002,966)</u>
Investing activities			
Purchase of equipment		-	(11,960)
		-	<u>(11,960)</u>
Financing activities			
Proceeds from issuance of common shares on exercise of warrants		707,377	9,498
Proceeds from issuance of common shares on exercise of stock options		19,360	-
Repayment of 12.75% debenture		-	(675,000)
Interest paid			(58,049)
		<u>726,737</u>	<u>(723,551)</u>
Foreign exchange gain on foreign denominated cash and cash equivalents		12,510	176,073
Increase (decrease) in cash and cash equivalents		<u>1,198,183</u>	<u>(1,562,404)</u>
Cash and cash equivalents, beginning of year		1,118,297	2,725,043
Cash and cash equivalents, end of period		<u>2,316,480</u>	<u>1,162,639</u>

Biorem Inc.

Notes to the condensed consolidated interim financial statements September 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, 7496 Wellington Road 34, Puslinch, 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

b) *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 November 15, 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 September 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		Nine months ending	
	Sept 2017	Sept 2016	Sept 2017	Sept 2016
	\$	\$	\$	\$
Canada	1,526,149	2,658,401	3,166,613	3,916,080
United States	3,443,512	474,638	8,950,675	4,586,844
China	98,509	64,679	106,310	551,315
Other	197,194	804,846	1,797,082	2,082,558
Total	5,265,364	4,002,564	14,020,680	11,136,797

Capital assets	Period ending	
	Sept 2017	Sept 2016
	\$	\$
Canada	41,787	64,681
United States	26,882	33,388
China	6,249	19,849
Total	74,918	117,918

5. Other expense (income)

The composition of other expense (income) is as follows:

	Three months ended		Nine months ended	
	Sept 2017	Sept 2016	Sept 2017	Sept 2016
			\$	\$
Government funding	(9,000)	(52,119)	(22,300)	(129,518)
Investment tax credits	(56,023)	-	(56,439)	-
Foreign exchange gain (loss)	(106,776)	14,260	184,821	18,006
Total	(171,799)	(37,859)	106,082	(111,512)

Biorem Inc.

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

6. Long-term debt

	September 2017	December 2016
	\$	\$
8% convertible debenture Series 1	-	700,370
8% Convertible debenture 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 January 1,	504,052	379,411
Provisions used during the period	(50,206)	(100,809)
Provisions made during the period	(100,899)	123,379
At September 30,	\$ 352,947	401,981

Biorem Inc.

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

8. Financial Instruments

Fair value of financial instruments

	September 30, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	2,316,480	2,316,480	1,118,297	1,118,297
Restricted cash and cash equivalents	-	-	528,023	528,023
Accounts receivable	5,985,942	5,985,942	7,124,365	7,124,365
	<u>8,302,422</u>	<u>8,302,422</u>	<u>8,770,685</u>	<u>8,770,685</u>
Financial liabilities				
Accounts payable and accrued liabilities	4,159,285	4,159,285	3,675,525	3,675,525
Long term-debt including current portion	-	-	2,165,569	2,165,569
	<u>4,159,285</u>	<u>4,159,285</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		Nine months ended	
	Sept 2017	Sept 2016	Sept 2017	Sept 2016
	\$	\$	\$	\$
Net earnings	552,897	224,920	479,151	485,578
Interest on convertible debentures	-	41,103	-	191,828
Total	<u>552,897</u>	<u>266,023</u>	<u>479,151</u>	<u>677,406</u>
Common shares outstanding	38,628,058	15,358,725	38,605,725	15,358,725
Options	620,567	507,000	620,567	507,000
Special warrants	-	5,846,710	-	5,846,710
Dilutive shares on conversion convertible debentures	-	17,210,088	-	17,210,088
Total	<u>39,248,625</u>	<u>38,922,523</u>	<u>39,226,292</u>	<u>38,922,523</u>