

Condensed consolidated interim financial statements of

**Biorem Inc.**

Periods ended September 30, 2018 and 2017

(Unaudited)

# Biorem Inc.

September 30, 2018 and 2017

(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.

# Biorem Inc.

## Condensed consolidated interim statements of financial position September 30, 2018 and December 31, 2017

(In Canadian dollars, unaudited)	Notes	2018	2017
		\$	\$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		3,618,421	3,568,447
Accounts receivable		4,815,872	8,010,558
Unbilled revenue		3,272,076	2,622,411
Inventories		1,251,905	705,198
Prepaid expenses and deposits		921,386	674,710
		13,879,660	15,581,324
Non-current assets			
Plant and equipment		264,215	80,459
<b>Total assets</b>		<b>14,143,875</b>	<b>15,661,783</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable		2,641,980	4,012,166
Accrued liabilities		1,161,597	1,345,046
Provisions	6	508,804	463,728
Unearned revenue		1,978,141	2,541,532
		6,290,522	8,362,472
<b>Shareholders' equity</b>			
Common shares		17,204,855	17,204,855
Contributed surplus		2,031,844	1,950,818
Accumulated other comprehensive loss		725,054	582,812
Deficit		(12,108,400)	(12,439,174)
<b>Total shareholders' equity</b>		<b>7,853,353</b>	<b>7,299,311</b>
<b>Total liabilities and shareholders' equity</b>		<b>14,143,875</b>	<b>15,661,783</b>

# Biorem Inc.

## Condensed consolidated interim statements of operations Three and nine months ended September 30, 2018 and 2017

(In Canadian dollars, unaudited)	Notes	Three months ended		Nine months ended	
		2018	2017	2018	2017
		\$	\$	\$	\$
Revenue		4,392,260	5,265,364	13,460,984	14,020,680
Cost of goods sold		3,343,272	3,785,651	10,476,399	10,158,905
Gross profit		1,048,988	1,479,713	2,984,585	3,861,775
Expenses (income)					
Sales and marketing		390,526	542,767	1,389,723	1,511,124
Research and development		24,210	103,580	212,780	294,875
General and administration		424,991	450,766	1,471,791	1,473,863
Other expense (income)	<b>5</b>	(23,577)	(171,799)	(424,987)	106,082
Total operating expenses		816,150	925,314	2,649,307	3,385,944
Earnings from operations		232,838	554,399	335,278	475,831
Finance costs		851	1,502	4,504	(3,320)
Net earnings		231,987	552,897	330,774	479,151
Earnings per share, basic	<b>9</b>	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Earnings per share, diluted	<b>9</b>	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01

# Biorem Inc.

## Condensed consolidated interim statements of comprehensive income (loss) Three and nine months ended September 30, 2018 and 2017

(In Canadian dollars, unaudited)	Three months ended		Nine months ended	
	2018	2017	2018	2017
	\$	\$	\$	\$
Net earnings	231,987	552,897	330,774	479,151
Other comprehensive income				
Item which may be reclassified into profit and loss:				
Foreign currency translation gain (loss) on foreign operations	(84,002)	(161,020)	142,242	292,898
Total comprehensive income for the period	147,985	391,877	473,016	772,049

# Biorem Inc.

## Condensed Consolidated interim statements of shareholders' equity

Nine months ended September 30, 2018 and 2017

(In Canadian dollars, unaudited)	Share capital	Share purchase warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	\$		\$	\$	\$	\$
<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	-	-	-	-	479,151	479,151
Foreign currency translation differences on foreign operations	-	-	-	292,898	-	292,898
<b>Total comprehensive income for the period</b>	-	-	-	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
<b>Balance, as at September 30, 2017</b>	17,204,855	-	1,922,296	480,045	(13,490,139)	6,117,057
<b>Balance, as at January 1, 2018</b>	17,204,855	-	1,950,818	582,812	(12,439,174)	7,299,311
<b>Total comprehensive income for the period</b>						
Income for the period	-	-	-	-	330,774	330,774
Foreign currency translation differences on foreign operations	-	-	-	142,242	-	142,242
<b>Total comprehensive income for the period</b>	-	-	-	142,242	330,774	473,016
Stock-based compensation	-	-	81,026	-	-	81,026
<b>Balance, as at September 30, 2018</b>	17,204,855	-	2,031,844	725,054	(12,108,400)	7,853,353

# Biorem Inc.

## Condensed consolidated interim statements of cash flows

Nine months ended September 30, 2018 and 2017

(In Canadian dollars, unaudited)	Notes	2018	2017
		\$	\$
<b>Operating activities</b>			
Net earnings		231,987	479,151
Items not involving cash:			
Depreciation		23,607	26,692
Stock option compensation		81,026	74,034
Foreign exchange loss (gain)		-	184,821
		336,620	764,698
<b>Change in non-cash operating working capital</b>			
Restricted cash		-	528,023
Accounts receivable		3,322,252	1,064,805
Unbilled revenue		(650,266)	(1,236,331)
Inventories		(527,888)	(915,603)
Prepaid expenses and deposits		(229,664)	98,521
Investment tax credits		-	27,023
Accounts payable		(1,432,188)	109,094
Accrued liabilities and provision		(190,581)	508,518
Provisions		45,076	(69,509)
Unearned revenue		(624,863)	(420,303)
<b>Cash provided by (used in) operations</b>		48,498	458,936
<b>Investing activities</b>			
Purchase of equipment		(207,731)	-
		(207,731)	-
<b>Financing activities</b>			
Proceeds from issuance of common shares on exercise of warrants		-	707,377
Proceeds from issuance of common shares on exercise of stock options		-	19,360
		-	726,737
Foreign exchange gain on foreign denominated cash and cash equivalents		209,207	12,510
<b>Increase (decrease) in cash and cash equivalents</b>		49,974	1,198,183
Cash and cash equivalents, beginning of year		3,568,447	1,118,297
<b>Cash and cash equivalents, end of period</b>		3,618,421	2,316,480

# Biorem Inc.

## Notes to the condensed consolidated interim financial statements September 30, 2018 and 2017 (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 2017 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 6, 2018.

#### 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 2017 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, 2018 and 2017 (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 2018	Sept 2017	Sept 2018	Sept 2017
	\$	\$	\$	\$
Canada	577,777	1,526,149	1,569,546	3,166,613
United States	2,858,940	3,443,512	7,371,710	8,950,675
China	785,811	98,509	1,892,619	106,310
Other	169,732	197,194	2,627,109	1,797,082
<b>Total</b>	<b>4,392,260</b>	<b>5,265,364</b>	<b>13,460,984</b>	<b>14,020,680</b>

Capital assets	Period ending	
	Sept 2018	Sept 2017
	\$	\$
Canada	29,272	41,787
United States	42,864	26,882
China	192,079	6,249
<b>Total</b>	<b>264,215</b>	<b>74,918</b>

### 5. Other expense (income)

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

	Three months ended		Nine months ended	
	Sept 2018	Sept 2017	Sept 2018	Sept 2017
			\$	\$
Government funding	-	(9,000)	(10,657)	(22,300)
Investment tax credits	(13,548)	(56,023)	(13,548)	(56,439)
Foreign exchange gain (loss)	(10,029)	(106,776)	(400,782)	184,821
<b>Total</b>	<b>(23,577)</b>	<b>(171,799)</b>	<b>(424,987)</b>	<b>106,082</b>

# Biorem Inc.

## Notes to the condensed consolidated interim financial statements September 30, 2018 and 2017 (Unaudited)

### 6. Provisions

Warranty	2018	2017
	\$	\$
At January 1,	463,728	504,052
Provisions used during the period	(23,260)	(50,206)
Provisions made during the period	68,336	(100,899)
At September 30,	\$ 508,804	352,847

### 7. Financial Instruments

#### *Fair value of financial instruments*

	September 30, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	3,618,421	3,618,421	3,568,447	3,568,447
Accounts receivable	4,185,872	4,185,872	8,010,558	8,010,558
	<u>7,804,293</u>	<u>7,804,293</u>	<u>11,579,005</u>	<u>11,579,005</u>
Financial liabilities				
Accounts payable and accrued liabilities	3,803,577	3,803,577	5,357,212	5,357,212
	<u>3,803,577</u>	<u>3,803,577</u>	<u>5,357,212</u>	<u>5,357,212</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.

# Biorem Inc.

## Notes to the condensed consolidated interim financial statements September 30, 2018 and 2017 (Unaudited)

### 8. Earnings per share

	Three months ended		Nine months ended	
	Sept 2018	Sept 2017	Sept 2018	Sept 2017
Net earnings	\$ 231,987	\$ 552,897	\$ 330,774	\$ 479,151
Common shares outstanding	38,661,558	38,628,058	38,661,558	38,605,725
Dilutive options	471,746	620,567	471,746	620,567
Total	<u>39,133,304</u>	<u>39,248,625</u>	<u>39,133,304</u>	<u>39,226,292</u>