

Condensed consolidated interim financial statements of

Biorem Inc.

Periods ended September 30, 2020 and 2019

(Unaudited)

Biorem Inc.

September 30, 2020 and 2019

(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, 2020 and December 31, 2019

| (In Canadian dollars, unaudited) | Notes | 2020 | 2019 |
|---|-------|-------------------|-------------------|
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 9,384,680 | 6,469,023 |
| Accounts receivable | | 4,891,751 | 4,056,108 |
| Unbilled revenue | | 1,659,496 | 1,632,439 |
| Inventories | | 794,073 | 1,285,740 |
| Prepaid expenses and deposits | | 156,664 | 1,044,037 |
| | | <u>16,886,664</u> | <u>14,487,347</u> |
| Non-current assets | | | |
| Equipment and leasehold improvements | | 490,836 | 372,887 |
| Deferred tax assets | | 2,479,682 | 2,768,414 |
| Total assets | | <u>19,857,182</u> | <u>17,628,648</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | | 1,765,010 | 2,355,137 |
| Accrued liabilities | | 1,845,242 | 1,406,931 |
| Income taxes payable | | 106,992 | 94,829 |
| Provisions | 6 | 509,193 | 472,340 |
| Unearned revenue | | 2,869,326 | 1,575,644 |
| | | <u>7,095,763</u> | <u>5,904,881</u> |
| Shareholders' equity | | | |
| Common shares | | 17,204,855 | 17,204,855 |
| Contributed surplus | | 2,186,666 | 2,168,949 |
| Accumulated other comprehensive income | | 1,516,366 | 1,445,179 |
| Deficit | | (8,146,468) | (9,095,216) |
| Total shareholders' equity | | <u>12,761,419</u> | <u>11,723,767</u> |
| Total liabilities and shareholders' equity | | | |
| | | <u>19,857,182</u> | <u>17,628,648</u> |

Condensed consolidated interim statements of operations

Three and nine months ended September 30, 2020 and 2019

| (In Canadian dollars, unaudited) | Notes | Three months ended | | Nine months ended | |
|----------------------------------|-------|--------------------|-----------|-------------------|------------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | \$ | \$ | \$ | \$ |
| Revenue | | 3,586,024 | 6,266,193 | 16,441,216 | 16,273,328 |
| Cost of goods sold | | 2,957,445 | 4,535,666 | 13,077,312 | 12,504,105 |
| Gross profit | | 628,579 | 1,730,527 | 3,363,904 | 3,769,223 |
| Expenses (income) | | | | | |
| Sales and marketing | | 455,138 | 403,573 | 1,462,002 | 1,624,227 |
| Research and development | | 6,790 | 19,827 | 27,995 | 43,093 |
| General and administration | | 202,230 | 646,832 | 1,112,284 | 1,904,989 |
| Other expense (income) | 5 | (246,376) | (22,402) | (532,014) | (621,508) |
| Total operating expenses | | 417,782 | 1,047,830 | 2,070,267 | 2,950,801 |
| Earnings from operations | | 210,797 | 682,697 | 1,293,637 | 818,422 |
| Finance costs | | (465) | 881 | 2,824 | (2,263) |
| Net earnings before tax | | 211,262 | 681,816 | 1,290,813 | 820,685 |
| Income tax expense | | 55,984 | - | 342,065 | - |
| Net earnings | | 155,278 | 681,816 | 948,748 | 820,685 |
| Earnings per share, basic | 9 | \$ 0.004 | \$ 0.02 | \$ 0.025 | \$ 0.02 |
| Earnings per share, diluted | 9 | \$ 0.004 | \$ 0.02 | \$ 0.025 | \$ 0.02 |

Biorem Inc.

Condensed consolidated interim statements of comprehensive income (loss)
 Three and nine months ended September 30, 2020 and 2019

| (In Canadian dollars, unaudited) | Three months ended | | Nine months ended | |
|--|--------------------|---------|-------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| Net earnings | 155,278 | 681,816 | 948,748 | 820,685 |
| Other comprehensive income | | | | |
| Item which may be reclassified into profit and loss: | | | | |
| Foreign currency translation gain (loss) on foreign operations | (8,812) | 130,374 | 71,187 | (246,830) |
| Total comprehensive income for the period | 146,466 | 812,190 | 1,019,935 | 573,855 |

Biorem Inc.

Condensed Consolidated interim statements of shareholders' equity

Nine months ended September 30, 2020 and 2019

| (In Canadian dollars, unaudited) | Share capital | Contributed surplus | Accumulated other comprehensive income | Deficit | Total |
|--|------------------|------------------------|---|-------------|------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance, as at January 1, 2019 | 17,204,855 | 2,059,030 | 1,404,591 | (7,773,411) | 12,895,065 |
| Total comprehensive income for the period | | | | | |
| Income for the period | - | - | - | 820,685 | 820,685 |
| Foreign currency translation differences on foreign operations | - | - | (246,830) | - | (246,830) |
| Total comprehensive income for the period | - | - | (246,830) | 820,685 | 573,855 |
| Stock-based compensation | - | 82,439 | - | - | 82,439 |
| Balance, as at September 30, 2019 | 17,204,855 | 2,141,469 | 1,157,761 | (6,952,726) | 13,551,359 |
| Balance, as at January 1, 2020 | 17,204,855 | 2,168,949 | 1,445,179 | (9,095,216) | 11,723,767 |
| Total comprehensive income for the period | | | | | |
| Income for the period | - | - | - | 948,748 | 948,748 |
| Foreign currency translation differences on foreign operations | - | - | 71,187 | - | 71,187 |
| Total comprehensive income for the period | - | - | 71,187 | 948,748 | 1,019,935 |
| Stock-based compensation | - | 17,717 | - | - | 17,717 |
| Balance, as at September 30, 2020 | 17,204,855 | 2,186,666 | 1,516,366 | (8,146,468) | 12,761,419 |

Biorem Inc.

Condensed consolidated interim statements of cash flows

Nine months ended September 30, 2020 and 2019

| (In Canadian dollars, unaudited) | Notes | 2020 | 2019 |
|---|-------|------------------|------------------|
| | | \$ | \$ |
| Operating activities | | | |
| Net earnings | | 948,748 | 820,685 |
| Items not involving cash: | | | |
| Depreciation | | 144,491 | 80,658 |
| Deferred tax expense(recovery) | | 288,732 | - |
| Stock option compensation | | 17,717 | 82,439 |
| | | 1,399,688 | 983,782 |
| Change in non-cash operating working capital | | | |
| Accounts receivable | | (566,137) | 799,972 |
| Unbilled revenue | | (250,452) | 1,836,702 |
| Inventories | | 373,185 | (208,779) |
| Prepaid expenses and deposits | | 1,056,733 | 55,324 |
| Accounts payable | | (439,366) | (1,117,904) |
| Accrued liabilities and provision | | 531,920 | (294,343) |
| Income taxes payable | | 12,163 | - |
| Provisions | | 36,853 | (95,822) |
| Unearned revenue | | 1,250,094 | (26,055) |
| Cash provided by (used in) operations | | 3,404,681 | 1,932,877 |
| Investing activities | | | |
| Purchase of equipment | | (269,426) | (78,151) |
| | | (269,426) | (78,151) |
| Financing activities | | | |
| Payment of lease liabilities | | (82,260) | - |
| | | (82,260) | - |
| Foreign exchange gain (loss) on foreign denominated cash and cash equivalents | | (137,338) | (462,243) |
| Increase (decrease) in cash and cash equivalents | | 2,915,657 | 1,392,483 |
| Cash and cash equivalents, beginning of year | | 6,469,023 | 3,950,395 |
| Cash and cash equivalents, end of period | | 9,384,680 | 5,342,878 |

Biorem Inc.

Notes to the condensed consolidated interim financial statements September 30, 2020 and 2019 (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

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 2018 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 25, 2020.

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 Environmental (US) Ltd., Biorem Hong Kong, and Biorem (Beijing) Technologies Company Limited and Biorem Wuhu Environmental Technology Ltd. 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 2019 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, 2020 and 2019 (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 2020 | Sept 2019 | Sept 2020 | Sept 2019 |
| | \$ | \$ | \$ | \$ |
| Canada | 1,258,950 | 750,540 | 5,456,426 | 2,357,704 |
| United States | 1,907,596 | 5,047,529 | 8,998,121 | 12,758,199 |
| China | 414,521 | 430,108 | 1,900,233 | 980,209 |
| Other | 4,957 | 38,016 | 86,436 | 177,216 |
| Total | 3,586,024 | 6,266,193 | 16,441,216 | 16,273,328 |

| Capital assets | Period ending | |
|----------------|----------------|----------------|
| | Sept 2020 | Sept 2019 |
| | \$ | \$ |
| Canada | 342,290 | 87,021 |
| United States | 40,057 | 25,056 |
| China | 108,489 | 147,222 |
| Total | 490,836 | 259,299 |

5. Other expense (income)

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

| | Three months ended | | Nine months ended | |
|------------------------------|--------------------|-----------------|-------------------|------------------|
| | Sept 2020 | Sept 2019 | Sept 2020 | Sept 2019 |
| | | | \$ | \$ |
| Government funding | (295,962) | - | (295,962) | 3,375 |
| Investment tax credits | - | (18,064) | - | (18,064) |
| Foreign exchange gain (loss) | 49,586 | (4,338) | (236,052) | (606,818) |
| Total | (246,376) | (22,402) | (532,014) | (621,507) |

Biorem Inc.

Notes to the condensed consolidated interim financial statements September 30, 2020 and 2019 (Unaudited)

6. Provisions

| Warranty | 2019 | 2019 |
|-----------------------------------|------------|----------|
| | \$ | \$ |
| At January 1, | 472,340 | 418,221 |
| Provisions used during the period | (8,447) | (34,554) |
| Provisions made during the period | 45,300 | (61,267) |
| At September 30, | \$ 509,193 | 322,400 |

7. Financial Instruments

Fair value of financial instruments

| | September 30 2020 | | December 31 2019 | |
|--|--------------------|---------------|--------------------|---------------|
| | Carrying Amount | Fair value | Carrying Amount | Fair value |
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Cash | 9,384,680 | 9,384,680 | 3,950,395 | 3,950,395 |
| Accounts receivable | 4,891,751 | 4,891,751 | 8,610,741 | 8,610,741 |
| | 14,276,431 | 14,276,431 | 12,561,136 | 12,561,136 |
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | 3,593,695 | 3,593,695 | 5,969,718 | 5,969,718 |
| Lease liabilities | 16,557 | 16,557 | 96,805 | 96,805 |
| | 3,610,252 | 3,610,252 | 6,066,523 | 6,066,523 |

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, 2020 and 2019
(Unaudited)

8. Earnings per share

| | Three months ended | | Nine months ended | |
|---------------------------|--------------------|-------------------|-------------------|-------------------|
| | Sept 2020 | Sept 2019 | Sept 2020 | Sept 2019 |
| Net earnings | \$ 155,278 | \$ 681,816 | \$ 948,748 | \$ 820,685 |
| Common shares outstanding | 38,661,558 | 37,557,442 | 38,661,558 | 37,557,442 |
| Dilutive options | 69,429 | 22,353 | 69,429 | 22,353 |
| Total | <u>38,730,987</u> | <u>37,579,795</u> | <u>38,730,987</u> | <u>37,579,795</u> |