

Condensed consolidated interim financial statements of

Biorem Inc.

Periods ended June 30, 2023 and 2022

(Unaudited)

Biorem Inc.

June 30, 2023 and 2022

(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 June 30, 2023 and December 31, 2022

(In Canadian dollars, unaudited)	Notes	June 30, 2023	December 31, 2022
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		1,585,467	3,775,018
Accounts receivable		6,004,733	8,357,136
Unbilled revenue		3,684,058	3,883,744
Inventories		1,079,908	888,045
Prepaid expenses and deposits		1,358,795	870,618
		13,712,961	17,774,561
Non-current assets			
Equipment and leasehold improvements		1,237,772	1,016,297
Deferred tax assets		2,173,634	1,939,202
Total assets		17,124,367	20,730,060
Liabilities			
Current liabilities			
Accounts payable	9	2,906,361	4,710,820
Accrued liabilities		1,957,179	2,663,647
Lease liabilities		190,657	157,476
Income taxes payable		415,136	893,426
Provisions	8	475,582	621,988
Unearned revenue		2,661,901	2,573,470
Interest bearing loans	7	1,676,438	1,300,998
		10,283,254	12,921,825
Non-current liabilities			
Interest bearing loans	7	2,704,241	2,975,243
Lease liabilities		270,269	312,439
		2,974,510	3,287,682
Shareholders' equity			
Common shares		4,997,423	4,909,423
Contributed surplus		2,302,471	2,260,271
Accumulated other comprehensive loss		1,312,905	1,446,837
Deficit		(4,746,196)	(4,095,978)
Total shareholders' equity		3,866,603	4,520,553
Total liabilities and shareholders' equity		17,124,367	20,730,060

See accompanying notes to consolidated financial statements.

Biorem Inc.

Condensed consolidated interim statements of operations Three and six months ended June 30, 2023 and 2022

(In Canadian dollars, unaudited)	Notes	Three months ended		Six months ended	
		2023	2022	2023	2022
		\$	\$	\$	\$
Revenue		4,280,051	6,264,033	7,449,335	10,644,789
Cost of goods sold		3,326,484	4,807,570	6,378,778	8,309,414
Gross profit		953,567	1,456,463	1,070,557	2,335,375
Expenses (income)					
Sales and marketing		557,181	571,540	1,079,819	1,136,931
Research and development		3,609	37,561	4,621	47,375
General and administration		278,436	472,233	677,921	838,046
Other expense (income)	5	178,938	89,029	61,727	90,081
Total operating expenses		1,018,164	1,170,363	1,824,088	2,112,433
Earnings from operations		(64,597)	286,100	(753,531)	222,942
Finance costs		66,686	62,508	131,119	135,840
Net earnings (loss) before tax		(131,283)	223,592	(884,650)	87,102
Income tax expense		(34,790)	59,252	(234,432)	23,082
Net earnings (loss)		(96,493)	164,340	(650,218)	64,020
Earnings per share, basic	10	\$ (0.006)	\$ 0.011	\$ (0.042)	\$ 0.004
Earning per share, diluted	10	\$ (0.006)	\$ 0.010	\$ (0.042)	\$ 0.004

Biorem Inc.

Condensed consolidated interim statements of comprehensive income (loss) Three and six months ended June 30, 2023 and 2022

(In Canadian dollars, unaudited)	Three months ended		Six months ended	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net earnings (loss)	(96,493)	164,340	(650,218)	64,020
Other comprehensive income				
Item which may be reclassified into profit and loss:				
Foreign currency translation loss on foreign operations	(178,757)	113,670	(133,932)	203,483
Total comprehensive income (loss) for the period	(275,250)	278,010	(784,150)	267,503

Biorem Inc.

Condensed Consolidated interim statements of shareholders' equity

Six months ended June 30, 2023 and 2022

(In Canadian dollars, unaudited)	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance, as at January 1, 2022	4,906,353	2,169,648	597,343	(5,709,035)	1,964,309
Earnings for the period	-	-	-	64,020	64,020
Foreign currency translation differences on foreign operations	-	-	203,483	-	203,483
Total comprehensive earnings for the period	-	-	203,483	64,020	267,503
Stock-based compensation	-	7,206	-	-	7,206
	-	7,206	-	-	7,206
Balance, as at June, 2022	4,906,353	2,176,854	800,826	(5,645,015)	2,239,018
Balance, as at January 1, 2023	4,909,423	2,260,271	1,446,837	(4,095,978)	4,520,553
Earnings for the period	-	-	-	(650,218)	(650,218)
Foreign currency translation differences on foreign operations	-	-	(133,932)	-	(133,932)
Total comprehensive earnings for the period	-	-	(133,932)	(650,218)	(784,150)
Stock options exercised	88,000	(19,000)	-	-	88,000
Stock-based compensation	-	61,200	-	-	61,200
	88,000	42,200	-	-	149,200
Balance, as at June, 2023	4,997,423	2,302,471	1,312,905	(4,746,196)	3,885,603

Biorem Inc.

Condensed consolidated interim statements of cash flows

Six months ended June 30, 2023 and 2022

(In Canadian dollars, unaudited)	Notes	2023	2022
		\$	\$
Operating activities			
Net earnings (loss)		(650,218)	64,020
Items not involving cash:			
Deferred tax expense (recovery)		(234,432)	13,650
Depreciation		137,071	172,561
Accretion lease interest		13,144	17,150
Stock option compensation		61,200	7,206
		(673,235)	274,587
Change in non-cash operating working capital			
Accounts receivable		2,385,935	1,002,791
Unbilled revenue		300,133	(565,006)
Inventories		(197,489)	(771,930)
Prepaid expenses and deposits		(650,879)	265,548
Accounts payable		(1,876,348)	(1,858,882)
Accrued liabilities		(616,778)	2,171,012
Income taxes payable		(645,789)	(336,416)
Provisions		(146,406)	66,723
Unearned revenue		8,020	181,969
Cash provided by (used in) operations		(2,112,836)	430,396
Investing activities			
Purchase of equipment, leasehold improvements		(432,607)	(98,824)
		(432,607)	(98,824)
Financing activities			
Proceeds (repayments) of operating loan		364,999	(5,000)
Term loan repayments		(260,510)	(243,905)
Payment of lease liabilities		(77,147)	(109,589)
Proceeds from issuance of common shares on exercise of stock options		69,000	-
		96,342	(358,494)
Foreign exchange gain(loss) on foreign denominated cash and cash equivalents		259,550	(145,889)
Increase(decrease) in cash and cash equivalents		(2,189,551)	(172,811)
Cash and cash equivalents, beginning of year		3,775,018	4,471,304
Cash and cash equivalents, end of period		1,585,467	4,298,493

Biorem Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2023 and 2022

(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 2022 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 22, 2023.

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, Biorem (Beijing) Technologies Company Limited and Biorem Wuhu Environmental Technology Ltd., 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 2021 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, 2023 and 2022

(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 2023	June 2022	June 2023	June 2022
	\$	\$	\$	\$
Canada	1,869,318	2,638,658	2,614,875	4,190,679
United States	1,938,305	3,320,040	4,194,582	5,708,052
China	32,473	141,771	149,972	400,190
Other	439,955	163,564	489,906	345,868
Total	4,280,051	6,264,033	7,449,335	10,644,789

Capital assets (1)	Period ending	
	June 2023	June 2022
	\$	\$
Canada	604,477	555,757
United States	633,295	481,422
China	-	45,468
Total	1,237,772	1,082,647

(1) Includes plant, equipment, leasehold improvements and right of use assets

5. Other income

The composition of other income is as follows:

	Three months ended		Six months ended	
	June 2023	June 2022	June 2023	June 2022
			\$	\$
Government funding	-	-	-	-
Foreign exchange gain(loss)	(178,938)	(89,029)	(61,727)	(90,081)
Total	(178,938)	(89,029)	(61,727)	(90,081)

Biorem Inc.

Notes to the condensed consolidated interim financial statements

June 30, 2023 and 2022

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6. Contingency

From time to time, the Company is subject to legal proceedings and claims arising in the ordinary course of business. Management is of the opinion, based upon information presently available, that it is unlikely that any such liability, to the extent not provided for by insurance or otherwise, would have a material adverse effect in relation to the Company's consolidated financial position, liquidity or results of operations.

7. Interest-bearing loans

			June 30	December 31
Current	Interest rate	Maturity	2023	2022
	%		\$	\$
Working capital loan	Prime +.075	On demand	1,140,000	775,001
Current portion term loan	4.07	2023	536,438	525,997
			1,676,438	1,300,998
Non-current				
Term loan	4.07	12/01/28	3,240,679	3,501,189
Current portion	4.07	2023	(536,438)	(525,997)
			2,704,241	2,975,192

On December 1, 2021 the Company secured a \$4,000,000 term loan and a \$3,000,000 operating line of credit from a Canadian chartered bank. Both the working capital loan and the term loan are secured by a general security agreement and first charge over all the assets of The Company. The term loan is repayable over 84 months in blended payments of \$54,893 due on the 15th of each month.

8. Provisions

Warranty	2023	2022
	\$	\$
At December 31	621,988	490,225
Provisions used during the period	(158,000)	(25,327)
Provisions made during the period	11,594	96,742
At June 30	\$ 475,582	\$ 561,641

Biorem Inc.

Notes to the condensed consolidated interim financial statements June 30, 2023 and 2022 (Unaudited)

9. Financial Instruments

Fair value of financial instruments

	June 30, 2023		December 31, 2022	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	1,585,467	1,585,467	3,775,018	3,775,018
Accounts receivable	6,004,733	6,004,733	8,557,136	8,557,136
	<u>7,590,200</u>	<u>7,590,200</u>	<u>12,332,154</u>	<u>12,332,154</u>
Financial liabilities				
Accounts payable and accrued liability	4,863,540	4,863,540	7,435,599	7,435,599
Interest bearing loans	4,380,679	4,380,679	4,276,241	4,276,241
Lease liabilities	460,926	460,926	469,915	469,915
	<u>9,705,145</u>	<u>9,705,145</u>	<u>12,181,755</u>	<u>12,181,755</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.

10. Earnings per share

	Three months ended		Six months ended	
	June 2023	June 2022	June 2023	June 2022
	\$	\$	\$	\$
Net earnings(loss)	(96,493)	164,430	(650,218)	64,020
Common shares outstanding	15,697,437	15,477,437	15,497,437	15,477,437
Dilutive Options	-	1,725,801	-	1,725,801
Total	<u>15,697,437</u>	<u>17,203,238</u>	<u>15,497,437</u>	<u>17,203,238</u>