

Condensed consolidated interim financial statements of

**Biorem Inc.**

Periods ended September 30, 2022 and 2021

(Unaudited)

# Biorem Inc.

September 30, 2022 and 2021

(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, 2022 and December 31, 2021

(In Canadian dollars, unaudited)	Notes	2022	2021
		\$	\$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		3,567,640	4,471,304
Accounts receivable		7,794,045	6,506,760
Unbilled revenue		3,294,901	3,626,819
Inventories		1,393,100	901,670
Prepaid expenses and deposits		1,759,887	658,884
		17,809,573	16,165,437
Non-current assets			
Equipment and leasehold improvements		1,044,955	1,145,070
Deferred tax assets		1,567,458	1,855,547
<b>Total assets</b>		<b>20,421,986</b>	<b>19,166,054</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable		5,872,696	5,065,853
Accrued liabilities		2,527,678	2,512,982
Lease liabilities		240,617	185,687
Income taxes payable		102,397	445,831
Provisions	<b>8</b>	578,700	490,225
Unearned revenue		2,944,301	3,021,251
Interest bearing loans	<b>7</b>	1,310,693	1,508,811
		13,577,082	13,230,640
Non-current liabilities			
Interest bearing loans	<b>7</b>	3,108,818	3,501,189
Lease liabilities		276,971	469,916
		3,385,789	3,971,105
<b>Shareholders' equity</b>			
Common shares		4,909,173	4,906,353
Contributed surplus		2,202,596	2,169,648
Accumulated other comprehensive income		1,231,182	597,343
Deficit		(4,883,836)	(5,709,035)
<b>Total shareholders' equity</b>		<b>3,459,115</b>	<b>1,964,309</b>
<b>Total liabilities and shareholders' equity</b>		<b>20,421,986</b>	<b>19,166,054</b>

See accompanying notes to consolidated financial statements.

# Biorem Inc.

## Condensed consolidated interim statements of operations Three and nine months ended September 30, 2022 and 2021

(In Canadian dollars, unaudited)	Notes	Three months ended		Nine months ended	
		2022	2021	2022	2021
		\$	\$	\$	\$
Revenue		7,307,356	4,576,025	17,952,145	13,638,851
Cost of goods sold		4,789,831	3,439,376	13,099,245	11,107,896
Gross profit		2,517,525	1,136,649	4,852,900	2,530,955
Expenses (income)					
Sales and marketing		709,217	481,996	1,846,147	1,441,296
Research and development		37,882	3,845	85,258	7,070
General and administration		594,653	527,463	1,432,699	1,207,681
Other expense (income)	5	71,802	268,945	161,883	204,197
Total operating expenses		1,413,554	1,282,249	3,525,987	2,860,244
Earnings from operations		1,103,971	(145,600)	1,326,913	(329,289)
Finance costs	7	68,353	11,399	204,193	33,747
Net earnings before tax		1,035,618	(156,999)	1,122,720	(363,036)
Income tax expense		274,439	(41,605)	297,521	(76,510)
Net earnings		761,179	(115,394)	825,199	(286,526)
Earnings per share, basic	10	\$ 0.050	\$ -	\$ 0.050	\$ -
Earnings per share, diluted	10	\$ 0.040	\$ -	\$ 0.040	\$ -

See accompanying notes to consolidated financial statements.

# Biorem Inc.

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

Three and nine months ended September 30, 2022 and 2021

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(In Canadian dollars, unaudited)	Three months ended		Nine months ended	
	2022	2021	2022	2021
	\$	\$	\$	\$
Net earnings	761,179	(115,394)	825,199	(286,526)
Other comprehensive income				
Item which may be reclassified into profit and loss:				
Foreign currency translation gain (loss) on foreign operations	430,356	327,402	633,839	515,386
Total comprehensive income for the period	1,191,535	212,008	1,459,038	228,860

# Biorem Inc.

## Condensed Consolidated interim statements of shareholders' equity

Nine months ended September 30, 2022 and 2021

(In Canadian dollars, unaudited)	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	\$	\$	\$	\$	\$
<b>Balance, as at January 1, 2021</b>	17,204,855	2,189,248	1,136,890	(7,006,372)	13,524,621
<b>Total comprehensive income for the period</b>					
Income for the period	-	-	-	(286,526)	(286,526)
Foreign currency translation differences on foreign operations	-	-	396,425	-	396,425
<b>Total comprehensive income for the period</b>	-	-	396,425	(286,526)	109,899
Stock options exercised	84,575	-	-	-	84,575
Stock-based compensation	-	8,439	-	-	8,439
	84,575	8,439	-	-	93,014
<b>Balance, as at September 30, 2021</b>	17,289,430	2,197,687	1,533,315	(7,292,898)	13,727,534
<b>Balance, as at January 1, 2022</b>	4,906,353	2,169,648	597,343	(5,709,035)	1,964,309
<b>Total comprehensive income for the period</b>					
Income for the period	-	-	-	825,199	825,199
Foreign currency translation differences on foreign operations	-	-	633,839	-	633,839
<b>Total comprehensive income for the period</b>	-	-	633,839	825,199	1,459,038
Stock options exercised	2,820	(820)	-	-	2,000
Stock-based compensation	-	33,768	-	-	33,768
	2,820	32,948	-	-	35,768
<b>Balance, as at September 30, 2022</b>	4,909,173	2,202,596	1,231,182	(4,883,836)	3,459,115

# Biorem Inc.

## Condensed consolidated interim statements of cash flows

Nine months ended September 30, 2022 and 2021

(In Canadian dollars, unaudited)	Notes	2022	2021
		\$	\$
<b>Operating activities</b>			
Net earnings		825,199	(286,526)
Items not involving cash:			
Depreciation		231,232	250,000
Deferred tax expense(recovery)		288,089	(76,510)
Accretion lease interest		27,665	31,759
Stock option compensation		33,768	8,439
		1,405,953	(72,838)
<b>Change in non-cash operating working capital</b>			
Accounts receivable		(966,348)	3,092,227
Unbilled revenue		187,487	(609,512)
Inventories		(750,328)	(1,232,883)
Prepaid expenses and deposits		(1,070,814)	(987,082)
Accounts payable		544,278	741,621
Accrued liabilities and provision		(168,195)	(395,247)
Income taxes payable		(336,416)	(65,500)
Provisions		90,528	75,232
Unearned revenue		(198,388)	46,412
<b>Cash provided by (used in) operations</b>		(1,262,243)	592,430
<b>Investing activities</b>			
Purchase of equipment		(143,013)	(52,157)
		(143,013)	(52,157)
<b>Financing activities</b>			
Proceeds (repayments) of operating loan		(220,000)	-
Term loan repayments		(370,489)	-
Payment of lease liabilities		(164,789)	(128,257)
Proceeds from issuance of common shares on exercise of stock options		2,000	84,575
		(753,278)	(43,682)
Foreign exchange gain (loss) on foreign denominated cash and cash equivalents		1,254,870	546,425
<b>Increase (decrease) in cash and cash equivalents</b>		(903,664)	1,043,016
Cash and cash equivalents, beginning of year		4,471,304	8,869,394
<b>Cash and cash equivalents, end of period</b>		3,567,640	9,912,410

# Biorem Inc.

## Notes to the condensed consolidated interim financial statements September 30, 2022 and 2021 (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 2021 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 2022.

#### 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 2020 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, 2022 and 2021 (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 2022	Sept 2021	Sept 2022	Sept 2021
	\$	\$	\$	\$
Canada	870,750	2,035,292	5,061,429	4,956,589
United States	5,405,931	1,531,784	11,121,203	6,851,353
China	993,663	380,629	1,393,853	914,285
Other	37,011	628,320	375,660	916,624
<b>Total</b>	<b>7,307,355</b>	<b>4,576,025</b>	<b>17,952,145</b>	<b>13,638,851</b>

Capital assets	Period ending	
	Sept 2022	Sept 2021
	\$	\$
Canada	557,827	639,849
United States	444,739	491,768
China	42,389	84,964
<b>Total</b>	<b>1,044,955</b>	<b>1,216,581</b>

### 5. Other expense (income)

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

	Three months ended		Nine months ended	
	Sept 2022	Sept 2021	Sept 2022	Sept 2021
			\$	\$
Government funding	-	-	-	(25,000)
Foreign exchange (gain) loss	71,802	268,945	161,883	229,197
<b>Total</b>	<b>71,802</b>	<b>268,945</b>	<b>161,883</b>	<b>204,197</b>

# Biorem Inc.

## Notes to the condensed consolidated interim financial statements September 30, 2022 and 2021 (Unaudited)

### 6. Contingency

From time to time, the Company is subject to legal proceedings and claims arising in the ordinary course of business. One of the Company's operating subsidiaries is currently the subject of a \$US 1.2 million claim in the United States for alleged costs related to a construction contract. The Company believes the claim is without merit, however is in negotiations for an out-of-court settlement. If a settlement agreement is reached management estimates that the settlement costs could be as high as \$US 900,000.

### 7. Interest-bearing loans

<b>Current</b>	Interest rate	Maturity	September 2022	December 31 2021
	%		\$	\$
Working capital loan	Prime +.075	On demand	790,000	1,010,000
Current portion term loan	4.07	2022	520,693	498,811
			<u>1,310,693</u>	<u>1,508,811</u>
<b>Non-current</b>				
Term loan	4.07	12/01/28	3,629,511	4,000,000
Current portion	4.07	2022	(520,693)	(498,811)
			<u>3,108,818</u>	<u>3,501,189</u>

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 15<sup>th</sup> of each month.

### 8. Provisions

Warranty	2022	2021
	\$	\$
At January 1,	490,225	542,112
Provisions used during the period	-	(827)
Provisions made during the period	88,473	66,570
At September 30,	<u>\$ 578,700</u>	<u>607,855</u>

# Biorem Inc.

## Notes to the condensed consolidated interim financial statements September 30, 2022 and 2021 (Unaudited)

### 9. Financial Instruments

#### *Fair value of financial instruments*

	September 30 2022		December 31 2021	
	Carrying Amount	Fair value	Carrying Amount	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash	3,567,640	3,567,640	4,471,304	4,471,304
Accounts receivable	7,794,045	7,794,045	6,506,760	6,506,760
	<u>11,361,685</u>	<u>11,361,685</u>	<u>10,978,064</u>	<u>10,978,064</u>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	8,400,374	8,400,374	7,578,835	7,578,835
Interest bearing loans	4,419,511	4,419,511	5,010,000	5,010,000
Lease liabilities	517,588	517,588	655,603	655,603
	<u>13,337,473</u>	<u>13,337,473</u>	<u>13,244,438</u>	<u>13,244,438</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.

### 10. Earnings per share

	Three months ended		Nine months ended	
	Sept 2022	Sept 2021	Sept 2022	Sept 2021
	\$	\$	\$	\$
Net earnings	761,179	(115,394)	825,199	(286,526)
Common shares outstanding	15,497,437	38,911,558	15,497,437	38,911,558
Dilutive options	3,065,000	1,426,108	3,065,000	1,426,108
Total	<u>18,562,437</u>	<u>40,337,666</u>	<u>18,562,437</u>	<u>40,337,666</u>