

Consolidated Financial Statements of

**Biorem Inc.**

December 31, 2022 and 2021

# Biorem Inc.

December 31, 2022 and 2021

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To the Shareholders of Biorem Inc.:

## Opinion

We have audited the consolidated financial statements of Biorem Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of operations, comprehensive earnings, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Revenue Recognized from Construction Contracts*

#### *Key Audit Matter Description*

We identified revenue recognized from construction contracts as one of the most significant assessed risks of material misstatement. The Company enters into construction contracts which span over several years with varying terms and recognize revenue progressively 'over time' based on the percentage-of-completion method. This method is measured by reference to cost incurred to date as a percentage of the total estimated cost. The Company's policy for revenue recognition together with the related significant accounting estimates and assumptions is described in notes 2 and 3 of the consolidated financial statements.

The Company recognized \$27.3 million of revenues for the year ended December 31, 2022 related to these contracts. The determination of the estimated costs to complete projects that are open at period end is a significant judgement that can have a material impact on the amount of revenue recognized in the year.

These significant judgements include those related to estimated future labour and materials. Given the variation in the types of projects, these judgments related to the estimation of future costs are subjective in nature and dependent on the complexity and status of the related contract as at period end date.

### *Audit Response*

We responded to this matter by performing procedures in relation to revenue recognized from construction projects. Our audit work in relation to this included, but was not restricted to, the following:

- We obtained an understanding of the budgeting process for projects and the key controls. We also evaluated the design related to the budgeting process, including how new projects are accepted, how budgets are created, the approval of budgets, and management's process on monitoring estimated costs to complete the projects.
- We selected and reviewed contracts including the total contracted revenue, billings, change orders, and the estimated costs to complete in order to assess the reasonability of the Company's percentage of completion calculations. We also verified the contracts had been approved and the parties were committed to their obligations by checking the contracts were signed by both parties, payment terms, and ensured the contract has commercial substance.
- We obtained breakdowns of all budgeted costs and obtained corroborative evidence from the operations team members to ensure indirect costs are included.
- We tested a sample of actual material and labour costs incurred by agreeing to supporting documentation to ensure cost had been incurred on each project that is recognizing revenue.
- We compared prior period cost estimates to actual contract costs incurred in the current year to assess management's ability to estimate the costs to complete a contract.

### **Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Shaila Rani Mehta.

Mississauga, Ontario

April 4, 2023

*MNP* LLP

Chartered Professional Accountants

Licensed Public Accountants

# Biorem Inc.

## Consolidated statements of financial position December 31, 2022 and 2021

In Canadian dollars	Note	2022	2021
		\$	\$
<b>Assets</b>			
Current assets			
Cash	9	3,775,018	4,471,304
Accounts receivable, net of ECL	10	8,357,136	6,506,760
Unbilled revenue	4	3,883,744	3,626,819
Inventories	11	888,045	901,670
Prepaid expenses and deposits	12	870,618	658,884
		17,774,561	16,165,437
Non-current assets			
Equipment and leasehold improvements	13	1,016,297	1,145,070
Deferred tax assets	7	1,939,202	1,855,547
<b>Total assets</b>		<b>20,730,060</b>	<b>19,166,054</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Accounts payable		4,710,820	5,065,853
Accrued liabilities	23	2,663,647	2,512,982
Lease liabilities	22	157,476	185,687
Income taxes payable	7	893,426	445,831
Provisions	14	621,988	490,225
Unearned revenue	4	2,573,470	3,021,251
Interest bearing loans	16	1,300,998	1,508,811
		12,921,825	13,230,640
Non-current liabilities			
Interest bearing loans	16	2,975,243	3,501,189
Lease liabilities	22	312,439	469,916
		3,287,682	3,971,105
<b>Shareholders' equity</b>			
Common shares	17	4,909,423	4,906,353
Contributed surplus		2,260,271	2,169,648
Accumulated other comprehensive income		1,446,837	597,343
Deficit		(4,095,978)	(5,709,035)
<b>Total shareholders' equity</b>		<b>4,520,553</b>	<b>1,964,309</b>
<b>Total liabilities and shareholders' equity</b>		<b>20,730,060</b>	<b>19,166,054</b>
Contingency	15		

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors of Biorem Inc:

"signed"

"signed"

# Biorem Inc.

## Consolidated statements of operations Years ended December 31, 2022 and 2021

In Canadian dollars	Notes	2022	2021
		\$	\$
Revenue	<b>4</b>	28,862,972	24,477,997
Cost of goods sold	<b>11,19</b>	20,101,332	18,241,584
Gross profit		8,761,640	6,236,413
Expenses			
Sales and marketing	<b>19</b>	2,583,249	2,097,576
Research and development	<b>19</b>	97,123	14,223
General and administration	<b>19,21</b>	3,202,565	1,815,749
Other expense	<b>6</b>	238,116	238,677
Total operating expenses		6,121,053	4,166,225
Earnings from operations		2,640,587	2,070,188
Finance costs	<b>16,22</b>	257,179	35,860
Earnings before tax		2,383,408	2,034,328
Income tax	<b>7</b>	770,351	736,991
Net earnings		1,613,057	1,297,337
Earnings per share, basic	<b>8</b>	0.10	\$ 0.04
Earnings per share, diluted	<b>8</b>	0.09	\$ 0.04

See accompanying notes to consolidated financial statements.



# Biorem Inc.

## Consolidated statements of comprehensive earnings Years ended December 31, 2022 and 2021

In Canadian dollars	Notes	2022	2021
		\$	\$
Net earnings		1,613,057	1,297,337
<b>Other comprehensive earnings (loss)</b>			
Item that will be not reclassified into profit:			
Foreign currency translation differences on foreign operations		849,494	(539,547)
<b>Total comprehensive earnings</b>		<b>2,462,551</b>	<b>757,790</b>

See accompanying notes to consolidated financial statements.

# Biorem Inc.

## Consolidated statements of changes in shareholders' equity Years ended December 31, 2022 and 2021

In Canadian dollars	Notes	Common shares	Contributed surplus	Accumulated other comprehensive income(loss)	Deficit	Total
		\$	\$	\$	\$	\$
<b>Balance, as at December 31, 2020</b>		17,204,855	2,189,248	1,136,890	(7,006,372)	13,524,621
Earnings for the year		-	-	-	1,297,337	1,297,337
Foreign currency translation differences on foreign operations		-	-	(539,547)	-	(539,547)
<b>Total comprehensive earnings for the year</b>		-	-	(539,547)	1,297,337	757,790
Common shares purchased for cancellation	17	(12,411,116)	-	-	-	(12,411,116)
Stock options exercised		112,614	(28,039)	-	-	84,575
Stock-based compensation	18	-	8,439	-	-	8,439
		(12,298,502)	(19,600)	-	-	(12,318,102)
<b>Balance, as at December 31, 2021</b>		4,906,353	2,169,648	597,343	(5,709,035)	1,964,309
Earnings for the year		-	-	-	1,613,057	1,613,057
Foreign currency translation differences on foreign operations		-	-	849,494	-	849,494
<b>Total comprehensive earnings for the year</b>		-	-	849,494	1,613,057	2,462,551
Stock options exercised		3,070	(3,070)	-	-	-
Stock-based compensation	18	-	93,693	-	-	93,693
		3,070	90,623	-	-	93,693
<b>Balance, as at December 31, 2022</b>		4,909,423	2,260,271	1,446,837	(4,095,978)	4,520,553

See accompanying notes to the consolidated financial statements

# Biorem Inc.

## Consolidated statements of cash flows Years ended December 31, 2022 and 2021

In Canadian dollars	Notes	2022	2021
		\$	\$
<b>Operating activities</b>			
Net earnings		1,613,057	1,297,337
Adjustments for:			
Deferred tax expense (recovery)	7	83,655	381,922
Depreciation	13	350,648	343,624
Stock based compensation	18	93,693	8,439
Accretion lease interest	22	39,615	50,541
		2,180,668	2,081,863
<b>Change in non-cash operating working capital</b>			
Accounts receivable		(1,327,260)	(185,626)
Unbilled revenue		(395,452)	(2,341,877)
Inventories		245,499	43,110
Prepaid expenses and deposits		(130,226)	145,267
Accounts payable		743,500	3,251,356
Accrued liabilities		57,027	320,748
Income taxes payable		348,203	304,250
Provisions		271,643	(80,281)
Unearned revenue		(548,688)	242,992
<b>Cash provided by operating activities</b>		1,444,914	3,781,802
<b>Investing activities</b>			
Purchase of equipment, leasehold improvements	13	(203,289)	(75,979)
<b>Cash used in investing activities</b>		(203,289)	(75,979)
<b>Financing activities</b>			
(Repayment to) proceeds from operating loan	16	(234,999)	1,010,000
(Repayment to) proceeds from term loan	16	(498,811)	4,000,000
Proceeds from issuance common shares on exercise of stock options	18	2,000	84,575
Common shares purchased for cancellation	17	-	(12,411,116)
Payment of lease liabilities	22	(219,988)	(239,125)
<b>Cash provided by (used in) financing activities</b>		(951,798)	(7,555,666)
Foreign exchange loss on foreign denominated cash and cash equivalents		(986,113)	(548,247)
<b>Decrease in cash and cash equivalents</b>		(696,286)	(4,398,090)
Cash and cash equivalents, beginning of year		4,471,304	8,869,394
<b>Cash and cash equivalents, end of year</b>	9	3,775,018	4,471,304

See accompanying notes to consolidated financial statements.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 1. General information

BIOREM Inc. ("BIOREM" or the "Company") 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 TSX Venture Exchange and trade under the symbol BRM.V. The consolidated 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 presentation

#### a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors and authorized for issuance on April 4, 2023.

#### b) Basis of measurement

These consolidated 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, and share based payments, both of which are measured 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 consolidated 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 US dollar and the functional currency of BIOREM's subsidiaries located in China is the Chinese renminbi.

#### d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

##### i) *Critical judgments in applying accounting policies*

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effects on the amounts recognized in the consolidated financial statements.

#### **Indicators of impairment**

IAS 36, *Impairment of assets*, requires management to assess the carrying values of the Company's non-financial assets, excluding inventory, at each reporting period and determine whether indicators of impairment exist. The determination of the existence of indicators of impairment requires judgment. Management also exercises judgment to determine whether there are factors that would indicate a cash generating unit ("CGU") is impaired. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, external valuations of the asset, and obsolescence or physical damage to the asset.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 2. Basis of presentation (continued)

#### d) Use of estimates and judgements (continued)

##### ii) *Key sources of estimation uncertainty*

The following are the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next twelve months.

##### **Estimation of contract costs**

The Company recognizes revenue on its construction contracts using the percentage-of-completion method, under which contract revenue is recognized in proportion to the contract costs incurred in relation to the total costs estimated to complete the contract, as indicated in note 3(b). The determination of estimated costs to complete contracts requires management to make estimates regarding future material and labour costs. Differences between actual contract costs incurred and estimated contract costs could materially affect the timing of the recognition of contract revenues.

##### **Determination of useful lives and residual values of long-lived assets**

The Company's leasehold improvements and equipment are depreciated or amortized to their residual values over their estimated useful lives as described in note 3(f). On an annual basis, management assesses the estimated useful lives and the residual values of these long-lived assets to determine whether they are still appropriate. In the determination of useful lives, management may consider changes in the current and expected use of the asset, changes to the asset's physical condition, or the acquisition of new assets which render existing assets obsolete. In the determination of residual values, management may consider changes in the asset's physical condition, its anticipated use, and external valuations of the asset. Differences between these estimates and the actual lives and residual values of the Company's long-lived assets could materially affect both the timing and amounts of depreciation and amortization expense.

##### **Provisions**

The Company recognizes provisions relating to warranties and termination benefits. As indicated in note 3(i), the determination of the warranty provision is based on historical warranty data, the time-value of money, as well as management's assessment of specific warranty claims, if any. Estimates are also made regarding the timing of the cash outflows relating to any termination benefits and warranty claims. Differences between the timing and amount of estimated expenses relating to these claims could differ materially from the actual expenses incurred.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 2. Basis of presentation (continued)

#### d) Use of estimates and judgements (continued)

##### **Allowances for expected credit losses**

An 'expected credit loss' impairment model applies when the Company requires a loss allowance which is recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the consolidated statement of operations for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the consolidated statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The assumptions used for this estimate, which are based on the Company's historical collection history, are presented in Note 10.

##### **Determination of Stock-based compensation**

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The model used by the Company is the Black-Scholes valuation model at the date of the grant. The Company has made estimates to the volatility, the probable life of the stock options granted and the time of exercise of those stock options. The expected volatility is based on the Company's historical volatility over the same time period of the expected life of the stock options. The expected life of the stock options is based on historical data. These estimates may not necessarily be indicative of future actual patterns.

##### **Income taxes**

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

##### **Deferred income taxes**

Management uses estimates when determining deferred income tax assets. These estimates are used to determine the recoverability of non-capital tax loss carry forward and other tax amounts. Significant judgment is required to determine the probable future cash flows in order to recognize the deferred tax assets. Changes in market conditions, changes in tax legislation, and other factors, could adversely affect the ongoing value of deferred tax assets. The carrying amount of deferred income tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to utilize all or part of the deferred income tax assets. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable income for the asset to be recovered.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 2. Basis of presentation (continued)

#### d) Use of estimates and judgements (continued)

##### Impact of COVID-19 Pandemic

The COVID-19 pandemic continued to disrupt global health and the economy in 2022 and has created an indeterminate period of volatility in the markets Biorem operates. The biggest COVID-19 impact to the Company in 2022 was inflation related to labour and materials and the delays in projects due to the availability of labour and materials.

Any estimate of the length and severity of these developments is subject to significant uncertainty, and accordingly estimates of the extent to which COVID-19 pandemic and ongoing related economic conditions may materially and adversely affect the Company's financial results, and condition in future periods are also subject to significant uncertainty. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been consistently applied by the Company's subsidiaries.

#### e) Basis of consolidation

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries (which are wholly owned by the Company) are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accordingly, the consolidated financial statements include the accounts of Biorem Technologies Inc., Biorem Environmental Inc., Biorem Environmental (US) Ltd., Biorem Hong Kong, Biorem (Beijing) Environmental Technologies Company Limited, Biorem Wuhu Environmental Technology Ltd. and Tianjin Biqing Environmental Technology Co., Ltd in addition to those of BIOREM. All significant inter-company transactions and balances have been eliminated.

#### f) Revenue recognition

The Company generates revenues from the sale of standard products, from construction projects for specialized products and from services for repairs and maintenance.

Under IFRS 15 revenue is recognized based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 includes a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 3. Significant accounting policies (continued)

#### f) Revenue recognition continued

##### i) Standard products

Revenue for standard products and services is recognized at a point in time when the performance obligation is typically satisfied on the delivery of the product or service to the customer.

##### ii) Construction contracts

The Company derives revenue from construction contracts which require performance over a time span which may extend beyond one or more accounting periods. The Company recognizes revenue on construction contracts using the percentage-of-completion method, based on costs incurred relative to the estimated total contract costs.

Contract revenue includes the initial amount agreed in the contract plus any variations in contract estimated reliably. Contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract costs are expensed as incurred. Contract costs include all amounts that relate directly to the specific contract, are attributable to contract activity, and are specifically chargeable to the customer under the terms of the contract.

##### *Measure of anticipated revenues and determination of progress*

Under IFRS 15, the amount of anticipated revenue used when determining the amount of revenue to be recognized must be based on contracts with legally enforceable rights and obligations.

IFRS 15 requires that assurance-type warranty costs be excluded from the measure of progress of projects for which revenue is recognized over time using a cost input method.

The stage of completion of a contract is determined by reference to actual costs of work performed and estimates of remaining work to be completed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

On an ongoing basis, the estimated total costs for construction contracts are revised based on the information available at the end of the reporting period. Changes in estimated total costs are reflected in the percentage of completion calculation of applicable projects in the same period as the change in estimate occurs.

Unbilled revenue represents revenue earned in excess of amounts billed on uncompleted contracts.

Unearned revenue represents the excess of amounts billed to customers over revenue earned on uncompleted contracts.

##### *Change orders and claims*

Contracts are often modified to account for changes in contract specifications and requirements. Most of the Company's contract modifications are for goods or services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as if they were a part of that contract. Change orders and claims, referred to as contract modifications are accounted for under IFRS 15, based, among other factors, on the fact that the contract modification is approved and it is highly probable that a significant reversal in the amount of cumulative revenue recognized on such contract modifications will not occur when the uncertainty is subsequently resolved.



# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 3. Significant accounting policies (continued)

#### f) Revenue recognition continued

##### Services

Revenue relating to services rendered is recognized in profit or loss when the service is provided.

Under IFRS 15, an entity recognizes revenue as a performance obligation is satisfied, for standard products, construction contracts and services. i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

#### g) Foreign currency

##### i) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at rates of exchange in effect at that date. Non-monetary assets and liabilities arising from transactions denominated in foreign currencies are translated at the historical exchange rate. Revenues and expenses denominated in a foreign currency are translated at the monthly average exchange rate which approximates the historical exchange rate on the date of the transaction. Adjustments to the Canadian dollar equivalent of foreign denominated monetary assets and liabilities due to the impact of exchange rate changes are recognized in other income in the statement of operations at each reporting period.

##### ii) Foreign operations

On consolidation, assets and liabilities of BIOREM's subsidiaries are translated into the Canadian dollar at the exchange rate on the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences arising on the translation of foreign operations are recognized and presented in other comprehensive earnings (loss).

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 3. Significant accounting policies (continued)

#### h) Financial instruments

##### *Classification*

Under IFRS 9 the Company determines the classification of financial instruments based on the following categories:

1. Measured at amortized cost
2. Measured at fair value through profit or loss (FVTPL)
3. Measured at fair value through other comprehensive income (FVOCI)

The classification under IFRS 9 is based on the business model under which a financial asset is managed and on its contractual cash flow characteristics. Assets held for the collection of contractual cash flows and for which those cash flows correspond solely to principal repayments and interest payments are measured at amortized cost. Contracts with embedded derivatives where the host is a financial instrument in the scope of the standard will be assessed as a whole for classification.

A financial asset is measured at amortized cost if both of the following criteria are met:

1. Held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as derivatives), or if the Company has chosen to evaluate them at FVTPL.

Management has assessed the classification and measurement of our financial instruments under IFRS 9.

<b>Financial Instrument</b>	<b>Classification</b>
Cash and cash equivalents	Amortized cost
Accounts receivable, excluding HST/VAT	Amortized cost
Accounts payable, excluding HST/VAT	Amortized cost
Accrued liabilities	Amortized cost
Loans	Amortized cost
Lease liabilities	Amortized cost

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 3. Significant accounting policies (continued)

#### h) Financial instruments (continued)

##### *Measurement*

Initial recognition – A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

Amortized cost – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Fair value through profit or loss – Changes in fair value after initial recognition, whether realized or not, are recognized through the consolidated statements of operations. Income arising in the form of interest, dividends, or similar, is recognized through the consolidated statements of operations when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Fair value through other comprehensive income – Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through the consolidated statements of net loss and comprehensive loss when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

##### *Impairment*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognize lifetime expected credit losses for its accounts receivable. In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for the respective items.

IFRS 9 outlines a three stage model for impairment based on changes in credit quality since initial recognition:

- Stage 1 Financial instruments that have not had a significant increase in credit risk
- Stage 2 Financial instruments that have had a significant increase in risk since initial recognition
- Stage 3 Financial instruments that have an objective evidence of impairment at the reporting date.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired using the three stage method prescribed by IFRS 9.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 3. Significant accounting policies (continued)

#### h) Financial instruments (continued)

##### *Derecognition*

Financial assets – The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset have expired or when contractual rights to the cash flows have been transferred. Gains and losses from the derecognition are recognized in the consolidated statements of operations.

Financial liabilities – The Corporation derecognizes a financial liability when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid or payable, including non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of operations.

#### i) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. When circumstances which previously caused inventories to be written down to its net realizable value no longer exist, the previous impairment is reversed.

#### j) Equipment and leasehold improvements

Equipment and leasehold improvements are measured at cost less accumulated depreciation, applicable government assistance or investment tax credits, and any recognized impairment loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Asset	Basis	Rate
Research and production equipment	Declining balance	20%
Office equipment	Straight-line or declining balance	3 years or 20%
Leasehold improvements	Straight-line	lesser of term of lease and useful life

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income at the time of disposal.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 3. Significant accounting policies (continued)

#### k) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine if there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

The Company's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Assets that suffer an impairment are tested for possible reversal of the impairment at each reporting date.

#### l) Leases

At the inception of a contract, to determine if it contains a lease, the Company assesses whether it conveys the right to control and obtain substantially all of the economic benefits of an identified asset, for a period of time, in exchange for consideration. Where a contract contains a lease, the Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is measured at cost less any accumulated depreciation and impairment losses and may be adjusted for any remeasurement of the lease liability. Cost is the amount of the initial lease liability plus any initial direct costs incurred and any lease payments made at or before the commencement date less any incentives received. The right-of-use assets are included in the cost of property and equipment on the statement of financial position. They are depreciated, in accordance with the Company's existing accounting policy, over the shorter of the term of the lease or the life of the asset. The lease liability is initially measured at the present value of future lease payments discounted at the interest rate implicit in the contract. If the implicit rate cannot be determined, the incremental borrowing rate over a similar term and with similar security for the funds necessary to obtain an asset of similar value in a similar economic environment is used.

The lease payments include fixed payments less any incentives receivable, variable lease payments that depend on an index or rate and amounts expected to be paid under residual value guarantees. Where the lease contains an extension or purchase option, the costs associated with the option are included if it is reasonably expected to be exercised by the Company. Thereafter, the amount of the lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of the lease liability is remeasured to reflect any modifications to the contract terms. Lease liabilities are presented as a component of debt on the consolidated statement of financial position. The Company has elected not to recognize right-of-use assets and lease liabilities for contracts that have a lease term of 12 months or less or are for the use of low value assets. These contracts are recognized as an expense in the consolidated statement of loss and comprehensive loss in the period the cost is incurred. In addition, for certain asset classes, the Company has elected to treat both lease and non-lease components as a single lease component for the purposes of applying IFRS 16.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 3. Significant accounting policies (continued)

#### m) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are determined by discounting the cash flows estimated to settle the obligation at a pre-tax rate that reflects current market assessment of the time value of money and risks specific to the Company. The unwinding of the discount is recognized as finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

#### n) Equity

Common stock issued by the company is classified as equity when there is no contractual obligation to transfer cash or other financial assets to the holder of the shares. Incremental costs directly attributable to the issue or repurchase of equity instruments are recognized in equity, net of tax.

Treasury shares are equity instruments repurchased by the Company which have not been canceled and are deducted from equity on the consolidated balance sheet, irrespective of the objective of the purchase. The Company acquires its own subordinate voting shares on the open market for its share-based payment awards. No gain or loss is recognized in the consolidated statement of earnings on the purchase, sale, issue or cancellation of treasury shares. Consideration paid or received is recognized directly in equity.

Dividends and other distributions to holders of the company's equity instruments are recognized directly in equity.

#### o) Stock options

The grant-date fair value of share-based payment awards granted to employees is recognized as an expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 3. Significant accounting policies (continued)

#### p) Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are treated as a reduction of the plant and equipment costs.

Other government grants are recognized as other income over the periods necessary to correspond with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

#### q) Finance costs

Finance costs comprise interest expense on borrowings, that are not directly attributable to the acquisition, construction or production of a qualifying asset, and interest on lease obligations and are recognized in profit or loss using the effective interest method.

#### r) Earnings per share

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding adjusted for the effects of all potential dilutive potential common shares, which comprise stock options granted. The number of additional shares is calculated by assuming that outstanding share options were exercised and that proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

#### s) Income tax

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

#### t) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief decision maker is responsible for allocating resources and assessing the performance of the operating segments and has been identified as the Senior Leadership Team that makes strategic decisions. The Company operates and reports its results as one operating segment.

#### u) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term deposits with original maturities of less than three months.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 3. Significant accounting policies (continued)

#### v) Consolidated Statements of cash flows

Cash paid for interest is presented as a financing activity.

#### w) Investment tax credits

The Company applies for investment tax credits relating to qualified expenditures under available government incentive programs including the Scientific Research and Experimental Development program. The benefit of investment tax credits is recognized when the applicable eligible expenditures generating the investment tax credits are incurred and are recorded as other income. Investment tax credits related to the acquisition of equipment are deducted from the costs of the related assets.

#### x) Changes in accounting policies

There were no changes in accounting policies during the year and the Company has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

#### y) Accounting standards and amendments effective in the current year

There were no new accounting standards effective January 1, 2022 that were applicable to the Company.

#### z) Accounting standards and interpretations not yet adopted

The following standards and interpretations have been issued but are not mandatory for annual reporting periods beginning on January 1, 2022:

- Classification of Liabilities as Current or Non-current Amendments to IAS 1 - Effective period beginning on or after January 1, 2023. The new standard will not have an impact on the classification of the Company's liabilities.



# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

### 4. Revenue

	2022	2021
	\$	\$
Standard products and services	1,560,509	2,558,456
Construction contracts	27,302,463	21,919,541
	<u>28,862,972</u>	<u>24,477,997</u>
<b>Costs and estimated earnings on uncompleted contracts</b>		
	2022	2021
	\$	\$
Costs incurred on uncompleted contracts	39,832,051	39,616,013
Estimated earnings on uncompleted contracts, net of recognized losses	23,459,253	22,290,649
	<u>63,291,304</u>	<u>61,906,662</u>
Less: billings to date	<u>(61,981,030)</u>	<u>(61,301,094)</u>
	<u>1,310,274</u>	<u>605,568</u>
Unbilled revenue	3,883,744	3,626,819
Unearned revenue	<u>(2,573,470)</u>	<u>(3,021,251)</u>
	<u>1,310,274</u>	<u>605,568</u>

### 5. Segmented information

The Company attributes revenues to geographical regions based on the domicile of its customers.

Management has determined that the Company operates in one dominant industry segment, which involves the manufacture and sale of high efficiency air pollution control systems.

The Company's revenue and capital assets breaks down geographically as follows:

	Revenue		Capital assets (1)	
	2022	2021	2022	2021
	\$	\$	\$	\$
Canada	7,887,774	11,728,516	585,988	603,546
United States	18,457,545	10,472,663	430,309	478,973
China	1,802,893	1,234,162	-	62,551
Other international	714,760	1,042,656	-	-
Total	<u>28,862,972</u>	<u>24,477,997</u>	<u>1,016,297</u>	<u>1,145,070</u>

(1) Includes equipment, leasehold improvements and right-to use assets.

In 2022, 12 customers accounted for 71% of total revenue (2021 – twelve customers accounted for 60% of total revenue). Fourteen customers accounted for 84% of accounts receivable at December 31, 2022 (December 31, 2021 - four customers accounted for 57%).

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

### 6. Other expense (income)

	2022	2021
	\$	\$
Foreign exchange loss (gain)	5,970	263,677
Foreign exchange loss on translation of intercompany balances	232,146	-
Government funding	-	(25,000)
	<u>238,116</u>	<u>238,677</u>

Government Funding

#### *Investment tax credits*

The Company is eligible for Federal investment tax credits at a rate of 20% of qualifying scientific research and experimental development expenditures conducted in Canada, in addition to investment tax credits or deductions available from provincial jurisdictions. Federal investment tax credits are only available to the Company to be applied against future income taxes payable.

### 7. Income taxes

#### a) Income tax recognized in net earnings

Income tax expense is comprised of:

	2022	2021
	\$	\$
Current tax expense	791,549	355,069
Deferred tax expense (recovery)	(21,198)	381,922
	<u>770,351</u>	<u>736,991</u>

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

### 7. Income taxes (continued)

#### a) Income tax recognized in net earnings (continued)

	2022	2021
	\$	\$
Earnings before tax	2,383,408	2,034,328
Expected income tax expense at 26.5% ( 2020 26.5%)	631,603	539,097
Effect of tax rate differential in foreign operations	68,154	1,620
Effect of expenses that are not deductible in determining taxable profit	33,176	6,222
Book to filing adjustments	-	115,303
Tax benefits not recognized	37,418	74,749
Income tax expense recognized in net earnings	770,351	736,991

#### b) Deferred tax assets

The following table summarizes the components of deferred tax:

	2022	2021
	\$	\$
Tax assets		
Benefit of tax losses to be carried forward	968,302	644,473
Scientific research and experimental development expenditures available in future years	571,657	767,505
Provisions not yet deducted for tax	454,297	459,879
Capital assets - difference in accounting book value and undepreciated tax capital cost	(55,054)	(16,310)
	1,939,202	1,855,547

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets are not recognized with respect to the operations in China as management considers it not probable that the assets can be recovered.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

### 8. Earnings per share

	2022	2021
Basic earnings per share	\$ 0.10	\$ 0.04
Calculated as:		
Net earnings	\$ 1,613,057	\$ 1,297,337
Weighted average number of shares outstanding	15,484,937	35,922,293
Diluted earnings per share	\$ 0.90	\$ 0.04
Calculated as:		
Diluted earnings	\$ 1,613,057	\$ 1,297,337
Reconciliation of weighted average diluted shares outstanding:		
Weighted average common shares outstanding	15,484,937	35,922,293
Share options	2,069,830	1,488,485
Weighted average number of shares outstanding used to calculate diluted earnings per share	17,554,767	37,410,778

### 9. Cash

	2022	2021
Cash	\$ 3,775,018	\$ 4,471,304

### 10. Accounts receivable

The aging of the trade receivables net of expected credit losses as at December 31 was as follows:

	2022		2021	
	\$		\$	
0-30 days	4,927,293	59%	4,196,310	64%
31-60 days	1,429,141	17%	1,480,245	23%
61-90 days	318,236	4%	126,979	2%
91-120 days	544,868	6%	-	0%
Over 120 days	1,137,598	14%	703,226	11%
	8,357,136	100%	6,506,760	100%

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 10. Accounts receivable (continued)

Accounts receivable in the amount of \$643,043 (2021 - \$505,253) (net of expected credit losses) relate to holdbacks associated with project completion and commissioning.

The gross amount due from customers for construction contracts at December 31, 2022 is \$8,366,878 (2021 - \$6,230,578).

Allowance for expected credit losses	2022	2021
	\$	\$
Balance at beginning of the year	1,046,315	881,315
Impairment losses recognized	200,000	-
Reclassification of unbilled revenue valuation allowance		165,000
Amounts written off during the year as uncollectible	-	-
Amounts recovered during the year	-	-
	<u>1,246,315</u>	<u>1,046,315</u>

The Company provides for expected credit losses based on its assessment of probability of specific losses, estimates of future individual exposures and provisions based on historical experience. In estimating expected credit losses the Company determined that historic credit losses represented as a percentage of the days outstanding of accounts receivable the percentages shown in the table below. In 2022, the Company recorded a specific expected credit loss of \$200,000 against an outstanding account that had an increase in the credit risk.

Days Outstanding	2022	2021
	%	%
0-30	0.258	0.370
31-60	0.310	0.440
61-90 days	0.658	0.800
over 90 days	1.534	1.570
average	<u>0.690</u>	<u>0.800</u>

### 11. Inventories

	2022	2021
	\$	\$
Raw materials	168,766	171,566
Finished goods	719,279	730,104
	<u>888,045</u>	<u>901,670</u>

The total amount of inventories included in cost of goods sold for the year was \$15,452,943 (2021 - \$13,073,791).

The cost of inventories recognized as an expense includes \$nil (2021 - \$nil) in respect of write-downs of inventories to net realizable value.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

### 12. Prepaid expenses and deposits

	2022	2021
	\$	\$
Purchase deposits	336,452	490,145
Prepaid insurance	69,386	39,430
Prepaid commissions	464,780	129,309
	<u>870,618</u>	<u>658,884</u>

### 13. Equipment, leasehold improvements and right-of-use assets

	Research & production equipment	Office equipment	Leasehold improvements	Right-of use assets	Total
	\$	\$	\$	\$	\$
Cost					
At December 31, 2020	1,767,790	680,807	826,974	1,505,602	4,781,173
Additions	1,829	14,877	59,273	-	75,979
At December 31, 2021	<u>1,769,619</u>	<u>695,684</u>	<u>886,247</u>	<u>1,505,602</u>	<u>4,857,152</u>
Additions	-	196,558	6,731	-	203,289
Exchange differences	37,011	7,582	10,301	43,954	98,848
At December 31, 2022	<u>1,806,630</u>	<u>899,824</u>	<u>903,279</u>	<u>1,549,556</u>	<u>5,159,289</u>
Accumulated depreciation					
At December 31, 2020	1,720,156	659,016	385,089	601,245	3,365,506
Charge for the year	49,157	1,990	102,698	189,779	343,624
Exchange differences	306	-	2,646	-	2,952
At December 31, 2021	<u>1,769,619</u>	<u>661,006</u>	<u>490,433</u>	<u>791,024</u>	<u>3,712,082</u>
Charge for the year	24,576	3,255	90,329	232,488	350,648
Disposals	-	-	-	-	-
Exchange differences	9,966	7,252	8,557	54,487	80,262
At December 31, 2022	<u>1,804,161</u>	<u>671,513</u>	<u>589,319</u>	<u>1,077,999</u>	<u>4,142,992</u>
Carrying amount					
At December 31, 2021	<u>-</u>	<u>34,678</u>	<u>395,814</u>	<u>714,578</u>	<u>1,145,070</u>
At December 31, 2022	<u>2,469</u>	<u>228,311</u>	<u>313,960</u>	<u>471,557</u>	<u>1,016,297</u>

Depreciation of \$287,176 (2021 - \$270,389) has been recognized in cost of goods sold, and \$63,472 (2021 - \$73,235) has been recognized in general and administration expenses.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

### 14. Provisions

<i>Warranty</i>	2022	2021
	\$	\$
Balance, beginning of year	490,225	542,112
Provisions used during the year	(63,408)	(1,030)
Provisions made during the year	195,171	(50,857)
	621,988	490,225

Provisions are made up of contract warranty obligations. Contract warranty obligations relate to warranties provided by the Company in respect of its construction contracts. If not used during the warranty period, these amounts will be reversed into income. Warranty periods range from one to 20 years,

### 15. Contingency

From time to time, the Company is subject to legal proceedings and claims arising in the ordinary course of business.

During the year one of the Company's operating subsidiaries that was subject to a \$US1.1 million claim in the United States for alleged costs related to a construction contract settled the claim for \$US 900,000. \$US 500,000 had been accrued and expensed in previous years for possible settlement. An additional \$US 400,000 was recorded as an expense in 2022. Under the terms of the settlement \$US 300,000 was due and paid on December 31, 2022, \$US 300,000 is due March 31, 2023 and \$US 300,000 is due on June 30, 2023. \$US 600,000 is included in accrued liabilities on December 31, 2022.

### 16. Interest-bearing loans

<b>Current</b>	Interest rate	Maturity	2022	2021
	%		\$	\$
Working capital loan	Prime + .075	On demand	775,001	1,010,000
Current portion term loan	4.07	2023	525,997	498,811
			1,300,998	1,508,811
<b>Non-current</b>				
Term loan	4.07	12/01/28	3,501,240	4,000,000
Current portion	4.07	2023	(525,997)	(498,811)
			2,975,243	3,501,189

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. In 2022 the Company repaid \$498,811 of the term in accordance with terms of the loan.

Finance costs of \$ 257,179 include \$208,016 of interest on interest bearing loans, \$39,615 of interest accretion on leases and \$9,548 of other interest.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 17. Issued capital

Common shares	2022		2021	
	#	\$	#	\$
Balance, beginning of year	15,477,437	4,906,353	38,661,558	17,204,855
Purchased for cancellation <sup>(1)</sup>	-	-	(23,434,121)	(12,411,116)
Issued in connection with share-based compensation plans	20,000	3,070	250,000	112,614
Balance, end of year	15,497,437	4,909,423	15,477,437	4,906,353

Common shares do not have a par value and carry one vote per share. There are an unlimited number of common shares authorized for issuance.

#### Shares purchased for cancellation

On December 2, 2021 the Company purchased 23,434,121 common shares for cancellation at an average cost of \$0.53 with a book value of \$0.48 per share.

### 18. Stock-based compensation

The Company uses an equity settled employee share option plan to attract and retain key employees, senior executives and directors. Under the terms of the plan, which received shareholder approval, the aggregate number of shares reserved for issuance is fixed at 5,300,000. The maximum number of shares reserved for issuance pursuant to options granted to any one person is limited to 5% of the common shares outstanding at the time of the grant. The share option exercise price is the closing market price of the Company's common shares on the day prior to the date of the grant. Options granted under the plan may be exercised during a period not exceeding ten years from the date of the grant, subject to termination upon the option holder ceasing to be a director, senior executive or employee of the Company and have vesting periods of at least three years. Options issued under the plan are non-transferable.

#### a) Share options granted under the employee share option plan

During the year the Company granted 850,000 share options to employees with an exercise price of \$0.81 and recorded stock based compensation expense during the year of \$93,693. The options vest over three years and have a life of ten years. As at December 31, 2022, employees held options for 3,915,000 common shares (of which 850,000 were unvested), in aggregate, which expire over the period from January 31, 2027 to March 30, 2032. As at December 31, 2021, employees held options for 3,085,000 common shares, in aggregate, which expire over the period from July 13, 2022 to June 6, 2029. Share options granted under the employee share option plan carry no rights to dividends and no voting rights.



# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 18. Stock-based compensation (continued)

#### a) Share options granted under the employee share option plan (continued)

i) *The following table illustrates the significant assumptions underlying the Company's accounting for stock-based compensation:*

		2022
Weighted average fair value of each option	\$	0.48
Assumptions		
Weighted average share price	\$	0.81
Weighted average exercise price	\$	0.81
Expected volatility		47%
Risk free interest rate		2.3%
Expected life in years		10 years
Forfeiture rate		10%
Expected dividend yield		0%

ii) *The following table summarizes the continuity of options issued under the plan:*

	2022		2021	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of year	3,085,000	0.34	3,355,000	0.35
Options forfeited	-	-	(20,000)	0.38
Options exercised	(20,000)	0.10 (1)	(250,000)	0.34
Granted	850,000	0.81	-	-
Outstanding, end of year	3,915,000	0.45	3,085,000	0.34

(1) Weighted average share price on day of exercise was \$0.78

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 18. Stock-based compensation (continued)

#### b) Share options granted under the employee share option plan (continued)

iii) Options outstanding and exercisable at December 31, 2022:

Number outstanding	Exercise price \$	Remaining life in years	Number exercisable	Average exercise price \$
2,875,000	0.345	4.1	2,875,000	0.345
20,000	0.38	4.4	20,000	0.38
80,000	0.34	5.5	80,000	0.34
90,000	0.35	6.5	60,000	0.35
850,000	0.81	9.3	-	0.81
<u>3,915,000</u>	<u>0.45</u>	<u>5.3</u>	<u>3,035,000</u>	<u>0.35</u>

### 19. Expenses

	2022	2021
	\$	\$
Personnel	4,948,706	4,471,393
Subcontractors and materials	17,909,823	16,056,071
Depreciation of equipment and leasehold improvements	350,648	364,195
Other expenses	2,773,766	1,277,473
	<u>25,982,943</u>	<u>22,169,132</u>
Reported as:		
Cost of Sales	20,101,332	18,241,584
Sales and marketing	2,583,249	2,097,576
Research and development	97,123	14,223
General and administration	3,201,239	1,815,749
	<u>25,982,943</u>	<u>22,169,132</u>

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 20. Employee benefits

	2022	2021
	\$	\$
Wages and salaries	3,748,337	3,551,400
Compulsory social security contributions	446,997	408,694
Contributions to defined contribution plans	229,331	182,737
Stock-based compensation	93,693	8,439
	4,518,358	4,151,270

### 21. Related party transactions

#### *Compensation of key management personnel*

The remuneration of directors and other members of key management, which include the CEO and the CFO, and, all of which was incurred in the normal course of operations during the year was as follows:

	2022	2021
	\$	\$
Short-term benefits	733,249	716,148
Stock-based compensation	81,962	-
	815,211	716,148

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends. Short-term benefits include salaries, and bonuses.

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 22. Leases

The Company leases land and buildings. Information about the leases for which the Company is a lessee is presented below. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate of 6%.

<i>Lease liabilities</i>	2022	2021
Maturity analysis - contractual undiscounted cash flows	\$	\$
Less than one year	181,404	241,529
One to five years	405,547	586,951
Total undiscounted lease liabilities at December 31	586,951	828,480
Lease liabilities statement of financial position		
Current	157,476	185,687
Non-current	312,439	469,916
	469,915	655,603
Amounts recognized in profit or loss		
Rent	54,485	137,106
Interest on lease liabilities	39,615	50,541
Depreciation on right-of-use assets	231,827	189,777
	325,927	377,424
Amounts recognized in the statement of cash flows		
Total cash outflow for leases	219,988	239,125
Reported as:		
Cost of sales	12,280	33,217
General and administration	274,032	293,666
Finance costs	39,615	50,541
	325,927	377,424

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 23. Financial instruments

#### a) Financial and capital risk management

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

##### i) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises primarily from the Company's cash and cash equivalents and trade receivables. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure is continuously monitored.

The Company's objective of managing credit risk is to mitigate the credit losses incurred. Credit risk is mitigated by entering into contracts with stable, creditworthy parties. The Company measures credit risk by reviewing the aging of its receivables. Credit reviews are conducted as deemed necessary and take into account the third party's financial position and past payment experience. The Company minimizes the credit risk of cash and cash equivalents by making deposits with only reputable entities that have high credit ratings assigned by national credit rating agencies. The Company's credit risk and related risk management practice remain unchanged from the prior year.

The carrying amount of financial assets recorded in the consolidated financial statements represents the Company's maximum exposure to credit risk. No collateral or credit enhancements are in place.

At December 31, 2022, the Company had \$1,504,337 (2021-\$1,047,548) in trade receivables that were past due against which the Company recorded an allowance for expected credit losses of \$1,264,315 (2021-\$1,046,315). The allowance for expected credited losses was comprised of \$1,054,382 in specific accounts and \$209,694 of general provision.

##### ii) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's working capital loan with a floating interest rate. The Company's objective of managing interest rate risk is to mitigate interest rate fluctuations while securing financing with the most favourable terms possible. Interest rate risk is managed by negotiating the most favourable terms possible with the Company's lenders.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates on that portion of loans affected.

	Increase/decrease in prime	Effect on profit before tax
	%	\$
Impact of 1% decline in prime rate	(1.0)	(7,750)
Impact of 1% increase in prime rate	1.0	7,750
Impact of 2% increase in prime rate	2.0	15,500

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 23. Financial instruments (continued)

#### a) Financial and capital risk management (continued)

##### iii) Market risks

Foreign currency risk:

The Company's functional and reporting currency is the Canadian dollar. Foreign currency risk is primarily related to the Company's subsidiary in the US. US operations are conducted primarily in US dollars. The Company's subsidiary in China conducts business in Chinese renminbi. For the Company's foreign currency transactions, fluctuations in the respective exchange rates relative to the Canadian dollar will create volatility in the Company's cash flows and the reported amounts of sales, cost of goods sold and general and administrative expenses on a period-to-period basis and compared with operating budgets and forecasts. The Company's sales are primarily in Canadian and US dollars. The Company's objective of managing foreign currency risk is to mitigate or eliminate the losses incurred. There have been no changes to the objective or the related risk exposure from the prior year.

At December 31, 2022 and 2021, the Company held no forward exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the statement of consolidated financial position date are as follows:

	Assets		Liabilities	
	2022	2021	2022	2021
	\$	\$	\$	\$
United States dollars	9,392,555	5,752,279	7,352,500	6,903,924
Chinese renminbi	957,412	1,145,421	642,606	820,302

The following table details the Company's sensitivity to a 10% increase and decrease in the Canadian dollar against the United States dollar. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other comprehensive income where the Canadian dollar strengthens 10% against the United States dollar. For a 10% weakening of the Canadian dollar against the United States dollar, there would be an equal and opposite impact on the profit and other comprehensive income, and the balances below would be negative.

	United States dollar impact	
	2022	2021
	\$	\$
Profit or loss	204,001	82,653
Other comprehensive income	43,031	54,152

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

### 23. Financial instruments (continued)

#### a) Financial and capital risk management (continued)

##### iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business including proposals on major investments. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company's objectives of managing liquidity risk are to forecast the liquidity position as accurately as possible and to maintain sufficient resources to pursue its growth strategy. There have been no changes to the Company's objectives during the year. The Company's financial liabilities include accounts payable and accrued liabilities, unearned revenue and contract advances.

A maturity analysis as at December 31, 2022 of the Company's financial liabilities based on gross, undiscounted cash flows is presented below. The maturity analysis is based on the earliest date that liabilities may be due although the Company expects some of its liabilities to be paid later than the earliest date on which the Company can be required to pay.

	Carrying Amount	Contractual Cash Flow	Less than 1 year	1-3 years	3 years to 1 year	5+ years	Total
	\$	\$	\$	\$	\$	\$	\$
2022							
Accounts payable	4,710,819	4,710,819	4,710,819	-	-	-	4,710,819
Accrued liabilities	2,663,647	2,663,647	2,663,647	-	-	-	2,663,647
Interest bearing loans	4,276,241	4,727,442	1,464,742	1,976,220	1,317,480	-	4,758,442
Lease liabilities	469,915	608,759	209,328	399,431	-	-	608,759
	<u>12,120,622</u>	<u>12,710,667</u>	<u>9,048,536</u>	<u>2,375,651</u>	<u>1,317,480</u>	<u>-</u>	<u>12,741,667</u>
2021							
Accounts payable	5,065,853	5,065,853	5,065,853	-	-	-	5,065,853
Accrued liabilities	2,512,982	2,512,982	2,512,982	-	-	-	2,512,982
Interest bearing loans	5,010,000	5,661,561	1,709,121	1,976,220	1,317,480	658,740	5,661,561
Lease liabilities	655,603	815,630	206,872	563,880	44,878	-	815,630
	<u>13,244,438</u>	<u>14,056,026</u>	<u>9,494,828</u>	<u>2,540,100</u>	<u>1,362,358</u>	<u>658,740</u>	<u>14,056,026</u>

# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 23. Financial instruments (continued)

#### a) Financial and capital risk management (continued)

##### v) *Capital management risk*

The policy of the Board of Directors is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital management objectives, policies and procedures remained unchanged during the year ended December 31, 2022.

The capital structure is managed by evaluating shareholders' equity and non-current liabilities of the Company.

Shareholders' equity and non-current liabilities at end of the reporting period was as follows:

	2022	2021
Non-current liabilities	3,287,682	3,971,105
Shareholders' equity	4,520,553	1,964,309
	<u>7,808,235</u>	<u>5,935,414</u>



# Biorem Inc.

## Notes to the consolidated financial statements

December 31, 2022 and 2021

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### 23. Financial instruments (continued)

#### b) Financial instruments

##### *Categories and fair value of financial instruments*

	2022		2021	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	3,775,018	3,775,018	4,471,304	4,471,304
Accounts receivable	8,557,136	8,557,136	6,506,760	6,506,760
	<u>12,332,154</u>	<u>12,332,154</u>	<u>10,978,064</u>	<u>10,978,064</u>
Financial liabilities				
Accounts payable and accrued liabilities	7,435,599	7,435,599	7,578,835	7,578,835
Interest bearing loans	4,276,241	4,370,655	5,010,000	5,010,000
Lease liabilities	306,986	306,986	655,603	655,603
	<u>12,018,826</u>	<u>12,113,240</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 amounts because of the short-term maturity of those instruments.

The fair values of the Company's interest bearing loans are determined by using the DCF method using a discount rate that reflects the issuer's assumed borrowing rate of 8% at the end of the reporting period. The non-performance risk as at December 31, 2022 was assessed to be insignificant.