

Consolidated Financial Statements of

Biorem Inc.

December 31, 2025 and 2024

Biorem Inc.

December 31, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Biorem Inc.

Opinion

We have audited the consolidated financial statements of Biorem Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2025, and the consolidated statements of operations, comprehensive earnings, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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, 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit 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 audit 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 for the year ended December 31, 2025. This matter was 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 this matter.

Revenue from construction contracts

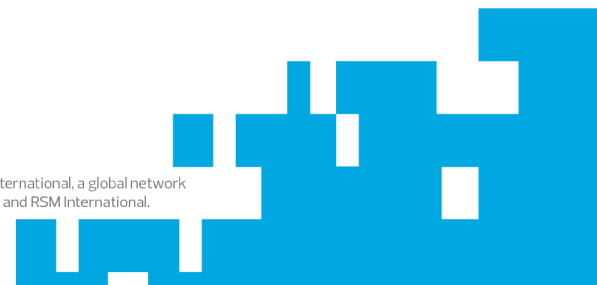
Refer to consolidated financial statements Note 3 (b) – Material accounting policies – Revenue recognition and Note 4 – Revenue.

The Company earns revenue from construction contracts which require performance over a time span which may extend beyond one or more accounting periods. The Company recognized \$40,340,581 of revenue on these construction contracts using the percentage-of-completion method, based on costs incurred relative to the estimated total contract costs. The determination of estimated costs to complete requires management to make estimates regarding future material and labour costs.

We identified revenue recognized from construction contracts as a key audit matter as there is a heightened degree of estimation uncertainty associated with the costs to complete these projects. Management applies judgement to make several significant assumptions including changes in project schedules, variability in material pricing, and estimates for potential cost overruns. Estimates of costs to complete may change over time due to the long-term nature of construction contracts. This resulted in significant auditor effort and judgement to evaluate cost to complete estimates and assess the reasonableness of revenue recognized.

How our audit addressed the Key Audit Matter

Our audit procedures to address this matter included the following, among others:



- We obtained an understanding of the budgeting process for construction contracts including how budgets are created, approved, and tracked. We obtained an understanding of how management determines costs to complete and how these estimates impact revenue recognition;
- For a sample of construction revenue contracts, we:
 - Inspected the final approved contract and evaluated key terms and conditions including relevant obligations of each party and payment terms.
 - Evaluated the total contracted revenue, billings, change orders, and the estimated costs to complete to assess the reasonability of the Company's revenue recognized.
 - Obtained project budgets and assessed cost budgets against evidence such as vendor quotes and contracts.
 - Compared prior period cost estimates to actual contract costs incurred on completed projects in the current year to assess management's ability to appropriately estimate contract costs to complete.
- We tested a sample of actual material and labour costs incurred by agreeing to supporting project cost summaries and invoices.

Other Matter

The consolidated financial statements of Company for the year ended December 31, 2024, were audited by another auditor who expressed an unmodified opinion on those statements on April 16, 2025.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis (MD&A).

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 audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the MD&A prior to the date of this auditor's report. If, based on the work we have performed, 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 IFRS Accounting Standards as issued by the IASB, 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purpose 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 Stephen McCourt.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
April 18, 2026
Toronto, Ontario

Biorem Inc.

Consolidated statements of financial position December 31, 2025 and 2024

In Canadian dollars	Note	2025	2024
		\$	\$
Assets			
Current assets			
Cash		11,504,755	5,212,852
Accounts receivable, net of ECL	8	11,959,919	11,903,944
Unbilled revenue	4	3,236,583	2,963,720
Inventories	9	1,368,871	2,904,034
Prepaid expenses and deposits	10	2,477,834	1,539,396
		30,547,962	24,523,946
Non-current assets			
Accounts receivable, net of ECL	8	682,131	811,293
Equipment, leasehold improvements and right-of-use assets	11	1,826,944	2,019,991
Deferred tax assets	6	519,400	1,155,355
Total assets		33,576,437	28,510,585
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		7,953,382	4,020,871
Accrued liabilities		1,837,017	2,437,793
Lease liabilities	19	81,678	119,561
Income taxes payable	6	861,628	959,573
Provisions	12	577,735	538,367
Unearned revenue	4	4,589,126	6,372,221
Interest-bearing loans	13	594,170	570,512
		16,494,736	15,018,898
Non-current liabilities			
Interest-bearing loans	13	1,263,737	1,857,715
Lease liabilities	19	892,180	1,008,889
		2,155,917	2,866,604
Shareholders' equity			
Common shares	14	5,200,461	5,196,123
Contributed surplus		2,529,996	2,470,191
Accumulated other comprehensive income		1,336,267	1,831,628
Retained earnings		5,859,060	1,127,141
Total shareholders' equity		14,925,784	10,625,083
Total liabilities and shareholders' equity		33,576,437	28,510,585

See accompanying notes to consolidated financial statements.

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

"signed"
Director Alex Gill

"signed"
Director William White

Biorem Inc.

Consolidated statements of operations Years ended December 31, 2025 and 2024

In Canadian dollars	Notes	2025	2024
		\$	\$
Revenue	4	42,355,350	37,418,959
Cost of goods sold	9,11,16	29,588,252	27,363,044
Gross profit		12,767,098	10,055,915
Expenses			
Sales and marketing	16	3,527,214	3,494,411
Research and development	16	48,161	43,859
General and administration	16,19	2,616,992	2,123,890
Foreign exchange loss		84,203	49,793
Total operating expenses		6,276,570	5,711,953
Earnings from operations		6,490,528	4,343,962
Finance costs	13,19,20	161,977	195,476
Earnings before tax		6,328,551	4,148,486
Income tax	6	1,511,954	1,104,753
Net earnings		4,816,597	3,043,733
Earnings per share, basic	7	0.30	0.19
Earnings per share, diluted	7	0.26	0.16

See accompanying notes to consolidated financial statements.

Biorem Inc.

Consolidated statements of comprehensive earnings Years ended December 31, 2025 and 2024

In Canadian dollars	Notes	2025	2024
		\$	\$
Net earnings		4,816,597	3,043,733
Other comprehensive earnings			
Item that will be reclassified into earnings:			
Foreign currency translation differences on foreign operations		(427,517)	561,595
Total comprehensive earnings		4,389,080	3,605,328

See accompanying notes to consolidated financial statements.

Biorem Inc.

Consolidated statements of changes in shareholders' equity

Years ended December 31, 2025 and 2024

In Canadian dollars	Notes	Common shares	Contributed surplus	Accumulated other comprehensive income(loss)	Retained Earnings	Total
		\$	\$	\$	\$	\$
Balance, as at December 31, 2023		4,997,423	2,368,921	1,270,033	(1,916,592)	6,719,785
Earnings for the year		-	-	-	3,043,733	3,043,733
Foreign currency translation differences on foreign operations		-	-	561,595	-	561,595
Total comprehensive earnings for the year		-	-	561,595	3,043,733	3,605,328
Stock options exercised	14,15	198,700	(41,800)	-	-	156,900
Stock-based compensation	15	-	143,070	-	-	143,070
		198,700	101,270	-	-	299,970
Balance, as at December 31, 2024		5,196,123	2,470,191	1,831,628	1,127,141	10,625,083
Earnings for the year		-	-	-	4,816,597	4,816,597
Foreign currency translation differences on foreign operations		-	-	(427,517)	-	(427,517)
Total comprehensive earnings for the year		-	-	(427,517)	4,816,597	4,389,080
Stock options exercised	14,15	19,800	(4,275)	-	-	15,525
Stock-based compensation	15	-	64,080	-	-	64,080
Purchased for cancellation under normal course issuer bid	14	(15,462)	-	-	(84,678)	(100,140)
		4,338	59,805	-	(84,678)	(20,535)
Balance, as at December 31, 2025		5,200,461	2,529,996	1,404,111	5,859,060	14,993,628

See accompanying notes to the consolidated financial statements

Biorem Inc.

Consolidated statements of cash flows

Years ended December 31, 2025 and 2024

(In Canadian dollars, unaudited)	Notes	2025	2024
		\$	\$
Operating activities			
Net earnings		4,816,597	3,043,733
Items not involving cash:			
Deferred tax expense	6	611,309	383,439
Depreciation	11	471,054	473,126
Accretion lease interest	19	38,053	83,226
Stock based compensation	15	64,080	143,070
		6,001,093	4,126,594
Change in non-cash operating working capital			
Accounts receivable		(271,345)	44,259
Unbilled revenue		(373,262)	195,198
Inventories		1,419,441	(1,827,595)
Prepaid expenses and deposits		(990,606)	835,072
Accounts payable		4,128,101	(2,515,890)
Accrued liabilities		(556,040)	232,574
Income taxes payable		(71,471)	750,658
Provisions		56,843	2,352
Unearned revenue		(1,704,175)	1,841,874
Cash provided by (used in) operations		7,638,579	3,685,096
Investing activities			
Purchase of equipment, leasehold improvements	11	(367,826)	(372,001)
Net cash used in investing activities		(367,826)	(372,001)
Financing activities			
Repayment to term loan	13	(570,320)	(547,910)
Proceeds from issuance common shares on exercise of stock options	14	15,525	156,900
Payment of lease liabilities	19	(112,118)	(181,030)
Common shares purchased for cancellation	14	(100,140)	-
Net cash used in financing activities		(767,053)	(572,040)
Foreign exchange loss(gain) on foreign denominated cash		(211,797)	179,998
Increase in cash		6,291,903	2,921,053
Cash beginning of year		5,212,852	2,291,799
Cash end of year		11,504,755	5,212,852

See accompanying notes to consolidated financial statements.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

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 16, 2026.

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, 2025 and 2024

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, contract losses 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. Provisions for contract losses are determined based on the difference between contract value and total estimated costs to complete the contract. 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.

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 8.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

2. Basis of presentation (continued)

d) Use of estimates and judgements (continued)

ii) *Key sources of estimation uncertainty (continued)*

Determination of Stock-based compensation

The estimation of stock-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.

3. Material 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.

a) **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 (US) Ltd., Biorem Hong Kong, Biorem (Beijing) Environmental Technologies Company Limited, and Biorem Wuhu Environmental Technology Ltd. and Ltd in addition to those of BIOREM. All significant inter-company transactions and balances have been eliminated.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

3. Material accounting policies (continued)

b) 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

i) *Standard products and services*

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.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

3. Material accounting policies (continued)

b) Revenue recognition continued

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.

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.

c) 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 Foreign exchange gain (loss) 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). The Company has recorded foreign exchange and losses associated with the net investment in the US subsidiaries in other comprehensive earnings (loss) because the intercompany loans and advances are not expected to be repaid in the foreseeable future.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

3. Material accounting policies (continued)

d) 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.

Financial Instrument	Classification
Cash	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, 2025 and 2024

3. Material accounting policies (continued)

d) 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, 2025 and 2024

3. Material accounting policies (continued)

d) 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.

e) 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.

f) 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%
Computer software and training	Declining balance	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, 2025 and 2024

3. Material accounting policies (continued)

g) 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.

h) 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, 2025 and 2024

3. Material accounting policies (continued)

i) 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.

j) 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 statement of financial position, 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.

k) 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. If and when stock options are exercised, consideration received is credited to share capital and the fair value attributed to these options is transferred from contributed surplus to share capital.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

3. Material accounting policies (continued)

l) 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.

m) 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.

n) 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 instruments 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.

o) Income taxes

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.

p) 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.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

3. Material accounting policies (continued)

q) Consolidated statements of cash flows

Cash paid for interest is presented as an operating activity.

r) 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.

s) 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.

Certain new standards and amendments that have an impact on the consolidated financial statements of the Company and became effective on January 1, 2025 are as follows:

On August 15, 2023, the IASB issued Lack of Exchangeability (Amendments to IAS 21) to provide guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. There was no impact to the Company.

t) Accounting standards and interpretations not yet adopted

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company. All pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards, amendments and interpretations may have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

The following new standards have been issued, are not yet in effect and are relevant to the Group:

In May 2024, the IASB issued Classification and Measurement Financial Instruments (Amendment to IFRS 9 and IFRS 7) to provide to clarify the timing or recognition and derecognition of some financial assets and liabilities and assessing whether a financial asset meets the solely payments of principal and interest criterion. It also added new disclosures for certain instruments with contractual terms that can change cash flows and equity instruments designated at fair value through other comprehensive income. The amendments are effective for reporting periods beginning on or after January 1, 2026.

In April 2024, the IASB issued Presentation and Disclosure in Financial Statements (Amendment to IFRS 18) to provide further guidance on the structure of the statement of profit and loss, required disclosures in the financial statements for certain profit or loss performance measures that are reported outside the Company's financial statements and principles on aggregation and disaggregation of information in the financial statements. The amendments are effective for reporting periods beginning on or after January 1, 2027.

The Company is in the process of evaluating the impact of these standards on its consolidated financial statements.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

4. Revenue

	2025	2024
	\$	\$
Standard products and services	2,014,769	1,611,018
Construction contracts	40,340,581	35,807,941
	<u>42,355,350</u>	<u>37,418,959</u>

Costs and estimated earnings on uncompleted contracts

	2025	2024
	\$	\$
Cumulative costs incurred on uncompleted contracts	52,131,193	45,942,971
Estimated earnings on uncompleted contracts, net of recognized losses	<u>31,058,235</u>	<u>27,245,162</u>
	83,189,428	73,188,133
Less: billings to date	<u>(84,541,971)</u>	<u>(76,596,634)</u>
	<u>(1,352,543)</u>	<u>(3,408,501)</u>
Unbilled revenue	3,236,583	2,963,720
Unearned revenue	<u>(4,589,126)</u>	<u>(6,372,221)</u>
	<u>(1,352,543)</u>	<u>(3,408,501)</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)	
	2025	2024	2025	2024
	\$	\$	\$	\$
Canada	5,366,167	8,699,686	250,698	389,161
United States	24,249,844	27,704,816	1,576,246	1,630,830
Middle East	8,652,294	-	-	-
Other international	4,087,045	1,014,457	-	-
Total	<u>42,355,350</u>	<u>37,418,959</u>	<u>1,826,944</u>	<u>2,019,991</u>

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

In 2025, 12 customers accounted for 56% of total revenue (2024 – 13 customers accounted for 62% of total revenue). 7 customers accounted for 53% of accounts receivable at December 31, 2025 (December 31, 2024 - 4 customers accounted for 53%).

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

6. Income taxes

a) Income tax recognized in net earnings

Income tax expense is comprised of:

	2025	2024
	\$	\$
Current tax expense	869,744	721,314
Deferred tax expense	642,210	383,439
	<u>1,511,954</u>	<u>1,104,753</u>
	2025	2024
	\$	\$
Earnings before tax	6,328,551	4,148,486
Expected income tax expense at 26.5% (2024-26.5%)	1,677,065	1,096,349
Effect of tax rate differential in foreign operations	(86,985)	(102,328)
Effect of expenses that are not deductible in determining taxable profit	(19,301)	108,699
Book to filing adjustments	(653)	(22,993)
Tax benefits not recognized	(58,172)	25,026
Income tax expense recognized in net earnings	<u>1,511,954</u>	<u>1,104,753</u>

b) Deferred tax assets

The following table summarizes the components of deferred tax:

	2025	2024
	\$	\$
Tax assets		
Benefit of tax losses to be carried forward	238,475	214,013
Benefit of corporate minimum taxes to be carried forward	141,920	245,209
Scientific research and experimental development expenditures available in future years	(148,414)	374,283
Provisions not yet deducted for tax	465,184	499,688
Capital assets - difference in accounting book value and undepreciated tax capital cost	(177,765)	(177,838)
	<u>519,400</u>	<u>1,155,355</u>

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.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

7. Earnings per share

	2025	2024
Basic earnings per share	\$ 0.30	\$ 0.19
Calculated as:		
Net earnings	\$ 4,816,597	\$ 3,043,733
Weighted average number of shares outstanding	16,028,715	15,764,546
Diluted earnings per share	\$ 0.26	\$ 0.16
Calculated as:		
Diluted earnings	\$ 4,816,597	\$ 3,043,733
Reconciliation of weighted average diluted shares outstanding:		
Weighted average common shares outstanding	16,028,715	15,764,546
Dilutive share options	2,610,606	2,949,603
Weighted average number of shares outstanding used to calculate	18,639,321	18,714,149

8. Accounts receivable

	2025	2024
	\$	\$
Current	11,959,919	11,903,944
Non-current	682,131	811,293
	12,642,050	12,715,237

Non-current accounts receivable are construction holdbacks that are due beyond one year.

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

	2025		2024	
	\$		\$	
0-30 days	6,873,310	55%	6,357,118	76%
31-60 days	1,647,063	13%	2,208,480	26%
61-90 days	1,061,149	8%	1,453,830	17%
91-120 days	1,422,791	11%	1,172,898	6%
Over 120 days	1,637,737	13%	1,522,911	18%
	12,642,050	100%	12,715,237	100%

Accounts receivable in the amount of \$2,166,981 (2024 - \$2,161,918) (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, 2025 is \$12,213,184 (2024 - \$12,487,832).

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

8. Accounts receivable (continued)

Allowance for expected credit losses	2025	2024
	\$	\$
Balance at beginning of the year	587,308	1,069,046
Impairment losses recognized	233,682	-
Amounts written off during the year as uncollectible	(125,823)	(508,615)
Amounts recovered during the year	(15,755)	-
Change in foreign currency	(15,678)	26,877
	663,734	587,308

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.

Days Outstanding	2025	2024
	%	%
0-30	0.80	0.31
31-60	1.90	0.40
61-90 days	6.30	0.74
over 90 days	0.01	1.27
average	0.01	0.60

9. Inventories

	2025	2024
	\$	\$
Raw materials	261,036	304,453
Finished goods	1,107,835	2,599,581
	1,368,871	2,904,034

The total amount of inventories included in cost of goods sold for the year was \$27,050,128 (2024 - \$25,346,266).

The cost of inventories recognized as an expense includes \$nil (2024 - \$nil) in respect of write-downs of inventories to net realizable value.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

10. Prepaid expenses and deposits

	2025	2024
	\$	\$
Purchase deposits	1,562,788	469,699
Prepaid insurance	440,513	438,582
Prepaid commissions	474,533	631,115
	<u>2,477,834</u>	<u>1,539,396</u>

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

11. Equipment, leasehold improvements and right-of-use assets

	Research & production equipment	Office equipment, Computer software & training	Leasehold improvements	Right-of use assets	Total
	\$	\$	\$	\$	\$
Cost					
At December 31, 2023	1,585,571	990,212	882,141	2,343,819	5,801,743
Additions	367,415	4,586	-	-	372,001
Disposals	(210,318)	(97,508)	(4,172)	(164,603)	(476,601)
Exchange differences	75,589	4,890	11,925	125,931	218,335
At December 31, 2024	1,818,257	902,180	889,894	2,305,147	5,915,478
Additions	317,818	39,176	-	-	356,994
Disposals	-	-	-	-	-
Exchange differences	(67,403)	(3,037)	(6,957)	(63,379)	(140,776)
At December 31, 2025	2,068,672	938,319	882,937	2,241,768	6,131,696
Accumulated depreciation					
At December 31, 2023	1,280,196	629,125	666,318	1,235,030	3,810,669
Charge for the year	87,534	75,600	117,710	192,282	473,126
Disposals	(210,318)	(97,508)	(4,172)	(164,603)	(476,601)
Exchange differences	36,201	1,222	21,601	29,269	88,293
At December 31, 2024	1,193,613	608,439	801,457	1,291,978	3,895,487
Charge for the year	183,015	62,205	88,270	136,515	470,005
Disposals	-	-	-	-	-
Exchange differences	(25,240)	(962)	(6,790)	(27,748)	(60,740)
At December 31, 2025	1,351,388	669,682	882,937	1,400,745	4,304,752
Carrying amount					
At December 31, 2024	624,644	293,741	88,437	1,013,169	2,019,991
At December 31, 2025	717,284	268,637	-	841,023	1,826,944

Depreciation of \$291,233 (2024 - \$235,577) has been recognized in cost of goods sold, and \$178,772(2024 - \$237,549) has been recognized in general and administration expenses.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

12. Provisions

<i>Warranty</i>	2025	2024
	\$	\$
Balance, beginning of year	538,367	425,757
Provisions used during the year	(1,735)	-
Provisions made during the year	41,103	112,610
	<u>577,735</u>	<u>538,367</u>

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 10 years,

13. Interest-bearing loans

Current	Interest rate	Maturity	2025	2024
	%		\$	\$
Working capital loan	Prime +.075	On demand	-	-
Current portion term loan	4.07	2026	594,170	570,512
			<u>594,170</u>	<u>570,512</u>
Non-current				
Term loan	4.07	12/01/28	1,857,907	2,428,227
Current portion	4.07	2026	(594,170)	(570,512)
			<u>1,263,737</u>	<u>1,857,715</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 15th of each month. In 2025 the Company repaid \$570,320(2024- \$547,910) of the principal in accordance with terms of the loan.

Finance costs of \$161,977 (2024-\$195,476) include \$87,694 (2024-\$111,571) of interest on interest-bearing loans, \$74,050 (2024-\$83,226) of interest accretion on leases and \$233 (2024- \$NIL) of other interest.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

14. Issued capital

Common shares	2025		2024	
	#	\$	#	\$
Balance, beginning of year	16,137,437	5,196,123	15,697,437	4,997,423
Purchased for cancellation	(47,700)	(15,462)	-	-
Issuance on exercise of stock options	45,000	19,800	440,000	198,700
Balance, end of year	16,134,737	5,200,461	16,137,437	5,196,123

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.

Normal Course issuer Bid (NCIB)

The Company's NCIB began June 16, 2025 and will end no later than June 16, 2026. The number of shares that may be purchased for cancellation under the NCIB are 806,872 representing 5% of its 16,137,437 issued and outstanding common shares as of June 10, 2025. During the year the Company purchased 47,700 common shares at an average price per share of \$2.01. Retained earnings include a charge of \$84,678 relating to the excess of the purchase price over the carrying value of the shares.

15. 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 50,000 share options to employees with an exercise price of \$2.03 and recorded stock-based compensation expense during the year of \$64,080. The options vest over three years and have a life of ten years. As at December 31, 2025, employees held options for 3,300,000 common shares (of which 100,000 were unvested), in aggregate, which expire over the period from January 31, 2027 to June 3, 2035. Share options granted under the employee share option plan carry no rights to dividends and no voting rights.

In 2024 the Company granted 50,000 share options to employees with an exercise price of \$1.96 and recorded stock-based compensation expense during the year of \$143,070. The options vest over three years and have a life of ten years. As at December 31, 2024, employees held options for 3,295,000 common shares (of which 333,333 were unvested), in aggregate, which expire over the period from January 31, 2027 to June 4, 2034.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

15. 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:

	2025	2024
Weighted average fair value of each option		
Assumptions		
Weighted average share price	\$ 2.03	\$ 1.96
Weighted average exercise price	\$ 2.03	\$ 1.96
Expected volatility	57%	57%
Risk free interest rate	2.9%	3.6%
Expected life in years	10	10
Forfeiture rate	10%	10%
Expected dividend yield	0%	0%

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

	2025		2024	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of year	3,295,000	0.49	3,685,000	0.46
Options forfeited	-	-	-	-
Options expired	-	-	-	-
Options exercised	(45,000)	0.35 (1)	(440,000)	0.35 (2)
Granted	50,000	2.03	50,000	1.96
Outstanding, end of year	3,300,000	0.51	3,295,000	0.49

(1) Weighted average share price on day of exercise was \$2.76

(2) Weighted average share price on day of exercise was \$2.70

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

15. Stock-based compensation (continued)

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

iii) Options outstanding and exercisable at December 31, 2025:

Number outstanding	Exercise price \$	Remaining life in years	Number exercisable	Weighted Average exercise price \$
2,290,000	0.345	1.1	2,290,000	0.345
60,000	0.34	2.5	60,000	0.34
50,000	0.35	3.5	50,000	0.35
750,000	0.81	6.3	750,000	0.81
50,000	1.01	7.4	33,333	1.01
50,000	1.96	8.2	16,667	1.96
50,000	2.03	9.2	-	2.03
3,300,000	0.51	2.7	3,200,000	0.47

16. Expenses

	2025	2024
	\$	\$
Personnel	5,923,683	5,691,083
Subcontractors and materials	26,753,305	24,912,064
Depreciation of equipment and leaseholds	471,054	235,917
Other expenses	2,716,780	2,235,933
	35,864,822	33,074,997
Reported as:		
Cost of sales	29,588,252	27,363,044
Sales and marketing	3,527,214	3,494,411
Research and development	48,161	43,859
General and administration	2,616,992	2,123,890
Foreign exchange loss	84,203	49,793
	35,864,822	33,074,997

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

17. Employee benefits

	2025	2024
	\$	\$
Wages and salaries	4,215,654	4,019,779
Compulsory social security contributions	743,368	686,476
Contributions to defined contribution plans	314,834	275,491
Stock-based compensation	64,080	127,650
	<u>5,337,936</u>	<u>5,109,396</u>

18. 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, all of which was incurred in the normal course of operations during the year was as follows:

	2025	2024
	\$	\$
Short-term benefits	846,524	893,878
Stock-based compensation	62,100	143,070
	<u>908,624</u>	<u>1,036,948</u>

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, 2025 and 2024

19. Lease liabilities

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 7.2%.

<i>Lease liabilities</i>	2025	2024
Maturity analysis - contractual undiscounted cash flows	\$	\$
Less than one year	153,164	185,924
One to five years	624,976	778,408
Five to ten years	494,928	494,928
Total undiscounted lease liabilities at December 31	1,273,068	1,459,260
<hr/>		
Lease liabilities statement of financial position		
Current	81,678	119,561
Non-current	892,180	1,008,889
	973,858	1,128,450
<hr/>		
Amounts recognized in profit or loss		
Rent	131,292	60,516
Interest on lease liabilities	74,150	87,207
Depreciation on right-of-use assets	136,904	192,282
	342,346	340,005
<hr/>		
Amounts recognized in the statement of cash flows		
Accretion lease interest	74,150	83,226
Depreciation	136,904	192,282
Lease liability payments	111,959	181,030

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

20. 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 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, 2025, the Company had \$1,372,339 (2024-\$841,644) in trade receivables that were past due against which the Company recorded an allowance for expected credit losses of \$674,678 (2024-\$587,308).

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 is exposed to fair value risk on the Company's term loan due to the fix rate nature of the interest rate attached thereto. 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 balance of the Company's working capital loan on December 31, 2025 was \$NIL.

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

20. 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, 2025 and 2024, 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	
	2025	2024	2025	2024
	\$	\$	\$	\$
United States dollars	22,002,507	17,443,678	12,052,689	10,888,551
Chinese renminbi	263,747	312,236	-	409,963

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	
	2025	2024
	\$	\$
Profit or loss	994,982	645,740
Other comprehensive income	158,436	163,894

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

20. 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, 2025 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	1-5 years	5+ years	Total
	\$	\$	\$	\$	\$	\$
2025						
Accounts payable	7,953,381	7,953,381	7,953,381	-	-	7,953,381
Accrued liabilities	1,837,018	1,837,018	1,837,018	-	-	1,837,018
Interest bearing loans	1,857,907	1,976,221	658,740	1,317,481	-	1,976,221
Lease liabilities	973,858	1,273,068	153,164	624,976	494,928	1,273,068
	12,622,164	13,039,688	10,602,303	1,942,457	494,928	13,039,688
2024						
Accounts payable	4,020,871	4,020,871	4,020,871	-	-	4,020,871
Accrued liabilities	2,437,793	2,437,793	2,437,793	-	-	2,437,793
Interest bearing loans	2,428,227	2,634,961	658,740	1,976,221	-	2,634,961
Lease liabilities	1,128,450	1,459,260	185,924	778,408	494,928	1,459,260
	10,015,341	10,552,885	7,303,328	2,754,629	494,928	10,552,885

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

20. 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, 2025.

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:

	2025	2024
	\$	\$
Non-current liabilities	2,155,917	2,866,604
Shareholders' equity	14,925,794	10,625,083
	<u>17,081,711</u>	<u>13,491,687</u>

Biorem Inc.

Notes to the consolidated financial statements

December 31, 2025 and 2024

20. Financial instruments (continued)

b) Financial instruments

Categories and fair value of financial instruments

	2025		2024	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Financial assets				
Cash	11,504,755	11,504,755	5,212,852	5,212,852
Accounts receivable	12,642,050	12,642,050	12,715,237	12,715,237
	<u>24,146,805</u>	<u>24,146,805</u>	<u>17,928,089</u>	<u>17,928,089</u>
Financial liabilities				
Accounts payable and accrued liabilities	9,790,399	9,790,399	6,458,664	6,458,664
Interest bearing loans	1,857,907	1,857,907	2,428,227	2,428,227
	<u>11,648,306</u>	<u>11,648,306</u>	<u>8,886,891</u>	<u>8,886,891</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 at amortized cost at the end of the reporting period. The non-performance risk as at December 31, 2025 was assessed to be insignificant.