

Condensed Consolidated Interim Financial Statements of

**Biorem Inc.**

Periods ended March 31, 2017 and 2016

(Unaudited)

# **Biorem Inc.**

March 31, 2017 and 2016

(unaudited)

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The accompanying condensed consolidated interim financial statements of Biorem Inc. have been prepared by and are the responsibility of the Company's Management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards adopted by the Canadian Institute of Chartered Accountants ("CICA") for a review of interim financial statements by an entity's auditor.

# Biorem Inc.

## Condensed consolidated interim statements of financial position March 31, 2017 and December 31, 2016

(In Canadian dollars, unaudited)	Notes	March 31, 2017	December 31, 2016
		\$	\$
<b>Assets</b>			
Current assets			
Cash and cash equivalents		4,272,240	1,118,297
Restricted cash and cash equivalents		528,023	528,023
Accounts receivable		2,835,349	7,124,365
Unbilled revenue		1,834,598	1,762,979
Inventories		922,377	464,315
Prepaid expenses and deposits		362,585	213,825
Investment tax credits recoverable		-	27,023
		10,755,172	11,238,827
Non-current assets			
Equipment and leasehold improvements		95,072	104,548
<b>Total assets</b>		<b>10,850,244</b>	<b>11,343,375</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable		2,305,518	2,963,576
Accrued liabilities		1,004,116	711,949
Provisions	7	346,771	504,052
Unearned revenue		1,841,441	2,571,279
Current portion long term debt	8	-	2,165,571
		5,497,846	8,916,427
Non-current liabilities			
Long term debt	8	-	-
<b>Shareholders' equity</b>			
Common shares	9	16,665,098	13,789,081
Share purchase warrants	9	-	51,351
Contributed surplus		2,384,809	2,368,659
Accumulated other comprehensive income		254,760	187,147
Deficit		(13,952,269)	(13,969,290)
<b>Total shareholders' equity</b>		<b>5,352,398</b>	<b>2,426,948</b>
<b>Total liabilities and shareholders' equity</b>		<b>10,850,244</b>	<b>11,343,375</b>

# Biorem Inc.

## Condensed consolidated interim statements of operations Three months ended March 31, 2017 and 2016

(In Canadian dollars, unaudited)	Notes	2017	2016
		\$	\$
Revenue		3,083,049	4,191,992
Cost of goods sold		1,939,212	2,748,646
Gross profit		1,143,837	1,443,346
Expenses (income)			
Sales and marketing		436,823	421,175
Research and development		95,027	75,817
General and administration		597,421	359,541
Other expense (income)	5	2,455	111,424
Total operating expenses		1,131,726	967,957
Earnings from operations		12,111	475,389
Finance costs		(4,910)	101,813
Net earnings		17,021	373,576
Earnings per share, basic		0.00	0.02
Earnings per share, diluted		0.00	0.01

# Biorem Inc.

## Condensed consolidated interim statement of comprehensive income (loss) Three months ended March 31, 2017 and 2016

(In Canadian dollars, unaudited)	2017	2016
	\$	\$
Net income	17,021	373,576
Other comprehensive income (loss)		
Item that will not be reclassified into profit and loss		
Foreign currency translation differences on foreign operations	67,613	27,654
Total comprehensive income for the period	84,634	401,230

# Biorem Inc.

## Condensed consolidated interim statements of changes in shareholders' equity

Three months ended March 31, 2017 and 2016

(In Canadian dollars, unaudited)	Common shares	Share purchase warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
	\$		\$	\$	\$	\$
<b>Balance, as at January 1, 2016</b>	13,723,800	54,146	2,364,591	307,433	(14,516,565)	1,933,405
Earnings for the period	-	-	-	-	373,576	373,576
Foreign currency translation differences on foreign operations	-	-	-	(27,654)	-	(27,654)
<b>Total comprehensive earnings for the period</b>	-	-	-	(27,654)	373,576	2,279,327
Conversion of debentures	24,504	-	-	-	-	24,504
Warrants exercised	10,453	(955)	-	-	-	9,498
Stock-based compensation	-	-	923	-	-	923
<b>Balance, as at March 31, 2016</b>	13,758,757	53,191	2,365,514	279,779	(14,142,989)	2,280,250
<b>Balance, as at January 1, 2017</b>	13,789,081	51,351	2,368,659	187,147	(13,969,290)	2,426,948
Earnings for the period	-	-	-	-	17,021	17,021
Foreign currency translation differences on foreign operations	-	-	-	67,613	-	67,613
<b>Total comprehensive earnings for the period</b>	-	-	-	67,613	17,021	84,634
Conversion of debentures	2,117,289	-	-	-	-	2,117,289
Warrants exercised	758,728	(51,351)	-	-	-	707,377
Stock-based compensation	-	-	16,150	-	-	16,150
<b>Balance, as at March 31, 2017</b>	16,665,098	-	2,384,809	254,760	(13,952,269)	5,352,398

See accompanying notes to condensed consolidated interim financial statements

# Biorem Inc.

## Condensed consolidated interim statements of cash flows Three months ended March 31, 2017 and 2016

(In Canadian dollars, unaudited)	Notes	2017	2016
		\$	\$
<b>Operating activities</b>			
Net earnings		17,021	373,576
Items not involving cash:			
Depreciation		8,898	14,607
Finance costs		(4,910)	101,893
Stock based compensation		16,150	923
Foreign exchange loss (gain)		10,046	151,893
		47,205	642,892
<b>Change in non-cash operating working capital</b>			
Accounts receivable		4,284,794	(1,399,196)
Unbilled revenue		(73,695)	172,284
Inventories		(463,684)	(42,459)
Prepaid expenses and deposits		(165,724)	(141,787)
Investment tax credits recoverable		27,023	-
Accounts payable		(648,686)	549,126
Accrued liabilities		293,231	(418,005)
Provisions		(162,916)	14,150
Unearned revenue		(722,487)	490,769
<b>Cash provided by (used in) operating activities</b>		2,415,061	(132,226)
<b>Investing activities</b>			
Purchase of equipment		-	(11,960)
<b>Cash provided by (used in) investing activities</b>		-	(11,960)
<b>Financing activities</b>			
Interest paid		-	(26,387)
Proceeds from issuance common shares on exercise of warrants		707,377	9,498
Repayment of debenture		-	(225,000)
<b>Cash provided by (used in) financing activities</b>		707,377	(241,889)
Foreign exchange gain(loss) on foreign denominated cash and cash equivalents		31,505	(125,299)
<b>Increase(decrease) in cash and cash equivalents</b>		3,153,943	(511,374)
Cash and cash equivalents, beginning of year		1,118,297	2,725,043
<b>Cash and cash equivalents, end of year</b>		4,272,240	2,213,669

# Biorem Inc.

## Notes to the consolidated interim financial statements

March 31, 2017 and 2016

(unaudited)

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### 1. General information

BIOREM Inc. ("BIOREM") is a company with its head office domiciled in Canada.

The address of BIOREM's registered office is R.R. # 3, 7496 Wellington Road 34, Guelph, Ontario. The Company's common shares are listed on the Toronto Stock Exchange and trade under the symbol BRM.V. The condensed consolidated interim financial statements of BIOREM comprise BIOREM and its subsidiaries (together referred to as "the Company"). The Company is primarily involved in the manufacturing of a comprehensive line of high efficiency air pollution control systems that are used to eliminate odorous and harmful contaminants.

### 2. Basis of preparation

#### a) *Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "*Interim Financial Reporting*". The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements have been prepared following the same accounting principles and methods of computation as the Company's 2016 annual consolidated financial statements and should be read in conjunction with those audited consolidated financial statements which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR").

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issuance on May 17, 2017.

#### b) *Basis of measurement*

These condensed consolidated interim financial statements have been prepared on the historical cost basis of accounting, with the exception of financial instruments classified as fair value through profit and loss, which are recorded at fair value.

#### c) *Functional and presentation currency*

The functional currency of BIOREM and its subsidiaries is the currency of their primary economic environment. These condensed consolidated interim financial statements are presented in Canadian dollars, which is BIOREM's functional currency. The functional currency of BIOREM's subsidiary located in the United States is the U.S. dollar and the functional currency of BIOREM's subsidiary located in China is the Chinese renminbi.

#### d) *Basis of consolidation*

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



# Biorem Inc.

## Notes to the consolidated interim financial statements

March 31, 2017 and 2016

(unaudited)

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### 3. Significant accounting policies

The significant accounting policies used in preparing these condensed consolidated interim financial statements are unchanged from those disclosed in the Company's 2016 annual consolidated financial statements except as set out below, and have been applied consistently to all periods presented in these condensed consolidated interim financial statements. The accounting policies have been applied consistently by the Company's subsidiaries.

### 4. Segmented information

Management has determined that the Company operates in one reportable segment, which involves the manufacture and sale of pollution control systems.

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

	Revenue		Capital assets (1)	
	March 2017	March 2016	March 2017	March 2016
	\$	\$	\$	\$
Canada	1,072,720	494,737	50,758	77,620
United States	1,450,593	2,720,177	31,265	33,249
China	6,485	126,279	13,049	26,649
Other	553,251	850,799	-	-
<b>Total</b>	<b>3,083,049</b>	<b>4,191,992</b>	<b>95,072</b>	<b>137,518</b>

(1) Includes plant and equipment and intangible assets

### 5. Other income

The composition of other income is as follows:

	Three months ended	
	March 2017	March 2016
	\$	\$
Government funding	7,591	40,470
Foreign exchange gain (loss)	(10,046)	(151,894)
<b>Total</b>	<b>(2,455)</b>	<b>(111,424)</b>

### 6. Contingency

The Company along with multiple other defendants is subject to a claim for \$12 million for damages related to an explosion at a waste water treatment plant in Ontario in 2014. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself.

# Biorem Inc.

## Notes to the consolidated interim financial statements

March 31, 2017 and 2016

(unaudited)

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### 7. Provisions

#### Warranty

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At December 31, 2016	\$ 504,052
Provisions used during the period	(13,051)
Provisions made during the period	(144,230)
At March 31, 2017	\$ 346,771

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### 8. Long-term debt

	March 2017	December 2016
	\$	\$
12.75 % debenture (maturity amount - \$660,000)	-	660,000
8% convertible debenture Series 1 (maturity amount - \$669,630)	-	669,630
8% convertible debenture Series 2 (maturity amount - \$1,422,692)	-	1,370,707
	-	2,700,337
Less: current portion	-	(2,700,337)
Long-term debt	-	-

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- On January 5, 2017, the maturity dates of the Series 1 and 2 convertible debentures were extended to January 16, 2017.
- On January 16, 2017, the maturity dates of the Series 1 and 2 convertible debentures were extended to January 30, 2017.
- In January 2017 \$2,159,929 of convertible debentures including accrued interest were converted into common shares resulting in the issuance of 17,203,304 common shares.

# Biorem Inc.

## Notes to the consolidated interim financial statements

March 31, 2017 and 2016

(unaudited)

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### 9. Issued capital

- a) On January 5, 2017 in conjunction with the extension of the maturity date of the Series 1 convertible debentures, the expiry date of the 1,222,240 outstanding share purchase warrants that were issued in 2012 with the Series 1 convertible debentures as a unit, was extended to January 16, 2017.
- b) On January 5, 2017 in conjunction with the extension of the maturity date of the Series 2 convertible debentures, the expiry date of the 4,488,210 outstanding share purchase warrants that were issued in 2012 with the Series 2 convertible debentures as a unit, was extended to January 16, 2017.
- c) On January 11 2017 1,165,320 share purchase warrants were exercised at \$0.11 resulting in cash proceeds to the Company of \$223,165 and the issuance of 1,165,320 common shares.
- d) On 11 January 2017 4,545,000 share purchase warrants were exercised at \$0.178 resulting in net cash proceeds to the Company of \$495,241 and the issuance of 4,545,000 common shares.
- e) In January 2017 \$2,159,929 of convertible debentures including accrued interest were converted into common shares resulting in the issuance of 17,203,304 common shares.
- f) On January 27, 2017 the Company received conditional approval to amend the stock option plan to increase the number of reserves for issuance under the plan to 5,300,000 shares. The amendment to the Plan must receive disinterested shareholder approval at the shareholders meeting to be held in June 2017.
- g) On January 31, 2017 the Company granted incentive stock options to employees and officers to purchase an aggregate 3,130,000 common shares of the Company, subject to approval of the amended and restated plan and such options at the next annual meeting of the shareholders.

The stock options have an exercise price of \$0.345 per share, and vest over three years with a ten year expiry date of January 31, 2027. Upon granting of the options the Company has 3,657,000 options outstanding.

# Biorem Inc.

## Notes to the consolidated interim financial statements

March 31, 2017 and 2016

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### 10. Financial Instruments

#### *Fair value of financial instruments*

	March 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	4,272,240	4,272,240	1,118,297	1,118,297
Restricted cash and cash equivalents	528,023	528,023	528,023	528,023
Accounts receivable	2,835,349	2,835,349	7,124,365	7,124,365
	<u>7,635,612</u>	<u>7,635,612</u>	<u>8,770,685</u>	<u>8,770,685</u>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	3,309,634	3,309,634	3,675,525	3,675,525
Long term-debt including current portion	-	-	2,165,569	2,165,569
	<u>3,309,634</u>	<u>3,309,634</u>	<u>5,841,094</u>	<u>5,841,094</u>

The Company has determined that the fair value of its short term financial assets and liabilities approximates their respective carrying because of the short term maturity of those instruments. The fair value of long- term debt has been determined using a discounted cash flow model based on discount rates from 15.0% to 17.5%, representing interest rates in effect available to the Company for the same or similar debt instruments.