



# Third Quarter 2018 Interim Condensed Report (unaudited)

Q3 2018

## TABLE OF CONTENTS

	<u>Page</u>
Interim Condensed Consolidated Statements of Operations	4
Interim Condensed Consolidated Statements of Comprehensive (Loss) income	5
Interim Condensed Consolidated Statements of Financial Position	6
Interim Condensed Consolidated Statements of Changes in Equity	7
Interim Condensed Consolidated Statements of Cash Flows	8
Notes to the Interim Condensed Consolidated Financial Statements	9 - 17

**Notice of No Auditor Review of Interim Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three and nine months periods ended September 30, 2018 and 2017.

**Interim Condensed Consolidated Statements of Operations**

(Canadian dollars)

(unaudited)

	Note	(three months ended)		(nine months ended)	
		September 30 2018	September 30 2017	September 30 2018	September 30 2017
<b>Sales</b>		\$ 31,159,045	\$ 30,542,451	\$ 93,731,411	\$ 88,293,167
Cost of sales	5	26,058,320	24,536,288	81,155,337	72,613,623
		5,100,725	6,006,163	12,576,074	15,679,544
<b>Expenses</b>					
Salaries and benefits		2,459,678	1,909,314	7,325,593	5,657,271
Selling and administration		1,546,355	1,926,174	5,294,885	5,081,974
Depreciation on property and equipment		268,182	235,640	789,581	713,068
Restructuring costs	6	71,878	-	719,865	-
		4,346,093	4,071,128	14,129,924	11,452,313
<b>Operating earnings (loss)</b>		754,632	1,935,035	(1,553,850)	4,227,231
Financing costs		722,630	847,849	2,114,637	2,492,480
Foreign exchange (gain) loss		(61,822)	(164,971)	231,322	(166,116)
		660,808	682,878	2,345,959	2,326,364
<b>Earnings (loss) before income taxes</b>		93,824	1,252,157	(3,899,809)	1,900,867
Income tax expense (recovery)					
Current		(167,618)	265,147	(551,424)	330,610
Deferred		200,027	66,465	436,610	218,639
		32,409	331,612	(114,814)	549,249
<b>Net earnings (loss)</b>		\$ 61,415	\$ 920,545	\$ (3,784,995)	\$ 1,351,618
<b>Earnings (loss) per share</b>	7				
Basic		\$ 0.00	\$ 0.04	\$ (0.16)	\$ 0.06
Diluted		\$ 0.00	\$ 0.04	\$ (0.16)	\$ 0.06

*The accompanying notes are an integral part of the interim condensed consolidated financial statements*

**Interim Condensed Consolidated Statements of Comprehensive (Loss) income**

(Canadian dollars)

(unaudited)

	<b>(three months ended)</b>		<b>(nine months ended)</b>	
	<b>September 30</b>	September 30	<b>September 30</b>	September 30
	<b>2018</b>	2017	<b>2018</b>	2017
Net earnings (loss)	\$ 61,415	\$ 920,545	\$ (3,784,995)	\$ 1,351,618
Other comprehensive earnings (loss), net of tax of \$nil (2017-\$nil)				
Foreign currency translation adjustment	(144,673)	(501,962)	333,602	(976,296)
<b>Total comprehensive (loss) income</b>	<b>\$ (83,258)</b>	<b>\$ 418,583</b>	<b>\$ (3,451,393)</b>	<b>\$ 375,322</b>

*The accompanying notes are an integral part of the interim condensed consolidated financial statements*

## Interim Condensed Consolidated Statements of Financial Position

(Canadian dollars)

(unaudited)

	September 30 2018	December 31 2017
<b>Assets</b>		
Current		
Accounts receivable	\$ 28,033,852	\$ 26,017,283
Inventories	33,395,023	39,409,723
Prepaid expenses and deposits	5,242,756	2,191,477
Income taxes receivable	656,503	199,229
	<b>67,328,134</b>	<b>67,817,712</b>
Non-current		
Property and equipment	11,251,489	11,093,568
Deferred tax assets	1,732,976	2,169,586
Other long-term assets	156,144	151,167
	<b>\$ 80,468,743</b>	<b>\$ 81,232,033</b>
<b>Liabilities</b>		
Current		
Bank indebtedness	\$ 32,467,658	\$ 25,963,575
Accounts payable and accrued liabilities	13,364,700	16,693,066
Current portion of long term debt	800,000	800,000
Current portion of obligations under finance lease	10,086	25,085
Income tax payable	96,294	—
	<b>46,738,738</b>	<b>43,481,726</b>
Non-current		
Long term debt	8,262,500	8,825,000
Obligations under finance lease	31,166	37,575
Deferred tax liabilities	113,526	113,526
Other long-term liabilities	18,100	18,100
	<b>55,164,030</b>	<b>52,475,927</b>
<b>Equity</b>		
Share capital	33,537,199	33,537,199
Contributed surplus	4,035,160	4,035,160
Deficit	(9,081,302)	(5,296,307)
Accumulated other comprehensive loss	(3,186,344)	(3,519,946)
	<b>25,304,713</b>	<b>28,756,106</b>
	<b>\$ 80,468,743</b>	<b>\$ 81,232,033</b>

*The accompanying notes are an integral part of the interim condensed consolidated financial statements*

<b>Interim Condensed Consolidated Statements of Changes in Equity</b>						
<b>(Canadian dollars)</b>						
<b>(unaudited)</b>						
	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Warrants</b>	<b>Accumulated other comprehensive loss</b>	<b>Deficit</b>	<b>Total equity</b>
Balance at January 1, 2018	\$ 33,537,199	\$ 4,035,160	\$ —	\$ (3,519,946)	\$ (5,296,307)	\$ 28,756,106
Net loss	—	—	—	—	(3,784,995)	(3,784,995)
Other comprehensive income	—	—	—	333,602	—	333,602
Balance at September 30, 2018	\$ 33,537,199	\$ 4,035,160	\$ —	\$ (3,186,344)	\$ (9,081,302)	\$ 25,304,713

	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Warrants</b>	<b>Accumulated other comprehensive loss</b>	<b>Deficit</b>	<b>Total equity</b>
Balance at January 1, 2017	\$ 33,263,473	\$ 3,983,488	\$ 209,226	\$ (2,178,410)	\$ (7,004,335)	\$ 28,273,442
Employee share-based payment options	—	51,672	—	—	—	51,672
Net earning	—	—	—	—	1,351,618	1,351,618
Other comprehensive loss	—	—	—	(976,296)	—	(976,296)
Balance at September 30, 2017	\$ 33,263,473	\$ 4,035,160	\$ 209,226	\$ (3,154,706)	\$ (5,652,717)	\$ 28,700,436

*The accompanying notes are an integral part of the interim condensed consolidated financial statements*

**Interim Condensed Consolidated Statements of Cash Flows**

(Canadian dollars)

(unaudited)

	September 30	September 30
For the nine months ended	2018	2017
<b>Operating activities</b>		
Net (loss) earnings	\$ (3,784,995)	\$ 1,351,618
Adjustments for items not affecting cash:		
Depreciation on property and equipment	789,581	713,068
Amortization of debt related transaction costs	67,386	197,166
Deferred tax expense	436,610	218,639
Share-based payments	—	51,672
Foreign exchange loss (gain) on debt	207,569	(60,199)
Unrealized foreign exchange loss	42,219	26,024
Interest on debt and finance leases	2,046,216	1,659,379
Loss on disposal of equipment	701	195,785
Other gain	—	(13,719)
	<b>(194,713)</b>	4,339,433
Change in non-cash working capital	<b>(2,136,111)</b>	(8,787,402)
Total cash used in operating activities	<b>(2,330,824)</b>	(4,447,969)
<b>Financing activities</b>		
Interest paid on debt and finance leases	<b>(2,015,480)</b>	(1,673,392)
Repayments on promissory notes payable	—	(274,374)
Advances on operating line	5,721,511	6,604,516
Advances on term debt	—	596,290
Repayment on term debt	<b>(600,000)</b>	(300,000)
Repayments of obligations under finance lease	<b>(23,143)</b>	(33,052)
Total cash generated in financing activities	<b>3,082,888</b>	4,919,988
<b>Investing activities</b>		
Purchase of property and equipment	<b>(752,064)</b>	(660,283)
Proceeds on disposal of equipment	—	188,264
Total cash used in investing activities	<b>(752,064)</b>	(472,019)
Net change in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of the period	—	—
Cash and cash equivalents, end of the period	<b>\$ —</b>	\$ —

*The accompanying notes are an integral part of the interim condensed consolidated financial statements*

## 1. Nature of operations

Bri-Chem Corp.'s ("the Company" or "Bri-Chem") shares are publicly traded on the Toronto Stock Exchange under the symbol BRY. Bri-Chem is an independent wholesale supplier of drilling fluids for the oil and gas industry. The Company provides drilling fluid products, cementing, acidizing and stimulation additives from multiple strategically located warehouses throughout Canada and the United States. Bri-Chem Corp. was incorporated on January 1, 2007 as part of the amalgamation of Mbase Commerce Inc. and Gwelan Supply Ltd. and its head office is located in Canada. Its registered and primary place of business is 27075 Acheson Road, Acheson, Alberta T7X 6B1.

## 2. Basis of presentation

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They do not contain all the necessary annual disclosures in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017.

These interim condensed consolidated financial statements, in all material respects, follow the same accounting policies and method of application as the annual consolidated financial statements of the preceding fiscal year, except as noted in Note 3.

The interim condensed consolidated financial statements for the third quarter ended September 30, 2018 were authorized for issue by the Board of Directors on November 11, 2018.

## 3. Newly adopted accounting standards

The Company adopted IFRS 15, "Revenue from Contracts with Customers", on January 1, 2018 using the modified retrospective method. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients, no changes or adjustments to the Company's comparative consolidated financial statements were required. There was no impact to the Company's financial position, results of operations, or cash flows as the result of the adoption. The company recognizes revenue as it satisfies the performance obligations with its customers over time as they consume our oilfield fluids and chemicals. The Company has elected the practical expedient as permitted under IFRS 15 to measure progress towards satisfaction of its performance obligations based the value of the Company's performance completed to date at each reporting period. Transaction prices are determined based upon agreed prices with customers at the time transactions are entered. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust any of the transaction prices for the time value of money, and the expenses any incremental costs of obtaining contracts with customers as incurred. The nature and timing of revenue recognised during the period has not changed as compared to amounts presented in the annual consolidated financial statements for the year ended December 31, 2017 and prior. The Company disaggregates revenue by geographies in which it operates, namely Canada and the US.

**3. Newly adopted accounting standards (cont'd)**

The Company retrospectively adopted IFRS 9 “Financial Instruments”, on January 1, 2018. The adoption of the standard has not resulted in any changes to the Company’s financial statements and the classification and measurement of financial instruments has been conformed to IFRS 9. In addition, the IFRS 9 expected credit loss model which replaces the incurred loss impairment model for financial assets has not resulted in any material changes to the valuation of the Company’s financial assets. The primary input the Company’s expected credit loss model on trade receivables is historical credit losses incurred. The Company continues to monitor historical credit losses each period in determining its lifetime expected credit losses on trade receivables. The Company does not currently apply hedge accounting to its risk management contracts and has not applied hedge accounting to any of its existing risk management contracts on adoption of IFRS 9.

**4. Seasonality of operations**

Weather conditions can affect the sale of the Company’s products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company’s activity levels. In addition, many exploration and production areas in the northern Western Canadian Sedimentary Basin (“WCSB”) are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company’s slowest period.

**5. Cost of Sales**

Cost of sales includes \$2,145,482 of negative margin related to the Company’s restructuring of two of its Texas warehouses and one-time sales of inventory below cost.

**6. Restructuring costs**

The Company incurred costs of \$719,865 related to the shut down of two warehouses in the Texas region. Costs include clean out oil-based storage tanks, additional transportation costs related to moving product to other warehouses, oil-base rental tank returns, and transportation costs of moving storage tanks to other warehouses.

**7. Earnings (loss) per share**

Both the basic and diluted earnings (loss)per share have been calculated using the profit attributable to shareholders of the Company as the numerator.

## 7. Earnings (loss) per share (cont'd)

(three months ended)	September 30, 2018	September 30, 2017
Net earnings attributable to the shareholders of the Company	\$ 61,415	\$ 920,545
Basic weighted average number of ordinary shares	23,932,981	\$ 23,632,981
Dilutive options/warrants issued and outstanding	—	\$ 330,000
Diluted weighted average number of ordinary shares	23,932,981	\$ 23,962,981
Basic earnings per share	\$ 0.00	\$ 0.04
Diluted earnings per share	\$ 0.00	\$ 0.04
(nine months ended)	September 30, 2018	September 30, 2017
Net (loss) earnings attributable to the shareholders of the Company	\$ (3,784,995)	1,351,618
Basic weighted average number of ordinary shares	23,932,981	\$ 23,632,981
Dilutive options/warrants issued and outstanding	—	\$ 330,000
Diluted weighted average number of ordinary shares	23,932,981	\$ 23,962,981
Basic (loss) earnings per share	\$ (0.16)	\$ 0.06
Diluted (loss) earnings per share	\$ (0.16)	\$ 0.06

## 8. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Chief Executive Officer and Chief Financial Officer who make strategic decisions.

The chief operating decision-makers consider the business from both a geographic and a product perspective. Geographically, management considers the performance in Canada and the USA. From a product perspective, management separately considers the fluids distribution, and fluids blending & packaging in these geographies.

The chief operating decision-makers assess the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes from net earnings the effects of interest, taxes, amortization and depreciation, and the effect of equity-settled share based payments. Corporate overhead costs, interest income and expenditure, excluding interest expense on finance leases, are not allocated to segments, as these types of activity are driven by the central treasury function, which manages the cash position of the Company.

The amounts provided to the chief operating decision-makers with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

**8. Segment reporting** *(cont'd)*

The Company has five reportable segments: Fluids Distribution Canada, Fluids Distribution USA, Fluids Blending & Packaging Canada, Fluids Blending & Packaging USA, and Other. The Other segment represents insignificant segments and all remaining costs not directly attributable to an operating segment, such as corporate overhead.

Revenues between Fluids Blending & Packaging Canada and Fluids Distribution Canada are recorded on the same basis as an equivalent arm's length transaction. Revenue between the remaining divisions are recognized at cost. The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the annual consolidated statement of operations.

## 8. Segment reporting (cont'd)

Selected financial information by reportable segment is disclosed as follows:

For three months ended September 30, 2018	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	\$ 8,778,722	\$ 16,759,954	\$ 25,538,676	\$ 5,088,385	\$ 1,575,909	\$ 6,664,294	\$ -	\$ 32,202,970
Revenues from internal customers	135,243	-	135,243	905,778	2,904	908,682	-	1,043,925
Revenues from external customers	8,643,479	16,759,954	25,403,433	4,182,607	1,573,005	5,755,612	-	31,159,045
Cost of sales	7,701,965	13,990,492	21,692,457	3,266,509	1,099,354	4,365,863	-	26,058,320
EBITDA	450,594	205,315	655,909	345,261	184,707	529,968	(101,241)	1,084,636
Depreciation	14,361	121,907	136,268	25,401	75,630	101,031	30,883	268,182
Interest	-	479	479	-	-	-	722,151	722,630
Share based compensation	-	-	-	-	-	-	-	-
Income tax expense (recovery)	117,783	-	117,783	86,362	22,906	109,268	(194,642)	32,409
Segment profit (loss)	\$ 318,450	\$ 82,929	\$ 401,379	\$ 233,498	\$ 86,171	\$ 319,669	\$ (659,633)	\$ 61,415
Segment assets	\$ 25,217,483	\$ 34,602,386	\$ 59,819,869	\$ 5,724,369	\$ 3,771,939	\$ 9,496,308	\$ 11,152,566	\$ 80,468,743
Capital expenditures	\$ -	\$ 31,311	\$ 31,311	\$ 13,715	\$ 81,009	\$ 94,724	\$ -	\$ 126,035

\* Other includes corporate overhead costs.

For three months ended September 30, 2017	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	\$ 12,140,184	\$ 13,671,682	\$ 25,811,866	\$ 5,923,175	\$ 1,409,223	\$ 7,332,398	\$ -	\$ 33,144,265
Revenues from internal customers	126,260	(920)	125,340	2,475,822	652	2,476,474	-	2,601,814
Revenues from external customers	12,013,924	13,672,603	25,686,527	3,447,353	1,408,571	4,855,925	-	30,542,451
Cost of sales	10,228,045	10,795,360	21,023,404	2,634,627	878,257	3,512,884	-	24,536,288
EBITDA	1,453,027	864,982	2,318,009	359,955	251,710	611,665	(594,028)	2,335,646
Depreciation	21,602	90,595	112,197	24,974	69,645	94,619	28,824	235,640
Interest	104	13,669	13,773	-	24,667	24,667	809,409	847,849
Share based compensation	-	-	-	-	-	-	-	-
Income tax expense (recovery)	386,457	220,608	607,065	90,445	45,645	136,090	(411,543)	331,612
Segment profit (loss)	\$ 1,044,864	\$ 540,110	\$ 1,584,974	\$ 244,536	\$ 111,753	\$ 356,289	\$ (1,020,718)	\$ 920,545
Segment assets	\$ 30,059,779	\$ 29,255,964	\$ 59,315,743	\$ 4,569,009	\$ 2,891,602	\$ 7,460,611	\$ 7,629,838	\$ 74,406,192
Capital expenditures	\$ 10,451	\$ 22,940	\$ 33,391	\$ 45,216	\$ 38,062	\$ 83,278	\$ 94,599	\$ 211,268

\* Other includes corporate overhead costs.

8. Segment reporting (cont'd)

For nine months ended September 30, 2018	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	\$ 24,394,476	\$ 53,439,380	\$ 77,833,856	\$ 12,929,833	\$ 4,971,982	\$ 17,901,815	\$ -	\$ 95,735,671
Revenues from internal customers	235,823	-	235,823	1,763,423	5,014	1,768,437	-	2,004,260
Revenues from external customers	24,158,653	53,439,380	77,598,033	11,166,410	4,966,968	16,133,378	-	93,731,411
Cost of sales	21,276,626	47,758,426	69,035,052	8,793,488	3,326,797	12,120,285	-	81,155,337
EBITDA	1,528,470	(2,300,938)	(772,468)	668,849	712,435	1,381,284	(1,604,407)	(995,591)
Depreciation	45,241	344,385	389,626	77,749	229,608	307,357	92,598	789,581
Interest	35	1,878	1,913	-	931	931	2,111,793	2,114,637
Share based compensation	-	-	-	-	-	-	-	-
Income tax expense (recovery)	400,461	-	400,461	159,597	101,198	260,795	(776,070)	(114,814)
Segment profit (loss)	\$ 1,082,733	\$ (2,647,201)	\$ (1,564,468)	\$ 431,503	\$ 380,698	\$ 812,201	\$ (3,032,728)	\$ (3,784,995)
Segment assets	\$ 25,217,483	\$ 34,602,386	\$ 59,819,869	\$ 5,724,369	\$ 3,771,939	\$ 9,496,308	\$ 11,152,566	\$ 80,468,743
Capital expenditures	\$ 8,149	\$ 632,804	\$ 640,953	\$ 21,673	\$ 86,291	\$ 107,964	\$ 3,147	\$ 752,064

\* Other includes corporate overhead costs.

For nine months ended September 30, 2017	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	\$ 35,555,659	\$ 38,770,020	\$ 74,325,679	\$ 17,212,954	\$ 3,243,161	\$ 20,456,115	\$ -	\$ 94,781,794
Revenues from internal customers	502,660	39,522	542,182	5,945,793	652	5,946,445	-	6,488,627
Revenues from external customers	35,052,999	38,730,498	73,783,497	11,267,161	3,242,509	14,509,670	-	88,293,167
Cost of sales	30,323,422	31,290,739	61,614,161	8,969,807	2,029,655	10,999,462	-	72,613,623
EBITDA	3,807,646	1,981,607	5,789,253	887,541	295,752	1,183,293	(1,814,459)	5,158,087
Depreciation	55,722	287,313	343,035	74,615	209,670	284,285	85,748	713,068
Interest	414	21,670	22,084	-	25,781	25,781	2,444,615	2,492,480
Share based compensation	-	-	-	-	-	-	51,672	51,672
Income tax expense (recovery)	1,012,907	485,061	1,497,968	219,490	17,487	236,977	(1,185,696)	549,249
Segment profit (loss)	\$ 2,738,603	\$ 1,187,563	\$ 3,926,166	\$ 593,436	\$ 42,814	\$ 636,250	\$ (3,210,798)	\$ 1,351,618
Segment assets	\$ 30,059,779	\$ 29,255,964	\$ 59,315,743	\$ 4,569,009	\$ 2,891,602	\$ 7,460,611	\$ 7,629,838	\$ 74,406,192
Capital expenditures	\$ 27,176	\$ 189,064	\$ 216,240	\$ 76,647	\$ 267,598	\$ 344,245	\$ 99,798	\$ 660,283

\* Other includes corporate overhead costs.

## 8. Segment reporting (cont'd)

The Company's operations are conducted in the following geographic locations:

Three months ended	September 30, 2018	September 30, 2017
Revenue		
Canada and International	\$ 12,826,086	\$ 15,461,277
United States	18,332,959	15,081,174
	\$ 31,159,045	\$ 30,542,451
Nine months ended	September 30, 2018	September 30, 2017
Revenue		
Canada and International	\$ 35,325,063	\$ 46,320,160
United States	58,406,348	41,973,007
	\$ 93,731,411	\$ 88,293,167
	September 30, 2018	December 31, 2017
Non-current assets		
Canada and International	\$ 6,585,417	\$ 7,204,646
United States	6,555,192	6,209,675
	\$ 13,140,609	\$ 13,414,321

## 9. Related party transactions

During the three and nine months ended September 30, 2018, the Company incurred office sharing costs of \$9,000 and \$27,000 respectively (September 30, 2017 – \$9,000 and \$27,000), that were paid to a company over which a director has control. These office sharing costs were made on terms equivalent to those that prevail in arm's length transactions.

## 10. Capital management policies and procedures

Management's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on the Company's debt and credit facilities and preserve financial flexibility in order to benefit from potential opportunities that may arise.

## 10. Capital management policies and procedures (cont'd)

The Company includes the following in the definition of capital:

	September 30 2018	December 31 2017
Bank indebtedness	\$ 32,467,658	\$ 25,963,575
Long-term debt	9,062,500	9,625,000
Obligations under finance lease	41,252	62,660
Equity	25,304,713	28,756,106
<b>Total capital</b>	<b>\$ 66,876,123</b>	<b>\$ 64,407,341</b>

The Company uses a combination of debt and equity financings to help it achieve its objectives. The percentage levels of each capital component may change as the entity attempts to take advantage of prevailing market conditions. The Company is not subject to capital requirements imposed by a regulator.

The ABL facility and GreyPoint's long term debt require the Company to maintain certain financial covenants. The Company monitors these requirements on a monthly basis.

These covenants are summarized as follows:

	September 30 2018	Requirement	Dec 31 2017	Requirement
Fixed Charge coverage ratio	0.98	<b>Must exceed 0.95</b>	10.94	Must exceed 1.00
Eligible capital expenditures	752,064	<b>Not to exceed 2,241,600</b>	\$ 903,714	Not to exceed \$ 1,050,000

As at September 30, 2018, the Company was in compliance with all of its financial covenants.

On November 6, 2017 the Company revised the terms of the ABL Facility agreement, replacing the minimum adjusted tangible net worth and adjusted EBITDA covenants with a fixed charge coverage ratio covenant. The eligible capital expenditures covenant continues to apply.

The fixed charge coverage ratio is set at a minimum of 0.95 to 1 level and defined as the trailing twelve months of EBITDA, less non-funded capital expenditures, to the sum of cash interest paid, plus cash income taxes paid, plus the aggregate of all dividends, distributions and principal repayments, and any amortization. The Company is currently reviewing its financial covenants with its senior lenders.

EBITDA is defined as net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including one-time transaction, acquisition and restructuring expenses, share based payments, and foreign exchange gains or losses), and after unfunded capital expenditures.

**10. Capital management policies and procedures *(cont'd)***

The capital expenditures limit is set at a maximum of 120% of consolidated budgeted yearly capital expenditures but does not include capital additions by way of finance lease.

On November 6, 2017 the Company refinanced its subordinate debenture with Fulcrum and entered into a 5-year term loan with GreyPoint. The GreyPoint debt has the same covenants as the ABL Facility.

On February 8, 2018 the company increased the maximum amount it could borrow under the ABL Facility agreement from \$35,000,000 to \$40,000,000.

Failure to comply with the obligations in either of these credit facilities could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness.

**11. Reclassification of comparative amounts**

Certain comparative amounts for the prior period have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders' equity.

*(signed) "Don Caron"*  
Don Caron, Director

*(signed) "Eric Sauze"*  
Eric Sauze, Director