BRI-CHEM

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Third Quarter 2019 Interim Condensed Report (unaudited)

Q3 2019

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Notice of No Auditor Review of Interim Condensed Consolidated 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 these interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018.

Interim Condensed Consolidated Statements of Operations and Comprehensive Loss
(Canadian dollars)
(unaudited)

		Three months ended		Nine months ended	
	Note	**September 30 2019**	September 30 2018	**September 30 2019**	September 30 2018
			Note 3		Note 3
Sales		**$ 21,799,983**	$ 31,159,045	**$ 70,419,008**	$ 93,731,411
Cost of sales		**17,540,301**	26,058,320	**57,859,829**	81,155,337
Gross margin		**4,259,682**	5,100,725	**12,559,179**	12,576,074
Expenses					
Salaries and benefits		**1,929,137**	2,459,678	**6,292,441**	7,325,593
Selling, general and administration	3	**1,360,775**	1,546,355	**3,353,516**	5,294,885
Depreciation on property and equipment	3	**435,528**	268,182	**1,438,201**	789,581
Restructuring costs		**-**	71,878	**24,280**	719,865
		3,725,440	4,346,093	**11,108,438**	14,129,924
Financing costs	3	**658,036**	722,630	**2,099,366**	2,114,637
Foreign exchange loss (gain)		**16,413**	(61,822)	**(69,376)**	231,322
		674,449	660,808	**2,029,990**	2,345,959
(Loss) income before income taxes		**(140,207)**	**93,824**	**(579,249)**	**(3,899,809)**
Income tax expense (recovery)					
Current		**30,183**	(167,618)	**(27,369)**	(551,424)
Deferred		**-**	200,027	**-**	436,610
		30,183	32,409	**(27,369)**	(114,814)
Net (loss) income		**$ (170,390)**	$ 61,415	**$ (551,880)**	$ (3,784,995)
Other comprehensive income, net of $nil tax (2018 - $nil)					
Foreign currency translation adjustment		**163,388**	$ (144,673)	**(283,349)**	$ 333,602
Total comprehensive loss		**$ (7,002)**	$ (83,258)	**$ (835,229)**	$ (3,451,393)
Loss per share					
Basic	6	**$ (0.01)**	$ 0.00	**$ (0.02)**	$ (0.16)
Diluted	6	**$ (0.01)**	$ 0.00	**$ (0.02)**	$ (0.16)

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

Interim Condensed Consolidated Statements of Financial Position
(Canadian dollars)
(unaudited)

	Note	September 30 2019	December 31 2018
Assets			
Current assets			
Accounts receivable		**$ 18,047,205**	$ 26,053,467
Inventories		**21,545,099**	32,390,677
Prepaid expenses and deposits		**721,203**	2,527,773
Income taxes receivable		**171,641**	—
		40,485,148	60,971,917
Non-current assets			
Property and equipment		**9,677,065**	10,479,728
Right-of-use assets	3	**1,664,758**	—
Other long-term assets		**159,742**	164,558
		$ 51,986,713	$ 71,616,203
Liabilities			
Current liabilities			
Bank indebtedness	5	**$ 16,378,501**	$ 30,833,981
Accounts payable and accrued liabilities		**5,757,388**	11,118,829
Current portion of long term debt		**800,000**	800,000
Current portion of obligations under finance lease	3	**882,202**	178,422
Income taxes payable		**131,489**	63,989
		23,949,580	42,995,221
Non-current liabilities			
Long-term debt		**7,411,753**	7,977,128
Obligations under finance lease	3	**1,209,245**	392,490
Deferred tax liabilities		**80,013**	80,013
Other long-term liabilities		**18,100**	18,100
		32,668,691	51,462,952
Equity			
Share capital		**33,537,199**	33,537,199
Contributed surplus		**4,035,160**	4,035,160
Deficit		**(15,203,603)**	(14,651,723)
Accumulated other comprehensive loss		**(3,050,734)**	(2,767,385)
		19,318,022	20,153,251
		$ 51,986,713	$ 71,616,203

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

Interim Condensed Consolidated Statements of Changes in Equity
(Canadian dollars)
(unaudited)

	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total equity
Balance at January 1, 2018	$ 33,537,199	$ 4,035,160	$ (5,296,307)	$ (3,519,946)	$ 28,756,106
Total comprehensive income (loss)	—	—	(3,784,995)	333,602	(3,451,393)
Balance at September 30, 2018	$ 33,537,199	$ 4,035,160	$ (9,081,302)	$ (3,186,344)	$ 25,304,713
Balance at January 1, 2019	$ 33,537,199	$ 4,035,160	$ (14,651,723)	$ (2,767,385)	$ 20,153,251
Total comprehensive loss	—	—	(551,880)	(283,349)	(835,229)
Balance at September 30, 2019	$ 33,537,199	$ 4,035,160	$ (15,203,603)	$ (3,050,734)	$ 19,318,022

Interim Condensed Consolidated Statements of Cash Flows
(Canadian dollars)
(unaudited)

For the nine months ended		**September 30 2019**		September 30 2018
Operating activities				
Net loss	**$**	**(551,880)**	$	(3,784,995)
Adjustments for:				
Depreciation on property and equipment		**1,438,201**		789,581
Amortization of debt related transaction costs		**142,985**		67,386
Deferred tax expense		**-**		436,610
Foreign exchange (gain) loss on debt		**(77,752)**		207,569
Unrealized foreign exchange (gain) loss		**(1,439)**		42,219
Interest on debt and finance leases		**1,950,715**		2,046,216
Loss on disposal of equipment		**—**		701
Change in non-cash working capital		**14,158,849**		(2,136,111)
Total cash generated (used) in operating activities		**17,059,679**		(2,330,824)
Financing activities				
Adavances on operating line		**27,267,486**		62,718,257
Repayments on operating line		**(40,724,348)**		(56,996,746)
Interest paid on debt and finance leases		**(2,017,830)**		(2,015,480)
Repayments of obligations under finance lease		**(849,887)**		(23,143)
Repayment on term debt		**(625,000)**		(600,000)
Total cash generated (used) in financing activities		**(16,949,579)**		3,082,888
Investing activities				
Purchase of property and equipment		**(110,100)**		(752,064)
Total cash used in investing activities		**(110,100)**		(752,064)
Net change in cash and cash equivalents		**—**		—
Cash and cash equivalents, beginning of the period		**—**		—
Cash and cash equivalents, end of the period	**$**	**—**	$	—

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

1. Nature of operations and going concern

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 and chemicals 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. Its head office is in Alberta, Canada. Its registered and primary place of business is 27075 Acheson Road, Acheson, Alberta T7X 6B1.

These interim condensed consolidated financial statements were prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business for the foreseeable future. The Company recorded a net loss of $170,390 and $551,880 for the three and nine months ended September 30, 2019, with total bank indebtedness under the Asset-Based Lending Facility (the "ABL Facility") which totaled $16,378,501 and had $2,111,310 available under this ABL Facility as at September 30, 2019. The Company's ability to continue as a going concern is dependent on its ability to access the ABL Facility as well as its as well as its subordinated debenture agreement, , generate future net income, and realize cash from operating activities. These interim condensed consolidated financial statements do not reflect the adjustments and classifications to assets, liabilities, revenues, and expenses that would be necessary if the Company were unable to continue as a going concern. Such adjustments could be material.

Management applied significant judgement in preparing forecasts to support the going concern assumption. Forecasted revenues were based on the expected demand for drilling fluids and chemicals that are influenced by current and future commodity prices in Canada and the US. Forecasted operating and general administrative expenses were based on forecasted revenues and historical gross margins. Actual commodity prices in the future may differ significantly from those forecasted by management, which could cast doubt about the Company's ability to continue as a going concern.

Canada is experiencing oil and gas industry concerns over market access and increased regulation resulting in decreased current and forecasted drilling activity. The Company has a considerable operating presence in western Canada and is taking steps to right-size its Canadian operations to reflect future business activity. On December 24, 2018 the ABL Facility and subordinated debenture agreements were amended to replace the fixed charge coverage ratio with a minimum tangible net worth covenant and a minimum trailing twelve-month EBITDA covenant. On May 9, 2019, the Company further amended the ABL Facility and subordinated debenture agreements and its financial covenants. (see Note 5). As at September 30, 2019, the Company was in compliance with all of the financial covenants for these agreements. The ABL Facility matures October 31, 2020 and the subordinated debenture agreement matures November 30, 2022. Failure to comply with the obligations in either of these credit facilities could result in default which, if not remediated or waived, could permit acceleration of the relevant indebtedness.

Should the Company be unable to meet its obligations as they become due or be unable to access its lending facilities, the preparation of these interim condensed consolidated financial statements on a going concern basis may not be appropriate. Management is currently reviewing additional sources of financing and strategies to improve net income and cash from operations that could include the refinancing of current debt, business restructuring to align the Company's cost structure with lower sales levels, and/or the sale of individual assets or operating divisions.

2. Basis of presentation

These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. The unaudited interim condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the years ended December 31, 2018 and 2017. Except for standards adopted since the most recent audited financial statements as detailed below in Note 3, these unaudited interim condensed financial statements have been prepared using accounting policies and estimates which are consistent with Note 2 of the audited annual consolidated financial statements for the years ended December 31, 2018 and 2017 as filed on SEDAR at www.sedar.com. These unaudited interim condensed financial statements were approved for issuance by Bri-Chem's Board of Directors on November 12, 2019 and are presented in Canadian dollars, which is Bri-Chem's functional currency.

3. Newly adopted accounting standards

IFRS 16 Leases

The Company adopted IFRS 16, "Leases" on January 1, 2019 which introduces new or amended requirements for lease accounting. While the requirements for lessor accounting have remained largely the same, significant changes were made to lessee accounting, including removal of the distinction between operating and finance leases except in limited circumstances. Upon transition, the Company elected to apply IFRS 16 using the cumulative catch-up approach which did not require restatement of comparative information. Instead, comparative information remained as previously reported under IAS 17 "Leases" and its related interpretations. In applying this approach, the cumulative impact of initial application was applied on the date of transition by adjusting January 1, 2019 balances. The Company also elected to use several transitional reliefs and exemptions made available by the International Accounting Standards Board ("IASB") as practical expedients to implement the standard which were as follows:

- The Company used transitional relief not to reassess whether a contract is or contains a lease. By applying this relief, the Company did not have to reassess arrangements under IFRS 16 that had not previously been identified as leases (i.e. grandfathering).
- The Company applied the exemption related to low-value assets to exclude minor IT and office equipment which were deemed to be monetarily insignificant. For these arrangements, the Company will continue to recognize lease expense on a straight-line basis over the term of the agreement as presented within selling, general, and administration.
- The Company elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease arrangement.
- The Company elected to use a single discount rate to its portfolio of leases because they shared similar economic characteristics.

3. Newly adopted accounting standards (cont'd)

IFRS 16 changed the definition of a lease to focus on the concept of control. IFRS 16 determines whether a contract is or contains a lease based on whether the customer has the right to control the use of an identified asset for a period in exchange for consideration. The Company applied this definition and guidance in IFRS 16 to its arrangements that had previously been identified as a lease under IAS 17 and its related interpretations which resulted in the following:

- On initial application, the Company elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of $2,284,706 were recorded as of January 1, 2019 in the consolidated statement of financial position at the present value of the future minimum lease payments, with no net impact on retained earnings;
- The Company recognized depreciation of right-of-use assets and interest on lease liabilities in the Consolidated Statements of Operations; and,
- The Company separated the total amount of cash paid into a principal portion presented within financing activities and interest presented within operating activities in the Consolidated Statements of Cash Flows.

The following table reconciles the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's December 31, 2018 and 2017 audited annual consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 as of January 1, 2019.

Operating lease commitments as of December 31, 2018	**$ 2,377,274**
Discounted using January 1, 2018 incremental borrowing rate under IFRS 16	**(171,750)**
Extension option reasonably likely to be exercised	**407,982**
Operating leases determined to be service arrangements under IFRS 16	**(328,800)**
Lease obligations recognized as of January 1, 2019	**$ 2,284,706**

Impact on the interim condensed consolidated statement of financial position as at September 30, 2019 is as follows:

Cost	
Balance January 1, 2019	$ 2,417,829
Additions	34,674
Translation adjustment	(17,439)
Terminations of leases	(156,676)
Balance September 30, 2019	**$ 2,278,388**
Accumulated depreciation	
Balance January 1, 2019	$ —
Depreciation	765,928
Translation adjustment	4,378
Terminations of leases	(156,676)
Balance September 30, 2019	**$ 613,630**
Net Book Value	
At January 31, 2019	$ 2,417,829
At September 30, 2019	**$ 1,664,758**

3. Newly adopted accounting standards (cont'd)

The Company incurs lease payments related to warehouses. Leases are entered into and exited in in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments at an incremental borrowing rate of approximately 6.5%.

The Company has the following future commitments associated with its lease obligations:

		As at September 30, 2019
Less than 1 year	$	763,734
1-3 years		887,188
4-5 years		16,777
After 5 years		—
Total lease payments		1,667,699
Amounts representing interest over the term of the lease		(124,708)
Present value of net lease liabilities		1,542,991
Current portion of lease liabilities		(684,097)
Non-current portion of lease liabilities	$	858,894

Adjustments

a) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. It also resulted in a decrease in selling, general and administration and an increase in depreciation on property and equipment and in interest expense.

b) Equipment held under finance lease arrangements previously presented within property and equipment are now presented within the line item right-of-use assets. There has been no change in the liability recognized.

The Company assesses whether a contract is or contains a lease at the inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases which are defined as leases with a term of 12 months or less, or leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The lease liability is initially measured at the present value of the lease payments not paid at the commencement date and are discounted using the rate implicit in the lease. If the implicit rate cannot be readily determined, the Company uses its incremental borrowing rate.

Upon adoption of IFRS 16, the Company was required to develop an incremental borrowing rate to discount the future minimum lease payments of its lease obligations over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Company's incremental borrowing rate was determined to be 6.5%.

Lease payments included in the measurement of the lease liability including fixed lease payments less any lease incentives. The Company does not have any variable lease payments, guaranteed residual values, purchase options reasonably expected to be exercised, or lease termination payments in its lease arrangements. The lease liability is presented as a separate current and long-term line in the interim condensed consolidated statements of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect the lease payments made. The Company re-measures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever:

3. Newly adopted accounting standards (cont'd)

- The lease term has changed in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; and,
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments at or before the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use asset is presented as a separate line in the interim condensed consolidated statements of financial position. Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

4. Seasonality of operations

Weather conditions can materially impact the sale of the Company's products and services, particularly in its Canadian divisions during spring break-up. Additionally, many exploration and production areas in the northern Western Canadian Sedimentary Basin 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. Bank indebtedness

Bank indebtedness relates to borrowings on the Company's ABL Facility with Canadian Imperial Bank of Commerce Asset-Based Lending Inc. ("CIBC"). The ABL Facility is subject to a borrowing base which is calculated as a percentage of eligible inventory and accounts receivable.

On February 8, 2018 the company increased the maximum amount it could borrow under the ABL Facility to $40,000,000. On December 24, 2018, the ABL Facility was amended to replace the fixed charge coverage ratio with a minimum tangible net worth covenant and a minimum trailing twelve-month EBITDA covenant. Minimum tangible net worth is calculated as 90% of equity less prepaids, intangibles, deferred tax assets, and goodwill. Minimum trailing twelve-month EBITDA is calculated as a prescribed level of EBITDA. The ABL facility requires the Company to maintain certain financial covenants which are monitored monthly. The same financial covenants apply to the Company's long-term debt. The December 24, 2018 amended covenants of minimum trailing twelve-month EBITDA and minimum tangible net worth will remain in place until May 31, 2019

On May 9, 2019, the Company amended the terms of the ABL Facility to decrease the maximum borrowing base down from $40,000,000 to $30,000,000 with a further reduction down to $25,000,000 commencing September 1, 2019. In addition, the amending agreement includes a borrowing base block with reduced minimum requirements for the trailing twelve-month EBITDA and tangible net worth covenants

A summary of the Company's financial covenants are as follows:

	September 30, 2019	**Covenant**	December 31, 2018	Covenant
Eligible capital expenditures	**$ 110,100**	**Not to exceed $251,000**	$ 850,552	Not to exceed $2,241,600
Minimum tangible net worth	**$ 18,285,460**	**Must exceed $16,700,000**	$ 19,940,558	Must exceed $16,931,000
Minimum trailing twelve month EBITDA	**$ 2,666,095**	**$ 1,250,000**	$ 2,949,231	Must exceed $2,300,000

As at September 30, 2019, the Company was in compliance with all of its financial covenants. Failure to comply with the obligations in either of these credit facilities could result in default which, if not remediated or waived, could permit acceleration of the relevant indebtedness.

6. Loss per share

Basic and diluted loss per share were calculated using profit attributable to shareholders of the Company as the numerator.

For the three months ended		September 30, 2019		September 30, 2018
Net loss attributable to the shareholders of the Company	$	(170,390)	$	61,415
Basic weighted average number of ordinary shares		23,932,981		23,932,981
Dilutive options issued and outstanding		—		—
Diluted weighted average number of ordinary shares		23,932,981		23,932,981
Basic loss per share	$	(0.01)	$	0.00
Diluted loss per share	$	(0.01)	$	0.00

For the nine months ended		September 30, 2019		September 30, 2018
Net loss attributable to the shareholders of the Company	$	(551,880)	$	(3,784,995)
Basic weighted average number of ordinary shares		23,932,981		23,932,981
Dilutive options issued and outstanding		—		—
Diluted weighted average number of ordinary shares		23,932,981		23,932,981
Basic loss per share	$	(0.02)	$	(0.16)
Diluted loss per share	$	(0.02)	$	(0.16)

7. 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. The chief operating decision-makers consider the business from both a geographic and a product perspective. From a geographic perspective, management considers the performance in Canada and the USA. From a product perspective, management considers the fluids distribution, and fluids blending & packaging markets in these geographies. The chief operating decision-makers assess the performance of the operating segments based on 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 consolidated financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. 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 at market value. The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the consolidated statement of operations.

7. Segment reporting (cont'd)

Selected financial information by reportable segment is disclosed as follows:

For the three months ended	**Fluids Distribution**			**Fluids Blending & Packaging**				
September 30, 2019	**Canada**	**USA**	**Total**	**Canada**	**USA**	**Total**	**Other [1]**	**Consolidated**
Total revenues	$ 4,562,456	$ 12,254,828	$ 16,817,284	$ 2,461,565	$ 3,099,967	$ 5,561,532	$ —	$ 22,378,816
Revenues from internal customers	222,837	—	222,837	355,996	—	355,996	—	578,833
Revenues from external customers	4,339,619	12,254,828	16,594,447	2,105,569	3,099,967	5,205,536	—	21,799,983
Cost of sales	3,775,981	10,276,617	14,052,598	1,564,323	1,923,380	3,487,703	—	17,540,301
Operating income (loss)	257,904	334,139	592,043	16,784	747,886	764,670	(403,356)	953,357
Amortization and depreciation	10,031	330,818	340,849	2,229	55,768	57,997	36,682	435,528
Interest	486	27,603	28,089	419	459	878	629,069	658,036
Income tax expense / (recovery)	66,794	—	66,794	3,817	—	3,817	(40,428)	30,183
Segment profit (loss)	$ 180,593	$ (24,282)	$ 156,311	$ 10,319	$ 691,659	$ 701,978	$ (1,028,679)	$ (170,390)
Segment assets	$ 11,221,237	$ 29,924,726	$ 41,145,963	$ 3,267,978	$ 3,752,538	$ 7,020,516	$ 3,820,234	$ 51,986,713
Capital expenditures	$ —		$ 26,402	$ 2,993	$ —	$ 2,993	$ —	$ 29,395

For the three months ended	**Fluids Distribution**			**Fluids Blending & Packaging**				
September 30, 2018	**Canada**	**USA**	**Total**	**Canada**	**USA**	**Total**	**Other [1]**	**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
Operating income (loss)	972,594	619,800	1,592,394	715,161	234,599	949,760	(1,457,518)	1,084,636
Amortization and depreciation	14,361	121,907	136,268	25,401	75,630	101,031	30,883	268,182
Interest	—	479	479	—	—	—	722,151	722,630
Income tax expense / (recovery)	258,723	—	258,723	186,235	33,383	219,618	(445,932)	32,409
Segment(loss) profit	$ 699,510	$ 497,414	$ 1,196,924	$ 503,525	$ 125,586	$ 629,111	$ (1,764,620)	$ 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

(1) Other includes corproate overhead costs.

7. Segment reporting (cont'd)

For the nine months ended	Fluids Distribution			Fluids Blending & Packaging				
September 30, 2019	Canada	USA	Total	Canada	USA	Total	Other (1)	Consolidated
Total revenues	$ 13,661,196	$ 41,633,523	$ 55,294,719	$ 7,953,330	$ 8,511,195	$ 16,464,525	$ —	$ 71,759,244
Revenues from internal customers	380,549	—	380,549	958,879	808	959,687	—	1,340,236
Revenues from external customers	13,280,647	41,633,523	54,914,170	6,994,451	8,510,387	15,504,838	—	70,419,008
Cost of sales	11,755,041	35,392,569	47,147,610	5,345,035	5,367,184	10,712,219	—	57,859,829
Operating income (loss)	348,873	1,289,671	1,638,544	(75,644)	2,024,134	1,948,490	(628,716)	2,958,318
Amortization and depreciation	33,949	1,123,958	1,157,907	13,157	155,862	169,019	111,275	1,438,201
Interest	1,938	92,455	94,393	1,337	622	1,959	2,003,014	2,099,366
Income tax expense / (recovery)	84,506	—	84,506	(24,337)	—	(24,337)	(87,538)	(27,369)
Segment profit (loss)	$ 228,480	$ 73,258	$ 301,738	$ (65,801)	$ 1,867,650	$ 1,801,849	$ (2,655,467)	$ (551,880)
Segment assets	$ 11,221,237	$ 29,924,726	$ 41,145,963	$ 3,267,978	$ 3,752,538	$ 7,020,516	$ 3,820,234	$ 51,986,713
Capital expenditures	$ —	$ 107,107	$ 107,107	$ 2,993	$ —	$ 2,993	$ —	$ 110,100

For the nine months ended	Fluids Distribution			Fluids Blending & Packaging				
September 30, 2018	Canada	USA	Total	Canada	USA	Total	Other (1)	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
Operating income (loss)	1,528,470	(2,300,938)	(772,468)	668,849	712,435	1,381,284	(1,604,407)	(995,591)
Amortization and 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
Income tax expense / (recovery)	400,461	—	400,461	159,597	101,198	260,795	(776,070)	(114,814)
Segment(loss) profit	$ 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

(1) Other includes corporate overhead costs.

7. Segment reporting (cont'd)

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

For the three months ended	**September 30 2019**	September 30 2018
Revenue		
Canada	**$ 6,445,188**	$ 12,826,086
United States	**15,354,795**	18,332,959
	$ 21,799,983	$ 31,159,045

For the nine months ended	**September 30 2019**	September 30 2018
Revenue		
Canada	**$ 20,275,098**	$ 35,325,063
United States	**50,143,910**	58,406,348
	$ 70,419,008	$ 93,731,411
Non-current assets		
Canada	**$ 4,252,322**	$ 6,585,417
United States	**7,249,243**	6,555,192
	$ 11,501,565	$ 13,140,609

8. Capital management policies and procedures

The total capital structure of the Company is as follows:

	September 30 2019	December 31 2018
Bank indebtedness	**$ 16,378,501**	$ 30,833,981
Long-term debt	**8,211,753**	8,777,128
Obligations under finance lease	**2,091,447**	570,912
Equity	**19,318,022**	20,153,251
Total capital	**$ 45,999,723**	$ 60,335,272

Management has several objectives when managing the capital structure of the Company which include:

- Safeguarding the entity's ability to continue as a going concern so that it continues to provide adequate returns to shareholders;
- Maintaining balance sheet strength so that the Company's strategic objectives are met; and,
- Maintaining investor, creditor, and market confidence to sustain future development of the business.

The Company manages its capital structure based on current economic conditions, the risk characteristics of the underlying assets, and planned capital requirements within guidelines approved by its Board of Directors. Total capitalization is adjusted by drawing on existing debt facilities, issuing new debt or equity securities when opportunities are identified, and through disposition of underperforming assets to reduce debt when required.

8. Capital management policies and procedures (cont'd)

As at September 30, 2019, the Company had $2,111,310 (December 31, 2018 - $2,673,811) of undrawn credit available on the ABL Facility. Aside from the capital requirements associated with its ABL Facility and long-term debt facilities as disclosed in Note 5, the Company is not subject to any other external capital requirements.

9. Financial Instruments

Categories of financial instruments

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

	September 30 2019	December 31 2018
Financial Assets - Amortized Cost		
Accounts receivable	**$ 18,047,205**	$ 26,053,467
Financial Liabilities - Amortized Cost		
Bank indebtedness	**16,378,501**	30,833,981
Accounts payable and accrued liabilities	**7,571,079**	11,118,829
Long-term debt	**8,639,098**	8,777,128
	$ 32,588,678	$ 50,729,938

Effective January 1, 2018, the Company adopted the amendments of IFRS 9 "Financial Instruments". All the Company's financial instruments are now measured at amortized cost including accounts receivables, bank indebtedness, accounts payable and accrued liabilities, and long-term debt.

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as "amortized cost", "fair value through profit or loss" or "fair value through other comprehensive income".

The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset, and the net amount presented in the balance sheet when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following financial assets and liabilities recognized at amortized cost:

Accounts receivables
The Company's financial assets have fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, adjusted for any directly attributable transaction costs. Subsequent to initial recognition, accounts receivables are measured at amortized cost using the effective interest method, less any impairment losses.

9. Financial Instruments (cont'd)

Bank indebtedness, accounts payable and accrued liabilities, and long-term debt

Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Financial liabilities, including the ABL and GreyPoint facilities, are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to these facilities are deferred and amortized using the straight-line method over the term of the facility against the related debt. The asset is recognized in other assets on the balance sheet while the amortization is included in finance costs within net (loss) income.

10. Comparative figures

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