



Bri-Chem Corp.
Interim Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2021
(Expressed in Canadian Dollars)

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors Kingston Ross Pasnak LLP have not reviewed the unaudited interim condensed consolidated financial statements as at and for the period ended September 30, 2021.

Q3 2021

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

	Note	Three months ended		Nine months ended	
		Sep 30 2021	Sep 30 2020	Sep 30 2021	Sep 30 2020
Sales		\$ 16,461,119	\$7,449,523	\$ 41,860,742	\$35,683,347
Cost of sales		13,057,999	6,269,125	33,425,765	29,707,457
Gross margin		3,403,120	1,180,398	8,434,977	5,975,890
Expenses					
Salaries and benefits	10	1,399,329	802,339	2,871,665	3,369,354
Selling, general and administration	10	995,591	1,170,954	3,151,476	3,346,292
Depreciation on property and equipment		236,074	292,447	705,800	895,502
		2,630,994	2,265,740	6,728,941	7,611,148
Operating earnings / (loss)		772,126	(1,085,342)	1,706,036	(1,635,258)
Financing costs		428,980	768,971	1,246,583	1,721,270
Foreign exchange (gain) loss		28,766	(4,276)	(108,728)	191,969
		457,746	764,695	1,137,855	1,913,239
Net earnings / (loss) before income taxes		314,380	(1,850,037)	568,181	(3,548,497)
Income tax (recovery) expense					
Current		(33,414)	10,759	35,112	58,090
Deferred		—	—	—	—
		(33,414)	10,759	35,112	58,090
Net earnings / (loss)		\$ 347,794	\$(1,860,796)	\$ 533,069	\$(3,606,587)
Other comprehensive income, net of \$nil tax (2020 - \$nil)					
Foreign currency translation adjustment		401,818	\$(338,082)	(96,589)	\$ 209,824
Total comprehensive earnings (loss)		\$ 749,612	\$(2,198,878)	\$ 436,480	\$(3,396,763)
Earnings / (loss) per share					
Basic	7	\$ 0.01	\$(0.08)	\$ 0.02	\$(0.15)
Diluted	7	\$ 0.01	\$(0.08)	\$ 0.02	\$(0.15)

Interim Condensed Consolidated Statements of Financial Position			
(Canadian dollars)			
(unaudited)			
	Note	September 30 2021	December 31 2020
Assets			
Current assets			
Accounts receivable	4	\$ 15,918,376	\$ 6,955,215
Inventories		13,329,760	11,290,128
Prepaid expenses and deposits		463,822	462,684
		29,711,958	18,708,027
Non-current assets			
Property and equipment		6,372,981	6,778,939
Right-of-use assets		336,596	688,302
Other long-term assets		115,212	114,120
		\$ 36,536,747	\$ 26,289,388
Liabilities			
Current liabilities			
Bank indebtedness	5	\$ 11,458,540	\$ 4,289,304
Accounts payable and accrued liabilities		6,737,264	3,058,125
Current portion of long-term debt	6	800,000	800,000
Current portion of lease liabilities		330,640	652,300
Income taxes payable		—	42,859
		19,326,444	8,842,588
Non-current liabilities			
Long-term debt	6	6,098,816	6,556,582
Lease liabilities		114,816	332,675
		25,540,076	15,731,845
Equity			
Share capital		33,537,199	33,537,199
Contributed surplus		4,037,808	4,035,160
Warrants		152,676	152,676
Deficit		(22,922,795)	(23,455,864)
Accumulated other comprehensive loss		(3,808,217)	(3,711,628)
		10,996,671	10,557,543
		\$ 36,536,747	\$ 26,289,388

Interim Condensed Consolidated Statements of Changes in Equity							
(Canadian dollars)							
(unaudited)							
	Share capital	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive income / (loss)	Total equity	
Balance at January 1, 2020	\$ 33,537,199	\$ 4,035,160	\$ —	\$ (18,307,548)	\$ (3,266,911)	\$ 15,997,900	
Issuance of warrants	\$ —	\$ —	\$ 152,676	\$ —	\$ —	\$ 152,676	
Total comprehensive loss	—	—	—	(3,606,587)	209,824	(3,396,763)	
Balance at September 30, 2020	\$ 33,537,199	\$ 4,035,160	\$ 152,676	\$ (21,914,135)	\$ (3,057,087)	\$ 12,753,813	
Balance at January 1, 2021	\$ 33,537,199	\$ 4,035,160	\$ 152,676	\$ (23,455,864)	\$ (3,711,628)	\$ 10,557,543	
Employee share-based payment options	—	2,648	—	—	—	2,648	
Total comprehensive income	—	—	—	533,069	(96,589)	436,480	
Balance at September 30, 2021	\$ 33,537,199	\$ 4,037,808	\$ 152,676	\$ (22,922,795)	\$ (3,808,217)	\$ 10,996,671	

Interim Condensed Consolidated Statements of Cash Flows (Canadian dollars) (unaudited)		
For the nine months ended	Sep 30 2021	Sep 30 2020
Operating activities		
Net earnings / (loss)	\$ 533,069	\$ (3,606,587)
Adjustments for:		
Depreciation on property and equipment	705,800	895,502
Amortization of debt related transaction costs	119,488	399,347
Foreign exchange loss on debt	26,526	177,087
Unrealized foreign exchange (gain) loss	(138,521)	741
Interest on debt and finance leases	1,018,341	1,196,021
Share based payments	2,648	—
Gain on disposal of equipment	(11,261)	(2,392)
Change in non-cash working capital	(7,248,443)	11,662,949
Total cash (used in) provided by operating activities	(4,992,353)	10,722,668
Financing activities		
Advances on bank indebtedness	20,359,790	21,083,669
Repayments on bank indebtedness	(13,309,618)	(29,341,843)
Interest paid on debt and finance leases	(1,037,772)	(1,232,445)
Repayment of obligations under finance lease	(534,153)	(660,424)
Advances on long term debt	109,388	25,983
Repayment of long-term debt	(650,000)	(600,000)
Total cash provided by (used in) financing activities	4,937,635	(10,725,060)
Investing activities		
Proceeds on sale of property and equipment	76,926	2,392
Purchase of property and equipment	(22,208)	—
Total cash provided by investing activities	54,718	2,392
Net change in cash and cash equivalents	—	—
Cash and cash equivalents, beginning of the period	—	—
Cash and cash equivalents, end of the period	\$ —	\$ —

1. DESCRIPTION OF BUSINESS

Bri-Chem Corp. (“the Company” or “Bri-Chem”) is an independent wholesale supplier of drilling fluids and chemicals for the oil and gas industry operating from owned or leased warehouses located throughout Canada and the United States. Bri-Chem Corp. was incorporated under the laws of the Province of Alberta, Canada and its head office is in Acheson, Alberta, Canada. Its registered and primary place of business is 27075 Acheson Road, Acheson, Alberta T7X 6B1.

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.

2. BASIS OF PRESENTATION

a) Statement of Compliance

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 audited annual consolidated financial statements of the Company for the year ended December 31, 2020 and notes thereto as filed on SEDAR at www.sedar.com. However, selected notes are included that are significant to understanding the Company’s financial position and performance since the last annual consolidated financial statements.

These unaudited interim condensed financial statements were approved for issuance by Bri-Chem’s Board of Directors on November 11, 2021 and are presented in Canadian dollars, which is Bri-Chem’s functional currency.

b) Principles of Consolidation

The financial statements of the Company consolidate the accounts of Bri-Chem and its subsidiaries which are entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to direct the relevant activities of an entity so as to obtain benefit from its activities. Inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

c) Going Concern

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. For the 9 months ended September 30, 2021, the Company realized net earnings (loss) of \$533,069 (September 30, 2020 - \$(3,606,587)) and an accumulated deficit and other comprehensive earnings (loss) of \$436,480 (September 30, 2020 - \$(3,396,763)). Operations have been financed by a combination of funds generated from business activities and from advances from an Asset-Based Lending Facility (the “ABL Facility”) and the Canadian Government Business Credit Availability

2. BASIS OF PRESENTATION (CONT'D)

Program ("BCAP"). As at September 30, 2021, these loans had balances of \$6,013,119 (December 31, 2020 - \$490,667) and \$6,132,306 (December 31, 2020 - \$6,230,469), respectively.

The available excess of the ABL Facility was \$8,784,991 and the Company was in compliance with all of its financial covenants with its lenders as at September 30, 2021, as discussed in Note 5.

The ABL Facility and BCAP Loans both mature on October 31, 2021 and were renewed successfully for another term as described in subsequent event Note 11. The subordinated debenture agreement was successfully renegotiated during the prior year and matures on November 06, 2022, as described in Note 6. 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 and related reclassification of the amounts associated with the subordinated debenture currently presented as non-current liabilities to current liabilities.

In addition to these borrowings, the Company received government assistance during the nine months ended September 30, 2021 in the amount of \$1,141,529 (September 30, 2020 - \$1,955,814) as discussed in Note 10.

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, drilling activity levels and North American supply and demand levels. Forecasted operating and general administrative expenses were based on forecasted revenues and historical gross margins. Actual commodity prices, drilling activity levels and ability to sell natural resources in the future may differ significantly from those forecasted by management.

As described above, a number of uncertainties raise significant doubt about whether the Company will continue to operate as a going concern, and therefore, whether it will realize its assets and settle its liabilities in the normal course of business and at the amounts stated in the financial statements. Should the Company be unable to meet its obligations as they become due or unable to meet the ABL Facility and subordinated debenture agreement obligations, the preparation of these interim condensed consolidated financial statements on a going concern basis may not be appropriate.

In recognition of these circumstances, management is currently pursuing strategies to improve borrowing capacity that could include further cost reductions to the operations, strategic acquisition fostering organic growth, diversification of revenue streams and/or the sale of assets. Through these initiatives, the Company expects to have availability under its ABL Facility to meet its future obligations. Management is also actively monitoring world events as they unfold, including commodity pricing impacting the sales and procurement of goods, drilling activity levels, offshore supply chain complexities, labour shortages and future implications surrounding the ongoing COVID-19 pandemic. Management is focused on growing working capital, while keeping its customers, employees, and vendors safe. Nevertheless, there is no assurance that these efforts will be successful.

The Company's ability to continue as a going concern is dependent on its ability to access its lending facilities, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 2 to the audited financial statements for the fiscal year ended December 31, 2020 have been consistently followed in preparation of these interim condensed consolidated financial statements.

RECENT PRONOUNCEMENTS NOT YET EFFECTIVE AND THAT HAVE NOT BEEN ADOPTED EARLY

Certain new standards, interpretations, amendments, and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee (“IFRIC”) that are not yet effective. The standards and amendments issued that are applicable to the Company are as follows:

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The amendments are effective for business combinations for which the date of acquisition after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published with the updated Conceptual Framework) at the same time or earlier.

4. ACCOUNTS RECEIVABLE

Accounts receivable recognized in the interim condensed consolidated statements of financial position are as follows:

	September 30 2021	December 31 2020
Trade accounts receivable	\$ 15,969,351	\$ 7,421,459
Allowance for doubtful accounts	(406,409)	(557,384)
Trade accounts receivable, net	15,562,942	6,864,075
Other receivables	355,434	91,140
Accounts receivable	\$ 15,918,376	\$ 6,955,215

4. ACCOUNTS RECEIVABLE (CONT'D)

The change in the allowance for doubtful accounts is as follows:

	September 30 2021	December 31 2020
Balance, beginning of period	\$ 557,384	\$ 318,692
Bad debts	531,935	741,816
Receivables written off	(682,910)	(503,124)
Balance, end of quarter	\$ 406,409	\$ 557,384

The Company pledged its accounts receivables with a carrying amount of \$15,918,376 (December 31, 2020 - \$6,955,215) as collateral for the ABL Facility described in Note 5.

5. BANK INDEBTEDNESS

	September 30 2021	December 31 2020
BCAP Loan	\$ 6,132,306	\$ 6,230,469
ABL Facility	6,013,119	490,667
Cash and cash equivalents	(686,885)	(2,431,832)
	\$ 11,458,540	\$ 4,289,304

Bank indebtedness relates to borrowings on the Company's BCAP Loan and ABL Facility with Canadian Imperial Bank of Commerce ("CIBC") as well as cash and cash equivalents held with an affiliate bank, CIBC Bank USA.

The BCAP Loan is backed by the Canadian Government with 80% of the principal having been guaranteed by The Business Development Bank of Canada. The BCAP Loan bears interest at a rate of 2.25% above CIBC's prime lending rate. The term of the BCAP Loan is amortized over 10 years from the agreement date of July 16, 2020, with interest only payable for the first 12 months.

The ABL Facility was entered into August 12, 2011, was amended as recently as March 21, 2021, bears interest at a rate of 1.50% above CIBC's prime lending rate and is secured by the Company's accounts receivable and inventory. A total of \$25,000,000 may be drawn under the ABL Facility.

The BCAP Loan and ABL Facility include a minimum tangible net worth financial covenant and have a maturity date of October 31, 2021.

As at September 30, 2021, 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.

See subsequent event Note 11 for details of amendments made to the BCAP Loan and ABL Facility.

6. LONG-TERM DEBT

	September 30 2021	December 31 2020
GreyPoint Capital Inc. term loan, bearing interest at 30 day average Bankers' Acceptance Rate plus 10%, repayable monthly principal of \$66,667 plus interest with a 2% Payment in kind interest (PIK interest) due with the balance upon maturity on November 6, 2022.	\$ 7,040,545	\$ 7,531,158
Less: transaction costs	141,729	174,576
	6,898,816	7,356,582
Less: current portion	800,000	800,000
	\$ 6,098,816	\$ 6,556,582

Changes in financing activities

	September 30 2021	December 31 2020
Long-term debt balance January 1	\$ 7,356,582	\$ 8,032,421
Cash movements		
Debt repayments	(650,000)	(800,000)
Debt advances	109,388	64,492
Non-cash movements		
Amortization of non-cash interest	82,846	\$ 59,669
	\$ 6,898,816	\$ 7,356,582

GreyPoint Capital Inc.

The Company signed an agreement with GreyPoint Capital Inc. ("GreyPoint") on November 6, 2017 to refinance its subordinated debt from another lender. The GreyPoint financing consists of a \$10 million term loan with the same financial covenants as the ABL Facility. \$350,000 of transaction costs were incurred as part of this refinancing and are being amortized over the term of the agreement. The subordinated debt is secured by the following: an unlimited corporate guarantee supported by a general security agreement from Bri-Chem Supply Ltd. and Sodium Solutions Inc. and from all other material entities within the group determined by the lender subordinated only to a prior charge from the ABL Facility; first demand collateral land mortgage and assignment of rents from Bri-Chem Corp. created a first fixed specific mortgage charge over all lands and premises located at 27075 Acheson Road, Acheson, Alberta and 4420 - 37 Street in Camrose, Alberta; assigned by Bri-Chem Corp. to GreyPoint of all risk insurance in amounts and from an insurer acceptable to GreyPoint, on all Bri-Chem real property, without limitation lands, buildings, equipment and inventory owned by Bri-Chem Corp., showing GreyPoint as first loss payee, including business interruption and public liability insurance.

On July 16, 2020, the Company and GreyPoint signed an amended agreement with an increased interest rate of Bankers' Acceptance + 10.0%, an option to defer interest equal to 2.0% per annum to maturity and amended financial covenants. This has been accounted for as a loan modification. At the closing date, a loan modification loss of \$296,197 was recognized in interest from long-term debt. \$252,676 of transaction costs were incurred as part of this refinancing and are being amortized over the term of the agreement.

In connection with the amendment, Bri-Chem issued 2,500,000 share warrants (the "Warrants") to GreyPoint. The warrants are exercisable into common shares of Bri-Chem at a fixed price of \$0.10 per share for a period of 4 years from the date of issuance. The fair value of the warrants at issuance has been estimated at \$152,676 and has been included in the transaction costs adjusted against the carrying value of the loan.

7. EARNINGS / (LOSS) PER SHARE

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

	September 30 2021	September 30 2020
For the three months ended		
Net earnings / (loss) attributable to the shareholders of the Company	\$ 347,794	\$ (1,860,796)
Basic weighted average number of ordinary shares	23,932,981	23,932,981
Dilutive options issued and outstanding	2,600,000	—
Diluted weighted average number of ordinary shares	26,532,981	23,932,981
Basic earnings / (loss) per share	\$ 0.01	\$ (0.08)
Diluted earnings / (loss) per share	\$ 0.01	\$ (0.08)
	September 30 2021	September 30 2020
For the nine months ended		
Net earnings / (loss) attributable to the shareholders of the Company	\$ 533,069	\$ (3,606,587)
Basic weighted average number of ordinary shares	23,932,981	23,932,981
Dilutive options issued and outstanding	2,552,381	—
Diluted weighted average number of ordinary shares	26,485,362	23,932,981
Basic earnings / (loss) per share	\$ 0.02	\$ (0.15)
Diluted earnings / (loss) per share	\$ 0.02	\$ (0.15)

8. SEGMENT REPORTING

The Company manages its business in five reportable segments: Fluids Distribution Canada, Fluids Distribution USA, Fluids Blending & Packaging Canada, Fluids Blending & Packaging USA, and Other. The operating segment(s) of the Company has separate financial information available and is evaluated regularly by the chief operating decision makers in allocating resources and assessing performance. The chief operating decision makers of the Company is the Chief Executive Officer and Chief Financial Officer. Other includes activities related to corporate and public company affairs. Revenues between Fluids Blending & Packaging Canada and Fluids Distribution Canada are recorded at market value. The revenue from external parties is measured in a manner consistent with that in the consolidated statement of operations.

Selected financial information by reportable segment is disclosed as follows:

For the three months ended September 30, 2021	Fluids Distribution			Fluids Blending & Packaging			Other	Consolidated
	Canada	USA	Total	Canada	USA	Total		
Total revenues	\$ 3,610,994	\$ 9,540,522	\$ 13,151,516	\$ 2,272,027	\$ 1,653,793	\$ 3,925,820	\$ —	\$ 17,077,336
Revenues from internal customers	117,871	—	117,871	498,346	—	498,346	—	616,217
Revenues from external customers	3,493,123	9,540,522	13,033,645	1,773,681	1,653,793	3,427,474	—	16,461,119
Cost of sales	2,856,835	7,623,642	10,480,477	1,278,533	1,298,989	2,577,522	—	13,057,999
Operating earnings / (loss) ⁽¹⁾	423,710	764,300	1,188,010	160,474	59,961	220,435	(429,011)	979,434
Amortization and depreciation	6,253	139,470	145,723	3,600	52,667	56,267	34,084	236,074
Interest	671	8,152	8,823	—	132	132	420,025	428,980
Income tax expense / (recovery)	7,061	(170,685)	(163,624)	(67,753)	(162,428)	(230,181)	360,391	(33,414)
Segment profit (loss)	\$ 409,725	\$ 787,363	\$ 1,197,088	\$ 224,627	\$ 169,590	\$ 394,217	\$ (1,243,511)	\$ 347,794
Segment assets	\$ 6,702,651	\$ 20,256,224	\$ 26,958,875	\$ 3,159,513	\$ 2,931,660	\$ 6,091,173	\$ 3,486,699	\$ 36,536,747
Capital expenditures	\$ 4,173	\$ 2,576	\$ 6,749	\$ 1,535	\$ —	\$ 1,535	\$ 2,269	\$ 10,553
For the three months ended September 30, 2020	Fluids Distribution			Fluids Blending & Packaging			Other	Consolidated
	Canada	USA	Total	Canada	USA	Total		
Total revenues	\$ 1,109,789	\$ 3,486,957	\$ 4,596,746	\$ 1,368,706	\$ 1,729,169	\$ 3,097,875	\$ —	\$ 7,694,621
Revenues from internal customers	62,573	—	62,573	181,175	1,350	182,525	—	245,098
Revenues from external customers	1,047,216	3,486,957	4,534,173	1,187,531	1,727,819	2,915,350	—	7,449,523
Cost of sales	1,022,007	3,062,004	4,084,011	882,397	1,302,717	2,185,114	—	6,269,125
Operating earnings / (loss) ⁽¹⁾	(131,898)	(634,299)	(766,197)	105,877	484,328	590,205	(612,627)	(788,619)
Amortization and depreciation	6,137	192,649	198,786	3,698	54,883	58,581	35,080	292,447
Interest	918	17,543	18,461	—	304	304	750,206	768,971
Income tax expense / (recovery)	(34,738)	—	(34,738)	25,544	11,370	36,914	8,583	10,759
Segment profit (loss)	\$ (104,215)	\$ (844,491)	\$ (948,706)	\$ 76,635	\$ 417,771	\$ 494,406	\$ (1,406,496)	\$ (1,860,796)
Segment assets	\$ 6,634,913	\$ 12,722,227	\$ 19,357,140	\$ 2,084,089	\$ 3,293,144	\$ 5,377,233	\$ 3,204,020	\$ 27,938,393
Capital expenditures	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

⁽¹⁾ Operating earnings / (loss) includes foreign exchange (gain) / loss

8. SEGMENT REPORTING (CONT'D)

For the nine months ended September 30, 2021	Fluids Distribution			Fluids Blending & Packaging			Other	Consolidated
	Canada	USA	Total	Canada	USA	Total		
Total revenues	\$ 7,894,929	\$ 22,559,187	\$ 30,454,116	\$ 5,837,149	\$ 6,816,582	\$ 12,653,731	\$ —	\$ 43,107,847
Revenues from internal customers	292,062	—	292,062	951,939	3,104	955,043	—	1,247,105
Revenues from external customers	7,602,867	22,559,187	30,162,054	4,885,210	6,813,478	11,698,688	—	41,860,742
Cost of sales	6,575,003	18,153,507	24,728,510	3,490,583	5,206,672	8,697,255	—	33,425,765
Operating earnings / (loss) ⁽¹⁾	411,172	1,714,731	2,125,903	469,734	825,899	1,295,633	(900,972)	2,520,564
Amortization and depreciation	18,334	415,105	433,439	11,204	158,736	169,940	102,421	705,800
Interest	2,202	29,364	31,566	—	507	507	1,214,510	1,246,583
Income tax expense	—	5,783	5,783	13,694	15,635	29,329	—	35,112
Segment profit (loss)	\$ 390,636	\$ 1,264,479	\$ 1,655,115	\$ 444,836	\$ 651,021	\$ 1,095,857	\$ (2,217,903)	\$ 533,069
Segment assets	\$ 6,702,651	\$ 20,256,224	\$ 26,958,875	\$ 3,159,513	\$ 2,931,660	\$ 6,091,173	\$ 3,486,699	\$ 36,536,747
Capital expenditures	\$ 4,173	\$ 9,418	\$ 13,591	\$ 6,348	\$ —	\$ 6,348	\$ 2,269	\$ 22,208
For the nine months ended September 30, 2020	Fluids Distribution			Fluids Blending & Packaging			Other	Consolidated
	Canada	USA	Total	Canada	USA	Total		
Total revenues	\$ 5,163,669	\$ 20,026,426	\$ 25,190,095	\$ 5,844,101	\$ 5,317,052	\$ 11,161,153	\$ —	\$ 36,351,248
Revenues from internal customers	160,282	83,613	243,895	419,865	4,141	424,006	—	667,901
Revenues from external customers	5,003,387	19,942,813	24,946,200	5,424,236	5,312,911	10,737,147	—	35,683,347
Cost of sales	4,450,742	17,251,728	21,702,470	4,072,619	3,932,368	8,004,987	—	29,707,457
Operating earnings / (loss) ⁽¹⁾	(192,042)	(207,438)	(399,480)	439,764	551,406	991,170	(1,523,415)	(931,725)
Amortization and depreciation	18,411	587,437	605,848	11,095	172,235	183,330	106,324	895,502
Interest	2,934	60,846	63,780	—	1,041	1,041	1,656,449	1,721,270
Income tax expense / (recovery)	(53,347)	—	(53,347)	107,167	30,754	137,921	(26,484)	58,090
Segment profit (loss)	\$ (160,040)	\$ (855,721)	\$ (1,015,761)	\$ 321,502	\$ 347,376	\$ 668,878	\$ (3,259,704)	\$ (3,606,587)
Segment assets	\$ 6,634,913	\$ 12,722,227	\$ 19,357,140	\$ 2,084,089	\$ 3,293,144	\$ 5,377,233	\$ 3,204,020	\$ 27,938,393
Capital expenditures	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

⁽¹⁾ Operating earnings / (loss) includes foreign exchange (gain) / loss

8. SEGMENT REPORTING (CONT'D)

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

	September 30 2021	September 30 2020
For the three months ended		
Revenue		
Canada	\$ 5,266,804	\$ 2,234,747
United States	\$ 11,194,315	5,214,776
	\$ 16,461,119	\$ 7,449,523
For the nine months ended	September 30 2021	September 30 2020
Revenue		
Canada	\$ 12,488,077	\$ 10,427,623
United States	\$ 29,372,665	25,255,724
	\$ 41,860,742	\$ 35,683,347
Non-current assets		
Canada	\$ 3,950,095	\$ 4,098,560
United States	\$ 2,874,694	3,933,470
	\$ 6,824,789	\$ 8,032,030

Revenue from one customer amounted to \$2,211,636 (September 30, 2020 - \$657,083) representing 13.4% (September 30, 2020 - 4.0 %) of consolidated sales, and 23.2% (September 30, 2020 - 6.9%) of USA Fluids Distribution segment sales, for the three months ended September 30, 2021. For the nine months ending September 30, 2021, revenue from this customer amounted to \$5,322,519 (September 30, 2020 - \$2,718,474) representing 12.7% (September 30, 2020 - 7.6%) of consolidated sales, and 23.6% (September 30, 2020 - 13.6%) of USA Fluids Distribution segment sales.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to various risks in relation to financial instruments. These risks include credit risk, interest rate risk, currency risk, and liquidity risk. The Company's risk management function is performed by management within guidelines approved by its Board of Directors. The Company seeks to minimize the effects of the identified risks by focusing on actively securing short to medium-term cash flows and minimizing exposures to capital markets.

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and would be unable to fulfill their obligations. The Company's trade receivables are with customers in the crude oil and natural gas industry and are subject to normal industry credit risk. The Company's practice is to manage credit risk by performing a detailed analysis of the credit worthiness of new customers before the Company's standard payment terms are offered. Additionally, the Company continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable to monitor collectability.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

The table below provides an analysis of the Company's accounts receivable as follows:

	Gross accounts receivable		Allowance for doubtful accounts	Net accounts receivable
September 30, 2021				
Current	\$	6,040,499	\$ —	\$ 6,040,499
31 to 60 days		3,927,975	—	3,927,975
61 to 90 days		3,115,730	—	3,115,730
91 to 120 days		1,715,172	—	1,715,172
Over 120 days		1,525,409	(406,409)	1,119,000
Total	\$	16,324,785	\$ (406,409)	\$ 15,918,376
December 31, 2020				
Current	\$	2,896,032	\$ —	\$ 2,896,032
31 to 60 days		2,107,554	—	2,107,554
61 to 90 days		1,022,838	—	1,022,838
91 to 120 days		335,656	—	335,656
Over 120 days		1,059,379	(557,384)	501,995
Total	\$	7,421,459	\$ (557,384)	\$ 6,864,075

Interest rate risk

The Company is exposed to interest rate risk for borrowings on its ABL facility to the extent that the prime interest rate changes. The Company's long-term debt on the GreyPoint facility has a fixed interest rate and is therefore not directly exposed to interest rate risk; however, it is subject to interest rate fluctuations relating to refinancing as required.

Currency risk

The Company and its US subsidiaries are subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities, bank indebtedness, and long-term debt denominated in foreign currencies. Therefore, there is a risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities.

An analysis of currency risk for the Company is as follows:

	Foreign currency denominated monetary financial assets	Foreign currency denominated monetary financial liabilities	Net position
Balance, September 30, 2021			
USD denominated (USD)	\$ 9,648,343	\$ (8,634,384)	\$ 1,013,959
Currency translation at September 30, 2021 currency exchange rate (1.2741) (CAD)	12,292,954	(11,001,069)	1,291,885
Assuming CAD currency weakens against USD currency by 5% (1.3378) (CAD)	12,907,602	(11,551,122)	1,356,480
Impact (CAD)	\$ 614,648	\$ (550,053)	\$ 64,595

Liquidity risk

Liquidity risk is the exposure of the Company to the risk of not being able to satisfy its financial liabilities as they become due. The Company actively monitors its financing obligations to ensure that it has enough available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company mitigates liquidity risk by maintaining adequate Credit Facilities, and through the forecasting and management of its operational cash flows. Management of operational cash flows takes into consideration the Company's debt financing plans and covenant compliance.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

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 Credit Facilities, issuing new debt or equity securities when opportunities are identified, and through disposition of underperforming assets to reduce debt when required.

As at September 30, 2021, the Company had \$8,784,991 (December 31, 2020 - \$5,335,061) of undrawn credit available on the ABL Facility and BCAP loan. Aside from the capital requirements associated with its ABL Facility, BCAP and GreyPoint loans, as disclosed in Note 5 and Note 6, the Company is not subject to any other external capital requirements. The total capital structure of the Company is as follows:

	September 30 2021	December 31 2020
Bank indebtedness	\$ 11,458,540	\$ 4,289,304
Long-term debt	6,898,816	7,356,582
Obligations under finance lease	445,456	984,975
Equity	10,996,671	10,557,543
Total capital	\$ 29,799,483	\$ 23,188,404

The Company's liquidity and cash flow from operations has been impacted by a variety of external factors including: (a) further volatility in crude oil prices due to macro-economic uncertainty; and (b) COVID-19 impacting both the global and domestic economy in general and global oil demand in particular. In the nine-month period ended September 30, 2021, the Company has realized a build-up of inventory through purchases and increase in demand for product as Canadian and USA oil and gas companies have increased their drilling activity and rig counts in response to rising demand for oil and gas. Depending on the oil and gas market growth, management has stress tested the Company's liquidity position to meet all commitments as well as created various levels of mitigation actions to respond to sudden reductions in revenue. The impact that a decline in commodity pricing or a prolonged COVID-19 recovery will have on the Company's business or financial results cannot be reasonably estimated at this time, which in turn could lead to the non-compliance of certain lending covenant on the Company's Credit Facilities, which if not amended or waived, could limit, in part, or in whole, the Company's access to the Credit Facilities and could accelerate payment.

The potential impact that COVID-19 will have on the Company's business or financial results cannot be reasonably estimated at this time, which in turn could lead to non-compliance of certain lending covenant on the Company's Credit Facilities, which if not amended or waived, could limit, in part, or in whole, the Company's access to the Credit Facilities and could accelerate repayment.

Cash flows related to bank indebtedness and accounts payable and accrued liabilities included below may occur at different times or amounts. A maturity analysis of the Company's outstanding obligations at September 30, 2021 is as follows:

September 30	Accounts payable and accrued				Long-term debt	Finance leases	Total
	Bank indebtedness	liabilities					
2021	\$ 11,458,540	\$ 6,737,264	\$ 800,000	\$ 330,640	\$ 19,326,444		
2022	—	—	6,098,816	85,299	6,184,115		
2023	—	—	—	29,517	29,517		
2024	—	—	—	—	—		
2025	—	—	—	—	—		
Thereafter	—	—	—	—	—		
Total	\$ 11,458,540	\$ 6,737,264	\$ 6,898,816	\$ 445,456	\$ 25,540,076		

10. GOVERNMENT ASSISTANCE

The Company has applied for and received wage subsidies and other financial support under COVID-19 relief legislation that has been enacted in the countries in which it operates. The Company recognized \$66,814 (September 30, 2020 - \$219,935) and \$301,257 (September 30, 2020 - \$1,178,314) for the three and nine months ended September 30, 2021, respectively from the Canada Emergency Wage Subsidy Program ("CEWS"). For the nine months ended September 30, 2021, the Company recognized \$760,088 (September 30, 2020 - \$777,500) from the Paycheck Protection Program administered under the US CARES Act. The amounts received have been recognized as reductions to Salaries and Benefits in the Consolidated Statement of Operations and Comprehensive Income. There are no unfulfilled conditions attached to the subsidies recognized in income during the quarter.

The Company also received \$15,481 (September 30, 2020 - nil) for the three months ended September 30, 2021, and \$80,184 (September 30, 2020 - nil) for the nine months ended September 30, 2021 from the Canada Emergency Rent Subsidy Program. These amounts were recognized as a reduction to Selling, General and Administrative in the Consolidated Statement of Operations and Comprehensive Income.

11. SUBSEQUENT EVENT

On October 20, 2021, the Company entered into the Second Amendment to the Third Amending Agreement to the ABL Facility and BCAP Loan to extend the term to maturity to the earlier of October 31, 2024 or six months prior to GreyPoint Capital Inc. term loan maturity (Note 6). In addition, the Second Amendment to the ABL Facility further reduces the minimum adjusted tangible net worth financial covenant, and reduces the interest rate from 1.5% to 1.35% above CIBC's prime lending rate.