



# BRI-CHEM

Q3 2022

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## Interim Condensed Consolidated Financial Statements

September 30, 2022

*(Expressed in Canadian Dollars)*

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**Interim Condensed Consolidated Statements of Operations and Comprehensive Income**

(Canadian dollars)

(unaudited)

	Note	Three months ended		Nine months ended	
		September 30 2022	September 30 2021	September 30 2022	September 30 2021
<b>Sales</b>		\$ 28,985,726	\$ 16,461,119	\$ 77,991,003	\$ 41,860,742
Cost of sales		23,663,253	13,057,999	62,488,554	33,425,765
Gross margin		5,322,473	3,403,120	15,502,449	8,434,977
<b>Expenses</b>					
Salaries and benefits	11	1,851,127	1,399,329	5,125,105	2,871,665
Selling, general and administration	11	1,159,475	995,591	3,707,503	3,151,476
Depreciation on property and equipment		263,019	236,074	779,037	705,800
(Reversal of) impairment losses	12	-	-	(893,153)	-
		3,273,621	2,630,994	8,718,492	6,728,941
<b>Operating earnings</b>		2,048,852	772,126	6,783,957	1,706,036
Financing costs		641,515	428,980	1,761,505	1,246,583
Foreign exchange loss		595,570	28,766	729,244	(108,728)
		1,237,085	457,746	2,490,749	1,137,855
<b>Net earnings before income taxes</b>		811,767	314,380	4,293,208	568,181
Income tax (recovery) / expense					
Current		-	(33,414)	30,605	35,112
Deferred	5	311,879	-	(4,350,564)	-
		311,879	(33,414)	(4,319,959)	35,112
<b>Net earnings</b>		\$ 499,888	\$ 347,794	\$ 8,613,167	\$ 533,069
Other comprehensive income (loss), net of tax of \$nil (2021-\$nil)					
Foreign currency translation adjustment		1,638,789	401,818	2,086,128	(96,589)
<b>Total comprehensive income</b>		\$ 2,138,677	\$ 749,612	\$ 10,699,295	\$ 436,480
<b>Earnings / (loss) per share</b>					
Basic	8	\$ 0.02	\$ 0.01	\$ 0.33	\$ 0.02
Diluted	8	\$ 0.02	\$ 0.01	\$ 0.33	\$ 0.02

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

Interim Condensed Consolidated Statements of Financial Position			
(Canadian dollars)			
(unaudited)			
	Note	September 30 2022	December 31 2021
<b>Assets</b>			
Current assets			
Accounts receivable	4	\$ 30,503,396	\$ 19,342,143
Inventories		26,616,191	16,776,432
Income taxes receivable		8,612	71,351
Prepaid expenses and deposits		959,530	602,697
		<b>58,087,729</b>	36,792,623
Non-current assets			
Property and equipment		7,135,740	6,265,740
Right-of-use assets		1,807,408	624,434
Other long-term assets		26,905	113,628
Deferred tax assets	5	4,727,171	—
		<b>\$ 71,784,953</b>	\$ 43,796,425
<b>Liabilities</b>			
Current liabilities			
Bank indebtedness	6	\$ 27,002,889	\$ 16,409,556
Accounts payable and accrued liabilities		14,285,061	8,193,332
Current portion of long-term debt	7	841,991	6,764,499
Current portion of lease liabilities		527,723	275,693
		<b>42,657,664</b>	31,643,080
Non-current liabilities			
Long-term debt	7	5,099,845	—
Lease liabilities		1,358,367	436,885
		<b>49,115,876</b>	32,079,965
<b>Equity</b>			
Share capital		33,787,199	33,537,199
Contributed surplus		4,042,719	4,039,397
Warrants		152,676	152,676
Deficit		(13,526,118)	(22,139,285)
Accumulated other comprehensive loss		(1,787,399)	(3,873,527)
		<b>22,669,077</b>	11,716,460
		<b>\$ 71,784,953</b>	\$ 43,796,425

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

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

	Share capital	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive (loss) / income	Total equity
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 (loss) / income	—	—	—	533,069	(96,589)	436,480
<b>Balance at September 30, 2021</b>	<b>\$ 33,537,199</b>	<b>\$ 4,037,808</b>	<b>\$ 152,676</b>	<b>\$ (22,922,795)</b>	<b>\$ (3,808,217)</b>	<b>\$ 10,996,671</b>
Balance at January 1, 2022	\$ 33,537,199	\$ 4,039,397	\$ 152,676	\$ (22,139,285)	\$ (3,873,527)	\$ 11,716,460
Issuance of shares upon exercise of warrants	\$ 250,000	—	—	—	—	250,000
Employee share-based payment options	—	3,322	—	—	—	3,322
Total comprehensive (loss) / income	—	—	—	8,613,167	2,086,128	10,699,295
<b>Balance at September 30, 2022</b>	<b>\$ 33,787,199</b>	<b>\$ 4,042,719</b>	<b>\$ 152,676</b>	<b>\$ (13,526,118)</b>	<b>\$ (1,787,399)</b>	<b>\$ 22,669,077</b>

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

Interim Condensed Consolidated Statements of Cash Flows (Canadian dollars) (unaudited)			
For the nine months ended	Note	September 30 2022	September 30 2021
<b>Operating activities</b>			
Net earnings		\$ 8,613,167	\$ 533,069
Adjustments for:			
Depreciation on property and equipment		779,037	705,800
Amortization of debt related transaction costs		148,936	119,488
Foreign exchange gain on debt		838,083	26,526
Unrealized foreign exchange gain		(23,715)	(138,521)
Interest on debt and finance leases		1,287,182	1,018,341
(Gain) on disposal of equipment		(6,474)	(11,261)
Loss on Extinguished Debt		451,062	
Stock-based compensation		3,322	2,648
Tax expense	5	(4,350,564)	—
(Reversal of) impairment losses	12	(893,153)	—
Change in non-cash working capital	13	(12,780,699)	(7,248,443)
<b>Total cash (used in) provided by operating activities</b>		<b>(5,933,816)</b>	<b>(4,992,353)</b>
<b>Financing activities</b>			
Advances on bank indebtedness		8,763,016	7,050,172
Interest paid on debt and finance leases		(1,167,563)	(1,037,772)
Repayment of obligations under finance lease		(334,130)	(534,153)
Advances on long-term debt		5,593,603	109,388
Repayment of long-term debt		(6,988,589)	(650,000)
Issuance of Shares		250,000	—
<b>Total cash provided by financing activities</b>		<b>6,116,337</b>	<b>4,937,635</b>
<b>Investing activities</b>			
Proceeds on sale of property and equipment		6,474	76,926
Purchases of property and equipment		(188,995)	(22,208)
<b>Total cash (used in) provided by investing activities</b>		<b>(182,521)</b>	<b>54,718</b>
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 to these interim condensed consolidated financial statements

## 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, 2021 and notes thereto as filed on SEDAR at [www.sedar.com](http://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 10, 2022, 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 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, 2022, the Company realized net earnings of \$9,046,701 (September 30, 2021 - \$533,069) and accumulated deficit and other comprehensive earnings of \$11,165,320 (September 30, 2021 – \$436,480). 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”). As of September 30, 2022, these loans had balances of \$23,489,917 (December 31, 2021 - \$11,436,802) and \$5,439,815 (December 31, 2021 - \$5,960,648), respectively.

The available excess of the ABL Facility was \$3,130,609 and the Company was in compliance with all of its financial covenants with its lenders as of September 30, 2022.

The ABL Facility and BCAP Loans both mature on October 31, 2024. 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 of the amounts associated with the Term Loan. In addition to these borrowings, the Company entered into a new term loan subsequent to the period end as described in Note 11.

The Company has recognized \$75,000 for the Alberta Jobs Now government grant program during the nine months ended September 30, 2022, as discussed in Note 11.

The oil and gas industries in Canada and the US have experienced increased uncertainty in recent years due to the concerns over market access, oil price differentials, and increased regulation. The Company has a considerable operating presence across both geographies and has taken steps to monitor these uncertainties and right-size operations as needed to reflect expected business activity in the year and going forward. While the recent recovery of oil prices and growing expectations of future demand have increased optimism across the industry, the Company continues to monitor these uncertainties and take prudent actions where appropriate to manage financial risks.

Management applied significant judgement in preparing forecasts to support the going concern assumption. Forecasted revenues were based on expected demand for drilling fluid 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.

The Company's ability to continue as a going concern is dependant 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, 2021, 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 January 1, 2023, with early application permitted. No significant impact to the Company’s financial statements is expected.

##### **Amendments to IAS 8 – Accounting policies, changes in accounting estimates or errors**

The amendments to IAS 8 are applied in selecting and applying accounting policies, account for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction event, or condition, and provides guidance on developing accounting policies for the other times that result in relevant and reliable information. Changes in account polices and correction errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis. The amendments effective for annual periods beginning on or after January 1, 2023, with early application permitted. No significant impact to the Company’s financial statements is expected.

##### **Amendments to IAS 12 – Income Taxes**

The amendments to IAS 12 implement a so-called “comprehensive balance sheet method” of accounting for income taxes which recognized both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity’s assets and liabilities. Differences between carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited expectations, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a ‘probable profits’ test. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted. No significant impact to the Company’s income taxes is expected.

## 4. ACCOUNTS RECEIVABLE

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

	September 30 2022	December 31 2021
Trade accounts receivable	\$ 31,119,244	\$ 19,585,597
Allowance for doubtful accounts	(875,453)	(436,630)
Trade accounts receivable, net	30,243,791	19,148,967
Other receivables	259,605	193,176
Accounts receivable	\$ 30,503,396	\$ 19,342,143

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

	September 30 2022	December 31 2021
Balance, beginning of year	\$ 436,630	\$ 557,384
Bad debts	437,359	658,591
Receivables written off	(1,278)	(779,345)
Recovery of bad debts	2,741	—
Balance, end of quarter	\$ 875,453	\$ 436,630

The Company pledged its accounts receivables with a carrying amount of \$22,391,899 (December 31, 2021 - \$19,342,143) as collateral for the ABL Facility described in Note 6.

## 5. DEFERRED INCOME TAX

Deferred tax expense was recognized in the first quarter as a credit of \$5.2 million as the Company determined the utilization of deferred tax assets related to loss carry forwards is more probable than not. The reduction in deferred tax credit to \$4.3 million relates to the consumption of carry forward tax losses through realized tax-free earnings.

## 6. BANK INDEBTEDNESS

	September 30 2022	December 31 2021
ABL Facility	\$ 23,489,917	\$ 11,436,802
BCAP Loan	5,439,815	5,960,648
Cash and cash equivalents	(1,926,843)	(987,894)
	\$ 27,002,889	\$ 16,409,556

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.

## 6. BANK INDEBTEDNESS (CONT'D)

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, 2021, with interest only payable for the first 12 months.

The ABL Facility was entered into August 12, 2011, and bears interest at a rate of 1.35% above CIBC's prime lending rate and is secured by the Company's accounts receivable and inventory. The arrangement includes a borrowing base block of \$3,000,000 and matures on October 31, 2024. A total of \$25,000,000 may be drawn under the ABL Facility.

On May 9, 2022, the Company amended its ABL Facility agreement to coincide with the refinancing of its subordinated debt. All relevant terms remain the same apart from the addition of a fixed charge coverage ratio covenant of no less than 1.0 tested monthly. This covenant has a trigger clause which commences at the beginning of calendar 2023 and the covenant takes effect if the Company meets the threshold of 1.0 for two consecutive months.

## 7. LONG-TERM DEBT

	September 30 2022	December 31 2021
CWB Term Loan bearing interest at 0.95% per annum above Banks' Prime Lending rate, repayable monthly blended payments of principal and interest. Loan maturity date is based on 20 year amortization, due May 2042.	\$ 5,941,836	\$ 6,875,760
Less: transaction costs	—	111,261
	<b>5,941,836</b>	6,764,499
Less: current portion	841,991	6,764,499
	<b>\$ 5,099,845</b>	\$ —

### Changes in financing activities

	September 30 2022	December 31 2021
Long-term debt balance January 1	\$ 6,764,499	\$ 7,356,582
<b>Cash movements</b>		
Debt repayments	(6,988,589)	(850,000)
Debt advances	5,593,603	144,602
Loss on Extinguished Debt	451,062	—
<b>Non-cash movements</b>		
Amortization of non-cash interest	121,261	113,315
	<b>\$ 5,941,836</b>	\$ 6,764,499

### Canadian Western Bank

On May 9, 2022, the Company signed an agreement with Canadian Western Bank ("CWB") to refinance its subordinated debt with another lender. The CWB financing consists of \$6 million term loan and includes a tangible net worth covenant of \$9,295,000 and a fixed charge coverage ratio covenant of no less than 1.10, both tested annually. The debt has a term of 20 years and bears an interest rate of 0.95% per annum above the bank's prime lending rate.

## 7. LONG-TERM DEBT (CONT'D)

The extinguishment of the old term debt resulted in a loss of \$451,062, realized within the statement of operations and comprehensive income. The subordinated debt agreement is secured by the following: an unlimited corporate guarantee supported by a general security agreement from all entities within the group, only to a prior charge from the ABL facility, first demand collateral mortgage over all owned lands and only to a prior charge from the ABL facility, first demand collateral mortgage over all owned lands and premises; assigned by the Company to CWB of all risk insurance in the amounts and from an insurer acceptable to CWB, on all Company real property, without limitation lands, buildings, fixtures and equipment owned by the Company, showing CWB as first loss payee.

## 8. EARNINGS PER SHARE

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

	<b>September 30 2022</b>	September 30 2021
For the three months ended		
Net earnings attributable to the shareholders of the Company	\$ 499,888	\$ 347,794
Basic weighted average number of ordinary shares	26,432,981	23,932,981
Dilutive warrants and options issued and outstanding	63,333	2,600,000
Diluted weighted average number of ordinary shares	26,496,314	26,532,981
Basic earnings per share	\$ 0.02	\$ 0.01
Diluted earnings per share	0.02	0.01
For the nine months ended		
Net earnings attributable to the shareholders of the Company	\$ 8,613,167	\$ 533,069
Basic weighted average number of ordinary shares	26,432,981	23,932,981
Dilutive options issued and outstanding	63,333	2,552,381
Diluted weighted average number of ordinary shares	26,496,314	26,485,362
Basic earnings per share	\$ 0.33	\$ 0.02
Diluted earnings per share	0.33	0.02

## 9. 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, 2022	Fluids Distribution			Fluids Blending & Packaging			Other	Consolidated
	Canada	USA	Total	Canada	USA	Total		
Total revenues	\$ 4,041,122	\$ 18,415,430	\$ 22,456,552	\$ 4,463,964	\$ 3,158,772	\$ 7,622,736	\$ —	\$ 30,079,288
Revenues from internal customers	240,386	—	240,386	853,176	—	853,176	—	1,093,562
Revenues from external customers	3,800,736	18,415,430	22,216,167	3,610,788	3,158,772	6,769,559	—	28,985,726
Cost of sales	3,265,054	15,313,135	18,578,189	2,614,512	2,466,555	5,081,066	3,997	23,663,253
Operating earnings / (loss) <sup>(1)</sup>	178,644	(313,835)	(135,191)	367,097	321,606	688,703	1,162,789	1,716,301
Amortization and depreciation	5,553	165,201	170,754	9,828	42,883	52,711	39,554	263,019
Interest	261,550	31,295	292,845	75,004	1	75,005	273,665	641,515
Reversal of impairment losses on property and equipment <sup>(2)</sup>	—	(9,719)	(9,719)	—	—	—	9,719	—
Income tax expense / (recovery)	—	211	211	—	198	198	311,471	311,879
Segment profit (loss)	\$ (88,456)	\$ (500,823)	\$ (589,282)	\$ 282,265	\$ 278,524	\$ 560,789	\$ 528,380	\$ 499,888
Segment assets	\$ 9,622,172	\$ 43,882,241	\$ 53,504,413	\$ 6,682,384	\$ 2,622,013	\$ 9,304,397	\$ 8,976,143	\$ 71,784,953
Capital expenditures	\$ 2,805	\$ (0)	\$ 2,805	\$ 8,778	\$ (0)	\$ 8,778	\$ (1,766)	\$ 9,817

  

For the nine months ended September 30, 2022	Fluids Distribution			Fluids Blending & Packaging			Other	Consolidated
	Canada	USA	Total	Canada	USA	Total		
Total revenues	\$ 10,689,030	\$ 50,103,004	\$ 60,792,034	\$ 12,174,500	\$ 7,847,548	\$ 20,022,048	\$ —	\$ 80,814,082
Revenues from internal customers	535,272	—	535,272	2,287,807	—	2,287,807	—	2,823,079
Revenues from external customers	10,153,759	50,103,003	60,256,763	9,886,693	7,847,548	17,734,240	—	77,991,003
Cost of sales	8,135,105	40,905,724	49,040,829	7,227,944	6,215,784	13,443,727	3,997	62,488,554
Operating earnings / (loss) <sup>(1)</sup>	907,419	3,662,429	4,569,848	717,714	548,715	1,266,429	104,320	5,940,597
Amortization and depreciation	13,170	464,347	477,517	26,974	147,531	174,505	127,015	779,037
Interest	573,137	82,066	655,203	175,760	54	175,814	930,488	1,761,505
Reversal of impairment losses on property and equipment <sup>(2)</sup>	(28,721)	(792,920)	(821,641)	(83,290)	—	(83,290)	11,778	(893,153)
Income tax expense / (recovery)	—	17,216	17,216	(4,266)	16,175	11,909	(4,349,084)	(4,319,959)
Segment profit (loss)	\$ 349,833	\$ 3,891,720	\$ 4,241,553	\$ 602,536	\$ 384,955	\$ 987,491	\$ 3,384,123	\$ 8,613,167
Segment assets	\$ 9,622,172	\$ 43,882,241	\$ 53,504,413	\$ 6,682,384	\$ 2,622,013	\$ 9,304,397	\$ 8,976,143	\$ 71,784,953
Capital expenditures	\$ 12,023	\$ 128,890	\$ 140,913	\$ 39,189	\$ 2,934	\$ 42,123	\$ 5,959	\$ 188,995

<sup>(1)</sup> Operating earnings / (loss) includes foreign exchange gain / (loss)

<sup>(2)</sup> During 2019, the company recognized the impairment loss of C\$2,207,116 on machinery and equipment due to the identified asset impairment indicators related to the prolonged commodity prices downturn. During the first quarter of 2022, the company reassessed its estimates and reversed part of the initially recognized impairment on machinery and equipment. The company has partially reversed the impairment loss amounting to C\$893,153 due to increased activity in the oil and gas industry which has resulted in the realization of increased sales and strong margins in this time, particularly in the USA.

## 9. SEGMENT REPORTING (CONT'D)

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

For the three months ended	<b>September 30 2022</b>	September 30 2021
Revenue		
Canada	\$ 7,411,524	\$ 5,266,804
United States	21,574,202	11,194,315
	<b>\$ 28,985,726</b>	<b>\$ 16,461,119</b>
For the nine months ended	<b>Sep 30 2022</b>	Sep 30 2021
Revenue		
Canada	\$ 20,040,452	\$ 12,488,077
United States	57,950,551	29,372,665
	<b>\$ 77,991,003</b>	<b>\$ 41,860,742</b>
Non-current assets		
Canada	\$ 8,660,095	\$ 3,950,095
United States	5,037,129	2,874,694
	<b>\$ 13,697,224</b>	<b>\$ 6,824,789</b>

Revenue from one customer amounted to \$2,486,952 (September 30, 2021 - \$2,211,636) representing 7.6% (September 30, 2021 - 13.4%) of consolidated sales and 11.3% (September 30, 2021 - 23.2%) of USA Fluid Distribution segment sales, for three months ended. For the nine months ending September 30, 2022, revenue from this customer amounted to \$9,473,153 (September 30, 2021 - \$5,322,519) representing 11.6% (September 30, 2021 - 12.7%) of consolidated sales, and 17.7% (September 30, 2021 - 23.6%) of USA Fluid Distribution segment sales.

## 10. 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.

## 10. 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
<b>September 30, 2022</b>			
Current	10,320,083	\$ —	\$ 10,320,083
31 to 60 days	7,186,960	—	7,186,960
61 to 90 days	4,760,210	—	4,760,210
91 to 120 days	2,724,231	—	2,724,231
Over 120 days	6,127,760	(875,453)	5,252,307
<b>Total</b>	<b>\$ 31,119,244</b>	<b>\$ (875,453)</b>	<b>\$ 30,243,791</b>
<b>December 31, 2021</b>			
Current	\$ 6,109,587	\$ —	\$ 6,109,587
31 to 60 days	5,219,858	—	5,219,858
61 to 90 days	3,259,292	—	3,259,292
91 to 120 days	2,221,067	—	2,221,067
Over 120 days	2,775,793	(436,630)	2,339,163
<b>Total</b>	<b>\$ 19,585,597</b>	<b>\$ (436,630)</b>	<b>\$ 19,148,967</b>

### Interest rate risk

The Company is exposed to interest rate risk for borrowings on its ABL facility and term loan, to the extent that the prime interest rate changes.

### 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.

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

An analysis of currency risk for the Company as follows:

<b>Balance, September 30, 2022</b>	<b>Foreign currency denominated monetary financial assets</b>	<b>Foreign currency denominated monetary financial liabilities <sup>(1)</sup></b>	<b>Position</b>
USD denominated (USD)	\$ 17,833,243	\$ (25,464,330)	\$ (7,631,087)
Currency translation at september 30, 2022 currency exchange rate (1.3707) (CAC	24,444,026	(34,903,956)	(10,459,931)
Assuming CAD currency weakens against USD currency by 5% (1.4392) (CAD)	25,666,227	(36,649,154)	(10,982,927)
Impact (CAD)	\$ 1,222,201	\$ (1,745,198)	\$ (522,997)

*(1) Foreign currency denominated monetary financial liabilities includes US dollar cash and cash equivalents recorded within bank indebtedness as discussed in Note 6.*

### 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.

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, 2022, the Company had \$3,130,609 (December 31, 2021 - \$6,140,465) of undrawn credit available on the ABL Facility and BCAP loan. Aside from the capital requirements associated with its ABL Facility, BCAP and CWB loans, as disclosed in Note 6 and Note 7, the Company is not subject to any other external capital requirements. The total capital structure of the Company is as follows:

	<b>September 30 2022</b>	December 31 2021
Bank indebtedness	<b>\$ 27,002,889</b>	\$ 16,409,556
Long-term debt	<b>5,941,836</b>	6,764,499
Obligations under finance lease	<b>1,886,090</b>	712,578
Equity	<b>22,669,077</b>	11,716,460
Total capital	<b>\$ 57,499,892</b>	\$ 35,603,093

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

The Company's liquidity and cash flow from operations has been impacted by a variety of external factors including further volatility in crude oil prices due to macro-economic uncertainty impacting both the global and local economy in general and global oil demand in particular. During the year ended December 31, 2021, the Company has realized a build-up of inventory through purchases and increase in demand for product as Canada 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 the commodity pricing 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 repayment.

Cash flows related to bank indebtedness, accounts payable and accrued liabilities included below may occur at different times or amounts. A maturity analysis of the Company's outstanding obligations as at September 30, 2022 is as follows:

September 30	Bank indebtedness	Accounts payable and accrued liabilities	Current portion of long term debt <sup>(1)</sup>	Lease liabilities <sup>(1)</sup>	Total
2022	\$ 27,002,889	\$ 14,285,061	\$ 41,991	\$ 136,925	\$ 41,466,866
2023	—	—	173,047	554,656	727,703
2024	—	—	182,095	521,724	703,819
2025	—	—	193,491	384,312	577,803
2026	—	—	204,629	249,686	454,315
Thereafter	—	—	5,146,584	38,787	5,185,371
<b>Total</b>	<b>\$ 27,002,889</b>	<b>\$ 14,285,061</b>	<b>\$ 5,941,836</b>	<b>\$ 1,886,090</b>	<b>\$ 49,115,876</b>

## 11. GOVERNMENT ASSISTANCE

During the quarter, the Company was accepted into the Alberta Jobs Now grant program and has recognized \$75,000 of proceeds in relation to this program. The Company has not recognized any proceeds from the Canada Emergency Wage Subsidy Program ("CEWS") (September 30, 2021 - \$66,814), from the Paycheck Protection Program administered under the US CARES Act (September 30, 2021 - \$760,088), and from the Canada Emergency Rent Subsidy Program ("CERS") (September 30, 2021 - \$15,481).

## 12. IMPAIRMENT REVERSAL

Considering general economic factors in tandem with realized earnings, the Company has recognized an impairment reversal corresponding to the expenses realized in fiscal 2018 and 2019, which is recognized in the statement of the profit or loss for the first quarter. The reversals were allocated primarily to machinery and equipment. The proration of these impairment reversals are as follows:

	Carrying amount March 31, 2022	Recoverable Amount	Excess of Recoverable Amount over Carrying Amount
Bri Chem Supply Ltd	\$ 5,557,699	\$ 5,589,211	\$ 31,512
Sodium Solutions Inc	2,356,410	2,401,675	45,265
Solution Blend Services Ltd	575,344	613,374	38,030
Bri-Chem Supply Corp	19,284,748	20,063,094	778,346
<b>Total</b>	<b>\$ 27,774,201</b>	<b>\$ 28,667,354</b>	<b>\$ 893,153</b>

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

	September 30 2022	September 30 2021
Accounts receivable	\$ (9,392,034)	\$ (8,839,226)
Inventories	(8,572,313)	(1,996,905)
Prepaid expenses and deposits	(244,311)	(2,074)
Related parties	8,980	(134,594)
Accounts payable and accrued liabilities	5,355,739	3,634,943
Customer deposits	(35,115)	929
Income taxes payable/receivable	62,739	(49,874)
Foreign exchange	31,589	138,358
Change in non-cash working capital	\$ (12,784,726)	\$ (7,248,443)
Interest paid	\$ 1,287,302	\$ 1,018,341

## 14. SUBSEQUENT EVENT

On October 11, 2022, the Company entered into a Fifth Amendment to the Third Amended and Restated Credit Agreement to the ABL Facility and BCAP Loan. The amendment changes the cost of borrowing interest rate benchmark from LIBOR to SOFR.