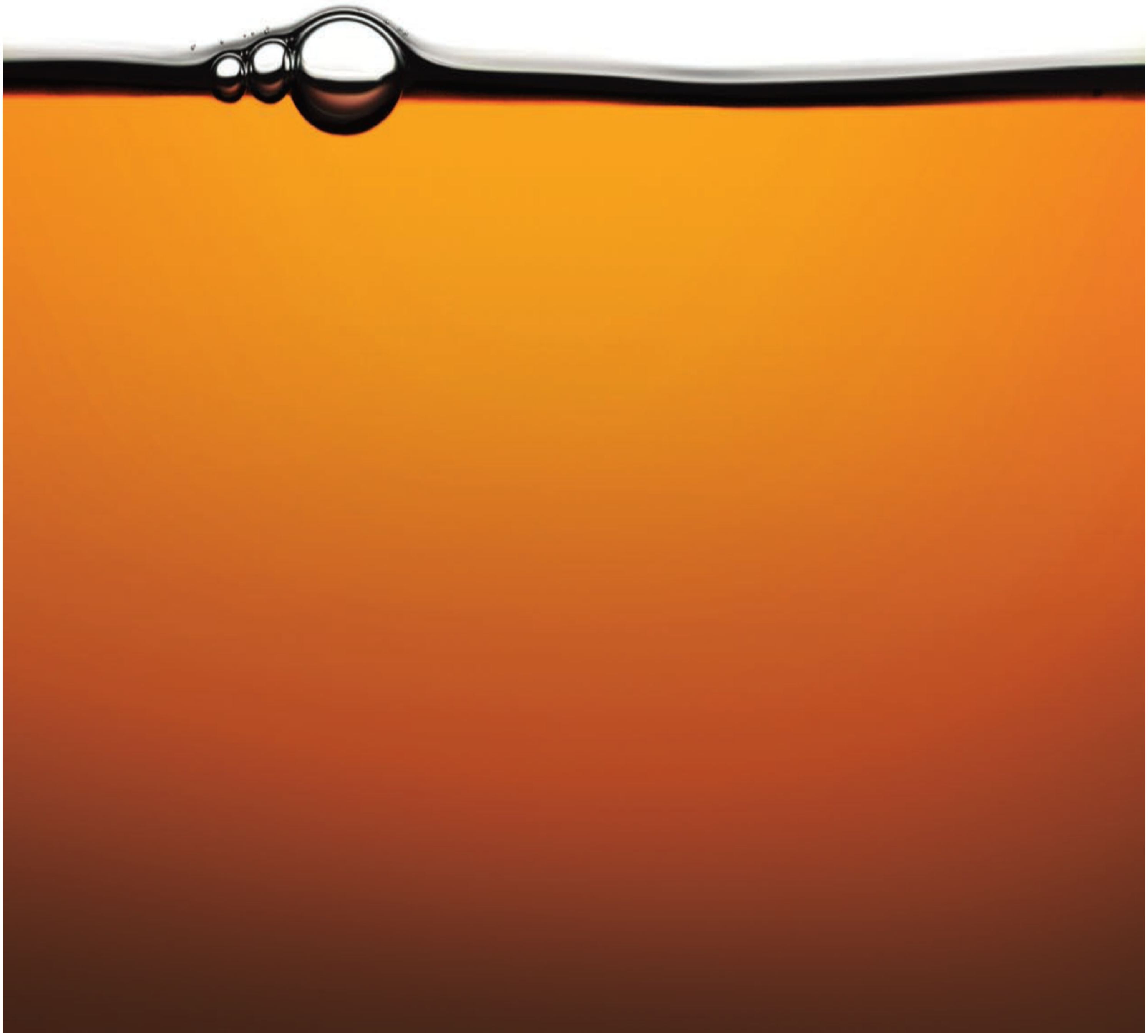
BRI-CHEM
Right product. Right place. Right time.

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017



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Management's Report

The accompanying consolidated financial statements are the responsibility of Bri-Chem Corp.'s ("Bri-Chem" or the "Company") management. They have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

The Company has developed and maintains a system of internal control to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized, and the consolidated financial statements are complete and accurate.

The consolidated financial statements are approved by the Board of Directors on the recommendation of the Audit Committee. Bri-Chem's consolidated financial statements are reviewed by the Audit Committee with Management prior to the consolidated financial statements being approved by the Board of Directors. In addition, the Audit Committee has the duty to review the accounting principles and practices applied and followed by the Company during the fiscal year, including critical accounting policies and significant estimates and judgements underlying the consolidated financial statements as presented by Management.

The shareholders have appointed Deloitte LLP as the external auditors of the Company and, in that capacity, they have examined the consolidated financial statements for the year ended December 31, 2018. The Auditor's Report to the shareholders is presented herein. Deloitte has full and independent access to the Audit Committee to discuss their audit and related matters.

(signed) "Don Caron"

Don Caron
Chief Executive Officer

(signed)" Jason Theiss"

Jason Theiss
Chief Financial Officer

April 1, 2019

Deloitte.

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Independent Auditor's Report

To the Shareholders and the Board of Directors of

Bri-Chem Corp.

Opinion

We have audited the consolidated financial statements of Bri-Chem Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive (loss)/income, changes in equity and cash flows for the years then ended, and the related notes, including a summary of significant accounting policies and other explanatory information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates that the Company incurred a net loss of $9,355,416 during the year ended December 31, 2018. It further indicates that management's forecasts are based on future demand for drilling fluid products and chemicals which is driven by commodity prices and that actual commodity prices may differ significantly from the management forecasted commodity prices. These conditions, along with other factors as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Cailiosa (Lisa) O'Keeffe.

Deloitte LLP

Chartered Professional Accountants

Edmonton, Canada

April 1, 2019

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Consolidated Statements of Operations and Comprehensive (Loss) / Income
(Canadian dollars)

For the years ended	Note	December 31 2018	December 31 2017
Sales	15	$ 121,436,493	$ 116,209,916
Cost of sales	4	104,951,098	95,500,732
Gross margin		16,485,395	20,709,184
Expenses			
Salaries and benefits		9,666,892	7,587,499
Selling, general and administration		6,607,147	6,965,258
Interest on short-term operating debt		1,890,997	1,330,529
Interest on long-term debt		977,517	1,964,768
Interest on obligations under finance lease		12,335	5,677
Foreign exchange loss / (gain)		303,044	(670,421)
Depreciation on property and equipment		1,066,033	954,453
Impairment of property and equipment	5	1,636,488	—
Bad debts		502,484	414,421
Restructuring costs	20	962,106	—
		23,625,043	18,552,184
(Loss) / earnings before income taxes		(7,139,648)	2,157,000
Income tax (recovery) / expense			
Current	11	79,695	(53,631)
Deferred	11	2,136,073	502,603
		2,215,768	448,972
Net (loss) / earnings		(9,355,416)	1,708,028
Other comprehensive loss, net of tax of $nil (2017 - $nil)			
Foreign currency translation adjustment		752,561	(1,341,536)
Total comprehensive (loss) / income		$ (8,602,855)	$ 366,492
Net (loss) / earnings per share			
Basic	14	$ (0.39)	$ 0.07
Diluted	14	$ (0.39)	$ 0.07

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statements of Financial Position
(Canadian dollars)

	Note	December 31 2018	December 31 2017
Assets			
Current assets			
Accounts receivable	3	$ 26,053,467	$ 26,017,283
Inventories	4	32,390,677	39,409,723
Prepaid expenses and deposits		2,527,773	2,191,477
Income taxes receivable		—	199,229
		60,971,917	67,817,712
Non-current assets			
Property and equipment	5	10,479,728	11,093,568
Deferred tax assets	11	—	2,169,586
Other long-term assets		164,558	151,167
		$ 71,616,203	$ 81,232,033
Liabilities			
Current liabilities			
Bank indebtedness	6	$ 30,833,981	$ 25,963,575
Accounts payable and accrued liabilities	7	11,118,829	16,693,066
Current portion of long-term debt	8	800,000	800,000
Current portion of obligations under finance lease	9	178,422	25,085
Income taxes payable		63,989	—
		42,995,221	43,481,726
Non-current liabilities			
Long-term debt	8	7,977,128	8,825,000
Obligations under finance lease	9	392,490	37,575
Deferred tax liabilities	11	80,013	113,526
Other long-term liabilities		18,100	18,100
		51,462,952	52,475,927
Equity			
Share capital	12	33,537,199	33,537,199
Contributed surplus		4,035,160	4,035,160
Deficit		(14,651,723)	(5,296,307)
Accumulated other comprehensive loss		(2,767,385)	(3,519,946)
		20,153,251	28,756,106
		$ 71,616,203	$ 81,232,033

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity
(Canadian dollars)

	Note	Share capital	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive (loss) income	Total equity
Balance at January 1, 2017		$ 33,263,473	$ 3,983,488	$ 209,226	$ (7,004,335)	$ (2,178,410)	$ 28,273,442
Issuance of shares upon exercise of warrants	**13**	273,726	—	(209,226)	—	—	64,500
Employee share-based payment options	**13**	—	51,672	—	—	—	51,672
Total comprehensive income (loss)		—	—	—	1,708,028	(1,341,536)	366,492
Balance at December 31, 2017		$ 33,537,199	$ 4,035,160	$ —	$ (5,296,307)	$ (3,519,946)	$ 28,756,106
Total comprehensive (loss) income		—	—	—	(9,355,416)	752,561	(8,602,855)
Balance at December 31, 2018		$ 33,537,199	$ 4,035,160	—	$ (14,651,723)	$ (2,767,385)	$ 20,153,251

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows
(Canadian dollars)

For the years ended	Note	December 31 2018	December 31 2017
Operating activities			
Net (loss) / earnings		**$ (9,355,416)**	$ 1,708,028
Adjustments for:			
Depreciation on property and equipment		**1,066,033**	954,453
Impairment of property and equipment	**5**	**1,636,488**	—
Amortization of debt related transaction costs		**96,476**	242,033
Deferred tax expense		**2,136,073**	502,603
Share-based payments		**—**	51,672
Foreign exchange loss on debt		**279,959**	1,014,417
Unrealized foreign exchange loss / (gain)		**49,154**	(1,612,237)
Interest on debt and finance leases		**2,784,340**	2,292,431
Loss on disposal of equipment		**706**	197,929
Lease inducement		**—**	(88,800)
Change in non-cash working capital	**17**	**3,295,867**	(14,574,320)
Total cash provided by (used in) operating activities		**1,989,680**	(9,311,791)
Financing activities			
Advances on bank indebtedness		**2,706,759**	12,055,853
Interest paid on debt and finance leases		**(2,743,329)**	(2,289,183)
Advances on obligations under finance lease		**565,574**	—
Repayments of obligations under finance lease		**(190,128)**	(45,431)
Advances on long-term debt		**—**	10,427,496
Repayment of long-term debt		**(900,000)**	(9,928,214)
Repayments on promissory notes payable		**—**	(274,374)
Issuance of shares		**—**	64,500
Total cash (used in) provided by financing activities		**(561,124)**	10,010,647
Investing activities			
Purchase of property and equipment		**(1,428,556)**	(883,238)
Proceeds on the sale of property and equipment		**—**	184,382
Total cash used in investing activities		**(1,428,556)**	(698,856)
Net change in cash and cash equivalents		**—**	—
Cash and cash equivalents, beginning of the year		**—**	—
Cash and cash equivalents, end of the year		**$ —**	$ —

The accompanying notes are an integral part of the 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. And its head office is in Alberta, Canada. Its registered and primary place of business is 27075 Acheson Road, Acheson, Alberta T7X 6B1.

These 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 year ended December 31, 2018, the Company incurred a net loss of $9,355,416 and operations were financed with advances from bank indebtedness under the Asset-Based Lending Facility (the "ABL Facility") (Note 6) which totaled $30,833,981 as at December 31, 2018. The total borrowing base of this facility as at December 31, 2018 was $33,858,965, as determined by eligible accounts receivable and inventory (Notes 4 and 5), leaving $2,673,811 of excess availability. The Company's ability to continue as a going concern is dependent on its ability to access this facility as well as its subordinated debenture agreement (Note 8), generate future net income, and realize cash from operating activities. These 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. The amended covenants remain in place until May 31, 2019. Management is in ongoing discussions with its lenders. As at December 31, 2018, 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 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 additional debt financing, business restructuring to align the Company's cost structure with lower sales levels, and/or the sale of individual assets or operating divisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

These annual consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared using the historical cost basis, except as otherwise indicated in Note 2. The preparation of these financial statements required management to make significant judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses and are explained in the applicable notes.

These financial statements for the year ended December 31, 2018 were authorized for issue by the Board of Directors on March 26, 2019.

B. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company, and the following 100% owned subsidiaries:

- Bri-Chem Supply Ltd.,
- Sodium Solutions Inc.,
- Solution Blend Services Ltd.,
- Bri-Corp USA Inc, which has three wholly-owned subsidiaries (100%), Bri-Chem Supply Corp LLC, Sun Coast Materials, LLC, and Bri-Chem Logistics, LLC.

Subsidiaries are entities over which the Company has control. The Company controls an entity when the Company has power over or rights to variable returns from its involvement with the entity and can affect those returns through its power over the entity. The proportion of the voting rights in the subsidiary undertakings held directly by the Company does not differ from the proportion of ordinary shares held.

Subsidiaries are consolidated from the date on which control is obtained by the Company. All inter-company transactions and balances are eliminated upon consolidation. There are no non-controlling interests related to the Company's subsidiaries.

The Company has applied uniform accounting policies throughout all consolidated entities and reporting dates of the subsidiaries are all consistent with the Company.

C. BUSINESS COMBINATIONS

The Company applies the acquisition method to account for business combinations. The assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies are measured at their fair values as of the date of acquisition. All identifiable assets acquired, and liabilities assumed, are recognized regardless of whether they have been previously recognized in the acquiree's prior financial statements. Acquisition related and restructuring costs are recognized separately from the business combination and included in net (loss) income.

Goodwill is calculated as the excess of the sum of the fair value consideration, the recognized amount of any non-controlling interests, and the acquisition date fair value of any existing equity interests in the acquiree, over the acquisition date fair value of the identifiable net assets. If the acquisition date fair value of the identifiable net assets exceeds the sum above, the difference is recognized in net (loss) income immediately, as a bargain purchase gain.

2. Summary of significant accounting policies (cont'd)

D. Foreign currency translation

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's subsidiary Bri-Corp USA Inc., and its three subsidiaries Bri-Chem Supply Corp LLC, Sun Coast Materials, LLC, and Bri-Chem Logistics, LLC, use the United States dollar as their functional currency. Other subsidiaries use the Canadian dollar as their functional currency. The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations.

The results and financial position of all the Company's subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows: i) assets and liabilities are translated at the closing rate at the reporting date; ii) income and expenses are translated at the average exchange rates for the period; and iii) all resulting exchange differences are recognized in other comprehensive (loss) income and accumulated in equity.

E. Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers and defined as components of the Company for which separate financial information is available and are evaluated regularly by the chief decision makers in allocating resources and assessing performance. The Company determines operating segments based on the geographic location and the type of products produced or sold.

F. revenue

Under the Company's standard contract terms, customers have a right of return within a reasonable period. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognized for those products expected to be returned. At the same, the Company has a right to recover the product when customers exercise their right of return so consequently it recognizes a right to returned goods asset and a corresponding adjustment to cost of sales. The Company uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognized will not occur given the consistent level of returns over previous years. The Company recognizes revenue when it transfers control of a product or service to the customer as follows:

Drilling fluid and blended drilling fluid products

The Company's principal business activity is the wholesale distribution of drilling fluid and blended drilling fluid product for the North American oil and gas industry. Drilling fluids are a circulating fluid that can be made up of a single or blended chemical product that form an engineered fluid system used by customers to assist in the drilling of oil and gas wells. Revenue is recognized when control of the drilling fluid product has transferred to the customer which is the point at which it has been shipped from one of the Company's warehouses. Payment terms are net 30 days. Customer contracts do not have significant financing components or variable consideration.

2. Summary of significant accounting policies (cont'd)

Oil-based mud rental

Oil-based mud rental relates to the rental of oil-based drilling fluid product. Revenue is based on the number of barrels rented, plus a daily rental fee. During this period, the customer has taken physical possession of the product and controls how it is used on their drill site which best reflects when they obtain control over the drilling fluid rental product. Customers are also charged for product that is not returned. Payment terms are net 30 days. Customer contracts do not have significant financing components or variable consideration.

G. Inventories

Distribution goods are measured at the lower of cost and net realizable value. Net realizable value approximates the estimated selling price less all estimated costs of completion and necessary costs to complete the sale. Costs of items are assigned using the first-in first-out cost formula. Costs associated with freight, transportation and handling fees are included in the cost of inventory and expensed to cost of sales. Write-downs of inventory to net realizable value, if any, are included in cost of sales.

H. Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Depreciation on property and equipment is calculated using either declining balance or straight-line methods to allocate its cost to its residual value over the estimated useful life of the asset as follows:

Property and equipment category	Depreciation method
Buildings	4 to 10% declining balance and 15 - 30 years straight-line
Motor vehicles	30% declining balance and 5 to 10 years straight-line
Manufacturing and other equipment	10 to 30% declining balance and 3 to 25 years straight-line
Office equipment	20% declining balance and 7 to 8 years straight-line
Computer equipment	20% declining balance and 3 to 5 years straight-line
Pavement and landscaping	8% declining balance and 10 to 25 years straight-line
Leasehold improvements	4 to 20 years straight-line

Material residual values and estimates of useful life are reviewed and updated as required, and at least annually. Subsequent costs are included in the asset's carrying amount, or, recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. At the same time, the carrying amount of the replaced asset is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized in net (loss) income.

I. Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the common course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

2. Summary of significant accounting policies (cont'd)

J. Leases

The Company as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed as part of financing cost. The interest element of the finance cost is charged to net (loss) income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownerships are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized as an expense in net (loss) income on a straight-line basis over the lease term.

K. Current and deferred income taxes

Tax expense for the period comprises of current and deferred tax. Tax is recognized in net (loss) income, except to the extent that it relates to items recognized in other comprehensive (loss) income or directly in equity.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred income tax is calculated using the liability method of tax allocation. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the accounting and income tax bases of an asset or liability. These are measured based on the tax jurisdictions enacted or substantively enacted income tax rates that will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities on a change in rates is included in the period during which the change is considered substantively enacted. Deferred tax assets are recorded in the financial statements if realization is considered probable.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income tax levied by the same tax authority and the same taxable entity or on different taxable entities, but the intent is to settle current tax assets and liabilities on a net basis or the tax assets and liabilities will be relieved simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

L. IMPAIRMENT

Assets that are subject to amortization are required to be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management. Prior impairments of non-financial assets (other than goodwill) may be reversed if the cash-generating unit's recoverable amount exceeds it's carrying amount up to the amount the non-financial assets (other than goodwill) would be carried at had no impairment been recognized originally.

M. FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through net (loss) income, are added to or deducted from the fair value of the financial asset or financial liability on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognized immediately in net (loss) income.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and,
- Level 3 – Inputs are unobservable inputs for the asset or liability.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Company's financial assets are comprised of accounts receivable and have been classified as amortized cost at initial recognition.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on accounts receivable that are measured at amortized cost. The amount of expected credit losses ("ECL") is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Company recognizes lifetime ECL for its accounts receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Derecognition of financial assets
The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another company. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received. On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in net (loss) income.

Financial liabilities
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The Company's financial liabilities include bank indebtedness, accounts payable and accrued liabilities, and long-term debt, and they have been classified as amortized cost. These financial liabilities are recognized initially at fair value, net of transaction costs incurred, and are carried subsequently at amortized cost using the effective interest method.

Derecognition of financial liabilities
The Company derecognizes financial liabilities when the Company's obligations are discharged, cancelled, or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in net (loss) income. When the Company exchanges with an existing lender one debt instrument for another one with the substantially different terms, such an exchange is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in net (loss) income within other gains and losses.

Derivative financial instruments
Derivatives may be embedded into other financial instruments (host instruments) and are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host instrument. The Company does not enter, or trade, financial instruments, including derivative financial instruments, for speculative purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

N. SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the Company re-purchases the Company's equity share capital through a Normal Course Issuer Bid, the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such common shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders. Issued and fully paid common shares are used in the determination of basic earnings per share. Non-converted warrants and in-the-money options are used in the determination of diluted earnings per share. Basic earnings / (loss) per share is calculated by dividing net earnings / (loss) of the Company by the weighted average number of shares outstanding during the year. Diluted earnings / (loss) per share is calculated by dividing net earnings / (loss) of the Company by the weighted average number of shares outstanding during the year, including potential dilutive shares.

O. SHARE-BASED PAYMENTS

The Company has established a stock option plan for the Executive and Board of Directors, and employees as described in Note 13. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees and executives using the Black-Scholes Option Pricing Model and is recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested. The fair value of the option grants to non-employees, including the Company's Board of Directors, is calculated based on the value of the services provided in exchange for the option issue, or where that fair value cannot be estimated reliably, they are measured at the fair value of the equity instruments granted on the date the Company receives the goods or services. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised.

P. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized during the period necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred.

Q. EMPLOYEE BENEFITS

Employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Company recognizes a liability and an expense for short-term benefits such as bonuses if the Company has a legal obligation or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

R. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognized when the Company has present obligations as a result of a past event and it is probable that it will lead to an outflow of economic resources from the Company that can be estimated reliably. The timing or amount of the liability may still be uncertain. Provisions are measured at the estimated amount required to settle the present obligation, taking into consideration the most reliable evidence available at the reporting date. Where there are several similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. When a business combination is undertaken, the Company initially measures any of the acquired company's contingent liabilities at the acquisition date fair value. The contingent liabilities are subsequently measured at fair value.
In the normal course of business, the Company enters into agreements that include indemnities in favour of third parties, such as engagement letters with advisers and consultants. The Company has also agreed to indemnify its directors and officers in accordance with the Company's corporate bylaws. Certain agreements do not contain any limits on the Company's liability and therefore it is not possible to estimate the Company's potential liability under these circumstances. In certain cases, the Company has recourse against third parties with respect to these indemnities. The Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

S. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

The preparation of these financial statements requires management to make estimates and assumptions about the future. Management continuously evaluates estimates and assumptions which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

a) <u>Impairment</u>

An evaluation of whether an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate an impairment exists include: significant underperformance of an asset relative to historical or projected operating results, significant changes in the way an asset is used, the carrying amount of the net assets of the entity being more than its market capitalization or significant negative industry or economic trends. In some cases, these events are clear. Management continually monitors the Company's operating segments, the markets, and the business environment, and makes judgments and assessments about conditions and events in order to conclude whether a possible impairment exists. When there is an indicator of impairment the recoverable amount of the asset is estimated to determine the amount of impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of CGUs is based on management judgement. The Company's CGUs are Bri-Chem Supply Ltd., Sodium Solutions Inc, Solution Blend Service Ltd, Bri-Chem Supply Corp, and Sun Coast Materials, LLC. The recoverable amount for property and equipment is the higher of fair value less costs to sell and value in use ("VIU"). In assessing fair value less costs to sell, the Company must estimate the price that would be received to sell the asset or CGU less any incremental costs directly attributable to the disposal. In assessing VIU, the estimated cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Arriving at the estimated future cash flows involves significant judgments, estimates and assumptions, including those associated with the future cash flows of the CGU, determination of the CGU, and discount rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) Sales returns provision

The Company has an internal policy whereby it accepts product returns from customers in certain subsidiaries. Provisions recorded for estimated product returns are based on historical experience, market conditions, and drilling activities. Actual returns experienced may differ from estimate. The allowance for sales returns is presented in accounts payable and accrued liabilities in Note 7.

c) Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating the net realizable value, management considers evidence, such as aging of the inventory, current sales prices, vendor price lists, available at the time in determining the net realizable values of the inventories.

d) Stock-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuing its stock options to employees and directors at the date of issue. Management uses estimates of the expected life, the risk-free rate, expected volatility, and expected forfeiture rate when calculating the value of the options issued. These estimates may vary from actual experience and are updated at each reporting period based on information available at that time. The Company values options issued to non-employees based on available evidence of the value the transaction represents to the Company based on services provided in exchange for the option.

T. ADOPTION OF NEW AND REVISED STANDARDS EFFECTIVE FOR CURRENT YEAR

a) Financial instruments

Effective January 1, 2018 the Company adopted the amendments in IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRS Standards. IFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and general hedge accounting. The amendments to IFRS 9 are effective for annual periods on or after January 1, 2018 which the Company applied retrospectively. Because the Company does not enter or trade financial instruments, including derivative financial instruments, for speculative purposes it determined the general hedge accounting requirements of IFRS 9 did not have any impact on results. Details of these new requirements as well as their impact on the Company's financial statements are described below.

i. Classification and measurement of financial assets and liabilities

The date of initial application when the Company assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9 was January 1, 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. Comparative amounts in relation to instruments that continue to be recognized as at January 1, 2018 have been restated where appropriate. All financial assets that are within scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value based on the entity's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The following table summarizes changes to the Company's financial asset and liability classification and measurement upon adopting IFRS 9:

	IAS 39		IFRS 9	
Financial asset / liability	**Classification**	**Measurement**	**Classification**	**Measurement**
Accounts receivable	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost

The classification changes noted above did not impact the Company's consolidated statements of financial position or consolidated statements of operations and comprehensive (loss) income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

ii. Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. Specifically, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or, if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition the entity can measure the loss allowance for that financial instrument at an amount equal to 12 months of ECL. IFRS 9 also allows for a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for accounts receivables in certain circumstances. Given all the Company's revenue contracts were within scope of IFRS 15 "Revenue from Contracts with Customers" and that the life of its accounts receivables is expected to be less than one year, the Company applied the simplified approach and measured the loss allowance on its trade receivables at 12 months of ECL. Due in part to its credit management process, the Company had minimal bad debt experience and consequently it will assess impairment losses on an individual customer account basis, rather than recognize a loss allowance on all accounts receivables.

b) <u>Revenue</u>

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

U. 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 for the financial year ended December 31, 2018. The standards and amendments issued that are applicable to the Company are as follows:

IFRS 16 – LEASES

The Company will adopt IFRS 16, "Leases" on January 1, 2019 which introduces new or amended requirements for lease accounting. The Company's March 31, 2019 interim financial statements will be its first financials issued in accordance with IFRS 16. 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 will elect to apply IFRS 16 using the cumulative catch-up approach which does not require restatement of comparative information. Instead, comparative information will remain as previously reported under IAS 17 "Leases" and its related interpretations. In applying this approach, the cumulative impact of initial application will be applied on the date of transition by adjusting January 1, 2019 balances. The Company will also elect to use several transitional reliefs and exemptions made available by the IASB as practical expedients to implement the standard as follows:

- The Company will use transitional relief not to reassess whether a contract is or contains a lease. By applying this relief, the Company will not reassess arrangements under IFRS 16 that had not previously been identified as leases (i.e. grandfathering).
- The Company will apply the exemption related to low-value assets to exclude minor IT and office equipment that are 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 in the Consolidated Statements of Operations.
- The Company will elect to apply the practical expedient to apply a single discount rate to a portfolio of leases with similar characteristics.

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 will apply 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 will elect to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations will be 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 will recognize lower selling, general, and administrative expenses, higher finance expenses, and higher depreciation for right-of-use assets and interest on lease liabilities in the Consolidated Statements of Operations and Comprehensive (Loss) / Income; and,
- The Company will separate 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 impact of adoption is not yet determinable as the Company's assessment is still being finalized.

3. ACCOUNTS RECEIVABLE

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

	December 31 2018	December 31 2017
Trade accounts receivable	$ 26,382,164	$ 27,624,241
Trade accounts receivable, secured by notes	—	257,999
Allowance for doubtful accounts	(496,284)	(380,722)
Accounts receivable, net	25,885,880	27,501,518
Allowance for sales returns	—	(1,520,055)
Other receivables	167,587	35,820
Accounts receivable	$ 26,053,467	$ 26,017,283

The Company pledged trade receivables with a carrying amount of $27,553,512 (December 31, 2017 - $26,017,283) as collateral for the Asset-Based Lending ("ABL") Facility described in Note 6. The Company's accounts receivables are reviewed for indicators of impairment at the end of every reporting period. Certain accounts receivables were found to be impaired and an allowance for doubtful accounts of $496,284 (December 31, 2017 - $380,722) has been recorded. The Company adopted IFRS 15 on January 1, 2018 using the modified retrospective method which did not require restatement of comparative information. Instead, comparative information remained as previously reported under IAS 18 "Revenue" and related standards. Prior to January 1, 2018 the Company netted it's allowance for sales returns within accounts receivable. Upon adopting IFRS 15, the Company recorded its allowance for sales returns as a refund liability within accounts payable and accrued liabilities as shown in Note 7. No other adjustments were required upon adoption of IFRS 9.

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

	December 31 2018	December 31 2017
Balance, beginning of year	$ 380,722	$ 1,190,871
Bad debts	502,484	414,421
Receivables written off	(100,043)	(1,210,402)
Recovery of bad debts	(286,879)	(14,168)
Balance, end of year	$ 496,284	$ 380,722

For the year ended December 31, 2018, receivables written off decreased compared to last year due to several, large US receivables in Bri-Corp USA, Inc. For the year ended December 31, 2018, recovery of bad debts increased due to the collection of a single, large outstanding receivable for Bri-Chem Supply Ltd.

4. INVENTORIES

As at December 31, 2018 and 2017 all the Company's inventories related to distribution goods. For the year ended December 31, 2018, a total of $104,951,098 (December 31, 2017 - $95,500,732) of inventories were included in net (loss) earnings as cost of sales. As at December 31, 2018 provisions of $1,116,179 (December 31, 2017 - $358,326) were recorded against inventory. As at December 31, 2018 the Company pledged inventory of $32,390,677 (December 31, 2017 - $39,409,723) as collateral for the ABL Facility described in Note 6. For the year ended December 31, 2018, a total of $3,603,600 (December 31, 2017 - $nil) of inventory write-downs were included in net (loss) income as cost of sales relating to the sale of oil-based mud product below net-realizable-value as part of the Company's restructuring of certain warehouses in the United States. No inventory write-down reversals were recorded for the years ended December 31, 2018 or December 31, 2017.

5. PROPERTY AND EQUIPMENT

	Land	Buildings	Motor vehicles	Manufacturing and other equipment	Office equipment	Computer equipment	Pavement and landscaping	Leasehold improvements	Total
Cost									
Balance at January 1, 2017	$ 2,308,804	$ 6,104,414	$ 1,514,026	$ 6,921,593	$ 385,492	$ 681,266	$ 555,619	$ 93,628	$ 18,564,842
Additions	—	103,334	175,006	367,717	165,507	71,674	—	—	883,238
Translation adjustment	(61,644)	(424,095)	45,962	(107,099)	1,120	(8,549)	(24,611)	(6,143)	(585,059)
Disposals	—	—	(503,006)	(263,663)	(11,932)	(11,009)	—	—	(789,610)
Balance at December 31, 2017	$ 2,247,160	$ 5,783,653	$ 1,231,988	$ 6,918,548	$ 540,187	$ 733,382	$ 531,008	$ 87,485	$ 18,073,411
Additions	—	4,969	171,866	431,950	—	654,441	—	165,329	1,428,556
Translation adjustment	77,698	154,199	80,989	605,519	5,580	15,486	30,647	16,229	986,346
Disposals	—	—	—	—	(2,283)	(2,192)	—	—	(4,475)
Balance at December 31, 2018	$ 2,324,858	$ 5,942,821	$ 1,484,843	$ 7,956,017	$ 543,484	$ 1,401,116	$ 561,655	$ 269,043	$ 20,483,838
Accumulated depreciation									
Balance at January 1, 2017	$ —	$ 1,210,678	$ 1,075,712	$ 3,281,366	$ 300,231	$ 558,581	$ 162,216	$ 51,850	$ 6,640,634
Translation adjustment	—	(22,019)	(130,812)	(47,230)	(3,441)	(4,461)	10,199	(19,502)	(217,266)
Depreciation for the year	—	235,030	105,971	482,806	30,348	53,738	40,214	6,346	954,453
Disposals	—	—	(310,354)	(70,880)	(9,348)	(7,396)	—	—	(397,978)
Balance at December 31, 2017	$ —	$ 1,423,689	$ 740,517	$ 3,646,062	$ 317,790	$ 600,462	$ 212,629	$ 38,694	$ 6,979,843
Translation adjustment	—	37,621	47,064	208,984	3,992	11,636	11,583	4,632	325,513
Depreciation for the year	—	233,418	113,412	585,883	10,475	58,786	39,995	24,064	1,066,033
Impairment	—	—	181,848	1,097,429	66,294	228,109	—	62,808	1,636,488
Disposals	—	—	—	—	(1,621)	(2,146)	—	—	(3,768)
Balance at December 31, 2018	$ —	$ 1,694,728	$ 1,082,841	$ 5,538,359	$ 396,930	$ 896,846	$ 264,207	$ 130,198	$ 10,004,109
Net book value at December 31, 2017	$ 2,247,160	$ 4,359,964	$ 491,471	$ 3,272,486	$ 222,397	$ 132,920	$ 318,379	$ 48,791	$ 11,093,568
Net book value at December 31, 2018	**$ 2,324,858**	**$ 4,248,093**	**$ 402,002**	**$ 2,417,658**	**$ 146,554**	**$ 504,270**	**$ 297,448**	**$ 138,846**	**$ 10,479,728**

5. PROPERTY AND EQUIPMENT (CONT'D)

As at December 31, 2018, the Company identified asset impairment indicators related to the prolonged commodity price downturn, the Company's market capitalization being less than the carrying amount of its net assets, and an increase in market interest rates which negatively impacted the Company's discount rate. Considering this, and in accordance with the Company's accounting policies, management evaluated the recoverability of each of its CGUs using fair value less costs to sell models with EBITDA multiples. Based on this work, the Company determined that the Bri-Chem Supply Ltd., Sodium Solutions Inc., Solutions Blend Services Ltd., and Bri-Chem Supply Corp LLC CGUs were impaired as their recoverable amount was less than carrying amount. Management also evaluated the value in use of each of the impaired CGUs using discounted cash flow models to assess recoverable amount as the higher of fair value less costs to sell and value in use. For all impaired CGUs, value in use was determined to be higher than fair value less costs to sell, and below carrying amount, therefore management took this basis as recoverable amount when recognizing impairment. When allocating an impairment loss to an individual asset within the CGU, the carrying amount of such an asset is not reduced below its fair value less costs to sell. Value in use recoverable amounts were calculated using discounted cash flow models with the following pre-tax discount rates:

As at December 31, 2018	Pre-tax discount rate
Cash generating unit	
Bri-Chem Supply Ltd.	27.6%
Sodium Solutions Inc.	24.5%
Solution Blend Services Ltd.	24.6%
Bri-Chem Supply Corp.	14.7%

In assessing impairment, a CGUs recoverable amount is compared to carrying amount which includes working capital. An impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of assets within the CGU on a pro-rata basis. The value in use models that were used to determine recoverable amount reflected the Company's 2019 budget that was approved by the Board of Directors, recent industry conditions, and the Company's forecast from 2019 to 2023 (Level 3 input). Cash flow projections thereafter were based on a terminal value calculated using a 2% per annum growth rate. Forecasted cash flows were based on management's best estimates of drilling activity, commodity prices, internal capital spending, asset utilization, and pre-tax discount rates. To assess reasonableness, comparable EBITDA multiples were also evaluated.

As at December 31, 2018, recoverable amounts for the impaired CGUs determined through value in use were as follows:

As at December 31, 2018	Recoverable amount
Cash generating unit	
Bri-Chem Supply Ltd.	$ 12,484,209
Sodium Solutions Inc.	1,897,355
Solution Blend Services Ltd.	3,763,109
Bri-Chem Supply Corp.	$ 8,442,854

5. PROPERTY AND EQUIPMENT (CONT'D)

To reduce the carrying amount of the impaired CGUs to their recoverable amount, the following impairments were recorded in net (loss) income for the year ended December 31, 2018:

As at December 31, 2018		Impairment
Cash generating unit		
Bri-Chem Supply Ltd.	$	332,269
Sodium Solutions Inc.		249,023
Solution Blend Services Ltd.		136,215
Bri-Chem Supply Corp.		918,981
Total	$	1,636,488

Critical assumptions used in the value in use calculations as at December 31, 2018 were as follows:

As at December 31, 2018	
Gross margin %	14.2% - 32.6%
Tax rate	26.9% - 27.0%
Terminal growth rate	2.0%
Pre-tax discount rate	14.7% - 27.6%

The most sensitive inputs to the impairment calculations were gross margin % and pre-tax discount rate. Any decrease in gross margin % or increase in discount rate would not change the impairment because to do so would impair the remaining assets within these CGUs below their fair value.

The Company leases various equipment under finance agreements that had the following carrying amounts:

		December 31 2018		December 31 2017
Manufacturing and other equipment	**$**	**75,924**	$	130,502
Computer equipment		**64,826**		—
Total carrying amount of equipment under finance lease	**$**	**140,750**	$	130,502

6. 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 16, 2017 the Company amended the terms of the ABL Facility with CIBC to increase the maximum borrowing base to $25,000,000. On August 11, 2017 and again on October 31, 2017 CIBC agreed to extend the ABL Facility to November 15, 2017 in order to complete an amended ABL Facility. On November 6, 2017 the terms of the ABL Facility were amended to increase the maximum borrowing base to $35,000,000. Other amendments included a decrease in interest rates and an extension of the maturity date to October 31, 2020. The ABL Facility was also amended and the minimum adjusted tangible net worth and adjusted EBITDA covenants were replaced with a fixed charge coverage ratio covenant. The limit on eligible capital expenditures covenant continued to apply. 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 GreyPoint Capital Inc. ("GreyPoint") facility described in Note 8. 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.

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

	December 31, 2018	**Covenant**	December 31, 2017	Covenant
Fixed charge coverage ratio	**Not in effect**		10.94	Must exceed 1.1
Eligible capital expenditures	**$ 850,552**	**Not to exceed $2,241,600**	$ 903,714	Not to exceed $1,050,000
Minimum tangible net worth	**$ 19,440,558**	**Must exceed $16,931,000**	Not in effect	
Minimum trailing twelve month EBITDA	**$ 2,949,231**	**Must exceed $2,300,000**	Not in effect	

As at December 31, 2018, 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.

During 2017, the fixed charge coverage ratio is set at a minimum of 0.95 to 1 and is defined as the trailing twelve months of EBITDA, less non-funded capital expenditures to the sum of cash interest paid, plus cash income taxes paid, plus the aggregate of all dividends, distributions and principal repayments, and any amortization. EBITDA is defined as net income before interest on debt, taxes on net income, depreciation and amortization, non-recurring charges (including one-time transaction, acquisition and restructuring expenses, share based payments, and foreign exchange gains or losses), and any unfunded capital expenditures. The capital expenditures limit is set at a maximum of $2,241,600 and does not include capital additions for finance leases. On November 6, 2017 the Company refinanced its subordinate debenture with a former lender and entered a 5-year term loan with GreyPoint described in Note 8.

6. BANK INDEBTEDNESS (CONT'D)

The ABL Facility bears interest at either: the Canadian prime rate plus 1.5% (2017 – Canadian prime rate plus 1.5%), bankers' acceptance rate plus 3.0% (2017 - bankers' acceptance rate plus 3.0%), or LIBOR plus 3.0% (2017 - LIBOR plus 3.0%). A collateral management fee of $1,500 (2017 - $1,500) per month and a standby fee of 0.25% (2017 - 0.25%) on undrawn amounts is also charged. The ABL Facility is secured by a general security agreement covering all present and acquired property with postponement of claims from related parties. As at December 31, 2018, $30,833,981 (December 31, 2017 - $25,963,575), net of unamortized transaction costs of $169,819 (December 31, 2017 - $99,167), was drawn on the ABL Facility. Draws can be made in either Canadian or US funds.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company adopted IFRS 15 on January 1, 2018 using the modified retrospective method which did not require restatement of comparative information. Instead, comparative information remained as previously reported under IAS 18 "Revenue" and related standards. Prior to January 1, 2018 the Company netted is allowance for sales returns in accounts receivable as shown in Note 3. Upon adopting IFRS 15, the Company recorded its allowance for sales returns as a refund liability within accounts payable and accrued liabilities as shown below. Accounts payable and accrued liabilities recognized in the consolidated statements of financial position are as follows:

	December 31 2018	December 31 2017
Trade accounts payable	**$ 8,399,600**	$ 14,082,053
Accrued liabilities	**1,153,046**	2,184,416
Allowance for sales returns	**1,040,935**	—
Accrued compensation expense	**525,248**	426,597
	$ 11,118,829	$ 16,693,066

The allowance for sales returns is generally determined as a percentage of sales for each legal entity.

8. LONG-TERM DEBT

	December 31 2018	December 31 2017
GreyPoint Capital Inc. term loan, bearing interest at 30 day average Bankers' Acceptance Rate plus 8.0%, repayable monthly principal of $66,667 plus interest with the balance due upon maturity on November, 2022.	**$ 9,066,667**	$ 9,866,667
Less: transaction costs	**289,539**	241,667
	8,777,128	9,625,000
Less: current portion	**800,000**	800,000
	$ 7,977,128	$ 8,825,000

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 consisted of a $10 million term loan with the same financial covenants as the ABL Facility described in Note 6. $350,000 of transaction costs were incurred as part of this refinancing and are being amortized over the term of the agreement. The subordinated debenture 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; second demand collateral land mortgage and assignment of rents from Bri-Chem Corp. created a second fixed a specific mortgage charge over all lands and premises located at 27075 Acheson Road, Acheson, Alberta and 4420 – 37th street in Camrose, Alberta; assigned by Bri-Chem Corp. to GreyPoint of all risk insurance in amounts and from an insurer acceptable to Grey Point, on all Bri-Chem Corp real and personal property, without limitation, lands, buildings, equipment and inventory owned by Bri-Chem Corp., showing GreyPoint as second loss payee, including business interruption and public liability insurance.

9. OBLIGATIONS UNDER FINANCE LEASE

The Company has finance leases for manufacturing and other equipment and computer equipment that have the following future minimum lease payments:

	December 31, 2018			December 31, 2017		
	Lease payment	**Finance charge**	**Net present value**	Lease payment	Finance charge	Net present value
Within one year	**$ 211,648**	**$ 33,226**	**$ 178,422**	$ 27,493	$ 2,408	$ 25,085
Two to five years	**422,819**	**30,329**	**392,490**	41,700	4,125	37,575
After five years	**—**	**—**	**—**	—	—	—
Total	**$ 634,467**	**$ 63,555**	**$ 570,912**	$ 69,193	$ 6,533	$ 62,660

The current versus long-term portion of the Company's obligations under finance lease is as follows:

	December 31 2018	December 31 2017
Amounts due for settlement within 12 months	**$ 178,422**	$ 25,085
Amounts due for settlement after 12 months	**392,490**	37,575
	$ 570,912	$ 62,660

10. COMMITMENTS UNDER OPERATING LEASE

The Company has operating leases for warehouse and office locations that have the following future minimum lease payments:

	December 31 2018	December 31 2017
Within one year	$ 949,837	$ 2,200,171
Two to five years	1,427,437	2,269,464
After five years	—	—
Total	$ 2,377,274	$ 4,469,635

For the year ended December 31, 2018, a total of $2,164,416 (December 31, 2017 - $1,902,759) of lease payments were expensed in selling, general and administration relating to rental of warehouse and office locations.

11. INCOME TAXES

The provision for income taxes differs from what would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	December 31 2018	December 31 2017
Statutory income tax rate at 27.0% (2017 - 27.0%) for the years ended:	$ (1,927,705)	$ 582,389
Increase (decrease) resulting from:		
Valuation provision on deferred tax assets	4,075,386	(958,950)
Tax expense (recovery) on intercompany gains (losses)	—	(779,369)
Tax rate differential	50,421	(17,258)
Impact of change in tax rates	—	1,322,231
Non-deductible expenses	1,563	97,663
Adjustment recognized in the current period in relation to the current tax of prior years	(17,466)	132,757
Other	33,569	69,509
	$ 2,215,768	$ 448,972
Tax (recovery) expense comprises:		
Current period tax expense (recovery)	$ 79,695	$ (53,631)
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	$ (1,943,076)	$ 1,330,474
Change in valuation of deferred tax assets	4,075,386	(958,950)
Adjustment for prior period	3,763	131,079
	2,136,073	502,603
Total tax expense	$ 2,215,768	$ 448,972

11. INCOME TAXES (CONT'D)

TEMPORARY DIFFERENCES

Movements in the Company's temporary differences and loss carryforwards are as follows:

	December 31 2018	December 31 2017
Deferred tax assets		
Share issue costs	$ —	$ 110,036
Non-capital loss carryforwards	—	1,903,636
	—	2,013,672
Deferred tax liabilities		
Capital assets - excess of net book value over undepreciated capital cost	(80,013)	42,388
Net deferred tax asset	(80,013)	2,056,060
Reported in the financial statements as follows:		
Deferred tax asset	—	2,169,586
Deferred tax liability	(80,013)	(113,526)
	$ (80,013)	$ 2,056,060

In assessing whether deferred tax assets are realizable, the Company considers if it is probable that all or a portion of the deferred tax assets will be utilized. The realization of deferred tax assets is dependent on the use of available tax planning opportunities and the generation of future taxable income during the year in which those temporary differences become deductible. The Company has US non-capital losses of $7,903,231 (2017 - $7,433,215) available to reduce future taxable income which expire between 2035 and 2037, $2,930,071 (2017 - $0) of US non-capital losses which will not expire, and $8,297,140 (2017 - $7,682,815) of US deductible temporary differences for which collectively no deferred assets have been recognized. The Company has Canadian non-capital losses of $15,753,742 (2017 - $16,309,762) which expire between 2032 and 2038 and $1,254,789 of Canadian deductible temporary differences for which no deferred tax asset has been recognized (2017 – no deferred tax asset was recognized for $9,259,259 of non-capital losses).

Movement in the temporary differences during the years ended December 31, 2018 and December 31, 2017 are as follows:

	Balance January 1, 2017	Recognized in profit or loss	Recognized in equity	Balance December 31, 2018
Financing costs	$ 110,036	$ (110,036)	$ —	$ —
Non-capital loss carryforwards	1,903,637	(1,903,637)	—	—
Property and equipment	42,387	(122,400)	—	(80,013)
	$ 2,056,060	$ (2,136,073)	$ —	$ (80,013)

	Balance January 1, 2016	Recognized in profit or loss	Recognized in equity	Balance December 31, 2017
Financing costs	$ 111,857	$ —	$ (1,821)	$ 110,036
Intangibles	193,488	(193,488)	—	—
Non-capital loss carryforwards	2,409,370	(505,733)	—	1,903,637
Property and equipment	(156,052)	198,439	—	42,387
	$ 2,558,663	$ (500,782)	$ (1,821)	$ 2,056,060

12. SHARE CAPITAL

Authorized
Unlimited number of voting common shares no par value.
Unlimited number of preferred shares issued in series.

Issued and outstanding

	Number		Amount
Balance, January 1, 2018	23,923,981	$	33,537,199
Balance, December 31, 2018	23,923,981	$	33,537,199
Balance, January 1, 2017	23,632,981	$	33,263,473
Issuance of shares upon exercise of warrants	300,000		273,726
Balance, December 31, 2017	23,923,981	$	33,537,199

Cumulative share issuance costs of $1,643,188, net of tax, are included in share capital. For the year ended December 31, 2018, no shares were issued (December 31, 2017 – 300,000 shares) as there were no warrants exercised held by a former lender (December 31, 2017 – 300,000 warrants).

13. SHARE-BASED PAYMENTS

SHARE-BASED PAYMENT PLAN

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, consultants and employees of the Company and its affiliates. The expiry date and price payable upon the exercise of any option granted are fixed by the Board of Directors at the time of grant, subject to regulatory requirements. Options granted under the plan are vested under such times as determined by the Board of Directors, which are typically one to three years, subject to regulatory requirements. On May 14, 2012 the directors of the Company approved a new stock option Plan. Under this new Plan, the maximum number of common share issuable pursuant to the new Plan together with all other share-based compensation arrangements of the Company is a rolling maximum equal to 10% of total outstanding common shares on a non-dilutive basis. Upon exercise, cancellation or expiration of any options, the common shares subject to such options shall be available for other options to be granted from time to time. As at December 31, 2018, the Plan permits the authorization to grant stock options up to a maximum of 2,392,398 common shares of the Company (December 31, 2017 – 2,368,367). All share-based employee remuneration would be settled in equity.

OPTIONS TO EMPLOYEES AND DIRECTORS

Options outstanding at December 31, 2018 consisted of the following:

	Number of options		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2018	1,320,000	$	2.38	5.2
Expired	(200,000)		—	—
Outstanding, December 31, 2018	1,120,000	$	2.39	4.1
Options exercisable, December 31, 2018	1,120,000	$	2.39	4.1
Outstanding, January 1, 2017	1,453,333	$	2.39	7.2
Expired	(133,333)		—	—
Outstanding, December 31, 2017	1,320,000	$	2.38	5.2
Options exercisable, December 31, 2017	1,309,998	$	2.39	5.1

13. SHARE-BASED PAYMENTS (CONT'D)

Month and year of grant	Options outstanding	Options vested	Vesting period	Exercise price	Remaining life (years)	Expiry date
August 2011	260,000	260,000		$ 2.94	2.5	2021
August 2012	395,000	395,000		$ 2.77	3.5	2022
August 2013	180,000	180,000		$ 1.80	4.5	2023
August 2014	255,000	255,000		$ 1.87	5.5	2024
August 2015	30,000	30,000	2018	$ 0.44	6.5	2025
	1,120,000	1,120,000				

During the years ending December 31, 2018 and December 31, 2017 no stock options were granted under the plan. During the year ended December 31, 2018, $nil (December 31, 2017 - $51,672) was expensed in relation to the share-based payment plan to employees and directors.

14. NET (LOSS) / EARNINGS PER SHARE

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

	December 31 2018	December 31 2017
Net (loss) / earnings	**$ (9,355,416)**	$ 1,708,028
Basic weighted average number of ordinary shares	**23,923,981**	23,683,666
Dilutive options issued and outstanding	**—**	30,000
Diluted weighted average number of ordinary shares	**23,923,981**	23,713,666
Basic (loss) / earnings per share	**$ (0.39)**	$ 0.07
Diluted (loss) / earnings per share	**(0.39)**	0.07

15. 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.

15. SEGMENT REPORTING (CONT'D)

Selected financial information by reportable segment is as follows:

For the year ended December 31, 2018	Fluids Distribution Canada	Fluids Distribution USA	Fluids Distribution Total	Fluids Blending & Packaging Canada	Fluids Blending & Packaging USA	Fluids Blending & Packaging Total	Other	Consolidated
Total revenues	$ 31,212,650	$ 69,207,140	$ 100,419,790	$ 16,588,614	$ 6,910,365	$ 23,498,979	$ —	$ 123,918,769
Revenues from internal customers	321,766	39,836	361,602	2,114,793	5,881	2,120,674	—	2,482,276
Revenues from external customers	30,890,884	69,167,304	100,058,188	14,473,821	6,904,484	21,378,305	—	121,436,493
Cost of sales	28,012,534	61,012,506	89,025,040	11,320,948	4,605,110	15,926,058	—	104,951,098
EBITDA	772,805	(2,847,066)	(2,074,261)	115,664	966,078	1,081,742	(563,759)	(1,556,278)
Depreciation on property and equipment	59,746	470,560	530,306	103,590	304,743	408,333	127,394	1,066,033
Interest	35	25,888	25,923	—	934	934	2,853,992	2,880,849
Impairment of property and equipment	332,269	918,981	1,251,250	385,238	—	385,238	—	1,636,488
Income tax expense / (recovery)	—	—	—	217,949	—	217,949	1,997,819	2,215,768
Segment profit / (loss)	$ 380,755	$ (4,262,495)	$ (3,881,740)	$ (591,113)	$ 660,401	$ 69,288	$ (5,542,964)	$ (9,355,416)
Segment assets	$ 19,546,650	$ 36,633,675	$ 56,180,325	$ 4,423,837	$ 3,588,978	$ 8,012,815	$ 7,423,063	$ 71,616,203
Capital expenditures	$ 578,535	$ 734,417	$ 1,312,952	$ 23,293	$ 87,338	$ 110,631	$ 4,973	$ 1,428,556

For the year ended December 31, 2017	Fluids Distribution Canada	Fluids Distribution USA	Fluids Distribution Total	Fluids Blending & Packaging Canada	Fluids Blending & Packaging USA	Fluids Blending & Packaging Total	Other	Consolidated
Total revenues	$ 45,937,637	$ 51,485,919	$ 97,423,556	$ 21,645,250	$ 4,501,275	$ 26,146,525	$ —	$ 123,570,081
Revenues from internal customers	542,969	39,270	582,239	6,774,168	3,758	6,777,926	—	7,360,165
Revenues from external customers	45,394,668	51,446,649	96,841,317	14,871,082	4,497,517	19,368,599	—	116,209,916
Cost of sales	39,193,039	41,879,953	81,072,992	11,667,615	2,760,125	14,427,740	—	95,500,732
EBITDA	3,377,101	2,733,528	6,110,629	12,200	606,888	619,088	148,803	6,878,520
Depreciation on property and equipment	71,695	382,714	454,409	101,669	281,917	383,586	116,458	954,453
Interest	484	37,042	37,526	—	62,335	62,335	3,201,113	3,300,974
Impairment (recovery)/charge	(61,577)	464,980	403,403	24,000	—	24,000	(12,982)	414,421
Share based compensation	—	—	—	—	—	—	51,672	51,672
Income tax expense / (recovery)	908,955	499,174	1,408,129	(30,637)	70,912	40,275	(999,432)	448,972
Segment profit / (loss)	$ 2,457,544	$ 1,349,618	$ 3,807,162	$ (82,832)	$ 191,724	$ 108,892	$ (2,208,026)	$ 1,708,028
Segment assets	$ 34,231,965	$ 31,112,025	$ 65,343,990	$ 5,306,027	$ 2,684,451	$ 7,990,478	$ 7,897,565	$ 81,232,033
Capital expenditures	$ 33,681	$ 384,167	$ 417,848	$ 97,896	$ 264,312	$ 362,208	$ 103,182	$ 883,238

15. SEGMENT REPORTING (CONT'D)

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

	December 31 2018	December 31 2017
Revenue		
Canada	$ 45,364,705	$ 60,265,750
United States	76,071,788	55,944,166
	$ 121,436,493	$ 116,209,916
Non-current assets		
Canada	$ 3,781,093	$ 7,204,646
United States	6,863,193	6,209,675
	$ 10,644,286	$ 13,414,321

The Company's revenue by service line by segment is as follows:

For the year ended	Fluids Distribution			Fluids Blending & Packaging			
December 31, 2018	Canada	USA	Total	Canada	USA	Total	Consolidated
Revenue by service line							
Drilling fluid and blended drilling fluid products	$ 25,106,787	$ 59,451,187	$ 84,557,974	-	-	-	$ 84,557,974
Oil based mud rental	5,784,097	9,716,117	15,500,214	14,473,821	6,904,484	21,378,305	36,878,519
Total revenues	$ 30,890,884	$ 69,167,304	$ 100,058,188	$ 14,473,821	$ 6,904,484	$ 21,378,305	$ 121,436,493

During the years ended December 31, 2018 and 2017, the Company had no revenues greater than 10% from a single external customer.

16. FINANCIAL INSTRUMENTS

A. 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:

	Note	December 31 2018	December 31 2017
Financial Assets - Amortized Cost			
Accounts receivable	3	$ 26,053,467	$ 26,017,283
Financial Liabilities - Amortized Cost			
Bank indebtedness	6	30,833,981	25,963,575
Accounts payable and accrued liabilities	7	11,118,829	16,693,066
Long-term debt	8	8,777,128	9,625,000
		$ 50,729,938	$ 52,281,641

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".

16. FINANCIAL INSTRUMENTS (CONT'D)

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.

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.

B. FINANCIAL RISK MANAGEMENT OBJECTIVES

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, with input from the 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. The Company does not enter or trade financial instruments, including derivative financial instruments, for speculative purposes.

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.

Under IFRS 9 "Financial Instruments" the Company is required to review impairment of its trade and other receivables at each reporting period and to review its loss allowance for expected future credit losses. The Company records an allowance for doubtful accounts if an account is determined to be uncollectible. Any provisions recorded by the Company are reviewed regularly to determine if any of the balances provided for should be written off. The allowance for doubtful accounts could materially change as a result of fluctuations in the financial position of the Company's customers. The Company completes a detailed review of its historical credit losses as part of its impairment assessment. The Company has had minimal historical impairment losses on its trade receivables, due in part to its credit management processes. As such, the Company assesses impairment losses on an individual customer account basis, rather than recognize a loss allowance on all outstanding trade and other receivables.

16. FINANCIAL INSTRUMENTS (CONT'D)

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

December 31, 2018	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 8,517,013	$ —	$ 8,517,013
31 to 60 days	6,955,997	—	6,955,997
61 to 90 days	5,783,097	—	5,783,097
91 to 120 days	2,437,772	—	2,437,772
Over 120 days	2,855,872	(496,284)	2,359,588
Total	$ 26,549,751	$ (496,284)	$ 26,053,467
December 31, 2017			
Current	$ 7,415,817	$ —	$ 7,415,817
31 to 60 days	8,529,157	—	8,529,157
61 to 90 days	5,684,848	—	5,684,848
91 to 120 days	2,595,062	—	2,595,062
Over 120 days	2,173,121	(380,722)	1,792,399
Total	$ 26,398,005	$ (380,722)	$ 26,017,283

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. Based on outstanding borrowings under the facility as at December 31, 2018, a 25-basis point increase or decrease in the prime interest rate would impact the Company's net (loss) earnings by approximately $77,085 (December 31, 2017 - $64,909). 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:

Balance, December 31, 2018	Monetary financial assets	Monetary financial liabilities	Net position
Canadian dollar	$ 1,870,655	$ (20,664,846)	$ (18,794,191)
US dollar	17,819,519	(30,065,092)	(12,245,573)
Total	$ 19,690,174	$ (50,729,938)	$ (31,039,764)
December 31, 2017			
Canadian dollar	$ 4,623,759	$ (29,255,725)	$ (24,631,966)
US dollar	13,184,467	(23,025,916)	(9,841,449)
Total	$ 17,808,226	$ (52,281,641)	$ (34,473,415)

For the period ended December 31, 2018, a 5% increase or decrease in the Canadian dollar relative to the US dollar would have impacted net (loss) income by $612,279 (December 31, 2017 - $592,625) mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated monetary assets and liabilities.

16. FINANCIAL INSTRUMENTS (CONT'D)

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's bank indebtedness, cash flow from operating activities, and long-term debt are expected to be greater than anticipated capital expenditures and the contractual maturities of the Company's financial liabilities. This expectation could be adversely affected by a material negative change in the oil and gas industry, 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.

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 December 31, 2018 is as follows:

	Bank indebtedness	Accounts payable and accrued liabilities	Long-term debt (1)	Finance leases (1)	Operating lease commitments	Total
2019	$ 30,833,981	$ 11,118,829	$ 1,665,311	$ 206,488	$ 949,837	$ 44,774,446
2020	—	—	1,665,311	206,488	672,813	2,544,612
2021	—	—	1,665,311	161,120	541,176	2,367,607
2022	—	—	7,009,742	11,811	213,448	7,235,001
2023	—	—	—	6,067	—	6,067
Thereafter	—	—	—	—	—	—
Total	$ 30,833,981	$ 11,118,829	$ 12,005,675	$ 591,974	$ 2,377,274	$ 56,927,733

(1) Includes interest.

B. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Company's financial instruments approximates the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amount of accounts receivable, accounts payable and accrued liabilities, and finance leases approximate their fair value due to their short-term maturities. The carrying amount of bank indebtedness and long-term debt approximates fair value because they are based on variable interest that would be like current market rates.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	December 31 2018	December 31 2017
Accounts receivable	**$ 2,220,580**	$ (6,547,901)
Inventories	**8,396,699**	(11,741,171)
Prepaid expenses and deposits	**(361,590)**	(1,004,239)
Accounts payable and accrued liabilities	**(7,143,716)**	3,379,746
Income taxes receivable	**261,455**	1,943,065
Foreign exchange	**(77,561)**	(603,820)
Change in non-cash working capital	**$ 3,295,867**	$ (14,574,320)
Interest paid	**2,759,952**	2,289,103
Income tax refunds	**$ 290,970**	$ 1,996,695
Non-cash transactions		
Equipment purchased under finance lease	**$ 678,415**	$ 58,831

18. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The following table summarizes expenses related to key management personnel:

	December 31 2018	December 31 2017
Salaries including bonuses	**$ 1,042,035**	$ 842,370
Directors' fees	**131,700**	130,620
Benefits	**—**	19,364
Total remuneration	**$ 1,173,735**	$ 992,354

The renumeration of directors and key executives is determined by the executive compensation committee having regard to the performance of individuals and market trends.

TRANSACTIONS WITH RELATED ENTITIES

For the year ended December 31, 2018, the Company incurred shared office costs of $36,000 (December 31, 2017 – $36,000) that were paid to a related company controlled by an officer of Bri-Chem. These services are provided in the normal course of business and are at market rates.

19. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The total capital structure of the Company is as follows:

	December 31 2018	December 31 2017
Bank indebtedness	**$ 30,833,981**	$ 25,963,575
Long-term debt	**8,777,128**	9,625,000
Obligations under finance lease	**570,912**	62,660
Equity	**20,153,251**	28,756,106
Total capital	**$ 60,335,272**	$ 64,407,341

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.

As at December 31, 2018, the Company had $2,673,811 (December 31, 2017 - $8,757,768) of undrawn credit on the ABL Facility. Aside from the capital requirements associated with its ABL and GreyPoint facilities as disclosed in Note 6, the Company is not subject to any other external capital requirements.

20. RESTRUCTURING COSTS

During the year ended December 31, 2018, the Company incurred restructuring costs of $962,106 (December 31, 2017 – nil) related to the closing of two warehouses in Texas, United States. Restructuring costs related to cleaning oil-based storage tanks, inventory relocation costs to more active warehouses, and tank rental returns. The Company had fully exited these locations by December 31, 2018 and does not expect any further restructuring costs from these locations in the future.

(signed) "Don Caron"
Don Caron, Director

(signed) "Eric Sauze"
Eric Sauze, Director