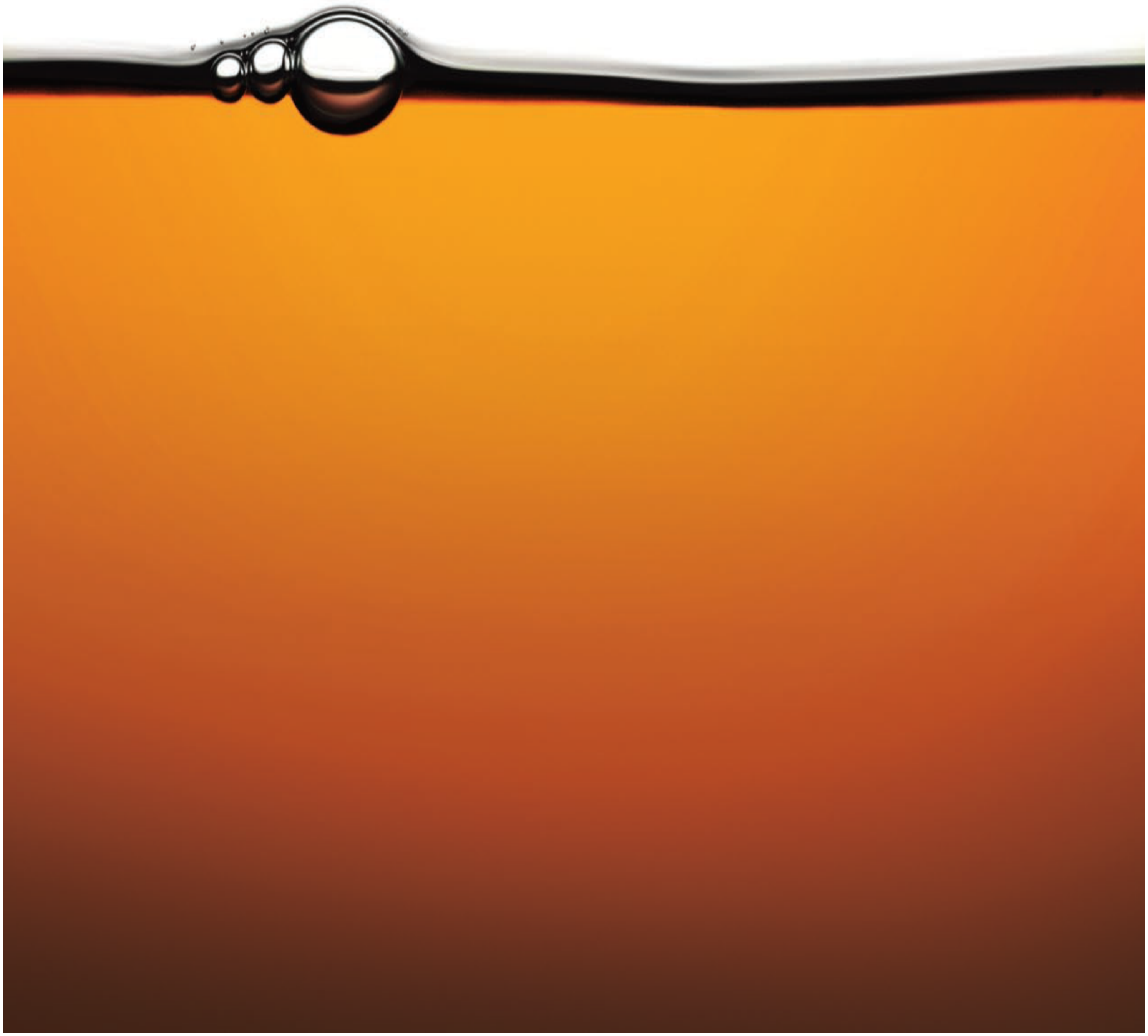
BRI-CHEM

Right product. Right place. Right time.

# Consolidated Financial Statements

## For the years ended December 31, 2019 and 2018



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

## TABLE OF CONTENTS

**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 PricewaterhouseCoopers LLP (PwC) as the external auditors of the Company and, in that capacity, they have audited the consolidated financial statements for the year ended December 31, 2019. The Auditor's Report to the shareholders is presented herein. PwC 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 20, 2020

# *Independent auditor's report*

To the Shareholders of Bri-Chem Corp.

## *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Bri-Chem Corp. and its subsidiaries (together, the Company) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB").

**What we have audited**
The Company's consolidated financial statements comprise:

- the consolidated statement of operations and comprehensive loss for the year ended December 31, 2019;
- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

*PricewaterhouseCoopers LLP*
*Stantec Tower, 10220 103 Avenue NW, Suite 2200, Edmonton, Alberta, Canada T5J 0K4*
*T: +1 780 441 6700, F: +1 780 441 6776*

## *Material uncertainty related to going concern*

We draw attention to Note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## *Comparative information*

The financial statements of the Company for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on April 1, 2019.

## *Other information*

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

In preparing the consolidated 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 consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated 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 Armando Pinedo Zamudio.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
April 20, 2020

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

## Consolidated Statements of Operations and Comprehensive Loss
(Canadian dollars)

| For the years ended | Note | | December 31 2019 | | December 31 2018 |
|---|---|---|---|---|---|
| Sales | 14 | $ | **91,726,026** | $ | 121,436,493 |
| Cost of sales | 4 | | **75,318,282** | | 104,951,098 |
| **Gross margin** | | | **16,407,744** | | 16,485,395 |
| **Expenses** | | | | | |
| Salaries and benefits | | | **8,309,787** | | 9,666,892 |
| Selling, general and administration | | | **5,123,623** | | 6,607,147 |
| Interest on short-term operating debt | | | **1,447,536** | | 1,890,997 |
| Interest on long-term debt | | | **1,066,490** | | 977,517 |
| Interest on lease liability | | | **148,559** | | 12,335 |
| Foreign exchange (gain) / loss | | | **(91,195)** | | 303,044 |
| Depreciation on property and equipment | | | **1,480,545** | | 1,066,033 |
| Impairment of property and equipment | 5 | | **2,207,116** | | 1,636,488 |
| Bad debts | | | **122,241** | | 502,484 |
| Restructuring costs | 19 | | **233,649** | | 962,106 |
| | | | **20,048,351** | | 23,625,043 |
| **Loss before income taxes** | | | **(3,640,607)** | | (7,139,648) |
| Income tax (recovery) / expense | | | | | |
| Current | 10 | | **44,235** | | 79,695 |
| Deferred | | | **(29,017)** | | 2,136,073 |
| | | | **15,218** | | 2,215,768 |
| **Net loss** | | | **(3,655,825)** | | (9,355,416) |
| Other comprehensive loss, net of tax of $nil (2018 - $nil) | | | | | |
| Foreign currency translation adjustment | | | **(499,526)** | | 752,561 |
| **Total comprehensive loss** | | **$** | **(4,155,351)** | $ | (8,602,855) |
| **Net loss per share** | | | | | |
| Basic | 13 | **$** | **(0.15)** | $ | (0.39) |
| Diluted | 13 | **$** | **(0.15)** | $ | (0.39) |

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

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

**Consolidated Statements of Financial Position**
(Canadian dollars)

| | Note | December 31 2019 | December 31 2018 |
|---|---|---|---|
| **Going Concern** | **1** | | |
| **Assets** | | | |
| Current assets | | | |
| Accounts receivable | **3** | **$ 16,674,813** | $ 26,053,467 |
| Inventories | **4** | **19,195,877** | 32,390,677 |
| Prepaid expenses and deposits | | **500,107** | 2,527,773 |
| Income taxes receivable | | **—** | — |
| | | **36,370,797** | 60,971,917 |
| Non-current assets | | | |
| Property and equipment | **5** | **7,335,823** | 10,479,728 |
| Right-of-use assets | **5** | **1,334,920** | — |
| Other long-term assets | | **156,672** | 164,558 |
| | | **$ 45,198,212** | $ 71,616,203 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Bank indebtedness | **7** | **$ 10,820,408** | $ 30,833,981 |
| Accounts payable and accrued liabilities | **8** | **8,400,155** | 11,118,829 |
| Current portion of long-term debt | **9** | **800,000** | 800,000 |
| Current portion of lease liabilities | **6** | **858,692** | 178,422 |
| Income taxes payable | | **21,467** | 63,989 |
| | | **20,900,722** | 42,995,221 |
| Non-current liabilities | | | |
| Long-term debt | **9** | **7,232,421** | 7,977,128 |
| Lease liabilities | **6** | **998,073** | 392,490 |
| Deferred tax liabilities | **10** | **50,996** | 80,013 |
| Other long-term liabilities | | **18,100** | 18,100 |
| | | **29,200,312** | 51,462,952 |
| **Equity** | | | |
| Share capital | **11** | **33,537,199** | 33,537,199 |
| Contributed surplus | | **4,035,160** | 4,035,160 |
| Deficit | | **(18,307,548)** | (14,651,723) |
| Accumulated other comprehensive loss | | **(3,266,911)** | (2,767,385) |
| | | **15,997,900** | 20,153,251 |
| | | **$ 45,198,212** | $ 71,616,203 |

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

Right product. Right place. Right time.

**Consolidated Statements of Changes in Equity**
(Canadian dollars)

| | Note | Share capital | Contributed surplus | Deficit | Accumulated other comprehensive (loss) income | Total equity |
|---|---|---|---|---|---|---|
| Balance at January 1, 2018 | | $ 33,537,199 | $ 4,035,160 | $ (5,296,307) | $ (3,519,946) | $ 28,756,106 |
| Total comprehensive loss | | — | — | (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 |
| | | | | | | |
| Total comprehensive loss | | — | — | (3,655,825) | (499,526) | (4,155,351) |
| **Balance at December 31, 2019** | | **$ 33,537,199** | **$ 4,035,160** | **$ (18,307,548)** | **$ (3,266,911)** | **$ 15,997,900** |

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

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

## Consolidated Statements of Cash Flows
(Canadian dollars)

| For the years ended | Note | December 31 2019 | December 31 2018 |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss | | **$ (3,655,825)** | $ (9,355,416) |
| Adjustments for: | | | |
| Depreciation on property and equipment | | **1,480,545** | 1,066,033 |
| Impairment of property and equipment | **5** | **2,207,116** | 1,636,488 |
| Amortization of debt related transaction costs | | **195,145** | 96,476 |
| Deferred tax expense | | **(93,196)** | 2,136,073 |
| Foreign exchange (gain) / loss on debt | | **(95,508)** | 279,959 |
| Unrealized foreign exchange (gain) / loss | | **(2,005)** | 49,154 |
| Interest on debt and lease liabilities | | **2,466,551** | 2,784,340 |
| Loss on disposal of equipment | | **136,300** | 706 |
| Change in non-cash working capital | **16** | **20,617,945** | 3,295,867 |
| Total cash provided by operating activities | | **23,257,068** | 1,989,680 |
| **Financing activities** | | | |
| Interest paid on debt and finance leases | | **(2,557,936)** | (2,743,329) |
| Advances on finance contracts | | **123,302** | — |
| Repayment on finance contracts | | **(19,332)** | — |
| Advances on bank indebtedness | | **33,061,471** | 71,177,086 |
| Repayment on bank indebtedness | **9** | **(51,967,031)** | (68,470,327) |
| Advances on lease liabilities | | **—** | 565,574 |
| Principal portion of lease payments | **6** | **(705,014)** | (190,128) |
| Repayment on long-term debt | | **(825,000)** | (900,000) |
| Total cash (used in) financing activities | | **(22,889,540)** | (561,124) |
| **Investing activities** | | | |
| Purchase of property and equipment | | **(367,528)** | (1,428,556) |
| Total cash used in investing activities | | **(367,528)** | (1,428,556) |
| | | | |
| **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, 2019, the Company incurred a net loss of $3,665,825 and operations were financed by a combination of funds generated from business activities and from advances from bank indebtedness under the Asset-Based Lending Facility (the "ABL Facility") (Note 7) which totaled $10,820,408 as at December 31, 2019. The total borrowing base of this facility as at December 31, 2019 was $17,668,237 as determined by eligible accounts receivable and inventory (Notes 3 and 4), leaving $6,372,055 of excess availability. The Company is subject to certain TSX continued listing requirements one of them being market value of an issuer's securities. As at year end, the Company's market capitalization was below the TSX minimum and the TSX commenced a listing review which subsequent to year end the listing review was suspended to 2021. 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 9), 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, drilling activity levels and North American supply and demand levels. Forecasted operating and general administrative expenses were based on forecasted revenues and historical gross margins. Actual commodity prices, drilling activity levels and ability to sell natural resources in the future may differ significantly from those forecasted by management, which could cast significant doubt about the Company's ability to continue as a going concern.

Canada is experiencing oil and gas industry concerns over market access, oil price differentials and increased regulation resulting in decreased current and forecasted drilling activity. The Company has a considerable operating presence in western Canada and took steps to right-size its Canadian operations to reflect expected future business activity. The United States resource industry has seen a softening over the past several months as costs to produce have increased and global demand has weakened, resulting in lower industry activity. Despite this weakening as at December 31, 2019, the Company was in compliance with all of its financial covenants with its lenders. The ABL Facility matures on October 31, 2020 and the Company expects the facility to be renewed successfully for another term. The subordinated debenture agreement matures on 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.

The Company's Directors have considered the judgements, estimates, financing options, and related uncertainties disclosed above and concluded that there is a reasonable expectation that the Company will be able to continue to meet its financial obligations as they fall due into the foreseeable future.

## 1. Nature of operations and going concern (CONT'D)

Management is currently pursuing strategies to improve borrowing capacity that could include additional restructuring such as closure of underperforming warehouses, continuing to sell down inventory, debt and/or equity financing, and/or the sale of assets. Through these initiatives, the Company expects to have availability under its ABL Facility to meet its future obligations. However, there can be no assurance that these efforts will be successful.

As described in Note 20, with the recent worldwide pandemic of Covid-19, companies are facing many new challenges such as demand for product, future cashflows, and overall stability to their business. The result of this pandemic could have a material adverse effect, including future cashflow of the business and the Company's ability to continue to operate as a going concern. Management is actively monitoring world events as they unfold and are preparing an action plan to mitigate the impact on the Company as a result of Covid-19. Potential warehouse closures, limited inventory purchases, and prudent working capital management will assist in the Company being able to continue as going concern. Management is focused on preserving working capital, while keeping its customers, employees and vendors safe.

The Company is subject to certain TSX continued listing requirements one of them being market value of an issuer's securities. As at year end and subsequent to year end, the Company was not in compliance with the market value of an issuer's securities requirement; refer to note 20 with respect to relief provided by the TSX subsequent to year end.

These material uncertainties raise significant doubt about whether the Company will continue as a going concern, and therefore, whether it will realize its assets and settle its liabilities in the normal course of business and at the amounts stated in the financial statements. Should the Company be unable to meet its obligations as they become due or be unable to access its ABL Facility, the preparation of these consolidated financial statements on a going concern basis may not be appropriate. These financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

## 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, 2019 were authorized for issue by the Board of Directors on April 20, 2020.

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

### 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 earnings (loss).

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 earnings (loss) immediately, as a bargain purchase gain.

### 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.

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

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 products including oil-based mud, 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.

### 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. Land has an indefinite useful and, as such, is not subject to depreciation. 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:

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

| 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) earnings.

### 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.

### J. LEASES

*2019 lease policy under IFRS 16*

A lease liability and a right-of-use ("ROU") asset are recognized on the Company's statement of financial position, at the commencement of the lease, at the lower of the fair value of the leased asset and the present value of the minimum lease payments. For leases entered into or modified on or after January 1, 2019, a contract is a lease or contains a lease if it conveys the right to control the use of an asset for a time period in exchange for consideration. To identify a lease, the Company considers whether an explicit or implicit asset is specified in the contract, and determines whether the Company obtains substantially all the economic benefits from the use of the underlying asset by assessing numerous factors, including but not limited to substitution rights and the right to determine how and for what purpose the asset is used. ROU assets are subsequently measured at cost and are depreciated over the shorter of the useful life of the asset or the lease term, while the lease liability is subsequently measured at amortized cost using the effective interest rate method, where the interest expense is amortized over the term of the lease as a constant percentage of the carrying value of the lease liability.

As most of the Company's lease contracts do not provide the lease implicit interest rate, nor can the lease implicit interest rate be readily determined, the Company uses its incremental borrowing rate as the discount rate for determining the present value of lease payments. The Company's incremental borrowing rate for a lease, is the rate that the Company would pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The Company uses the lease implicit rate when it is readily determinable.

The lease term for all of the Company's leases includes the non-cancellable period of the lease plus any period covered by the options to extend (or not to terminate) the lease term when it is reasonably certain that the Company will exercise that option.

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

*2018 lease policy under IAS 17*

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) earnings, 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.

### 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 (CGU) and reflect their respective risk profiles as assessed by management.

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

Prior impairments of non-financial assets (other than goodwill) may be reversed if the CGU's recoverable amount exceeds it's carrying amount up to the amount the non-financial assets (other than goodwill) would be carried had no impairment been recognized originally.

For purposes of impairment testing, the Company has determined that each business entity is a cash-generating unit (CGU), and has identified the following CGUs:

- Bri-Chem Supply Ltd.,
- Sodium Solutions Inc.,
- Solution Blend Services Ltd.,
- Bri-Corp USA Inc.,
- Bri-Chem Supply Corp LLC,
- Sun Coast Materials, LLC, and;
- Bri-Chem Logistics, LLC.

### 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) earnings, 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) earnings.

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, including time value of money where appropriate.

## 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) earnings.

*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) earnings. When the Company exchanges with an existing lender one debt instrument for another one with 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) earnings within other gains and losses.

### 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 (loss) / earnings per share is calculated by dividing net (loss) / earnings of the Company by the weighted average number of shares outstanding during the year. Diluted (loss) / earnings per share is calculated by dividing net (loss) / earnings of the Company by the weighted average number of shares outstanding during the year, including potential dilutive shares.

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

### 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 12. 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.

### 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.

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

### a) *Impairment*

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.

*Estimates*

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 cash generating unit ("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 recoverable amount for property and equipment is the higher of fair value less costs to sell and value in use. 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 value in use, 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.

*Judgements*

The determination of CGUs is based on management judgement. The Company's CGU's are Bri-Chem Supply Ltd., Sodium Solutions Inc, Solution Blend Service Ltd, Bri-Chem Supply Corp, and Sun Coast Materials, LLC. As the grouping of CGUs determines the level at which property and equipment, goodwill and intangible assets are tested for impairment, the grouping of CGUs can impact the outcome of impairment testing. 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.

### b) *Sales returns provision*

*Estimates*

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 8.

### c) *Inventories*

*Estimates*

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*

*Estimates*

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.

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

### *e) Leases*

*Judgements*

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as warehouse profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the lease will be extended. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs, which affects this assessment and that is within the control of the lessee.

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

***Leases***

The Company adopted the new lease standard, IFRS 16, *Leases* ("IFRS 16") on January 1, 2019. The new standard introduced significant changes in the requirements for lease accounting. On the date of transition, January 1, 2019, the Company elected to apply IFRS 16 using the modified retrospective approach, where the Company is not required to restate comparative information. Instead, the comparative effect of initially applying IFRS 16 is recognized as an adjustment to equity on transition date. On transition date, the Company made the following elections on practical expedients and exemptions allowed by the new standard:

- The Company elected to use the transitional expedient not to reassess whether a contract is or contains a lease. By applying this practical expedient, the Company will not reassess existing arrangements that were previously assessed for the existence of leases under previous standard (IAS 17 "Leases"). The Company will apply this transitional expedient and will rely on previous IAS 17 and IFRIC 4 assessments on whether leases are onerous.
- The Company elected to apply the exemption related to low-value assets to exclude lease arrangements where the value of the leased asset is $5,000 or less. The Company elected to apply the exemption related to short-term lease arrangements to exclude lease arrangements where the term of the lease is for periods of 12 months or less. For these arrangements, the Company will recognize lease expenses on a straight-line basis over the term of the agreement and present the expense within selling, general, and administration expenses in the consolidated statements of operations.
- The Company elected to use a single discount rate on lease portfolios that share similar economic characteristics.
- The Company elected to recognize the initial right-of-use assets in an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.
- The Company elected to apply the practical expedient to exclude initial direct costs from the measurement of the right-of-use asset on transition.
- The Company elected to apply the practical expedient not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.
- The Company separated the total amount of cash paid into a principal portion presented within financing activities and interest presented within operating activities in the consolidated statements of cash flows.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

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

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 ranged between 6.49% and 6.85% to calculate the present value of lease payments. The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's December 31, 2018 consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 as at January 1, 2019:

| | | January 1, 2019 |
|---|---|---|
| Operating lease commitments disclosed as at December 31, 2018 | $ | 2,377,274 |
| Discounted using the incremental borowing rate at the date of initial application | | (385,089) |
| Adjustment due to different treatment of extension and termination options | | (218,180) |
| Short-term leases recognised as expense on a straight-line basis | | (450,050) |
| **Total lease liabilities recognized under IFRS 16** | **$** | **1,323,955** |
| | | |
| Of which are: | | |
| Current portion of lease liabilities | $ | 430,591 |
| Long-term lease liabilities | | 893,364 |
| | **$** | **1,323,955** |

**Right-of-use assets**

| | | January 1, 2019 |
|---|---|---|
| Leased buildings | $ | 1,323,955 |

The associated right-of-use assets were initially measured at the amount equal to the lease liability, adjusted for any prepaid or accrued lease payments. There were no material onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The impact of the application of IFRS 16 as at January 1, 2019 is shown as follows:

| | | January 1, 2019 | | IFRS 16 adoption impact | | December 31, 2018 |
|---|---|---|---|---|---|---|
| Right-of-use asset | **$** | **1,323,955** | **$** | **1,323,955** | $ | - |
| Current portion of lease liabilities | | **609,013** | | **430,591** | | 178,422 |
| Long-term portion of lease liabilities | | **1,285,854** | | **893,364** | | 392,490 |
| Retained earnings | **$** | **(14,651,723)** | | | $ | (14,651,723) |

### 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, 2019. The standards and amendments issued that are applicable to the Company are as follows:

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

***IAS* 1 Presentation of Financial Instruments Amendment (effective January 1, 2020)**

IAS 1 Presentation of Financial Instruments ("IAS 1") sets out the overall requirements for financial statements, including how they are structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.

The amendment, revises IAS 1 to incorporate a new definition of material. The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The IAS 1 amendment is effective January 1, 2020 and is not expected to have a material impact on the company's financial statements.

**IFRS 3 Business Combinations (effective January 1, 2020)**

In October 2018, the International Accounting Standards Board ("IASB") issued Definition of a Business ("Amendments to IFRS 3" or "IFRS 3") to provide clarification guidance for entities to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments confirmed that a business must include inputs and a process, and clarified that the process must be substantive; and the inputs and process must together significantly contribute to creating outputs. The amendment guidance narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The IFRS 3 amendment is effective January 1, 2020, with earlier application permitted. These amendments will apply to the Company's future business combinations.

## 3. ACCOUNTS RECEIVABLE

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

| | December 31 2019 | December 31 2018 |
|---|---|---|
| Trade accounts receivable | $ 16,733,418 | $ 26,382,164 |
| Allowance for doubtful accounts | (318,692) | (496,284) |
| Trade accounts receivable, net | 16,414,726 | 25,885,880 |
| Other receivables | 260,087 | 167,587 |
| Accounts receivable | $ 16,674,813 | $ 26,053,467 |

The Company completed an Expected Credit Loss ("ECL") assessment for its trade accounts receivables using the Simple ECL Model prescribed under IFRS 9, and determined that expected credit losses were adequately covered by the amounts provided under allowance for doubtful accounts (AFDA), therefore no additional ECL adjustments were required as at December 31, 2019. The Company wrote-off $122,241 of accounts receivables as bad debts (December 31, 2018 - $502,484).

The Company pledged its accounts receivables with a carrying amount of $16,674,813 (December 31, 2018 - $26,053,467) as collateral for the Asset-Based Lending ("ABL") Facility described in Note 7.

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

| | December 31 2019 | December 31 2018 |
|---|---|---|
| Balance, beginning of year | $ 496,284 | $ 380,722 |
| Bad debts | 122,241 | 502,484 |
| Receivables written off | (299,833) | (100,043) |
| Recovery of bad debts | — | (286,879) |
| Balance, end of year | $ 318,692 | $ 496,284 |

For the year ended December 31, 2019, receivables written off increased compared to last year, primarily, due to payment defaults from a few customers in the USA.

## 4. INVENTORIES

As at December 31, 2019 all the Company's inventories related to distribution goods. For the year ended December 31, 2019, a total of $75,318,282 (December 31, 2018 - $104,951,098) of inventories were included in net loss as cost of sales. As at December 31, 2019 provisions of $182,139 (December 31, 2018 - $1,116,179) were recorded against inventory. As at December 31, 2019 the Company pledged inventory of $19,195,877 (December 31, 2018 - $32,390,677) as collateral for the ABL Facility described in Note 7. For the year ended December 31, 2019, a total of $553,150 (December 31, 2018 - $1,148,594) of inventory write-downs were included in net loss as cost of sales relating to various slow-moving products that were sold below net-realizable-value. No inventory write-down reversals were recorded for the years ended December 31, 2019 or December 31, 2018.

## 5. PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSETS

| | Land | Buildings | Motor vehicles | Manufacturing and other equipment | Office equipment | Computer equipment | Pavement and landscaping | Leasehold improvements | Total property and equipment | Right-of-use-assets (1) | Total property and equipment and right-of use assets |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | | |
| Balance at January 1, 2018 | $ 2,247,160 | $ 5,783,653 | $ 1,231,988 | $ 7,194,666 | $ 264,069 | $ 733,382 | $ 531,008 | $ 87,485 | **$ 18,073,411** | **$ —** | **$ 18,073,411** |
| Additions | — | 4,969 | 171,866 | 431,951 | — | 654,441 | — | 165,329 | **1,428,556** | **—** | **1,428,556** |
| Translation adjustment | 77,704 | 149,241 | 81,000 | 610,445 | 5,580 | 15,489 | 30,650 | 16,237 | **986,346** | **—** | **986,346** |
| Disposals | — | — | — | — | (2,283) | (2,192) | — | — | **(4,475)** | **—** | **(4,475)** |
| Balance at December 31, 2018 | $ 2,324,864 | $ 5,937,863 | $ 1,484,854 | $ 8,237,062 | $ 267,366 | $ 1,401,120 | $ 561,658 | $ 269,051 | **$ 20,483,838** | **$ —** | **$ 20,483,838** |
| Additions | — | — | 45,912 | 296,500 | — | 6,854 | — | 18,262 | **$ 367,528** | **—** | **$ 367,528** |
| Adoption of new standard | — | — | — | — | — | — | — | — | **—** | **1,972,688** | **$ 1,972,688** |
| Translation adjustment | (46,321) | (89,283) | (50,958) | (292,301) | (3,239) | (9,267) | (18,271) | (13,101) | **(522,741)** | **(91,006)** | **(613,747)** |
| Disposals | — | (125,278) | (78,319) | (120,061) | - | (3,244) | - | - | **(326,902)** | **-** | **(326,902)** |
| Balance at December 31, 2019 | $ 2,278,543 | $ 5,723,302 | $ 1,401,489 | $ 8,121,200 | $ 264,127 | $ 1,395,463 | $ 543,387 | $ 274,212 | **$ 20,001,723** | **$ 1,881,682** | **$ 21,883,405** |
| **Accumulated depreciation** | | | | | | | | | | | |
| Balance at January 1, 2018 | $ — | $ 1,423,689 | $ 740,517 | $ 3,741,805 | $ 222,047 | $ 600,462 | $ 212,629 | $ 38,694 | **$ 6,979,843** | **$ —** | **$ 6,979,843** |
| Translation adjustment | — | 43,858 | 47,069 | 201,948 | 3,992 | 11,636 | 11,583 | 5,428 | **325,514** | **—** | **325,514** |
| Depreciation for the year | — | 233,418 | 113,412 | 585,883 | 10,475 | 58,786 | 39,995 | 24,064 | **1,066,033** | **—** | **1,066,033** |
| Impairment | — | — | 133,546 | 847,368 | 7,428 | 602,203 | — | 45,943 | **1,636,488** | **—** | **1,636,488** |
| Disposals | — | — | — | — | (1,621) | (2,147) | — | — | **(3,768)** | **—** | **(3,768)** |
| Balance at December 31, 2018 | $ — | $ 1,700,965 | $ 1,034,544 | $ 5,377,004 | $ 242,321 | $ 1,270,940 | $ 264,207 | $ 114,129 | **$ 10,004,110** | **$ —** | **$ 10,004,110** |
| Translation adjustment | — | (13,266) | (30,008) | (216,579) | (2,541) | (7,588) | (8,007) | (3,880) | **$ (281,869)** | **(32,144)** | **$ (314,013)** |
| Depreciation for the year | — | 230,520 | 92,157 | 436,100 | 7,536 | 61,285 | 39,043 | 34,998 | **901,639** | **578,906** | **1,480,545** |
| Impairment | — | — | 228,018 | 1,805,923 | 16,811 | 27,399 | — | 128,965 | **2,207,116** | **—** | **2,207,116** |
| Disposals | — | (40,226) | (61,235) | (63,635) | — | — | — | — | **(165,096)** | **—** | **(165,096)** |
| Balance at December 31, 2019 | $ — | $ 1,877,993 | $ 1,263,476 | $ 7,338,813 | $ 264,127 | $ 1,352,036 | $ 295,243 | $ 274,212 | **$ 12,665,900** | **$ 546,762** | **13,212,662** |
| Net book value at December 31, 2018 | $ 2,324,864 | $ 4,236,898 | $ 450,310 | $ 2,860,058 | $ 25,045 | $ 130,180 | $ 297,451 | $ 154,922 | **$ 10,479,728** | **$ —** | **$ 10,479,728** |
| **Net book value at December 31, 2019** | **$ 2,278,543** | **$ 3,845,309** | **$ 138,013** | **$ 782,387** | **$ —** | **$ 43,427** | **$ 248,144** | **$ —** | **$ 7,335,823** | **$ 1,334,920** | **$ 8,670,743** |

*(1) Right of use assets includes warehouse facility leases*

## 5. PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSETS (CONT'D)

The Company's carrying cost for property and equipment include $2,835,245 (2018 - $2,210,820) of fully depreciated property, plant and equipment that is still in use. As at December 31, 2019, the Company identified asset impairment indicators related to the prolonged commodity prices 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 the fair value less costs to sell model. Based on this work, the Company determined that the Bri-Chem Supply Corp LLC CGUs was impaired as the recoverable amount was less than the carrying amount. Fair value was determined by third-party evaluators with reference to asset appraisals and market prices from the most recent sale of similar assets in the industry. The company used an industry average of 2% to represent the cost to sell in orderly asset sale transactions.

In assessing impairment, a CGUs recoverable amount is compared to the 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.

To reduce the carrying amount of the impaired CGU to its recoverable amount, the following impairment losses were recorded in net loss for the year ended December 31, 2019:

| **Impairment** | **December 31 2019** | **December 31 2018** |
|---|---|---|
| Cash generating unit | | |
| Bri-Chem Supply Ltd. | $ — | $ 332,269 |
| Sodium Solutions Inc. | - | 249,023 |
| Solution Blend Services Ltd. | - | 136,215 |
| Bri-Chem Supply Corp. | 2,207,116 | 918,981 |
| **Total** | **$ 2,207,116** | $ 1,636,488 |

For the years ended December 31, 2019 and 2018, the Company completed an impairment assessment using fair value less cost to dispose and value in-use model respectively. The assessment resulted in a recognition of an impairment loss in the amount of $2,207,116 (2018 - $1,636,488). There were no impairment loss reversals recorded in 2019 and in 2018.

## 6. LEASE LIABILITIES

The Company leases buildings for its office and warehouse space requirements, and also leases computer equipment. The leases for buildings typically run for a period of one year to four years, while the leases for computer equipment typically run for one year to three years. Some leases include an option to renew or extend the lease for an additional period of the same duration or some other specified term at the end of the contract term. The Company recognizes a lease liability and a right-of-use ("ROU") asset at the commencement of the lease.

ROU assets recognized from the Company's lease arrangements are presented on the statements of financial position within right-of-use assets. The carrying amount of these ROU assets as at December 31, 2019 was $1,334,920 (2018 - nil). Information about the leases for which the Company is a lessee is presented below:

## 6. LEASE LIABILITIES (CONT'D)

| Maturity analysis - contractual undiscounted cash flows | | December 31, 2019 |
|---|---|---|
| Less than one year | $ | 951,496 |
| One year to five years | | 948,588 |
| More than five years | | - |
| **Total undiscounted lease liabilities** | **$** | **1,900,084** |

| | | |
|---|---|---|
| **Lease liabilities** | | |
| Current portion of lease liabilities | $ | 858,692 |
| Long-term portion of lease liabilities | | 998,073 |
| **Total lease liabilities** | **$** | **1,856,765** |

| | | |
|---|---|---|
| January 1, 2019 | $ | 1,894,867 |
| Additions | | 678,667 |
| Accretion of lease liabilities | | (705,014) |
| Foreign currency translation adjustment | | (11,755) |
| **December 31, 2019** | **$** | **1,856,765** |

| **Amounts recognized in profit or loss** | | **December 31, 2019** |
|---|---|---|
| Interest on lease liabilities | $ | 148,559 |
| Income from sub-leasing right-of-use assets | | (700) |
| Expenses related to short-term leases | | 450,050 |
| **Lease amounts recognized in profit or loss** | **$** | **597,909** |

**Amounts Recognized in the statement of cash flows**

| | | |
|---|---|---|
| Total cash outflow for leases | $ | 705,014 |

The interest rates implicit in the leases were not readily determinable, so the Company used incremental borrowing rates (IBR) ranging between 6.49% and 6.85% to calculate the present value of the lease payments.

## 7. BANK INDEBTEDNESS

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

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

## 7. BANK INDEBTEDNESS (CONT'D)

The same financial covenants apply to the Company's long-term debt. The December 24, 2018 amended covenants of minimum trailing twelve-month EBITDA and minimum tangible net worth remained in place until May 31, 2019

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

As at December 31, 2019, the Company was in compliance with all of its financial covenants. Failure to comply with the obligations in either of these credit facilities could result in default which, if not remediated or waived, could permit acceleration of the relevant indebtedness. As a result of Covid-19, the Company received a letter from its lender that waived the default of delivering the audited financial statements within 90 of the fiscal year end.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities recognized in the consolidated statements of financial position are as follows:

| | **December 31 2019** | December 31 2018 |
|---|---|---|
| Trade accounts payable | **$ 5,991,704** | $ 8,399,600 |
| Accrued liabilities | **803,744** | 1,153,046 |
| Allowance for sales returns | **879,871** | 1,040,935 |
| Accrued compensation expense | **724,836** | 525,248 |
| | **$ 8,400,155** | $ 11,118,829 |

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

## 9. LONG-TERM DEBT

| | **December 31 2019** | December 31 2018 |
|---|---|---|
| GreyPoint Capital Inc. term loan, bearing interest at 30 day average Bankers' Acceptance Rate plus 8.0%, repayable monthly principal of $66,667 plus interest with the balance due upon maturity on November, 2022. | **$ 8,266,667** | $ 9,066,667 |
| Less: transaction costs | **234,245** | 289,539 |
| | **8,032,422** | 8,777,128 |
| Less: current portion | **800,000** | 800,000 |
| | **$ 7,232,421** | $ 7,977,128 |

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

Changes in financing activities

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Long-term debt balance January 1 | $ | **8,777,128** | $ | 9,625,000 |
| **Cash movements** | | | | |
| Debt repayments[1] | | **(825,000)** | | (900,000) |
| Debt advances | | **-** | | - |
| **Non-cash movements** | | | | |
| Amortization of non-cash interest | $ | **80,293** | | 52,128 |
| Foreign currency translation included in OCI | | **-** | | - |
| **Long-term debt balance December 31** | $ | **8,032,421** | $ | 8,777,128 |

*[1] Includes $25,000 (2018 - $100,000) paid for transaction charges related to the amendment of the ABL facility in 2019 and 2018.*

**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 7. $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 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 GreyPoint, 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. As a result of Covid-19, the Company received a letter from its lender that waived the default of delivering the audited financial statements within 90 of the fiscal year end.

## 10. 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 2019 | | December 31 2018 |
|---|---|---|---|---|
| Statutory income tax rate at 26.5% (2018 - 27.0%) for the years ended: | $ | (964,760) | $ | (1,927,705) |
| Increase (decrease) resulting from: | | | | |
| Tax rate differential | | 10,728 | | 50,421 |
| Impact of change in tax rates | | 796,807 | | (17,466) |
| Non-deductible expenses | | 14,775 | | 1,563 |
| Adjustment relating to prior periods | | (7,695) | | — |
| Change in recognition of deferred tax assets | | 135,491 | | 4,075,386 |
| Other | | 29,872 | | 33,569 |
| Expected tax expense | $ | 15,218 | $ | 2,215,768 |
| Provision for income taxes: | | | | |
| Current period tax expense (recovery) | $ | 44,235 | $ | 79,695 |
| Deferred tax expense (recovery) | $ | (29,017) | $ | 2,136,073 |
| | $ | 15,218 | $ | 2,215,768 |
| Tax expense comprises: | | | | |
| Current tax expense | | | | |
| Current period tax expense | $ | 44,235 | $ | 79,695 |
| Deferred tax expense (recovery) | | | | |
| Origination and reversal of temporary differences | $ | (951,859) | $ | (1,943,076) |
| Change in recognition of deferred tax assets | | 135,491 | | 4,075,386 |
| Adjustment for prior period | | (9,457) | | 3,763 |
| Impact of rate change | | 796,808 | | — |
| | | (29,017) | | 2,136,073 |
| Total tax expense | $ | 15,218 | $ | 2,215,768 |

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.

For the year ended December 31, 2019, the Company did not recognize deferred tax assets in respect of $9,058,234 (2018 - $8,297,140) US deductible temporary differences and unused US net operating losses of $11,184,960 (2018 - $10,833,303) as their realization was not considered probable. In addition, the Company did not recognize deferred tax assets in respect of $1,091,792 (2018 –$ 1,254,789) Canadian deductible temporary differences as their realization was not considered probable. The amount of deferred tax assets considered realizable could be reduced in the near-term should the Company's estimates of future taxable income during the carry-forward period be reduced. The Company has US non-capital losses of $11,184,960 (2018 - $10,833,303) available to reduce future taxable income which expire between 2032 and 2034 for which no deferred assets have been recognized. The Company has Canadian non-capital losses of $19,046,392 (2018 - $15,753,742) which expire between 2032 and 2039.

## 10. INCOME TAXES (CONT'D)

Movement in deferred tax assets and liabilities during the years ended December 31, 2019 and December 31, 2018 are as follows:

| | Balance January 1 2019 | Recognized in profit or loss | Recognized in equity | Balance December 31 2019 |
|---|---|---|---|---|
| Financing costs | $ — | $ — | $ — | $ — |
| Non-capital loss carryforwards | — | — | — | — |
| Property and equipment | (80,013) | 29,017 | — | (50,996) |
| | $ (80,013) | $ 29,017 | $ — | $ (50,996) |

| | Balance January 1 2017 | Recognized in profit or loss | Recognized in equity | Balance December 31 2018 |
|---|---|---|---|---|
| Financing costs | $ 110,036 | $ (110,036) | $ — | $ — |
| Intangibles | — | — | — | — |
| 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) |

## 11. 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, 2019 | 23,923,981 | $ 33,537,199 |
| Balance, December 31, 2019 | 23,923,981 | $ 33,537,199 |
| | | |
| Balance, January 1, 2018 | 23,923,981 | $ 33,537,199 |
| Balance, December 31, 2018 | 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, 2019, no shares were issued (December 31, 2018 – Nil) and no warrants are outstanding (December 31, 2018 – Nil).

## 12. 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.

## 12. SHARE-BASED PAYMENTS (CONT'D)

Under this 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, 2019, the Plan permits the authorization to grant stock options up to a maximum of 2,279,965 common shares of the Company (December 31, 2018 – 2,279,965). All share-based employee remuneration would be settled in equity.

### OPTIONS TO EMPLOYEES AND DIRECTORS

Options outstanding at December 31, 2019 consisted of the following:

| | Number of options | | Weighted average exercise price | Weighted average contractual life (years) |
|---|---|---|---|---|
| Outstanding, January 1, 2019 | 1,120,000 | $ | 2.38 | 4.2 |
| Expired | — | | — | — |
| Outstanding, December 31, 2019 | 1,120,000 | $ | 2.39 | 3.1 |
| Options exercisable, December 31, 2018 | 1,120,000 | $ | 2.39 | 3.1 |
| | | | | |
| Outstanding, January 1, 2018 | 1,320,000 | $ | 2.39 | 5.2 |
| Expired | (200,000) | | — | — |
| Outstanding, December 31, 2018 | 1,120,000 | $ | 2.38 | 4.1 |
| Options exercisable, December 31, 2018 | 1,120,000 | $ | 2.39 | 4.1 |

| 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 | 1.5 | 2021 |
| August 2012 | 395,000 | 395,000 | | $ | 2.77 | 2.5 | 2022 |
| August 2013 | 180,000 | 180,000 | | $ | 1.80 | 3.5 | 2023 |
| August 2014 | 255,000 | 255,000 | | $ | 1.87 | 4.5 | 2024 |
| August 2015 | 30,000 | 30,000 | 2018 | $ | 0.44 | 5.5 | 2025 |
| | 1,120,000 | 1,120,000 | | | | | |

During the years ending December 31, 2019 and December 31, 2018 no stock options were granted under the plan. During the year ended December 31, 2019, $nil (December 31, 2018 - $nil) was expensed in relation to the share-based payment plan to employees and directors.

## 13. Net Loss Per Share

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

| | **December 31 2019** | December 31 2018 |
|---|---|---|
| Net loss | **$ (3,655,825)** | $ (9,355,416) |
| Basic weighted average number of ordinary shares | **23,923,981** | 23,923,981 |
| Dilutive options issued and outstanding | **—** | — |
| Diluted weighted average number of ordinary shares | **23,923,981** | 23,923,981 |
| Basic loss per share | **$ (0.15)** | $ (0.39) |
| Diluted loss earnings per share | **(0.15)** | (0.39) |

## 14. 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.

## 14. SEGMENT REPORTING (CONT'D)

Selected financial information by reportable segment is as follows:

| For the year ended December 31, 2019 | 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 | $ 17,493,389 | $ 53,844,278 | $ 71,337,667 | $ 10,469,085 | $ 11,550,854 | $ 22,019,939 | $ — | $ 93,357,606 |
| Revenues from internal customers | 435,681 | — | 435,681 | 1,193,510 | 2,389 | 1,195,899 | — | 1,631,580 |
| Revenues from external customers | 17,057,708 | 53,844,278 | 70,901,986 | 9,275,575 | 11,548,465 | 20,824,040 | — | 91,726,026 |
| Cost of sales | 15,171,604 | 45,736,629 | 60,908,233 | 7,072,855 | 7,337,194 | 14,410,049 | — | 75,318,282 |
| Operating earnings (loss) | 486,057 | 1,090,364 | 1,576,421 | 294,171 | 2,670,936 | 2,965,107 | (1,831,889) | 2,709,639 |
| Depreciation on property and equipment | 13,140 | 1,091,103 | 1,104,243 | 14,959 | 211,386 | 226,345 | 149,957 | 1,480,545 |
| Interest | 3,225 | 115,520 | 118,745 | (264) | 1,043 | 779 | 2,543,061 | 2,662,585 |
| Impairment of property and equipment | — | 2,207,116 | 2,207,116 | — | — | — | — | 2,207,116 |
| Income tax expense / (recovery) | 126,817 | — | 126,817 | 75,459 | — | 75,459 | (187,058) | 15,218 |
| **Segment profit / (loss)** | **$ 342,875** | **$ (2,323,375)** | **$ (1,980,500)** | **$ 204,017** | **$ 2,458,507** | **$ 2,662,524** | **$ (4,337,849)** | **$ (3,655,825)** |
| Segment assets | $ 10,382,010 | $ 24,609,149 | $ 34,991,159 | $ 2,990,904 | $ 3,397,732 | $ 6,388,636 | $ 3,818,417 | $ 45,198,212 |
| Capital expenditures | $ 2,358 | $ 283,997 | $ 286,355 | $ 2,993 | $ 76,685 | $ 79,678 | $ 1,495 | $ 367,528 |

| 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 |
| Operating earnings (loss) | 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 (recovery)/charge | 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 |

## 14. SEGMENT REPORTING (CONT'D)

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

| | December 31 2019 | December 31 2018 |
|---|---|---|
| Revenue | | |
| Canada | $ 26,333,283 | $ 45,364,705 |
| United States | 65,392,743 | 76,071,788 |
| | $ 91,726,026 | $ 121,436,493 |
| Non-current assets | | |
| Canada | $ 4,577,405 | $ 3,781,093 |
| United States | 4,313,010 | 6,863,193 |
| | $ 8,890,415 | $ 10,644,286 |

During the years ended December 31, 2019 and 2018, the Company had no revenues greater than 10% from a single external customer.

**Revenue from contracts with customers**

| | 2019 | 2018 |
|---|---|---|
| Sale of drilling fluids and blended drilling fluid products | $ 89,791,541 | $ 118,930,290 |
| Freight revenue | 1,934,485 | 2,506,203 |
| **Total revenue** | $ 91,726,026 | $ 121,436,493 |

The timing of recognition for all revenue from contracts with customers is at a point in time.

## 15. 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 2019 | December 31 2018 |
|---|---|---|---|
| **Financial Assets - Amortized Cost** | | | |
| Accounts receivable | 3 | $ 16,674,813 | $ 26,053,467 |
| | | | |
| **Financial Liabilities - Amortized Cost** | | | |
| Bank indebtedness | 7 | 10,820,408 | 30,833,981 |
| Accounts payable and accrued liabilities | 8 | 8,400,156 | 11,118,829 |
| Long-term debt | 9 | 8,032,421 | 8,777,128 |
| | | $ 27,252,985 | $ 50,729,938 |

All of the Company's financial instruments are initially recognized at fair value. Financial instruments are classified as being measured at "amortized cost", "fair value through profit or loss"(FVTPL) or "fair value through other comprehensive income" (FVTOCI) based on the substance of the instrument contract and the business objective for holding the financial instrument. Financial instruments are classified as being measured at amortized cost if the Company holds the financial instrument only to collect contractual cash flows and if the cash flows are principal and interest payments only. The effective interest method is used to amortize financial liabilities measured under amortized cost.

## 15. FINANCIAL INSTRUMENTS (CONT'D)

Financial instruments are classified as being measured at FVTOCI if the cash flows are for the payment of principal and interest, and the Company's objective is to collect the contractual cash flows and sell the financial instrument. While the standard allows the Company to designate some equity instruments as being measured at FVTOCI, the Company has not classified any financial instruments under FVTOCI. All other financial instruments that do not meet the classification criterial to be measured at amortized cost or at FVTOCI, such as derivatives, are classified as being measured at FVTPL. While the standard allows the Company to designate a financial instrument as being measured at FVTPL at initial recognition, the Company has not classified any financial instrument under FVTPL.

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:

<u>Accounts receivables</u>
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 recognized using the Expected Credit Loss model required under IFRS 9.

<u>Bank indebtedness, accounts payable and accrued liabilities, and long-term debt</u>
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.

### 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.

## 15. FINANCIAL INSTRUMENTS (CONT'D)

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, current and future creditworthiness of customers 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.

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

| December 31, 2019 | Gross accounts receivable | Allowance for doubtful accounts | Net accounts receivable |
|---|---|---|---|
| Current | $ 6,856,808 | $ — | $ 6,856,808 |
| 31 to 60 days | 5,026,979 | — | 5,026,979 |
| 61 to 90 days | 2,671,471 | — | 2,671,471 |
| 91 to 120 days | 661,695 | — | 661,695 |
| Over 120 days | 1,776,553 | (318,692) | 1,457,861 |
| Total | $ 16,993,505 | $ (318,692) | $ 16,674,813 |
| | | | |
| December 31, 2018 | | | |
| 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 |

### 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, 2019, a 25-basis point increase or decrease in the prime interest rate would impact the Company's net (loss) earnings by approximately $51,819 (December 31, 2018 - $77,085). 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.

## 15. FINANCIAL INSTRUMENTS (CONT'D)

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

| Balance, December 31, 2019 | | Foreign currency denominated monetary financial assets | | Foreign currency denominate monetary financial liabilities | | Net position |
|---|---|---|---|---|---|---|
| USD denominated (USD) | $ | 22,267 | $ | (1,016,269) | $ | (994,002) |
| Currency translation at December 31, 2019 currency exchange rate (1.2988) (CAD) | | 28,920 | | (1,319,931) | | (1,291,010) |
| Assuming CAD currency weakens against USD currency by 5% (1.3637) (CAD) | | 30,366 | | (1,385,927) | | (1,355,561) |
| Impact (CAD) | $ | 1,446 | $ | (65,997) | $ | (64,551) |

For the period ended December 31, 2019, a 5% increase or decrease in the Canadian dollar relative to the US dollar would have impacted net earnings (loss) by $64,551 (December 31, 2018 - $612,279) mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated monetary assets and liabilities held in Canadian entities.

### 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 liquidity relies heavily on sellable inventory and collectability of accounts receivable. Timing of collections could cause liquidity of the Company to tighten. Given the recent significant decline in commodity prices and the novel coronavirus pandemic, the Company may have to lower selling prices of its inventory to cost or below cost and collection of accounts receivable may become more difficult which could impact the Company's liquidity and ability to discharge its financial liabilities (Note 20). Management has implemented a working capital management program to reduce liquidity risk. The program includes the selling down of inventories and aggressively collecting accounts receivable which will enable the Company to meet its financial liabilities as they become due.

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, 2019 is as follows:

## 15. FINANCIAL INSTRUMENTS (CONT'D)

| | | Bank indebtedness | | Accounts payable and accrued liabilities | | Long-term debt (1) | | Finance leases (1) | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | $ | 10,820,408 | $ | 8,400,156 | $ | 800,000 | $ | 858,692.00 | $ | 20,879,256 |
| 2021 | | — | | — | | 800,000 | | 399,220 | | 1,199,220 |
| 2022 | | — | | — | | 6,666,666 | | 399,220 | | 7,065,886 |
| 2023 | | — | | — | | | | 199,633 | | 199,633 |
| 2024 | | — | | — | | | | — | | — |
| Thereafter | | — | | — | | — | | — | | — |
| Total | $ | 10,820,408 | $ | 8,400,156 | $ | 8,266,666 | $ | 1,856,765 | $ | 29,343,995 |

(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. Under IFRS debt that due on demand is deemed to have a fair value equal to its demand amount.

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

| | | **December 31 2019** | | December 31 2018 |
|---|---|---|---|---|
| Accounts receivable | **$** | **7,595,126** | $ | 2,220,580 |
| Inventories | | **12,451,706** | | 8,396,699 |
| Prepaid expenses and deposits | | **2,016,412** | | (361,590) |
| Accounts payable and accrued liabilities | | **(1,400,451)** | | (7,143,716) |
| Income taxes payable/receivable | | **22,755** | | 261,455 |
| Foreign exchange | | **(67,603)** | | (77,561) |
| Change in non-cash working capital | **$** | **20,617,945** | $ | 3,295,867 |
| | | | | |
| Interest paid | | **2,466,551** | | 2,759,952 |
| Income tax refunds | | **-** | $ | 290,970 |
| | | | | |
| Non-cash transactions | | | | |
| Additions of property and equipment | **$** | **—** | $ | 58,831 |

## 17. 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 2019** | | December 31 2018 |
|---|---|---|---|---|
| Salaries including bonuses | **$** | **964,511** | $ | 1,042,035 |
| Directors' fees | | **148,560** | | 131,700 |
| Total remuneration | **$** | **1,113,071** | $ | 1,173,735 |

## 17. RELATED PARTY TRANSACTIONS (CONT'D)

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, 2019, the Company incurred shared office costs of $36,000 (December 31, 2018 – $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.

## 18. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The total capital structure of the Company is as follows:

| | **December 31 2019** | December 31 2018 |
|---|---|---|
| Bank indebtedness | **$ 10,820,408** | $ 30,833,981 |
| Long-term debt | **8,032,421** | 8,777,128 |
| Obligations under finance lease | **1,856,765** | 570,912 |
| Equity | **15,997,900** | 20,153,251 |
| Total capital | **$ 36,707,494** | $ 60,335,272 |

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

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

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

As at December 31, 2019, the Company had $6,372,055 (December 31, 2018 - $2,673,811) of undrawn credit on the ABL Facility. Aside from the capital requirements associated with its ABL and GreyPoint facilities as disclosed in Note 7, the Company is not subject to any other external capital requirements.

## 19. RESTRUCTURING COSTS

During the year ended December 31, 2019, the Company incurred restructuring costs of $233,649 (December 31, 2018 – $962,106) related to moving costs, severance expenses and other costs related to infrastructure restructuring. (December 31, 2018 – related to the closing of two warehouses in Texas, United States). As 2020 continues to evolve, the Company may have additional restructuring, however no amounts can be determined at the current time.

## 20. SUBSEQUENT EVENTS

Subsequent to year end significant declines in global oil and gas prices, declines in drilling fluid product demand and significant declines in the stock market have occurred for various reasons linked to the Coronavirus pandemic. These events will have an impact on future revenues of the company and may accelerate financial conditions such as banking covenants in the foreseeable future. The Company has not yet experienced unexpected challenges with recoverability of accounts receivable balances and realization or inventory values on December 31, 2019 balances presented in these financial statements up to the date of their approval, however, uncertainty exists with respect to recoverability of accounts receivable and realization of inventories originated subsequent to year end. Our impairment tests for property are generally based on recent market values less cost to dispose. Expected credit losses may increase as future cashflows from customers tighten. Net realizable values for our inventory may decrease as global market demands remain weak which could experience a material adverse effect over the medium term. As disclosed in note 1 (f), under the Company's standard contract terms, customers have a right of return within a reasonable period. Given economic uncertainty linked to the Coronavirus pandemic and the dramatic decline in oil and gas prices in Canada and the United States, the Company may not be able to properly estimate the customer's right of return and as such, certain revenue recognition practices may need to be revisited as required by IFRS. As a result of Covid-19, the Company received a letter from its lenders that waived the default of delivering the audited financial statements within 90 of the fiscal year end.

Accordingly, as required by IFRS we have not reflected these subsequent conditions in the measurement of our assets at December 31, 2019. The Company may not be able to realize the value of its assets if it is forced to liquidate them.

Subsequent to year end, the outbreak of the COVID-19 virus and turmoil in global oil markets have led to a sharp decline in oil prices and are expected to result in lower industry activity levels in the near term. The Company believes these emerging issues will have a negative impact on demand for its product and services and may negatively accelerate financial terms and conditions such as banking covenants in the foreseeable future. These events may also have an impact on future revenues of the company, recoverability of accounts receivables and realization or inventory values. Our impairment tests for property are generally based on recent market values less cost to dispose. Expected credit losses may increase as future cashflows from customers tighten. Net realizable values for our inventory may decrease as global market demands remain weak which could experience a material adverse effect over the medium term. As disclosed in note 1 (f), under the Company's standard contract terms, customers have a right of return within a reasonable period. Given economic uncertainty linked to the Coronavirus pandemic and the dramatic decline in oil and gas prices in Canada and the United States, the Company may not be able to properly estimate the customer's right of return and as such, certain revenue recognition practices may need to be revisited as required by IFRS.

Accordingly, as required by IFRS we have not reflected these subsequent conditions in the measurement of our assets at December 31, 2019. The Company may not be able to realize the value of its assets if it is forced to liquidate them.

On November 6, 2019, the Company received a letter from the TSX indicating that the TSX had commenced a remedial review of Bri-Chem's eligibility for continued listing on the TSX of its securities. On March 25, 2020 The TSX Continued Listing Committee determined to suspend the listing review until December 31, 2020 due to relief granted in respect of Sections 712(a) and (b) of the TSX Company Manual.

We continue to work on revisions to our Company's forecasts and strategic plans in light of the current conditions and will continue to monitor and adjust estimates accordingly.

| | |
|---|---|
| *(signed) "Don Caron"* | *(signed) "Eric Sauze"* |
| Don Caron, Director | Eric Sauze, Director |