BRI-CHEM
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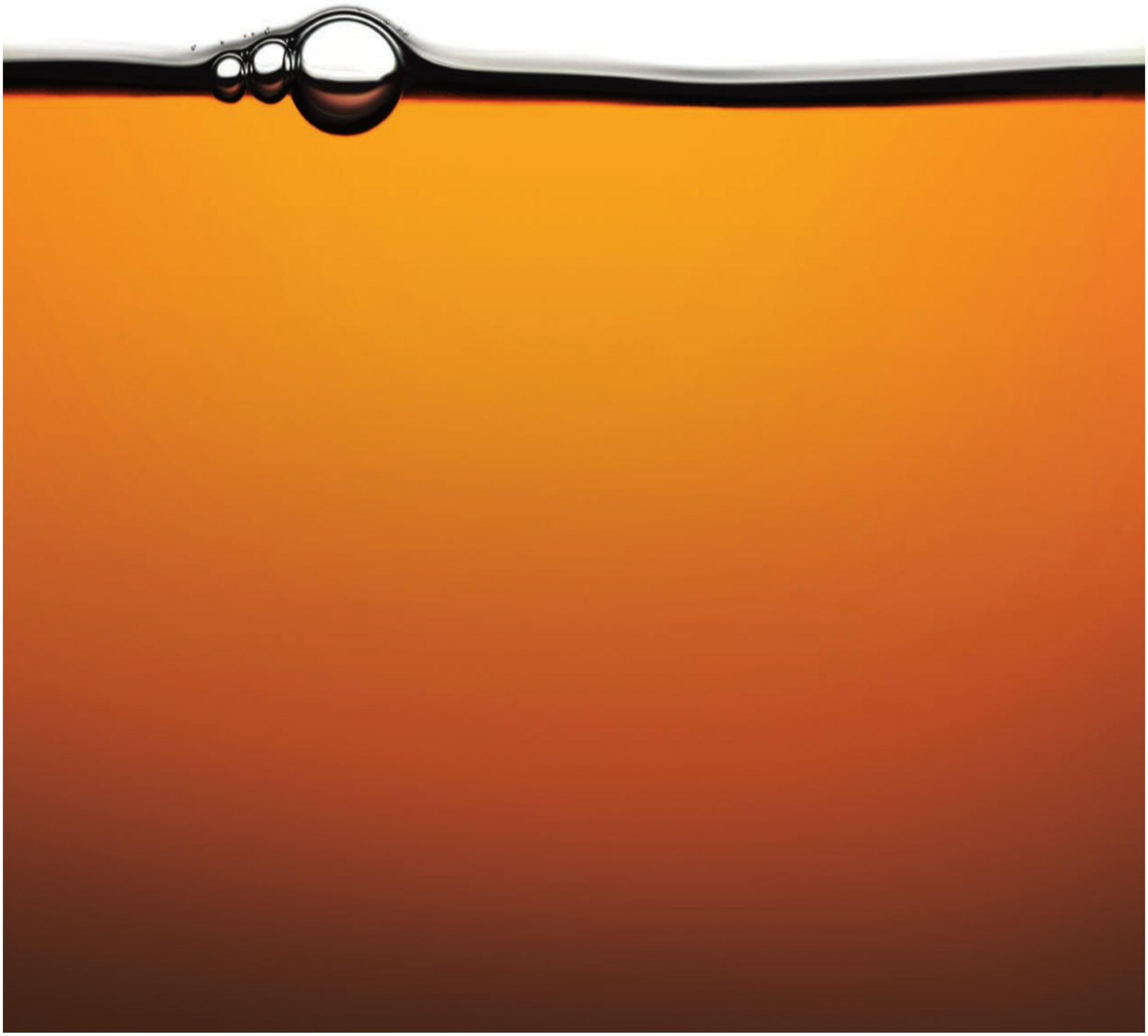
Consolidated Financial Statements

For the years ended December 31, 2021 and 2020



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Management's Report

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

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

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

The shareholders have appointed Kingston Ross Pasnak LLP (KRP) as the external auditors of the Company and, in that capacity, they have audited the consolidated financial statements for the year ended December 31, 2021. The Auditor's Report to the shareholders is presented herein. KRP has full and independent access to the Audit Committee to discuss their audit and related matters.

Don Caron
Chief Executive Officer

Tony Pagnucco
Chief Financial Officer

March 30, 2022

KINGSTON
ROSS
PASNAK LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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March 30, 2022
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bri-Chem Corp.

Opinion

We have audited the consolidated financial statements of Bri-Chem Corp. (the Company), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of operations and comprehensive income / (loss), changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and the consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 are independent of the Company in accordance with ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that at December 31, 2021, the Company has an accumulated deficit and other comprehensive losses of $26,012,812. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 30, 2021.

(continues)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Valuation of inventories and cost of sales

We refer to financial statement summary of significant accounting policies on inventories and related disclosure in Note 4.

At the balance sheet date, the value of inventory amounted to $16,776,432, representing 38% of total assets and 143% of total equity. Inventories were considered as a key audit matter due to the size of the balance and because inventory valuation involves management judgment. According to the financial statements' accounting principles inventories are measured at the lower of cost and net realizable value, with net realizable value approximated as the estimated selling price less all estimated costs of completion and necessary costs to complete the sale. The Company has specific procedures for identifying risk for obsolescence and measuring inventories at the lower of cost or net realizable value.

To address the risk for material misstatement on inventories, our audit procedures included, amongst other procedures:

- Assessing the compliance of Company's accounting policies over inventory with applicable accounting standards.
- Assessing the inventory valuation processes and practices.
- Assessing the analyses and assessment made by management with respect to slow moving and obsolete products.

We assessed the adequacy of the Company's disclosures related to inventories and cost of sales.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, which includes Management's Discussion and Analysis.

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

(continues)

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.

(continues)

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 Justin Rousseau.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Professional Accountants

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

For the years ended	Note	December 31 2021	December 31 2020
Sales	14	$ 60,404,605	$ 45,155,719
Cost of sales	4	48,160,963	37,820,981
Gross margin		12,243,642	7,334,738
Expenses			
Salaries and benefits	12 & 19	4,363,216	4,278,690
Selling, general and administration	17 & 19	3,434,687	3,868,510
Interest on current portion of long-term debt		1,053,229	1,269,786
Depreciation on property and equipment and right of use assets		939,934	1,182,269
Bad debts	3	658,591	741,816
Interest on short-term operating debt		600,003	685,315
Interest on lease liability		46,373	96,936
Restructuring costs		—	131,280
Foreign exchange (gain) / loss		(139,745)	203,438
		10,956,288	12,458,040
Profit / (loss) before income taxes		1,287,354	(5,123,302)
Income tax (recovery) / expense			
Current	10	(29,225)	76,010
Deferred	10	—	(50,996)
		(29,225)	25,014
Net profit / (loss)		1,316,579	(5,148,316)
Other comprehensive loss, net of tax of $nil (2020 - $nil)			
Foreign currency translation adjustment		(161,899)	(444,717)
Total comprehensive income / (loss)		$ 1,154,680	$ (5,593,033)
Net profit / (loss) per share			
Basic	13	0.06	$ (0.22)
Diluted	13	0.05	$ (0.22)

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

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Consolidated Statements of Financial Position
(Canadian dollars)

	Note	December 31 2021	December 31 2020
Going Concern	**1**		
Assets			
Current assets			
Accounts receivable	**3 & 15**	**$ 19,342,143**	$ 6,955,215
Inventories	**4**	**16,776,432**	11,290,128
Income taxes receivable	**10**	**71,351**	—
Prepaid expenses and deposits		**602,697**	462,684
		36,792,623	18,708,027
Non-current assets			
Property and equipment	**5**	**6,265,740**	6,778,939
Right-of-use assets	**5**	**624,434**	688,302
Other long-term assets		**113,628**	114,120
		$ 43,796,425	$ 26,289,388
Liabilities			
Current liabilities			
Bank indebtedness	**7**	**$ 16,409,556**	$ 4,289,304
Accounts payable and accrued liabilities	**8**	**8,193,332**	3,058,125
Income taxes payable	**10**	**—**	42,859
Current portion of long-term debt	**9**	**6,764,499**	800,000
Current portion of lease liabilities	**6**	**275,693**	652,300
		31,643,080	8,842,588
Non-current liabilities			
Long-term debt	**9**	**—**	6,556,582
Lease liabilities	**6**	**436,885**	332,675
		32,079,965	15,731,845
Equity			
Share capital	**11**	**33,537,199**	33,537,199
Contributed surplus		**4,039,397**	4,035,160
Warrants	**9**	**152,676**	152,676
Deficit		**(22,139,285)**	(23,455,864)
Accumulated other comprehensive loss		**(3,873,527)**	(3,711,628)
		11,716,460	10,557,543
		$ 43,796,425	$ 26,289,388

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

Consolidated Statements of Changes in Equity
(Canadian dollars)

	Note	Share capital	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive loss	Total equity
Balance at January 1, 2020		$ 33,537,199	$ 4,035,160	$ —	$ (18,307,548)	$ (3,266,911)	$ 15,997,900
Issuance of warrants		—	—	152,676	—	—	152,676
Total comprehensive loss		—	—	—	(5,148,316)	(444,717)	(5,593,033)
Balance at December 31, 2020		$ 33,537,199	$ 4,035,160	$ 152,676	$ (23,455,864)	$ (3,711,628)	$ 10,557,543
Share-based payments	**12**	—	4,237	—	—	—	4,237
Total comprehensive income		—	—	—	1,316,579	(161,899)	1,154,680
Balance at December 31, 2021		**$ 33,537,199**	**$ 4,039,397**	**$ 152,676**	**$(22,139,285)**	**$ (3,873,527)**	**$ 11,716,460**

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

Consolidated Statements of Cash Flows
(Canadian dollars)

For the year ended	Note	December 31 2021	December 31 2020
Operating activities			
Net profit / (loss)		**$ 1,316,579**	$ (5,148,316)
Adjustments for:			
Depreciation on property and equipment and right-of-use assets		**939,934**	1,182,269
Share-based payments	**12**	**4,237**	—
Interest on debt and lease liabilities		**1,397,388**	1,547,801
Amortization of debt related transaction costs		**159,621**	338,408
Deferred tax expense		**—**	(50,996)
Foreign exchange loss on debt		**18,179**	166,411
Unrealized foreign exchange (gain) / loss		**(145,357)**	23,358
Gain on sale of property and equipment		**(17,088)**	(13,651)
Change in non-cash working capital	**16**	**(12,893,085)**	12,177,491
Total cash (used in) provided by operating activities		**(9,219,592)**	10,222,775
Financing activities			
Interest paid on debt and leases		**(1,401,438)**	(1,582,893)
Advances on bank indebtedness		**29,929,109**	23,567,488
Repayment on bank indebtedness		**(17,970,327)**	(30,603,092)
Principal portion of lease payments	**6**	**(672,468)**	(870,201)
Advances on long-term debt	**9**	**144,602**	64,492
Repayment on long-term debt	**9**	**(850,000)**	(800,000)
Total cash provided by (used in) financing activities		**9,179,478**	(10,224,206)
Investing activities			
Purchase of property and equipment	**5**	**(43,640)**	(2,611)
Proceeds on disposal of property and equipment		**83,754**	4,042
Total cash provided by investing activities		**40,114**	1,431
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. ("the Company" or "Bri-Chem") is an independent wholesale supplier of drilling fluids and chemicals for the oil and gas industry that operates from warehouses located throughout Canada and the United States. The Company was incorporated under the laws of the Province of Alberta and its registered and primary place of business is 27075 Acheson Road, Acheson, Alberta T7X 6B1. Bri-Chem shares are listed on the Toronto Stock Exchange under the symbol "BRY".

These consolidated financial statements have been prepared on a going concern basis which assumes the realization of assets and satisfaction of liabilities in the normal course of business for the foreseeable future. For the year ended December 31, 2021, the Company incurred a net profit of $1,316,579 (December 31, 2020 - loss of $5,148,316) and an accumulated deficit and other comprehensive losses of $26,012,812 (December 31, 2020 - $27,167,492).

Operations have been financed using a combination of funds generated through business activities and advanced from an Asset-Based Lending Facility (the "ABL Facility") and the Canadian Government Business Credit Availability Program ("BCAP"). As at December 31, 2021, these loans had balances of $11,436,802 and $5,960,648, respectively. The undrawn portion of the ABL Facility was $6,140,465 and the Company was in compliance with all of its financial covenants with its lenders as at December 31, 2021 as discussed in Note 7. The ABL Facility and BCAP Loans were successfully renewed for another term as described in note 7. The subordinated debenture agreement matures on November 30, 2022 as described in Note 9. Failure to comply with the obligations in either of these credit facilities could result in default which, if not remediated or waived, could permit acceleration of the relevant indebtedness of the amounts associated with the subordinated debenture.

In addition to these borrowings, the Company received government assistance during the year in the amount of $1,141,529 (December 31, 2020 - $1,435,625) as disclosed in Note 19.

The oil and gas industries in Canada and the US have experienced increased uncertainty in recent years due to concerns over market access, oil price differentials, increased regulation and the ongoing worldwide pandemic of COVID-19. The Company has a considerable operating presence across both geographies and has taken steps to monitor these uncertainties and right-size operations as needed to reflect expected business activity in the year and going forward. While the recent recovery of oil prices and growing expectations of future demand have increased optimism across the industry, the Company continues to monitor these uncertainties and take prudent actions where appropriate to manage financial risks.

Management applied significant judgement in preparing forecasts to support the going concern assumption. Forecasted revenues were based on the expected demand for drilling fluids and chemicals that are influenced by current and future commodity prices in Canada and the US, drilling activity levels and North American supply and demand levels. Forecasted operating and general administrative expenses were based on forecasted revenues and historical gross margins. Actual commodity prices, drilling activity levels and ability to sell natural resources in the future may differ significantly from those forecasted by management.

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

1. NATURE OF OPERATIONS AND GOING CONCERN (CONT'D)

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

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

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, 2021 were authorized for issue by the Board of Directors on March 30, 2022.

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.

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

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 profit.

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 profit 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.

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 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 time, 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:

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

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:

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 profit.

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

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. The lease asset is initially recognized at cost, which comprise the amount of the initial measurement of the lease liability, plus the initial direct costs incurred by the Company. A lease liability is initially measured at the present value of the minimum lease payments. 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

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

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.

K. CURRENT AND DEFERRED INCOME TAXES

Tax expense for the period comprises of current and deferred tax. Tax is recognized in net profit, except to the extent that it relates to items recognized in other comprehensive 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 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 its 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 profit, 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 profit.

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 ECLs 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 profit.

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, lease 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.

Warrants

Share warrants have been issued in connection with certain financing transactions. Where the issuance of the warrants is considered a directly attributable cost of completing a financing transaction, the fair value at issuance has been determined using the Black-Scholes pricing model and recognized as an adjustment to the carrying value of the relevant financial liability.

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 profit. 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 profit 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.

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

Basic earnings per share is calculated by dividing net profit of the Company by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by dividing net profit of the

Company by the weighted average number of shares outstanding during the year, including potential dilutive shares.

O. SHARE-BASED PAYMENTS

The Company has established a stock option plan for the Executive and Board of Directors, and employees as described in Note 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.

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

S. GOVERNMENT ASSISTANCE

The Company applied IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance in relation to receiving the Canada Emergency Wage Subsidy ("CEWS"), the Paycheck Protection Program ("PPP") and the Canada Emergency Rent Subsidy ("CERS"), as part of the Canadian and United States federal government response to the COVID-19 health pandemic. Government assistance is recognized only when there is a reasonable assurance that (a) the Company will comply with any conditions attached to the grant and (b) the grant will be received. The government grants/subsidies are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes the expense for the related costs for which the grants and/or subsidies are intended to compensate. The Company has elected to present these amounts net of related expenses. Where government grants have been provided in the form of a forgivable loan, proceeds have been recorded as a liability until reasonable assurance of forgiveness has been obtained.

T. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS IN APPLYING ACCOUNTING POLICIES

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

a) 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 defined in significant accounting policy L. 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.

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

b) Allowance for doubtful accounts

Estimates

The Company establishes an allowance for doubtful accounts with respect to previously recognized revenue that remains uncollected. The Company assesses the accounts receivable portfolio on an individual customer and overall basis. The process of determining an allowance for doubtful account for a customer consists of a review of historical collections and aging of the customer balances as well as considering the geographical location the customer is situated in and the economic environment of that location. The review involves judgment and estimation, and accordingly, the results of the exercise and corresponding actual write-offs can differ from estimated allowances.

c) 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. The allowance for sales returns is generally determined as a percentage of sales for each legal entity. Actual returns experienced may differ from estimate. The allowance for sales returns is presented in accounts payable and accrued liabilities in Note 8.

d) Inventory Obsolescence

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.

e) 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.

f) 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.

U. NEW IFRS STANDARDS

NEWLY ADOPTED ACCOUNTING STANDARDS

The Company did not adopt any new IFRS standards during the year.

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

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

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

Amendments to IAS 1 – classification of liabilities as current or non-current
The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. No significant impact to the Company's financial statements is expected.

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

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

Amendments to IAS 16 – property, plant and equipment – proceeds before intended use
The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The amendment also clarifies the meaning of 'testing whether an asset is functioning properly'. The amendments are applied retrospectively for period beginning on or after 1 January 2022, with early application permitted. No significant impact to the Company's property and equipment balance is expected.

Amendments to IFRS 3 – Reference to the Conceptual Framework
The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the

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

acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The amendments are effective for business combinations for which the date of acquisition after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published with the updated Conceptual Framework) at the same time or earlier. No significant impact to the Company's financial statements is expected.

3. ACCOUNTS RECEIVABLE

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

	December 31 2021	December 31 2020
Trade accounts receivable	**$ 19,585,597**	$ 7,421,459
Allowance for doubtful accounts	**(436,630)**	(557,384)
Trade accounts receivable, net	**19,148,967**	6,864,075
Other receivables	**193,176**	91,140
Accounts receivable	**$ 19,342,143**	$ 6,955,215

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

	December 31 2021	December 31 2020
Balance, beginning of year	**$ 557,384**	$ 318,692
Bad debts	**658,591**	741,816
Receivables written off	**(779,345)**	(503,124)
Recovery of bad debts	**—**	—
Balance, end of year	**$ 436,630**	$ 557,384

The Company pledged its accounts receivables with a carrying amount of $19,342,143 (December 31, 2020 - $6,955,215) as collateral for the ABL Facility described in Note 7. For the year ended December 31, 2021, receivables written off increased compared to last year, primarily, due to payment defaults from customers affected by the COVID-19 Pandemic.

4. INVENTORIES

As at December 31, 2021 and December 31, 2020, all the Company's inventories related to distribution goods. As at December 31, 2021, the Company pledged inventory of $16,776,432 (December 31, 2020 - $11,290,128) as collateral for the ABL Facility described in Note 7 and provisions of $7,136 (December 31, 2020 - $215,266) were recorded against inventory.

For the year ended December 31, 2021, a total of $48,160,963 of inventories were included in net profit (December 31, 2020 - $37,820,981 included in net loss) as cost of sales. For the year ended December 31, 2021, a total of $174,446 of inventory write-downs were included in net profit (December 31, 2020 - $726,320 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, 2021 (December 31, 2020 - Nil).

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Right product. Right place. Right time.

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, 2020	$ 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**
Additions	—	—	—	—	—	2,611	—	—	**2,611**	116,102	**118,713**
Translation adjustment	(18,132)	(32,303)	(14,906)	(13,836)	(1,062)	(3,357)	(7,152)	(2,103)	**(92,851)**	(26,202)	**(119,053)**
Disposals	—	—	(708)	—	—	—	—	—	**(708)**	(423,393)	**(424,101)**
Balance at December 31, 2020	$ 2,260,411	$ 5,690,999	$ 1,385,875	$ 8,107,364	$ 263,065	$ 1,394,717	$ 536,235	$ 272,109	**$ 19,910,775**	$ 1,548,189	**$ 21,458,964**
Additions	—	—	—	28,809	—	14,831	—	—	**43,640**	441,452	**485,092**
Translation adjustment	(3,825)	(6,814)	(3,144)	(28,224)	(224)	8,815	(1,509)	(447)	**(35,372)**	(6,246)	**(41,618)**
Disposals	—	—	(42,725)	—	—	—	—	—	**(42,725)**	(587,375)	**(630,100)**
Balance at December 31, 2021	$ 2,256,586	$ 5,684,185	$ 1,382,731	$ 8,065,224	$ 262,841	$ 1,418,363	$ 534,726	$ 271,662	**$ 19,876,318**	$ 1,396,020	**$ 21,272,338**
Accumulated depreciation											
Balance at January 1, 2020	$ —	$ 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**
Translation adjustment	—	(14,282)	(13,249)	(31,966)	(1,062)	(3,264)	(4,805)	(2,103)	**(70,731)**	(24,479)	**(95,210)**
Depreciation for the year	—	214,237	30,321	224,093	—	30,167	38,557	—	**537,375**	644,894	**1,182,269**
Disposals	—	—	(708)	—	—	—	—	—	**(708)**	(307,290)	**(307,998)**
Balance at December 31, 2020	$ —	$ 2,077,948	$ 1,279,840	$ 7,530,940	$ 263,065	$ 1,378,939	$ 328,995	$ 272,109	**$ 13,131,836**	$ 859,887	**$ 13,991,723**
Translation adjustment	—	(1,734)	34,823	10,632	(224)	(648)	(555)	(2,481)	**39,813**	(4,161)	**35,652**
Depreciation for the year	—	208,167	80,959	124,518	—	25,470	34,418	2,034	**475,566**	464,368	**939,934**
Disposals	—	—	(36,637)	—	—	—	—	—	**(36,637)**	(548,508)	**(585,145)**
Balance at December 31, 2021	$ —	$ 2,284,381	$ 1,358,985	$ 7,666,090	$ 262,841	$ 1,403,761	$ 362,858	$ 271,662	**$ 13,610,578**	$ 771,586	**$ 14,382,164**
Net book value at December 31, 2020	$ 2,260,411	$ 3,613,051	$ 106,035	$ 576,424	$ —	$ 15,778	$ 207,240	$ —	$ 6,778,939	$ 688,302	$ 7,467,241
Net book value at December 31, 2021	**$ 2,256,586**	**$ 3,399,804**	**$ 23,746**	**$ 399,134**	**$ —**	**$ 14,602**	**$ 171,868**	**$ —**	**$ 6,265,740**	**$ 624,434**	**$ 6,890,174**

(1) Right of use assets includes warehouse facility, forklift and compressor leases.

The Company's carrying cost for property and equipment include $8,753,102 (2020 - $8,705,709) of fully depreciated property, plant and equipment that is still in use.

During the years ended December 31, 2021 and 2020, the Company completed impairment assessments. The assessment resulted in no impairment loss for 2021 or 2020.

There were no impairment loss reversals recorded in 2021 and in 2020.

6. LEASE LIABILITIES

The Company leases buildings for its office and warehouse space requirements, and also leases manufacturing and other equipment. The leases for buildings typically run for a period of one year to four years, while the leases for manufacturing and other 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, 2021 was $624,434 (2020 - $688,302).

Maturity analysis - contractual undiscounted cash flows	**December 31, 2021**	December 31, 2020
Less than one year	**$ 342,396**	$ 809,402
One year to five years	**431,281**	267,796
More than five years	**—**	—
Total undiscounted lease liabilities	**$ 773,677**	$ 1,077,198
Lease liabilities		
Current portion of lease liabilities	**$ 275,693**	$ 652,300
Long-term portion of lease liabilities	**436,885**	332,675
Total lease liabilities	**$ 712,578**	$ 984,975
January 1	**$ 984,975**	$ 1,856,765
Additions	**441,451**	110,659
Terminations	**(32,883)**	(131,013)
Accretion of lease liabilities	**(672,468)**	(870,201)
Foreign currency translation adjustment	**(8,497)**	18,765
December 31	**$ 712,578**	$ 984,975

6. LEASE LIABILITIES (CONT'D)

Information about the leases for which the Company is a lessee is presented below:

Amounts recognized in profit or loss

		December 31 2021		December 31 2020
Expenses related to short-term leases	$	488,018	$	258,800
Interest on lease liabilities		46,373		96,936
Income from sub-leasing right-of-use assets		(8,400)		(8,400)
Lease amounts recognized in profit or loss	$	525,991	$	347,336

Amounts recognized in the statement of cash flows

Total cash outflow for leases	$	672,468	$	870,201

The interest rates implicit in the leases were not readily determinable, so the Company used incremental borrowing rates (IBR) ranging between 7.25% and 11.48% for the year ended 2021, and 6.78% and 9.28% for the year ended 2020 to calculate the present value of the lease payments.

7. BANK INDEBTEDNESS

BANK INDEBTEDNESS RECORDED IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION IS AS FOLLOWS:

		December 31 2021		December 31 2020
ABL Facility	$	11,436,802	$	490,667
BCAP Loan		5,960,648		6,230,469
Cash and cash equivalents		(987,894)		(2,431,832)
	$	16,409,556	$	4,289,304

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

The ABL Facility bears interest at a rate of 1.35% (2020 - 1.50%) above CIBC's prime lending rate and is secured by the Company's accounts receivable and inventory. A total of $25,000,000 may be drawn under the ABL Facility. On October 20, 2021, the Company amended the terms of the ABL Facility to reduce the interest rates applicable to the loans to 1.35% above CIBC's prime lending rate and amend the minimum tangible net worth financial covenant appliable to both the ABL Facility and BCAP Loan. The amendments were accounted for as a loan modification with a nominal value. $31,250 of transaction costs were incurred as part of this refinancing and are being amortized over the term of the agreement.

The BCAP Loan agreement was entered July 16, 2020 as part of the ABL Facility and is backed by the Canadian Government with 80% of the principal having been guaranteed by The Business Development Bank of Canada. The BCAP Loan bears interest at a rate of 2.25% (2020 - 2.25%) above CIBC's prime lending rate. The term of the BCAP Loan is amortized over 10 years, with interest only for the first 12 months.

As at December 31, 2021, the Company was in compliance with all of its financial covenants. Failure to comply with the obligations in either of these credit facilities could result in default which, if not remediated or waived, could permit acceleration of the relevant indebtedness.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	December 31 2021	December 31 2020
Trade accounts payable	$ 5,275,279	$ 1,746,216
Accrued liabilities	875,981	593,405
Allowance for sales returns	1,641,439	424,021
Accrued compensation expense	400,633	294,483
	$ 8,193,332	$ 3,058,125

9. LONG-TERM DEBT

	December 31 2021	December 31 2020
GreyPoint Capital Inc. term loan, bearing interest at 30 day average Bankers' Acceptance Rate plus 10%, repayable monthly principal of $66,667 plus interest with a 2% Payment in kind interest (PIK interest) due with the balance upon maturity on November 6, 2022.	$ 6,875,760	$ 7,531,158
Less: transaction costs	111,261	174,576
	6,764,499	7,356,582
Less: current portion	6,764,499	800,000
	$ —	$ 6,556,582

Changes in financing activities

	December 31 2021	December 31 2020
Long-term debt balance January 1	$ 7,356,582	$ 8,032,421
Cash movements		
Debt repayments	(850,000)	(800,000)
Debt advances	144,602	64,492
Non-cash movements		
Amortization of non-cash interest	113,315	59,669
Foreign currency translation included in OCI	—	—
Long-term debt balance December 31	$ 6,764,499	$ 7,356,582

GreyPoint Capital Inc.

The Company signed an agreement with GreyPoint Capital Inc. ("GreyPoint") on November 6, 2017 to refinance its subordinated debt from another lender. The GreyPoint Financing consists of a $10 million term loan with the same financial covenants as the ABL Facility. $350,000 of transaction costs were incurred as part of this refinancing and are being amortized over the term of the agreement. The subordinated debt is secured by the following: an unlimited corporate guarantee supported by a general security agreement from Bri-Chem Supply Ltd. and Sodium Solutions Inc. and from all other material entities within the group determined by the lender subordinated only to a prior charge from the ABL Facility; first demand collateral land mortgage and assignment of rents from Bri-Chem Corp. created a first fixed specific mortgage charge overall lands and premises located at 27075 Acheson Road, Acheson, Alberta and 4420 - 37 Street in

9. LONG-TERM DEBT (CONT'D)

Camrose, Alberta; assigned by Bri-Chem Corp. to GreyPoint of all risk insurance in amounts and from an insurer acceptable to GreyPoint, on all Bri-Chem real property, without limitation lands, buildings, equipment and inventory owned by Bri-Chem Corp., showing GreyPoint as first loss payee, including business interruption and public liability insurance.

On July 16, 2020, the Company and GreyPoint signed an amended agreement with an increased interest rate of Bankers' Acceptance + 10.0%, an option to defer interest equal to 2.0% per annum to maturity and amended financial covenants. This has been accounted for as a loan modification. At the closing date, a loan modification loss of $296,197 was recognized in interest from long-term debt. $252,676 of transaction costs were incurred as part of this refinancing and are being amortized over the term of the agreement. During the year ended December 31, 2021, an additional $50,000 was incurred to enter in an amended agreement to follow the financial covenants of the ABL Facility and BCAP Loans (Note 7). This transaction cost has been recognized as part of the adjusted carrying amount of the GreyPoint loan.

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

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 2021	December 31 2020
Statutory income tax rate at 23% (2020 - 24%)		
for the years ended:	**$ 296,091**	$ (1,229,592)
Increase (decrease) resulting from:		
Tax rate differential	**59,305**	(66,671)
Adjustment relating to prior periods	**35,655**	(488,388)
Other	**(5,734)**	—
Impact of change in tax rates	**(34,474)**	2,977
Impact of permanent differences	**(171,218)**	12,865
Change in recognition of deferred tax assets	**(208,850)**	1,793,823
Expected tax expense	**$ (29,225)**	$ 25,014
Provision for income taxes:		
Current period tax (recovery) expense	**$ (29,225)**	$ 76,010
Deferred tax expense recovery	**—**	(50,996)
	$ (29,225)	$ 25,014
Tax expense comprises:		
Current tax (recovery) expense		
Current period tax (recovery) expense	**$ (29,225)**	$ 76,010
Deferred tax recovery		
Origination and reversal of temporary differences	**$ 113,890**	$ (1,289,760)
Tax rate differential	**59,305**	(66,671)
Adjustment for prior period	**35,655**	(488,388)
Change in recognition of deferred tax assets	**(208,850)**	1,793,823
	—	(50,996)
Total tax expense	**$ (29,225)**	$ 25,014

For the year ended December 31, 2021, the Company did not recognize deferred tax assets in respect of $652,588 (2020 - $1,193,896) Canadian deductible temporary differences as their realization was not considered probable. In addition, the Company did not recognize deferred tax assets in respect of $7,448,831 (2020 - $9,103,290) US deductible temporary differences as their realization was not considered probable.

The Company has Canadian non-capital losses of $23,973,810 (2020 - $22,633,867) which expire between 2032 and 2041. The Company has US non-capital losses of $15,402,633 (2020 - $15,741,177) available to reduce future taxable income for which no deferred assets have been recognized, with $6,879,421 expiring between 2035 and 2037 and $8,523,212 which have an indefinite life.

11. SHARE CAPITAL

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

Issued, fully paid and outstanding

	Number		Amount
Balance, January 1, 2021	23,932,981	$	33,537,199
Balance, December 31, 2021	**23,932,981**	**$**	**33,537,199**
Balance, January 1, 2020	23,932,981	$	33,537,199
Balance, December 31, 2020	23,932,981	$	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, 2021, no shares were issued (December 31, 2020 - 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.

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, 2021, the Plan permits the authorization to grant stock options up to a maximum of 2,393,298 common shares of the Company (December 31, 2020 - 2,393,298). All share-based employee remuneration would be settled in equity.

12. SHARE-BASED PAYMENTS (CONT'D)

OPTIONS TO EMPLOYEES AND DIRECTORS

Options outstanding at December 31, 2021 consisted of the following:

	Number of options		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2021	895,000	$	1.88	1.70
Issued	100,000		0.61	0.90
Expired	(185,000)		(0.55)	—
Outstanding, December 31, 2021	**810,000**	**$**	**1.94**	**2.5**
Options exercisable, December 31, 2021	**710,000**	**$**	**1.94**	**2.5**
Outstanding, January 1, 2020	1,120,000	$	2.39	3.10
Cancelled	(225,000)		(0.51)	—
Outstanding, December 31, 2020	895,000	$	1.88	1.70
Options exercisable, December 31, 2020	895,000	$	1.88	1.70

Month and year of grant	Options outstanding	Options vested	Vesting period		Exercise price	Remaining life (years)	Expiry date
August 2012	320,000	320,000	2015	$	2.77	0.5	2022
August 2013	180,000	180,000	2016	$	1.80	1.5	2023
August 2014	180,000	180,000	2017	$	1.87	2.5	2024
August 2015	30,000	30,000	2018	$	0.44	3.5	2025
May 2021	100,000	—	2024	$	0.12	9.5	2031
	810,000	710,000					

During the years ended December 31, 2021, 100,000 (December 31, 2020 - Nil) stock options were granted under the plan. The fair value of each option granted was established using the Black-Scholes-Merton model. During the year ended December 31, 2021, $4,237 (December 31, 2020 - Nil) of compensation expense was recognized in relation to the share-based payment plan to employees and directors.

13. NET PROFIT (LOSS) PER SHARE

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

		December 31 2021		December 31 2020
Net profit (loss)	**$**	**1,316,579**	$	(5,148,316)
Basic weighted average number of ordinary shares		**23,932,981**		23,932,981
Dilutive warrants and options issued and outstanding		**3,310,000**		—
Diluted weighted average number of ordinary shares		**27,242,981**		23,932,981
Basic profit / (loss) per share	**$**	**0.06**	$	(0.22)
Diluted profit / (loss) earnings per share	**$**	**0.05**	$	(0.22)

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 profit 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, 2021	Fluids Distribution			Fluids Blending & Packaging				
	Canada	USA	Total	Canada	USA	Total	Other	Consolidated
Total revenues	$ 11,129,967	$ 33,660,556	$ 44,790,523	$ 8,893,727	$ 8,575,371	$ 17,469,098	$ —	$ 62,259,621
Revenues from internal customers	403,745	—	403,745	1,447,216	4,055	1,451,271	—	1,855,016
Revenues from external customers	10,726,222	33,660,556	44,386,778	7,446,511	8,571,316	16,017,827	—	60,404,605
Cost of sales	9,000,089	27,114,098	36,114,187	5,408,609	6,638,167	12,046,776	—	48,160,963
Operating profit / (loss)	803,201	2,806,998	3,610,199	(273,042)	863,503	590,461	(273,767)	3,926,893
Depreciation on property and equipment	24,744	556,445	581,189	14,874	211,143	226,017	132,728	939,934
Interest	2,808	39,122	41,930	—	600	600	1,657,075	1,699,605
Impairment of property and equipment	—	—	—	—	—	—	—	—
Income tax (recovery) / expense	—	—	—	(50,642)	—	(50,642)	21,417	(29,225)
Segment profit / (loss)	**$ 775,649**	**$ 2,211,431**	**$ 2,987,080**	**$ (237,274)**	**$ 651,760**	**$ 414,486**	**$ (2,084,987)**	**$ 1,316,579**
Segment assets	$ 7,868,745	$ 27,219,349	$ 35,088,094	$ 3,684,773	$ 2,436,534	$ 6,121,307	$ 2,587,024	$ 43,796,425
Capital expenditures	$ 9,271	$ 15,854	$ 25,125	$ 14,643	$ —	$ 14,643	$ 3,872	$ 43,640

For the year ended December 31, 2020	Fluids Distribution			Fluids Blending & Packaging				
	Canada	USA	Total	Canada	USA	Total	Other	Consolidated
Total revenues	$ 7,239,150	$ 23,804,215	$ 31,043,365	$ 7,899,204	$ 7,406,692	$ 15,305,896	$ —	$ 46,349,261
Revenues from internal customers	236,014	83,613	319,627	868,453	5,462	873,915	—	1,193,542
Revenues from external customers	7,003,136	23,720,602	30,723,738	7,030,751	7,401,230	14,431,981	—	45,155,719
Cost of sales	6,356,162	20,711,537	27,067,699	5,156,862	5,596,420	10,753,282	—	37,820,981
Operating (loss) / profit	(241,874)	(1,037,047)	(1,278,921)	702,754	668,710	1,371,464	(1,981,539)	(1,888,996)
Depreciation on property and equipment	24,547	776,608	801,155	14,794	225,282	240,076	141,038	1,182,269
Interest	3,791	75,131	78,922	—	1,298	1,298	1,971,817	2,052,037
Impairment of property and equipment	—	—	—	—	—	—	—	—
Income tax expense / (recovery)	—	—	—	48,981	—	48,981	(23,967)	25,014
Segment profit / (loss)	$ (270,212)	$ (1,888,786)	$ (2,158,998)	$ 638,979	$ 442,130	$ 1,081,109	$ (4,070,427)	$ (5,148,316)
Segment assets	$ 6,682,932	$ 10,781,059	$ 17,463,991	$ 2,577,667	$ 2,940,678	$ 5,518,345	$ 3,307,052	$ 26,289,388
Capital expenditures	$ —	$ —	$ —	$ —	$ 2,611	$ 2,611	$ —	$ 2,611

14. Segment reporting (cont'd)

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

	December 31 2021	December 31 2020
Revenue		
Canada	$ 18,172,733	$ 14,033,887
United States	42,231,872	31,121,832
	$ 60,404,605	$ 45,155,719
Non-current assets		
Canada	$ 3,891,466	$ 4,069,483
United States	3,112,336	3,511,878
	$ 7,003,802	$ 7,581,361

During the year ended December 31, 2021 one (December 31, 2020 - Nil) customer of the Company's USA Fluids distribution represented $7,597,032 or 12.4% of the consolidated revenues.

	December 31 2021	December 31 2020
Sale of drilling fluids and blended drilling fluid products	$ 59,273,997	$ 44,474,675
Freight revenue	1,130,608	681,044
Total revenue	$ 60,404,605	$ 45,155,719

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 2021	December 31 2020
Financial Assets - Amortized Cost			
Accounts receivable	3	$ 19,342,143	$ 6,955,215
Financial Liabilities - Amortized Cost			
Bank indebtedness	7	16,409,556	4,289,304
Accounts payable and accrued liabilities	8	8,193,332	3,058,125
Current portion of long-term debt	9	6,764,499	7,356,582
		$ 31,367,387	$ 14,704,011

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 Facility, BCAP Loan and GreyPoint Financing, 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, 2021	**Gross accounts receivable**	**Allowance for doubtful accounts**	**Net accounts receivable**
Current	$ 6,109,587	$ —	$ 6,109,587
31 to 60 days	5,219,858	—	5,219,858
61 to 90 days	3,259,292	—	3,259,292
91 to 120 days	2,221,067	—	2,221,067
Over 120 days	2,775,793	(436,630)	2,339,163
Total	**$ 19,585,597**	**$ (436,630)**	**$ 19,148,967**
December 31, 2020			
Current	$ 2,896,032	$ —	$ 2,896,032
31 to 60 days	2,107,554	—	2,107,554
61 to 90 days	1,022,838	—	1,022,838
91 to 120 days	335,656	—	335,656
Over 120 days	1,059,379	(557,384)	501,995
Total	$ 7,421,459	$ (557,384)	$ 6,864,075

Interest rate risk

The Company is exposed to interest rate risk for borrowings on its ABL Facility and BCAP Loan to the extent that the prime interest rate changes. Based on outstanding borrowings under the ABL Facility and BCAP loan as at December 31, 2021, a 25-basis point increase or decrease in the prime interest rate would impact net profit by approximately $59,717 (December 31, 2020 - impact net loss by approximately $31,577). The Company's long-term debt on the GreyPoint Finacning 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, long-term debt and lease liabilities denominated in foreign currencies. Therefore, there is a risk of profits 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, 2021	Foreign currency denominated monetary financial assets	Foreign currency denominated monetary financial liabilities (1)	Position
USD denominated (USD)	$ 12,394,313	$ 18,506,099	$ (6,111,786)
Currency translation at December 31, 2021 currency exchange rate (1.2678) (CAD)	15,713,510	23,462,032	(7,748,522)
Assuming CAD currency weakens against USD currency by 5% (1.3312) (CAD)	16,499,186	24,635,134	(8,135,948)
Impact (CAD)	$ 785,676	$ 1,173,102	$ (387,426)

(1) Foreign currency denominated monetary financial liabilities include US dollar cash and cash equivalents recorded within bank indebtedness as discussed in Note 7.

For the period ended December 31, 2021, a 5% increase or decrease in the Canadian dollar relative to the US dollar would have impacted net profit by $387,426 (December 31, 2020 - impacted net loss by $249,132) 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 and cash flow from operations has been impacted by a variety of external factors including: (a) further volatility in crude oil prices due to macro-economic uncertainty; and (b) COVID-19 impacting both the global and local economy in general and global oil demand in particular. During the year ended December 31, 2021, the Company has realized a build-up of inventory through purchases and increase in demand for product as Canadian and USA oil and gas companies have increased their drilling activity and rig counts in response to rising demand for oil and gas. Depending on the oil and gas market growth, management has stress tested the Company's liquidity position to meet all commitments as well as created various levels of mitigation actions to respond to sudden reductions in revenue. The impact that a decline in in commodity pricing or a prolonged COVID-19 recovery will have on the Company's business or financial results cannot be reasonably estimated at this time, which in turn could lead to the non-compliance of certain lending covenant on the Company's Credit Facilities, which if not amended or waived, could limit, in part, or in whole, the Company's access to the Credit Facilities and could accelerate repayment.

15. FINANCIAL INSTRUMENTS (CONT'D)

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, 2021 is as follows:

	Bank indebtedness	Accounts payable and accrued liabilities	Long-term debt [(1)]	Lease liabilities [(1)]	Total
2022	$ 16,409,556	$ 8,193,332	$ 6,764,499	$ 275,693	$ 31,643,080
2023	—	—	—	198,661	198,661
2024	—	—	—	154,346	154,346
2025	—	—	—	83,878	83,878
2026	—	—	—	—	—
Thereafter	—	—	—	—	—
Total	$ 16,409,556	$ 8,193,332	$ 6,764,499	$ 712,578	$ 32,079,965

(1) *Includes interest.*

C. 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 leases approximate their fair value due to their short-term maturities. The fair values of the Company's Credit Facilities are not materially different from their carrying amounts, since the interest payable on those borrowings is either close to current market rates.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	December 31 2021	December 31 2020
Accounts receivable	**$ (12,308,332)**	$ 9,756,855
Inventories	**(5,463,748)**	7,887,276
Prepaid expenses and deposits	**(137,720)**	77,202
Accounts payable and accrued liabilities	**4,982,949**	(5,562,297)
Income taxes payable/receivable	**(114,210)**	43,202
Foreign exchange	**147,976**	(24,747)
Change in non-cash working capital	**$ (12,893,085)**	$ 12,177,491
Interest paid	**$ 1,397,388**	$ 1,547,801

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 2021		December 31 2020
Salaries including bonuses	$	**555,298**	$	624,216
Directors' fees		**124,020**		105,400
Total remuneration	$	**679,318**	$	729,616

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, 2021, the Company incurred shared office costs of $36,000 (December 31, 2020 - $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 2021		December 31 2020
Bank indebtedness	$	**16,409,556**	$	4,289,304
Long-term debt		**6,764,499**		7,356,582
Lease liabilities		**712,578**		984,975
Equity		**11,716,460**		10,557,543
Total capital	$	**35,603,093**	$	23,188,404

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, 2021, the Company had $6,140,465 (December 31, 2020 - $6,104,991) of undrawn credit on the ABL Facility and BCAP loan. Aside from the capital requirements associated with its ABL Facility, BCAP Loan and GreyPoint Financing as disclosed in Notes 7 and 9, the Company is not subject to any other external capital requirements.

19. GOVERNMENT ASSISTANCE

During the year, the Company has applied for and received wage subsidies and other financial support under COVID-19 relief legislation that has been enacted in the countries in which it operates. During 2021, the Company recognized $301,257 (December 31, 2020 - $545,930) from the Canada Emergency Wage Subsidy Program ("CEWS"), $760,088 (December 31, 2020 - $857,776) from the Paycheck Protection Program administered under the US CARES Act, and $80,184 (December 31, 2020 - $31,919) from the Canada Emergency Rent Subsidy Program ("CERS"). The amounts received have been recognized as reductions to Salaries and Benefits in the Consolidated Statement of Operations. There are no unfulfilled conditions attached to the subsidies recognized in income during the year.

(signed) "Don Caron"
Don Caron, Director

(signed) "Eric Sauze"
Eric Sauze, Director