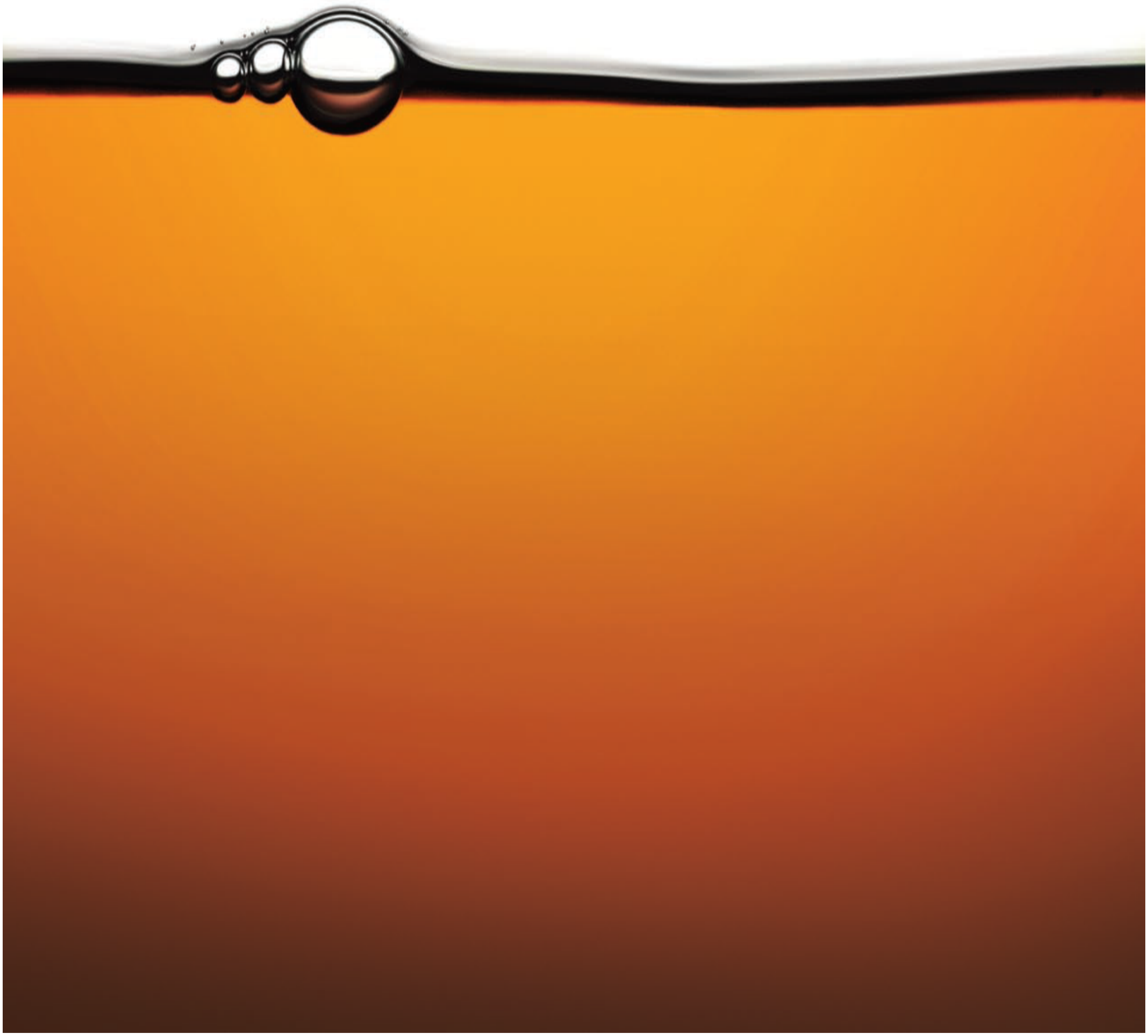
BRI-CHEM

Right product. Right place. Right time.

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016



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Management's Report

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

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

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

The shareholders have appointed Deloitte LLP as the external auditors of the Company and, in that capacity, they have examined the consolidated financial statements for the year ended December 31, 2017. The Auditor's Report to the shareholders is presented herein. Deloitte has full and independent access to the Audit Committee to discuss their audit and related matters.

(signed) "Don Caron"

Don Caron
Chief Executive Officer

(signed)" Jason Theiss"

Jason Theiss
Chief Financial Officer

March 22, 2018

Deloitte.

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Independent Auditor's Report

To the Shareholders of
Bri-Chem Corp.

We have audited the accompanying consolidated financial statements of Bri-Chem Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bri-Chem Corp. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 28, 2018
Edmonton, Canada

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Consolidated Statements of Operations and Comprehensive Income /(Loss)

(Canadian dollars)

For the years ended	Note	December 31 2017	December 31 2016
Sales		**$ 116,209,916**	$ 62,091,325
Cost of sales		**95,500,732**	51,074,865
Gross margin		**20,709,184**	11,016,460
Expenses			
Salaries and benefits		**7,587,499**	7,250,094
Selling, general and administration		**6,965,258**	4,903,426
Interest on short-term operating debt		**1,330,529**	1,083,726
Interest on long-term debt		**1,964,768**	1,859,817
Interest on obligations under finance lease		**5,677**	16,696
Depreciation on property and equipment		**954,453**	1,063,916
Impairment of property and equipment	5	**—**	116,871
Foreign exchange gain		**(670,421)**	(212,151)
Bad debts		**414,421**	205,323
Restructuring costs		**—**	270,820
		18,552,184	16,558,538
Earnings / (loss) before income taxes		**2,157,000**	(5,542,078)
Income tax expense/(recovery)			
Current		**(53,631)**	(2,080,702)
Deferred		**502,603**	3,331,688
	12	**448,972**	1,250,986
Net earnings / (loss)		**1,708,028**	(6,793,064)
Other comprehensive loss, net of tax of $nil (2016 - $nil)			
Foreign currency translation adjustment		**(1,341,536)**	(375,360)
Total comprehensive income/(loss)		**$ 366,492**	$ (7,168,424)
Earnings/ (loss) per share	15		
Basic		**$ 0.07**	$ (0.29)
Diluted		**0.07**	(0.29)

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 2017	December 31 2016
Assets			
Current			
Accounts receivable	3	$ 26,017,283	$ 18,999,389
Inventories	4	39,409,723	28,487,402
Prepaid expenses and deposits		2,191,477	1,202,192
Income taxes receivable		199,229	2,163,439
		67,817,712	50,852,422
Non-current			
Property and equipment	5	11,093,568	11,924,208
Deferred tax assets	12	2,169,586	2,680,630
Other long-term assets		151,167	120,764
		$ 81,232,033	$ 65,578,024
Liabilities			
Current			
Bank indebtedness	6	$ 25,963,575	$ 14,533,936
Accounts payable and accrued liabilities	7	16,693,066	13,215,951
Current portion of promissory notes payable	8	—	272,077
Current portion of long-term debt	9	800,000	8,993,854
Current portion of obligations under finance lease	10	25,085	43,354
		43,481,726	37,059,172
Non-current			
Long-term debt	9	8,825,000	—
Obligations under finance lease	10	37,575	16,543
Deferred tax liabilities	12	113,526	121,967
Other long-term liabilities		18,100	106,900
		52,475,927	37,304,582
Equity			
Share capital	13	33,537,199	33,263,473
Contributed surplus		4,035,160	3,983,488
Warrants	14	—	209,226
Deficit		(5,296,307)	(7,004,335)
Accumulated other comprehensive loss		(3,519,946)	(2,178,410)
		28,756,106	28,273,442
		$ 81,232,033	$ 65,578,024

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	Accumulated other comprehensive loss	Retained earnings (deficit)	Total equity
Balance at January 1, 2016		$ 33,263,473	$ 3,782,365	$209,226	$ (1,803,050)	$ (211,271)	**$ 35,240,743**
Employee share-based payment options	14	—	201,123	—	—	—	**$ 201,123**
Total comprehensive loss		—	—	—	(375,360)	(6,793,064)	**$ (7,168,424)**
Balance at December 31, 2016		$ 33,263,473	$ 3,983,488	$209,226	$ (2,178,410)	$(7,004,335)	**$ 28,273,442**
Issuance of shares upon exercise of warrants	14	273,726	—	(209,226)	—	—	**$ 64,500**
Employee share-based payment options	14	—	51,672	—	—	—	**$ 51,672**
Total comprehensive (loss)/ income		—	—	—	(1,341,536)	1,708,028	**$ 366,492**
Balance at December 31, 2017		$ 33,537,199	$ 4,035,160	$ —	$ (3,519,946)	$(5,296,307)	**$ 28,756,106**

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

Consolidated Statements of Cash Flows

(Canadian dollars)

For the years ended	Note	December 31 2017	December 31 2016
Operating activities			
Net earnings / (loss)		$ 1,708,028	$ (6,793,064)
Adjustments for:			
Depreciation on property and equipment		954,453	1,063,916
Amortization of debt related transaction costs		242,033	266,618
Impairment of property and equipment	5	—	116,871
Deferred tax expense		502,603	3,331,688
Share-based payments		51,672	201,123
Foreign exchange loss/(gain) on debt		1,014,417	(247,754)
Unrealized foreign exchange gain		(1,612,237)	(9,620)
Interest on debt and finance leases		2,292,431	1,923,491
Loss /(gain) on disposal of equipment		197,929	(31,327)
Lease inducement		(88,800)	(18,448)
Change in non-cash working capital	18	(14,574,320)	10,233,676
Total cash (used in) /provided by operating activities		(9,311,791)	10,037,170
Financing activities			
Interest paid on debt and finance leases		(2,289,183)	(1,839,489)
Repayments on promissory notes payable		(274,374)	(263,125)
Advances/(repayments) on bank indebtedness		12,055,853	(8,027,853)
Advances on long term debt		10,427,496	521,434
Repayment of long term debt		(9,928,214)	—
Issuance of shares		64,500	—
Repayments of obligations under finance lease		(45,431)	(116,162)
Total cash provided by /(used in) financing activities		10,010,647	(9,725,195)
Investing activities			
Purchase of property and equipment		(883,238)	(379,489)
Proceeds on the sale of property and equipment		184,382	67,514
Total cash used in investing activities		(698,856)	(311,975)
Net change in cash and cash equivalents		—	—
Cash and cash equivalents, beginning of the year		—	—
Cash and cash equivalents, end of the year		$ —	$ —

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Bri-Chem Corp.'s ("the Company" or "Bri-Chem") shares are publicly traded on the Toronto Stock Exchange under the symbol BRY. Bri-Chem is an independent wholesale supplier of drilling fluids for the oil and gas industry. The Company provides drilling fluid products, cementing, acidizing and stimulation additives from multiple strategically located warehouses throughout Canada and the United States. Bri-Chem Corp. was incorporated on January 1, 2007 as part of the amalgamation of Mbase Commerce Inc. and Gwelan Supply Ltd. and its head office is located in Canada. Its registered and primary place of business is 27075 Acheson Road, Acheson, Alberta T7X 6B1.

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 under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through profit and loss.

Amounts presented in these financial statements and the notes hereto are in Canadian dollars, the Company's presentation currency, unless otherwise stated.

These financial statements for the year ended December 31, 2017 were authorized for issue by the Board of Directors on March 22, 2018.

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 all 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 has the ability to 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. There are no non-controlling interests related to the Company's subsidiaries.

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

C. BUSINESS COMBINATIONS

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

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

C. Business combinations (cont'd)

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 profit or loss immediately, as a bargain purchase gain.

D. Foreign currency translation

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

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

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 (loss) 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 is 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, see Note 16.

F. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns based on the Company's internal policy and historic experience for product returns. An allowance for the sales returns is netted against total accounts receivable outstanding.

Revenue is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the costs incurred or to be incurred can be measured reliably, and the Company maintains no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

When a transaction contains separately identifiable components that should be accounted for separately, the Company applies the revenue recognition criteria and relevant IFRSs to each separately identifiable component of a single transaction in order to reflect the transaction's substance.

G. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with bank and short-term deposits with original maturities of three months or less from the acquisition date.

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

H. ACCOUNTS RECEIVABLE

Accounts receivable are amounts due from customers for goods sold or services performed in the ordinary course of business.

I. 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 in the fluids segments 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 are included in cost of sales.

J. PROPERTY AND EQUIPMENT

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

Buildings	4 to 10% declining balance
Motor vehicles	30% declining-balance
Manufacturing and other equipment	10 to 30% declining-balance and 3 to 25 years straight-line
Office equipment	20% declining-balance
Computer equipment	20% declining-balance
Pavement and landscaping	8% declining-balance
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. The carrying amount of the replaced part 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 profit or loss.

K. 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.

L. LEASES

The Company as lessee

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

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

L. LEASES (CONT'D)

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

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

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and expensed on a straight-line basis over the lease term.

M. CURRENT AND DEFERRED INCOME TAXES

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet 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 on the basis of 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 of 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.

N. IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are required to be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal 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, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management. Prior impairments of

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

N. IMPAIRMENT OF NON-FINANCIAL ASSETS (Cont'd)
non-financial assets (other than goodwill) may be reversed if the cash-generating unit's recoverable amount exceeds its carrying amount up to the amount the non-financial assets (other than goodwill) would be carried at had no impairment been recognized originally.

O. FINANCIAL INSTRUMENTS
Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, obligations discharged, cancelled, or expired.

The Company categorizes its fair value measurements for financial asset and financial liabilities measured at fair value according to a three-level hierarchy which prioritizes the inputs used in the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the overall fair value measurement. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not observable.

Financial assets
The Company's financial assets are comprised of accounts receivable and have been classified as loans and receivables at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the market. They are included in current assets, except for maturities greater than twelve months after the end of reporting period. These are classified as non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs and are subsequently carried at amortized cost using the effective interest method.

Financial assets carried at amortized cost are assessed for indicators of impairment at the end of each reporting period. A financial asset or group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, probability that they will enter bankruptcy or other financial reorganization, and observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The carrying amount of the accounts receivables is reduced using an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit and loss.

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

O. Financial Instruments (Cont'd)

Financial liabilities
The Company's financial liabilities include bank indebtedness, promissory notes, long-term debt, accounts payable and accrued liabilities, and they have been classified as other financial liabilities.

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.

Offsetting financial instruments
Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Derivative financial instruments
The Company occasionally enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk and accounts for such derivatives at fair value through profit or loss. Derivatives are initially recognized at fair value at the date the derivative contract is entered and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss. The foreign exchange forward contracts are recorded on the consolidated statement of financial position at fair value in receivables when the contracts are in a gain position and in accrued liabilities when the contracts are in a loss position. The Company purchases foreign exchange forward contracts to mitigate the exposure to purchases and the related payable to suppliers denominated in US dollars. The Company does not designate its foreign exchange forward contracts as a hedge of underlying assets, liabilities, firm commitments or anticipated transactions.

Derivatives may be embedded into other financial instruments (host instruments) and are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host instrument. The Company has not identified any embedded derivatives.

P. SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company re-purchases the Company's equity share capital through a Normal Course Issuer Bid, the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such common shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Issued and fully paid common shares are used in the determination of basic earnings per share. Non-converted warrants and in-the-money options are used in the determination of diluted earnings per share.

Basic earnings / (loss) per share is calculated by dividing net earnings / (loss) of the Company by the weighted average number of shares outstanding during the year.

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

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

Q. Share-based payments

The Company has established a stock option plan for the Executive and Board of Directors, and employees as described in Note 14. 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 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.

R. 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.

S. 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.

T. 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 a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. 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)

U. 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) Business combinations

The Company applies the acquisition method of accounting to business combinations which involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair values. The Company uses valuation techniques in determining fair values of the various elements of a business combination, including intangible assets, based on future expected cash flows and a discount rate. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risks and weighted average cost of capital. If future events or results differ significantly from these estimates and assumptions, the Company could record impairment charges in the future.

b) Deferred tax assets

Management estimates the probability of future taxable income in which deferred tax assets can be utilized based on Company forecasts. The Company also takes into consideration non-taxable income and expenses and the various tax rules in effect or expected to be in effect at a future date. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, that deferred tax asset is recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific circumstances.

c) Sales returns provision

The Company has an internal policy whereby it accepts product returns from customers in certain of its subsidiaries. Provisions recorded for estimated product returns are based on historical experience, market conditions, and drilling activities. Actual returns experienced may differ from this estimate. The allowance for sales returns is presented net of the total accounts receivable and is disclosed in Note 3.

d) Impairment of financial assets

All the Company's financial assets are reviewed for indicators of impairment. At the end of each reporting period, management reviews the individual balances in accounts receivable and assesses their recoverability based on the aging of outstanding balances, historical bad debt experience, and indicators of changes in customer credit worthiness, and changes in customer payment terms, to identify and determine the extent of impairment, if any.

e) Inventories

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

f) Stock-based compensation

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

2. Summary of significant accounting policies (CONT'D)

U. Critical accounting estimates and assumptions in applying accounting policies (Cont'd)

g) Cash-generating units

A cash-generating unit (CGU) is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets. The Company's CGUs are Bri-Chem Supply Ltd, Sodium Solutions Inc, Solution Blend Service Ltd, Bri-Chem Supply Corp and SunCoast Materials, LLC.

h) Functional currency

The functional currency of a company should reflect the underlying transactions, events and conditions that are relevant to the company. The Company has operations in both Canada and the United States and its head office is in Canada. The functional currency utilized in these financial statements is the Canadian dollar.

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

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2017. The standards and amendments issued that are applicable to the Company are as follows:

IFRS 9 – FINANCIAL INSTRUMENTS

In July 2014, the IASB completed the final elements of IFRS 9, "Financial Instruments". The standard replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company will retrospectively adopt IFRS 9 on January 1, 2018. The Company has completed its review of IFRS 9, and does not expect that the adoption of the standard will result in any changes to the Company's existing classification or carrying values of financial instruments. The Company is assessing the impact of this standard on its financial statements. The new standard will result in expanded disclosures in the notes to the Company's financial statements as prescribed by IFRS 9.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the International Accounting Standards Board ("IASB") issued International Financial Reporting Standard ("IFRS") 15, "Revenue from Contracts with Customers", which is the result of the joint project with the Financial Accounting Standards Board. In September 2015, the IASB formalized the deferral of the effective date of IFRS 15 by one year, to January 1, 2018. The new standard replaces the two main recognition standards IAS 18, "Revenue", and IAS 11, "Construction Contracts". IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company will retrospectively adopt IFRS 15 on January 1, 2018. The Company is assessing the impact of this standard on its financial statements. However, the new standard will result in expanded disclosures in the notes to the Company's financial statements as prescribed by IFRS 15.

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

V. Recent pronouncements not yet effective and that have not been adopted early (Cont'd)

IFRS 16 – LEASES

In January 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with its distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted for those Companies that have also adopted IFRS 15, Revenue from Contracts with Customers. Management of the Company anticipates that the adoption of IFRS 16 in the future may have a material impact on the amounts reported and the disclosure made in the financial statements. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until the Company has performed the detailed review.

IFRS 2 – SHARE-BASED PAYMENTS

In June 2016, the ISAB amended IFRS 2 to clarify that in estimating the fair value of the cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments. Other amendments do not apply to the Company. The amendments are effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on its financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable recognized in the consolidated statements of financial position can be analyzed as follows:

	December 31 2017	December 31 2016
Trade accounts receivable	**$ 27,624,241**	$ 20,471,804
Trade accounts receivable, secured by notes	**257,999**	1,410,630
Allowance for doubtful accounts	**(380,722)**	(1,190,871)
Accounts receivable, net	**27,501,518**	20,691,563
Allowance for sales returns	**(1,520,055)**	(1,692,174)
Other receivables	**35,820**	—
Accounts receivable	**$ 26,017,283**	$ 18,999,389

The Company pledged trade receivables with a carrying amount of $26,017,283 (December 31, 2016 - $18,999,389) as collateral for the Asset-Based Lending ("ABL") Facility (Note 6).

The Company's accounts receivable has been reviewed for indicators of impairment. Certain accounts receivable were found to be impaired and an allowance for doubtful accounts of $380,722 (December 31, 2016 - $1,190,871) has been recorded.

The change in the allowance for doubtful accounts can be reconciled as follows:

3. ACCOUNTS RECEIVABLE (CONT'D)

	December 31 2017	December 31 2016
Balance, beginning of year	**$ 1,190,871**	$ 1,278,521
Bad debts	**414,421**	205,323
Receivables written off	**(1,210,402)**	(256,660)
Recovery of bad debts	**(14,168)**	(36,313)
Balance, end of year	**$ 380,722**	$ 1,190,871

The primary factors the Company considers in determining whether financial assets are impaired are their overdue status and significant financial difficulty of debtors.

During 2016, the Company executed notes receivable for certain trade accounts receivable with specific payment terms. Notes receivable bear interest at rate of 6.0% per annum and repayable in monthly installments of $9,229 USD, $35,316 USD, and $36,667 USD and are secured by a continuing security interest in all personal property of the payee.

4. INVENTORIES

All inventories as at December 31, 2017 and 2016 are distribution goods. During the year ended December 31, 2017, a total of $94,014,042 of inventories was included in profit and loss as cost of sales (December 31, 2016 - $49,587,358). At December 31, 2017, provisions recorded against inventory amounted to $358,326 (December 31, 2016 - $955,777).

At December 31, 2017, the Company pledged inventory of $39,409,723 (December 31, 2016 - $28,487,402) as collateral for the ABL Facility (Note 6).

5. PROPERTY AND EQUIPMENT

The Company leases various equipment under finance lease agreements. Acquiring assets by entering into a financing lease involves non-cash investing and financing activities, and accordingly, does not appear in the statement of cash flows. At December 31, 2017, manufacturing and other equipment includes assets under finance lease with a carrying amount of $130,502 (December 31, 2016 - $99,060).

In accordance with its accounting policies, the Company determined that there was no impairment of its property and equipment during 2017.

The Company determined the recoverable amount of its property and equipment using the fair value less cost to sell of all its CGUs. As a result of this review it was determined that the carrying value of Bri-Chem Supply Corp LLC, a wholly owned subsidiary of Bri-Corp USA Inc., exceeded its net recoverable value. The Company recorded an impairment of $nil (December 31, 2016 - $116,871) against its property and equipment. No other impairment was considered necessary following the impairment review at the year-end as the fair value of the assets exceeded the carrying value.

At December 31, 2017, the Company pledged property and equipment with carrying amount of $nil (December 31, 2016 - $11,924,208) as collateral for the ABL Facility (Note 6).

5. PROPERTY AND EQUIPMENT (CONT'D)

	Land	Buildings	Motor vehicles	Manufacturing and other equipment	Office equipment	Computer equipment	Pavement and landscaping	Leasehold improvements	Total
Cost									
Balance at January 1, 2016	$ 2,338,157	$ 6,037,592	$ 1,547,462	$ 6,880,897	$ 387,962	$ 679,225	$ 567,197	$ 93,098	$ 18,531,590
Additions	—	119,515	6,323	243,846	—	6,610	—	3,279	379,573
Translation adjustment	(29,353)	(52,693)	(39,759)	(151,922)	(2,470)	(4,569)	(11,578)	(2,749)	(295,093)
Disposals	—	—	—	(51,228)	—	—	—	—	(51,228)
Balance at December 31, 2016	2,308,804	6,104,414	1,514,026	6,921,593	385,492	681,266	555,619	93,628	18,564,842
Additions	—	103,334	175,006	388,194	165,507	71,674	—	—	903,715
Translation adjustment	(61,644)	(424,095)	45,962	(127,576)	1,120	(8,549)	(24,611)	(6,143)	(605,536)
Disposals	—	—	(503,006)	(263,663)	(11,932)	(11,009)	—	—	(789,610)
Balance at December 31, 2017	$ 2,247,160	$ 5,783,653	$ 1,231,988	$ 6,918,548	$ 540,187	$ 733,382	$ 531,008	$ 87,485	18,073,411
Accumulated depreciation									
Balance at January 1, 2016	—	980,714	778,611	2,822,157	281,008	505,507	121,988	45,835	5,535,820
Translation adjustment	—	(4,188)	(11,599)	(39,470)	(1,044)	(2,602)	(1,254)	(783)	(60,940)
Depreciation for the year	—	234,152	203,296	502,245	20,267	55,676	41,482	6,798	1,063,916
Impairment	—	—	105,404	11,467	—	—	—	—	116,871
Disposals	—	—	—	(15,033)	—	—	—	—	(15,033)
Balance at December 31, 2016	—	1,210,678	1,075,712	3,281,366	300,231	558,581	162,216	51,850	6,640,634
Translation adjustment	—	(22,019)	(130,812)	(47,230)	(3,441)	(4,461)	10,199	(19,502)	(217,266)
Depreciation for the year	—	235,030	105,971	482,806	30,348	53,738	40,214	6,346	954,453
Disposals	—	—	(310,354)	(70,880)	(9,348)	(7,396)	—	—	(397,978)
Balance at December 31, 2017	$ —	$ 1,423,689	$ 740,517	$ 3,646,062	$ 317,790	$ 600,462	$ 212,629	$ 38,694	$ 6,979,843
Net book amount at December 31, 2016	**$2,308,804**	**$4,893,736**	**$ 438,314**	**$ 3,640,227**	**$ 85,261**	**$ 122,685**	**$ 393,403**	**$ 41,778**	**$ 11,924,208**
Net book amount at December 31, 2017	**$2,247,160**	**$4,359,964**	**$ 491,471**	**$ 3,272,486**	**$ 222,397**	**$ 132,920**	**$ 318,379**	**$ 48,791**	**$ 11,093,568**

6. Bank indebtedness

The Company has secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. The ABL Facility is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable.

On August 11, 2016, the Company amended and restated the terms of the ABL Facility to decrease the maximum borrowing base down to $20,000,000. Other amendments included an increase in interest rates, adjustment to the financial covenants and an extension of the maturity date to August 12, 2017.

On February 16, 2017 the Company amended the terms of the ABL Facility to increase the maximum borrowing base up to $25,000,000.

On August 11, 2017 and later on October 31, 2017 the ABL lender agreed to extend the ABL Facility to November 15, 2017 to provide time to complete the amended and restatement ABL Facility.

On November 6, 2017 the Company amended the terms of the ABL Facility to increase the maximum borrowing base to $35,000,000 from $25,000,000. Other amendments included a decrease in interest rates, adjustments to financial covenants, and an extension of the maturity date to October 31, 2020 and is due on demand. The Minimum adjusted tangible net worth covenant was replaced with a Fixed Charge Coverage Ratio.

The ABL Facility bears interest either at the Canadian prime rate plus 1.5% (2016 – Canadian prime rate plus 3.00%) or bankers' acceptance rate plus 3.0 % (2016 - bankers' acceptance rate plus 4.50%) or LIBOR plus 3.0% (2016 - LIBOR plus 4.50%), a collateral management fee of $1,500 (2016 - $1,500) per month and a standby fee of 0.25% (2016 - 0.25%) on unused amounts of the ABL Facility. The ABL Facility is secured by a general security agreement covering all present and acquired property and postponements of claims from related parties.

As at December 31, 2017, $25,963,575 (December 31, 2016 - $14,533,936), net of unamortized transaction costs of $99,167 (December 31, 2016 - $94,749), was drawn on the ABL Facility. Amounts can be drawn in either Canadian or US currency.

Significant financial covenants under the revised terms of the ABL Facility include a Fixed Charge Coverage Ratio and a maximum on annual capital expenditures. As at December 31, 2017, the Company was in compliance with all covenants (Note 20).

7. Accounts payable and accrued liabilities

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

	December 31 2017	December 31 2016
Trade accounts payable	**$ 14,082,053**	$ 10,608,621
Accrued liabilities	**2,184,416**	2,250,995
Accrued compensation expense	**426,597**	356,335
	$ 16,693,066	$ 13,215,951

8. Promissory Notes Payable

	December 31 2017	December 31 2016
Promissory note payable, bearing contractual interest at 4.5% per annum, repayable at $260,797 plus interest on January 31, 2016 and $272,077 plus interest on January 31, 2017, unsecured.	**$ —**	$ 272,077
Less: current portion	**—**	272,077
	$ —	$ —

9. Long-term Debt

	December 31 2017	December 31 2016
GreyPoint Capital Inc. term loan, bearing interest at 30 day average Bankers' Acceptance Rate plus 8.0%, repayable monthly principal of $66,667 plus interest with the balance due upon maturity in November, 2022.	**$ 9,866,667**	$ —
Fulcrum Capital Partners Inc. subordinated debenture, bearing interest at 11.5% plus 8.5% principal deferred fee, repayable January 2017 to December 2017 interest only and the balance upon maturity in December 2017.	**—**	9,117,383
	9,866,667	9,117,383
Less: transaction costs	**241,667**	123,529
	9,625,000	8,993,854
Less: current portion	**800,000**	8,993,854
	$ 8,825,000	$ —

GreyPoint Capital, Inc.

The company signed an agreement with GreyPoint Capital, Inc. (GreyPoint) on November 6, 2017 to refinance its subordinate debt with Fulcrum Capital Partners Inc. (the “Lender”) for a five-year term. The financing consisted of a $10 million term loan bearing interest at the 30-day Bankers’ Acceptance Rate plus 8.0% and principal payments of $66,667 monthly.

Transaction costs of $250,000 related to the refinancing agreement were incurred and are being amortized over the term of the agreement.

The GreyPoint long-term debt contains the same financial covenants as required under the ABL Facility (Note 6). As at December 31, 2017, the Company was in compliance with all covenants (Note 20).

9. LONG-TERM DEBT (CONT'D)

The subordinated debenture is secured by the following: an unlimited corporate guarantee supported by a general security agreement from Bri-Chem Supply Ltd. and Sodium Solutions Inc. and from all other material entities within the group determined by the Lender subordinated only to a prior charge from the ABL Facility; second demand collateral land mortgage and assignment of rents from Bri-Chem Corp. creating a second fixed and specific mortgage charge over all lands and premises located at 27075 Acheson Road, Acheson, Alberta and 4420 – 37th Street in Camrose, Alberta; assignment by Bri-Chem Corp. to GreyPoint/ (2016 - Fulcrum) of all risk insurance in amounts and from an insurer acceptable to GreyPoint / (2016 - Fulcrum), on all Bri-Chem Corp. real and personal property, without limitation, lands, buildings, equipment and inventory owned by Bri-Chem Corp., showing GreyPoint / (2016 - Fulcrum) as second loss payee, including business interruption and public liability insurance.

FULCRUM CAPITAL PARTNERS INC.

The Company signed an agreement with Fulcrum on November 30, 2012. The Company amended the agreement on November 30, 2015, in conjunction with the amendment to the ABL Facility (Note 6). In accordance with this amendment, the Company deferred two quarterly payments in September and December of 2015 and deferred two more quarterly principal payments in March, and June of 2016. The amendment also eliminated the funded term debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") covenant. The Lender has added a principal deferral fee of 8.5% per year that will be added to the outstanding principal amount and will bear interest at the applicable interest rate until the deferred principal is repaid in full.

Transaction costs incurred in 2015 include the amount related to the Company's issuance of warrants with a fair value, at grant date, of $209,226 (Note 13) based on the interest rate obtained on the long-term debt.

In October, 2017 Fulcrum exercised all 300,000 warrants for $64,500.

10. OBLIGATIONS UNDER FINANCE LEASE

The Company has entered into finance leases for certain pieces of operating equipment and is obliged to make the following future minimum lease payments:

	Minimum lease payments due			
December 31, 2017	Within one year	Two to five years	After five years	Total
Lease payments	$ 27,493	$ 41,700	$ —	$ 69,193
Finance charges	2,408	4,125	—	6,533
Net present value	$ 25,085	$ 37,575	$ —	$ 62,660
December 31, 2016				
Lease payments	$ 48,175	$ 17,058	$ —	$ 65,233
Finance charges	4,821	515	—	5,336
Net present value	$ 43,354	$ 16,543	$ —	$ 59,897

11. COMMITMENTS UNDER OPERATING LEASE

THE COMPANY AS LESSEE

The Company leases a number of warehouse locations and office equipment under operating leases. The Company's future minimum operating lease payments are as follows:

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
December 31, 2017	$ 2,200,171	$ 2,269,464	$ —	$ 4,469,635
December 31, 2016	$ 1,732,224	$ 2,359,714	$ —	$ 4,091,938

The Company's operating lease agreements do not contain any contingent rent clauses, renewal or purchase options, or restrictions regarding further leasing or additional debt.

Since the Company does not have an option to purchase any of the property leased at the expiry of the lease term, no land titles pass to the Company, nor does the Company participate in the residual values of the buildings and land leased, it was determined that substantially all the risks and rewards of the buildings and land leased remain with the landlord. As such, the Company determined that the leases are operating leases.

THE COMPANY AS LESSOR

In 2017, the Company sold its previously sub-leased properties which had a term of eight years expiring June 30, 2019.

NON-CANCELLABLE MINIMUM OPERATING LEASE INCOME IS AS FOLLOWS:

	Minimum lease income receivable			
	Within one year	Two to five years	After five years	Total
December 31, 2017	$ —	$ —	$ —	$ —
December 31, 2016	$ 439,920	$ 659,880	$ —	$ 1,099,800

12. INCOME TAXES

Income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective years' earnings before income taxes. These differences result from the following items:

	December 31 2017	December 31 2016
Expected income tax rate at 27.0% (2016 - 27.0%) for the years ended:	**$ 582,389**	$ (1,496,361)
Increase (decrease) resulting from:		
Valuation provision on deferred tax assets	**(958,950)**	3,355,079
Tax recovery on intercompany losses	**(779,369)**	(337,006)
Tax rate differential	**(17,258)**	(152,351)
Impact of change in tax rates	**1,322,231**	(62,003)
Non-deductible expenses	**97,663**	95,990
Adjustment recognized in the current period in relation to the current tax of prior years	**132,757**	(51,929)
Other	**71,191**	(100,433)
	$ 450,654	$ 1,250,986
Tax (recovery) expense comprises:		
Current tax expense		
Current period	**$ (53,631)**	$ (2,070,525)
Adjustment for prior periods	**—**	(10,177)
	(53,631)	(2,080,702)
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	**$ 1,330,474**	$ 32,656
Change in valuation of deferred tax assets	**(958,950)**	3,350,961
Adjustment for prior period	**131,079**	(51,929)
	502,603	3,331,688
Total tax expense	**$ 448,972**	$ 1,250,986

The combined federal and provincial corporate tax rate for the year ended December 31, 2017 is 20.9% (December 31, 2016 – 27.0%).

12. INCOME TAXES (CONT'D)

TEMPORARY DIFFERENCES

The tax effects of temporary differences and loss carry forwards that give rise to the Company's deferred tax assets (liabilities) are as follows:

	December 31 2017	December 31 2016
Deferred tax assets		
Share issue costs	**$ 110,036**	$ 111,857
Intangibles - excess tax basis over net book value	**—**	193,488
Non-capital loss carryforwards	**1,903,636**	2,409,370
	$ 2,013,672	$ 2,714,715
Deferred tax liabilities		
Capital assets - excess of net book value over undepreciated capital cost	**$ 42,387**	$ (156,053)
Net deferred tax asset	**$ 2,056,059**	$ 2,558,662
Reported in the financial statements as follows:		
Deferred tax asset	**2,169,586**	2,680,630
Deferred tax liability	**(113,526)**	(121,967)
	$ 2,056,060	$ 2,558,663

In assessing whether deferred tax assets are realizable, the Company considers if it is probable that all or a portion of the deferred tax assets will be utilized. The realization of deferred tax assets is dependent on the use of available tax planning opportunities and the generation of future taxable income during the year in which those temporary differences become deductible. For the year ended December 31, 2017, the Company did not recognize $3,665,512 (December 31, 2016 - $3,665,512) of deferred tax assets in respect of US deductible temporary differences and unused tax losses and $25,650 (December 31, 2016 - $25,650) of deferred tax assets in the respect of capital losses as their realization was not considered probable. In addition, the Company did not recognize $2,500,000 (December 31, 2016 – $2,500,000) of deferred tax assets in respect of Canadian deductible temporary differences as their realization was not considered probable. The amount of deferred tax assets considered realizable could be reduced in the near-term should the Company's estimates of future taxable income during the carry-forward period be reduced.

The Company has US non-capital losses of $5,536,021 (2016 - $4,210,350) available to reduce future taxable income which expire between 2032 and 2034 on which no deferred assets have been recognized. The Company has Canadian non-capital losses of $16,309,762 which expire between 2032 and 2034.

Right product. Right place. Right time.

12. INCOME TAXES (CONT'D)

Movement in temporary differences during the years ended December 31, 2017 and December 31, 2016 are as follows:

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

	Balance December 31, 2015	Recognized in profit or loss	Recognized in equity	Translation adjustment	Balance December 31, 2016
Cost					
Share issue costs	$ 139,739	$ —	$ (27,882)	$ —	$ 111,857
Intangibles	167,775	25,713	—	—	193,488
Non-capital loss carryforwards	5,668,986	(3,259,616)	—	—	2,409,370
Property & equipment	(90,430)	(65,622)	—	—	(156,052)
Balance at December 31, 2016	$ 5,886,070	$ (3,299,525)	$ (27,882)	$ —	$ 2,558,663

13. SHARE CAPITAL

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

Issued and outstanding

Common shares	Number		Amount
Balance, January 1, 2017	**23,632,981**	**$**	**33,263,473**
Issuance of shares upon exercise of warrants	**300,000**		**273,726**
Balance December 31, 2017	**23,932,981**	**$**	**33,537,199**

Common shares	Number		Amount
Balance, January 1, 2016	23,632,981	$	33,263,473
Issuance of shares upon exercise of warrants	—		—
Balance December 31, 2016	23,632,981	$	33,263,473

Cumulative share issuance costs of $1,643,188, net of tax, are included in share capital.

For the year ended December 31, 2017, 300,000 shares were issued upon the exercise of all 300,000 warrants held by Fulcrum.

14. SHARE-BASED PAYMENTS

SHARE-BASED PAYMENT PLAN

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

As at December 31, 2017, the Plan permits the authorization to grant stock options up to a maximum of 2,279,965 common shares of the Company (December 31, 2016 – 2,279,965). All share-based employee remuneration will be settled in equity.

14. SHARE-BASED PAYMENTS (CONT'D)

OPTIONS TO EMPLOYEES AND DIRECTORS

Options outstanding at December 31, 2017 consisted of the following:

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

	Number of options	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2016	1,470,000	$ 2.39	7.2
Expired	(16,667)	—	—
Outstanding, December 31, 2016	1,453,333	2.39	7.2
Options exercisable, December 31, 2016	1,298,331	2.48	6.0

Month and year of grant	Options outstanding	Options vested	Vesting period	Exercise price	Remaining life (years)	Expiry date
August 2011	260,000	260,000		$ 2.94	3.6	2021
August 2012	495,000	495,000		$ 2.77	4.6	2022
August 2013	180,000	180,000		$ 1.80	5.6	2023
August 2014	355,000	355,000		$ 1.87	6.6	2024
August 2015	30,000	19,998	2018	$ 0.44	7.6	2025
	1,320,000	1,309,998				

During the years ending December 31, 2017 and December 31, 2016 no stock options were granted under the plan.

During the year ended December 31, 2017, $51,672 (December 31, 2016 - $201,123) was expensed in relation to the share-based payment plan to employees and directors.

WARRANTS

Pursuant to the terms of the loan agreement with Fulcrum Capital Partners Inc. (Note 9), the Company issued 300,000 share purchase warrants, with a fair value at grant date of $209,226, to the lender. Each share purchase warrant entitles the lender to purchase one common share of the Company at a price of $1.77 per common share from December 6, 2012, expiring December 5, 2016. The warrants included an option to June 5, 2014 for the Company to purchase for cancellation any of the warrants for a 30% premium of the exercise price. The Company did not exercise this option during 2014 or 2015.

Effective August 31, 2016, this warrant certificate was amended to adjust the exercise price to $0.215 per common share and to provide a one-year extension of the expiry date (to December 5, 2017).

14. SHARE-BASED PAYMENTS (CONT'D)

WARRANTS (CONT'D)

As at December 31, 2016, 300,000 warrants were issued, outstanding and exercisable at an exercise price of $0.215 per share and with a contractual life remaining of 0.93 years.

In the third quarter of 2017 Fulcrum exercised its right to all 300,000 shares for total cash consideration of $64,500.

As at December 31, 2017, no warrants were issued, outstanding or exercisable.

15. EARNINGS / (LOSS) PER SHARE

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

	December 31 2017	December 31 2016
Net earnings / (loss)	**$ 1,708,028**	$ (6,793,064)
Basic weighted average number of ordinary shares	**23,683,666**	23,632,981
Dilutive options issued and outstanding	**30,000**	—
Diluted weighted average number of ordinary shares	**23,713,666**	23,632,981
Basic earnings/(loss) per share	**$ 0.07**	$ (0.29)
Diluted earnings/(loss) per share	**0.07**	(0.29)

The following potential ordinary shares are anti-dilutive and therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	December 31 2017	December 31 2016
Options issued and outstanding	**1,290,000**	1,453,333
Warrants issued and outstanding	**—**	300,000
Total anti-dilutive shares	**1,290,000**	1,753,333

16. 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 who make strategic decisions.

The chief operating decision-makers consider the business from both a geographic and a product perspective. Geographically, management considers the performance in Canada and the USA. From a product perspective, management separately considers the fluids distribution, and fluids blending & packaging in these geographies.

The chief operating decision-makers assess the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes from net earnings the effects of interest, taxes, amortization and depreciation, impairment of goodwill and other intangible assets, 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 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 on the same basis as an equivalent arm's length transaction. 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.

16. SEGMENTED INFORMATION (CONT'D)

Selected financial information by reportable segment is disclosed as follows:

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

For the year ended December 31, 2016	Fluids Distribution			Fluids Blending & Packaging				
	Canada	USA	Total	Canada	USA	Total	Other	Consolidated
Total revenues	$22,909,319	$24,873,095	$47,782,414	$ 15,616,712	$ 3,864,411	$19,481,123	$ —	$ 67,263,537
Revenues from internal customers	531,840	187,126	718,966	4,453,246	—	4,453,246	—	5,172,212
Revenues from external customers	22,377,479	24,685,969	47,063,448	11,163,466	3,864,411	15,027,877	—	62,091,325
Cost of sales	20,145,146	20,592,637	40,737,783	8,027,769	2,309,313	10,337,082	—	51,074,865
EBITDA	(1,202,238)	(1,189,015)	(2,391,253)	(438,000)	106,767	(331,233)	1,727,880	(994,606)
Amortization and depreciation	78,601	294,008	372,609	107,483	467,873	575,356	115,951	1,063,916
Interest	1,005	11,855	12,860	—	554	554	2,946,825	2,960,239
Impairment charges	36,134	126,346	162,480	159,714	—	159,714	—	322,194
Share based compensation	—	—	—	—	—	—	201,123	201,123
Income tax expense	(143,243)	—	(143,243)	(148,029)	—	(148,029)	1,542,258	1,250,986
Segment(loss) profit	$ (1,174,735)	$ (1,621,224)	$ (2,795,959)	$ (557,168)	$ (361,660)	$ (918,828)	$(3,078,277)	$ (6,793,064)
Segment assets	$ 25,477,629	$ 25,571,221	$ 51,048,850	$ 7,220,996	$ 2,819,903	$ 10,040,899	$ 4,488,275	$ 65,578,024
Capital expenditures	$ 9,260	$ 358,650	$ 367,910	$ 11,663	$ —	$ 11,663	$ —	$ 379,573

16. SEGMENT REPORTING (CONT'D)

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

	December 31 2017	December 31 2016
Revenue		
Canada	$ 60,265,750	$ 33,540,945
United States and International	55,944,166	28,550,380
	$ 116,209,916	$ 62,091,325
Non-current assets		
Canada	$ 7,204,646	$ 6,949,928
United States and International	6,209,675	7,775,674
	$ 13,414,321	$ 14,725,602

During the years ended December 31, 2017 and 2016, the Company had no significant revenues (greater than 10%) from individual customers.

17. 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:

	December 31 2017	December 31 2016
Financial Assets - Loans & receivables		
Accounts and notes receivable	$ 26,017,283	$ 18,999,389
	$ 26,017,283	$ 18,999,389
Financial Liabilities - Other liabilities		
Long term debt	$ 9,625,000	$ 8,993,854
Promissory notes payable	—	272,077
Bank indebtedness	25,963,575	14,533,936
Accounts payable and accrued liabilities	16,693,066	13,215,951
	$ 52,281,641	$ 37,015,818

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 into or trade financial instruments, including derivative financial instruments, for speculative purposes.

17. Financial instruments (Cont'd)

B. FINANCIAL RISK MANAGEMENT OBJECTIVES (CONT'D)

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on accounts receivable are with customers in the oil and gas industry. Accounts and notes receivable consist of a large number of customers spread across diverse geographical areas and ongoing credit evaluations are performed on the financial condition of accounts receivable. Revenue from the Company's largest three customers accounted for approximately 6.9%, 5.9% and 5.5%, respectively (December 31, 2016 – 6.9%, 5.9% and 5.5%) of total revenue during the year and account for 4.2%, 5.0% and 10.9%, respectively (December 31, 2016 – 4.2%, 5.0%, and 10.9%) of total accounts receivable at year end.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date and presented in the statement of financial position.

The Company manages its credit risk through the credit assessment process and through extensive credit monitoring and collections processes. The Company maintains an allowance for estimated credit losses on accounts receivable. The Company makes an assessment of past due accounts receivables for impairment and collectability on an individual basis and considers the following factors: i) the age of the outstanding accounts receivable, ii) the payment history and loss experience, iii) debtor's financial conditions, and other economic information.

The credit analysis of accounts receivable is as follows:

December 31, 2017	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 7,415,817	$ —	$ 7,415,817
31 to 60 days	8,529,157	—	8,529,157
61 to 90 days	5,684,848	—	5,684,848
91 to 120 days	2,595,062	—	2,595,062
Over 120 days *	2,173,121	(380,722)	1,792,399
Total	$ 26,398,005	$ (380,722)	$ 26,017,283

* includes notes receivable

December 31, 2016	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 7,715,375	$ —	$ 7,715,375
31 to 60 days	6,985,054	—	6,985,054
61 to 90 days	3,384,994	—	3,384,994
91 to 120 days	682,417	—	682,417
Over 120 days	1,422,420	(1,190,871)	231,549
Total	$ 20,190,260	$ (1,190,871)	$ 18,999,389

17. FINANCIAL INSTRUMENTS (CONT'D)

B. Financial risk management objectives (CONT'D)

Interest rate risk

Bank indebtedness, issued at variable rates, exposes the Company to cash flow interest rate risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. The promissory note and long-term debt are issued at fixed rates and expose the Company to fair value interest rate risk. For variable rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 25-basis point increase or decrease is used when reporting interest rate risk internally to key management and represents management's assessment of the reasonably possible change in interest rates. Management analyzes the Company's interest rate exposure on a dynamic basis and is of the opinion that the Company's interest rate risk is not significant.

The contractual interest rate on the bank indebtedness at December 31, 2017 was Canadian bank prime interest rate plus 1.5% (4.7%) (December 31, 2016 - Canadian bank prime interest rate plus 3.0% (5.7%)). As at December 31, 2017, other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately $48,924 (December 31, 2016 – $28,430).

Currency risk

The Company and its Canadian subsidiaries are subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities, and bank indebtedness denominated in foreign currencies. Therefore, there is a risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities. Although the majority of the Company's operations are in Canada, the Company has expanded its operations outside Canada, which increases its exposure to foreign currency risk. The Company's US subsidiaries are not exposed to foreign currency risk as all their monetary assets and monetary liabilities are denominated in their functional currency, which is the United States dollar.

The analysis of currency risk of the Company and its Canadian subsidiaries is as follows:

Balance, December 31, 2017	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Canadian dollar	$ 13,861,164	$ (5,516,928)	$ 8,344,236
US dollar	1,285,802	(9,568,923)	(8,283,121)
Total	$ 15,146,966	$ (15,085,851)	$ 61,115

Balance, December 31, 2016	Monetary financial assets	Monetary financial liabilities	Net position
Canadian dollar	$ 11,131,567	$ 6,712,631	$ 17,844,198
US dollar	454,900	(12,642,955)	(12,188,055)
Total	$ 11,586,467	$ (5,930,324)	$ 5,656,143

At December 31, 2017, if the Canadian dollar had weakened/strengthened by 5% (December 31, 2016 - 5%) against the US Dollar with all other variables held constant, post-tax profit would have been $592,625 (December 31, 2016 - $620,096) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated monetary assets and liabilities.

17. FINANCIAL INSTRUMENTS (CONT'D)

B. Financial risk management objectives (CONT'D)

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash and cash equivalents, to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company mitigates liquidity risk by maintaining adequate credit and lending facilities, and through the forecasting and management of its operational cash flows. Such management of operational cash flows takes into consideration the Company's debt financing plans and covenant compliance.

The table below analyzes the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial instruments are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table below are the contractual undiscounted cash flows.

Contractual obligations related to financial liabilities at December 31, 2017 are as follows:

	Bank credit facility	Accounts payable	Long-term debt (including interest)	Finance leases	Total
2018	$ 25,963,575	$ 16,693,066	$ 1,685,238	$ 27,493	$ 44,369,372
2019	—	—	1,610,678	11,373	1,622,051
2020	—	—	1,538,212	11,373	1,549,585
2021	—	—	1,461,558	11,373	1,472,931
2022	—	—	7,160,737	7,581	7,168,318
Total	$ 25,963,575	$ 16,693,066	$ 13,456,423	$ 69,193	$ 56,182,257

Contractual obligations related to financial liabilities at December 31, 2016 are as follows:

	Bank credit facility	Accounts payable	Long-term debt (including interest)	Promissory note payable	Finance leases	Total
2017	$ 14,533,936	$ 13,215,951	$ 11,013,599	$ 272,077	$ 48,175	$ 39,083,738
2018	—	—	—	—	17,058	17,058
Total	$ 14,533,936	$ 13,215,951	$ 11,013,599	$ 272,077	$ 65,233	$ 39,100,796

B. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Company's financial instruments approximates the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of accounts receivable, accounts payable and accrued liabilities, promissory notes and finance leases approximate their fair value because of the near term to maturity of these instruments. The carrying value of the long-term debt is based on an interest rate of 9.32% The carrying amount of the Company's bank indebtedness approximates the fair value as it bears floating interest rates which are similar to the current market rates.

18. SUPPLEMENTAL CASH FLOW INFORMATION

	December 31 2017	December 31 2016
Accounts receivable	**$ (6,547,901)**	$ (3,107,075)
Inventories	**(11,741,171)**	4,382,242
Prepaid expenses and deposits	**(1,004,239)**	(274,288)
Accounts payable and accrued liabilities	**3,379,746**	7,355,614
Income taxes payable/(receivable)	**1,943,065**	2,109,074
Foreign exchange	**(603,820)**	(231,891)
Change in non-cash working capital	**$ (14,574,320)**	$ 10,233,676
Interest paid	**$ 2,289,103**	$ 1,839,489
Income tax refunds	**1,996,695**	—
Non-cash transactions		
Equipment purchased under finance lease	**58,831**	—

19. RELATED PARTY TRANSACTIONS

The remuneration of directors and other members of key management personnel during the year include the following expenses:

	December 31 2017	December 31 2016
Salaries including bonuses	**$ 842,370**	$ 861,421
Directors' fees	**130,620**	127,170
Benefits	**19,364**	23,016
Total remuneration	**$ 992,354**	$ 1,011,607

The remuneration 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

During the year ended December 31, 2017, the Company incurred office sharing costs of $36,000 (December 31, 2016 – $60,000) that were paid to a company controlled by a director of the Company. These office sharing costs were made on terms equivalent to those that prevail in arm's length transactions.

20. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

Management's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on the Company's debt and credit facilities and preserve financial flexibility in order to benefit from potential opportunities that may arise.

The Company includes the following in the definition of capital:

	December 31 2017	December 31 2016
Bank indebtedness	**$ 25,963,575**	$ 14,533,936
Long-term debt	**9,625,000**	8,993,854
Promissory notes payable	**—**	272,077
Obligations under finance lease	**62,660**	59,897
Equity	**28,756,106**	28,273,442
Total capital	**$ 64,407,341**	$ 52,133,206

The Company uses a combination of debt and equity financings to help it achieve its objectives. The percentage levels of each capital component may change as the entity attempts to take advantage of prevailing market conditions. The Company is not subject to capital requirements imposed by a regulator.

The ABL facility (Note 6) and GreyPoint long-term debt (Note 9) require the Company to maintain certain financial covenants. The Company monitors these requirements on a monthly basis.

These covenants are summarized as follows:

	December 31, 2017	**Requirement**	December 31, 2016	Requirement
Fixed charge coverage ratio	**10.94**	**Must exceed 1.10**		Was not a requirement
Minimum adjusted tangible net worth		**No longer required**	$ 29,571,250	Must exceed $ 24,484,000
Eligible capital expenditures	**$ 903,714**	**Must not exceed $ 1,050,000**	$ 364,187	Must not exceed $ 723,480
Adjusted EBITDA		**No longer required**	$ (1,505,447)	Must exceed $ (4,601,987)

As at December 31, 2017, the Company followed all financial covenants.

20. CAPITAL MANAGEMENT POLICIES AND PROCEDURES (CONT`D)

On November 30, 2015, the Company revised the terms of the ABL Facility agreement and changed financial covenants by replacing the minimum fixed charge coverage ratio covenant with a minimum adjusted tangible net worth covenant. Effective November 30, 2015, the Company was required under the ABL Facility to comply with two financial covenants being a minimum adjusted tangible net worth covenant and a maximum annual eligible capital expenditures covenant.

On November 6, 2017 the Company revised the terms of the ABL Facility agreement, replacing the minimum adjusted tangible net worth and adjusted EBITDA covenants with a fixed charge coverage ratio covenant. The eligible capital expenditures covenant continues to apply.

The fixed charge coverage ratio is set at a minimum of 1.10 to 1 level and defined as the trailing twelve months of EBITDA, less non-funded capital expenditures, to the sum of cash interest paid, plus cash income taxes paid, plus the aggregate of all dividends, distributions and principal repayments, and any amortization.

EBITDA is defined as net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including one-time transaction, acquisition and restructuring expenses, share based payments, and foreign exchange gains or losses), and after unfunded capital expenditures.

The capital expenditures limit is set at a maximum of 120% of consolidated budgeted yearly capital expenditures, but does not include capital additions by way of finance lease.

The minimum adjusted tangible net worth is defined, on a consolidated basis, as total assets, less intangibles and goodwill, less total liabilities. The minimum value changes on a monthly basis with the lowest minimum value in February 2016 of $24,273,000.

On November 6, 2017 the Company refinanced its subordinate debenture with Fulcrum and entered into a 5-year term loan with GreyPoint. The GreyPoint debt has the same covenants as the ABL Facility.

The Fulcrum subordinated debenture covenant was intended to ensure that at any given month, the twelve-month rolling actual adjusted EBITDA was in excess of 70% of projected adjusted EBITDA. Adjusted EBITDA in the subordinated debenture agreement is defined as net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including one-time transaction, acquisition and restructuring expenses, share based payments, and foreign exchange gains or losses), and after unfunded capital expenditures.

Failure to comply with the obligations in either of these credit facilities could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness.

<u>*(signed) "Don Caron"*</u>
Don Caron, Director

<u>*(signed) "Eric Sauze"*</u>
Eric Sauze, Director