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

Second Quarter 2017 Interim Condensed Report (unaudited)

Q2 2017

Right product. Right place. Right time.

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Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three and six month periods ended June 30, 2017 and 2016.

Interim Condensed Consolidated Statements of Operations

(Canadian dollars)
(unaudited)

		(three months ended)		(six months ended)	
		June 30	June 30	**June 30**	June 30
	Note	**2017**	2016	**2017**	2016
Sales		**$ 23,761,169**	$ 8,173,634	**$ 57,750,716**	$ 22,994,293
Cost of sales		**19,480,121**	6,272,046	**48,077,335**	18,654,414
		4,281,048	1,901,588	**9,673,381**	4,339,879
Expenses					
Salaries and benefits		**1,898,804**	1,910,219	**3,747,957**	3,835,659
Selling and administration		**1,697,163**	1,137,314	**3,155,800**	2,588,599
Depreciation on property and equipment		**241,543**	271,354	**477,428**	544,251
		3,837,510	3,318,887	**7,381,185**	6,968,509
Operating earnings (loss)		**443,538**	(1,417,299)	**2,292,196**	(2,628,630)
Financing costs		**820,739**	689,603	**1,644,631**	1,483,229
Foreign exchange (gain) loss		**(82,455)**	(130,448)	**(1,145)**	396,812
		738,284	559,155	**1,643,486**	1,880,041
(Loss) earnings before income taxes		**(294,746)**	(1,976,454)	**648,710**	(4,508,671)
Income tax (recovery) expense					
Current		**(152,340)**	(689,117)	**65,463**	(1,346,813)
Deferred		**107,283**	149,431	**152,174**	372,547
		(45,057)	(539,686)	**217,637**	(974,266)
Net (loss) earnings		**$ (249,689)**	$ (1,436,768)	**$ 431,073**	$ (3,534,405)
(Loss) earnings per share	5				
Basic		**$ (0.01)**	$ (0.06)	**$ 0.02**	$ (0.15)
Diluted		**$ (0.01)**	$ (0.06)	**$ 0.02**	$ (0.15)

Interim Condensed Consolidated Statements of Comprehensive Loss

(Canadian dollars)
(unaudited)

	(three months ended)		(six months ended)	
	June 30 2017	June 30 2016	**June 30 2017**	June 30 2016
Net (loss) earnings	**$ (249,689)**	$ (1,436,768)	**$ 431,073**	$ (3,534,405)
Other comprehensive loss, net of tax of $nil (2016-$nil)				
Foreign currency translation adjustment	**(487,259)**	364,138	**(474,334)**	(249,921)
Total comprehensive loss	**$ (736,948)**	$ (1,072,630)	**$ (43,261)**	$ (3,784,326)

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

Interim Condensed Consolidated Statements of Financial Position

(Canadian dollars)

(unaudited)

	June 30 2017	December 31 2016
Assets		
Current		
Accounts receivable	**$ 18,897,013**	$ 18,999,389
Inventories	**27,854,585**	28,487,402
Prepaid expenses and deposits	**509,774**	1,202,192
Income taxes receivable	**78,063**	2,163,439
	47,339,435	50,852,422
Non-current		
Property and equipment	**11,319,460**	11,924,208
Deferred tax assets	**2,528,456**	2,680,630
Other long-term assets	**64,036**	120,764
	$ 61,251,387	$ 65,578,024
Liabilities		
Current		
Bank indebtedness	**$ 11,083,629**	$ 14,533,936
Accounts payable and accrued liabilities	**12,261,350**	13,215,951
Term debt	**9,446,734**	8,993,854
Current portion of obligations under finance lease	**34,417**	43,354
Promissory notes payable	**—**	272,077
	32,826,130	37,059,172
Non-current		
Obligations under finance lease	**3,337**	16,543
Deferred tax liabilities	**121,967**	121,967
Other long-term liabilities	**18,100**	106,900
	32,969,534	37,304,582
Equity		
Share capital	**33,263,473**	33,263,473
Contributed surplus	**4,035,160**	3,983,488
Warrants	**209,226**	209,226
Retained loss	**(6,573,262)**	(7,004,335)
Accumulated other comprehensive loss	**(2,652,744)**	(2,178,410)
	28,281,853	28,273,442
	$ 61,251,387	$ 65,578,024

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

Interim Condensed Consolidated Statements of Changes in Equity

(Canadian dollars)

(unaudited)

	Share capital	Contributed surplus	Warrants	Accumulated other comprehensive loss	Retained loss	Total equity
Balance at January 1, 2017	$ 33,263,473	$ 3,983,488	$ 209,226	$ (2,178,410)	$ (7,004,335)	$ 28,273,442
Employee share-based payment options	—	51,672	—	—	—	51,672
Net earnings	—	—	—	—	431,073	431,073
Other comprehensive loss	—	—	—	(474,334)	—	(474,334)
Balance at June 30, 2017	$ 33,263,473	$ 4,035,160	$ 209,226	$ (2,652,744)	$ (6,573,262)	$ 28,281,853

	Share capital	Contributed surplus	Warrants	Accumulated other comprehensive loss	Retained loss	Total equity
Balance at January 1, 2016	$ 33,263,473	$ 3,782,365	$ 209,226	$ (1,803,050)	$ (211,272)	$ 35,240,742
Employee share-based payment options	—	143,909	—	—	—	143,909
Net loss	—	—	—	—	(3,534,405)	(3,534,405)
Other comprehensive loss	—	—	—	(249,921)	—	(249,921)
Balance at June 30, 2016	$ 33,263,473	$ 3,926,274	$ 209,226	$ (2,052,971)	$ (3,745,677)	$ 31,600,325

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

Interim Condensed Consolidated Statements of Cash Flows

(Canadian dollars)

(unaudited)

For the six months ended		**June 30 2017**		June 30 2016
Operating activities				
Net earnings (loss)	**$**	**431,073**	$	(3,534,405)
Adjustments for items not affecting cash:				
Depreciation on property and equipment		**477,428**		544,251
Amortization of debt related transaction costs		**144,765**		111,625
Deferred tax expense		**152,174**		372,548
Share-based payments		**51,672**		143,908
Foreign exchange (gain) loss on debt		**(36,947)**		381,341
Unrealized foreign exchange loss		**36,019**		3,623
Interest on debt and finance leases		**1,087,381**		995,699
Loss on disposal of equipment		**166,252**		931
Other gain		**(13,719)**		(17,761)
		2,496,098		(998,240)
Change in non-cash working capital		**2,040,419**		14,326,772
Total cash provided by operating activities		**4,536,517**		13,328,532
Financing activities				
Interest paid on debt and finance leases		**(1,134,081)**		(1,044,104)
Repayments on promissory notes payable		**(274,374)**		(263,125)
Repayments on operating line		**(3,238,432)**		(11,906,179)
Advances on long-term debt		**391,115**		316,120
Repayments of obligations under finance lease		**(21,085)**		(97,037)
Total cash used in financing activities		**(4,276,857)**		(12,994,325)
Investing activities				
Purchase of property and equipment		**(449,015)**		(336,710)
Proceeds on disposal of equipment		**189,355**		2,503
Total cash used in investing activities		**(259,660)**		(334,207)
Net change in cash and cash equivalents		**—**		—
Cash and cash equivalents, beginning of the period		**—**		—
Cash and cash equivalents, end of the period	**$**	**—**	$	—

1. Nature of operations

Bri-Chem Corp.'s ("the Company" or "Bri-Chem") shares are publicly traded on the Toronto Stock Exchange under the symbol BRY. Since 1985, Bri-Chem has established itself as one of North America's largest independent wholesale suppliers 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. is incorporated and located in Canada. Its registered and primary place of business is #15 - 53016 Highway 60, Acheson, Alberta T7X 5A7.

These interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. As at June 30, 2017, the Company has debt facilities of $20,530,363 that mature in 2017, The Company has also incurred losses of $6,793,064 and $14,357,367 for the years ended December 31, 2016 and 2015, respectively.

The Company's debt facilities include a subordinated debenture with an outstanding balance of $9,443,736 as at June 30, 2017, maturing November 30, 2017, and $11,083,629 outstanding on the Company's Asset-Based Lending Facility (the "ABL Facility") that matures on August 12, 2017. Management does not anticipate the Company's cash flow and liquidity position will be sufficient to fund the indebtedness that matures in 2017. Management is working on plans to refinance or extend the maturity on the indebtedness, including seeking extensions or renewals of these facilities, or other potential funding sources which include the issuance of common shares to public investors, the sale of assets or operating segments or obtaining other sources of financing.

The Company's ability to continue as a going concern is dependent upon its ability to negotiate an extension or refinancing of its indebtedness, obtain alternative financing on acceptable terms or obtain sufficient funds from the sale of assets. The Company has pledged its assets as collateral to secure its indebtedness. In the event the Company is unable to fund the maturities of its indebtedness, the Company risks losing some or all of its assets. If this occurs, the business and results of operations would be materially adversely affected. The above material uncertainties may cast significant doubt with respect to the ability of the Company to continue as a going concern. Should the Company be unable to meet its obligations as they become due and is unable to fund or source new funding, the preparation of these interim condensed consolidated financial statements on a going concern basis may not be appropriate. These interim condensed consolidated financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern. Such adjustments may be material.

Management has considered the judgements, estimates, financing options, and related uncertainties disclosed above and have concluded that there is a reasonable expectation that the Company will be able to access adequate resources to continue operations for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

1. Nature of operations *(cont'd)*

Should the Company be unable to meet its obligations as they become due and is unable to fund or source new funding for future operations, the preparation of these interim condensed consolidated financial statements on a going concern basis may not be appropriate. The interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Such adjustments may be material.

The directors have considered the judgements, estimates, financing options, and related uncertainties disclosed above and have concluded that there is a reasonable expectation that the Company will be able to access adequate resources to continue operations for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

2. Basis of presentation

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They do not contain all the necessary annual disclosures in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016.

These interim condensed consolidated financial statements, in all material respects, follow the same accounting policies and method of application as the annual consolidated financial statements of the preceding fiscal year, except as noted in Note 3.

These interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 8, 2017.

3. Accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's annual financial statements for the year ended December 31, 2016. The company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. A description of accounting standards and interpretations that will be adopted by the company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2016.

4. Seasonality of operations

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern Western Canadian Sedimentary Basin ("WCSB") are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze-up and spring break-up

(Canadian dollars)

4. Seasonality of operations *(cont'd)*

affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

5. (Loss) earnings per share

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

(three months ended)		**June 30, 2017**		June 30, 2016
Net loss attributable to the shareholders of the Company	**$**	**(249,689)**	$	(1,436,768)
Basic weighted average number of ordinary shares		**23,632,981**		23,632,981
Dilutive options/warrants issued and outstanding		**330,000**		—
Diluted weighted average number of ordinary shares		**23,962,981**		23,632,981
Basic loss per share	**$**	**(0.01)**	$	(0.06)
Diluted loss per share	**$**	**(0.01)**		(0.06)

(six months ended)		**June 30, 2017**		June 30, 2016
Net earnings (loss) attributable to the shareholders of the Company	**$**	**431,073**	$	(3,534,405)
Basic weighted average number of ordinary shares		**23,632,981**		23,632,981
Dilutive options/warrants issued and outstanding		**330,000**		—
Diluted weighted average number of ordinary shares		**23,692,981**		23,632,981
Basic earnings (loss) per share	**$**	**0.02**	$	(0.15)
Diluted earnings (loss) per share	**$**	**0.02**		(0.15)

6. 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,

6. Segment reporting *(cont'd)*

amortization and depreciation, and the effect of equity-settled share based payments. Corporate overhead costs, interest income and expenditure, excluding interest expense on finance leases, are not allocated to segments, as these types of activity are driven by the central treasury function, which manages the cash position of the Company.

The amounts provided to the chief operating decision-makers with respect to total assets are measured in a manner consistent with that of the 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. Revenue between the remaining divisions are recognized at cost. The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the interim condensed consolidated statement of operations.

(Canadian dollars)

6. Segment reporting *(cont'd)*

Selected financial information by reportable segment is disclosed as follows:

For three months ended June 30, 2017	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	$ 7,095,182	$ 12,887,966	$ 19,983,148	$ 4,457,195	$ 1,247,793	$ 5,704,988	$ -	$ 25,688,136
Revenues from internal customers	102,220	20,607	122,827	1,804,140	-	1,804,140	-	1,926,967
Revenues from external customers	6,992,962	12,867,359	19,860,321	2,653,055	1,247,793	3,900,848	-	23,761,169
Cost of sales	6,315,657	10,579,900	16,895,557	1,891,408	693,156	2,584,564	-	19,480,121
EBITDA	275,262	397,632	672,894	123,321	243,017	366,338	(251,757)	787,475
Depreciation	16,438	100,807	117,245	24,324	71,517	95,841	28,457	241,543
Interest	139	6,533	6,672	-	1,114	1,114	812,953	820,739
Share based compensation	-	-	-	-	-	-	19,938	19,938
Income tax expense (recovery)	69,845	105,736	175,581	26,729	43,091	69,820	(290,458)	(45,057)
Segment profit (loss)	$ 188,840	$ 184,556	$ 373,396	$ 72,268	$ 127,295	$ 199,563	$ (822,647)	$ (249,688)
Segment assets	$ 20,852,038	$ 25,480,855	$ 46,332,893	$ 4,687,679	$ 2,951,441	$ 7,639,120	$ 7,279,374	$ 61,251,387
Capital expenditures	$ 16,725	$ 128,666	$ 145,391	$ 28,521	$ 225,810	$ 254,331	$ 5,199	$ 404,921

* Other includes corporate overhead costs.

(Canadian dollars)

6. Segment reporting *(cont'd)*

For three months ended June 30, 2016	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	$ 1,516,389	$ 4,090,930	$ 5,607,319	$ 1,904,311	$ 1,112,028	$ 3,016,339	$ -	$ 8,623,658
Revenues from internal customers	49,283	88,513	137,796	312,228	-	312,228	-	450,024
Revenues from external customers	1,467,106	4,002,417	5,469,523	1,592,083	1,112,028	2,704,111	-	8,173,634
Cost of sales	1,225,013	3,336,229	4,561,242	1,144,730	566,074	1,710,804	-	6,272,046
EBITDA	(196,064)	(1,000,874)	(1,196,938)	(283,883)	201,534	(82,349)	335,751	(943,536)
Amortization and depreciation	19,679	103,236	122,915	26,626	91,925	118,551	29,888	271,354
Interest	267	4,671	4,938	-	4,671	4,671	679,994	689,603
Share based compensation	-	-	-	-	-	-	71,961	71,961
Income tax (recovery) expense	(51,855)	(391,537)	(443,392)	(83,830)	80,478	(3,352)	(92,942)	(539,686)
Segment (loss) profit	$ (164,155)	$ (717,244)	$ (881,399)	$ (226,679)	$ 24,460	$ (202,219)	$ (353,150)	$ (1,436,768)
Segment assets	$ 15,988,472	$ 21,871,554	$ 37,860,026	$ 5,002,286	$ 3,517,933	$ 8,520,219	$ 8,518,833	$ 54,899,078
Capital expenditures	$ -	$ 303,537	$ 303,537	$ 4,250	$ -	$ 4,250	$ -	$ 307,787

* Other includes corporate overhead costs.

For six months ended June 30, 2017	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	$ 23,415,475	$ 25,098,338	$ 48,513,813	$ 11,289,779	$ 1,833,937	$ 13,123,716	$ -	$ 61,637,529
Revenues from internal customers	376,400	40,442	416,842	3,469,971	-	3,469,971	-	3,886,813
Revenues from external customers	23,039,075	25,057,896	48,096,971	7,819,808	1,833,937	9,653,745	-	57,750,716
Cost of sales	20,536,270	20,495,380	41,031,650	5,894,287	1,151,398	7,045,685	-	48,077,335
EBITDA	1,637,726	1,116,625	2,754,351	578,179	44,042	622,221	(554,131)	2,822,441
Depreciation	34,120	196,719	230,839	49,641	140,024	189,665	56,924	477,428
Interest	310	8,001	8,311	-	1,114	1,114	1,635,206	1,644,631
Share based compensation	-	-	-	-	-	-	51,672	51,672
Income tax expense (recovery)	432,890	273,572	706,462	142,705	(29,129)	113,576	(602,401)	217,637
Segment profit (loss)	$ 1,170,406	$ 638,333	$ 1,808,739	$ 385,833	$ (67,967)	$ 317,866	$ (1,695,532)	$ 431,073
Segment assets	$ 20,852,038	$ 25,480,855	$ 46,332,893	$ 4,687,679	$ 2,951,441	$ 7,639,120	$ 7,279,374	$ 61,251,387
Capital expenditures	$ 16,725	$ 166,124	$ 182,849	$ 31,431	$ 229,536	$ 260,967	$ 5,199	$ 449,015

* Other includes corporate overhead costs.

(Canadian dollars)

6. Segment reporting *(cont'd)*

For six months ended June 30, 2016	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	$ 6,913,465	$ 9,096,269	$ 16,009,734	$ 5,678,534	$ 2,594,630	$ 8,273,164	$ -	$ 24,282,898
Revenues from internal customers	95,952	180,552	276,504	1,012,101	-	1,012,101	-	1,288,605
Revenues from external customers	6,817,513	8,915,717	15,733,230	4,666,433	2,594,630	7,261,063	-	22,994,293
Cost of sales	6,260,505	7,452,959	13,713,464	3,522,968	1,417,982	4,940,950	-	18,654,414
EBITDA	(390,907)	(2,044,929)	(2,435,836)	(252,982)	474,678	221,696	(123,143)	(2,337,283)
Amortization and depreciation	39,244	202,642	241,886	52,968	190,814	243,782	58,583	544,251
Interest	565	10,075	10,640	-	9,989	9,989	1,462,600	1,483,229
Share based compensation	-	-	-	-	-	-	143,908	143,908
Income tax (recovery) expense	(336,657)	(815,902)	(1,152,559)	(137,506)	185,626	48,120	130,173	(974,266)
Segment (loss) profit	$ (94,059)	$ (1,441,744)	$ (1,535,803)	$ (168,444)	$ 88,249	$ (80,195)	$ (1,918,407)	$ (3,534,405)
Segment assets	$ 15,988,472	$ 21,871,554	$ 37,860,026	$ 5,002,286	$ 3,517,933	$ 8,520,219	$ 8,518,833	$ 54,899,078
Capital expenditures	$ 6,679	$ 324,151	$ 330,830	$ 5,880	$ -	$ 5,880	$ -	$ 336,710

(Canadian dollars)

6. Segment reporting *(cont'd)*

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

Three months ended		June 30, 2017		June 30, 2016
Revenue				
Canada and International	$	9,646,017	$	3,059,189
United States		14,115,152		5,114,445
	$	23,761,169	$	8,173,634

Six months ended		June 30, 2017		June 30, 2016
Revenue				
Canada and International	$	30,585,552	$	3,059,189
United States		26,891,834		5,114,445
	$	57,477,386	$	8,173,634

		June 30, 2017		December 31, 2016
Non-current assets				
Canada and International	$	7,539,700	$	6,949,928
United States		6,372,252		7,775,674
	$	13,911,952	$	14,725,602

7. Related party transactions

During the three and six month periods ended June 30, 2017, the Company incurred office sharing costs of $9,000 and $18,000 respectively (June 30, 2016 – $15,000 and $30,000), that were paid to a company over which a director has control. These office sharing costs were made on terms equivalent to those that prevail in arm's length transactions.

8. 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:

(Canadian dollars)

8. Capital management policies and procedures *(cont'd)*

	June 30 2017	December 31 2016
Bank indebtedness	$ 11,083,629	$ 14,533,936
Term debt	9,446,734	8,993,854
Promissory notes payable	—	272,077
Obligations under finance lease	37,754	59,897
Equity	28,281,853	28,273,442
Total capital	$ 48,849,970	$ 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 and subordinated debenture require the Company to maintain certain financial covenants. The Company monitors these requirements on a monthly basis. The Company renewed and amended the ABL facility and amended its subordinated debenture as at August 11, 2016. Included in these amendments were changes to the financial covenants.

These covenants are summarized as follows:

	June 30 2017	Requirement	December 31 2016	Requirement
Minimum tangible net worth	$ 27,772,079	Must exceed $ 24,127,200	$ 29,571,250	Must exceed $ 24,484,000
Eligible capital expenditures	$ 449,015	Not to exceed $ 1,020,000	$ 364,187	Not to exceed $ 723,480
Adjusted EBITDA	$ 3,130,486	Must exceed $ (2,834,900)	$ (1,505,447)	Must exceed $ (4,601,987)

As a June 30, 2017, the Company was in compliance with all financial covenants.

On August 11, 2016, the Company amended and renewed the terms of the ABL Facility to decrease the maximum borrowing base down to $20,000,000. Other amendments include an increase in interest rates, and a change in the financial covenants with the ABL Facility maturing on 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. The ABL Facility bears interest either at the Canadian prime rate plus 3.0% (2016 – Canadian prime rate plus 1.50%) or bankers' acceptance rate plus 4.50% (2016 - bankers' acceptance rate plus 3.00%) or LIBOR plus 4.50% (2016 - LIBOR plus 3.00%), a collateral management fee of $1,500 per

8. Capital management policies and procedures *(cont'd)*

month (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.

The ABL Facility requires the company to comply with two financial covenants being a minimum adjusted tangible net worth covenant and a maximum annual eligible capital expenditure. The minimum tangible net worth covenant requires the Company to ensure tangible net worth is greater than $24,127,200 as at June 30, 2017. This is defined, on a consolidated basis, as total assets, less intangibles and goodwill, excluding deferred tax assets less total liabilities, excluding deferred tax liabilities. The minimum value changes slightly on a monthly basis in 2017 with the lowest minimum value in July 2017 of $23,913,000. 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.

In addition, there is a covenant with the subordinated debenture relating to ensuring that at any given month, the twelve month rolling actual adjusted EBITDA is 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.

9. Reclassification of comparative amounts

Certain comparative amounts for the prior period have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders' equity.

10. Subsequent event

The Company and its senior lenders have agreed to extend the August 12, 2017 maturity of its current Asset Based Credit Facility to October 31, 2017. The extension was put in place to eliminate the need to recreate financing agreements while the Company is actively seeking and reviewing financing alternatives as it pertains to it subordinated debt facility that is set to mature on November 30, 2017. As part of the extension, the Asset Based Lending Facility amended certain financial covenants.

(signed)"Don Caron"
Don Caron, Director

(signed "Eric Sauze"
Eric Sauze, Director