BRI-CHEM

Right product. Right place. Right time.

Second Quarter 2018 Interim Condensed Report (unaudited)

Q2 2018

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Right product. Right place. Right time.

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 months periods ended June 30, 2018 and 2017.

Interim Condensed Consolidated Statements of Operations

(Canadian dollars)

(unaudited)

	Note	(three months ended) June 30 2018	June 30 2017	(six months ended) June 30 2018	June 30 2017
Sales		**$ 27,254,837**	$ 23,761,169	**$ 62,572,366**	$ 57,750,716
Cost of sales	5	**25,226,834**	19,480,121	**55,097,017**	48,077,335
		2,028,003	4,281,048	**7,475,349**	9,673,381
Expenses					
Salaries and benefits		**2,506,435**	1,898,804	**4,865,915**	3,747,957
Selling and administration		**1,890,963**	1,697,163	**3,748,530**	3,155,800
Restructuring costs	6	**647,987**	-	**647,987**	-
Depreciation on property and equipment		**261,348**	241,543	**521,399**	477,428
		5,306,733	3,837,510	**9,783,831**	7,381,185
Operating (loss) earnings		**(3,278,730)**	443,538	**(2,308,482)**	2,292,196
Financing costs		**711,626**	820,739	**1,392,007**	1,644,631
Foreign exchange (gain) loss		**(12,420)**	(82,455)	**293,144**	(1,145)
		699,206	738,284	**1,685,151**	1,643,486
(Loss) earnings before income taxes		**(3,977,936)**	(294,746)	**(3,993,633)**	648,710
Income tax (recovery) expense					
Current		**(405,276)**	(152,340)	**(383,806)**	65,463
Deferred		**167,659**	107,283	**236,583**	152,174
		(237,617)	(45,057)	**(147,223)**	217,637
Net (loss) earnings		**$ (3,740,319)**	$ (249,689)	**$ (3,846,410)**	$ 431,073
(Loss) earnings per share	7				
Basic		**$ (0.16)**	$ (0.01)	**$ (0.16)**	$ 0.02
Diluted		**$ (0.16)**	$ (0.01)	**$ (0.16)**	$ 0.02

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

Interim Condensed Consolidated Statements of Comprehensive Loss

(Canadian dollars)
(unaudited)

	(three months ended)		(six months ended)	
	June 30 2018	June 30 2017	**June 30 2018**	June 30 2017
Net (loss) earnings	**$ (3,740,319)**	$ (249,689)	**$ (3,846,410)**	$ 431,073
Other comprehensive earnings (loss), net of tax of $nil (2017-$nil)				
Foreign currency translation adjustment	**172,936**	(487,259)	**478,275**	(474,334)
Total comprehensive loss	**$ (3,567,383)**	$ (736,948)	**$ (3,368,135)**	$ (43,261)

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 2018	December 31 2017
Assets		
Current		
Accounts receivable	**$ 22,576,428**	$ 26,017,283
Inventories	**33,665,342**	39,409,723
Prepaid expenses and deposits	**3,896,342**	2,191,477
Income taxes receivable	**438,310**	199,229
	60,576,422	67,817,712
Non-current		
Property and equipment	**11,502,981**	11,093,568
Deferred tax assets	**1,933,003**	2,169,586
Other long-term assets	**158,837**	151,167
	$ 74,171,243	$ 81,232,033
Liabilities		
Current		
Bank indebtedness	**$ 29,091,984**	$ 25,963,575
Accounts payable and accrued liabilities	**10,217,462**	16,693,066
Current portion of long term debt	**800,000**	800,000
Current portion of obligations under finance lease	**10,145**	25,085
Income tax payable	**47,744**	—
	40,167,335	43,481,726
Non-current		
Long term debt	**8,450,000**	8,825,000
Obligations under finance lease	**34,311**	37,575
Deferred tax liabilities	**113,526**	113,526
Other long-term liabilities	**18,100**	18,100
	48,783,272	52,475,927
Equity		
Share capital	**33,537,199**	33,537,199
Contributed surplus	**4,035,160**	4,035,160
Deficit	**(9,142,717)**	(5,296,307)
Accumulated other comprehensive loss	**(3,041,671)**	(3,519,946)
	25,387,971	28,756,106
	$ 74,171,243	$ 81,232,033

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, 2018	$ 33,537,199	$ 4,035,160	$ —	$ (3,519,946)	$ (5,296,307)	$ 28,756,106
Net loss	—	—	—	—	(3,846,410)	(3,846,410)
Other comprehensive income	—	—	—	478,275	—	478,275
Balance at June 30, 2018	$ 33,537,199	$ 4,035,160	$ —	$ (3,041,671)	$ (9,142,717)	$ 25,387,971

	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 earning	—	—	—	—	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

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 2018	June 30 2017
Operating activities		
Net (loss) earnings	**$ (3,846,410)**	$ 431,073
Adjustments for items not affecting cash:		
Depreciation on property and equipment	**521,399**	477,428
Amortization of debt related transaction costs	**44,773**	144,765
Deferred tax expense	**236,583**	152,174
Share-based payments	**—**	51,672
Foreign exchange loss (gain) on debt	**261,721**	(36,947)
Unrealized foreign exchange loss	**48,628**	36,019
Interest on debt and finance leases	**1,346,429**	1,087,381
Loss on disposal of equipment	**700**	166,252
Other gain	**—**	(13,719)
	(1,386,177)	2,496,098
Change in non-cash working capital	**1,860,353**	2,040,419
Total cash generated in operating activities	**474,176**	4,536,517
Financing activities		
Interest paid on debt and finance leases	**(1,324,790)**	(1,134,081)
Repayments on promissory notes payable	**—**	(274,374)
Adavances on operating line	**1,897,345**	(3,238,432)
Repayment on term debt	**(400,000)**	391,115
Repayments of obligations under finance lease	**(20,702)**	(21,085)
Total cash generated (used) in financing activities	**151,853**	(4,276,857)
Investing activities		
Purchase of property and equipment	**(626,029)**	(449,015)
Proceeds on disposal of equipment	**—**	189,355
Total cash used in investing activities	**(626,029)**	(259,660)
Net change in cash and cash equivalents	**—**	—
Cash and cash equivalents, beginning of the period	**—**	—
Cash and cash equivalents, end of the period	**$ —**	$ —

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

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. 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. 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, 2017.

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.

The interim condensed consolidated financial statements for the quarter ended June 30, 2018 were authorized for issue by the Board of Directors on August 13, 2018.

3. Newly adopted accounting standards

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

3. Newly adopted accounting standards *(cont'd)*

The Company retrospectively adopted IFRS 9 "Financial Instruments", on January 1, 2018. The adoption of the standard has not resulted in any changes to the Company's financial statements and the classification and measurement of financial instruments has been conformed to IFRS 9. In addition, the IFRS 9 expected credit loss model which replaces the incurred loss impairment model for financial assets has not resulted in any material changes to the valuation of the Company's financial assets. The primary input the Company's expected credit loss model on trade receivables is historical credit losses incurred. The Company continues to monitor historical credit losses each period in determining its lifetime expected credit losses on trade receivables. The Company does not currently apply hedge accounting to its risk management contracts and has not applied hedge accounting to any of its existing risk management contracts on adoption of IFRS 9.

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 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. Cost of Sales

Cost of sales includes $1,665,325 of negative margin related to one time sales of inventory below cost as part of the Company's restructuring of two of its Texas warehouses. These one-time sales are due to selling oil-based mud products at discounts to liquidate inventory.

6. Restructuring costs

The Company incurred costs of $647,987 related to the shut down of two warehouses in the Texas region. Costs include clean out oil-based storage tanks, additional transportation costs related to moving product to other warehouses, oil-base rental tank returns, and transportation costs of moving storage tanks to other warehouses. All costs of shut down were incurred during the second quarter and the Company does not anticipate any further costs associated with this discontinuance of operations in Kermit and Three Rivers, Texas.

7. (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.

(Canadian dollars)

7. (Loss) earnings per share *(cont'd)*

(three months ended)		June 30, 2018		June 30, 2017
Net loss attributable to the shareholders of the Company	$	(3,740,319)		(249,689)
Basic weighted average number of ordinary shares		23,932,981	$	23,632,981
Dilutive options/warrants issued and outstanding		—	$	330,000
Diluted weighted average number of ordinary shares		23,932,981	$	23,962,981
Basic loss per share	$	(0.16)	$	(0.01)
Diluted loss per share	$	(0.16)	$	(0.01)

(six months ended)		June 30, 2018		June 30, 2017
Net (loss) earnings attributable to the shareholders of the Company	$	(3,846,410)		431,073
Basic weighted average number of ordinary shares		23,932,981	$	23,632,981
Dilutive options/warrants issued and outstanding		—	$	330,000
Diluted weighted average number of ordinary shares		23,932,981	$	23,962,981
Basic (loss) earnings per share	$	(0.16)	$	0.02
Diluted (loss) earnings per share	$	(0.16)	$	0.02

8. 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, 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.

8. Segment reporting *(cont'd)*

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 annual consolidated statement of operations.

For the three and six months ended June 30, 2018 (Canadian dollars)

8. Segment reporting *(cont'd)*

Selected financial information by reportable segment is disclosed as follows:

For three months ended June 30, 2018	**Fluids Distribution Canada**	**Fluids Distribution USA**	**Total Fluids Distribution**	**Fluids Blending & Packaging**	**Fluids Blending & Packaging USA**	**Total Fluids Blending & Packaging**	**Other***	**Consolidated**
Total revenues	$ 3,796,207	$ 18,748,095	$ 22,544,302	$ 3,189,231	$ 1,900,693	$ 5,089,924	$ -	$ 27,634,226
Revenues from internal customers	63,998	-	63,998	315,370	21	315,391	-	379,389
Revenues from external customers	3,732,209	18,748,095	22,480,304	2,873,861	1,900,672	4,774,533	-	27,254,837
Cost of sales	3,563,102	18,128,401	21,691,503	2,260,188	1,275,143	3,535,331	-	25,226,834
EBITDA	(493,085)	(2,767,567)	(3,260,652)	(130,279)	250,428	120,149	135,541	(3,004,962)
Depreciation	14,278	117,003	131,281	25,103	74,083	99,186	30,881	261,348
Interest	-	509	509	-	931	931	710,186	711,626
Share based compensation	-	-	-	-	-	-	-	-
Income tax (recovery) expense	(136,988)	-	(136,988)	(41,953)	36,837	(5,116)	(95,513)	(237,617)
Segment (loss) profit	$ (370,375)	$ (2,885,079)	$ (3,255,454)	$ (113,429)	$ 138,577	$ 25,148	$ (510,013)	$ (3,740,319)
Segment assets	$ 21,547,274	$ 33,833,729	$ 55,381,003	$ 5,279,276	$ 3,700,436	$ 8,979,712	$ 9,810,528	$ 74,171,243
Capital expenditures	$ -	$ 77,156	$ 77,156	$ 3,129	$ 1,164	$ 4,293	$ -	$ 81,449

* Other includes corporate overhead costs.

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.

For the three and six months ended June 30, 2018 (Canadian dollars)

8. Segment reporting *(cont'd)*

For six months ended June 30, 2018	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	$ 15,615,754	$ 36,679,426	$ 52,295,180	$ 7,841,448	$ 3,396,073	$ 11,237,521	$ -	$ 63,532,701
Revenues from internal customers	100,580	-	100,580	857,645	2,110	859,755	-	960,335
Revenues from external customers	15,515,174	36,679,426	52,194,600	6,983,803	3,393,963	10,377,766	-	62,572,366
Cost of sales	13,574,661	33,767,934	47,342,595	5,526,979	2,227,443	7,754,422	-	55,097,017
EBITDA	555,876	(2,920,738)	(2,364,862)	(46,312)	477,836	431,524	(146,889)	(2,080,227)
Depreciation	30,880	222,478	253,358	52,348	153,978	206,326	61,715	521,399
Interest	35	1,399	1,434	-	931	931	1,389,642	1,392,007
Share based compensation	-	-	-	-	-	-	-	-
Income tax expense (recovery)	141,738	-	141,738	(26,638)	67,815	41,177	(330,138)	(147,223)
Segment profit (loss)	$ 383,223	$ (3,144,615)	$ (2,761,392)	$ (72,022)	$ 255,112	$ 183,090	$ (1,268,108)	$ (3,846,410)
Segment assets	$ 21,547,274	$ 33,833,729	$ 55,381,003	$ 5,279,276	$ 3,700,436	$ 8,979,712	$ 9,810,528	$ 74,171,243
Capital expenditures	$ 8,149	$ 601,493	$ 609,642	$ 7,958	$ 5,282	$ 13,240	$ 3,147	$ 626,029

* 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
Amortization and 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)

8. Segment reporting *(cont'd)*

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

Three months ended		June 30, 2018		June 30, 2017
Revenue				
Canada and International	$	6,606,070	$	9,646,017
United States		20,648,767		14,115,152
	$	27,254,837	$	23,761,169

Six months ended		June 30, 2018		June 30, 2017
Revenue				
Canada and International	$	22,498,977	$	30,858,882
United States		40,073,389		26,891,834
	$	62,572,366	$	57,750,716

		June 30, 2018		December 31, 2017
Non-current assets				
Canada and International	$	6,842,373	$	7,204,646
United States		6,752,448		6,209,675
	$	13,594,821	$	13,414,321

9. Related party transactions

During the three and six months ended June 30, 2018, the Company incurred office sharing costs of $9,000 and $18,000 respectively (June 30, 2017 – $9,000 and $18,000)), 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.

10. 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.

(Canadian dollars)

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

The Company includes the following in the definition of capital:

	June 30 2018	December 31 2017
Bank indebtedness	$ 29,091,984	$ 25,963,575
Long-term debt	9,250,000	9,625,000
Obligations under finance lease	44,456	62,660
Equity	25,387,971	28,756,106
Total capital	$ 63,774,411	$ 64,407,341

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 GreyPoint's long term debt require the Company to maintain certain financial covenants. The Company monitors these requirements on a monthly basis.

These covenants are summarized as follows:

	June 30 2018	Requirement	Dec 31 2017	Requirement
Fixed Charge coverage ratio	1.41	Must exceed 1.00	10.94	Must exceed 1.00
Eligible capital expenditures	626,029	Not to exceed 2,241,600	$ 903,714	Not to exceed $ 1,050,000

As a June 30, 2018, the Company was in compliance with all of its financial covenants.

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 1.00 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.

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

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.

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.

On February 8, 2018 the company increased the maximum amount it could borrow under the ABL Facility agreement from $35,000,000 to $40,000,000.

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.

11. 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.

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