Bri-Chem Corp.

Interim Condensed Consolidated Financial Statements
(Unaudited)
March 31, 2021

(Expressed in Canadian Dollars)

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors PricewaterhouseCoopers LLP have not reviewed the unaudited interim condensed consolidated financial statements as at and for the period ended March 31, 2021.

Q1 2021

Interim Condensed Consolidated Statements of Operations and Comprehensive Income
(Canadian dollars)
(unaudited)

For the three months ended	Note	March 31 2021	March 31 2020
Sales		**$ 11,490,200**	$ 21,415,721
Cost of sales		**9,293,635**	17,750,854
Gross margin		**2,196,565**	3,664,867
Expenses			
Salaries and benefits	**10**	**294,913**	1,949,564
Selling, general and administration	**10**	**1,070,218**	1,125,661
Depreciation on property and equipment		**238,221**	295,873
		1,603,352	3,371,098
Operating earnings		**593,213**	293,769
Financing costs		**410,976**	534,014
Foreign exchange (gain) / loss		**(6,442)**	206,378
		404,534	740,392
Earnings / (loss) before income taxes		**188,679**	(446,623)
Income tax (recovery) / expense			
Current		**47,625**	23,042
Deferred			—
		47,625	23,042
Net earnings / (loss)		**$ 141,054**	$ (469,665)
Other comprehensive (loss) / income, net of tax of $nil (2020-$nil)			
Foreign currency translation adjustment		**(169,476)**	1,064,538
Total comprehensive (loss) / income		**$ (28,422)**	$ 594,873
Earnings / (loss) per share			
Basic	**7**	**$ 0.01**	$ (0.02)
Diluted	**7**	**$ 0.01**	$ (0.02)

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

Interim Condensed Consolidated Statements of Financial Position
(Canadian dollars)
(unaudited)

	Note		March 31 2021		December 31 2020
Assets					
Current assets					
Accounts receivable	4	$	8,642,062	$	6,955,215
Inventories			11,387,086		11,290,128
Prepaid expenses and deposits			458,883		462,684
			20,488,031		18,708,027
Non-current assets					
Property and equipment			6,571,240		6,778,939
Right-of-use assets			564,723		688,302
Other long-term assets			112,715		114,120
		$	27,736,709	$	26,289,388
Liabilities					
Current liabilities					
Bank indebtedness	5	$	4,893,023	$	4,289,304
Accounts payable and accrued liabilities			4,207,259		3,058,125
Current portion of long-term debt	6		800,000		800,000
Current portion of lease liabilites			609,524		652,300
Income taxes payable			90,484		42,859
			10,600,290		8,842,588
Non-current liabilities					
Long-term debt	6		6,415,774		6,556,582
Lease liabilities			191,524		332,675
			17,207,588		15,731,845
Equity					
Share capital			33,537,199		33,537,199
Contributed surplus			4,035,160		4,035,160
Warrants			152,676		152,676
Deficit			(23,314,810)		(23,455,864)
Accumulated other comprehensive loss			(3,881,104)		(3,711,628)
			10,529,121		10,557,543
		$	27,736,709	$	26,289,388

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

Interim Condensed Consolidated Statements of Changes in Equity
(Canadian dollars)
(unaudited)

	Share capital	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive (loss) / income	Total equity
Balance at January 1, 2020	$ 33,537,199	$ 4,035,160	$ —	$ (18,307,548)	$ (3,266,911)	$ 15,997,900
Total comprehensive (loss) / income	—	—	—	(469,665)	1,064,538	594,873
Balance at March 31, 2020	$ 33,537,199	$ 4,035,160	$ —	$ (18,777,213)	$ (2,202,373)	$ 16,592,773
Balance at January 1, 2021	$ 33,537,199	$ 4,035,160	$ 152,676	$ (23,455,864)	$ (3,711,628)	$ 10,557,543
Total comprehensive (loss) / income	—	—	—	141,054	(169,476)	(28,422)
Balance at March 31, 2021	**$ 33,537,199**	**$ 4,035,160**	**$ 152,676**	**$ (23,314,810)**	**$ (3,881,104)**	**$ 10,529,121**

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

Interim Condensed Consolidated Statements of Cash Flows
(Canadian dollars)
(unaudited)

For the three months ended	March 31 2021	March 31 2020
Operating activities		
Net earnings / (loss)	**$ 141,054**	$ (469,665)
Adjustments for:		
Depreciation on property and equipment	**238,221**	295,873
Amortization of debt related transaction costs	**37,867**	52,159
Foreign exchange (gain) / loss on debt	**(9,101)**	210,534
Unrealized foreign exchange gain	**(299)**	(7,199)
Interest on debt and finance leases	**338,277**	482,015
Loss (gain) on disposal of equipment	**60,179**	(1,724)
Change in non-cash working capital	**(689,421)**	315,608
Total cash provided by operating activities	**116,777**	877,601
Financing activities		
Advances (repayments of) on bank indebtedness	**599,329**	21,793
Interest paid on debt and finance leases	**(370,488)**	(485,771)
Repayment of obligations under finance lease	**(175,440)**	(215,347)
Repayment of long-term debt	**(163,126)**	(200,000)
Total cash (used in) financing activities	**(109,725)**	(879,325)
Investing activities		
Proceeds on sale of property and equipment	**(7,052)**	1,724
Total cash (used in) provided by investing activities	**(7,052)**	1,724
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 these interim condensed consolidated financial statements

1. DESCRIPTION OF BUSINESS

Bri-Chem Corp. ("the Company" or "Bri-Chem") is an independent wholesale supplier of drilling fluids and chemicals for the oil and gas industry operating from owned or leased warehouses located throughout Canada and the United States. Bri-Chem Corp. was incorporated under the laws of the Province of Alberta, Canada and its head office is in Acheson, Alberta, Canada. Its registered and primary place of business is 27075 Acheson Road, Acheson, Alberta T7X 6B1.

Weather conditions can materially impact the sale of the Company's products and services, particularly in its Canadian divisions during spring break-up. Additionally, many exploration and production areas in the northern Western Canadian Sedimentary Basin 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.

2. BASIS OF PRESENTATION

a) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board. The unaudited interim condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company for the years ended December 31, 2020 and 2019 as filed on SEDAR at www.sedar.com.

These unaudited interim condensed financial statements were approved for issuance by Bri-Chem's Board of Directors on May 11, 2021 and are presented in Canadian dollars, which is Bri-Chem's functional currency.

b) Principles of Consolidation

The financial statements of the Company consolidate the accounts of Bri-Chem and its subsidiaries which are entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to direct the relevant activities of an entity so as to obtain benefit from its activities. Inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

c) Going Concern

These interim condensed consolidated financial statements were prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business for the foreseeable future. For the quarter ended March 31, 2021, the Company realized net earnings of $141,054 (March 31, 2020 - $469,665) and an accumulated deficit and other comprehensive loss (income) of $169,476 (March 31, 2020 – $(1,064,538)). Operations have been financed by a combination of funds generated from business activities and from advances from an Asset-Based Lending Facility (the "ABL Facility") and the Canadian Government Business Credit Availability Program ("BCAP"). As at March 31, 2021, these loans had balances of $445,443 (December 31, 2020 - $490,667) and $6,236,328 (December 31, 2020 - $6,230,469), respectively. The available excess of the ABL Facility was $6,908,354

2. BASIS OF PRESENTATION (CONT'D)

and the Company was in compliance with all of its financial covenants with its lenders as at March 31, 2021 as discussed in Note 5.

During the quarter, the Company successfully re-negotiated an amendment to its adjusted tangible net worth covenant requirements as discussed in Note 5. The ABL Facility matured on October 31, 2020 and was renewed successfully for another term as described in Note 5. The subordinated debenture agreement was also successfully renegotiated during the year and matures on November 30, 2022 as described in Note 6. Failure to comply with the obligations in either of these credit facilities could result in default which, if not remediated or waived, could permit acceleration of the relevant indebtedness and related reclassification of the amounts associated with the subordinated debenture currently presented as non-current liabilities to current liabilities.

In addition to these borrowings, the Company received government assistance during the three months ended in the amount of $908,830 (March 31, 2020 – $nil) as discussed in Note 10.

The Company is subject to certain continued listing requirements as an issuer on the TSX. As at March 31, 2021, the Company was in compliance with the TSX Exchange's minimum listing requirement of maintaining a $3,000,000 market capitalization. The TSX has reinitiated its review of Bri-Chem's compliance with continued listing requirements and the TSX will continue to monitor Bri-Chem's market capitalization over the next few months.

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

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

In recognition of these circumstances, management is currently pursuing strategies to improve borrowing capacity that could include additional restructuring such as closure of underperforming warehouses, continuing to sell down inventory, debt and/or equity financing, and/or the sale of assets. Through these initiatives, the Company expects to have availability under its ABL Facility to meet its future obligations. Management is also actively monitoring world events as they unfold, including expectations around the global distribution of vaccines, and are preparing an action plan to mitigate the impact on the Company as a result of COVID-19. Potential warehouse closures, limited inventory purchases, and prudent working capital management will assist in the Company being able to continue as going concern. Management is focused on preserving working capital, while keeping its customers, employees and vendors safe. Nevertheless, there is no assurance that these efforts will be successful.

The Company's ability to continue as a going concern is dependent on its ability to access its lending facilities, generate future net income, and realize cash from operating activities. These interim condensed consolidated financial statements do not reflect the adjustments and classifications to assets, liabilities, revenues, and expenses that would be necessary if the Company were unable to continue as a going concern. Such adjustments could be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 2 to the audited financial statements for the fiscal year ended December 31, 2020 have been consistently followed in preparation of these interim condensed consolidated financial statements.

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

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

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IFRS 3 – Reference to the Conceptual Framework
The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The amendments are effective for business combinations for which the date of acquisition after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published with the updated Conceptual Framework) at the same time or earlier.

4. ACCOUNTS RECEIVABLE

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

		March 31 2021		December 31 2020
Trade accounts receivable	**$**	**8,980,934**	$	7,421,459
Allowance for doubtful accounts		**(659,182)**		(557,384)
Trade accounts receivable, net		**8,321,752**		6,864,075
Other receivables		**320,310**		91,140
Accounts receivable	**$**	**8,642,062**	$	6,955,215

4. ACCOUNTS RECEIVABLE (CONT'D)

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

		March 31 2021		December 31 2020
Balance, beginning of year	$	557,384	$	318,692
Bad debts		128,715		741,816
Receivables written off		(26,917)		(503,124)
Balance, end of quarter	$	659,182	$	557,384

The Company pledged its accounts receivables with a carrying amount of $8,642,062 (December 31, 2020 - $6,955,215) as collateral for the ABL Facility described in Note 5.

5. BANK INDEBTEDNESS

		March 31 2021		December 31 2020
BCAP Loan	$	6,236,328	$	6,230,469
ABL Facility		445,443		490,667
Cash and cash equivalents		(1,788,748)		(2,431,832)
	$	4,893,023	$	4,289,304

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

The BCAP Loan is backed by the Canadian Government with 80% of the principal having been guaranteed by The Business Development Bank of Canada. The BCAP Loan bears interest at a rate of 2.25% above CIBC's prime lending rate. The term of the BCAP Loan is amortized over 10 years, interest only for the first 12 months, and subject to yearly renewal.

The ABL Facility bears interest at a rate of 1.50% above CIBC's prime lending rate and is secured by the Company's accounts receivable and inventory. On May 9, 2019, the Company amended the terms of the ABL Facility to decrease the maximum borrowing base down to $30,000,000 with a further reduction down to $25,000,000 by September 1, 2019. Other amendments include a borrowing base block of $500,000 on May 9, 2019 and increasing in increments of $500,000 on the last day of each month until a maximum borrowing base block of $3,000,000 is reached on the last day of September 2019.

On July 16, 2020, the Company further amended the terms of the ABL Facility to extend the term to maturity to October 31, 2021. The agreement also amended the minimum tangible net worth financial covenant and eliminated the minimum trailing twelve-month EBITDA covenant.

On March 29, 2021, the Company entered into the First Amendment to the Third Amending Agreement to the ABL Facility, further reducing the minimum adjusted tangible net worth financial covenant discussed in Note 7.

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

6. LONG-TERM DEBT

	March 31 2021	December 31 2020
GreyPoint Capital Inc. term loan, bearing interest at 30 day average Bankers' Acceptance Rate plus 10%, repayable monthly principal of $66,667 plus interest with a 2% Payment in kind interest (PIK interest) due with the balance upon maturity on November 6, 2022.	$ 7,368,030	$ 7,531,158
Less: transaction costs	152,256	174,576
	7,215,774	7,356,582
Less: current portion	800,000	800,000
	$ 6,415,774	$ 6,556,582

Changes in financing activities

	March 31 2021	December 31 2020
Long-term debt balance January 1	$ 7,356,582	$ 8,032,421
Cash movements		
Debt repayments	(200,000)	(800,000)
Debt advances	36,874	64,492
Non-cash movements		
Amortization of non-cash interest	22,318	$ 59,669
	$ 7,215,774	$ 7,356,582

GreyPoint Capital Inc.

The Company signed an agreement with GreyPoint Capital Inc. ("GreyPoint") on November 6, 2017 to refinance its subordinated debt from another lender. The GreyPoint financing consists of a $10 million term loan with the same financial covenants as the ABL Facility. $350,000 of transaction costs were incurred as part of this refinancing and are being amortized over the term of the agreement. The subordinated debt is secured by the following: an unlimited corporate guarantee supported by a general security agreement from Bri-Chem Supply Ltd. and Sodium Solutions Inc. and from all other material entities within the group determined by the lender subordinated only to a prior charge from the ABL Facility; first demand collateral land mortgage and assignment of rents from Bri-Chem Corp. created a first fixed specific mortgage charge overall lands and premises located at 27075 Acheson Road, Acheson, Alberta and 4420 – 37 Street in Camrose, Alberta; assigned by Bri-Chem Corp. to GreyPoint of all risk insurance in amounts and from an insurer acceptable to GreyPoint, on all Bri-Chem real property, without limitation lands, buildings, equipment and inventory owned by Bri-Chem Corp., showing GreyPoint as first loss payee, including business interruption and public liability insurance.

On July 16, 2020, the Company and GreyPoint signed an amended agreement with an increased interest rate of Bankers' Acceptance + 10.0%, an option to defer interest equal to 2.0% per annum to maturity and amended financial covenants. This has been accounted for as a loan modification. At the closing date, a loan modification loss of $296,197 was recognized in interest from long-term debt. $252,676 of transaction costs were incurred as part of this refinancing and are being amortized over the term of the agreement.

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

7. EARNINGS / (LOSS) PER SHARE

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

For the three months ended		**March 31 2021**		March 31 2020
Net earnings / (loss) attributable to the shareholders of the Company	**$**	**141,054**	$	(469,665)
Basic weighted average number of ordinary shares		**23,932,981**		23,932,981
Dilutive options issued and outstanding		**2,500,000**		—
Diluted weighted average number of ordinary shares		**26,432,981**		23,932,981
Basic earnings / (loss) per share	**$**	**0.01**	$	(0.02)
Diluted earnings / (loss) per share		**0.01**		(0.02)

8. SEGMENT REPORTING

The Company manages its business in five reportable segments: Fluids Distribution Canada, Fluids Distribution USA, Fluids Blending & Packaging Canada, Fluids Blending & Packaging USA, and Other. The operating segment(s) of the Company has separate financial information available and is evaluated regularly by the chief operating decision makers in allocating resources and assessing performance. The chief operating decision makers of the Company is the Chief Executive Officer and Chief Financial Officer. Other includes activities related to corporate and public company affairs. Revenues between Fluids Blending & Packaging Canada and Fluids Distribution Canada are recorded at market value. The revenue from external parties is measured in a manner consistent with that in the consolidated statement of operations.

Selected financial information by reportable segment is disclosed as follows:

For the three months ended	Fluids Distribution			Fluids Blending & Packaging				
March 31, 2021	**Canada**	**USA**	**Total**	**Canada**	**USA**	**Total**	**Other**	**Consolidated**
Total revenues	$ 2,468,531	$ 4,690,516	$ 7,159,047	$ 1,923,295	$ 2,767,063	$ 4,690,358	$ —	$ 11,849,405
Revenues from internal customers	100,366	—	100,366	257,252	1,587	258,839	—	359,205
Revenues from external customers	2,368,165	4,690,516	7,058,681	1,666,043	2,765,476	4,431,519	—	11,490,200
Cost of sales	2,139,094	3,863,203	6,002,297	1,176,713	2,114,625	3,291,338	—	9,293,635
Operating earnings / (loss) [1]	3,002	520,311	523,313	190,564	471,986	662,550	(347,987)	837,876
Amortization and depreciation	6,041	140,586	146,627	3,716	53,559	57,275	34,319	238,221
Interest	796	11,353	12,149	—	210	210	398,617	410,976
Income tax expense / (recovery)	(1,035)	99,460	98,425	50,449	112,919	163,368	(214,168)	47,625
Segment profit (loss)	$ (2,800)	$ 268,912	$ 266,112	$ 136,399	$ —	$ 441,697	$ (566,755)	$ 141,054
Segment assets	$ 6,662,531	$ 11,876,189	$ 18,538,720	$ 2,764,155	$ 3,220,535	$ 5,984,690	$ 3,213,299	$ 27,736,709
Capital expenditures	$ —	$ 2,239	$ 2,239	$ 4,813	$ —	$ 4,813	$ —	$ 7,052

For the three months ended	Fluids Distribution			Fluids Blending & Packaging				
March 31, 2020	**Canada**	**USA**	**Total**	**Canada**	**USA**	**Total**	**Other**	**Consolidated**
Total revenues	$ 3,836,601	$ 12,606,444	$ 16,443,045	$ 3,124,335	$ 2,225,095	$ 5,349,430	$ —	$ 21,792,475
Revenues from internal customers	55,442	83,613	139,055	234,909	2,791	237,700	—	376,754
Revenues from external customers	3,781,159	12,522,831	16,303,990	2,889,426	2,222,304	5,111,730	—	21,415,721
Cost of sales	3,208,673	10,682,589	13,891,262	2,228,617	1,630,974	3,859,591	—	17,750,854
Operating earnings / (loss) [1]	209,540	391,195	600,735	222,316	212,046	434,362	(651,833)	383,264
Amortization and depreciation	1,965	198,244	200,209	3,698	56,274	59,972	35,692	295,873
Interest	1,039	22,801	23,840	—	386	386	509,788	534,014
Income tax expense / (recovery)	51,634	—	51,634	54,655	—	54,655	(83,247)	23,042
Segment profit (loss)	$ 154,902	$ 170,150	$ 325,052	$ 54,655	$ —	$ 319,349	$ (1,114,066)	$ (469,665)
Segment assets	$ 9,571,511	$ 26,129,629	$ 35,701,140	$ 3,481,806	$ 3,594,366	$ 7,076,172	$ 3,506,939	$ 46,284,251
Capital expenditures	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

[1] Operating earnings / (loss) includes foreign exchange gain / (loss)

8. SEGMENT REPORTING (CONT'D)

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

For the three months ended		March 31 2021		March 31 2020
Revenue				
Canada	$	4,034,208	$	6,670,585
United States		7,455,992		14,745,136
	$	11,490,200	$	21,415,721
Non-current assets				
Canada	$	3,991,848	$	4,208,211
United States		3,256,830		4,731,123
	$	7,248,678	$	8,939,334

Revenue from one customer amounted to $1,182,929 (March 31, 2020 – $1,202,340) representing 10.3% (March 31, 2020 – 5.6%) of consolidated sales, and 26.7% (March 31, 2020 – 54.0%) of USA Fluids Blending & Packaging segment sales, for the three months ended March 31, 2021.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 within guidelines approved by its 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.

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and would be unable to fulfill their obligations. The Company's trade receivables are with customers in the crude oil and natural gas industry and are subject to normal industry credit risk. The Company's practice is to manage credit risk by performing a detailed analysis of the credit worthiness of new customers before the Company's standard payment terms are offered. Additionally, the Company continuously reviews individual customer trade receivables, taking into consideration payment history and the aging of the trade receivable to monitor collectability.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

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

March 31, 2021		Gross accounts receivable		Allowance for doubtful accounts		Net accounts receivable
Current		3,684,801			$	3,684,801
31 to 60 days		1,965,457				1,965,457
61 to 90 days		1,410,579				1,410,579
91 to 120 days		796,786				796,786
Over 120 days		1,123,311		(659,182)		464,129
Total	$	8,980,934	$	(659,182)	$	8,321,752
December 31, 2020						
Current	$	2,896,032	$	—	$	2,896,032
31 to 60 days		2,107,554		—		2,107,554
61 to 90 days		1,022,838		—		1,022,838
91 to 120 days		335,656		—		335,656
Over 120 days		1,059,379		(557,384)		501,995
Total	$	7,421,459	$	(557,384)	$	6,864,075

Interest rate risk

The Company is exposed to interest rate risk for borrowings on its ABL facility to the extent that the prime interest rate changes. The Company's long-term debt on the GreyPoint facility has a fixed interest rate and is therefore not directly exposed to interest rate risk; however, it is subject to interest rate fluctuations relating to refinancing as required.

Currency risk

The Company and its US subsidiaries are subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities, bank indebtedness, and long-term debt denominated in foreign currencies. Therefore, there is a risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities.

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

Balance, March 31, 2021		Foreign currency denominated monetary financial assets		Foreign currency denominate monetary financial liabilities (1)		Net position
USD denominated (USD)	$	4,469,874	$	(609,215)	$	3,860,659
Currency translation at March 31, 2021 currency exchange rate (1.2575) (CAD)		5,620,867		(766,087)		4,854,779
Assuming CAD currency weakens against USD currency by 5% (1.3204) (CAD)		5,901,910		(804,392)		5,097,518
Impact (CAD)	$	281,043	$	(38,304)	$	242,739

(1) Foreign currency denominated monetary financial liabilities include US dollar cash and cash equivalents recorded within bank indebtedness as discussed in Note 5.

Liquidity risk

Liquidity risk is the exposure of the Company to the risk of not being able to satisfy its financial liabilities as they become due. The Company actively monitors its financing obligations to ensure that it has enough available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company mitigates liquidity risk by maintaining adequate Credit Facilities, and through the forecasting

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

and management of its operational cash flows. Management of operational cash flows takes into consideration the Company's debt financing plans and covenant compliance.

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

As at March 31, 2021, the Company had $6,908,354 (December 31, 2020 - $5,335,061) of undrawn credit available on the ABL Facility and BCAP loan. Aside from the capital requirements associated with its ABL Facility, BCAP and GreyPoint loans, as disclosed in Note 5 and Note 6, the Company is not subject to any other external capital requirements. The total capital structure of the Company is as follows:

	March 31 2021	December 31 2020
Bank indebtedness	**$ 4,893,023**	$ 4,289,304
Long-term debt	**7,215,774**	7,356,582
Obligations under finance lease	**801,048**	984,975
Equity	**10,529,121**	10,557,543
Total capital	**$ 23,438,966**	$ 23,188,404

The Company's liquidity and cash flow from operations has been impacted by a variety of external factors including: (a) further volatility in crude oil prices due to macro-economic uncertainty; and (b) COVID-19 impacting both the global and local economy in general and global oil demand in particular. As a result of these factors and a lack of available storage capacity, Canadian and USA oil and gas companies have significantly scaled back their drilling operations, which has had a significant impact on our business. Depending on the severity and duration of the current market pullback, management has stress tested the Company's liquidity position to meet all commitments as well as created various levels of mitigation actions to respond to reductions in revenue. The potential impact that COVID-19 will have on the Company's business or financial results cannot be reasonably estimated at this time, which in turn could lead to non-compliance of certain lending covenant on the Company's Credit Facilities, which if not amended or waived, could limit, in part, or in whole, the Company's access to the Credit Facilities and could accelerate repayment.

Cash flows related to bank indebtedness and accounts payable and accrued liabilities included below may occur at different times or amounts. A maturity analysis of the Company's outstanding obligations at March 31, 2021 is as follows:

March 31	Bank indebtedness	Accounts payable and accrued liabilities	Long-term debt	Finance leases	Total
2021	$ 4,893,023	$ 4,207,259	$ 600,000	$ 801,047	$ 10,501,329
2022	—	—	800,000	399,220	1,199,220
2023	—	—	6,253,090	399,220	6,652,310
2024	—	—	—	67,456	67,456
2025	—	—	—	—	—
Thereafter	—	—	—	—	—
Total	$ 4,893,023	$ 4,207,259	$ 7,653,090	$ 1,666,943	$ 18,420,315

10. GOVERNMENT ASSISTANCE

The Company has applied for and received wage subsidies and other financial support under COVID-19 relief legislation that has been enacted in the countries in which it operates. During the quarter, the Company recognized $125,148 (March 31, 2020 - Nil) from the Canada Emergency Wage Subsidy Program ("CEWS"), $760,088 (March 31, 2020 - Nil) from the Paycheck Protection Program administered under the US CARES Act. The amounts received have been recognized as reductions to Salaries and Benefits in the Consolidated Statement of Operations and Comprehensive Income. There are no unfulfilled conditions attached to the subsidies recognized in income during the quarter.

The Company also received $23,594 (March 31, 2020 - Nil) from the Canada Emergency Rent Subsidy Program. This amount was recognized as a reduction to Selling, General and Administrative in the Consolidated Statement of Operations and Comprehensive Income.