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# Bri-Chem Corp.

## Interim Condensed Consolidated Financial Statements (Unaudited)

## June 30, 2020

*(Expressed in Canadian Dollars)*

Q2 2020

**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 have not reviewed the interim condensed consolidated financial statements for the six and three-month periods ended June 30, 2020 and 2019.

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| Interim Condensed Consolidated Statements of Operations and Comprehensive Loss (Canadian dollars) (unaudited) | | | | | |
|---|---|---|---|---|---|
| | | Three months ended | | Six months ended | |
| | | **June 30** | June 30 | **June 30** | June 30 |
| | **Note** | **2020** | 2019 | **2020** | 2019 |
| **Sales** | | **$ 6,818,103** | $ 22,720,815 | **$ 28,233,824** | $48,619,025 |
| Cost of sales | | **5,687,478** | 19,000,097 | **23,438,332** | 40,319,528 |
| Gross margin | | **1,130,625** | 3,720,718 | **4,795,492** | 8,299,497 |
| **Expenses** | | | | | |
| Salaries and benefits | | **617,451** | 2,122,378 | **2,567,015** | 4,363,304 |
| Selling, general and administration | | **946,451** | 1,161,513 | **2,072,112** | 1,992,741 |
| Depreciation on property and equipment | | **307,182** | 466,038 | **603,055** | 1,002,673 |
| Restructuring costs | | **103,226** | 24,280 | **103,226** | 24,280 |
| | | **1,974,310** | 3,774,209 | **5,345,408** | 7,382,998 |
| Financing costs | | **418,285** | 693,381 | **952,299** | 1,441,330 |
| Foreign exchange loss (gain) | | **(10,133)** | (10,631) | **196,245** | (85,789) |
| | | **408,152** | 682,750 | **1,148,544** | 1,355,541 |
| **Loss before income taxes** | | **(1,251,837)** | (736,241) | **(1,698,460)** | (439,042) |
| Income tax expense (recovery) | | | | | |
| Current | | **24,289** | 4,553 | **47,331** | (57,552) |
| Deferred | | **-** | - | **-** | - |
| | | **24,289** | 4,553 | **47,331** | (57,552) |
| **Net loss** | | **$ (1,276,126)** | $ (740,794) | **$ (1,745,791)** | $ (381,490) |
| Other comprehensive income, net of $nil tax (2019 - $nil) | | | | | |
| Foreign currency translation adjustment | | **(516,632)** | $ (295,040) | **547,906** | $ (446,737) |
| Total comprehensive loss | | **$ (1,792,758)** | $ (1,035,834) | **$ (1,197,885)** | $ (828,227) |
| **Loss per share** | | | | | |
| Basic | **7** | **$ (0.05)** | $ (0.03) | **$ (0.07)** | $ (0.02) |
| Diluted | **7** | **$ (0.05)** | $ (0.03) | **$ (0.07)** | $ (0.02) |

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

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

| | Note | | **June 30 2020** | | December 31 2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | | | | | |
| Accounts receivable | **4** | **$** | **6,433,447** | $ | 16,674,813 |
| Inventories | | | **15,696,035** | | 19,195,877 |
| Prepaid expenses and deposits | | | **522,706** | | 500,107 |
| | | | **22,652,188** | | 36,370,797 |
| Non-current assets | | | | | |
| Property and equipment | | | **7,161,470** | | 7,335,823 |
| Right-of-use assets | | | **1,124,270** | | 1,334,920 |
| Other long-term assets | | | **160,202** | | 156,672 |
| | | **$** | **31,098,130** | $ | 45,198,212 |
| **Liabilities** | | | | | |
| Current liabilities | | | | | |
| Bank indebtedness | **5** | **$** | **4,522,861** | $ | 10,820,408 |
| Accounts payable and accrued liabilities | | | **2,494,811** | | 8,400,155 |
| Current portion of long-term debt | **6** | | **800,000** | | 800,000 |
| Current portion of lease liabilities | | | **855,912** | | 858,692 |
| Income taxes payable | | | **50,487** | | 21,467 |
| | | | **8,724,071** | | 20,900,722 |
| Non-current liabilities | | | | | |
| Long-term debt | **6** | | **6,873,759** | | 7,232,421 |
| Lease liabilities | | | **635,840** | | 998,073 |
| Deferred tax liabilities | | | **50,996** | | 50,996 |
| Other long-term liabilities | | | **13,449** | | 18,100 |
| | | | **16,298,115** | | 29,200,312 |
| **Equity** | | | | | |
| Share capital | | | **33,537,199** | | 33,537,199 |
| Contributed surplus | | | **4,035,160** | | 4,035,160 |
| Deficit | | | **(20,053,339)** | | (18,307,548) |
| Accumulated other comprehensive loss | | | **(2,719,005)** | | (3,266,911) |
| | | | **14,800,015** | | 15,997,900 |
| | | **$** | **31,098,130** | $ | 45,198,212 |

*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 | Deficit | Accumulated other comprehensive (loss) / income | Total equity |
|---|---|---|---|---|---|
| Balance at January 1, 2019 | $ 33,537,199 | $ 4,035,160 | $ (14,651,723) | $ (2,767,385) | $ 20,153,251 |
| Total comprehensive loss | — | — | (381,490) | (446,737) | (828,227) |
| Balance at June 30,2019 | $ 33,537,199 | $ 4,035,160 | $ (15,033,213) | $ (3,214,122) | $ 19,325,024 |
| | | | | | |
| Balance at January 1, 2020 | $ 33,537,199 | $ 4,035,160 | $ (18,307,548) | $ (3,266,911) | $ 15,997,900 |
| Total comprehensive (loss) / income | — | — | (1,745,791) | 547,906 | (1,197,885) |
| Balance at June 30, 2020 | $ 33,537,199 | $ 4,035,160 | $ (20,053,339) | $ (2,719,005) | $ 14,800,015 |

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

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

| For the six months ended | **June 30 2020** | June 30 2019 |
|---|---|---|
| **Operating activities** | | |
| Net loss | **$ (1,745,791)** | $ (381,490) |
| Adjustments for: | | |
| Depreciation on property and equipment | **603,055** | 1,002,673 |
| Amortization of debt related transaction costs | **104,318** | 90,826 |
| Foreign exchange loss (gain) on debt | **194,701** | (94,213) |
| Unrealized foreign exchange gain | **(10,274)** | (1,440) |
| Interest on debt and finance leases | **848,630** | 1,349,452 |
| Gain on disposal of equipment | **(1,724)** | — |
| Change in non-cash working capital | **8,842,518** | 10,357,746 |
| Total cash provided by operating activities | **8,835,433** | 12,323,554 |
| **Financing activities** | | |
| Advances on bank indebtedness | **14,151,960** | 19,840,995 |
| Repayments on bank indebtedness | **(21,254,551)** | (29,634,659) |
| Interest paid on debt and finance leases | **(891,379)** | (1,406,900) |
| Repayment of obligations under finance lease | **(443,187)** | (617,285) |
| Repayment of long-term debt | **(400,000)** | (425,000) |
| Total cash (used in) financing activities | **(8,837,157)** | (12,242,849) |
| **Investing activities** | | |
| Proceeds on sale of property and equipment | **1,724** | — |
| Purchase of property and equipment | **—** | (80,705) |
| Total cash (used in) provided by investing activities | **1,724** | (80,705) |
| | | |
| 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 consolidated financial statements of the Company for the years ended December 31, 2019 and 2018 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 August ·, 2020 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 June 30, 2020, the Company incurred a net loss of $1,745,791 and has accumulated losses over the past two fiscal years. Operations have been financed by a combination of funds generated from business activities and from advances from bank indebtedness under the Asset-Based Lending Facility (the "ABL Facility") (Note 4) which totaled $4,522,861 as at June 30, 2020. The total borrowing base of this facility as at June 30, 2020 was $8,111,158 as determined by eligible accounts receivable and inventory, leaving $3,177,487 of excess availability. The Company's ability to continue as a going concern is dependent on its ability to access the ABL Facility as well as its term debt agreement, generate future net income, and realize cash from operating activities. These financial statements do not reflect the adjustments and classifications to assets, liabilities, revenues, and expenses that would be necessary if the Company were unable to continue as a going concern. Such adjustments could be material. Should the Company be unable to meet its obligations as they become due or be unable to access its lending facilities, the preparation of these consolidated financial statements on a going concern basis may not be appropriate. 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 obligation.

## 2. Basis of presentation (cont'd)

However, there can no assurance that these efforts will be successful. A number of uncertainties such as the COVID-19 pandemic and commodity prices instability raises 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, the preparation of these interim financial statements on a going concern basis may not be appropriate.

d) Use of Estimates and Judgements

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 corresponding demand for the Company's products and services may differ significantly from those forecasted by management, which could cast significant doubt about the Company's ability to continue as a going concern. As described in Note 2(e), due to the outbreak of the novel coronavirus ("COVID-19") and the resulting impact on the economy and in particular the price of oil and natural gas, the estimates and judgements made by management in the preparation of these financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

e) Impact of COVID-19

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, including those countries in which Bri-Chem operates, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused a material disruption to businesses globally resulting in an economic slowdown and decreased demand for oil. Governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not yet determinable. The current challenging economic climate may have significant adverse impacts on the Company including, but not limited to, substantial reductions in revenue and cash flows and increased risk of non-payment of accounts receivable. The situation remains dynamic and the duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time.

## 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, 2019 and have been consistently followed in preparation of these interim condensed consolidated financial statements and including the following:

*Accounting for Government Grants and Subsidies*

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

**3. Summary of significant accounting policies (cont'd)**

*Newly adopted accounting standards*

**IAS 1 Presentation of Financial Instruments Amendment (effective January 1, 2020)**

Effective January 1, 2020, the Company adopted IAS 1 Presentation of Financial Instruments ("IAS 1") which sets out the overall requirements for financial statements, including how they are structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.

The amendment, revises IAS 1 to incorporate a new definition of material. The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The IAS 1 amendment is effective January 1, 2020 and did not to have a material impact on the company's financial statements.

**IFRS 3 Business Combinations (effective January 1, 2020)**

In October 2018, the International Accounting Standards Board ("IASB") issued Definition of a Business ("Amendments to IFRS 3" or "IFRS 3") to provide clarification guidance for entities to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments confirmed that a business must include inputs and a process, and clarified that the process must be substantive; and the inputs and process must together significantly contribute to creating outputs. The amendment guidance narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The IFRS 3 amendment is effective January 1, 2020, with earlier application permitted. These amendments will apply to the Company's future business combinations.

## 4. Accounts receivable

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

| | June 30 2020 | December 31 2019 |
|---|---|---|
| Trade accounts receivable | **$ 6,701,078** | $ 16,733,418 |
| Allowance for doubtful accounts | **(289,608)** | (318,692) |
| Trade accounts receivable, net | **6,411,470** | 16,414,726 |
| Other receivables | **21,977** | 260,087 |
| Accounts receivable | **$ 6,433,447** | $ 16,674,813 |

The Company completed an Expected Credit Loss ("ECL") assessment for its trade accounts receivables using the Simple ECL Model prescribed under IFRS 9, and determined that expected credit losses were adequately covered by the amounts provided under allowance for doubtful accounts (AFDA), therefore no additional ECL adjustments were required as at June 30, 2020.

The Company pledged its accounts receivables with a carrying amount of $6,433,447 (December 31, 2019 - $16,674,813) as collateral for the Asset-Based Lending ("ABL") Facility described in Note 5.

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

| | June 30 2020 | December 31 2019 |
|---|---|---|
| Balance, beginning of period | **$ 318,692** | $ 496,284 |
| Bad debts | **112,258** | 122,241 |
| Receivables written off | **(141,342)** | (299,833) |
| Balance, end of period | **$ 289,608** | $ 318,692 |

## 5. Bank indebtedness

Bank indebtedness relates to borrowings on the Company's ABL Facility with Canadian Imperial Bank of Commerce Asset-Based Lending Inc. ("CIBC"). The ABL Facility is subject to a borrowing base which is calculated as a percentage of eligible inventory and accounts receivable.

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. In addition, the agreement amended financial covenants of minimum trailing twelve month EBITDA and minimum tangible net worth. As a result of Covid-19, the Company received a letter from its lender that waived the default of delivering the annual audited financial statements within 90 days of the fiscal year end.

As at June 30, 2020, 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

| | June 30 2020 | December 31 2019 |
|---|---|---|
| GreyPoint Capital Inc. term loan, bearing interest at 30 day average Bankers' Acceptance Rate plus 10%, repayable monthly principal of $66,667 plus interest with the balance due upon maturity on November, 2022. | **$ 7,866,667** | $ 8,266,667 |
| Less: transaction costs | **192,907** | 234,245 |
| | **7,673,760** | 8,032,422 |
| Less: current portion | **800,000** | 800,000 |
| | **$ 6,873,759** | $ 7,232,421 |

### 6. Long-term debt (cont'd)

Changes in financing activities

| | June 30 2020 | December 31 2019 |
|---|---|---|
| Long-term debt balance January 1 | **$ 8,032,422** | $ 8,777,128 |
| **Cash movements** | | |
| Debt repayments | **(400,000)** | (825,000) |
| Debt advances | **-** | - |
| **Non-cash movements** | | |
| Amortization of non-cash interest | **$ 41,338** | 80,294 |
| Foreign currency translation included in OCI | **-** | - |
| **Long-term debt balance end of period** | **$ 7,673,760** | $ 8,032,422 |

The Company signed an agreement with GreyPoint Capital Inc. ("GreyPoint") on November 6, 2007 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; second demand collateral land mortgage and assignment of rents from Bri-Chem Corp. created a second 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 second loss payee, including business interruption and public liability insurance. As a result of Covid-19, the Company received a letter from its lender that waived the default of delivering the audited financial statements within 90 days of the fiscal year end.

### 7. (Loss)/ earnings per share

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

| For the three months ended | June 30 2020 | June 30 2019 |
|---|---|---|
| Net loss attributable to the shareholders of the Company | **$ (1,276,126)** | $ (740,794) |
| Basic weighted average number of ordinary shares | **23,923,981** | 23,923,981 |
| Dilutive options issued and outstanding | **—** | — |
| Diluted weighted average number of ordinary shares | **23,923,981** | 23,923,981 |
| | | |
| Basic loss per share | **$ (0.05)** | $ (0.03) |
| Diluted loss per share | **$ (0.05)** | $ (0.03) |

| For the six months ended | June 30 2020 | June 30 2019 |
|---|---|---|
| Net loss attributable to the shareholders of the Company | **$ (1,745,791)** | $ (381,490) |
| Basic weighted average number of ordinary shares | **23,932,981** | 23,932,981 |
| Dilutive options issued and outstanding | **—** | — |
| Diluted weighted average number of ordinary shares | **23,932,981** | 23,932,981 |
| | | |
| Basic loss per share | **$ (0.07)** | $ (0.02) |
| Diluted loss per share | **$ (0.07)** | $ (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** | | | | |
|---|---|---|---|---|---|---|---|---|
| **June 30, 2020** | **Canada** | **USA** | **Total** | **Canada** | **USA** | **Total** | **Other** | **Consolidated** |
| Total revenues | $ 217,279 | $ 3,933,025 | $ 4,150,304 | $ 1,351,060 | $ 1,362,788 | $ 2,713,848 | $ — | $ 6,864,152 |
| Revenues from internal customers | 42,267 | 0 | 42,267 | 3,781 | 0 | 3,781 | — | 46,049 |
| Revenues from external customers | 175,012 | 3,933,025 | 4,108,037 | 1,347,279 | 1,362,788 | 2,710,067 | — | 6,818,103 |
| Cost of sales | 220,062 | 3,507,135 | 3,727,197 | 961,605 | 998,677 | 1,960,282 | — | 5,687,478 |
| Operating earnings / (loss) [(1)] | (269,684) | 35,666 | (234,018) | 111,571 | (144,968) | (33,397) | (258,955) | (526,370) |
| Amortization and depreciation | 10,309 | 196,544 | 206,853 | 3,699 | 61,078 | 64,777 | 35,552 | 307,182 |
| Interest | 977 | 20,502 | 21,479 | — | 351 | 351 | 396,455 | 418,285 |
| Income tax expense / (recovery) | (70,243) | — | (70,243) | 26,968 | 19,384 | 46,352 | 48,180 | 24,289 |
| Segment profit (loss) | $ (210,727) | $ (181,380) | $ (392,107) | $ 80,904 | $ (225,781) | $ (144,877) | $ (739,142) | $ (1,276,126) |
| Segment assets | $ 6,566,285 | $ 15,177,937 | $ 21,744,222 | $ 2,272,533 | $ 3,422,738 | $ 5,695,271 | $ 3,658,637 | $ 31,098,130 |
| Capital expenditures | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| **For the three months ended** | **Fluids Distribution** | | | **Fluids Blending & Packaging** | | | | |
| **June 30, 2019** | **Canada** | **USA** | **Total** | **Canada** | **USA** | **Total** | **Other** | **Consolidated** |
| Total revenues | $ 3,673,807 | $ 14,000,560 | $ 17,674,367 | $ 2,363,023 | $ 3,077,396 | $ 5,440,419 | $ — | $ 23,114,786 |
| Revenues from internal customers | 70,220 | — | 70,220 | 322,943 | 808 | 323,751 | — | 393,971 |
| Revenues from external customers | 3,603,587 | 14,000,560 | 17,604,147 | 2,040,080 | 3,076,588 | 5,116,668 | — | 22,720,815 |
| Cost of sales | 3,244,862 | 12,173,904 | 15,418,766 | 1,605,861 | 1,975,470 | 3,581,331 | — | 19,000,097 |
| Operating earnings / (loss) [(1)] | 23,091 | 196,626 | 219,717 | (152,631) | 756,772 | 604,141 | (400,680) | 423,178 |
| Amortization and depreciation | 11,933 | 361,910 | 373,843 | 5,352 | 50,387 | 55,739 | 36,456 | 466,038 |
| Interest | 647 | 30,345 | 30,992 | 445 | 163 | 608 | 661,781 | 693,381 |
| Income tax expense / (recovery) | 2,838 | — | 2,838 | (42,776) | — | (42,776) | 44,491 | 4,553 |
| Segment profit (loss) | $ 7,673 | $ (195,629) | $ (187,956) | $ (115,652) | $ 706,222 | $ 590,570 | $ (1,143,408) | $ (740,794) |
| Segment assets | $ 12,288,131 | $ 35,409,502 | $ 47,697,633 | $ 3,446,165 | $ 3,922,582 | $ 7,368,747 | $ 4,083,446 | $ 59,149,826 |
| Capital expenditures | $ — | $ (443) | $ (443) | $ — | $ — | $ — | $ — | $ (443) |

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

## 8. Segment reporting (cont'd)

| For the six months ended June 30, 2020 | Fluids Distribution | | | Fluids Blending & Packaging | | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | USA | Total | Canada | USA | Total | Other | Consolidated |
| Total revenues | $ 4,053,880 | $ 16,539,469 | $ 20,593,349 | $ 4,475,395 | $ 3,587,883 | $ 8,063,278 | $ — | $ 28,656,627 |
| Revenues from internal customers | 97,709 | 83,613 | 181,322 | 238,690 | 2,791 | 241,481 | — | 422,803 |
| Revenues from external customers | 3,956,171 | 16,455,856 | 20,412,027 | 4,236,705 | 3,585,092 | 7,821,797 | — | 28,233,824 |
| Cost of sales | 3,428,735 | 14,189,724 | 17,618,459 | 3,190,222 | 2,629,651 | 5,819,873 | — | 23,438,332 |
| Operating earnings / (loss) [1] | (60,144) | 426,861 | 366,717 | 333,887 | 67,078 | 400,965 | (910,788) | (143,106) |
| Amortization and depreciation | 12,274 | 394,788 | 407,062 | 7,397 | 117,352 | 124,749 | 71,244 | 603,055 |
| Interest | 2,016 | 43,303 | 45,319 | — | 737 | 737 | 906,243 | 952,299 |
| Income tax expense / (recovery) | (18,609) | — | (18,609) | 81,623 | 19,384 | 101,007 | (35,067) | 47,331 |
| Segment profit (loss) | $ (55,825) | $ (11,230) | $ (67,055) | $ 244,867 | $ (70,395) | $ 174,472 | $ (1,853,208) | $ (1,745,791) |
| Segment assets | $ 6,566,285 | $ 15,177,937 | $ 21,744,222 | $ 2,272,533 | $ 3,422,738 | $ 5,695,271 | $ 3,658,637 | $ 31,098,130 |
| Capital expenditures | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| **For the six months ended June 30, 2019** | **Fluids Distribution** | | | **Fluids Blending & Packaging** | | | | |
| | **Canada** | **USA** | **Total** | **Canada** | **USA** | **Total** | **Other** | **Consolidated** |
| Total revenues | $ 9,098,740 | $ 29,378,695 | $ 38,477,435 | $ 5,491,765 | $ 5,411,228 | $ 10,902,993 | $ — | $ 49,380,428 |
| Revenues from internal customers | 157,712 | | 157,712 | 602,883 | 808 | 603,691 | — | 761,403 |
| Revenues from external customers | 8,941,028 | 29,378,695 | 38,319,723 | 4,888,882 | 5,410,420 | 10,299,302 | — | 48,619,025 |
| Cost of sales | 7,979,060 | 25,115,952 | 33,095,012 | 3,780,712 | 3,443,804 | 7,224,516 | — | 40,319,528 |
| Operating earnings / (loss) [1] | 90,969 | 955,532 | 1,046,501 | (92,428) | 1,276,248 | 1,183,820 | (225,360) | 2,004,961 |
| Amortization and depreciation | 23,918 | 793,140 | 817,058 | 10,928 | 100,094 | 111,022 | 74,593 | 1,002,673 |
| Interest | 1,452 | 64,852 | 66,304 | 918 | 163 | 1,081 | 1,373,945 | 1,441,330 |
| Income tax expense / (recovery) | (126,484) | | (126,484) | (34,763) | — | (34,763) | 103,695 | (57,552) |
| Segment profit (loss) | $ 192,083 | $ 97,540 | $ 289,623 | $ (69,511) | $ 1,175,991 | $ 1,106,480 | $ (1,777,593) | $ (381,490) |
| Segment assets | $ 12,288,131 | $ 35,409,502 | $ 47,697,633 | $ 3,446,165 | $ 3,922,582 | $ 7,368,747 | $ 4,083,446 | $ 59,149,826 |
| Capital expenditures | $ — | $ 80,705 | $ 80,705 | $ — | $ — | $ — | $ — | $ 80,705 |

[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 | June 30 2020 | June 30 2019 |
|---|---|---|
| Revenue | | |
| Canada | $ 1,522,291 | $ 5,643,667 |
| United States | 5,295,812 | 17,077,148 |
| | $ 6,818,103 | $ 22,720,815 |

| For the six months ended | June 30 2019 | June 30 2019 |
|---|---|---|
| Revenue | | |
| Canada | $ 8,192,876 | $ 13,829,910 |
| United States | 20,040,948 | 34,789,115 |
| | $ 28,233,824 | $ 48,619,025 |
| Non-current assets | | |
| Canada | $ 4,158,752 | $ 4,298,268 |
| United States | 4,287,190 | 7,482,149 |
| | $ 8,445,942 | $ 11,780,417 |

**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:

| **June 30, 2020** | | **Gross accounts receivable** | | **Allowance for doubtful accounts** | | **Net accounts receivable** |
|---|---|---|---|---|---|---|
| Current | $ | 1,952,004 | $ | — | $ | 1,952,004 |
| 31 to 60 days | | 1,386,865 | | — | | 1,386,865 |
| 61 to 90 days | | 953,499 | | — | | 953,499 |
| 91 to 120 days | | 1,363,662 | | — | | 1,363,662 |
| Over 120 days | | 1,067,025 | | (289,608) | | 777,417 |
| Total | $ | 6,723,055 | $ | (289,608) | $ | 6,433,447 |
| | | | | | | |
| December 31, 2019 | | | | | | |
| Current | $ | 6,856,808 | $ | — | $ | 6,856,808 |
| 31 to 60 days | | 5,026,979 | | — | | 5,026,979 |
| 61 to 90 days | | 2,671,471 | | — | | 2,671,471 |
| 91 to 120 days | | 661,695 | | — | | 661,695 |
| Over 120 days | | 1,776,553 | | (318,692) | | 1,457,861 |
| Total | $ | 16,993,505 | $ | (318,692) | $ | 16,674,813 |

**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, June 30, 2020** | | **Foreign currency denominated monetary financial assets** | | **Foreign currency denominate monetary financial liabilities** | | **Net position** |
|---|---|---|---|---|---|---|
| USD denominated (USD) | $ | 12,635 | $ | (227,065) | $ | (214,430) |
| | | | | | | |
| Currency translation at June 30, 2020 currency exchange rate (1.3628) (CAD) | | 17,219 | | (309,445) | | (292,226) |
| Assuming CAD currency weakens against USD currency by 5% (1.4309) (CAD) | | 18,080 | | (324,917) | | (306,837) |
| Impact (CAD) | $ | 861 | $ | (15,472) | $ | (14,611) |

**Liquidity risk**

Liquidity risk is the exposure of the Company to the risk of not being able to satisfy its financial liabilities as they become due. The Company actively monitors its financing obligations to ensure that it has enough available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company mitigates liquidity risk by maintaining adequate Credit Facilities, and through the forecasting and management of its operational cash flows. Management of operational cash flows takes into consideration the Company's debt financing plans and covenant compliance.

**9. Financial Instruments and Risk Management (cont'd)**

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

As at June 30, 2020, the Company had $3,177,487 (December 31, 2019 - $6,372,055) of undrawn credit available on the ABL Facility. Aside from the capital requirements associated with its ABL Facility and long term debt facilities as disclosed in Note 5, the Company is not subject to any other external capital requirements.

The total capital structure of the Company is as follows:

| | **June 30 2020** | December 31 2019 |
|---|---|---|
| Bank indebtedness | **$ 4,522,861** | $ 10,820,408 |
| Long-term debt | **7,673,759** | 8,032,421 |
| Obligations under finance lease | **1,491,752** | 1,856,765 |
| Equity | **14,800,015** | 15,997,900 |
| Total capital | **$ 28,488,387** | $ 36,707,494 |

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 our 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 June 30, 2020 is as follows:

| **June 30** | **Bank indebtedness** | **Accounts payable and accrued liabilities** | **Long-term debt** | **Finance leases** | **Total** |
|---|---|---|---|---|---|
| 2021 | $ 4,522,861 | $ 2,494,811 | $ 800,000 | $ 855,912 | $ 8,673,584 |
| 2022 | — | — | 800,000 | 399,220 | 1,199,220 |
| 2023 | — | — | 6,073,759 | 236,620 | 6,310,379 |
| 2024 | — | — | — | — | — |
| 2025 | — | — | — | — | — |
| Thereafter | — | — | — | — | — |
| Total | $ 4,522,861 | $ 2,494,811 | $ 7,673,759 | $ 1,491,752 | $ 16,183,183 |

## 10. Subsequent events

On July 16, 2020, the Company amended the terms of its ABL Credit Facility that amended certain financial covenants and extended the term to October 31, 2021. In addition, the Company obtained a $6,250,000 loan under the Canadian government's Business Credit Availability Program ("BCAP"). The BCAP Loan is administered by CIBC. Pursuant to the program, 80% of the principal of the BCAP Loan is 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 10 years and is interest only for the first 12 months. Under the terms of BCAP, the proceeds of the loan must be used to finance operations and can be used to make normally scheduled interest and principal payments, as well as ordinary-course debt payments. Proceeds from the BCAP Loan cannot be used to refinance existing debt. In conjunction with amended ABL Credit Facility, the Company amended certain terms of its term debt facility with GreyPoint Capital Inc. which included a 2.0% payment in kind interest until loan maturity, amendments to certain financial covenants and the issuance of 2,500,000 warrants in the Company.