

# Q1

## MD&A Report 2016



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*"For over 30 years we have proven our ability to combine strategic supplier relationships and expert logistics making us the premier supplier of drilling fluid chemicals and drilling fluid additives to the North American oil and gas industry."*

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**North America's Largest Pure Play**

**Oil and Gas Drilling Fluids**

**Distribution & Blending Company**

## INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of May 10, 2016. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the three months ended March 31, 2016 and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the unaudited interim condensed financial statements for the period ended March 31, 2016, as well as the annual audited consolidated financial statements for the twelve months ended December 31, 2015.

The Company's consolidated condensed interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard 34, "Interim Financial Reporting", and are presented in Canadian dollars unless otherwise indicated.

The Company's Continuing Operations consolidated financial statements include the accounts of Bri-Chem Corp. and its subsidiaries as follows:

- Bri-Chem Supply Ltd.,
- Sodium Solutions Inc.,
- Solution Blend Service Ltd.,
- Bri-Corp USA, Inc., including its three subsidiaries Bri-Chem Supply Corp, LLC, Sun Coast Materials, LLC and Bri-Chem Logistics, LLC,

All references in this report to financial information concerning the Company refer to such information in accordance with IFRS. This report also makes reference to certain non-IFRS measures in assessing the Company's financial performance. Non-IFRS measures do not have any standard meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These non-IFRS financial measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. These measures are discussed in the "Non-IFRS Measures" section of the report.

References in this MD&A to "Bri-Chem", the "Company", "us", "we", and "our" mean Bri-Chem Corp. and its subsidiaries, unless the context otherwise requires. Additional information relating to the Company, including the annual information form for the year ended December 31, 2015 is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:**

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or Bri-Chem's future plans and performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Bri-Chem believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- adequacy of capital resources required to finance the Company's inventories and other operations;
- the business objectives of the Company;
- results of operations and the performance of the Company;
- the ability of the Company to extend its credit facilities;
- the ability of the Company to develop its relationships with customers and potential new customers; and
- the ability of the Company to expand and broaden its areas of operation.

With respect to the forward-looking information contained in the MD&A, Bri-Chem has made assumptions regarding, among other things:

- the Company's relationships with its key suppliers and customers;
- economic conditions that influence the demand of the Company's customers for supplies and services;
- the Company's cash flow from sales; and
- the availability of existing credit facilities.

Although the forward-looking information contained in this MD&A is based upon what Management believes are reasonable assumptions, Bri-Chem cannot assure readers that actual results will be consistent with this forward-looking information. Although the Company believes that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Some of the risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A, include but are not limited to:

- supply and demand for oilfield services, and drilling fluids;
- competition for, among other things, capital and skilled personnel;
- incorrect assessments of the value of acquisitions;
- fluctuations in the market for oil and natural gas and related products and services;
- liabilities and risks, including environmental liabilities and risks inherent in chemical storage and handling and oil and natural gas service operations;
- fluctuations in foreign exchange or interest rates;
- political and economic conditions;
- failure of counter-parties to perform on contracts;

- regional competition;
- the Company's ability to attract and retain customers;
- amounts retained by the Company for capital expenditures;
- volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oil and gas services generally;
- stock market volatility and market valuations;
- unplanned equipment outages and other unforeseen disruptions that may affect operations;
- the presence of heavy competition in the industry in which the Company currently operates;
- general economic conditions in Canada and the United States and globally;
- the availability of capital on acceptable terms; and
- the other factors disclosed under "Risk & Uncertainties" in this MD&A.

Many of these risk factors are discussed further in detail herein, specifically in the "Risks and Uncertainties" section, and in the Company's Annual Information Form on file with Canadian securities commissions at [www.sedar.com](http://www.sedar.com). Readers are also referred to the risk factors described in other documents filed with Canadian securities commissions periodically throughout the year.

**Readers are cautioned that these factors and risks are difficult to predict. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Readers are also cautioned that the list of factors above and the risk factors set forth under the heading "Risks & Uncertainties" are not exhaustive. Before placing any reliance on any forward-looking statements to make decisions with respect to an investment in securities of Bri-Chem, prospective investors and others should carefully consider the factors identified above and other risks, uncertainties and potential changes that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. In addition, the forward-looking statements contained in this MD&A are made as of the date of this MD&A. Bri-Chem does not undertake any obligation to publicly update or to revise any forward-looking statements except as expressly required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by the cautionary statements contained herein.**

**2016 FIRST QUARTER OVERALL PERFORMANCE:**

*The discussion in this section is qualified in its entirety by the “Cautionary Statement Regarding Forward-Looking Information” section presented at the beginning of the MD&A. This Overview section is provided for information purposes only and readers are cautioned the information contained herein may not be appropriate for other purposes.*

The results for the three months ended March 31, 2016 reflect the challenging North American energy industry conditions as low oil and natural gas prices continued into 2016, which resulted in substantially lower North American industry activity levels over the same period in Q1 2015. The Company’s “Right-Sizing” efforts that commenced in 2015 continued into the first quarter of 2016 and we have now successfully reduced our senior operating debt down to \$17.5 million, while maintaining a strong working capital position and sufficient inventory levels for current market demands.

In the first quarter of 2016, we achieved the following corporate right-sizing milestones:

- Reduced inventory in Q1 by \$4.1 million;
- Reduced senior operating debt in Q1 by \$5.6 million;
- Reduced operating expenses quarter over quarter by \$0.8 million, and
- Identified additional right-sizing initiatives that will provide Bri-Chem a further \$0.3 million of overhead savings heading into Q2 2016.

During the first quarter of 2016, Bri-Chem’s consolidated revenues from its North American oil and gas drilling fluids distribution, blending and packaging businesses decreased 43.5% to \$14,820,659 compared to \$26,209,726 from the prior period in 2015. This quarter-over-quarter revenue decrease is the result of a significant decline in rig activity in the USA and the early start to the Western Canadian spring break up period that began this year in mid-February as compared to a traditional mid-March start-up. Earnings before interest, taxes, amortization and depreciation, share-based payments expense, and impairment charges (“EBITDA”) were (\$1,393,747) for the three months ended March 31, 2016, compared to \$1,721,103 for the same period in 2015. Net loss for the three month period was \$2,097,637 compared to net earnings of \$372,895 for the same period of 2015.

***North American Drilling Fluids Distribution Divisions***

Bri-Chem’s Canadian drilling fluids distribution division generated sales of \$5,350,407 for the three months ended March 31, 2016, compared to sales of \$8,967,569 over the comparable period in 2015. Sales were affected negatively by the early seasonal spring breakup period which began in mid-February as compared to the more traditional mid-March period due to mild temperatures and a further industry slowdown in Q1. The number of wells drilled in Western Canada for the three month period ended March 31, 2016 were 1,073, representing a decrease of 39.6% quarter over quarter.

Bri-Chem’s United States drilling fluids distribution division generated sales of \$4,913,300 for the three month period ended March 31, 2016, compared to revenues of \$11,287,270 in the comparable period of 2015, representing a decrease of \$6,373,970 or 56.5% quarter over quarter. The average number of active rigs running in the USA during the first quarter of 2016 was 556, a decrease of 59.7% quarter over quarter.

***North American Drilling Fluids Blending & Packing Divisions***

Bri-Chem’s Canadian drilling fluids blending and packaging division generated sales of \$3,074,350 for the three months ended March 31, 2016 compared to the prior year period sales of \$4,495,420 representing a 31.6% decrease quarter over quarter.

Bri-Chem's USA fluids blending and packaging division, generated sales of \$1,482,602 for the three month period ended March 31, 2016 compared to \$1,459,467, representing an increase of 1.6% quarter over quarter.

### **Outlook Summary**

North American oil and gas drilling activity levels, during the first quarter of 2016, continued to decline and current industry forecasts are that the remainder of 2016 capital expenditures will remain depressed. Commodity prices are expected to remain low compared to historical levels and as such, the Company expects that industry conditions will remain very challenging for the foreseeable future. Steps continue to be implemented to right-size the Company's operations in all business segments in response to reduced customer demand.

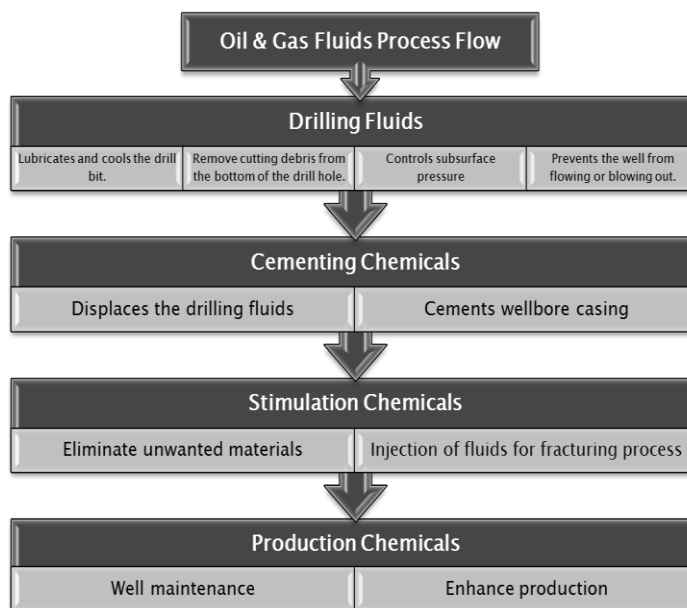
In Canada, the typical seasonal downturn in activity due to spring breakup commenced much earlier than normal and it is anticipated to be more prolonged compared to traditional break up periods with no significant increase in rig activity expected for the latter half of the second quarter. The oilfield activity levels has also continued to decline to historic lows in the USA as the active rig count, to May 6, 2016, has seen a further decline down to 415 active rigs, a decrease of 479 from the prior year. Bri-Chem has been proactive in response to this further reduction of North American business activity and has successfully implemented rolling changes to "Right-Size" its business and control costs. These initiatives together with our inventory and debt reduction strategies will continue to be evaluated based on current and projected business activity levels.

Overall, Bri-Chem's management team has experienced several business cycles and understands what is needed to effectively manage the business through an industry downturn. We understand the importance of cost management and reducing our debt during these challenging times. With minimum capex requirements, the Company will continue to provide superior customer performance while maintaining its corporate "Right-Sizing" and "Debt-Reduction" initiatives.

## DESCRIPTION OF BUSINESS

Bri-Chem has established itself, through a combination of strategic acquisitions and organic growth, as the North American industry leader for the distribution and blending of oilfield drilling, completion, stimulation and production chemical fluids. We sell, blend, package and distribute a full range of drilling fluid products, cementing, acidizing and stimulation additives from 27 strategically located warehouses throughout Canada and the United States. Bri-Chem has been operating in Canada since 1985 and as a result of the increasing market demand for oilfield chemicals, we expanded into the United States in 2011 and have successfully obtained significant market penetration. Additional information about Bri-Chem is available at [www.sedar.com](http://www.sedar.com) or at Bri-Chem's website at [www.brichem.com](http://www.brichem.com).

The Company is headquartered in Edmonton, Alberta and owns a 100% interest in Bri-Chem Supply Ltd. ("Bri-Chem Supply"), 100% interest in Sodium Solutions Inc. ("Sodium"), 100% interest in Solution Blend Service Ltd. ("Solution Blend"), 100% interest in Bri-Corp USA Inc. ("Bri-Corp"), which has three 100% owned subsidiaries, Bri-Chem Supply Corp, LLC ("Bri-Chem USA") Sun Coast Materials, LLC ("Sun Coast") and Bri-Chem Logistics, LLC ("Logistics").



## NORTH AMERICAN OILFIELD CHEMICAL DIVISIONS

### *Canadian Drilling Fluids Distribution Division*

Bri-Chem is one of Canada's largest wholesale distributors of drilling fluid products to the oil and gas industry in the Western Canadian Sedimentary Basin ("WCSB"). The drilling fluids division focuses on the oil & gas drilling stage, providing over 100 drilling fluid products and custom-blended products to major and independent oilfield service companies. Bri-Chem distributes its drilling fluid products from 13 strategically located warehouses throughout the WCSB. Drilling fluids are used in the process of drilling deep vertical or horizontal boreholes. The drilling fluids are an integral part of the drilling process, serving a number of functions, including controlling subsurface pressures, lubricating the drill bit, stabilizing the wellbore, and carrying the cuttings to the surface, among other functions.

### *USA Drilling Fluids Distribution Division*

Bri-Chem services its USA drilling fluids customers through its 16 warehouse locations strategically placed in the major resource plays in the USA. The division is establishing its market presence as a leading full service independent national wholesaler of drilling fluids to service the USA unconventional resource plays. The USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. Bri-Chem will continue to focus on its product offerings and customer service in the regions it currently services.



*Canadian Fluids Blending and Packaging Division*

The WCSB oil and gas drilling and completion segment utilizes cementing, stimulation, fracturing and production chemical fluids. Many of these products are a blended formulation utilizing specialty additives that Bri-Chem can supply in both packaged and truckload quantities. Cementing is performed when the cement slurry is deployed into the well via pumps, displacing the drilling fluids still located within the well, and replacing them with cement. Well stimulation involves introducing special blends of chemicals and acid to oil or gas producing formations in order to diminish or eliminate unwanted materials. The fracturing process injects fluids and sand at high pressure which creates small fractures in the rock that extend out from the well. Production chemicals are specialty blended products that help maximize well production and minimize well maintenance costs. Bri-Chem has dedicated facilities, located in Acheson, Camrose and Calgary, Alberta, with capacity to blend and package specialty additive fluids for customer specific products.

On December 1, 2014, Bri-Chem acquired 100% of the issued and outstanding shares of Solution Blend Service Ltd. ("Solution Blend"), an Alberta based liquid blending company for production and stimulation oilfield chemicals. The total consideration paid on closing consisted of i) \$4,650,683 in cash, and (ii) the issuance of a promissory note with fair value of \$445,175. Solution Blend, located in Calgary, AB, is leading specialty blending company for the stimulation and production chemical segment of the oilfield chemical industry. The company's strategic advantage is ensuring customer success by providing high quality specialty oilfield blended products, operating in safe and environmentally controlled facility, while maintaining compliance regulations, proficient warehouse management and delivery. Solution Blend's business has built a strong market position with many long term customers and Bri-Chem entered into employment agreements with key members of management which is expected to provide for a seamless integration. The acquisition of Solution Blend expands Bri-Chem into the liquid stimulation and production oilfield blending chemical segment.

*USA Fluids Blending and Packaging Division*

Bri-Chem services the well abandonment market of California through its subsidiary of Sun Coast Materials LLC. ("Sun Coast"). Sun Coast provides blended cement additives for customers in the California market that require various mixtures of cement products to complete shut ins on well abandonments in the region. Sun Coast's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers.

*Training and Fluid Analysis*

With a laboratory in Calgary, Alberta, Bri-Chem serves its customers throughout the WCSB with testing equipment, quality assurance, mud school training, and research and analysis of various oilfield Chemicals.

**Seasonality of Operations**

Weather conditions can affect the sale of the Company's fluids, chemical, 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 have a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern 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.



### **Corporate Strategy**

*The discussion in this section is qualified in its entirety by the “Cautionary Statement Regarding Forward-Looking Information” section presented at the beginning of the MD&A.*

In light of ongoing low global energy prices and the continued decline in drilling activity in North America, Bri-Chem will continue to evaluate and implement rolling changes to “Right-Size” its business and control costs based on current and projected business activity levels. Throughout 2016, the Company will seek to reduce its debt and inventory levels to reduce the overall leverage of the Company while maintaining a strong working capital position.

Bri-Chem’s exceptional industry infrastructure located throughout Canada and the U.S., its diversified product mix and blending services, blue chip customer base, and low cost and highly scalable business model, collectively, will serve to be a valuable contributor to many customers throughout North America during this difficult period and will benefit significantly when the market returns to more reasonable levels.

**FINANCIAL SUMMARY**

*The following selected three-month period consolidated financial information has been derived from and should be read in conjunction with the Company's First Quarter Report for the period ended March 31, 2016.*

Consolidated statements of operations	For the three months ended March 31		Change	
	2016	2015	\$	%
Sales	<b>\$14,820,659</b>	\$ 26,209,726	\$ (11,389,067)	(43.5%)
Gross margin	<b>2,438,291</b>	3,883,120	(1,444,829)	(37.2%)
	<b>16.5%</b>	14.8%		
Operating expenses <sup>(1)</sup>	<b>3,832,038</b>	2,162,017	1,670,021	77.2%
EBITDA <sup>(2)</sup>	<b>(1,393,747)</b>	1,721,103	(3,114,850)	(181.0%)
Depreciation and amortization	<b>272,897</b>	402,659	(129,762)	(32.2%)
Interest <sup>(3)</sup>	<b>793,626</b>	861,493	(67,867)	(7.9%)
Share-based payments	<b>71,947</b>	170,392	(98,445)	(57.8%)
Earnings from continuing operations before income taxes	<b>(2,532,217)</b>	286,559	(2,818,776)	(983.7%)
Income tax (recovery) expense - current	<b>(657,696)</b>	(710,659)	52,963	(7.5%)
Income tax expense - deferred	<b>223,116</b>	624,323	(401,207)	(64.3%)
Net earnings	<b>\$ (2,097,637)</b>	\$ 372,895	\$ (2,470,532)	(662.5%)
<b>Earnings (loss) per share</b>				
Basic from continuing operations	<b>\$ (0.09)</b>	\$ 0.02	\$ (0.10)	(664.8%)
Diluted from continuing operations	<b>\$ (0.09)</b>	\$ 0.02	\$ (0.10)	(664.8%)
<b>EBITDA per share from continuing operations</b>				
Basic	<b>\$ (0.06)</b>	\$ 0.07	\$ (0.13)	(181.3%)
Diluted	<b>\$ (0.06)</b>	\$ 0.07	\$ (0.13)	(181.3%)
<b>Weighted average shares outstanding</b>				
Basic	<b>23,623,981</b>	23,720,762		
Diluted	<b>23,623,981</b>	23,720,762		

(1) See page 34 for a further explanation of this non-IFRS measure.

(2) Represents earnings before interest, taxes, depreciation, amortization, impairment charges and share-based payments (See page 34 for a further explanation of this non-IFRS measure).

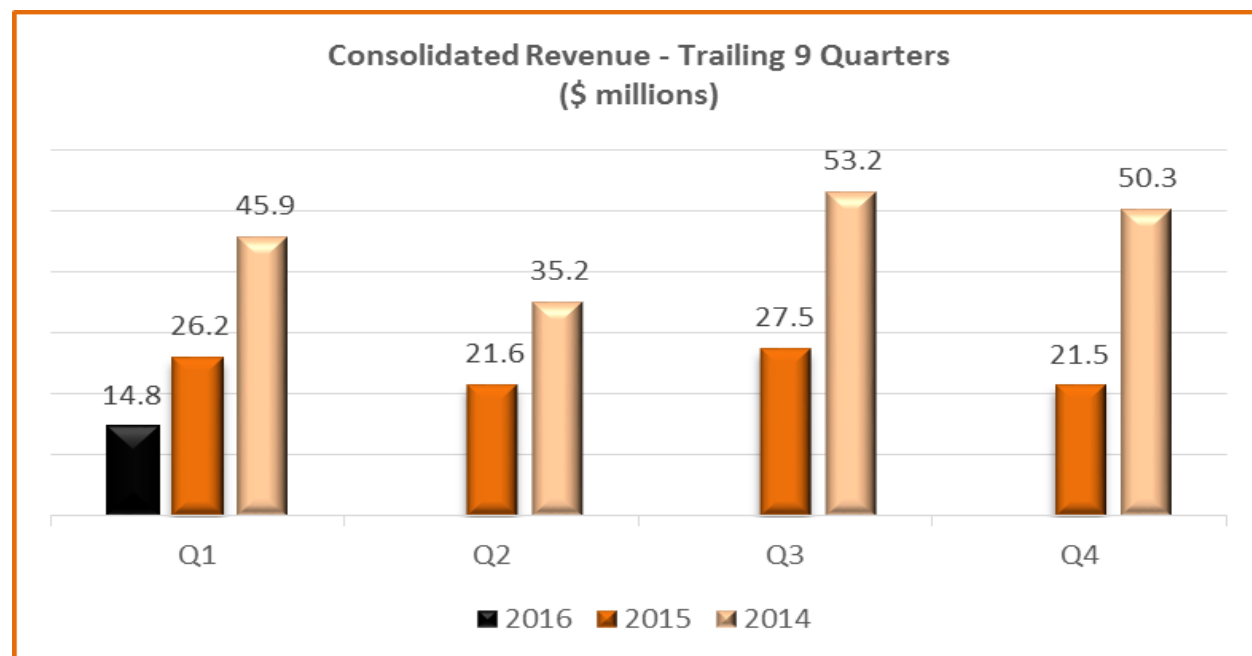
(3) Interest expense for the three months ended March 31, 2015 includes amortization of capitalized deferred financing cost of \$55,812 (March 31, 2015: \$64,971).

**RESULTS OF CONTINUING OPERATIONS**
**Sales**

*The discussion in this section is qualified in its entirety by the “Cautionary Statement Regarding Forward-Looking Information” section presented at the beginning of the MD&A.*

Sales by Segment	For the three months ended March 31					
	2016		2015		Change	
	\$	%	\$	%	\$	%
Fluids Distribution - Canada	\$ 5,350,407	36.1%	\$ 8,967,569	34.2%	\$ (3,617,162)	(40.3%)
Fluids Distribution - USA	4,913,300	33.2%	11,287,270	43.1%	(6,373,970)	(56.5%)
<b>Total Fluids Distribution</b>	<b>10,263,707</b>	<b>69.3%</b>	<b>20,254,839</b>	<b>77.3%</b>	<b>(9,991,132)</b>	<b>(49.3%)</b>
Fluids Blending & Packaging - Canada <sup>(1)(2)</sup>	3,074,350	20.7%	4,495,420	17.2%	(1,421,070)	(31.6%)
Fluids Blending & Packaging - USA	1,482,602	10.0%	1,459,467	5.6%	23,135	1.6%
<b>Total Fluids Blending &amp; Packaging</b>	<b>4,556,952</b>	<b>30.7%</b>	<b>5,954,887</b>	<b>22.7%</b>	<b>(1,397,935)</b>	<b>(23.5%)</b>
<b>Total</b>	<b>\$ 14,820,659</b>	<b>100.0%</b>	<b>\$ 26,209,726</b>	<b>100.0%</b>	<b>\$ (11,389,067)</b>	<b>(43.5%)</b>

- (1) Fluids blending and packaging division sells products to the fluids distribution division, which in turn sells it to the end user. In Q1 2016, the three months sales to the fluids distribution division were an additional \$699,873 (2015 - \$982,456). This revenue has been eliminated upon consolidation.


**North American Drilling Fluids Distribution Divisions**

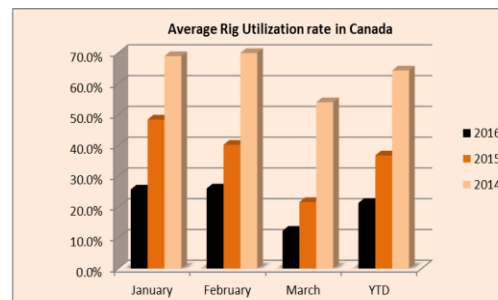
The Company's North American drilling fluids distribution divisions recorded combined sales of \$10,263,707 for the three months ended March 31, 2016 compared to sales of \$20,254,839 in 2015, representing a decrease of 49.3% quarter over quarter. The Canadian fluids distribution divisions' sales declined by 40.3%

## MD&A DISCUSSION & ANALYSIS – March 31, 2016

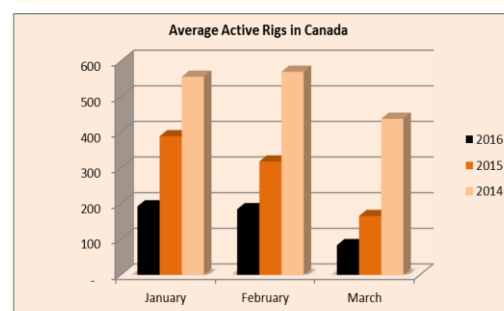
for the three month period, while the USA fluids distribution division experienced sales decline of 56.5% over the same comparable periods in 2015.

### *Canadian Drilling Fluids Distribution Division*

Bri-Chem's Canadian drilling fluids distribution division was negatively impacted due to the continued weakened global oil and gas commodity prices which resulted in lower drilling activity levels during the first quarter of 2016. Seasonal shut down of drilling rigs began in mid-February, compared to traditional start to spring break up in mid-March. Canadian distribution sales were \$5,350,407 for the three months ended March 31, 2016, compared to sales of \$8,967,569 over the comparable period in 2015.



In the WCSB, active drilling rigs in the first quarter of 2016 were down approximately 47.4% over the prior year, averaging 153 compared to 291 for the same period in 2015. WCSB active rigs had declined to 83 by March 31, 2016, 54.4% lower than the same period in 2015. In the first quarter of 2016, industry drilling utilization rates averaged 21.3%, representing a 15.4% decrease from the same period last year when drilling rig activity averaged 36.7%. The number of wells drilled in Q1 2016 in Western Canada was 1,073 compared to the 1,776 wells drilled in Q1 2015, representing a decrease of 39.6% quarter over quarter.



The Alberta, Saskatchewan and British Columbia markets all contributed to the decrease in revenues as each of these markets experienced a considerable slowdown. The Alberta market experienced a decrease in sales of 28.0% for the three months ended March 31, 2016, while the number of wells drilled decreased by 45.2% in the region. Saskatchewan had a decline of 33.0% in the numbers of wells drilled during the three months period ended March 31, 2016, which generated 43.6% less revenue in Q1 2016 compared to the same prior year period. British Columbia has seen a decrease of 80.1% in sales as drilling activity declined 30.0% with 133 wells drilled in the region in the first quarter ended March 31, 2016 compared to 190 wells drilled during the same period last year.

### Summary of the number wells drilled:

Area	Wells drilled in Q1 2016	Wells drilled in Q1 2015	Change in %
Alberta	550	1,004	(45.2%)
British Columbia	133	190	(30.0%)
Saskatchewan	390	582	(33.0%)
Western Canada <sup>1</sup>	1,073	1,776	(39.6%)

(1) Total Western Canada excludes Manitoba

(2) Source – PSAC

## MD&A DISCUSSION & ANALYSIS – March 31, 2016

### Summary of wells drilled in meters:

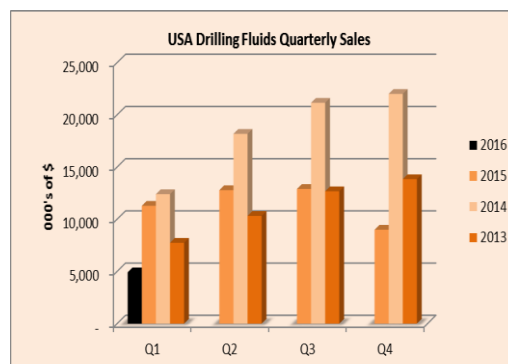
Area	Meters drilled in Q1 2016	Meters drilled in Q1 2015	Change in %
Alberta	2,210,140	3,458,847	(36.1%)
British Columbia	538,263	723,150	(25.6%)
Saskatchewan	575,265	1,108,616	(48.1%)
Western Canada <sup>1</sup>	3,323,668	5,290,613	(37.2%)

(1) Total Western Canada excludes Manitoba

(2) Source – PSAC

### United States Drilling Fluids Distribution Division

Bri-Chem's USA drilling fluids distribution division generated sales of \$4,913,300 for the three month period ended March 31, 2016, compared to revenues of \$11,287,270 in the same comparable period of 2015, representing a decrease of \$6,373,970 or 56.5% quarter over quarter. The decline in revenue is primarily driven by a significant reduction in drilling activity, as reflected in the 60% decrease in the USA rig count. In the USA, the average number of active rigs running during the first quarter of 2016 was 556 compared to 1,380 in the Q1 2015. The drop in drilling and well completions across the USA negatively impacted revenue in all product lines and geographical areas. The Company remains optimistic that the USA market will provide new opportunities as we have maintained the most comprehensive product distribution coverage throughout the major resource plays.



### Fluids Blending and Packaging Division

#### Canadian Fluids Blending and Packaging Division

For the first quarter of 2016, sales were \$3,074,350 compared to \$4,495,420 in 2015 representing a 31.6% decrease quarter over quarter. This decrease is due to considerable decline in drilling activity caused by significant decrease in crude oil and natural gas prices. These decreases negatively affected the demand on blending and packaging products and services offerings across Western Canada.

#### United States Fluids Blending and Packaging Division

For the three months ended March 31, 2016 sales were \$1,482,602 compared to \$1,459,467 in the same quarter of 2015. The division revenue is fairly consistent as the products are sold primarily to the well abandonment market which is typically not as severely impacted by commodity price fluctuations.

**MD&A DISCUSSION & ANALYSIS – March 31, 2016**
**Gross margin**

*The discussion in this section is qualified in its entirety by the “Cautionary Statement Regarding Forward-Looking Information” section presented at the beginning of the MD&A.*

	For the three months ended March 31					
	2016		2015		Change	
Gross Margin	\$	% *	\$	% *	\$	%
Fluids Distribution - Canada	\$ 314,915	5.9%	\$ 538,630	6.0%	\$ (223,715)	(41.5%)
Fluids Distribution - USA	796,570	16.2%	1,770,938	15.7%	(974,368)	(55.0%)
<b>Total Fluids Distribution</b>	<b>1,111,485</b>	<b>10.8%</b>	<b>2,309,568</b>	<b>11.4%</b>	<b>(1,198,083)</b>	<b>(51.9%)</b>
Fluids Blending & Packaging - Canada	696,112	22.6%	974,026	21.7%	(277,914)	(28.5%)
Fluids Blending & Packaging - USA	630,694	42.5%	599,526	41.1%	31,168	5.2%
<b>Total Fluids Blending &amp; Packaging</b>	<b>1,326,806</b>	<b>29.1%</b>	<b>1,573,552</b>	<b>26.4%</b>	<b>(246,746)</b>	<b>(15.7%)</b>
<b>Total</b>	<b>\$ 2,438,291</b>	<b>16.5%</b>	<b>\$ 3,883,120</b>	<b>14.8%</b>	<b>\$ (1,444,829)</b>	<b>(37.2%)</b>

\* As a percentage of divisional revenues

**Fluids Distribution and Blending & Packaging Divisions**

Adjusted Gross Margins	For the three months ended March 31		Change	
	2016	2015	\$	%
<b>Gross Margin (\$)</b>	<b>2,438,291</b>	<b>3,883,120</b>	<b>(1,444,829)</b>	<b>(37.2%)</b>
<b>As percentage of sales</b>	<b>16.5%</b>	<b>14.8%</b>		
Addback: Losses from sales associated with inventory reduction program due to economic downturn <sup>(1)</sup>	74,377	385,665	(311,288)	(80.7%)
<b>Adjusted Gross Margin (\$)<sup>(2)</sup></b>	<b>2,512,668</b>	<b>4,268,785</b>	<b>(1,756,117)</b>	<b>(41.1%)</b>
<b>Adjusted gross margin as percentage of sales</b>	<b>17.7%</b>	<b>18.1%</b>		

(1) Losses are due to the sale of large quantities of inventory as part of the Company's inventory reduction program. These one-time sales are due to the significant decline in industry activity and our ongoing program to “Right-Size” operations.

(2) Adjusted gross margins reflect the gross margin under IFRS excluding one-time losses from sales under unfavorable terms due to restructuring of the Company's operations caused by downturn (See page 34 for further explanation of this non-IFRS measure).

The drilling fluids distribution division margins declined by 0.6% for the three months ended March 31, 2016 compared to the same period in 2015. Margins on fluid sales vary based on product mix and drilling formations. Canadian fluid distribution margins averaged 5.9% for the three months period ended March 31, 2016, which was consistent to the same comparable period of 2015. The decrease in gross margin during the first quarter of 2015 was due to pressure from customers to reduce selling prices given current industry market conditions. The Canadian fluids distribution division had many customers requesting less costly alternatives for drilling fluids in an attempt to control their costs, resulting in lower margins on fluid sales. The division had one-time sales of invert products resulting in a loss of gross margin of \$74,377 as part of its inventory reduction management program. If we had excluded the effect of these transactions, the gross margin of the Canadian fluids distribution division would have been 8.1%.

The USA fluids distribution margins were 16.2% for the three months ended March 31, 2016; an increase of 0.5% compared to the same period in 2015. The division tried to maintain margins where possible, however it did face pricing pressures in all regions. The increase in gross margins was a result of product mix, whereby the division sold less volume of lower margin commodity products, such as invert and barite in Q1 2016 compared to the prior year quarter.

**MD&A DISCUSSION & ANALYSIS – March 31, 2016**

Canadian fluids blending and packaging divisions margins were 22.6% for the three months ended March 31, 2016, compared to 21.7% for the comparable prior year period. This increase in gross margin was attributable to the Company being able to lower its product costs on certain products. Sun Coast, the United States blending and packaging division, generated gross margins of 42.5% for the three months ended March 31, 2016 which was 1.4% higher than the same period in 2015. The increase was the result of one product being sold at a higher margin during the quarter.

**Gross margins – outlook**

For the second quarter and the remainder of 2016, we are anticipating gross margins on fluid sales to continue to stay under pressure due to lower crude oil and natural gas market prices resulting in a decline of activity levels and an overall decline in fluid demand throughout North America. We are unable to predict the value of the Canadian dollar in relation to foreign currencies in the future; therefore, we are uncertain as to the potential impact on the Company's gross margin in relation to foreign purchases of product.

**Operating expenses**
**Salaries and employee benefits**

	For the three months ended March 31		Change	
	2016	2015	\$	%
Salaries and employee benefits				
<b>Salaries and benefits</b>	<b>\$ 1,925,440</b>	<b>\$ 2,759,734</b>	<b>\$ (834,294)</b>	<b>(30.2%)</b>
% of sales	13.0%	10.5%		

Salaries and benefits have decreased by \$834,294 for the three months ended March 31, 2016 compared to the same period in 2015. Salaries and benefits as a percentage of sales for three months increased to 13.0% compared to 10.5% in the same 2015 period. The decrease in salaries and benefits was a result of the Company's "Right-Size" plan implemented in late Q1 2015, whereby the Company decreased staffing levels in all departments of the organization including operations, sales, management and administration. In addition, sales commissions reduced in Q1 2016 as a result of lower sales activity.

The Company employed 70 (31 Canada and 39 USA) employees at March 31, 2016 compared to 92 (39 Canada and 53 USA) at March 31, 2015. Bri-Chem commenced right sizing its operations in the first quarter of 2015 and laid off approximately 40% of its staff, rolled back wages 5% companywide for all non-managerial staff employees and 10% for all directors, managerial, senior and executive employees, and suspended various nonessential employee benefits. Management is constantly re-evaluating the infrastructure of the Company and may continue to adjust employee levels given the level of drilling fluid demand in the industry.



**Selling, general and administration**

	For the three months ended March 31			
	<u>2016</u>		<u>2015</u>	
Selling, general and administration	\$	%*	\$	%*
Selling	\$ 107,213	0.7%	\$ 183,984	0.7%
Professional and consulting	212,197	1.4%	88,266	0.3%
General and administration	451,702	3.0%	431,581	1.6%
Rent, utilities and occupancy costs	680,176	4.6%	721,021	2.8%
	<b>1,451,288</b>	<b>9.8%</b>	1,424,852	5.4%
Foreign exchange (gain) loss	527,260	3.6%	(2,543,844)	(9.7%)
<b>Total</b>	<b>\$ 1,978,548</b>	<b>13.3%</b>	<b>\$ (1,118,992)</b>	<b>(4.3%)</b>

\* As a percentage of consolidated revenues

The following is an analysis of the selling, general and administrative categories:

Selling expenses decreased by \$76,771 during the three months ended March 31, 2016 compared to the same period in 2015. The decrease quarter over quarter includes a decline of \$39,671 in advertising, promotion and meals and entertainment. In addition, travel costs declined by \$24,908 as the Company continues to cut costs in discretionary spending due to the depressed industry. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses increased quarter over quarter as the Company increased its accrual for audit and legal fees. The Company also incurred approximately \$54,630 in professional advisory services for assistance with preparation of the annual financial reporting. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses for the three month period ended March 31, 2016 increased slightly by \$20,121 compared to the same period in 2015. This increase was due to an additional accrual for estimated bad debt expense of \$39,112, and an increase in insurance costs of \$8,876. These increases were offset by office expenses decreasing by \$27,528. General and administration expenses include bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy costs decreased by \$40,845 for the first quarter ended March 31, 2016 compared to the same prior year period. The decrease quarter over quarter relates to the utility expense decrease of \$4,613 and repair and maintenance costs decrease of \$29,554. The costs in this category are comprised mainly of rent, utilities, and warehouse expenses for the Leduc, Camrose, Acheson, Calgary and USA locations as well as liquid storage tank rentals.

During the first quarter of 2016, the Canadian dollar decreased its value in relation to the US dollar. This decrease in the Canadian dollar exchange rate caused the Company to have an unfavorable position on certain net advances from intercompany loans denominated in USD, which resulted in having a foreign exchange loss of \$527,260 for the three month period ended March 31, 2016.

***Right-Size Cost Savings and Restructuring costs***

During the quarter, the Company did not recognized any material restructuring costs compared to \$691,667 of restructuring costs in Q1 2015. These restructuring costs are comprised of severance costs of \$164,223 due to personnel termination, provision of \$448,771 for lease cancelations and shutting down of warehouses, and \$78,673 worth expenses related to winding up Discontinued Operations. Commencing in the second quarter of 2016, the Company anticipates additional restructuring costs of approximately \$250,000 per

**MD&A DISCUSSION & ANALYSIS – March 31, 2016**

quarter for the balance of fiscal 2016 as we continue to adjust our overheads and business operations to correspond with the reduced industry activity levels.

**Depreciation and amortization**

Depreciation and amortization	For the three months ended March 31		Change	
	2016	2015	\$	%
Property and equipment	\$ 272,899	\$ 300,107	\$ (27,208)	(9.1%)
Intangible assets	-	100,041	(100,041)	(100.0%)
<b>Total</b>	<b>\$ 272,899</b>	<b>\$ 400,148</b>	<b>\$ (127,249)</b>	<b>(31.8%)</b>

The depreciation of property and equipment decreased during the three month period ended March 31, 2016. Amortization on property and equipment decreased quarter over quarter as a result of the Company writing down its carrying value of certain USA assets in the amount of \$1,629,297 in 2015. Amortization of intangible assets for the three months ended March 31, 2016 has decreased due to write down of carrying value of customer relationships, distribution agreement, supply agreement and non-compete agreements for the total amount of \$3,534,306 in 2015.

**Interest**

Interest	For the three months ended March 31		Change	
	2016	2015	\$	%
Interest on short-term operating debt	\$ 356,454	\$ 560,328	\$ (203,874)	(36.4%)
Interest on long-term debt	432,589	300,107	132,482	44.1%
Interest on obligations under finance lease	4,584	1,058	3,526	333.3%
<b>Total interest expense</b>	<b>\$ 793,627</b>	<b>\$ 861,493</b>	<b>\$ (67,866)</b>	<b>(7.9%)</b>
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	\$ 55,812	\$ 64,971	\$ (9,159)	(14.1%)
<b>Cash interest expense<sup>(1)</sup></b>	<b>\$ 737,815</b>	<b>\$ 796,522</b>	<b>\$ (58,707)</b>	<b>(7.4%)</b>

(1) See page 34 for a further explanation of this non-IFRS measure.

Interest on short-term operating debt decreased by \$203,874 for the three months ended March 31, 2016. The short term interest expense for the first quarter of 2016 was lower than in the comparable period in 2015 as the Company maintained a lower credit facility balance over the quarter due to the Company's debt reduction initiatives implemented in 2015. Interest on long-term debt for the three month period ended March 31, 2016 was higher as the Company deferred three quarterly installments and accrued additional deferral fees as part of its amended subordinated debt agreement in late 2015.

**Income taxes**

The provision for income taxes for the three months ended March 31, 2016 is a net current tax recovery of \$657,696 compared to a recovery of \$710,659 in the same period in 2015. The current tax recovery in Q1 2016 is a result of having a loss for tax purposes in the USA and Canadian fluids distribution divisions. The Company had a deferred tax expense of \$223,116 during the three months ended March 31, 2016, which is a decrease of \$401,207 compared to the same period in 2015. The deferred tax expense is due to the utilization of deferred income tax assets recognized in previous quarters. The Company's effective tax rate of 26.0% for the three months ended March 31, 2016.

**MD&A DISCUSSION & ANALYSIS – March 31, 2016**
**Net (loss) earnings per share**

Net (loss) / earnings and EDITDA	For the three months ended March 31		Change	
	2016	2015	\$	%
Net (loss) / earnings	\$ (2,097,637)	\$ 372,895	\$ (2,470,532)	(662.5%)
% of sales	-14.2%	1.4%		
Adjusted net (loss) / earnings <sup>(1)</sup>	\$ (2,097,637)	\$ 866,907	\$ (2,964,544)	(342.0%)
% of sales	-14.2%	3.3%		
EBITDA <sup>(2)</sup>	\$ (1,393,747)	\$ 1,721,103	\$ (3,114,850)	(181.0%)
% of sales	-9.4%	6.6%		
Adjusted EBITDA <sup>(3)</sup>	\$ (1,393,747)	\$ 2,412,770	\$ (3,806,517)	(157.8%)
% of sales	-9.4%	9.2%		

(1) Adjusted net earnings excludes the after tax effect of restructuring costs (see page 34 for a further explanation of this non-IFRS measure).

(2) Represents earnings before interest, taxes, depreciation, amortization, share-based payments and impairment charges (see page 34 for a further explanation of this non-IFRS measure).

(3) Represents earnings before interest, taxes, depreciation, amortization, share-based payments and impairment charges adjusted for restructuring costs (see page 34 for a further explanation of this non-IFRS measure).

The Company had a net (loss) for the quarter ended March 31, 2016 of (\$2,098,637) compared to net earnings of \$372,895 in the prior year period. The first quarter net earnings as a percentage of revenues for the period was (14.2%) compared to 1.4% from the prior year quarter. Net earnings were negatively impacted by the significant decrease in drilling activity in North America and higher costs on the subordinated debt facility. The adjusted net loss, net of after tax restructuring costs, for the three months ended March 31, 2016 was (\$2,098,637) or (14.2%) as a percentage of revenue compared to \$866,907 or 3.3% for the same comparable period in 2015.

EBITDA was (\$1,393,747) for the three month period ended March 31, 2016 compared to \$1,721,103 in the same comparable prior year period; a decrease of \$3,114,850 quarter over quarter. Adjusted EBITDA, net of one-time restructuring costs, for the first quarter of 2016 was (\$1,393,747) or (9.4%) as percentage of revenue compared to \$2,412,770 or 9.2% for the same period in 2015. The EBITDA and Adjusted EBITDA declined in Q1 2016 due to the continued decline in drilling activity caused by the low market prices on crude oil and natural gas.

Basic and diluted loss per share for the three month period ended March 31, 2016 was (\$0.09) and adjusted loss per share for the three month period ended March 31, 2016 was (\$0.09). Both the loss per share and adjusted loss per share were based on the weighted average number of shares outstanding during the three months ended March 31, 2016. The basic and diluted weighted average numbers of shares outstanding for the quarter ended March 31, 2016 were 23,623,981 (2015 – 23,720,762). The decrease of 87,781 shares issued and outstanding was as a result of the repurchase of common shares under its normal course issuer bid in Q1 2015.

**MD&A DISCUSSION & ANALYSIS – March 31, 2016**
**SUMMARY OF QUARTERLY DATA**

(in thousands of Cdn \$)	2016 Q1	2015 Q4	2015 Q3	2015 Q2	Total TTM
Sales	\$ 14,820	\$ 21,507	\$ 27,495	\$ 21,610	\$ 85,432
Gross margin (\$)	2,438	1,564	4,833	3,201	12,036
Gross margin (%)	16.5%	7.3%	17.6%	14.8%	14.1%
EBITDA <sup>(1)</sup>	(1,394)	(5,696)	2,339	(1,125)	(5,876)
Net (loss) earnings from continuing operations <sup>(2) (3)</sup>	\$ (2,098)	\$ (13,373)	\$ 351	\$ (1,709)	(16,829)
Basic earnings (loss) per share from continuing operations	\$ (0.09)	\$ (0.57)	\$ 0.01	\$ (0.07)	\$ (0.72)
Diluted earnings (loss) per share from continuing operations	\$ (0.09)	\$ (0.57)	\$ 0.01	\$ (0.07)	\$ (0.72)

(in thousands of Cdn \$)	2015 Q1	2014 Q4	2014 Q3	2014 Q2	Total TTM
Sales	\$ 26,210	\$ 50,291	\$ 53,283	\$ 35,186	\$ 164,970
Gross margin (\$)	3,883	8,564	9,663	6,055	28,165
Gross margin (%)	14.8%	17.0%	18.1%	17.2%	17.1%
EBITDA <sup>(1)</sup>	1,721	5,189	6,461	932	14,303
Net earnings (loss) from continuing operations <sup>(2) (3)</sup>	\$ 373	\$ (3,370)	\$ 3,357	\$ (597)	(237)
Net (loss) earnings from discontinued operations <sup>(3)</sup>	-	225	(368)	(2,580)	(2,723)
Basic earnings (loss) per share from continuing operations	\$ 0.02	\$ (0.14)	\$ 0.14	\$ (0.02)	\$ -
Diluted earnings (loss) per share from continuing operations	\$ 0.02	\$ (0.14)	\$ 0.14	\$ (0.02)	\$ -
Basic earnings (loss) per share from discontinued operations	\$ -	\$ 0.01	\$ (0.02)	\$ (0.11)	\$ (0.12)
Diluted earnings (loss) per share from discontinued operations	\$ -	\$ 0.01	\$ (0.02)	\$ (0.11)	\$ (0.12)

(1) EBITDA is non-IFRS measures which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. (See page 34 for a further explanation of these non-IFRS measures).

(2) In Q4 2015 the Company recognized impairment charges on plant and equipment, goodwill and other intangible assets in the amount of \$6,126,247 (2015 - \$8,567,921).

(3) In Q3 2014, the Company completed the sale of its Steel Pipe Manufacturing division assets and Steel Pipe Distribution division assets and all ongoing business operations. The Company reclassified the associated assets and liabilities of these businesses to assets and liabilities held for sale and the operations are reflected as discontinued operations for all periods presented.

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 during Q2 has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern 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.

**FINANCIAL CONDITION & LIQUIDITY – CONTINUED OPERATIONS**

*The discussion in this section is qualified in its entirety by the "Cautionary Statement Regarding Forward-Looking Information" section presented at the beginning of the MD&A.*

The Company's primary liquidity and capital resource needs are to fund ongoing operations, capital expenditures, growth opportunities and potential future acquisitions. In addition, the Company must service its debt, including interest payments and finance working capital needs. The Company relies on its cash flow

## MD&A DISCUSSION & ANALYSIS – March 31, 2016

from operations, debt and equity financings, cash tax refunds and borrowings under the Company's ABL Facility for liquidity.

The Company's operating cash flow has historically been affected by the overall profitability of sales within the Company's segments, the Company's ability to invoice and collect from customers in a timely manner and the Company's ability to efficiently manage costs. The Company's cash flow from operations has historically been sufficient to meet the Company's working capital, capital expenditure and debt servicing requirements. Given the current market environment, working capital has been constrained, however the Company is prudently managing its cashflow, has cut back on discretionary spending and will be receiving approximately \$4 million of cash tax refunds from prior years taxes paid in the next couple of quarters. As at March 31, 2016, the Company has liquidity of approximately \$5 million under its existing ABL Facility based on the Company's marginable asset base, which is sufficient to meet its short term obligations.

As at March 31, 2016 the Company had positive working capital of \$22.8 million compared to \$24.5 million at December 31, 2015. The Company's current ratio (defined as current assets divided by current liabilities) was 1.98 to 1 as at March 31, 2016, compared to 1.81 to 1 as at December 31, 2015.

The following table summarizes the Company's sources and uses of funds for the three months ended March 31, 2016 and 2015:

Summary of Consolidated Statements of Cash Flows Period ended	March 31 2016	March 31 2015
<b>Continuing operations</b>		
Cash provided by operating activities	\$ 5,389,328	\$ 15,151,673
Cash used in financing activities	(5,360,405)	(14,494,218)
Cash used in investing activities	(28,923)	(657,455)
Net increase in cash and cash equivalents	\$ -	\$ -
Cash and cash equivalents, beginning of the period	-	-
Cash and cash equivalents, end of the period	\$ -	\$ -

### Operating activities

Cash provided by operating activities for the three month period ended March 31, 2016 was \$5,389,328 compared to cash provided by operating activities of \$15,151,673 for the prior year period. The decrease in Company's cash flow provided by operating activities is the result in the slowdown in activity in 2015 which resulted in less collections of accounts receivable. Accounts receivable changed by approximately \$5.2 million while inventory was reduced by \$4.1 million. These increases in accounts receivable collection and cash savings from inventory were due to reduced sales activity and purchases of inventory as a result of dramatic decline in drilling activity during the quarter. The Company continues to manage its inventory prudently while maintaining its cost savings initiatives from 2015.

### Financing activities

Cash used in financing activities was \$5,360,405 for the three month period ended March 31, 2016, compared to cash used of \$14,494,218 in the comparable 2015 interim period. The cash used in financing activities in 2016 relates to repayments on the ABL Facility of \$4.7 million. The increase in repayments on the operating line was due to less payments being made for product purchases given drilling demand levels.

### **Investing activities**

Cash used in investing activities amounted to \$28,923 for the three months ended March 31, 2016 compared to \$657,455 in the same prior year comparable period. The decrease is the result of less capital assets purchased in the Company due to the Company's mandate to preserve cash flow. Forecasted capital expenditures for the remainder of 2016 are approximately \$200,000 and will be funded through existing operating facilities and finance leases where possible for specific equipment.

#### *Credit Facilities*

On November 30, 2015, the Company amended the terms of the ABL Facility to decrease the maximum borrowing base down to \$40,000,000. Other amendments include an increase in interest rates, a change in the financial covenants with no change to the maturity date of the facility, which is still August 12, 2016. The ABL Facility bears interest either at the Canadian prime rate plus 1.5% (2015 – Canadian prime rate) or bankers' acceptance rate plus 3.00% (2015 - bankers' acceptance rate plus 1.50%) or LIBOR plus 3.00% (2015 - LIBOR plus 1.50%), a collateral management fee of \$1,500 per month (2015 - \$1,500 per month) and a standby fee of 0.25% (2015 - 0.25%) on unused amounts of the ABL Facility. The ABL Facility is secured by a general security agreement covering all present and acquired property and postponements of claims from related parties.

As at March 31, 2016, the Company had drawn \$17,492,149, net of unamortized transaction costs of \$77,867, on its available credit facilities of \$40,000,000, as compared to \$23,055,007 at December 31, 2015. The Company is required to comply with two financial covenants under its ABL Facility being a minimum adjusted tangible net worth ratio and maximum annual eligible capital expenditures. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness.

The minimum adjusted tangible net worth covenant requires the Company to ensure adjusted tangible net worth is greater than \$31,101,000 as at March 31, 2016. This is defined, on a consolidated basis, as total assets, less intangibles and goodwill, excluding deferred tax assets less total liabilities, excluding deferred tax liabilities. The 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.

Effective November 30, 2012, the Company secured a subordinated debt facility with Fulcrum. The initial term of the sub debt facility is for five years and is secured by a second charge general security agreement covering all present and after acquired property and postponement of claim from related parties. The sub debt facility bears interest at 11.50%, with repayments of interest only for the first fifteen months of the agreement, then quarterly principal repayments of \$300,000 plus interest. Total transaction costs relating to the subordinate debt facility amounted to \$312,786.

The Company amended the agreement on November 30, 2015, in conjunction with the amendment to the ABL Facility. In accordance with this amendment, the Company has deferred two quarterly payments in September and December of 2015 and will defer two more quarterly principal payments in March 31, 2016 and June 30, 2016. The amendment also eliminated the funded term debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") covenant. The Lender has added a principal deferral fee of 8.5% per year that will be added to the outstanding principal amount and will bear interest at the applicable interest rate until the deferred principal is repaid in full.



**MD&A DISCUSSION & ANALYSIS – March 31, 2016**

The subordinated debt facility contains financial covenants that are consistent with the ABL Facility. In addition, the Company is required to maintain a twelve month rolling actual adjusted EBITDA in excess of 70% of projected adjusted EBITDA. Adjusted EBITDA is defined as net income before interest on debt, taxes on net income, 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. As at March 31, 2016, the Company was in compliance with its covenants.

The ABL Facility is subject to renewal prior to its maturity date of August 12, 2016. The Company has held discussions with its ABL Facility bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that the renewal may not be forthcoming on acceptable terms. Failure to reach agreement regarding the terms to extend this agreement could result in the acceleration of the relevant indebtedness.

The Company's ability to continue as a going concern is dependent on the Company's ability to generate future profitable operations, realize forecasted revenues, control operational expenditures and secure future financing when required. Management has applied significant judgement in preparing forecasts supporting the going concern assumption. Revenues are projected based on demand for drilling fluid products, which is driven by forecasted commodity prices and drilling activity levels. The timing and extent of operating and general administrative expenditures are projected based on the estimated revenue levels. The actual commodity prices may differ significantly from the forecasted commodity prices used by management.

	March 31, 2016		December 31, 2015	
	As calculated	Minimum required	As calculated	Minimum required
Minimum adjusted tangible net worth	\$ 32,207,305	\$ 31,101,000	\$ 34,292,132	\$ 31,864,000
Eligible capital expenditures	28,923	Not to exceed \$723,480	2,585,291	Not to exceed \$5,806,980
		Actual adjusted EBITDA greater than 70% of projected adjusted EBITDA		
EBITDA	\$ 1,410,460	\$ 1,165,912	\$ 2,251,957	\$ 1,016,889

The minimum covenants are noted in the above table. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lenders on a monthly basis. As at March 31, 2016, the Company was in compliance with all financial covenants.

***Cash Requirements for Capital Expenditures***

Historically, the Company has financed its capital expenditures and acquisitions through its ABL Facility, subordinated debt and equity. The budgeted future capital expenditures for the rest of 2016 are approximately \$200,000 (2015 - \$857,000) which may include future equipment upgrades to blending and packaging equipment for the Canadian blending and packaging division as well as upgrades to trucks in the USA blending and packaging division. Capital expenditures typically are comprised of betterments and upgrades to existing assets, and additions incurred during the period. The Company ensures equipment is efficient and profitable or the equipment is replaced when the cost of maintenance and operating the equipment is not feasible. However, if a sustained period of market and commodity price uncertainty and



financial market volatility persists in the remainder of 2016, the Company's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

#### **Off-balance sheet arrangements**

The Company did not enter into any off-balance sheet arrangements during the current or comparable reporting period.

#### **Transactions with related parties**

During the three month period ended March 31, 2016, the Company incurred office sharing costs of \$15,000 (March 31, 2015 - \$15,000) in the normal course of operations, paid to a company over which a director has control.

### **OUTLOOK**

*The discussion in this section is qualified in its entirety by the "Cautionary Statement Regarding Forward-Looking Information" section presented at the beginning of the MD&A. This Outlook section is provided for information purposes only and readers are cautioned the information contained herein may not be appropriate for other purposes.*

North American oil and gas drilling activity levels, during the first quarter of 2016, continued to decline and current industry forecasts are that the remainder of 2016 capital expenditures will remain depressed. Commodity prices are expected to remain low compared to historical levels and as such, the Company expects that industry conditions will remain very challenging for the foreseeable future. Steps continue to be implemented to right-size the Company's operations in all business segments in response to reduced customer demand.

In Canada, the typical seasonal downturn in activity due to spring breakup commenced much earlier than normal and it is anticipated to be more prolonged compared to traditional break up periods with no significant increase in rig activity expected for the later half of the second quarter. The oilfield activity levels have also continued to decline to historic lows in the USA as the active rig count, to May 6, 2016, has seen a further decline down to 415 active rigs, a decrease of 479 from the prior year. Bri-Chem has been proactive in response to this further reduction of North American business activity and has successfully implemented rolling changes to "Right-Size" its business and control costs. These initiatives together with our inventory and debt reduction strategies will continue to be evaluated based on current and projected business activity levels.

Overall, Bri-Chem's management team has experienced several business cycles and understands what is needed to effectively manage the business through an industry downturn. We understand the importance of cost management and reducing our debt during these challenging times. With minimum capex requirements, the Company will continue to provide superior customer performance while maintaining its corporate "Right-Sizing" and "Debt-Reduction" initiatives.

### **RISKS AND UNCERTAINTIES**

*The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with the detailed information appearing elsewhere in this MD&A and Bri-Chem's other public disclosure documents, including the Annual Information Form for the Company for the year ended December 31, 2015. These risks and uncertainties are not the only ones*

***facing Bri-Chem. Additional risks and uncertainties not currently known to the Company or that the Company currently considers remote or immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Company could be materially adversely affected.***

## **Risks Relating to Bri-Chem and its Business**

### ***Industry Conditions***

There is a strong correlation between oil and gas drilling activity and demand for the Company's products. The capital expenditure programs of oil and gas companies largely affect the products provided by the Company. The magnitude of capital expenditures determines the demand for the Company's drilling fluids to the oil and gas industry. The primary catalysts to high expenditures and activity levels in the energy industry are oil and gas prices which, in turn, are influenced strongly by supply and demand expectations. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company.

Prolonged low oil and natural gas prices, like the prices which have existed since late 2014, generally depress the level of exploration and production activity by E&P companies which causes a corresponding decline in the demand for drilling fluid products and services and, as a result, has an adverse effect on the Company's business and financial results. The level of activity in the Canadian and United States oil and gas exploration and production industry is volatile. There can be no assurance that the future level of demand for the Company's products or future conditions in the oil and natural gas and oilfield services industries will not decline.

### ***Oil and Natural Gas Prices***

The revenue, cash flow and earnings of the Company are substantially dependent upon and affected by the level of activity associated with oil and natural gas exploration. Both short-term and long-term trends in oil and natural gas prices affect the level of such activity. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for and the supply of oil and natural gas. Weather conditions, governmental regulation, levels of consumer demand, the availability of pipeline capacity and other factors beyond the Company's control may also affect the supply of and demand for oil and natural gas leading to future price volatility. The drilling industry is cyclical and the fluctuations in the level of oil and natural gas exploration and development activity have a direct impact on the Company's business. Any significant reduction in industry levels of drilling activity in the WCSB and the United States may severely reduce activity levels for the Company and its resulting revenue, cash flow and earnings.

### ***Regulations Affecting the Oil and Natural Gas Industry***

The operations of the Company and its customers are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate. As a result of changes in regulations and laws relating to the oil and natural gas industry, the Company's customers' operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with applicable regulations could cause customers to discontinue or limit their operations and may discourage companies from continuing activities. As a result, demand for the Company's products and services could be substantially affected by regulations and taxation adversely impacting the oil and natural gas industry.

### ***Provincial Royalty Rate Changes***

The provincial governments of Alberta, British Columbia, Manitoba, Quebec and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. These changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the oilfield services sector.

### ***Seasonal Weather***

In Canada, the level of activity in the oil and natural gas industry is influenced by seasonal weather patterns. Spring break-up during the second quarter of each year leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of energy services. In addition, many jurisdictions enforce road bans during such times that restrict the movement of heavy equipment. The timing and duration of spring break-up is dependent on weather patterns and the duration of this period will have an impact on the level of business of the Company. There is greater drilling activity and therefore a greater demand for the Company's products in the winter season when the ground is frozen allowing the movement and operation of heavy equipment. This peak season typically runs from November to early March. However, if unseasonably warm temperatures in the winter occur it may prevent sufficient freezing, and drilling activity may be adversely affected, impacting the Company's operations and financial condition.

### ***Ability to Maintain Obligations Under Asset-Based Lending Facility and Other Debt***

Bri-Chem has borrowed a considerable amount of cash under its ABL and subordinate debt facilities. Bri-Chem is required to satisfy certain financial covenants in order to maintain its good standing under the ABL and subordinate debt facilities. Bri-Chem may from time to time enter into other arrangements to borrow money in order to fund its operations and expansion plans, and such arrangements may include covenants that have similar obligations or that restrict its business in some way. Events may occur in the future, including events out of Bri-Chem's control that would cause Bri-Chem to fail to satisfy its obligations under the credit facilities or other debt instruments. In such circumstances, the amounts drawn under Bri-Chem's debt agreements may become due and payable before the agreed maturity date and Bri-Chem may not have the financial resources to repay such amounts when due. The credit facilities are secured by all of Bri-Chem's assets. If Bri-Chem were to default on its obligations under the credit facility or other secured debt instruments in the future, the lender(s) under such debt instruments could enforce their security and seize all or significant portions of Bri-Chem's assets.

### ***Liquidity risk***

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The changes in the global financial markets and weak economic conditions, can have a significant impact on the ability of the Company to obtain funding for future financial requirements.

Due to these factors, the Company cannot be certain that funding will be available when needed and to the extent required, on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

### ***Market Price Volatility of Common Shares***

The market price of the Company's common shares may be volatile. The volatility may affect the ability of shareholders to sell the common shares at an advantageous price. Market price fluctuations in the common shares may be due to the Company's operating results failing to meet the expectations of investors and stock market analysts in any quarter, downward revision in securities analysts' estimates, governmental regulatory actions, adverse change in market conditions or economic trends, acquisitions, business or asset dispositions and material announcements by the Company or its competitors, along with a variety of additional factors, including, but not limited to, those set forth in "*Cautionary Statement Regarding Forward-Looking Information*" herein. In addition, the stock markets, including TSX, may experience significant price and trading fluctuations. These fluctuations may result in volatility in the stock market prices that often has been unrelated or disproportionate to changes in operating performance. These market fluctuations may adversely affect the market prices of the Company's common shares.

### ***Availability of Future Funding***

The Company's business strategy is based in part upon the continued expansion of the Company's strategic network of warehouse facilities. In order to continue to implement its business strategy, the Company may be required to further finance these expenditures through ongoing cash flow from operations, borrowings under its credit facilities and by raising capital through the sale of additional debt or equity securities. The Company's ability to obtain financing or to access the capital markets for future offerings may be limited by the restrictive covenants in the Company's current and future debt agreements, by the Company's future financial condition, and by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties beyond the Company's control. In addition, capital markets can be volatile and continued industry volatility could limit the Company's ability to obtain new financing. The Company's inability to raise funding to support ongoing operations and to fund capital expenditures or acquisitions may limit Bri-Chem's growth or may have a material adverse effect upon the Company.

### ***Credit Risk***

The oilfield services sector is directly affected by the financial health of its customers, and as a result of low oil prices, cash flows have declined significantly, having a negative impact on capital spending programs. Further, the long duration of an industry downturn may result in many companies having over-leveraged balance sheets, bank covenant breaches and limited access to financial capital markets. The Company's revenues are predominantly generated from products sold to oil and gas fluid engineering companies which may result in significant exposure to one customer or on a combined basis to several individual customers.

The Company's management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. During times of weak economic conditions, the risk of payment delays and failure to pay increases due to a reduction in customer's cash flow. The Company generally grants unsecured credit to its customers; however, it evaluates all new customers and analyzes and reviews the financial health of its current customers on an ongoing basis. The Company also closely monitors the amount and age of balances outstanding and establishes a provision for bad debts based on specific customer's credit risk, historical trends and other economic information. Failure to collect accounts receivable from customers could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

### ***Concentration risk***

The top six customers of the Company account for approximately 32.6% of revenue for the three months ended March 31, 2016, of which no single customer accounting for more than approximately 10%. The Company does not usually enter into long term contracts with its customers and there can be no assurance that the current customers will continue their relationships with the Company. The loss of one or more major

customers, any significant decrease in sales to a customer, or prices paid or any other changes to the terms of service with customers, could have a material adverse effect on the financial results, cash flows, and the overall financial condition of the Company.

### ***Supply Risk***

The Company distributes drilling fluid products manufactured or supplied by a number of domestic and international suppliers. The Company does not have long-term contracts with any of its major suppliers. Although the Company believes that it has access to similar products from competing suppliers, any disruption in the Company's sources of supply, particularly of the most commonly sold items or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon the Company's results of operations and financial condition. Also, supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short-term material adverse effect on the Company's results of operations and financial condition.

### ***Inventory Risk***

The Company distributes to markets that are highly sensitive to price, quality of product and timeliness of the delivery and adequate supply levels. In addition, product sales are dependent on demand and demand fluctuates with the seasonality of the drilling industry in Western Canada. The Company purchases products to stock warehouses to sufficient levels to meet the demands of customers. Inventory levels are monitored in an attempt to achieve balance between maximum inventory turnover and optimal customer service. Since the Company maintains significant quantities of inventory, the value is subject to the risk of changing prices.

### ***Transportation and Distribution Network Risk***

The Company relies on a wide distribution network to manage its inventory flow between locations and from the point of initial material inventory purchase to final customer sale. Common to industry practice, the Company has no formal long-term contract with its major inventory storage and distribution supplier. If they were to experience a breakdown in this network, it could have a potential material effect on sales, margins and profitability.

### ***Insurance Risk***

The Company maintains insurance coverage adequate to cover the risks associated with operations of the Company. Such insurance is subject to coverage limits and exclusions and may not cover the Company in all circumstances. There is no assurance that the Company's insurance coverage will be adequate to cover the Company's liabilities or will be generally available in the future. Future changes in insurance premiums could affect the Company's ability to purchase adequate insurance coverage and could impact the settlement of future claims. This could have a material adverse effect on the Company's ability to conduct normal business operations and on its financial conditions, results of operations and cashflow.

### ***Competitive Conditions***

The Company competes with a number of companies throughout North America. There can be no assurance that competitors will not substantially increase their resources devoted to the development of their business that compete with those of the Company, or that new or existing competitors will not enter the various markets in which the Company is active. In addition, reduced levels of activity in the oil and natural gas industry could intensify competition and the pressure on competitive pricing and may result in lower revenues or margins to the Company in all divisions. The Company's customers may elect not to purchase its products and services if they view the Company's financial viability as unacceptable, which would cause the Company to lose customers.

***Asset Impairment***

The Company is required to periodically review asset balances including goodwill and capital assets for impairment when certain factors indicate the need for analysis. In the case of goodwill, if any exists on the balance sheet, an impairment test must be completed at least annually. These calculations are based on management's estimates and assumptions at the time the analysis is made. Several factors are included in this analysis and may include changes in share price, cash flow and earnings estimates, changes in market conditions, and general local and global economic conditions. Any resulting future impairment write down to goodwill or capital assets could result in a non-cash charge against net earnings, and could be material in nature.

***Regulatory Compliance Risk***

The operations of the Company are subject to laws and regulations relating to workplace safety and work health related regulations, the conduct of operations, and the transportation, storage and disposal of fluid products. The Company acts in the best interests to ensure it is compliant with such laws and regulations. As future laws and regulations change, this may give rise to additional expenditures or liabilities. Any change to laws or regulations could have an adverse effect on the operations of the Company and its financial condition, results of operations and cash flow.

***Workplace Safety, Health and Wellness***

The Company's employees may face workplace health and safety risks and hazards, which could potentially result in injury or lost time. The Company's Safety Program is in place to reduce risks to people, the environment and the Company's business, and is continually updated as new risks and hazards are identified. These risks and hazards could result in personal injury, loss of life, environmental damage, or other damage to the Company's property or the property of others. The Company cannot fully protect or insure against all these risks, and could become liable for damages arising from these events against which are not insured.

***Product Liability Claims***

Although Bri-Chem believes it offers superior products in the market place, the Company may, from time to time, have claims for damages resulting from misapplication of products or from product defects. The Company mitigates this risk by providing standard MSDS information for all fluids products sold. However, the defense of claims could prove costly, therefore increasing the Company's expenses. If a claim would be successful or partially successful, it could result in monetary liabilities and future scrutiny from customers on products sold.

***Income Tax Expense***

The Company collects, accrues, and pays significant amounts of income taxes and has significant deferred tax liabilities and tax expense. The amounts reported are based on management's best estimates using currently enacted tax rules and accounting principles related to income tax reporting at the time of preparation. Tax interpretations, regulations, and legislation that pertain to the Company's activities are subject to continual change. There is a risk that the actual tax owing may differ from this amount, which could affect the Company's reported net income after tax and earnings per share reported. Management engages a third party specialist to review the calculation of deferred income taxes to help mitigate the risks in this area.

***Foreign Currency and Interest Rate Risk***

The Company is exposed to foreign currency fluctuations in relation to its sales and purchases in US dollars. Any change in the value of the Canadian dollar relative to the US dollar during a given financial reporting period would result in a foreign currency gain or loss on the translation of our US dollar denominated debt



and assets into Canadian dollars. Therefore the Company is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not hedge inventories purchased specifically from US markets, instead the Company relies on its inventory turnover.

The Company is exposed to interest rate risk on its ABL credit facilities. Floating-rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate should the Canadian prime rate and or the Bankers' Acceptance rate increase.

### ***Integration of Acquisitions***

The Company may experience difficulties in integrating an acquired business into the existing operations, including but not limited to integrating administrative functions, financial reporting, operational and information systems, improvements in operational effectiveness, standardization of controls, policies and procedures and recognizing the synergistic opportunities of the combined entity. The success of the integration also depends on the ability to retain key employees of the acquired company.

### ***Potential Liabilities from Acquisitions***

In pursuing acquisitions, the Company conducts due diligence procedures on the business being acquired. It seeks to understand and identify all liabilities and representations of the business being acquired. Despite such efforts, there can be no assurance that the Company may not become subject to undisclosed liabilities as a result of acquisitions. Liabilities may exist which were not discovered during the due diligence process prior to completing the acquisition. This failure to discover potential liabilities may be due to various factors, such as our failure to accurately assess all of the pre-existing liabilities of the operations acquired or vendors failing to comply with laws. If this occurs, the Company may be responsible for such violations which could have a material adverse effect on the business.

### ***Entering New Business Lines***

The Company may enter into new business lines with new acquisitions or other opportunities for growth related to the current business of the Company. There is no guarantee that these new business lines will be successful in the marketplace to which they are directed. Management makes its best efforts to research and forecast future profitability of any new business ventures prior to commencing in any new endeavor, however there are underlying risks that are intangible at the time of entry. The success of any new venture is also dependent on the areas of sales and marketing, customer demand, market stability, existing barriers to entry, and other factors of product introduction.

### ***Dependence on Key Personnel***

The success of the Company will be dependent on the services of the members of its senior management. The experience and talents of these individuals will be a significant factor in the success and growth of the Company. The loss of one or more of these individuals could have a material adverse effect on the operations and business prospects of Bri-Chem, furthermore, as part of the Company's growth strategy, it must continue to hire highly qualified individuals, including financial, sales and operations personnel. There can be no assurance that the Company will be able to attract and retain qualified personnel in the future. The compensation program in place includes salary, benefits, and bonus structures, and is designed to provide fair compensation to all personnel and adequate performance incentives. Other non-monetary measures including training and development and recognition are used to ensure the culture stays focused on key personnel retention.



### ***Ability to Achieve Profitability***

There can be no assurance that the Company will be able to achieve profitability in future periods. The Company's future operating results will depend on a number of global factors that are affecting commodity prices and that are beyond the control of the Company. There can be no assurance that the Company will be successful in achieving the objectives of its corporate strategic plan or that its corporate strategic plan will enable it to achieve, maintain or sustain profitability.

### ***Environmental Liability***

As a result of the Company's operations dealing with petroleum products and chemical additives used in connection with the transportation, storage and disposal of drilling fluid products, the Company is exposed to potential environmental liability in connection with its business. The Company maintains compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials, however, there can be no assurance that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company or that such damage has not already occurred. Although the Company enforces a program to identify and address contamination issues before acquiring or leasing properties, and attempts to utilize generally accepted operating and disposal practices, hydrocarbons or other wastes may have been disposed of or released on or under properties owned, leased, or operated by the Company prior to the Company owning, leasing or operating these properties. These properties and the wastes disposed thereon may be subject to environmental laws that could require the Company to remove the wastes or remediate sites where they have been released. Laws and regulations relating to the environment that apply to the business and operations of the Company is likely to change and become more stringent in the future. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, the Company cannot predict the nature of the restrictions that may be imposed. The Company may be required to increase operating expenses or capital expenditures in order to comply with any new environmental restrictions or regulations which could have a materially adverse effect on the operations of the Company and its financial condition, results of operations and cash flow.

### ***Disclosure Controls & Procedures***

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, is made known to the Chief Executive Officer and Chief Financial Officer by others within the Company, particularly during the period in which the annual and interim filings of the Company are being prepared, in an accurate and timely manner in order for the Company to comply with its disclosure and financial reporting obligations and in order to safeguard the Company's assets. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

### ***Internal Controls Over Financial Reporting***

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. While management of the Company has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Company's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated.

***Forward-Looking Information May Prove Inaccurate***

Shareholders and prospective investors are cautioned not to place undue reliance on the Company's forward-looking statements because the Company can give no assurance that they will prove to be correct. By their nature, forward-looking statements reflect numerous inherent known and unknown risks and uncertainties that contribute to the possibility that the forward looking statements may prove to be incorrect and could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this MD&A under the heading "Cautionary Statement Regarding Forward-Looking Information".

**CRITICAL ACCOUNTING ESTIMATES**

In preparing the annual consolidated financial statements, in conformity with International Financial Reporting Standards ("IFRS"), management is required to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the reporting date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and, consequently, the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired or the environment in which the Company operates changes. The accounting policies and practices that involve the use of estimates that have significant impact on the Company's financial results include the allowance for doubtful accounts receivable, the sales return provision, inventory obsolescence, net realizable value inventory write-downs and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of deferred tax assets, the impairment testing of goodwill and long-lived assets, valuations of accrued liabilities and deferred tax liabilities, the fair value of derivative financial instruments, and stock based compensation. Management feels actual results will not be materially different from these estimates. The most significant estimates made by management include:

***Impairment financial assets***

All of the Company's financial assets are reviewed for indicators for impairment, in accordance with the accounting policy stated in the note 2 to the annual consolidated financial statements. At the end of each reporting period, management reviews the individual balances in accounts receivable and assesses their recoverability based on the aging of outstanding balances, historical bad debt experience, indicators of changes in customer credit worthiness, and changes in customer payment terms, to identify and determine the extent of impairment if any.

***Sales return provision***

Accounts receivable is the most significant financial asset at March 31, 2015. Included in this balance is a sales return provision for the fluids distribution division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision already recorded.

***Inventory valuations***

Inventory is measured at the lower of cost and net realizable value. Net realizable value is an estimate of future selling prices less the costs to sell. Management reviews inventory periodically and uses the most reliable evidence in determining the net realizable values of the inventories. This includes examining the value of inventory against aging of the inventory, current market conditions, past sales history, and future sales trends predictions to determine the recoverable amount. When impairment is recorded, management tracks the future sales of these items and reverses any write-down where the net realizable value has subsequently increased.

*Impairment testing of intangible assets and property and equipment*

The Company is required to test for impairment of intangible assets with definite useful life and property and equipment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortization (goodwill) are tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment. An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. Impairment losses are allocated first to goodwill, then to remaining assets. To determine the value-in-use, management estimates expected future cash flows from each cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management. Impairment loss is charged to the items in each cash-generating unit, first to goodwill, then to all other items on a pro-rata basis. An impairment charge relating to property and equipment, and intangible assets, excluding goodwill, is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

*Income taxes*

Management calculates the provision for income taxes based on all available information at the time of reporting. This includes recording deferred tax assets related to losses incurred by the Company that are expected to be recovered in future periods. The calculation requires certain areas of significant judgment interpreting tax rulings and regulations, which are constantly changing. This includes the calculation of deferred taxes, which is based on the tax jurisdiction's substantively enacted rates at the time the differences between accounting and income tax are expected to reverse. The effect of a change in rates would be included in the period during which the change is considered to be substantively enacted.

*Business combinations*

The Company uses valuation techniques in determining fair values of the various elements of a business combination, including intangible assets, based on future expected cash flows and a discount rate. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risks and weighted average cost of capital. If future events or results differ significantly from these estimates and assumptions, the Company could record impairment charges in the future.

*Stock-based compensation*

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

available at that time. The Company values options issued to non-employees based on available evidence of the value the transaction represents to the Company based on services provided in exchanging for the option.

## **ACCOUNTING POLICIES**

*The discussion in this section is qualified in its entirety by the “Cautionary Regarding Forward-Looking Information” section presented at the beginning of the MD&A.*

The interim consolidated financial statements for the quarter ended March 31, 2016 have been prepared in accordance with the accounting policies adopted in the Company's annual financial statements for the year ended December 31, 2015.

## **FUTURE ACCOUNTING PRONOUNCEMENTS**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the quarter ended March 31, 2016. The standards issued that are applicable to the Company are as follows:

### *IFRS 9 – Financial instruments*

The complete version of IFRS 9 replaces most of the guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the impact of this standard on its consolidated financial statements.

### *IFRS 15 – Revenue from contracts with customers*

IFRS 15 converged standard on revenue recognition. It replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, with early adoption permitted and is to be applied retrospectively. The Company is assessing the impact of this standard on its consolidated financial statements.

### *Amendments to IAS 16 – Property Plant and Equipment and IAS 38 – Intangible assets*

This method clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of the economic benefits embodied in the asset. This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendments become effective on or after January 1, 2016. This amendment will not have an impact on the Company's financial statements.

*Annual improvements 2014*

These annual improvements amend standards from the 2012-2014 reporting cycle. It includes changes to:

- IFRS 5, Non-current assets held for sale and discontinued operations. The amendment clarifies that, when an assets (or disposal group) is reclassified from `held for sale` to `held for distribution`, or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or a disposal group) which ceases to be held for distribution but is not reclassified as `held for sale`;
- IFRS 7, Financial instruments; Disclosures. There are two amendments: 1) Servicing contracts – if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters. 2) Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, `Disclosure – Offsetting financial assets and financial liabilities` is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective;
- IAS 34, Interim financial reporting – the amendment clarifies what is meant by the reference in the standard to `information disclosed elsewhere in the interim financial report`. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

These improvements become effective on or after July 1, 2016 and will not have an impact on the Company's financial statements.

**SHARE DATA**

As at May 10, 2016, the Company had 23,632,981 common shares issued and outstanding. As of March 31, 2016, options to purchase 1,495,000 common shares were outstanding at an average price of \$2.40 per common share.

**NON-IFRS MEASURES**

Certain supplementary information and financial measures referred to in the MD&A and explained below, namely EBITDA, Operating Expenses, Operating EBITDA, and Cash Interest Expense are not recognized under IFRS.

**EBITDA**

Management believes that, in addition to net earnings, EBITDA is a useful supplemental measure that provides a measure of operating performance without reference to financing decisions, depreciation or income tax impacts, which are not controlled at the operating management level. Investors should be cautioned that EBITDA should not be construed as alternatives to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBITDA may differ from that of other entities and accordingly may not be comparable to measures used by other entities.

EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment charges and share-based payments. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A.

**MD&A DISCUSSION & ANALYSIS – March 31, 2016**

	For the three months ended March 31	
	2016	2015
EBITDA from continued operations		
Net (loss) / earnings	\$ (2,097,637)	\$ 372,895
Add:		
Interest	793,626	861,493
Income taxes	(434,580)	(86,336)
Depreciation and amortization	272,897	402,659
Share-based payment	71,947	170,392
EBITDA	\$ (1,393,747)	\$ 1,721,103

**Adjusted EBITDA**

Adjusted EBITDA is measure which has been reported in order to assist in the comparison of historical EBITDA to current results. The calculation of Adjusted EBITDA normalizes the impact of non-recurring one time unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within next two years, and the related impact on net earnings and net earnings per share. The normalization of this net expense is the calculation of Adjusted EBITDA is considered by management to be a more accurate representation of the EBITDA from continuing operations.

	For the three months ended March 31		Change	
	2016	2015	\$	%
Net earnings and EDITDA				
EBITDA <sup>(2)</sup>	\$ (1,393,747)	\$ 1,721,103	\$ (3,114,850)	(181.0%)
% of sales	(9.4%)	6.6%		
Add/(deduct)				
Restructuring costs	-	691,667	(691,667)	(100.0%)
Adjusted EBITDA <sup>(3)</sup>	\$ (1,393,747)	\$ 2,412,770	\$ (3,806,517)	(157.8%)
% of sales	(5.3%)	9.2%		

**Adjusted Net (loss) Earnings and Adjusted Net (Loss) Earnings per Share**

Adjusted net (loss) earnings and adjusted net (loss) earnings per share are measures which have been reported in order to assist in the comparison of historical net earnings to current results. The calculation of Adjusted Net (Loss) Earnings normalizes the impact of non-recurring one time unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within next two years, and the related impact on net earnings and net earnings per share. The normalization of this net expense is the calculation of Adjusted Net (Loss) Earnings and Adjusted Net (Loss) Earnings per share is considered by management to be a more accurate representation of the net earnings from continuing operations.

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Net (loss) / earnings	For the three months ended March 31	
	2016	2015
Net (loss) / earnings	\$ (2,097,637)	\$ 372,895
Add/(deduct), net of corporate income taxes:		
Restructuring costs	-	494,012
Adjusted net earnings	\$ (2,097,637)	\$ 866,907
Weighted average number of shares		
Basic	23,623,981	23,720,762
Diluted	23,623,981	23,720,762
Adjusted net earnings, per share		
Basic	\$ (0.09)	\$ 0.04
Diluted	(0.09)	0.04

**Adjusted Gross Margins**

In compliance with IFRS accounting standards, the Company's gross margins must include all direct and overhead costs associated with ongoing activities regardless of whether or not the loss from sales of products was incurred due to the restructuring the Company's operations caused by the economic downturn. Adjusted gross margins reflect the product selling price less the cost of the product in the ordinary course of business and exclude losses incurred due to restructuring of the Company's operations. Management believes that the adjusted gross margin is useful information as it provides a more accurate gross margin contribution for comparative purposes. The following is a reconciliation of adjusted gross margins to IFRS compliant gross margins for each of the periods presented in this MD&A.

Adjusted Gross Margins	For the three months ended March 31		Change	
	2015	2015	\$	%
<b>Gross Margin (\$)</b>	<b>2,438,291</b>	3,883,120	(1,444,829)	(37.2%)
<b>As percentage of sales</b>	<b>16.5%</b>	14.8%		
Addback: Losses from sale related to inventory reduction program	74,377	385,665	(311,288)	(80.7%)
Adjusted Gross Margin (\$)	2,512,668	4,268,785	(1,756,117)	(41.1%)
Sales	14,820,659	26,209,726	(11,389,067)	(43.5%)
Less: Sales associated with inventory reduction program due to economic downturn	630,028	2,656,100	(2,026,072)	(76.3%)
Adjusted sales	14,190,631	23,553,626	(9,362,995)	(39.8%)
Adjusted gross margin as percentage of sales	17.7%	18.1%		

**Operating Expenses**

Operating expenses is not a concept recognized under IFRS as it does not include interest, share based payments, depreciation and amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the March 31, 2016 interim condensed consolidated financial statements:



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	For the three months ended March 31	
	2016	2015
Operating expenses		
Operating expenses	\$ 3,832,038	\$ 2,162,017
Add:		
Interest	793,626	861,493
Depreciation and amortization	272,897	402,659
Share-based payments	71,947	170,392
Total expenses	\$ 4,970,508	\$ 3,596,561

**Operating EBITDA**

Management believes that, in addition to net earnings, Operating EBITDA is a useful supplemental measure that provides a measure of operating performance without reference to inter group corporate cost allocations, financing decisions, depreciation or income tax impacts, which are not controlled at the operating management level. Investors should be cautioned that Operating EBITDA should not be construed as alternatives to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating Operating EBITDA may differ from that of other entities and accordingly may not be comparable to measures used by other entities.

Operating EBITDA is defined as earnings before inter group corporate cost allocations, interest, taxes, depreciation, amortization, impairment charges and share-based payments. The following is a reconciliation of EBITDA, per interim condensed consolidated financial statements for three months ended March 31, 2016, to Operating EBITDA for each of the periods presented in this MD&A.

	For the three months ended March 31, 2016					
	EBITDA		Corporate cost allocation		Operating EBITDA	
	\$	% *	\$	% *	\$	%
Fluids Distribution - Canada	\$ (194,843)	(3.6%)	\$ -	0.0%	\$ (194,843)	(3.6%)
Fluids Distribution - USA	(1,044,055)	(21.2%)	-	0.0%	(1,044,055)	(21.2%)
<b>Total Fluids Distribution</b>	<b>(1,238,898)</b>	<b>(12.1%)</b>	<b>-</b>	<b>0.0%</b>	<b>(1,238,898)</b>	<b>(12.1%)</b>
Fluids Blending & Packaging - Canada	30,901	1.0%	-	0.0%	30,901	1.0%
Fluids Blending & Packaging - USA	273,144	18.4%	-	0.0%	273,144	18.4%
<b>Total Fluids Blending &amp; Packaging</b>	<b>304,045</b>	<b>6.7%</b>	<b>-</b>	<b>0.0%</b>	<b>304,045</b>	<b>6.7%</b>
<b>Other **</b>	<b>(458,894)</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>	<b>(458,894)</b>	<b>N/A</b>
<b>Total</b>	<b>\$ (1,393,747)</b>	<b>(9.4%)</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ (1,393,747)</b>	<b>(9.4%)</b>

\* As a percentage of divisional revenues

\*\* Other includes corporate overhead costs

	For the three months ended March 31, 2015					
	EBITDA		Corporate cost allocation		Operating EBITDA	
	\$	% *	\$	% *	\$	%
Fluids Distribution - Canada	\$ (667,528)	(7.4%)	\$ (219,967)	(2.5%)	\$ (887,495)	(9.9%)
Fluids Distribution - USA	(729,969)	(6.5%)	107,417	1.0%	(622,552)	(5.5%)
<b>Total Fluids Distribution</b>	<b>(1,397,497)</b>	<b>(6.9%)</b>	<b>(112,550)</b>	<b>(0.6%)</b>	<b>(1,510,047)</b>	<b>(7.5%)</b>
Fluids Blending & Packaging - Canada	140,429	3.1%	56,700	1.3%	197,129	4.4%
Fluids Blending & Packaging - USA	178,701	12.2%	55,850	3.8%	234,551	16.1%
<b>Total Fluids Blending &amp; Packaging</b>	<b>319,130</b>	<b>5.4%</b>	<b>112,550</b>	<b>1.9%</b>	<b>431,680</b>	<b>7.2%</b>
<b>Other **</b>	<b>2,799,470</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>	<b>2,799,470</b>	<b>N/A</b>
<b>Total</b>	<b>\$ 1,721,103</b>	<b>6.6%</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 1,721,103</b>	<b>6.6%</b>

\* As a percentage of divisional revenues

\*\* Other includes corporate overhead costs

**Cash interest expense**

Cash interest expense represents interest expense under IFRS adjusted to exclude non-cash interest expense related to the amortization of deferred financing costs on both the ABL Facility and Fulcrum debt. Management believes that this metric assists in determining the cash interest expense of the Company. Cash interest expense is calculated as follows:

Interest	For the three months ended March 31		Change	
	2016	2015	\$	%
Interest on short-term operating debt	\$ 356,454	\$ 560,328	\$ (203,874)	(36.4%)
Interest on long-term debt	432,588	300,107	132,481	44.1%
Interest on obligations under finance lease	4,584	1,058	3,526	333.3%
<b>Total interest expense</b>	<b>\$ 793,626</b>	<b>\$ 861,493</b>	<b>\$ (67,867)</b>	<b>(7.9%)</b>
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	\$ 55,812	\$ 64,971	\$ (9,159)	(14.1%)
<b>Cash interest expense</b>	<b>\$ 737,814</b>	<b>\$ 796,522</b>	<b>\$ (58,708)</b>	<b>(7.4%)</b>

**MANAGEMENT'S EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**
*Disclosure controls and procedures*

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company, together with management, have established and maintain disclosure controls and procedures ("DC&P") for the Company in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner, particularly during the period in which the annual filings are being prepared. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's DC&P as of March 31, 2016 and, based on that evaluation, have concluded that these controls and procedures are effective in providing such reasonable assurance.

*Internal controls over financial reporting*

The CEO and CFO, together with management, are also responsible for establishing and maintaining internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's ICFR as of March 31, 2016 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance.

*Changes in internal control over financial reporting*

There were no changes in the Company's internal control over financial reporting that occurred in 2016 that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.

It should be noted that while the CEO and CFO believe that Bri-Chem Corp.'s disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial

**MD&A DISCUSSION & ANALYSIS – March 31, 2016**

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reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

**Corporate Information**
**Officers and Directors**

Don Caron<sup>(2)</sup>  
 Chairman, President, CEO and Director  
 Edmonton, Alberta

Albert Sharp<sup>(1) (2)</sup>  
 Director  
 Spruce Grove, Alberta

Brian Campbell<sup>(1)</sup>  
 Director  
 Edmonton, Alberta

Eric Sauze, CA<sup>(1) (2)</sup>  
 Director  
 Edmonton, Alberta

Jason Theiss, CA  
 CFO  
 Edmonton, Alberta

Trent Abraham  
 President, Fluids Division  
 Denver, Colorado

**Auditors**

Deloitte LLP  
 2000 Manulife Place  
 10180-101 Street  
 Edmonton, AB T5J 4E4

**Corporate Office**

#15, 53016 Highway 60  
 Acheson, Alberta T7X 2B9  
 Ph: 780.962.9490  
 Fax: 780.962.9875

**Shares Listed**

Toronto Stock Exchange  
 Trading Symbol – BRY

- (1) Member of Audit Committee  
 (2) Member of Compensation Committee

**Bankers**

HSBC Bank Canada  
 10250 – 101 Street  
 Edmonton, Alberta T5J 3P4

**Lenders**

CIBC Asset Based Lending Inc.  
 199 Bay Street, 4<sup>th</sup> Floor  
 Toronto, Ontario M5L 1A2

**Transfer Agent**

Computershare Investor Services  
 530 – 8<sup>th</sup> Avenue SW, #600  
 Calgary, Alberta T2P 3S8

**Share Capital**

Issued: 23,623,981

**Web Site**

[www.brichem.com](http://www.brichem.com)