Q1 2019 MD&A

North American Oilfield Chemical Distribution & Blending Company

BRI-CHEM

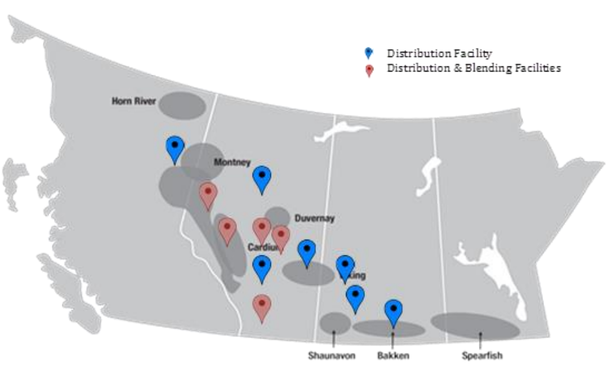
Right product. Right place. Right time.

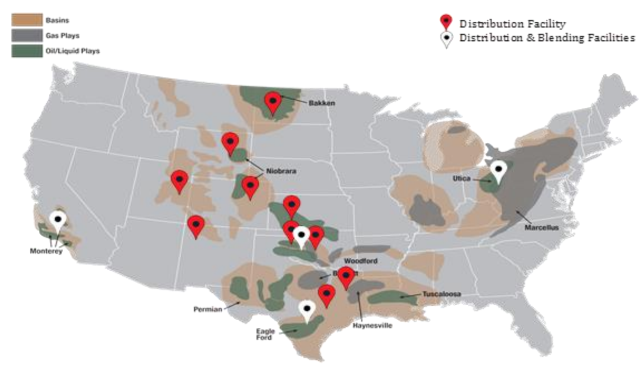
This Management's Discussion and Analysis ("MD&A") of Bri-Chem Corp. ("Bri-Chem" or the "Company") was prepared as at May 9, 2019 for the three months ended March 31, 2019 and should be read in conjunction with the Company's March 31, 2019 interim condensed consolidated financial statements (the "financial statements") and December 31, 2018 and 2017 audited annual consolidated financial statements. The Company's interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and include the results of Bri-Chem Corp. and its subsidiaries, 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 amounts presented in this MD&A are in Canadian dollars, except as otherwise noted. **Readers are encouraged to review the "Cautionary Statement Regarding Forward-Looking Information and Statements" and "Non-IFRS Measures" at the end of this document.**

BUSINESS OF BRI-CHEM

Bri-Chem, headquartered in Edmonton, Alberta, Canada, has established itself, through a combination of strategic acquisitions and organic growth, as a 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 from 26 strategically located warehouses throughout Canada and the United States. Bri-Chem has been operating in Canada since 1985 and we expanded into the United States in 2011 where we have successfully established 13 warehouse locations that are strategically located in major drilling regions throughout the USA. Bri-Chem's main business activity is to provide 24/7 coverage of oilfield chemicals in a wide variety of weights and clays, lost circulation materials and oil mud products to mud engineering companies who sell directly to drilling firms engaged by the oil and gas companies. Much of Bri-Chem's competitive advantage is attributed to its comprehensive network of 26 strategically placed and fully stocked warehouses throughout North America as mud engineering companies and drilling companies prefer to use one supplier of drilling fluids for all their widely dispersed drilling rig locations. Additional information about Bri-Chem is available at www.sedar.com or at Bri-Chem's website at www.brichem.com.

A summary of the Company's distribution network is as follows:





Seasonality of Operations

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, there are three cycles of drilling activity in the Western Canada: Winter drilling season from November to mid-March is the period when most of the drilling activity takes place as much of the ground is frozen allowing equipment to move into hard to reach regions during colder periods. Spring break up traditionally occurs between mid-March to mid-May and is the period when drilling activity is at its lowest as regions thaw and have road bans making heavy equipment difficult to move. Summer and fall drilling season operates from mid-May to end of October which focuses on areas not accessible during the winter drilling season. Spring break-up has a direct impact on the Company's activity levels. 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 in Canada.

FINANCIAL AND OPERATING INFORMATION HIGHLIGHTS

(in '000s except per share amounts)	Three months ended March 31 2019	March 31 2018	Change $	%
Financial performance				
Sales	**$ 25,898**	$ 35,318	$ (9,420)	(27%)
Adjusted EBITDA[1]	**1,602**	924	678	73%
As a % of revenue	**6%**	3%		
Adjusted operating earnings	**990**	970	20	2%
Adjusted net earnings / (loss) [1]	**379**	(106)	485	nm
Net earnings / (loss)	**$ 359**	$ (106)	$ 465	nm
Diluted per share				
Adjusted EBITDA	**$ 0.07**	$ 0.04	$ 0.03	74%
Adjusted net earnings / loss	**0.02**	$ -	$ 0.02	nm
Net earnings / (loss)	**$ 0.02**	$ -	$ 0.02	nm
Financial position				
Total assets	**$ 66,743**	$ 88,694	$ (21,951)	(25%)
Working capital	**17,413**	23,950	(6,537)	(27%)
Long-term debt	**8,596**	9,438	(842)	(9%)
Shareholders equity	**$ 20,361**	$ 28,955	$ (8,594)	(30%)

(1) Refer to the "Non-IFRS Measures" section for a definition of non-GAAP terms as well as reconciliations for Adjusted EBITDA, Adjusted Operating Income, and Adjusted (Loss) / Net Earnings).

Key Q1 2019 highlights include:

- Sales for the three months ended March 31, 2019 were $25.9 million, a decrease of 27%, compared to the same period last year due to weaker performance in the Fluids Distribution division, particularly in Canada. Bri-Chem's Canadian operations continued to face headwinds as a result of lower drilling activity in the Western Canadian Sedimentary Basin ("WCSB").

- Adjusted EBITDA for the three months ended March 31, 2019 was $1.6 million versus $924 thousand over Q1 2018, representing a 73% increase year over year. The increase was due to higher margins in the US Fluids Distribution division, lower infrastructure costs, as a result of the Company's commencement of its right sizing initiatives in Q4 2018, and a reduction in cost of services on adoption to IFRS 16 Leases.

- Adjusted operating earnings were $990 thousand for the three months ended March 31, 2019 compared to $970 thousand last year, which represented a 2% increase.

- Net earnings per diluted share for the three months ended March 31, 2019 was $0.02 per share compared to $nil per share for the same period last year.

- As at March 31, 2019, working capital was $17.4 million compared to $24.0 million at March 31, 2018, a decrease of 27%. This was due to management's efforts to reduce inventory levels and realize cash flow. Bri-Chem's current ratio, defined as current assets divided by current liabilities, was 1.47 as at March 31, 2019.

Summary for the three months ended March 31, 2019:

Bri-Chem Q1 2019 consolidated sales were $25.9 million for the three months ended March 31, 2019, which was $9.4 million lower than the same period last year. This decline was mainly due to decreased Canadian drilling activity levels in the first quarter. The number of wells drilled in Western Canada for the first quarter of 2019 was 1,546 compared to 2,244 in the same period last year, representing a decrease of 31% (Source: Petroleum Services Association of Canada "PSAC"). In addition, the Company experienced a decline in US Fluids Distribution sales as a result of the loss of revenue from the closure in Q2 2018 of two west Texas warehouses.

Demand for Bri-Chem's products and services is largely driven by current and future North American oil and gas prices which impact the capital drilling programs and corresponding rig activity of Bri-Chem's customers. While WTI pricing remained relatively stable during Q1 2019, WCS prices experienced a dramatic recovery. In December 2018, WCS averaged CAD$39.90 which increased to CAD$59.15 in March. This represented a 48% increase in a three-month period. While improved WCS pricing was positive for some Canadian producers, it came at the cost of reduced drilling activity in the WCSB which in turn reduced the demand for Bri-Chem's drilling fluid products. As a result, Bri-Chem Canadian Drilling Fluids Distribution division generated sales of $5.3 million for the three months ended March 31, 2019 compared to sales of $11.8 million for the same period in 2018. Bri-Chem's US Drilling Fluids Distribution division generated sales of $15.4 million for the three months ended March 31, 2019 compared to sales of $17.9 million for the same comparable period of 2018 due to closure of two warehouses in west Texas during Q2 2018.

Bri-Chem's Canadian Blending and Packaging division generated sales of $2.8 million for Q1 2019 compared to sales of $4.1 million for the same comparable period in 2018. The decrease related to the overall decline in Canadian drilling activity which affected demand for toll blending and bulk packaging of products during the quarter. Conversely, Bri-Chem's US Fluids Blending and Packaging division experienced an increase of 56% year over year, with the division recording sales of $2.3 million for Q1 2019 compared to sales of $1.5 million for Q1 2018. This increase was due to the increase in well abandonment work in the state of California.

Adjusted operating earnings for the three months ended March 31, 2019 was $990 thousand compared to $970 thousand during the same period last year. Adjusted EBITDA was $1.6 million for the three months ended March 31, 2019 compared to $0.9 million for the same comparable quarter in 2018, an increase of $0.7 million or 73%. Adjusted EBITDA as percentage of Q1 sales was 6%. This increase was due to higher margin products being sold in the US along with a reduction of infrastructure costs as part of the Company's right sizing that commenced in Q4 2018. The Company recorded net earnings of $0.4 million for the first quarter of 2019.

As communicated in the fourth quarter 2018 MD&A, management is focused on cost management initiatives to allocate free cash flow towards debt. To that end, accounts receivable and inventory were reduced 5% and 18%, respectively, from December 31, 2018 and this capital was applied to reducing bank indebtedness (16% decrease) and making normal repayments of long-term debt. Purchases of property and equipment were kept minimal at $81 thousand.

OUTLOOK

The Canadian oil and gas industry continued to face political, regulatory, and market access issues in the first quarter of 2019 which management expects to negatively impact Bri-Chem's Canadian divisions for the rest of 2019. While mandated Alberta crude oil production curtailments helped ease record WCS pricing differentials at the end of 2018, Canadian pipeline constraints have negatively impacted drilling programs throughout Western Canada which impacts the demand for drilling fluid products. PSAC lowered its 2019 drilling forecast for the second time and now anticipates 5,300 oil and gas wells will be drilled in Canada, down from a revised estimate of 5,600 wells in January and a 20% drop from its original 6,600 forecast in November 2018. Delays in pipeline expansion coupled with recent production curtailments will result in lower drilling activity and put downward pressure on sales over the short term. US drilling activity has remained consistent and therefore Bri-Chem will continue to operate in all regions that it currently services. We expect to benefit from robust activity levels in the US, particularly in our blending division in California.

Economic Statistics

(in 000's)	Three months ended March 31 2019	March 31 2018	Change %
Average crude oil and natural gas prices [1]			
Crude Oil			
West Texas Intermediate (US$/bbl)	**54.87**	62.89	(13%)
Western Canadian Select (CDN$/bbl)	**59.15**	46.90	26%
Natural Gas			
30 day spot AECO (CDN$/mcf)	**2.57**	2.06	25%
Average foreign exchange rates [1]			
US dollar to Canadian dollar	**1.33**	1.26	6%

(1) Source: Bloomberg.

Average WTI for the three months ended March 31, 2019 decreased 13% compared to the same period last year while average WCS pricing increased 26% for the three months ended March 31, 2019 compared to the same period last year. AECO natural gas pricing increased 25% for the three months ended March 31, 2019 compared to the same period last year. The Canadian dollar depreciated 6% relative to the US dollar for the three months ended March 31, 2019 compared to the same period last year.

DISCUSSION OF Q1 OPERATING RESULTS

Divisional sales

(in 000's)	Three months ended March 31 2019	March 31 2018	Change $	%
Fluids Distribution				
Canada	**$ 5,337**	$ 11,784	$ (6,447)	(55%)
US	**15,378**	17,931	(2,553)	(14%)
	20,715	29,715	(9,000)	(30%)
Fluids Blending & Packaging				
Canada	**2,849**	4,110	(1,261)	(31%)
US	**2,334**	1,493	841	56%
	5,183	5,603	(420)	(7%)
Consolidated sales	**$ 25,898**	$ 35,318	$ (9,420)	(27%)
Geographic region				
Canada	**$ 8,186**	$ 15,894	(7,708)	(48%)
US	**$ 17,712**	$ 19,424	(1,712)	(9%)
Consolidatd sales	**$ 25,898**	$ 35,318	(9,420)	(27%)

Consolidated sales for the three months ended March 31, 2019 were $25.9 million compared to $35.3 million for the same period in 2018, representing a $9.4 million decrease. The decrease was due to lower drilling activity levels in Canada and lower sales from the US Fluids Distribution division as the division was not operating any longer from two West Texas warehouses in Q1 2019. Bri-Chem's geographically diversified business model helped mitigate some of this decline with a 56% increase in US Fluids Blending & Packaging.

Fluids Distribution Division

Canada

Canadian Fluids Distribution sales for the three months ended March 31, 2019 were $5.3 million compared to $11.8 million for the same period in 2018, representing a 55% decrease. The decrease was due to a 31% decline in number of wells drilled in western Canada (Source: PSAC). Fewer wells being drilled was largely due the Alberta government's mandatory crude oil curtailments which became effective on January 1, 2019 as well as continued negative sentiment from Canadian producers regarding the WCSB from announced delays in major pipeline projects. Consequently, producers are reallocating Canadian rigs to more favorable resource basins in the US. With the decrease in drilling activity, self supplying customers were sufficiently stocked with their own inventory during the quarter, so they purchased less products from Bri-Chem.

US

US Fluids Distribution sales for the three months ended March 31, 2019 were $2.6 million lower compared to the same period last year. The 14% decrease related to the closure of two locations in west Texas in the second quarter of 2018. The US average rig count increased 8% for the first three months ended March 31, 2019 compared to the same period last year (Source: Baker Hughes) which resulted in higher sales from other US regions that Bri-Chem serves; namely, in the Northeast and Rocky Mountains. In addition, the division experienced higher sales in commodity products such as barite in Northeast, Rocky Mountains, and south Texas regions. The average number of rigs running during Q1 2019 was 1,045 compared to 965 for Q1 2018.

Fluids Blending & Packaging Division

Canada

Canadian Fluids Blending and Packaging recorded sales of $2.8 million for the three months ended March 31, 2019 compared to sales of $4.1 million for the same comparable quarter of 2018. The 31% decrease was due to lower number of wells drilled that negatively impacted toll blended products and bulk commodity packaged products.

US

US Fluids Blending and Packaging sales for the three months ended March 31, 2019 were $2.3 million compared to $1.5 million for Q1 2018, an increase of $0.8 million. The increase was the result of increased well abandonment work in the state of California as drilling activity remains strong in the US.

Divisional Gross Margin

	Three months ended								
		March 31			March 31			Change	
(in 000's)		2019	%(1)		2018	%(1)		$	%
Fluids distribution									
Canada	$	603	11%	$	1,771	15%	$	(1,168)	(66%)
US		2,436	16%		2,292	13%		144	6%
		3,039	15%		4,063	14%		(1,024)	(25%)
Fluids blending & packaging									
Canada		674	24%		843	21%		(169)	(20%)
US		866	37%		541	36%		325	60%
		1,540	30%		1,384	25%		156	11%
Consolidated gross margin	$	4,579	18%	$	5,447	15%	$	(868)	(16%)
Geographic region									
Canada		1,277	16%		2,614	16%		(1,337)	(51%)
US		3,302	19%		2,833	15%		469	17%
Consolidated gross margin	$	4,579	18%		5,447	15%		(868)	(16%)

(1) Expressed as a percentage of divisional sales

Consolidated gross margin for the three months ended March 31, 2019 was $4.6 million, $0.9 million lower compared to the same period last year mostly due to the decline in drilling activity levels in Canada. Gross margin as a percentage of sales increased by 3% to 18% in Q1 2019 as the Company experienced higher margins in its US divisions and a more favourable mix of sales in its Canadian Fluids Blending & Packaging division. Higher margins were partially offset by lower gross margin from the Canadian Fluids Distribution division.

Fluids Distribution Division

Canada

Canadian Fluids Distribution gross margin averaged 11% for the first quarter ended March 31, 2019 compared to 15% from the same period last year. The decrease relates to product mix whereby the division sold higher volumes of lower margin products during the quarter. With lower activity levels, there was fewer longer, deeper wells that consume higher margins products during this quarter compared to the prior year quarter. In addition, the division did make certain selling price concessions due to an overall weaker fluid demand as the Canadian market was overstocked for inventory due to lower activity levels. As the market works through its excess inventory, we anticipate margins will increase to more traditional levels over the short to medium term.

US

US Fluids Distribution gross margin for the three months ended March 31, 2019 experienced a return to more traditional levels and averaged 16%, representing an increase of 3% when compared to the same period in 2018. The increase in gross margins was due to the division not operating in west Texas where margins were lower given sales of low margin products like oil-based mud and barite being sold in a highly competitive market. In Q1 2018, margins were 2% lower by operating the two warehouses of west Texas. Because this region was exited in 2018, gross margin and gross margin % increases reflect sales from regions where selling prices are more consistent and margins are higher on drilling fluid products. Over the short to medium term, the division will continue to look to increase margins where available in major resource plays its services.

Fluids Blending & Packaging Division

Canada

Canadian Fluids Blending & Packaging division gross margin for the three months ended March 31, 2019 was $169 thousand lower than the same period last year; however, gross margin % increased to 24% from 21%. Margins increased during the quarter due to more sales of higher margin products from the blending of stimulation and production chemicals compared to lower margin toll blending volumes which have decreased due to lower activity levels.

US

The US Fluids Blending & Packaging division generated gross margins of 37% for the three months ended March 31, 2019 compared to 36% for the same comparable of 2018. Gross margin was $325 thousand higher than the same period last year. This increase was due to increased well abandonment work in California and more higher margin cement being sold during the quarter. Margins for the division for the remainder of 2019 are expected to be similar to those experienced in Q1 2019.

Salaries and Benefits

(in 000's)	Three months ended March 31 2019		March 31 2018		Change $	%
Salaries and benefits	$	**2,240**	$ 2,359	$	(119)	(5%)
As a % of sales		**8.6%**	6.7%		2.0%	

Salaries and benefits decreased marginally for the three months ended March 31, 2019 compared to the prior year quarter as the Company commenced its right-sizing of infrastructure in late Q4 2018. This includes utilizing less contract labour in the US Fluids Distribution division and overall decrease in employee headcount in Canada and the USA due to activity levels. The Company employed 70 (31 Canada and 39 US) employees at March 31, 2019 compared to 85 (37 Canada and 48 US) at March 31, 2018. Management is continuing to review its infrastructure and may adjust its headcount given market demand for its products over the short to medium term.

Selling, General, and Administration

(in 000's)	Three months ended March 31 2019		March 31 2018		Change $	%
Selling	$	**111**	$ 193	$	(82)	(42%)
Professional and consulting		**230**	294		(64)	(22%)
General and administrative		**96**	475		(379)	(80%)
Rent, utilities, and occupancy costs		**394**	896		(502)	(56%)
Total selling, general and administration	$	**831**	$ 1,858	$	(1,027)	(200%)
As a % of sales		**3.2%**	5.3%		(2%)	(39%)

Selling expenses relate to meals and entertainment, transportation, and travel incurred by Bri-Chem's sales team. Selling expenses for the three months ended March 31, 2019 decreased $82 thousand compared to the same period last year mainly due to less meals and entertainment, transportation and travel as senior executive member left the Company in Q3 2018 resulting in less expenses during the quarter. Professional and consulting fees for the three months ended March 31, 2019 decreased $64 thousand compared to the same period last year due to a higher level of legal assistance with collection of specific accounts receivable in the prior period. This was partially offset by approximately $31,000 increase in audit related fees. General and administration expenses for the three months ended March 31, 2019 decreased $379 thousand compared to the same period last year mainly due to bad debt recovery of $207 thousand in Q1 2019 versus bad debt expense of $122 thousand in Q1 2018. In addition, computer services and office supplies also decreased year over year. Rent, utilities, and occupancy costs for the three months ended March 31, 2019 decreased $502 thousand compared to the same period last year mainly due to lower office and warehouse rental expense upon adoption of IFRS 16 which reduced rent expense by $336 thousand. Adjusting for this, rent, utilities, and occupancy costs for the three months ended March 31, 2019 decreased $166 thousand compared to the same period last year mainly due to the closure of two warehouses in west Texas in Q2 2018.

Depreciation on Property and Equipment

	Three months ended		Change	
	March 31	March 31		
(in 000's)	2019	2018	$	%
Depreciation on property and equipment	**$ 536**	$ 260	$ 276	106%

Depreciation on property and equipment for the three months ended March 31, 2019 increased $276 thousand compared to the same period last year due to $316 thousand of depreciation on right-of-use assets recognized upon adoption of IFRS 16. Adjusting for this, depreciation on property and equipment decreased $40 thousand due to a lower asset base.

Financing Costs

	Three months ended		Change	
	March 31	March 31		
(in 000's)	2019	2018	$	%
Interest on short-term operating debt	**$ 437**	$ 427	$ 10	2%
Interest on long-term debt	**225**	229	(4)	(2%)
Interest on obligiatons under finance lease	**44**	1	43	4300%
Cash interest paid	**706**	657	49	7%
Add non-cash interest expense:				
Amortization of deferred financing costs	**42**	23	19	83%
Total interest expense	**$ 748**	$ 680	68	10%

Interest on short-term operating debt for the three months ended March 31, 2019 increased $10 thousand compared to the same period last year due to higher average bank indebtedness. Interest on long-term debt for the three months ended March 31, 2019 decreased $4 thousand compared to the same period last year due to a lower outstanding balance. Interest on obligations under finance lease for the three months ended March 31, 2019 increased due to $35 thousand in interest on finance lease obligations recognized upon adoption of IFRS 16. Adjusting for this, interest on obligations under finance lease increased marginally.

Foreign Exchange (Gain) / Loss

	Three months ended		Change	
	March 31	March 31		
(in 000's)	2019	2018	$	%
Foreign exchange (gain) / loss	**$ (75)**	$ 306	$ 381	nm

Foreign exchange (gain) / loss for the three months ended March 31, 2019 increased $381 thousand due to the depreciation of the Canadian dollar relative to the US compared to the same period last year. This increase in the Canadian dollar exchange rate caused the Company to have a favourable position on certain net advances denominated in USD, which resulted in a foreign exchange gain for the first quarter ended March 31, 2019.

Income Tax (Recovery) / Expense

(in 000's)	Thee months ended March 31 2019	March 31 2018	Change $	%
Current	$ (62)	$ 21	$ (83)	nm
Deferred	-	69	(69)	(100%)
Income tax (recovery) / expense	$ (62)	$ 90	$ 152	169%

Income tax expense is the result of profitable segments of the business for which taxes would be owed. The deferred tax expense is due to the utilization of deferred tax assets that would be utilized during the year as a result of tax planning initiatives. Bri-Chem's effective income tax rate was 27% during Q1 2019 (Q1 2018 - 27%).

Adjusted EBITDA and Net Earnings / (Loss)

(in 000's)	Thee months ended March 31 2019	March 31 2018	Change $	%
Adjusted EBITDA	$ 1,602	$ 924	$ 678	73%
As a % of sales	6%	3%		
Net earnings / (loss)	$ 359	$ (106)	$ 465	nm
As a % of sales	1%	0%		

Adjusted EBITDA was $1.6 million for the three months ended March 31, 2019 comapred to $924 thousand in the same period last year. First quarter Adjusted EBITDA as a percentage of sales was 6% compared to 3% for the same period last year. This increase was due to higher margins in the US Fluids Distribution division and lower infrastructure costs as a result of the Company's commencement of its right sizing initiatives in Q4 2018. Net earnings were $359 thousand for the three months ended March 31, 2019 compared to a net loss of $106 thousand in the same period last year. First quarter net earnings as a percentage of sales was 1% compared to nil in the same period last year.

SUMMARY OF QUARTERLY DATA

Bri-Chem's quarterly results are materially impacted by seasonality factors, particularly in its Canadian operations. Typically, the first quarter of the calendar year is very active, followed by a much slower second quarter due to spring breakup where provincial and county road bans restrict movement of heavy equipment which negatively impacts demand for the Company's drilling fluid products. The following is a summary of selected financial information for the last eight quarters:

(in 000's)	2019 Q1	2018 Q4	2018 Q3	2018 Q2 [(2)]	2018 Q1	2017 Q4	2017 Q3	2017 Q2
Sales	$ 25,898	$ 27,705	$ 31,159	$ 27,255	$ 35,318	$ 27,917	$ 30,542	$ 23,761
Gross margin ($)	4,579	3,909	5,101	2,079	5,447	5,030	6,006	4,281
Gross margin (%)	18%	14%	16%	8%	15%	18%	20%	18%
Adjusted EBITDA [(1)]	1,602	580	1,376	(366)	924	1,772	2,337	788
Net earnings/(loss)	$ 359	$ (5,570)	$ 61	$ (3,740)	$ (106)	$ 690	$ 670	$ (377)
Basic and diluted earnings/(loss) per share	$ 0.02	$ (0.23)	$ -	$ (0.16)	$ -	$ 0.03	$ 0.03	$ (0.02)

(1) Refer to the "Non-IFRS Measures" section for a definition of non-GAAP terms as well as reconciliations for EBITDA, adjusted operating (loss) income, and adjusted (loss) / net earnings.

Quarterly results generally reflect the seasonality factors discussed above. Q1 2019 gross margin % was higher than the previous and prior comparable period quarters due to the absence of write-downs for slow-moving barite inventory and restructuring charges from warehouses in west Texas that were closed during 2018.

FINANCIAL CONDITION AND LIQUIDITY

The Company's primary liquidity needs are to fund ongoing operations, service existing debt obligations, fund capital expenditures, finance growth opportunities, and finance potential acquisitions. In addition, the Company must service its debt, including principal and interest payments and finance working capital needs. Bri-Chem relies on cash from operations, bank indebtedness, long-term debt and equity financing.

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 its inventory and operating costs. The Company's cash flow from operations has historically been enough to meet the Company's working capital, capital expenditure and debt servicing requirements.

Working capital position (000's)		March 31, 2019		December 31, 2018
Current assets	**$**	**54,464**	$	60,972
Current liabilities		**37,051**		42,995
Working capital	**$**	**17,413**	$	17,977

As at March 31, 2019, the Company had positive working of $17.4 million compared to $18.0 million at December 31, 2018. The Company's current ratio (defined as current assets divided by current liabilities) was 1.46 to 1 compared to 1.42 to 1 as at December 31, 2018.

Summary of cash flows (000's)		March 31, 2019		March 31 2018
Operating activites	**$**	**5,618**	$	(3,975)
Financing activities		**(5,537)**		4,520
Investing activities		**(81)**		(545)
Change in cash position	**$**	**-**	$	-

For the period ended March 31, 2019, $5.6 million of cash was provided by operating activities compared to $4.0 million used in operating activities for the same period last year. This increase was mainly due to a positive change in working capital, particularly lower inventory as the Company reduced inventories throughout the period in Canada and the US. In addition, the Company focused on collection of accounts receivable during the quarter that resulted increased cash inflows, which were partially offset by decreased accounts payable and accrued liabilities. For the period ended March 31, 2019, $5.5 million of cash was used in financing activities compared to $4.5 million of cash provided by financing activities for the same period last year. This decrease was mainly due to $4.2 million of bank indebtedness repayments. In addition, the Company paid $729 thousand of interest on its credit facilities and repaid $200,000 of its term debt during the quarter. For the period ended March 31, 2019, $81 thousand of cash was used in investing activities compared to $545 thousand of cash used in investing activities for the same period last year. This decrease was due to decreased purchases of property and equipment.

On December 24, 2018 the ABL Facility was amended to replace the fixed charge coverage ratio with a minimum total net worth covenant and a minimum trailing twelve-month EBITDA covenant. Minimum total net worth is defined as 90% of equity less prepaids, intangibles, and goodwill. Minimum trailing twelve-month EBITDA is defined as a prescribed level of EBITDA. The ABL facility requires the Company to maintain certain financial covenants which are monitored monthly. The same financial covenants apply to the GreyPoint facility.

On May 9, 2019, the Company amended the terms of the ABL Facility to decrease the maximum borrowing base down from $40,000,000 to $30,000,000 with a further reduction down to $25,000,000 commencing September 1, 2019. In addition, the amending agreement includes a $3M borrowing base block with reduced minimum requirements for the trailing twelve-month EBITDA and tangible net worth covenants.

On May 9, 2019, the Company amended the terms of its term loan agreement to amend the financial covenants to the same as the ABL Facility.

As at March 31, 2019, the Company was in compliance with all of the financial covenants for these agreements. The ABL Facility matures October 31, 2020 and the term loan agreement matures November 30, 2022.

A summary of the Company's financial covenants as at March 31, 2019 are as follows:

		March 31, 2019	Covenant		December 31, 2018	Covenant
Eligible capital expenditures	**$**	**81,148**	**Not to exceed $251,000**	$	850,552	Not to exceed $2,241,600
Minimum total net worth	**$**	**19,547,901**	**must exceed $19,182,000**	$	19,940,558	must exceed $16,931,000
Minimum trailing twelve month EBITDA	**$**	**3,013,764**	**must exceed $2,900,000**	$	2,949,231	must exceed $2,300,000

RISKS AND UNCERTAINTIES

Volatility of Oil and Natural Gas Industry Conditions

The demand, pricing and terms for Bri-Chem's drilling fluid products depend upon the level of industry activity for oil and natural gas in the resource basins it serves. Industry conditions can be influenced by factors over which the Company has no control, including: oil and natural gas prices; expectations about future oil and natural gas prices; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oil and natural gas; available pipeline and other oil and natural gas transportation capacity; demand for oil and natural gas; weather conditions; and political, regulatory and economic conditions in North America. Current global economic events and uncertainty have the potential to significantly impact commodity pricing. No assurance can be given that expected trends in oil and natural gas activities will continue or that demand for services provided by Bri-Chem will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas would likely affect activity levels in these industries and therefore affect the demand of Bri-Chem's products.

Credit Risk

As a result of the continued volatility in the North American oil and natural gas markets, the Company is exposed to heightened credit risk because a substantial portion of the Company's dealings are with entities involved in the oil and gas industry. Regarding accounts receivable, the Company remains focused on actively managing credit risk. Management has remained diligent in assessing credit levels granted to customers, monitoring the aging of receivables and taking proactive steps to collect outstanding balances. No single external customer accounts for more than 10% of sales. Bri-Chem's top 6 customers account for approximately 33% of revenue for the three months ended March 31, 2019 (March 31, 2018 – 38%). No single customer accounts for over 10% of total sales. 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 customer, or any significant decrease in sales to a customer, or prices paid or any other changes to the terms of service with a customer, could have a material adverse impact on the financial results, cash flows, and overall financial condition of the Company.

Transportation and Distribution Network Risk

The Company relies on a large distribution network to manage the sale of inventory 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. A significant disruption to its transportation and distribution network could have a material adverse impact to the Company.

Cyber Security

Bri-Chem manages cyber security risk by ensuring appropriate technologies, processes and practices are effectively designed and implemented to help prevent, detect and respond to threats as they emerge and evolve. The primary risks to Bri-Chem include, loss of data, destruction or corruption of data, compromising of confidential customer or employee information, leaked information, disruption of business, theft or extortion of funds, regulatory infractions, loss of competitive advantage and reputational damage. Bri-Chem applies technical and process controls in line with industry-accepted standards to protect its information assets and systems. Data backup and recovery processes are in place to minimize risk of data loss and resulting disruption of business. As result of the unpredictability of the timing, nature and scope of disruptions from cyber-attacks, Bri-Chem could potentially be subject to: operational delays, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, other manipulation or improper use of its systems and networks or financial losses, any of which could have a material adverse effect on Bri-Chem's reputation and competitive position, financial condition or results of operations.

Government Regulation

Bri-Chem is subject to a variety of federal, provincial, state, and local laws in Canada and the US, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Bri-Chem invests financial and managerial resources to ensure such compliance. Although such expenditures are generally not material to companies such as Bri-Chem, such laws or regulations are subject to change. Accordingly, it is impossible for Bri-Chem to predict the cost or impact of such laws and regulations on its future operations.

Seasonal Operations

Bri-Chem's Canadian operations are affected by the seasonality normally associated with the western Canadian oil and natural gas drilling industry. During the year, the busiest months are January through March and the slowest months are April through September when soft ground conditions hinder the movement of heavy equipment. Bri-Chem's US operations are not impacted by seasonality to the same degree as its Canadian operations.

OFF-BALANCE SHEET FINANCING

Bri-Chem has no off-balance sheet financing.

TRANSACTIONS WITH RELATED PARTIES

During the three months ended March 31, 2019 the Company incurred office sharing costs that were paid to a company over which a Director has control. A summary of these costs for the periods presented is as follows:

	Three months		Change	
	March 31	March 31		
(in 000's)	2019	2018	$	%
Office sharing costs	**$ 9**	$ 9	$ -	0%

CRITICAL ACCOUNTING ESTIMATES

Bri-Chem's critical accounting estimates are discussed in Note 2 of the financial statements for the years ended December 31, 2018 and 2017. There have been no changes to the Company's critical accounting estimates as of March 31, 2019.

CHANGES IN ACCOUNTING POLICIES

Bri-Chem's accounting policies are discussed in Note 2 of the financial statements for the years ended December 31, 2018 and 2017. On January 1, 2019 the Company adopted IFRS 16 "Leases" which is discussed in Note 3 of the March 31, 2019 interim condensed consolidated financial statements.

OUTSTANDING SHARES

As at May 9, 2019, the Company had 23,923,981 common shares issued and outstanding and no potentially dilutive shares. The Company had 1,120,000 stock options outstanding as at March 31, 2019.

NON-IFRS MEASURES

Bri-Chem uses certain measures in this MD&A which do not have any standardized meaning as prescribed by IFRS. These measures, which are derived from information reported in the annual consolidated financial statements, may not be comparable to similar measures presented by other reporting issuers. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Company. These Non-IFRS measures are identified and defined as follows:

Adjusted Net Earnings (Loss) and Adjusted EBITDA

Adjusted Net Earnings (Loss) are defined as net earnings (loss) before non-recurring events, net of corporate income taxes ("Adjusted Net Earnings (Loss)"). Management believes that in addition to net earnings (loss), Adjusted Net Earnings (Loss) is a useful supplemental measure that represents normalized net earnings from the business so that financial statement users can make insightful comparisons between current period and historical results. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment charges, share-based payments, and non-recurring events ("Adjusted EBITDA"). Management believes that in addition to net earnings Adjusted EBITDA is a useful supplemental measure of operating performance that normalizes financing, depreciation, income tax, and other non-recurring charges which are not controlled at the operating level. The following table provides a reconciliation of net earnings (loss) under IFRS, as disclosed in the annual consolidated financial statements, to Adjusted Net Earnings (Loss) and Adjusted EBITDA:

	Three months ended	
(in 000's)	March 31 2019	March 31 2018
Net earnings / (loss)	**$ 359**	$ (106)
Add:		
Restructuring costs	**20**	-
Adjusted net earnings / (loss)	**379**	(106)
Add:		
Interest	**748**	680
Income taxes (recovery)	**(62)**	90
Depreciation on property and equipment	**537**	260
Adjusted EBITDA	**$ 1,602**	$ 924

Adjusted Operating Earnings

Adjusted operating earnings are defined as operating earnings before non-recurring events ("Adjusted Operating Earnings"). Management believes that in addition to operating earnings, Adjusted Operating Earnings is a useful supplemental measure that represents normalized net earnings from the business so that financial statement users can make insightful comparisons between current period and historical results. The following table provides a reconciliation of operating earnings under IFRS, as disclosed in the annual consolidated financial statements, to Adjusted Operating Earnings:

(in 000's)		Three months ended March 31 2019		March 31 2018
Operating earnings	$	**970**	$	970
Add:				
Restructuring costs		**20**		-
Adjusted operating earnings		**990**		970

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, 2019 and, based on that evaluation, have concluded that these controls and procedures are effective in providing such reasonable assurance, except as noted below.

Internal controls over financial reporting ("ICFR")

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with IFRS. The design of the Company's internal control over financial reporting was assessed as of the date of this Management Discussion and Analysis.

The Chief Executive Officer and Chief Financial Officer have concluded, based on their assessment, that the design and implementation of the Company's disclosure controls and procedures and ICFR are not effective due to the material weaknesses in ICFR as described below. A material weakness is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

- A material weakness was identified relating to the evaluation of impairment for property and equipment which was corrected and resulted in an impairment charge of $1.6 million for the year ended December 31, 2018. This material weakness did not require adjustment to any prior period.
- Control limitations were identified relating to segregation of duties, review of journal entries and various IT related weaknesses around passwords and monitoring of user access in the accounting process. These situations are common to many small companies. While deficiencies in segregation of duties could lead to a material misstatement in the financial statements, other checks and balances including direct involvement of senior management in the day to day operations of the Company are in place, and no misstatement has occurred related to segregation of duties. However, these mitigating procedures may not be considered enough to reduce the likelihood that a material misstatement would be prevented or detected in the future.

As the Company grows, it plans to expand the number of individuals involved in the accounting function and to implement additional oversight and review type controls around the specific control deficiencies noted above.

Changes in ICFR

There were no changes in the Company's ICFR during the three months ended March 31, 2019 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, except as noted above, they do not expect that the disclosure controls and procedures or internal control over financial 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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information and statements contained in this MD&A constitute forward-looking information, including the anticipated costs associated with the purchase of capital equipment, expectations concerning the nature and timing of growth within the various business divisions operated through affiliates of the Company, expectations respecting the competitive position of such business divisions, expectations concerning the financing of future business activities, and statements as to future economic and operating conditions. Readers should review the cautionary statement regarding forward-looking information that appears below.

The information and statements contained in this MD&A that are not historical facts are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as “seek”, “plan”, “continue”, “estimate”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe”, “expect”, “may”, “anticipate” or “will” and similar expressions) may include plans, expectations, opinions, or guidance that are not statements of fact. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as changes in industry conditions (including the levels of capital expenditures made by oil and gas producers and explorers), the credit risk to which the Company is exposed in the conduct of its business, fluctuations in prevailing commodity prices or currency and interest rates, the competitive environment to which the various business divisions are, or may be, exposed in all aspects of their business, the ability of the Company’s various business divisions to access equipment (including parts) and new technologies and to maintain relationships with key suppliers, the ability of the Company’s various business divisions to attract and maintain key personnel and other qualified employees, various environmental risks to which the Company’s business divisions are exposed in the conduct of their operations, inherent risks associated with the conduct of the businesses in which the Company’s business divisions operate, timing and costs associated with the acquisition of capital equipment, the impact of weather and other seasonal factors that affect business operations, availability of financial resources or third-party financing and the impact of new laws and regulations or changes in existing laws, regulations or administrative practices on the part of regulatory authorities, including without limitation taxation and environmental laws and regulations and changes in how such laws and regulations are interpreted and enforced. Forward-looking information respecting the anticipated costs associated with the purchase of capital equipment are based upon historical prices for various classes of equipment, expectations relating to the impact of inflation on the future cost of such equipment and management’s views concerning the negotiating position of the Company and its affiliates. Forward-looking information concerning the nature and timing of growth within the various business divisions is based on the current budget of the Company (which is subject to change), factors that affected the historical growth of such business divisions, sources of historic growth opportunities and expectations relating to future economic and operating conditions. Forward-looking information concerning the future competitive position of the Company’s business divisions is based upon the current competitive environment in which those business divisions operate, expectations relating to future economic and operating conditions, current and announced build programs and other expansion plans of other organizations that operate in the energy service business. Forward-looking information concerning the financing of future business activities is based upon the financing sources on which the Company and its predecessors have historically relied and expectations relating to future economic and operating conditions. Forward-looking information concerning future economic and operating conditions is based upon historical economic and operating conditions, opinions of third-party analysts respecting anticipated economic and operating conditions. Although management of the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Accordingly, readers should not place undue reliance upon any of the forward-looking information set out in this MD&A. All the forward-looking statements of the Company contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement. The various risks to which the Company is exposed are described in additional detail in this MD&A under the heading “Risk Factors and Risk Management” on page 19 and in the Company’s Annual Information Form (AIF) for the year ended December 31, 2018 which is available on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise.

Corporate Information

Officers and Directors
Don Caron[2]
Chairman, President, CEO and Director
Edmonton, Alberta

Jason Theiss, CPA
CFO
Spruce Grove, Alberta

Albert Sharp[1] [2]
Director
Spruce Grove, Alberta

Eric Sauze, CPA, CA[1] [2]
Director
Edmonton, Alberta

Brian Campbell[1]
Director
Edmonton, Alberta

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

Corporate Office
27075 Acheson Road
Acheson, Alberta T7X 6B1
Ph: 780.962.9490
Fax: 780.962.9875

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

Shares Listed
Toronto Stock Exchange
Trading Symbol – BRY

Bankers
CIBC
10102 Jasper Avenue
Edmonton, Alberta T5J 1W5

Lenders
CIBC Asset Based Lending Inc.
199 Bay Street, 4th Floor
Toronto, Ontario M5L 1A2

Transfer Agent
Computershare Investor Services
530 – 8th Avenue SW, #600
Calgary, Alberta T2P 3S8