Q2 2023 Management Discussion & Analysis

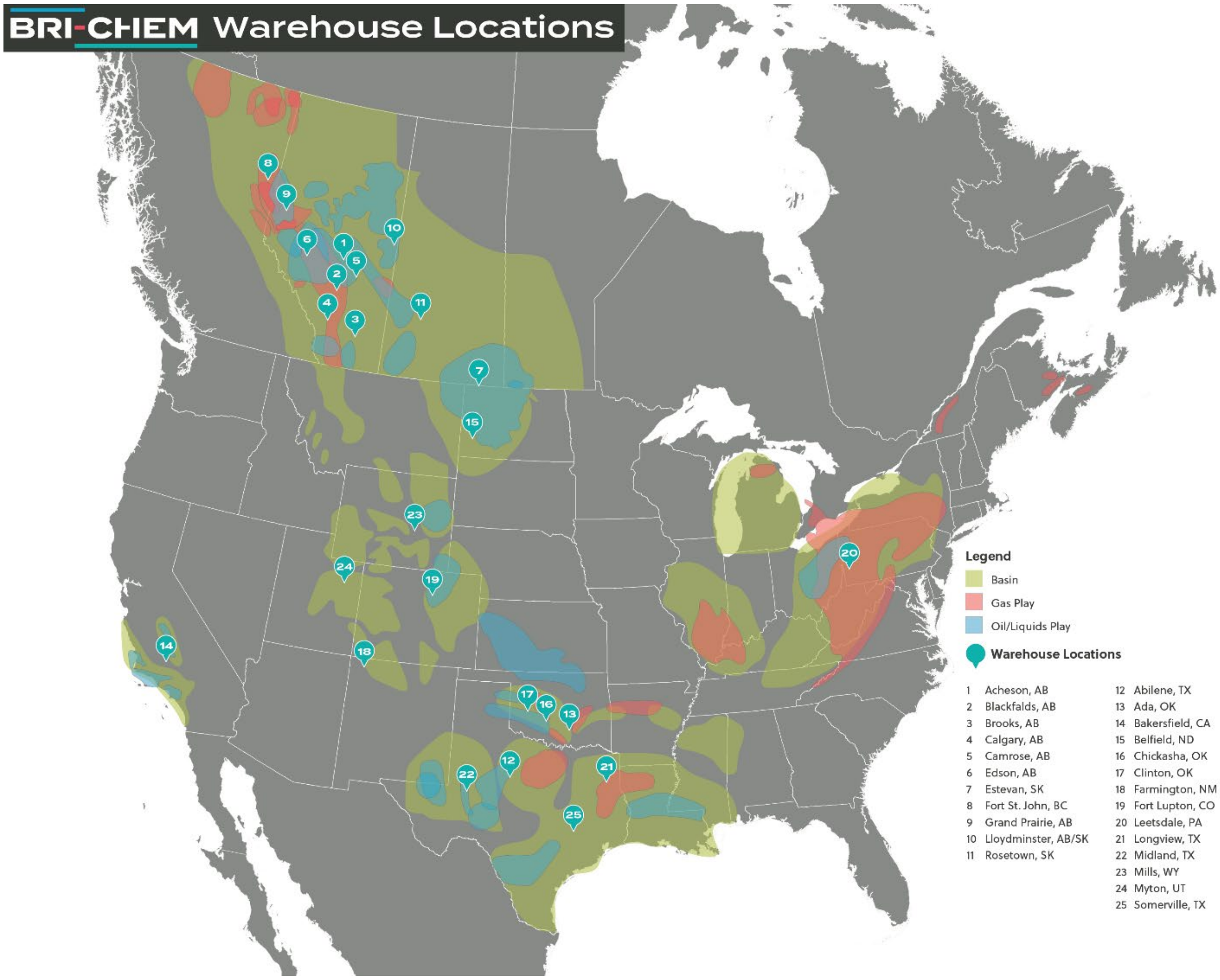
June 30, 2023 (Expressed in Canadian Dollars)

This Management's Discussion and Analysis ("MD&A") of Bri-Chem Corp. ("Bri-Chem" or the "Company") was prepared as at August 10, 2023 for the three months ended June 30, 2023 and should be read in conjunction with the Company's December 31, 2022 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 25 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 14 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, loss 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 25 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 June 30 2023	June 30 2022	Change $	%	Six months ended June 30 2023	June 30 2022	Change $	%
Financial performance								
Sales	**$ 25,229**	$ 25,469	$ (240)	(1%)	**$ 52,430**	$ 49,005	$ 3,425	7%
Adjusted EBITDA(1)	**1,972**	1,782	190	11%	**3,587**	4,224	(637)	(15%)
As a % of revenue	**8%**	7%			**7%**	9%		
Operating earnings	**1,216**	1,690	(474)	(28%)	**2,513**	4,735	(2,223)	(47%)
Adjusted net earnings (1)	**714**	886	(172)	(19%)	**1,105**	2,558	(1,453)	(57%)
Net earnings	**$ 553**	$ 341	$ 212	62%	**$ 818**	$ 8,113	$ (7,295)	(90%)
Diluted per share								
Adjusted EBITDA (1)	**$ 0.07**	$ 0.07	$ -	0%	**$ 0.14**	$ 0.16	$ (0.02)	(13%)
Adjusted net earnings (1)	**$ 0.03**	$ 0.04	$ (0.01)	(27%)	**$ 0.04**	$ 0.10	$ (0.06)	(62%)
Net earnings	**$ 0.02**	$ 0.01	$ 0.01	70%	**$ 0.03**	$ 0.31	$ (0.28)	(91%)
Financial position								
Total assets					**$ 72,588**	$ 65,696	$ 6,892	10%
Working capital					**15,940**	13,218	2,722	21%
Long-term debt					**6,827**	5,100	1,727	34%
Shareholders equity					**$ 22,517**	$ 20,280	$ 2,237	11%

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

Key Q2 2023 highlights include:

- Consolidated sales for the three months ended June 30, 2023 were consistent quarter over quarter as the Company maintained its market share in all relevant markets. Year to date sales is higher due to an increase in production chemical toll blending revenue and increased cementing work being conducted in the California region.

- Consolidated gross margin for the three months ended June 30, 2023 decreased by $162 thousand compared to the same period last year. The gross margin dollars decrease is primarily related to an unfavorable change in sales mix when compared to the prior year.

- Adjusted EBITDA for the second quarter 2023 increased by $190 thousand when compared to the same period in the prior year, achieving 8% as a percentage of revenue in Q2 2023. Operating earnings was $1.2 million for the three months ended June 30, 2023 compared to operating earnings of $1.7 million the prior year comparable quarter, representing a 28% decrease. The decrease predominantly relates to higher interest incurred on borrowed funds and increasing employee remuneration and headcount.

- Adjusted net earnings per diluted share for the three months ended June 30, 2023 was $0.03 per share compared to $0.04 per diluted share for same period last year.

- Working capital, as at June 30, 2023, was $15.9 million compared to $13.2 million at June 30, 2022, an increase of 21%. The increase relates to notable increases in inventory balances in response to market demand in tandem with a decrease to accounts payable balances. These items were offset modestly by decreases to accounts receivable balances due to improved collection procedures in tandem with a higher realized bank indebtedness balance due to inventory purchases.

Summary for the three months ended June 30, 2023:

Consolidated sales for the three months ended June 30, 2023 were $25.2 million compared to $25.5 million for the same period in 2022, representing a $240 thousand decrease over the comparable period. The minor decrease was due to changes in select customer commodity purchases, offset by increased sales in the blending and packaging division.

Bri-Chem's Canadian drilling fluids distribution division generated sales of $2.9 million for the three months ended June 30, 2023 compared to $3 million in the comparable prior period. The Canadian wildfires reduced activity within specific geographic locations, which was offset by other regional increases to activity. The number of active operating land rigs in Q2 2023 averaged 114, compared to 113 in the same period last year (Source: Baker Hughes). Bri-Chem's United States drilling fluids distribution division generated sales of $15.6 million for the three months ended June 30, 2023 compared to sales of $17.1 million for the comparable period in 2022, representing a quarterly decrease of 9%. This decrease relates to a decrease in purchases made by a single customer. The number of active operating land rigs in Q2 2023 averaged 700, compared to a 2022 Q2 average of 699. (Source: Baker Hughes)

Bri-Chem's Canadian blending and packaging division generated sales of $3.8 million for the three months ended June 30, 2023 compared to Q2 2022 sales of $2.8 million, representing a quarterly increase of $940 thousand. The increase in sales relates to higher cementing and stimulation activities in addition to increased production chemical sales in the market. US blending and packaging sales for the three months ended June 30, 2023 were $3.0 million compared to $2.5 million in the prior year. The $0.5M surge relates to increased cementing activities in specific operating regions in California.

Operating earnings for the three months ended June 30, 2023 was $1.2 million compared to $1.7 million during the same period last year. Adjusted EBITDA was $2 million for Q2 2023 compared to $1.8 million for Q2 2022. Adjusted EBITDA as a percentage of sales was 8% for the quarter, which is an increase over the 7% in Q2 2022.

OUTLOOK

The second quarter of 2023 continued to show signs of stabilization in the oil and gas sector which is the expected trend for the remainder of the year. Bri-Chem has focused on maintaining its North America market share as the price of WTI continues to stabilize in harmony with rig counts which should provide future regional growth in our Texas and Oklahoma regions. Over the short-term, however, depressed natural gas commodity prices have contributed uncertainty to the near-term activity outlook. The Company will also strive to realize margin improvement from ongoing pricing adjustments while working diligently to purchase lower costed products from current and new suppliers. Our organic growth initiatives are moving forward with a new warehouse now recently opened in Lloydminster, Canada, and with additional growth opportunities forthcoming at our new Midland, Texas facility which is likely to be realized and capitalized upon within the next six to twelve months. Management is still fully committed to maintaining a low cost overhead infrastructure which will further allow the Company to be prepared should activity levels quickly rise or fall.

BRI-CHEM

DISCUSSION OF Q2 OPERATING RESULTS

Divisional sales

(in 000's)	Three months ended 2023	June 30 2022	Change $	%	Six months ended 2023	June 30 2022	Change $	%
Fluids Distribution								
Canada	**$ 2,856**	$ 2,996	$ (140)	(5%)	**$ 6,467**	$ 6,353	$ 114	2%
US	**15,638**	17,149	(1,511)	(9%)	**32,392**	31,688	705	2%
	18,494	20,145	(1,651)	(8%)	**38,859**	38,041	819	2%
Fluids Blending & Packaging								
Canada	**3,781**	2,842	940	33%	**8,074**	6,276	1,798	29%
US	**2,953**	2,483	471	19%	**5,497**	4,689	808	17%
	6,735	5,324	1,410	26%	**13,571**	10,965	2,606	24%
Consolidated sales	**$ 25,229**	$ 25,469	$ (240)	(1%)	**$ 52,430**	$ 49,005	$ 3,425	7%
Geographic region								
Canada	**$ 6,638**	$ 5,838	800	14%	**$ 14,541**	$ 12,629	1,912	15%
US	**$ 18,591**	$ 19,632	(1,040)	(5%)	**$ 37,889**	$ 36,376	1,513	4%
Consolidated sales	**$ 25,229**	$ 25,469	(240)	(1%)	**$ 52,430**	$ 49,005	3,425	7%

Consolidated sales for the three months ended June 30, 2023 were $25.2 million compared to $25.5 million for the same period in 2022, representing an $240 thousand decrease. The minor decrease was due to changes in select customer commodity purchases, offset by increased production.

Fluids Distribution Divisions

Sales stabilized in Q2 2023 when compared to the prior year, resulting in a minor decrease of 5%. Year over year sales remained consistent. The average number of rigs operating in the second quarter of 2023 was 114 compared to 113 in the second quarter of 2022. (Source: Baker Hughes).

The US Fluids Distribution division generated sales of $15.6 million which was $1.5 million lower than the same period in 2022. This 9% decrease relates to a decrease in purchases from a lone customer. The average number of rigs operating in the US for Q2 2023 was 700 compared to 699 for Q2 2022. (Source: Baker Hughes).

Fluids Blending & Packaging Division

The Canadian Fluids Blending and Packaging division recorded sales of $3.8 million for the three months ended June 30, 2023 compared to sales of $2.8 million for the comparable quarter in 2022. The increase was due to the increased cementing and stimulation work, as well as increased production in Q2 2023.

US Fluids Blending and Packaging sales for the three months ended June 30, 2023 were $3.0 million compared to $2.5 million for the same comparable period in 2022, an increase of $471 thousand. The increase is the result of a of higher cementing and stimulation work undertaken in Q2 2023.

Divisional Gross Margin

(in 000's)	Three months ended 2023	%(1)	June 30 2022	%(1)	Change $	%	Six months ended 2023	%(1)	June 30 2022	%(1)	Change $	%
Fluids distribution												
Canada	$ **494**	17.3%	$ 744	24.8%	$ (249)	(34%)	$ **1,247**	19.3%	$ 1,512	23.8%	$ (265)	(18%)
US	**2,852**	18.2%	3,112	18.1%	(261)	(8%)	**5,355**	16.5%	6,878	21.7%	(1,523)	(22%)
	3,346	18.1%	3,856	19.1%	(510)	(13%)	**6,602**	17.0%	8,390	22.1%	(1,788)	(21%)
Fluids blending & packaging												
Canada	**1,081**	28.6%	843	29.7%	238	28%	**1,850**	22.9%	1,746	27.8%	104	6%
US	**601**	20.3%	490	19.7%	111	23%	**1,116**	20.3%	940	20.0%	176	19%
	1,681	25.0%	1,333	25.0%	349	26%	**2,966**	21.9%	2,685	24.5%	281	10%
Consolidated gross margin	$ **5,027**	19.9%	$ 5,189	20.4%	$ (162)	(3%)	$ **9,568**	18.2%	$ 11,075	22.6%	$ (1,507)	(14%)
Geographic region												
Canada	**1,575**	23.7%	1,587	27.2%	(12)	(1%)	**3,097**	21.3%	3,257	25.8%	(161)	(5%)
US	**3,452**	18.6%	3,602	18.3%	(150)	(4%)	**6,471**	17.1%	7,818	21.5%	(1,346)	(17%)
Consolidated gross margin	$ **5,027**	19.9%	$ 5,189	20.4%	$ (162)	(3%)	$ **9,568**	18.2%	$ 11,075	22.6%	$ (1,507)	(14%)

(1) Expressed as a percentage of divisional sales

Consolidated gross margin for the three months ended June 30, 2023 decreased by $162 thousand compared to the same period last year. The decrease in gross margin dollars primary is related to an unfavourable change in sales mix from the prior year.

Fluids Distribution Division

Canadian Fluids Distribution gross margin averaged 17% for the second quarter ended June 30, 2023 compared to 25% for the same period last year. The decrease relates to an unfavourable change in sales mix relating to select higher margining products.

US Fluids Distribution gross margin for the three months ended June 30, 2023, was 18%, which held consistent with Q2 2022. The year to date decreases primarily relate to the previous year's asset impairment reversal, which artificially raised historical margins in this business unit. Additional margin erosion was attributable to unfavorable pricing on certain lines that are more influenced by commodity pricing, and pricing concessions in specific territories that were required to maintain market share in the early stages of 2023.

Fluids Blending & Packaging Division

Canadian Fluids Blending & Packaging division gross margin was 29% during the three months ended June 30, 2023, which is a slight decrease from the prior year.

The US Fluids Blending & Packaging division gross margins held at 20% for the second quarter of 2023 compared to the same period in 2022. The static gross margins are the result of sustained cementing activities and consistent product sales mix between Q2 2023 and Q2 2022.

Salaries and Benefits

(in 000's)	Three months ended June 30 2023	2022	Change $	%	Six months ended June 30 2023	2022	Change $	%
Salaries and benefits	**$ 2,015**	$ 1,669	$ 346	21%	**$ 3,697**	$ 3,274	$ 423	13%

Salaries and benefits increased $346 thousand for the three months ended June 30, 2023 compared to the prior year quarter as the Company adjusted its employee renumeration and headcount to meet current market activity levels and inflationary pressures. The Company employed 65 (35 Canada and 30 US) employees at June 30, 2023 compared to 60 (28 Canada and 32 US) at June 30, 2022. Wage increases were partially offset by the employee tax retention credit realized in the first quarter of 2023.

Selling, General, and Administration

(in 000's)	Three months ended June 30 2023	2022	Change $	%	Six months ended June 30 2023	2022	Change $	%
Selling	**$ 119**	$ 91	$ 28	31%	**$ 217**	$ 147	$ 70	47%
Professional and consulting	**232**	138	94	68%	**379**	226	153	68%
General and administrative	**764**	940	(176)	(19%)	**1,275**	1,437	(163)	(11%)
Rent, utilities, and occupancy costs	**362**	362	0	0%	**852**	737	115	16%
Total selling, general and administration	**$ 1,477**	$ 1,531	$ (54)	(4%)	**$ 2,723**	$ 2,548	$ 175	7%

Selling expenses are related to meals and entertainment, transportation, and travel incurred by Bri-Chem's sales team. Selling expenses for the three months ended June 30, 2023 were higher than the same period in 2022. The increase expense is due to additional business-related travel occurring post COVID.

Professional and consulting fees, as well as general and administration expenses, experienced increases in Q2 2023 when compared to Q2 2022. Professional fees increased due to increased business activities.

General and administrative expenses decreased by $163 thousand for the three months ended June 30, 2023 compared to the same period last year. The decrease in expense mainly relates to reduced repairs and maintenance and forklift expenses as elective maintenance and repair activities deferred in the COVID period were reprioritized and rectified in the prior year.

Depreciation on Property and Equipment

(in 000's)	Three months ended June 30 2023	2022	Change $	%	Six months ended June 30 2023	2022	Change $	%
Depreciation on right of use	**$ 101**	$ 119	$ (18)	(15%)	**$ 201**	$ 200	$ 1	0%
Depreciation on property and equipment	**218**	179	40	22%	**434**	$ 316	119	38%
Total depreciation	**$ 319**	$ 297	$ 22	7%	**$ 635**	$ 516	$ 119	23%

Depreciation on right of use assets has been relatively consistent between periods due to management's discipline on capital spending initiatives. The minor year over year increase to depreciation was the result of a new property and equipment assets acquired between comparative periods.

Financing Costs

(in 000's)	Three months ended June 30 2023	2022	Change $	%	Six months ended June 30 2023	2022	Change $	%
Interest on short-term operating debt	**$ 794**	$ 254	$ 540	212%	**$ 1,461**	$ 460	$ 1,001	218%
Interest on long-term debt	**107**	262	(154)	(59%)	**316**	513	(197)	(38%)
Interest on lease liabilities	**34**	30	4	100%	**69**	51	19	37%
Cash interest paid	**935**	546	389	71%	**1,846**	1,024	823	80%
Add non-cash interest expense:								
Amortization of deferred financing costs	**18**	22	(4)	(20%)	**29**	96	(68)	(70%)
Non cash interest realized	**18**	22	(4)	(20%)	**71**	52	18	35%
Total interest expense	**$ 953**	$ 568	385	68%	**$ 1,875**	$ 1,120	755	67%

Interest on short-term operating debt increased by $540 thousand compared to the same period last year as the Company maintained a higher bank indebtedness balance caused by purchasing more inventory to support operations. In addition, the new Canadian Western Bank (CWB) loan interest is being considered short term debt. Interest on long term debt decreased due to the change in financing that arose with the CWB loan (classified as short term debt vs long term debt). Interest on lease liabilities did not materially change as leaseholds remained relatively unchanged in the quarter.

Foreign Exchange (Gain) / Loss

(in 000's)	Three months ended June 30 2023	2022	Change $	%	Six months ended June 30 2023	2022	Change $	%
Foreign exchange (gain) / loss	**$ (437)**	$ 205	$ (642)	(313%)	**$ (439)**	$ 134	$ (573)	(429%)

The Canadian dollar improved compared to the US dollar for the second quarter of 2023 which resulted in a foreign exchange gain for the quarter. 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 in the quarter.

Income Tax Expense

(in 000's)	Three months ended June 30 2023	2022	Change $	%	Six months ended June 30 2023	2022	Change $	%
Current	**$ (14)**	$ 31	$ (45)	(146%)	**$ (28)**	$ 31	$ (59)	(191%)
Deferred	**161**	545	(384)	(70%)	**287**	(4,662)	4,949	(106%)
Total income tax expense	**$ 147**	$ 576	$ (429)	(74%)	**$ 259**	$ (4,632)	$ 4,891	(106%)

The provision for income taxes for the three months ended June 30, 2023 is negative $14 thousand as the Company leveraged loss carry forward balances from past years to reduce its tax expense. Deferred tax expense was $161 thousand as the Company realized income in the quarter which reduced temporary differences between the tax and accounting base of US operations. Given current economic conditions and activity levels in the region, the Company has determined the utilization of deferred tax assets is more probable than not. Bri-Chem's effective income tax rate was 23% in 2023 (2022 - 23%).

Adjusted EBITDA and Net (Loss) / Earnings

	Three months ended June 30		Six months ended June 30	
(in 000's)	2023	2022	2023	2022
Net earnings	**$ 553**	$ 341	**$ 818**	$ 8,113
Less:				
Deferred tax (credit) / expense	**161**	545	**287**	(4,662)
Property and equipment impairment reversal	**-**	-	**-**	(893)
Adjusted net earnings	**714**	886	**1,105**	2,558
Add:				
Financing costs	**953**	568	**1,875**	1,120
Income tax expense	**(14)**	31	**(28)**	31
Depreciation and amortization	**319**	297	**635**	516
Adjusted EBITDA	**$ 1,972**	$ 1,782	**$ 3,587**	$ 4,224

(1) Represents paid cleaning costs related to oil based mud storage tanks as the Company is eliminating oil based mud in Canada

Adjusted EBITDA was $2 million for the three months ended June 30, 2023 compared to $1.8 million in the same period last year. The adjusted EBITDA increased primarily due foreign exchange realized in the quarter, which was partially offset by higher wages salary expenses. Second quarter adjusted EBITDA as a percentage of sales was 8% which is an increase over the prior year. Adjusted net earnings were $714 thousand for the three months ended June 30, 2023 compared to adjusted net earnings of $886 thousand in Q2 2023.

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 in Canada. The following is a summary of selected financial information for the last eight quarters:

(in 000's)	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1 (2)	2021 Q4	2021 Q3
Sales	**$ 25,229**	$ 27,201	$ 26,522	$ 28,986	$ 25,469	$ 23,536	$ 18,544	$ 16,461
Gross margin ($)	**5,027**	4,541	4,678	5,336	5,189	5,886	3,809	3,402
Gross margin (%)	**19.9%**	16.7%	17.6%	18.4%	20.4%	25.0%	20.5%	20.7%
Adjusted EBITDA(1)	**1,972**	1,615	1,432	1,716	1,782	2,442	1,408	980
Net earnings	**$ 553**	$ 265	$ 30	$ 500	$ 341	$ 7,772	$ 784	$ 348
Basic and diluted earnings per share	**$ 0.02**	$ 0.01	$ -	$ 0.02	$ 0.01	$ 0.29	$ 0.03	$ 0.01

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

(2) During Q1 2022, Bri-Chem reversed asset impairment charges in the amount of 893 thousand, relating to the impairments realized by the Company in fiscal 2018 and 2019.

Quarterly results generally reflect the seasonality factors discussed above. Q2 2023 margins improved, as US Q1 pricing concessions to specific customers were removed. The 2022 impairment reversal is realized in operating expenses within the quarterly and annual financial statements.

FINANCIAL CONDITION AND LIQUIDITY

The Company's primary liquidity needs are to fund ongoing operations, service existing debt obligations, and fund limited capital expenditures. Bri-Chem relies on cash from operations, bank indebtedness, long-term debt and equity financing.

The Company actively monitors its financing obligations to ensure that it has enough available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company mitigates liquidity risk by maintaining adequate Credit Facilities, and through the forecasting and management of its operational cash flows. Management of operational cash flows takes into consideration the Company's debt financing plans and covenant compliance.

The Company's liquidity relies heavily on sellable inventory and collectability of accounts receivable. Timing of collections could cause liquidity of the Company to tighten.

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.

Working capital position (000's)		June 30 2023		December 31 2022
Current assets	**$**	**58,105**	$	63,407
Current liabilities		**42,296**		47,972
Working capital	**$**	**15,810**	$	15,434

As at June 30, 2023, the Company had positive working capital of $15.7 million compared to $15.4 million at December 31, 2022. The Company's current ratio (defined as current assets divided by current liabilities) was 1.37 to 1 at June 30, 2023 compared to 1.32 to 1 as at December 31, 2022.

Summary of cash flows (000's)		June 30 2023		June 30 2022
Operating activites	**$**	**1,915**	$	(5,818)
Financing activities		**(1,649)**		5,991
Investing activities		**(266)**		(172)
Change in cash position	**$**	**-**	$	-

For the six months ended June 30, 2023, $1.9 million of cash was generated by operating activities compared to cash used of $5.8 million for the same period in 2022. The increase in cash is primarily due to improved collections during the period. Cash used by financing activities was $1.6 million for the six months ended June 30, 2023, compared to cash generated of $6 million for the same comparable period. Cash used in investing activities was $226 thousand for the second quarter of 2023 and $172 thousand used for the same comparable period as the Company had minimal capital expenditures in the period.

The ABL Facility requires the Company to maintain certain financial covenants which are monitored monthly. Minimum trailing twelve-month EBITDA is defined as a prescribed level of EBITDA. The Company must maintain a fixed charged coverage ratio of no less than 1.0 tested monthly. Additionally, The Company cannot realize capital expenditures in excess of 120% of its approved budget, tested monthly.

On July 16, 2020, the Company obtained a $6,250,000 loan under the Canadian government's Business Credit Availability Program ("BCAP"). The BCAP Loan, which is administered by CIBC, is backed by the Canadian Government under the BCAP. Pursuant to the program, 80% of the principal of the BCAP Loan is guaranteed by The Business Development Bank of Canada. The BCAP Loan bears interest at a rate of 2.25% above CIBC's prime lending rate. The term of the BCAP Loan is 10 years and is interest only for the first 12

FINANCIAL CONDITION AND LIQUIDITY (CONT'D)

months. Under the terms of BCAP, the proceeds of the BCAP Loan must be used to finance operations and can be used to make normally scheduled interest and principal payments, as well as ordinary-course debt payments. Proceeds from the BCAP Loan cannot be used to refinance existing debt.

On May 9, 2022, the Company amended its ABL Facility agreement to coincide with the refinancing of its subordinated debt. All relevant terms remain the same apart from the addition of a fixed charge coverage ratio covenant of no less than 1.0 tested monthly. This covenant has a trigger clause which commences at the beginning of calendar 2023 and the covenant takes effect if the Company meets the threshold of 1.0 for two consecutive months.

On May 9, 2022, the Company signed an agreement with Canadian Western Bank ("CWB") to refinance its subordinated debt. The subordinated debt financing consists of a $6 million, 20 year fixed term loan and bears an interest rate of 5.61% per annum. The CWB facility includes a tangible net worth covenant of $9,295,000 and a fixed charge coverage ratio covenant of no less than 1.10, both tested annually. The extinguishment of the previous term debt facility resulted in a loss of $359,269, realized within the statement of operations and comprehensive income. The subordinated debt agreement is secured by the following: an unlimited corporate guarantee supported by a general security agreement from all entities within the group, only to a prior charge from the ABL facility, first demand collateral mortgage over all owned lands and only to a prior charge from the ABL facility, first demand collateral mortgage over all owned lands and premises; assigned by the Company to CWB of all risk insurance in the amounts and from an insurer acceptable to CWB, on all Company real property, without limitation lands, buildings, fixtures and equipment owned by the Company, showing CWB as first loss payee. Transaction costs of $91,793 were incurred as part of the refinancing, and are being amortized over the term of the agreement.

On October 24, 2022, a second tranche of financing was signed with CWB for the purchase of a warehouse facility, in the amount of $1,319,000. The financing consists of a 20 year term loan and bears a current 2 year fixed interest rate of 6.62% per annum. This loan is secured by a first demand collateral mortgage over all owned lands and premises; assigned by the Company to CWB of all risk insurance in the amounts and from an insurer acceptable to CWB, on all Company real property, without limitation lands, buildings, fixtures and equipment owned by the Company, showing CWB as first loss payee. Transaction costs of $3,500 were incurred as part of this amendment and are being amortized over the term of the agreement. As at June 30, 2023, the Company complied with all of its financial covenants related to debt.

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, 2022. 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.

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. For the six months ended June 30, 2023, revenue from one customer amounted to $8,390,614 (June 30, 2022 - $7,004,201), representing 16.0% (June 30, 2022 – 14.1%) of consolidated sales, and 26.4% (June 30, 2022 – 23.9%) of USA Fluid Distribution segmented 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. These events will have an impact on future revenues of the company and may accelerate financial conditions such as banking covenants in the foreseeable future. The Company has not yet experienced unexpected challenges with recoverability of accounts receivable balances and realization or inventory values on December 31, 2022 balances presented in these financial statements, however, uncertainty exists with respect to recoverability of accounts receivable and realization of inventories originated subsequent to the quarter.

Global Health Crisis and COVID-19

The Company may be impacted by global heath pandemics, including through supply chain disruption, business interruption, changes in customer demand for Bri-Chem's products and services, stock price volatility, among other risks. In December 2019, a novel strain of coronavirus, COVID-19, was identified in Wuhan, China which has resulted in global economic restrictions. These health crises could have an adverse impact on the Company's business including the Company's ability to continue as a going concern.

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.

Inflation

If our development, operation or labour costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through corresponding increases in the costs of our products and services to our customers. Our inability or failure to do so could harm our business, financial condition and results of operations. Further, there can be no assurance that any governmental action to mitigate inflationary cycles will be taken or be effective. Central banks have increased interest rates in response to inflation, and additional rate increases are expected. Governmental action, such as the imposition of higher interest rates or wage controls, may also negatively impact the Company's costs and may magnify the risks identified in this MD&A and in the AIF. Continued inflation, any governmental response thereto, or the Company's inability to offset inflationary effects may have a material adverse effect on our business, results of operations, financial condition or value of our share price.

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.

Climate Change

The Company is subject to climate change that relates to the consequences of a global transition to reduced carbon, including the risk of regulatory and policy change. Governments in Canada and around the world have responded to these shifting societal attitudes by adopting ambitious emissions reduction targets and supporting legislation, including measures relating to carbon pricing, clean energy and fuel standards, and alternative energy incentives and mandates. Concerns over climate change may result in additional or more stringent legislation. Such changes could impose higher standards or require significant reductions to green house gas emissions or setback requirements for facilities and wells, which could result in significant penalties for failure to comply, or increased capital expenditures, operating expenses, abandonment and reclamation obligations and distribution costs or the loss of operating licenses. All of which could impact the demand for the Company's products.

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 June 30, 2023 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 ended		Change		Six months ended		Change	
		June 30				June 30		
(in 000's)	2023	2022	$	%	2023	2022	$	%
Office sharing costs	**$ 6**	$ 7	$ (1)	(14%)	**$ 12**	$ 16	$ (4)	(25%)

ACCOUNTING ESTIMATES

Bri-Chem's critical accounting estimates are discussed in Note 2 of its annual audited consolidated financial statements for the years ended December 31, 2022 and December 31, 2021. There have been no changes to the Company's critical accounting estimates as at June 30, 2023.

CHANGES IN ACCOUNTING POLICIES

Bri-Chem's accounting policies are discussed in Note 2 of the annual audited consolidated financial statements for the years ended December 31, 2022 and December 31, 2021.

OUTSTANDING SHARES

As at June 30, 2023, the Company had 26,432,981 common shares issued and outstanding and no potentially dilutive shares. The Company had 490,000 stock options outstanding as at June 30, 2023.

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 and Adjusted EBITDA

Adjusted Net Earnings are defined as net earnings before non-recurring events, net of corporate income taxes ("Adjusted Net Earnings"). Management believes that in addition to net earnings, Adjusted Net 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. 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 under IFRS, as disclosed in the annual consolidated financial statements, to Adjusted Net Earnings and Adjusted EBITDA:

	Three months ended June 30		Six months ended June 30	
(in 000's)	2023	2022	2023	2022
Net earnings	**$ 553**	$ 341	**$ 818**	$ 8,113
Less:				
Deferred tax (credit) / expense	**161**	545	**287**	(4,662)
Property and equipment impairment reversal	**-**	-	**-**	(893)
Adjusted net earnings	**714**	886	**1,105**	2,558
Add:				
Financing costs	**953**	568	**1,875**	1,120
Income tax expense	**(14)**	31	**(28)**	31
Depreciation and amortization	**319**	297	**635**	516
Adjusted EBITDA	**$ 1,972**	$ 1,782	**$ 3,587**	$ 4,224

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 June 30, 2023 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.

- 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 in 2023 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 year ended December 31, 2022 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. 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, 2022 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

Tony Pagnucco, CPA, CA
CFO
Edmonton, Alberta

Albert Sharp[(1) (2)]
Director
Parkland County, Alberta

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

Brian Campbell[(1)]
Director
Edmonton, Alberta

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

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