



Q3 2023 Management Discussion & Analysis

September 30, 2023 (Expressed in Canadian Dollars)



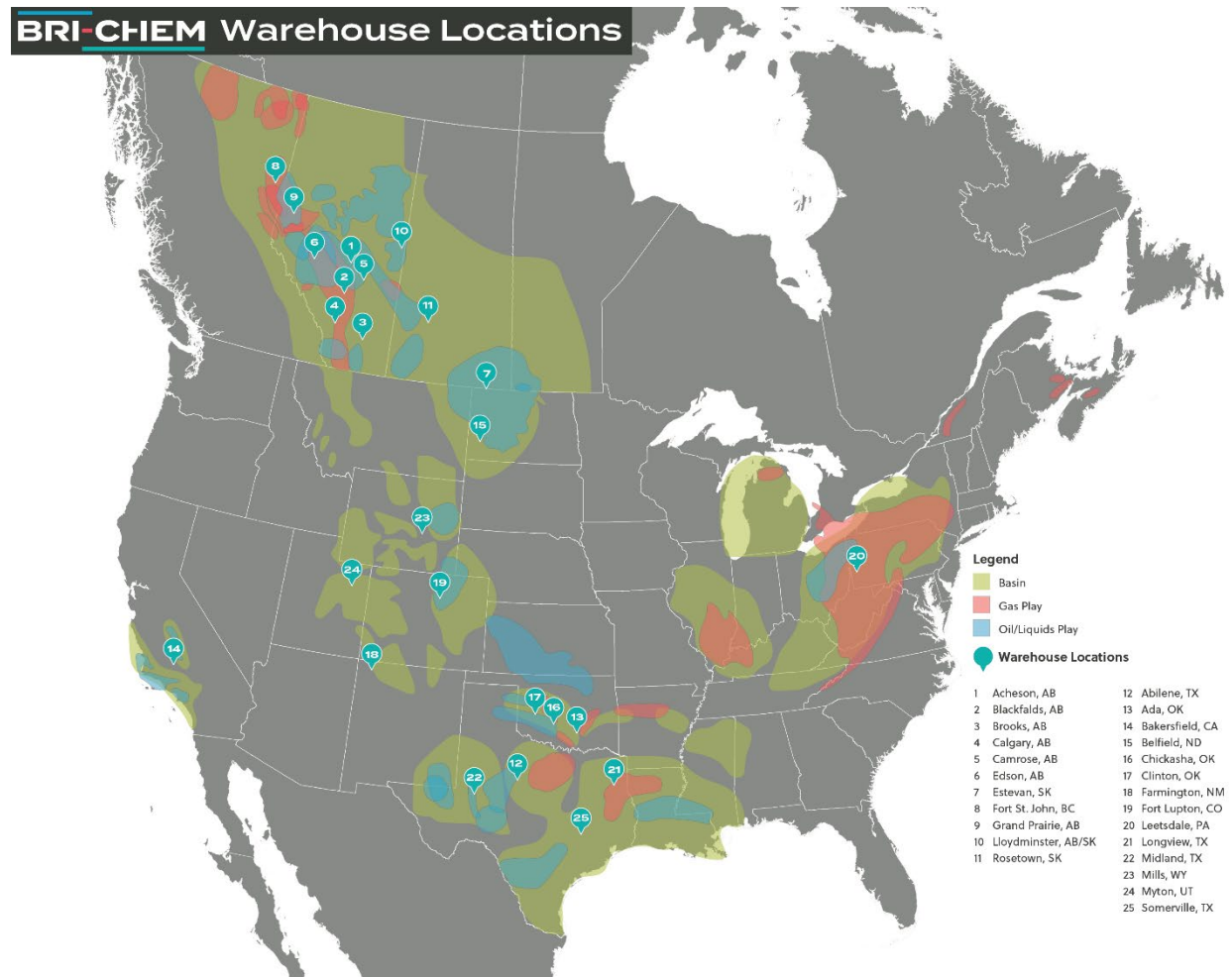
BRI-CHEM

This Management's Discussion and Analysis ("MD&A") of Bri-Chem Corp. ("Bri-Chem" or the "Company") was prepared as at November 9, 2023 for the three months ended September 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 September 30				Nine months ended September 30			
	2023	2022	Change \$	%	2023	2022	Change \$	%
Financial performance								
Sales	\$ 26,830	\$ 28,986	\$ (2,156)	(7%)	\$ 79,260	\$ 77,991	\$ 1,269	2%
Adjusted EBITDA ⁽¹⁾	1,051	1,717	(666)	(39%)	4,638	5,941	(1,302)	(22%)
As a % of revenue	4%	6%			6%	8%		
Operating earnings	1,185	2,049	(864)	(42%)	3,698	6,784	(3,086)	(45%)
Adjusted net earnings ⁽¹⁾	(293)	812	(1,105)	(136%)	812	3,369	(2,558)	(76%)
Net earnings	\$ (376)	\$ 500	\$ (876)	(175%)	\$ 442	\$ 8,613	\$ (8,171)	(95%)
Diluted per share								
Adjusted EBITDA ⁽¹⁾	\$ 0.04	\$ 0.07	\$ (0.03)	(42%)	\$ 0.17	\$ 0.22	\$ (0.05)	(22%)
Adjusted net earnings ⁽¹⁾	\$ (0.01)	\$ 0.03	\$ (0.04)	(118%)	\$ 0.03	\$ 0.13	\$ (0.10)	(79%)
Net earnings	\$ (0.01)	\$ 0.02	\$ (0.03)	(144%)	\$ 0.02	\$ 0.33	\$ (0.31)	(95%)
Financial position								
Total assets					\$ 70,532	\$ 71,785	\$ (1,253)	(2%)
Working capital					16,012	15,430	582	4%
Long-term debt					6,771	5,100	1,672	33%
Shareholders equity					\$ 22,780	\$ 22,669	\$ 111	0%

(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 Q3 2023 highlights include:

- Consolidated sales for the three months ended September 30, 2023 were slightly lower quarter over quarter as the Company was impacted by the decrease in US rig counts. Year to date sales are higher due to an increase in blending and packaging activities in our Canada and California regions.
- Consolidated gross margin for the three months ended September 30, 2023 decreased by \$442 thousand compared to the same period last year. The gross margin dollar decrease is primarily related to an unfavorable change in sales mix when compared to the prior year resulting in higher consumption levels of lower margin products.
- Adjusted EBITDA for the third quarter 2023 decreased by \$665 thousand when compared to the same period in the prior year and operating earnings was \$1.2 million for the three months ended September 30, 2023 compared to operating earnings of \$2 million the prior year comparable quarter, representing a 42% decrease. The decrease predominantly relates to margin compression due to a shift in sales mix and increased employee remuneration and headcount.
- Adjusted net earnings per diluted share for the three months ended September 30, 2023 was negative \$0.01 per share compared to \$0.03 per diluted share for same period last year.
- Working capital, as at September 30, 2023, was \$16 million compared to \$15.4 million at September 30, 2022, an increase of 4%. The increase relates to significant decreases in bank indebtedness and accounts payable which were offset by decreased inventory and accounts receivable.

Summary for the three months ended September 30, 2023:

Consolidated sales for the three months ended September 30, 2023 were \$26.8 million compared to \$29 million for the same period in 2022, representing a \$2.1 million decrease over the comparable period. The decrease is directly related to the decrease in US rig counts year over year.

Bri-Chem's Canadian drilling fluids distribution division generated sales of \$3.9 million for the three months ended September 30, 2023 compared to \$3.8 million in the comparable prior period. The number of active operating land rigs in Q3 2023 averaged 187, compared to 198 in the same period last year (Source: Baker Hughes). Bri-Chem's United States drilling fluids distribution division generated sales of \$15.5 million for the three months ended September 30, 2023 compared to sales of \$18.4 million for the comparable period in 2022, representing a quarterly decrease of 16%. This decrease mainly relates to a decrease in the US rig count as the number of active operating land rigs in Q3 2023 averaged 627, compared to a 2022 Q3 average of 741. (Source: Baker Hughes)

Bri-Chem's Canadian blending and packaging division generated sales of \$3.9 million for the three months ended September 30, 2023 compared to Q3 2022 sales of \$3.6 million, representing a quarterly increase of \$322 thousand. The increase in sales relates to higher cementing and stimulation activities in Western Canada. US blending and packaging sales for the three months ended September 30, 2023 were \$3.5 million compared to \$3.2 million in the prior year. The \$359 thousand increase relates to higher cementing activities in specific operating regions in California.

Operating earnings for the three months ended September 30, 2023 was \$1.2 million compared to \$2.0 million during the same period last year. Adjusted EBITDA was \$1.1 million for Q3 2023 compared to \$1.7 million for Q3 2022. Adjusted EBITDA as a percentage of sales was 4% for the quarter, which is a decrease over the 6% in Q3 2022. The decrease is primarily attributable to increased financing costs and employee overheads.

OUTLOOK

U.S. land rig counts have steadily declined throughout 2023 which has proven to be challenging for 2023 wholesale chemical product sales and margins. Sustained oil prices in the \$80-\$90 range, would likely provide a modest recovery in rig counts through the first half of the 2024 fiscal year. Management remains committed to our strategic priorities of maintaining low headcounts and overheads to ensure alignment with oilfield activity and Company profitability. The Company is optimistic that the anticipated completion of the Trans Mountain pipeline project and LNG projects would create an opportunity for increased production levels in 2024.

DISCUSSION OF Q3 OPERATING RESULTS

Divisional sales

(in 000's)	Three months ended September 30				Nine months ended September 30			
	2023	2022	Change \$	%	2023	2022	Change \$	%
<u>Fluids Distribution</u>								
Canada	\$ 3,892	\$ 3,801	\$ 91	2%	\$ 10,359	\$ 10,154	\$ 205	2%
US	15,487	18,415	(2,928)	(16%)	47,880	50,103	(2,223)	(4%)
	19,379	22,216	(2,837)	(13%)	58,239	60,257	(2,018)	(3%)
<u>Fluids Blending & Packaging</u>								
Canada	3,932	3,611	322	9%	12,007	9,887	2,120	21%
US	3,518	3,159	359	11%	9,015	7,848	1,167	15%
	7,450	6,770	681	10%	21,021	17,734	3,287	19%
Consolidated sales	\$ 26,830	\$ 28,986	\$ (2,156)	(7%)	\$ 79,260	\$ 77,991	\$ 1,269	2%
<u>Geographic region</u>								
Canada	\$ 7,824	\$ 7,412	413	6%	\$ 22,365	\$ 20,040	2,325	12%
US	\$ 19,006	\$ 21,574	(2,569)	(12%)	\$ 56,895	\$ 57,951	(1,056)	(2%)
Consolidated sales	\$ 26,830	\$ 28,986	(2,156)	(7%)	\$ 79,260	\$ 77,991	1,269	2%

Consolidated sales for the three months ended September 30, 2023 were \$26.8 million compared to \$29 million for the same period in 2022, representing an \$2.2 million decrease. The decrease was mainly due to the decrease in the US rig count.

Fluids Distribution Divisions

Canadian sales stabilized in Q3 2023 when compared to the prior year, resulting in a minor increase of 2%. Year over year sales remained consistent. The average number of rigs operating in the third quarter of 2023 was 187 compared to 198 in the third quarter of 2022. (Source: Baker Hughes).

The US Fluids Distribution division generated sales of \$15.5 million which was \$2.9 million lower than the same period in 2022. This 16% decrease relates to a decrease in purchases from a large customer during the period and the average number of rigs operating in the US for Q3 2023 was 627 compared to 741 for Q3 2022. (Source: Baker Hughes).

Fluids Blending & Packaging Division

The Canadian Fluids Blending and Packaging division recorded sales of \$3.9 million for the three months ended September 30, 2023 compared to sales of \$3.6 million for the comparable quarter in 2022. The increase was due to the increased cementing and stimulation work in Q3 2023.

US Fluids Blending and Packaging sales for the three months ended September 30, 2023 were \$3.5 million compared to \$3.2 million for the same comparable period in 2022, an increase of \$359 thousand. The increase is the result of a of higher cementing and stimulation work undertaken in Q3 2023.

Divisional Gross Margin

(in '000's)	Three months ended						Nine months ended					
	2023	% ⁽¹⁾	September 30 2022	% ⁽¹⁾	Change \$	%	2023	% ⁽¹⁾	September 30 2022	% ⁽¹⁾	Change \$	%
Fluids distribution												
Canada	\$ 724	18.6%	\$ 536	14.1%	\$ 188	35%	\$ 1,970	19.0%	\$ 2,047	20.2%	\$ (77)	(4%)
US	2,610	16.9%	3,112	16.9%	(502)	(16%)	7,965	16.6%	9,990	19.9%	(2,025)	(20%)
	3,334	17.2%	3,648	16.4%	(314)	(9%)	9,936	17.1%	12,038	20.0%	(2,102)	(17%)
Fluids blending & packaging												
Canada	848	21.6%	996	27.6%	(148)	(15%)	2,698	22.5%	2,742	27.7%	(44)	(2%)
US	712	20.2%	692	21.9%	20	3%	1,828	20.3%	1,632	20.8%	196	12%
	1,560	20.9%	1,688	24.9%	(128)	(8%)	4,526	21.5%	4,374	24.7%	152	3%
Consolidated gross margin	\$ 4,894	18.2%	\$ 5,336	18.4%	\$ (442)	(8%)	\$ 14,462	18.2%	\$ 16,411	21.0%	\$ (1,950)	(12%)
Geographic region												
Canada	1,572	20.1%	1,532	20.7%	40	3%	4,668	20.9%	4,789	23.9%	(121)	(3%)
US	3,322	17.5%	3,804	17.6%	(482)	(13%)	9,793	17.2%	11,622	20.1%	(1,829)	(16%)
Consolidated gross margin	\$ 4,894	18.2%	\$ 5,336	18.4%	\$ (442)	(8%)	\$ 14,462	18.2%	\$ 16,411	21.0%	\$ (1,950)	(12%)

(1) Expressed as a percentage of divisional sales

Consolidated gross margins for the three months ended September 30, 2023 decreased by \$442 thousand compared to the same period last year. The decrease in gross margin dollars is primarily caused by the unfavorable sales mixes more weighted towards lower margin commodities.

Fluids Distribution Division

Canadian Fluids Distribution gross margin averaged 19% for the third quarter ended September 30, 2023 compared to 14% for the same period last year. The increase relates to a favourable change in product mix over the prior year.

US Fluids Distribution gross margin for the three months ended September 30, 2023, was 17%, which held consistent with Q3 2022. The year to date decreases primarily relate to the previous year's asset impairment reversal, which 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 22% during the three months ended September 30, 2023, which is a decrease from the prior year. The decrease relates to a less favourable product mix in Q3 2023 compared to Q3 2022.

The US Fluids Blending & Packaging division gross margins were 20% for the third quarter of 2023 compared to 22% the same period in 2022. The minor decrease relates to an increase in manufacturing inputs, mostly offset by increasing sales prices.

Salaries and Benefits

(in 000's)	Three months ended				Nine months ended			
	September 30		Change		September 30		Change	
	2023	2022	\$	%	2023	2022	\$	%
Salaries and benefits	\$ 1,886	\$ 1,851	\$ 35	2%	\$ 5,583	\$ 5,125	\$ 458	9%

Salaries and benefits increased \$35 thousand for the three months ended September 30, 2023 compared to the prior year quarter as the Company adjusted its employee remuneration and headcount to meet current market activity levels and inflationary pressures. The Company employed 66 (37 Canada and 29 US) employees at September 30, 2023 compared to 64 (33 Canada and 31 US) at September 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)	September 30				September 30			
	2023		2022		2023		2022	
	\$	%	\$	%	\$	%	\$	%
Selling	\$ 94		\$ 112	(16%)	\$ 311		\$ 260	20%
Professional and consulting	300		106	182%	680		332	105%
General and administrative	709		487	46%	1,984		1,924	3%
Rent, utilities, and occupancy costs	400		454	(12%)	1,251		1,191	5%
Total selling, general and administration	\$ 1,503		\$ 1,159	30%	\$ 4,226		\$ 3,707	14%

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 September 30, 2023 were lower than the same period in 2022. The decreased expense is due to less promotional material in the current year, the prior year had more promotional material due to the company rebranding.

Professional and consulting fees, as well as general and administration expenses, experienced increases in Q3 2023 when compared to Q3 2022. Professional fees increased due to increased business activities.

General and administrative expenses decreased by \$223 thousand for the three months ended September 30, 2023 compared to the same period last year. The increase in expense relates to an increased bad debts provision in Q3 2023.

Depreciation on Property and Equipment

(in 000's)	Three months ended				Nine months ended			
	September 30		Change		September 30		Change	
	2023	2022	\$	%	2023	2022	\$	%
Depreciation on right of use	\$ 101	\$ 102	\$ (1)	(1%)	\$ 302	\$ 302	\$ -	0%
Depreciation on property and equipment	219	161	58	36%	654	477	176	37%
Total depreciation	\$ 320	\$ 263	\$ 57	22%	\$ 955	\$ 779	\$ 176	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 September 30				Nine months ended September 30			
	2023	2022	Change \$	%	2023	2022	Change \$	%
Interest on short-term operating debt	\$ 856	\$ 358	\$ 498	139%	\$ 2,317	\$ 818	\$ 1,499	183%
Interest on long-term debt	104	243	(139)	(57%)	420	756	(336)	(44%)
Interest on lease liabilities	31	31	(0)	100%	100	82	18	22%
Cash interest paid	991	632	359	57%	2,837	1,656	1,181	71%
Add non-cash interest expense:								
Amortization of deferred financing costs	14	9	5	54%	43	105	(63)	(59%)
Non cash interest realized	14	9	5	54%	71	62	9	15%
Total interest expense	\$ 1,005	\$ 642	364	57%	\$ 2,880	\$ 1,762	1,119	63%

Interest on short-term operating debt increased by \$498 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 Loss

(in 000's)	Three months ended September 30				Nine months ended September 30			
	2023	2022	Change \$	%	2023	2022	Change \$	%
Foreign exchange loss	\$ 454	\$ 596	\$ (141)	(24%)	\$ 15	\$ 729	\$ (715)	(98%)

The Canadian dollar worsened compared to the US dollar for the third quarter of 2023 which resulted in a foreign exchange loss for the quarter. This decrease in the Canadian dollar exchange rate caused the Company to have an unfavourable position on certain net advances denominated in USD, which resulted in a foreign exchange loss in the quarter.

Income Tax Expense

(in 000's)	Three months ended September 30				Nine months ended September 30			
	2023	2022	Change \$	%	2023	2022	Change \$	%
Current	\$ 19	\$ -	\$ 19	#DIV/0!	\$ (9)	\$ 31	\$ (39)	(128%)
Deferred	83	312	(229)	(73%)	369	(4,351)	4,720	(108%)
Total income tax expense	\$ 102	\$ 312	\$ (210)	(67%)	\$ 361	\$ (4,320)	\$ 4,681	(108%)

The provision for income taxes for the three months ended September 30, 2023 is \$19 thousand as the Company leveraged loss carry forward balances from past years to reduce its tax expense. Deferred tax expense was \$83 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

(in 000's)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Net earnings	\$ (376)	\$ 500	\$ 442	\$ 8,613
Less:				
Deferred tax (credit) / expense	83	312	369	(4,351)
Property and equipment impairment reversal	-	-	-	(893)
Adjusted net earnings	(293)	812	812	3,369
Add:				
Financing costs	1,005	642	2,880	1,762
Income tax expense	19	-	(9)	31
Depreciation and amortization	320	263	955	779
Adjusted EBITDA	\$ 1,051	\$ 1,717	\$ 4,638	\$ 5,941

Adjusted EBITDA was \$1.1 million for the three months ended September 30, 2023 compared to \$1.7 million in the same period last year. The adjusted EBITDA decrease is primarily due to lower margins realized in Q3 2023. Third quarter adjusted EBITDA as a percentage of sales was 4% which is a decrease over the prior year. Adjusted net earnings were negative \$293 thousand for the three months ended September 30, 2023 compared to adjusted net earnings of \$812 thousand in Q3 2022.

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 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1 ⁽²⁾	2021 Q4
Sales	\$ 26,830	\$ 25,229	\$ 27,201	\$ 26,522	\$ 28,986	\$ 25,469	\$ 23,536	\$ 18,544
Gross margin (\$)	4,894	5,027	4,541	4,678	5,336	5,189	5,886	3,809
Gross margin (%)	18.2%	19.9%	16.7%	17.6%	18.4%	20.4%	25.0%	20.5%
Adjusted EBITDA ⁽¹⁾	1,051	1,972	1,615	1,432	1,716	1,782	2,442	1,408
Net earnings	\$ (376)	\$ 553	\$ 265	\$ 30	\$ 500	\$ 341	\$ 7,772	\$ 784
Basic and diluted earnings per share	\$ (0.01)	\$ 0.02	\$ 0.01	\$ -	\$ 0.02	\$ 0.01	\$ 0.29	\$ 0.03

(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. Q3 2023 margins decreased, due to a decrease in sales in the US fluids distribution division which was driven by a decreased US rig count and sales mix. 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.

	September 30 2023	December 31 2022
Working capital position (000's)		
Current assets	\$ 56,051	\$ 63,407
Current liabilities	40,039	47,972
Working capital	\$ 16,012	\$ 15,434

As at September 30, 2023, the Company had positive working capital of \$16 million compared to \$15.4 million at December 31, 2022. The Company's current ratio (defined as current assets divided by current liabilities) was 1.41 to 1 at September 30, 2023 compared to 1.32 to 1 as at December 31, 2022.

	September 30 2023	September 30 2022
Summary of cash flows (000's)		
Operating activities	\$ 5,835	\$ (5,934)
Financing activities	(5,391)	6,116
Investing activities	(444)	(183)
Change in cash position	\$ -	\$ -

For the nine months ended September 30, 2023, \$5.8 million of cash was generated by operating activities compared to cash used of \$5.9 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 \$5.4 million for the nine months ended September 30, 2023, compared to cash generated of \$6.1 million for the same comparable period. Cash used in investing activities was \$444 thousand for the third quarter of 2023 and \$183 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 September 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 nine months ended September 30, 2023, revenue from one customer amounted to \$12,337,694 (September 30, 2022 - \$9,473,153), representing 15.6% (September 30, 2022 - 11.3%) of consolidated sales, and 25.8% (September 30, 2022 - 17.7%) 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 health 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 September 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:

(in 000's)	Three months ended September 30				Nine months ended September 30			
	2023	2022	Change \$	%	2023	2022	Change \$	%
Office sharing costs	\$ 6	\$ 6	\$ -	0%	\$ 18	\$ 22	\$ (4)	(18%)

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 September 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 September 30, 2023, the Company had 26,432,981 common shares issued and outstanding and no potentially dilutive shares. The Company had 310,000 stock options outstanding as at September 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:

(in 000's)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Net earnings	\$ (376)	\$ 500	\$ 442	\$ 8,613
Less:				
Deferred tax (credit) / expense	83	312	369	(4,351)
Property and equipment impairment reversal	-	-	-	(893)
Adjusted net earnings	(293)	812	812	3,369
Add:				
Financing costs	1,005	642	2,880	1,762
Income tax expense	19	-	(9)	31
Depreciation and amortization	320	263	955	779
Adjusted EBITDA	\$ 1,051	\$ 1,717	\$ 4,638	\$ 5,941

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 September 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

Corporate Office

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Auditors

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Shares Listed

Toronto Stock Exchange
Trading Symbol – BRY

Bankers

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Lenders

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Canadian Western Bank
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Transfer Agent

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530 – 8th Avenue SW, #600
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