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Bri-Chem Announces 2018 Second Quarter Financial Results

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Edmonton, Canada, August 14, 2018 – Bri-Chem Corp. ("Bri-Chem" or "Company") (TSX: BRY), a leading North American oilfield chemical distribution and blending company, is pleased to announce its second quarter financial results.

In $'000s *(except per share amounts)*	For the three months ended June 30, 2018	2017	Change $	%	For the six months ended June 30 2018	2017	Change $	%
Revenue	$ **27,255**	$ 23,761	$ 3,494	15%	$ **62,572**	$ 57,751	$ 4,821	8%
Adjusted Operating income (loss) [(1)]	**(640)**	444	(1,084)	(244%)	**331**	2,292	(1,961)	(86%)
Adjusted EBITDA[(2)]	**(366)**	788	(1,154)	(146%)	**559**	2,823	(2,264)	80%
Adjusted EBITDA as a percentage of revenue	**-1%**	3%	-		**1%**	5%	-	
Adjusted Net (loss)/earnings [(3)]	**(1,101)**	(250)	(851)	(340%)	**(1,207)**	431	(1,638)	380%
Net (loss)/earnings	$ **(3,740)**	$ (250)	$ (3,490)	(1396%)	$ **(3,846)**	$ 431	$ (4,277)	992%
Per Share Data (Diluted)								
Adjusted EBITDA	$ **(0.02)**	$ 0.03	$ (0.04)	(116%)	$ **0.02**	$ 0.12	$ (0.09)	80%
Adjusted Net (Loss)/earnings	$ **(0.05)**	$ (0.01)	$ (0.04)	(341%)	$ **(0.05)**	$ 0.02	$ (0.07)	384%
Net (Loss)/earnings	$ **(0.16)**	$ (0.01)	$ (0.15)	(1398%)	$ **(0.16)**	$ 0.02	$ (0.18)	993%
Shares Outstanding								
Basic	23,932,981	23,632,981			23,932,981	23,632,981		
Diluted	23,932,981	23,962,981			23,932,981	23,962,981		
Financial Position								
Total Assets	$ **74,171**	$ 61,251	$ 12,920	21%				
Working Capital	**20,409**	14,513	5,896	41%				
Long-term debt	**8,616**	143	8,473	5925%				
Shareholders Equity	**25,388**	28,282	(2,894)	(10%)				

(1) Represents operating income before financing costs, foreign exchange, and income taxes and adjusted for restructuring charges, share-based payments and lost margin on one-time sales of product below cost (See page 15 of the Q2 2018 MD&A for a further explanation of this non-IFRS measure).
(2) Represents earnings before interest, taxes, depreciation, amortization, impairment and restructuring charges, share-based payments and lost margin on one-time sales of product below cost (See page 15 for a further explanation of this non-IFRS measure).
(3) Represents net earnings adjusted for one-time sales below cost and restructuring costs, net of tax. (See page 15of the Q2 2018 MD&A for a further explanation of this non-IFRS measure).

Key Q2 2018 & YTD highlights include:

- Bri-Chem generated consolidated revenue of $27.3 million, an increase of 15% from the second quarter in 2017, resulting primarily from higher business activity levels in the US fluids distribution segment;
- Revenue decreased by 47% in the Canadian fluids distribution as a result of an early and prolonged spring breakup period and a corresponding reduction of wells drilled in the second quarter of 2018 and the Canadian blending division revenue increased 8%. The USA fluids distribution division and blending division revenue increased 46% and 52% respectively over the second quarter of 2017;
- Adjusted operating loss was $0.64 million for the three months ended June 30, 2018 compared to operating earnings of $0.44 million in Q2 2017, representing a $1.1 million decrease;
- Adjusted EBITDA for the second quarter was negative $0.4 million versus $0.8 million in the comparable period in 2017. This decrease is mainly due to the decrease in Canadian fluids distribution sales. In addition, the Company invested in the increase of its infrastructure to keep up with the increased demand in the USA throughout the first half of 2018;

- Bri-Chem reported an adjusted net loss of $1.1 million or $0.05 loss per share diluted compared to net loss of $0.250 million or $0.01 loss per share diluted in 2017.
- During Q2, Bri-Chem discontinued operating from Kermit and Three Rivers, Texas and moved from Enid, Oklahoma to Ada, Oklahoma in an effort to redeploy its inventory and equipment in higher margin opportunities. This restructuring resulted in one-time sales of product below cost amounting to $1.7 million of negative gross margin and shut down and moving costs of $0.648 million during Q2. As a result of these one-time restructuring costs our non-adjusted operating loss was $3.3 million for the three months ended June 30, 2018 compared to operating earnings of $0.44 million in Q2 2017, representing a $3.7 million decrease, while year to date, the Company reported a non-adjusted net loss of $3.8 million or $0.16 loss per share compared to net earnings of $0.431 million or $0.02 earnings per share for the same period in 2017;
- Working capital, as at June 30, 2018, was $20.4 million compared to $24.3 million at December 31, 2017. The Company's current ratio (defined as current assets divided by current liabilities) was 1.51 to 1 compared to 1.56 to 1 as at December 31, 2017.

Summary for the three and six months ended June 30, 2018:

During Q2 2018, drilling activity levels remained stable in the United States as the USA rig count averaged 1,038 rigs operating during Q2 2018, while Canada experienced a slower start to summer drilling program due to wet weather conditions in June. Bri-Chem's Q2 2018 consolidated revenues from its North American oil and gas drilling fluids distribution, blending and packaging businesses was $27.3 million compared to $23.8 million in the same prior period in 2017, while the Company had sales of $62.6 million for the first half of 2018 compared to $57.8 million for the first half of 2017. This revenue increase is a result of an increase in drilling fluid demand in the United States, while Western Canada experienced an earlier than expected and prolonged spring break up.

Bri-Chem's Canadian drilling fluids distribution division generated sales of $3.7 million and $15.5 million for the three and six months ended June 30, 2018, compared to sales of $7 million and $23 million over the comparable periods in 2017. Q2 2018 and year to date sales were lower as many customers were adequately stocked with their own inventories for the winter drilling season given consistent drilling activity levels over the past few quarters. In addition, the industry experienced a prolonged spring break and wet weather conditions throughout Alberta caused delays to summer drilling programs. The number of wells drilled in Western Canada for the three month period ended June 30, 2018 was 906, representing a decrease of 11% over the comparable quarter in 2017. Bri-Chem's United States drilling fluids distribution division generated sales of $18.7 million and $36.7 million for the three month and months ended June 30, 2018, compared to revenues of $12.9 million and $25.1 million in the comparable periods of 2017, representing increases of 46% and 46% respectively.

Bri-Chem's Canadian drilling fluids blending and packaging division generated sales of $2.9 million and $7 million for the three and six months ended June 30, 2018 compared to the prior year quarter sales of $2.7 million and $7.8 million respectively, representing an 8% increase quarter over quarter and an 11% decrease year over year. The increase relates to customers requiring certain products in the quarter and the division adding new blends to a few existing customers. The year to date decrease is due to softer demand for blending services particularly in the month of March as rig activity declined much sooner than expected for spring breakup. Bri-Chem's USA fluids blending and packaging division, generated sales of $1.9 million and $3.4 million for the three and six month periods ended June 30, 2018, compared to $1.2 million and $1.8 million for the comparable periods in 2017 as the division has seen customer growth with the return of well abandonment work in California.

Adjusted operating loss this quarter was $0.64 million compared with operating earnings of $0.44 million in the second quarter of 2017. Operating results this quarter decreased due to the late start of the summer drilling program in Western Canada due to an unusually wet and prolonged spring breakup period.

Adjusted EBITDA was negative $0.4 million and $0.4 million for the three and six months ended June 30, 2018 compared to $0.8 million and $2.8 million in the same comparable prior year periods; decreases of $1.1 million quarter over quarter and $2.3 million year over year. The second quarter adjusted EBITDA as a percentage of sales was negative 1% compared to 3% from the prior year quarter. This decrease in quarter over quarter adjusted EBITDA is mainly attributed to lower sales in the Canadian fluids distribution division as the industry experienced a decrease in rig activity during the quarter. In addition, the Company reinstated its wage rollback and increased its employee base to keep up with the increased demand in the USA. The Company had non-adjusted net loss of $3.7 million for the quarter ended June 30, 2018 compared to a net loss of $0.250 million in the same prior year period. Adjusting for one-time sales below cost and restructuring costs, adjusted net loss was $1.1 million for the second quarter while the adjusted net loss was $1.2 million for the first half of 2018.

OUTLOOK

During Q1, management initiated a comprehensive strategic review of all 30 warehouse locations to determine which warehouses were not achieving target gross margins and EBITDA and therefore not the best use of further cashflow resources. The Company determined that two oil based mud facilities in Texas were incurring substantial above average operating costs, increased transportation costs due to a shortage of trucking and logistics within the Texas region and due to the competitive environment in those locations, target gross margins and EBITDA percentages were well below other warehouses with no opportunity to achieve higher margins in the future. As a result, an immediate plan was implemented to discontinue operations in those warehouses and to have the restructuring completed as quickly as possible. The focus of the restructuring plan is to strengthen the Company and enhance long-term shareholder value.

Looking to the third quarter and beyond, sales are currently robust across all North American divisions and we expect our consolidated margins to be at or above historical normalized levels. Northern American oil and gas drilling activity levels should remain consistent for the remainder of 2018, however, PSAC has forecasted 3,586 wells to be drilled in Western Canada for the second half of 2018 with 1,839 wells to be drilled in the third quarter, representing a 5% forecasted decrease over Q3 2017. Bri-Chem will continue to be proactive in seeking higher margin opportunities throughout all its North America business segments. We will aim to stay focused on our strategy, maintain our market share and not sacrifice either to achieve our margin goals in the near term.

About Bri-Chem

Bri-Chem has established itself, through a combination of strategic acquisitions and organic growth, as the North American industry leader for wholesale 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 28 strategically located warehouses throughout Canada and the United States. Additional information about Bri-Chem is available at www.sedar.com or at Bri-Chem's website at www.brichem.com.

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