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Bri-Chem Announces 2019 First Quarter Financial Results

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Edmonton, Canada, Monday, May 13, 2019 – Bri-Chem Corp. ("Bri-Chem" or "Company") (TSX: BRY), a leading North American oilfield chemical distribution and blending company, is pleased to announce its 2019 first quarter financial results.

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

Key Q1 2019 highlights include:

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

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

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

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

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

Summary for the three months ended March 31, 2019:

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

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

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

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

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

OUTLOOK

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

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 26 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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