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Bri-Chem Announces 2019 Second Quarter Financial Results

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Edmonton, Canada, Wednesday, August 7, 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 second quarter financial results.

(in '000s except per share amounts)	Three months ended June 30 2019	2018	Change $	%	Six months ended June 30 2019	2018	Change $	%
Sales	$ 22,721	$ 27,255	$ (4,534)	(17%)	$ 48,619	$ 62,572	$(13,953)	(22%)
Adjusted EBITDA[1]	447	(366)	813	222%	2,028	559	1,469	263%
Adjusted EBITDA as a % of revenue	2%	-1%			4%	1%		
Adjusted operating (loss) income [1]	(30)	(640)	610	95%	940	331	609	184%
Adjusted (loss) / net earnings [1]	(717)	(1,101)	384	35%	(358)	(1,207)	849	70%
Net loss	$ (741)	$ (3,740)	$ 2,999	80%	$ (382)	$ (3,846)	$ 3,464	90%
Diluted per share								
Adjusted EBITDA	$ 0.02	$ (0.02)	$ 0.03	222%	$ 0.08	$ 0.02	$ 0.06	(263%)
Adjusted (loss) / net earnings	$ (0.00)	$ (0.03)	$ 0.03	95%	$ (0.01)	$ (0.05)	$ 0.04	70%
Net loss	$ (0.03)	$ (0.16)	$ 0.13	80%	$ (0.02)	$ (0.16)	$ 0.14	90%
Total assets					$ 59,150	$ 81,232	$(22,082)	(27%)
Working capital					16,560	24,336	(7,776)	(32%)
Long-term debt					9,016	9,625	(609)	(6%)
Shareholders equity					$ 19,325	$ 28,756	$ (9,431)	(33%)

<u>Key Q2 2019 & YTD highlights include:</u>

- Bri-Chem generated consolidated sales of $22.7 million, a decrease of 17% from the second quarter of 2018. The reduced revenue mainly resulted from the closure of two underperforming West Texas warehouses in Q2 2018 and weaker Canadian drilling activity;

- Adjusted EBITDA for the second quarter was $447 thousand versus negative $366 thousand in the comparable period in 2018. This 222% increase was due to improved margins in all divisions as the Company is selling less low margin inventory products and we are operating with lower infrastructure costs as a result of the Company's right sizing initiatives based on current demand levels. In addition, we incurred a reduction in selling general and administration costs as a result of the adoption of IFRS 16 whereby the new IFRS standard creates right of use assets that generates depreciation, when previously these assets would have recorded as monthly rent.

- Adjusted operating loss was $30 thousand for the three months ended June 30, 2019 compared to a loss of $640 thousand in the prior year comparable quarter, which represented a 95% increase.

- Bri-Chem reported a net loss of $741 thousand or $0.03 loss per share compared to a net loss of $3.7 million or $0.16 loss per share in Q2 2018;

- As at June 30, 2019, working capital was $16.6 million compared to $24.3 million at June 30, 2018, a decrease of 32%. This was due to management's efforts to reduce inventory levels and realize cash flow. In addition, the adoption of IFRS 16 generated a current liability for the obligations under finance lease for the right of use assets. Bri-Chem's current ratio, defined as current assets divided by current liabilities, was 1.53 as at June 30, 2019.

Summary for the three and six months ended June 30, 2019:

Bri-Chem's Q2 2019 consolidated sales were $22.7 million for the three months ended June 30, 2019 which was $4.5 million lower than the same prior year period. This decline was mainly due to lower Canadian drilling activity levels in the second quarter and the wet late start to the summer drilling program along with the loss of revenue due to the closure of two underperforming West Texas warehouses in Q2 2018. The revenue decline was partially offset by an increase in well abandonment and new cementing work in our division located in the state of California.

Bri-Chem's Canadian drilling fluids distribution division generated sales of $3.6 million and $8.9 million for the three and six months ended June 30, 2019 compared to $3.7 million and $15.5 million in the comparable periods in 2018. The Q2 and year to date sales were lower due to the overall decline in Canadian drilling activity and the wet late start to the summer drilling program. The number of wells drilled in Western Canada for the second quarter of 2019 was 806 compared to 906 in the same period last year, representing a decrease of 11% (Source: Petroleum Services Association of Canada "PSAC"). Bri-Chem's United States drilling fluids distribution division generated sales of $14.0 million and $29.4 million compared to sales of $18.7 million and $36.7 million for the same comparable period of 2018, representing decreases of 25% and 20% respectively. The decreases were the result of the loss of revenue due to the closure of two underperforming West Texas warehouses in Q2 2018. 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.

Bri-Chem's Canadian Blending and Packaging division generated sales of $2.0 million and $4.9 million for three and six months ended June 30, 2019 compared to Q2 2018 sales of $2.9 million and 2018 six month sales of $7.0 million, representing decreases of 29% and 30% respectively. The decreases relate to the overall decline in Canadian drilling activity which affected demand for toll blending and bulk packaging of products over the first half of the 2019. Conversely, Bri-Chem's US Fluids Blending and Packaging division experienced increases of 62% quarter over prior year quarter and 59% year over year, as the division recorded sales of $3.1 million and $5.4 million for the three and six months ended June 30, 2019. These increases are due to the increase in well abandonment work and new cementing work in the state of California as well as the division providing cement to customers working offshore.

Adjusted operating loss for the three months ended June 30, 2019 was $50 thousand compared to a loss of $640 thousand during the same period last year. The infrastructure and inventory reductions that have taken place over the first half of 2019 have led to improved financial performance in the quarter and year to date.

Adjusted EBITDA was $447 thousand and $2.0 million for the three and six months ended June 30, 2019 compared to a loss of $366 thousand and positive $559 thousand for the same comparable periods in 2018, representing increases of 222% quarter over comparable quarter and 263% year over year. Adjusted EBITDA as percentage of sales was 2% for Q2 2019 compared to negative 1% for the same quarter in 2018. This increase was due to increased sales in the US blending division, higher margins in both fluids distribution divisions, a reduction of infrastructure costs as part of the Company's right sizing initiatives implemented over the past 6 months, and the adoption of IFRS 16 causing a reduction in rental expense for the right of use assets

Management's plan to reduce debt, lower inventory and curtail infrastructure has been on track for the first half of 2019. Inventories have been reduced by 22% while bank indebtedness has been reduced by 35% over the first half of 2019.

OUTLOOK

Oilfield activity in Canada will continue to be impacted by the limited pipeline take away capacity, lower customer spending constraints relative to historical levels and the corresponding lack of development of new resource plays in western Canada. PSAC has forecasted 2,771 oil and gas wells will be drilled in Canada for the back half of 2019, a decrease of 27% compared to the back half of 2018 when 3,777 wells were drilled. US drilling activity has remained consistent and therefore Bri-Chem will continue to operate in all regions that it currently services. We will continue to monitor drilling activity levels in Canada and the USA and will adjust inventory levels and infrastructure based on demand for our products.

Bri-Chem's priorities will be to continue to focus on controlling fixed and variable costs, improving overall margins while maintaining a strong balance sheet. Where possible, we will examine warehouse locations to determine if we can better reach our customers as warehouse leases become due. We will continue to streamline and find efficiencies in operations and prudently manage working capital until a better business environment emerges.

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 24 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.

To receive Bri-Chem news updates send your email to ir@brichem.com.

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