Q4 2019 MD&A

North America's Oilfield Chemical Distribution & Blending Company

BRI-CHEM

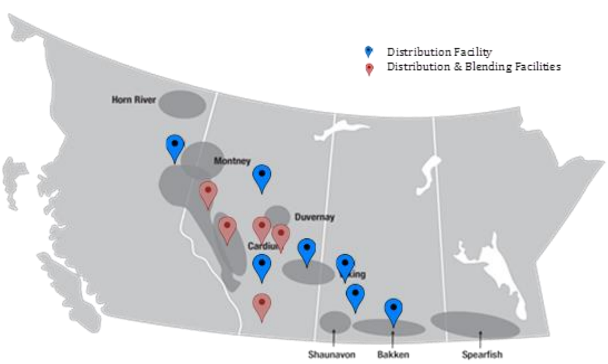
Right product. Right place. Right time.

This Management's Discussion and Analysis ("MD&A") of Bri-Chem Corp. ("Bri-Chem" or the "Company") was prepared as at April 20, 2020 for the three months and twelve months ended December 31, 2019 and should be read in conjunction with the Company's December 31, 2019 audited annual consolidated financial statements (the "financial statements"). The Company's audited annual 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 26 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, lost 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 26 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:



<u>Seasonality of Operations</u>

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 December 31 2019	2018	Change $	%	Twelve months ended December 31 2019	2018	Change $	%
Sales	$ 21,307	$ 27,705	$ (6,398)	(23%)	$ 91,726	$ 121,436	$(29,710)	(24%)
Adjusted EBITDA(1)	(38)	580	(618)	(107%)	2,944	3,512	(568)	(16%)
Adjusted EBITDA as a % of revenue	0%	2.1%			3.2%	2.9%		
Adjusted operating income (1)	252	1,840	(1,588)	(86%)	1,727	4,213	(2,486)	(59%)
Adjusted net loss (1)	(687)	(657)	(30)	5%	(1,215)	(515)	(700)	(136%)
Net loss	$ (3,104)	$ (5,570)	$ 2,466	(44%)	$ (3,656)	$ (9,355)	$ 5,699	61%
Diluted per share								
Adjusted EBITDA	$ (0.00)	$ 0.02	$ (0.03)	107%	$ 0.12	$ 0.15	$ (0.02)	16%
Adjusted net loss	$ (0.03)	$ (0.03)	$ (0.00)	(5%)	$ (0.05)	$ (0.02)	$ (0.03)	(136%)
Net loss	$ (0.13)	$ (0.23)	$ 0.10	44%	$ (0.15)	$ (0.39)	$ 0.24	61%
Total assets					$ 45,198	$ 71,616	$(26,418)	(37%)
Working capital					15,470	17,977	(2,507)	(14%)
Long-term liabilities					8,300	8,777	(477)	(5%)
Shareholders equity					$ 15,998	$ 20,153	$ (4,155)	(21%)

(1) Refer to the "Non-IFRS Measures" section for a definition of non-GAAP terms as well as reconciliations for Adjusted EBITDA, Adjusted Operating Income, and Adjusted (Loss) / Net Earnings). As a result of the adoption of OFRS 16 Leases in 2019, Adjusted EBITDA excludes $578,906 of depreciation on right of use assets.

Key Q4 2019 & year end highlights include:

- Consolidated sales for the three months ended December 31, 2019 were 23% lower as compared to the same quarter last year. The decrease was the result of a 29% decrease in the number of wells drilled in Western Canada during the fourth quarter as a result of global economic factors and lack of access to markets. In addition, in the past few quarters, the United States drilling market has experienced a decline in rig activity which resulted in less demand for drilling fluid products in that region. Sales for the year ended December 31, 2019 were $91.7 million a 24% decrease year over year;

- Adjusted EBITDA for the fourth quarter was ($38) thousand versus $580 thousand in the comparable period in 2018. The decline is mainly due to weaker performance in all divisions with the exception of the USA Fluids Blending and Packaging Division;

- Adjusted operating income was $252 thousand for the three months ended December 31, 2019 compared to income of $1.8 million in the prior year comparable quarter, representing a 86% decrease. Year over year, adjusted operating income is down 59%;

- Bri-Chem reported an adjusted net loss of $687 thousand or $0.03 diluted loss per share compared to an adjusted net loss of $700 thousand or $0.03 diluted loss per share in Q4 2018. Adjusted net loss for the twelve months ended December 31, 2019 was $1.2 million;

- Working capital, as at December 31, 2019, was $15.5 million compared to $18.0 million at December 31, 2018, a decrease of 14%. Throughout 2019, management reduced inventory levels given the level of activity negatively impacted by Canadian pipeline constraints and access to markets. Management continued to adjust its infrastructure to coincide with market demands, which included reducing personnel, relocating warehouses to lower overheads and move closer to resource plays and aggressive collection of its accounts receivable.

- The Company recognized one-time non-cash assets impairments and restructuring charges of $2.4 million in 2019 due to uncertainty related to the Coronavirus pandemic, political, regulatory and market access in the North America oil and gas industry. This uncertainty has negatively impacted operating and financial outlook for the North American oilfield industry and certain components of Bri-Chem business activities.

Summary for the three and twelve months ended December 31, 2019:

Bri-Chem's Canadian drilling fluids distribution division generated sales of $3.8 million and $17.1 million for the three and twelve months ended December 31, 2019 compared to $6.7 million and $30.9 million in the comparable periods in 2018. Demand of drilling fluid products is driven from current and future capital drilling programs which were clawed back in 2019 due to the continued weak Canadian oil and gas prices. The number of wells drilled in Western Canada for the fourth quarter of 2019 was 1,175 compared to 1,669 in the same period last year, representing a decrease of 30% (Source: Petroleum Services Association of Canada "PSAC"). Bri-Chem's United States drilling fluids distribution division generated sales of $12.2 million and $53.8 million compared to sales of $15.7 million and $69.2 million for the same comparable period of 2018, representing decreases of 22% and 22% respectively. The decreases were the result of lower customer demand as the average number of active rigs operating in the United States fell from 1,032 at December 31, 2018 to 944 at December 31, 2019.

Bri-Chem's Canadian Blending and Packaging division generated sales of $2.3 million and $9.3 million for three and twelve months ended December 31, 2019 compared to sales of $3.3 million and $14.5 million for the same comparable periods in 2018, representing decreases of 31% and 36% respectively. The decreases relate to the overall decline in Canadian drilling activity which affected demand for toll blending and bulk packaging of products throughout 2019. Bri-Chem's US Fluids Blending and Packaging division experienced increases of 57% quarter over prior year quarter and 67% year over year, as the division recorded sales of $3.0 million and $11.5 million for the three and twelve months ended December 31, 2019. These increases are due to the increase in well abandonment work and new oilfield cementing work in the state of California as well as the division providing cement to customers working offshore.

Adjusted EBITDA was ($38) thousand and $2.9 million for the three and twelve months ended December 31, 2019 compared to $580 thousand and $3.5 million for the same comparable periods in 2018, representing a decrease of 106% quarter over comparable quarter and of 16% year over year. This decrease in EBITDA for the three and twelve months ended December 31, 2019 was due to weaker sales despite reduced infrastructure costs.

OUTLOOK

As the Company moved into 2020, it was cautiously optimistic on its business and was seeing signs of increased activity by its customers. However, the recent outbreak of the COVID-19 virus and turmoil in global oil markets have led to a sharp decline in oil prices and are expected to result in lower industry activity levels in the near term. The Company believes these emerging issues will have a negative impact on demand for its product and services and the full extent of these issues are still unfolding and remain uncertain. The Company is reacting quickly to the emerging market challenges and will continue to monitor the markets on a day by day basis. At this stage, it is too early to tell what impact the decline in crude oil prices may have on activity levels in the oil and gas industry in 2020. This will likely result in producers curtailing capital spending which will negatively impact the demand for our products.

Over the long-term, the Company continues to be optimistic about the impact that LNG Canada's $40 billion liquefied natural gas (LNG) project in Kitimat, B.C. will have on the natural gas sector in north-west Alberta and north-east B.C., which will be required to support LNG Canada's natural gas needs. The Company also looks forward to construction of the Trans Mountain pipeline continuing to proceed, which will provide additional takeaway capacity for western Canadian crude oil.

Bri-Chem has experienced several business cycles and we understand what is required to effectively and prudently manage our inventories and operations during this downturn. We remain committed to reducing costs, where possible and maintaining an adequate debt structure during these challenging times.

DISCUSSION OF Q4 AND YTD OPERATING RESULTS

Divisional sales

(in 000's)	Three months ended December 31 2019	2018	Change $	%	Twelve months ended December 31 2019	2018	Change $	%
Fluids Distribution								
Canada	**$ 3,777**	$ 6,732	$ (2,955)	(44%)	**$ 17,058**	$ 30,891	$ (13,833)	(45%)
USA	**12,210**	15,728	(3,518)	(22%)	**53,844**	69,167	(15,323)	(22%)
	15,987	22,460	(6,473)	(29%)	**70,902**	100,058	(29,156)	(29%)
Fluids Blending & Packaging								
Canada	**2,282**	3,307	(1,025)	(31%)	**9,276**	14,473	(5,197)	(36%)
USA	**3,038**	1,938	1,100	57%	**11,548**	6,905	4,643	67%
	5,320	5,245	75	1%	**20,824**	21,378	(554)	(3%)
Consolidated sales	**$ 21,307**	$ 27,705	$ (6,398)	(23%)	**$ 91,726**	$ 121,436	$ (29,710)	(24%)
Geographic Region								
Canada	**6,059**	10,039	(3,980)	(40%)	**26,334**	45,364	(19,030)	(42%)
US	**15,248**	17,666	(2,418)	(14%)	**65,392**	76,072	(10,680)	(14%)
Consolidated sales	**$ 21,307**	$ 27,705	$ (6,398)	(23%)	**$ 91,726**	121,436	(29,710)	(24%)

Consolidated sales for the three and twelve months ended December 31, 2019 were $21.3 million and $91.7 million respectively compared to $27.7 million and $121.4 million for the same periods in 2018, representing a $6.4 million decrease quarter over quarter. The decrease was due to lower drilling activity levels in Canada as the industry deals with many challenges including access to markets, global demand for oil and gas as well as pipeline constraints. Lower sales from the US Fluids Distribution division was the result of weaker drilling activity as an average of 944 rigs were operating in 2019, representing a 9% decline year over year. Bri-Chem did experience an increase in well abandonment and new cement work in California which resulted in a $1.1 million increase in sales from the US Fluids Blending and Packaging division.

Fluids Distribution Division

Canada

Canadian oil and gas drilling activity typically increase in the fourth quarter as rigs generally ramp up for the winter drilling season. For the three months ended December 31, 2019 the number of wells decreased from 1,664 (Source: PSAC) in Q4 2018 to 1,175 in Q4 2019, a decrease of 30%. Continued weak Canadian oil and gas prices have put downward pressure on drilling activity levels which has resulted in a decrease for drilling fluids. As a result, Canadian Fluids Distribution sales for the three months ended December 31, 2019 were $3.8 million a decrease of $3 million when compared to same period of 2018. For 2019, average drilling rig utilization were lower compared to 2018, with 142 average active rigs running in Western Canada in 2019 (26%) compared to 214 average active rigs running in 2018 (35%) (Source: PSAC). As a result, the division generated sales of $17.1 million for the twelve months ended December 31, 2019 compared to sales of $30.9 million for the same twelve-month period in 2018.

US

Over the second half of 2019, the US oil and gas market realized a modest decrease in the number of rigs operating, which impacted demand in certain regions of the United States where the Company sells products. The number of average rigs operating during the fourth quarter of 2019 was 821 compared to 1,072 (Source: Baker Hughes) for the same quarter in 2018. This resulted in Q4 2019 US Fluids Distribution sales of $12.2 million versus $15.7 million in the comparable F2018 period. Year to date, the 2019 average number of active rigs operating was 944 compared to 1,032 for the F2018 comparable period. This reduced sales for the twelve months ended December 31, 2019 to $53.8 million versus $69.2 million for the comparable period in 2018.

Fluids Blending & Packaging Division

Canada

Canadian Fluids Blending and Packaging sales for the three and twelve months ended December 31, 2019 were $2.3 million and $9.3 million compared to sales of $3.3 million and $14.5 million for the same comparable periods of 2018. The 31% and 36% decreases were due to lower number of wells drilled during the quarter and year that negatively impacted toll blended products and bulk commodity packaged products.

US

US Fluids Blending and Packaging sales for the three months and twelve months ended December 31, 2019 were $3.0 million and $11.5 million compared to $1.9 million and $6.9 million for the same comparable periods in 2018 representing increases of $1.1 million and $4.6 million respectively. The increases were the result of increased well abandonment work and cementing work in the state of California and providing cement for drilling off the coast of California.

Divisional Gross Margin

	Three months ended December 31				Change		Twelve months ended December 31				Change	
(in 000's)	2019	% [(1)]	2018	% [(1)]	$	%	2019	% [(1)]	2018	% [(1)]	$	%
Fluids distribution												
Canada	**$ 360**	9.5%	$ (3)	0.0%	$ 363	12100%	**$ 1,886**	11.1%	$ 2,879	9.3%	$ (993)	(34%)
USA	**1,867**	15.3%	2,473	15.7%	(606)	(25%)	**8,108**	15.1%	8,154	11.8%	(46)	(1%)
	2,227	13.9%	2,470	11.0%	(243)	(10%)	**9,994**	14.1%	11,033	11.0%	(1,039)	(9%)
Fluids blending & packaging												
Canada	**554**	24.3%	780	23.6%	(226)	(29%)	**2,203**	23.7%	3,153	21.8%	(950)	(30%)
USA	**1,068**	35.2%	659	34.0%	409	62%	**4,211**	36.5%	2,299	33.3%	1,912	83%
	1,622	30.5%	1,439	27.4%	183	13%	**6,414**	30.8%	5,452	25.5%	962	18%
Total gross margin	**$ 3,849**	18.1%	$3,909	14.1%	$ (60)	(2%)	**$16,408**	17.9%	$ 16,485	13.6%	$ (77)	(0%)

(1) Expressed as a percentage of divisional sales

Consolidated gross margin for the three months ended December 31, 2019 decreased minimally by $60 thousand compared to the same period last year led by stronger margins in the Canadian Fluids Distribution division and higher sales in the USA Fluids blending and packaging division. This led to improved results for the twelve months of 2019 as gross margins improved to 17.9% gross margin compared to 13.6% in the prior year. The Company was able to maintain its 2019 profit margins in a challenging environment due to:

- Reduced inventory, therefore less pressure to reduce prices to liquidate excess inventory.
- A more favourable product mix of sales in its Canadian Fluids Division.

Fluids Distribution Division

Canada

Canadian Fluids Distribution gross margin improved by $363 thousand to $360 thousand or 9.5% as percentage of sales for the fourth quarter of 2019. The comparative quarter was negatively impacted with slow-moving barite inventory impairments (Q4 2018 - $0.7 million). Year to date, the gross margin of $1.9 million or 11.1% as a percentage of sales was a decrease from the comparable period due to continued depressed drilling activity levels and the overhang of certain inventory items in the marketplace. Given the current political and pipeline constraints and the recent Covid 19 outbreak, markets are volatile, and we are uncertain what this environment means for producers. We will attempt to maintain margins over the short to medium term, however given the current world affairs, management is cautious as to the impact on margins and could see margin compression in the immediate near term.

US

US Fluids Distribution gross margin for the three months ended December 31, 2019 were 15.3%, which was consistent with margins versus Q4 2018, while gross margins rose to 15.1% for the year ended 2019 compared to 11.8% for the year ended 2018. The improvement in gross margins was due to the division no longer operating in two west Texas warehouses where margins were lower given sales of low margin products like oil-based mud and barite being sold in a highly competitive market. In 2018 the division had one-time sales of inventory below cost and inventory impairments. If we exclude the effect of the inventory impairment and one-time sales below cost, gross margins would have been 15.0% for 2018. Margins were slightly lower in Q4 2019 compared to adjusted gross margins of Q4 2018 as the division incurred more transportation charges during 2019 in an effort to reduce inventory by moving inventories from less active warehouses to more robust warehouses. With volatile oil and gas prices, margins may become compressed in the short term while the Company attempts to maintain market share as drilling activity softens.

Fluids Blending & Packaging Division

Canada

Canadian Fluids Blending & Packaging division gross margin decreased by $226 thousand during the three months ended December 31, 2019 mainly due to lower drilling activity levels which negatively impacted bulk commodity sales and lowered production and stimulation chemical sales. Gross margins for fiscal 2019 were $2.2 million or 23.7% compared to gross margins of $3.2 million or 21.8% for 2018. Margins a percentage of sales improved as the division was able to sell higher margin products in 2019. In addition, selling prices have improved from their lows in 2018.

US

The US Fluids Blending & Packaging division generated consistent gross margins of 35.2% for the three months ended December 31, 2019 compared to 34.0% for the same comparable period in 2018, while gross margins dollars increased by $409 thousand as the Company increased work in abandonments including offshore platforms off the coast of California. Gross margins for 2019 were $4.2 million or 36.5% compared to $2.3 million or 33.3% for fiscal 2018. The offshore work is expected to continue into 2020 and margins should remain consistent.

Salaries and Benefits

	Three months ended December 31		Change		Twelve months ended December 31		Change	
(in 000's)	2019	2018	$	%	2019	2018	$	%
Salaries and benefits	**$ 2,018**	$ 2,341	$ (323)	(14%)	**$ 8,310**	$ 9,667	$(1,357)	(14%)
As a % of sales	**9.5%**	8.4%	1.0%		**9.1%**	8.0%	1.1%	

Salaries and benefits decreased for the three and twelve months ended December 31, 2019 compared to the prior year periods as the Company adjusted its workforce based on current drilling activity levels. The Company continued its infrastructure reduction program and eliminated staff both in Canada and the USA. The decrease year over year includes utilizing less contract labour in the US Fluids Distribution division and overall decrease in employee headcount in Canada and the USA. The Company employed 72 (32 Canada and 40 US) employees at December 31, 2019 compared to 82 (36 Canada and 46 US) at December 31, 2018.

Selling, General, and Administration

(in 000's)	Three months ended December 31 2019	2018	Change $	%	Twelve months ended December 31 2019	2018	Change $	%
Selling	$ 109	$ 141	$ (32)	(23%)	$ 406	$ 698	$ (292)	(42%)
Professional and consulting	148	267	(119)	(45%)	701	593	108	18%
General and administrative	555	21	534	2543%	1,613	1,643	(30)	(2%)
Rent, utilities, and occupancy costs	958	883	75	8%	2,404	3,673	(1,269)	(35%)
Total selling, general and administration	$ 1,770	$ 1,312	$ 458	2484%	$ 5,124	$6,607	$(1,483)	(60%)
As a % of sales	8.3%	4.7%	3.6%		5.6%	5.4%	0.1%	

Selling expenses relate to meals and entertainment, transportation, and travel incurred by Bri-Chem's sales team. Selling expenses for the three months ended December 31, 2019 were consistent with the same period of 2018, while decreasing by $292 thousand year over year. The decreases relate to lower advertising and promotion costs of $75 thousand, and less travel of $170 thousand as a senior executive member left the Company in Q3 2018 resulting in less expenses during the fourth quarter and throughout 2019. In addition, the Company also eliminated general managers in two of its Canadian operating divisions that also travelled to oversee operations.

Professional and consulting fees decreased by $119 thousand for Q4 2019 compared to Q4 2018 while increasing by $108 thousand for the twelve months ended December 31, 2019. For 2019, professional and consulting fees increased as the Company has adjusted accruals for annual financial statement audit fees, bank audits as well as increased legal fees related to more aggressive collections of outstanding accounts receivable balances.

General and administration expenses for the twelve months ended December 31, 2019 decreased by $534 thousand compared to the same period last year. The difference is due to a large recovery of a previously written off bad debt of accounts receivable. The Company recorded a recovery of bad debts during 2019 of $122 thousand compared to a bad debt expense for 2018 of $502 thousand. In addition, computer services and office supplies decreased by $66 thousand year over year.

Rent, utilities, and occupancy costs increased by $75 thousand for the three months ended December 31, 2019 compared to the same period last year as a result of the Company updated its application of IFRS 16 whereby the Company adjusted certain classifications as short term leases which are expensed as period costs rather than capitalized. For the year ended December 31, 2019, rent, utilities, and occupancy costs decreased by $1.3 million due to the adoption of the IFRS 16 accounting standards whereby long-term leases are allowed to be capitalized rather than expensed in the period incurred.

Restructuring Costs

(in 000's)	Three months ended December 31 2019	2018	Change $	%	Twelve months ended December 31 2019	2018	Change $	%
Restructuring	$ 210	$ 243	$ (33)	(14%)	$ 234	$ 962	$ (728)	(76%)

Throughout 2019, management has been controlling its infrastructure to coincide with drilling activity levels. Restructuring costs include one-time moving costs, severance expenses and other costs that relate to infrastructure restructuring which management has determined is not part of normal operations. In the fourth quarter of 2019, the Company reduced in laboratory space in Canada and incurred costs to reduce the footprint of the space. In addition, the Company relocated two of its warehouses in Texas to reduce monthly operating costs while moving closer to drilling activity levels. Costs associated with these moves are recorded as restructuring costs.

During Q1 2018, management made the decision to shut down operations of two west Texas warehouses due to their lower than targeted gross margins and EBITDA. Management determined that capital and cashflow resources were better utilized in other more profitable regions. As a result, the Company incurred a number of restructuring costs related to the shut down of these facilities which included clean out of oil-based storage tanks, additional transportation costs for moving inventory, and equipment transportation costs. The majority of these costs were incurred in Q2 2018.

Depreciation on Property and Equipment

(in 000's)	Three months ended December 31 2019	2018	Change $	%	Twelve months ended December 31 2019	2018	Change $	%
Depreciation on right of use	**$ (34)**	$ -	$ (34)	100%	**$ 579**	$ -	$ 579	100%
Depreciation on property and equipment	**77**	276	$ (199)	(72%)	**901**	1,066	$ (165)	(15%)
Total depreciation	**$ 43**	$ 276	$ (233)	(84%)	**$ 1,481**	$ 1,066	$ 415	39%

Depreciation on property and equipment for the three months ended December 31, 2019 decreased $199 thousand compared to the same period in 2018. The decrease was the result of the Company impairing a number of assets at the end of 2018 to which no depreciation was taken in 2019. The depreciation on right of use assets was adjusted in the fourth quarter due to revaluation of the right-of-use assets recognized on the adoption of IFRS 16. The Company recorded excess depreciation in prior quarters of 2019 and was adjusted in the fourth quarter. 2019 was the first year of adoption of IFRS 16 and the right of use asset depreciation.

Financing Costs

(in 000's)	Three months ended December 31 2019	2018	Change $	%	Twelve months ended December 31 2019	2018	Change $	%
Interest on short-term operating debt	**$ 229**	$ 480	$ (251)	(52%)	**$ 1,333**	$ 1,795	$ (462)	(26%)
Interest on long-term debt	**253**	248	5	2%	**986**	978	8	1%
Interest on lease liabilities	**30**	10	20	100%	**149**	12	137	1142%
Cash interest paid	**512**	738	(226)	(31%)	**2,468**	2,785	(317)	(11%)
Add non-cash interest expense:								
Amortization of deferred financing costs	**52**	29	23	79%	**195**	96	99	103%
Total interest expense	**$ 564**	$ 767	$ (203)	(26%)	**$ 2,663**	$ 2,881	$ (218)	(8%)

Interest on short-term operating debt decreased by $251 thousand and $462 thousand, respectively for the three and twelve months ended December 31, 2019 compared to the same prior year periods as the Company maintained a lower average bank indebtedness balance. Interest on long-term debt remained relatively consistent. Interest on obligations under finance lease for the three and twelve months ended December 31, 2019 increased due to interest on finance lease obligations recognized upon adoption of IFRS 16. Adjusting for this, interest on obligations under finance lease increased marginally.

Foreign Exchange (Gain) / Loss

(in 000's)	Three months ended December 31 2019	2018	Change $	%	Twelve months ended December 31 2019	2018	Change $	%
Foreign exchange (gain) / loss	**$ (22)**	$ 72	$ (94)	(131%)	**$ (91)**	$ 303	$ (394)	(130%)

The Canadian dollar compared to the US dollar remained relatively unchanged for the fourth quarter of 2019, which resulted in a small foreign exchange gain for the quarter. Foreign exchange (gain) / loss for year increased $394 thousand due to the depreciation of the Canadian dollar relative to the US compared to the same period last year. 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.

Income Tax (Recovery) / Expense

(in 000's)	Three months ended December 31 2019	2018	Change $	%	Twelve months ended December 31 2019	2018	Change $	%
Current	$ 71	$ 631	$ (560)	(89%)	$ 44	$ 80	$ (36)	(45%)
Deferred	(29)	1,699	(1,728)	(102%)	(29)	2,136	(2,165)	(101%)
Total income tax expense	$ 42	$ 2,330	$ (2,288)	(98%)	$ 15	$ 2,216	$(2,201)	(99%)

The provision for income taxes for the three months ended December 31, 2019 is a net expense of $42 thousand as the Company was profitable in its US consolidated operations but was offset by the Canadian consolidated tax position. Bri-Chem's effective income tax rate was 27% 2019 (2018 - 27%).

Adjusted EBITDA and Net Loss

(in 000's)	Three months ended December 31 2019	2018	Change $	%	Twelve months ended December 31 2019	2018	Change $	%
Adjusted EBITDA	$ (38)	$ 580	$ (618)	107%	$ 2,944	$ 3,512	$ (568)	(16.17%)
As a % of sales	0%	2%			3%	3%		
Net (loss) / earnings	$ (3,104)	$ (5,570)	$2,466	44.3%	$(3,656)	$ (9,355)	$5,699	60.9%
As a % of sales	(14.6%)	(20%)			(4.0%)	(8%)		

Adjusted EBITDA was ($38) thousand for the three months ended December 31, 2019 compared to $580 million in the same period last year, while adjusted EBITDA was $3.0 million for the twelve months of 2019 compared to $3.5 million for the same period of 2018. Adjusted EBITDA as a percentage of sales was 0% for the fourth quarter of 2019 lower by 2% compared to the same period last year. This decrease was due to lower sales in the quarter from a decline in drilling activity levels in North America. Net loss was $3.1 million and $3.7 million for the three and twelve months ended December 31, 2019 compared to a net loss of $5.6 million and net loss of $9.4 million in the same periods last year. The Company had impairment charges of $2.2 million in 2019 on property and equipment compared to impairments on property, equipment and inventory of 7.9 million for 2018.

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)	2019 Q4 (2)	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2 (3)	2018 Q1
Sales	$ 21,307	$ 21,800	$ 22,721	$ 25,898	$ 27,705	$ 31,159	$ 27,255	$ 35,318
Gross margin ($)	3,849	4,259	3,721	4,579	3,909	5,101	2,079	5,447
Gross margin (%)	18.1%	19.5%	16.4%	17.7%	14.1%	16.4%	7.6%	15.4%
Adjusted EBITDA (1)	(38)	954	447	1,602	580	1,376	(366)	924
Net earnings/(loss)	$ (3,104)	$ (170)	$ (741)	$ 359	$ (5,570)	$ 61	$ (3,740)	$ (106)
Basic and diluted earnings/(loss) per share	$ (0.13)	$ (0.01)	$ (0.03)	$ 0.02	$ (0.23)	$ -	$ (0.16)	$ -

(1) Refer to the "Non-IFRS Measures" section for a definition of non-GAAP terms as well as reconciliations for EBITDA, adjusted operating (loss) income, and adjusted (loss) / net earnings. As a result of the adoption of OFRS 16 Leases in 2019, Adjusted EBITDA excludes $578,906 of depreciation on right of use assets.

(2) During Q4 2019, Bri-Chem incurred impairment charges of $2.2 million on property, plant and equipment in relation to one of its CGUs related as market conditions declined resulting from the novel coronavirus and turmoil in global oil and gas markets.

(3) During Q2 2018 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 costs amounting to $1.7 million of negative gross margin and shut down and moving costs of $648 thousand.

Quarterly results generally reflect the seasonality factors discussed above. Q4 2019 gross margin % remained stronger than the previous and prior comparable period quarters due as the Company has seen an increase in sales of higher margin products including production chemicals as well as cement additives in California.

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. Given the recent significant decline in commodity prices and the novel coronavirus pandemic, the Company may have to lower selling prices of its inventory to cost or below cost and collection of accounts receivable may become more difficult which could impact the Company's liquidity and ability to discharge its financial liabilities (Note 20). Management has implemented a working capital management program to reduce liquidity risk. The program includes the selling down of inventories and aggressively collecting accounts receivable which will enable the Company to meet its financial liabilities as they become due. Should events surrounding the Covid pandemic worsen the liquidity of the Company could materially weaken and could cause materiality uncertainties and negatively impact the Company's ability to continue to operate as a going concern. Due to Covid-19, the Company received letters from its lenders to confirm the Company was not in default of a covenant whereby the Company was required to deliver the audited financial statements within 90 of the fiscal year end.

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)		December 31 2019		December 31, 2018
Current assets	**$**	**36,371**	$	60,972
Current liabilities		**20,901**		42,995
Working capital	**$**	**15,470**	$	17,977

As at December 31, 2019, the Company had positive working capital of $15.5 million compared to $18.0 million at December 31, 2018. The Company's current ratio (defined as current assets divided by current liabilities) was 1.74 to 1 compared to 1.42 to 1 as at December 31, 2018.

Summary of cash flows (000's)		December 31 2019		December 31 2018
Operating activites	**$**	**23,257**	$	1,990
Investing activities		**(22,890)**		(561)
Financing activityies		**(367)**		(1,429)
Change in cash position	**$**	**-**	$	-

For 2019, $23.3 million of cash was generated by operating activities compared to cash generated of $2.0 million for 2018. This increase was mainly due to a positive change in working capital, particularly lower inventory as the Company reduced inventories throughout the year in Canada and the US. In addition, the Company focused on collection of accounts receivable during 2019 that resulted in increased cash inflows, which were partially offset by decreased accounts payable and accrued liabilities. Cash used in financing activities was $22.9 million for the year ended December 31, 2019, compared to cash used of $561 thousand for the same comparable period. This decrease was due to $17.6 million of bank indebtedness repayments. In addition, the Company paid $2.5 million of interest on its credit facilities and repaid $825 thousand of its term debt during 2019. Cash used in financing activities was $367 thousand for 2019 compared to $1.4 million for the same comparable period.

On December 24, 2018 the ABL Facility was amended to replace the fixed charge coverage ratio with a minimum total net worth covenant and a minimum trailing twelve-month EBITDA covenant. Minimum total net worth is defined as 90% of equity less prepaids, intangibles, and goodwill. Minimum trailing twelve-month EBITDA is defined as a prescribed level of EBITDA. The ABL facility requires the Company to maintain certain financial covenants which are monitored monthly. The same financial covenants apply to the GreyPoint facility.

On May 9, 2019, the Company amended the terms of the ABL Facility to decrease the maximum borrowing base down to $30,000,000 with a further reduction down to $25,000,000 by September 1, 2019. Other amendments include a borrowing base block of $500,000 on May 9, 2019 and increasing in increments of $500,000 on the last day of each month until a maximum borrowing base block of $3,000,000 is reached on the last day of September 2019. In addition, the agreement amended financial covenants of minimum trailing twelve month EBITDA and minimum tangible net worth.

On May 9, 2019, the Company amended the terms of its subordinated term debt agreement that amended the financial covenants to the same as the senior lender.

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, 2019. 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. No one customer accounted for more than 10% of sales in 2019. Bri-Chem's top 5 customers' account for approximately 35% (2018: 24%) of revenue for the twelve months ended December 31, 2019. 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. Significant declines in global oil and gas prices, declines in drilling fluid product demand and significant declines in the stock market have occurred for various reasons linked to the Coronavirus pandemic. 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, 2019 balances presented in these financial statements up to the date of their approval, however, uncertainty exists with respect to recoverability of accounts receivable and realization of inventories originated subsequent to year end. With the increasingly weakened global oil price and Covid-19 pandemic this could result in significant delays in collections and could impact the Company's ability to continue as going concern.

Global Health Crisis and Covid-19

The Corporation 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 crisis' could have an adverse impact on the Company's business including the Company's ability to continue as 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.

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 and twelve months ended December 31, 2019 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 December 31 2019	Three months ended December 31 2018	Change $	Change %	Twelve months ended December 31 2019	Twelve months ended December 31 2018	Change $	Change %
Office sharing costs	**$ 9**	$ 9	$ -	0%	**$ 36**	$ 36	$ -	0%

The following table summarizes expenses related to key management personnel:

(in 000's)	December 31 2019	December 31 2018
Salaries including bonuses	**$ 965**	$ 1,042
Director's fees	**148**	132
Total remuneration	**$ 1,113**	$ 1,174

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on Bri-Chem's Consolidated Financial Statements for the years ended December 31, 2019 and 2018 which were prepared in accordance with IFRS. The presentation of these financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which these estimates are revised and in any future periods affected. These estimates and judgements are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot occur with absolute certainty, therefore these estimates may change as new events occur, more experience in acquired and as the Company's operating environment changes. The Company's critical accounting estimates and assumptions are as follows:

a) Impairment

An evaluation of whether an asset is impaired involves consideration of whether indicators of impairment exist. Factors which could indicate an impairment exists include: significant underperformance of an asset relative to historical or projected operating results, significant changes in the way an asset is used, and the carrying amount of the net assets of the entity being more than its market capitalization or significant negative industry or economic trends. In some cases, these events are clear. Management continually monitors the Company's operating segments, the markets, and the business environment, and makes judgments and assessments about conditions and events in order to conclude whether a possible impairment exists.

Estimates

When there is an indicator of impairment the recoverable amount of the asset is estimated to determine the amount of impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount for property and equipment is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, the Company must estimate the price that would be received to sell the asset or CGU less any incremental costs directly attributable to the disposal. In assessing value in use, the estimated cash flows are discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Judgements

The determination of CGUs is based on management judgement. The Company's CGU's are Bri-Chem Supply Ltd., Sodium Solutions Inc, Solution Blend Service Ltd, Bri-Chem Supply Corp, and Sun Coast Materials, LLC. As the grouping of CGUs determines the level at which property and equipment, goodwill and intangible assets are tested for impairment, the grouping of CGUs can impact the outcome of impairment testing.

Arriving at the estimated future cash flows involves significant judgments, estimates and assumptions, including those associated with the future cash flows of the CGU, determination of the CGU, and discount rates.

b) Sales returns provision

Estimates

The Company has an internal policy whereby it accepts product returns from customers in certain subsidiaries. Provisions recorded for estimated product returns are based on historical experience, market conditions, and drilling activities. Actual returns experienced may differ from estimate. The allowance for sales returns is presented in accounts payable and accrued liabilities in Note 8.

c) Inventories

Estimates

Inventories are measured at the lower of cost and net realizable value. In estimating the net realizable value, management considers evidence, such as aging of the inventory, current sales prices, vendor price lists, available at the time in determining the net realizable values of the inventories.

d) Stock-based compensation

Estimates

The Company uses the Black-Scholes Option Pricing Model for valuing its stock options to employees and directors at the date of issue. Management uses estimates of the expected life, the risk-free rate, expected volatility, and expected forfeiture rate when calculating the value of the options issued. These estimates may vary from actual experience and are updated at each reporting period based on information available at that time. The Company values options issued to non-employees based on available evidence of the value the transaction represents to the Company based on services provided in exchange for the option.

e) Leases

Judgements

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as warehouse profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the lease will be extended. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs, which affects this assessment and that is within the control of the lessee.

CHANGES IN ACCOUNTING POLICIES

Bri-Chem's accounting policies are discussed in Note 2 of the financial statements for the years ended December 31, 2019 and 2018.

IFRS 16: Leases (effective January 1, 2019)

The Company adopted the new lease standard, IFRS 16, Leases ("IFRS 16") on January 1, 2019. The new standard introduced significant changes in the requirements for lease accounting. On the date of transition, January 1, 2019, the Company elected to apply IFRS 16 using the modified retrospective approach, where the Company is not required to restate comparative information. Instead, the comparative effect of initially applying IFRS 16 is recognized as an adjustment to equity on transition date. On transition date, the Company made the following elections on practical expedients and exemptions allowed by the new standard:

- The Company elected to use the transitional expedient not to reassess whether a contract is or contains a lease. By applying this practical expedient, the Company will not reassess existing arrangements that were previously assessed for the existence of leases under previous standard (IAS 17 "Leases"). The Company will apply this transitional expedient and will rely on previous IAS 17 and IFRIC 4 assessments on whether leases are onerous.

- The Company elected to apply the exemption related to low-value assets to exclude lease arrangements where the value of the leased asset is $5,000 or less. The Company elected to apply the exemption related to short-term lease arrangements to exclude lease arrangements where the term of the lease is for periods of 12 months or less. For these arrangements, the Company will recognize lease expenses on a straight-line basis over the term of the agreement and present the expense within selling, general, and administration expenses in the consolidated statements of operations.

- The Company elected to use a single discount rate on lease portfolios that share similar economic characteristics.

- The Company elected to recognize the initial right-of-use assets in an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

- The Company elected to apply the practical expedient to exclude initial direct costs from the measurement of the right-of-use asset on transition.

- The Company elected to apply the practical expedient not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

- The Company separated the total amount of cash paid into a principal portion presented within financing activities and interest presented within operating activities in the consolidated statements of cash flows.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 ranged between 6.49% and 6.85% to calculate the present value of lease payments. The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's December 31, 2018 consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 as at January 1, 2019:

		January 1, 2019
Operating lease commitments disclosed as at December 31, 2018	$	2,377,274
Discounted using the incremental borowing rate at the date of initial application		(385,089)
Adjustment due to different treatment of extension and termination options		(218,180)
Short-term leases recognised as expense on a straight-line basis		(450,050)
Total lease liabilities recognized under IFRS 16	**$**	**1,323,955**
Of which are:		
Current portion of lease liabilities	$	430,591
Long-term lease liabilities		893,364
	$	**1,323,955**

Right-of-use assets

		January 1, 2019
Leased buildings	$	1,323,955

The associated right-of-use assets were initially measured at the amount equal to the lease liability, adjusted for any prepaid or accrued lease payments. There were no material onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The impact of the application of IFRS 16 as at January 1, 2019 is shown as follows:

		January 1, 2019		IFRS 16 adoption impact		December 31, 2018
Right-of-use asset	**$**	**1,323,955**	**$**	**1,323,955**	$	-
Current portion of lease liabilities		**609,013**		**430,591**		178,422
Long-term portion of lease liabilities		**1,285,854**		**893,364**		392,490
Retained earnings	**$**	**(14,651,723)**			$	(14,651,723)

RECENT PRONOUNCEMENTS NOT YET EFFECTIVE AND THAT HAVE NOT BEEN ADOPTED EARLY

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2019. The standards and amendments issued that are applicable to the Company are as follows:

IAS 1 Presentation of Financial Instruments Amendment (effective January 1, 2020)

IAS 1 Presentation of Financial Instruments ("IAS 1") sets out the overall requirements for financial statements, including how they are structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.

The amendment, revises IAS 1 to incorporate a new definition of material. The new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The IAS 1 amendment is effective January 1, 2020 and is not expected to have a material impact on the company's financial statements.

IFRS 3 Business Combinations (effective January 1, 2020)

In October 2018, the International Accounting Standards Board ("IASB") issued Definition of a Business ("Amendments to IFRS 3" or "IFRS 3") to provide clarification guidance for entities to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments confirmed that a business must include inputs and a process, and clarified that the process must be substantive; and the inputs and process must together significantly contribute to creating outputs. The amendment guidance narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The IFRS 3 amendment is effective January 1, 2020, with earlier application permitted. These amendments will apply to the Company's future business combinations.

OUTSTANDING SHARES

As at April 20, 2020, the Company had 23,923,981 common shares issued and outstanding and no potentially dilutive shares. The Company had 1,120,000 stock options outstanding as at December 31, 2019.

On November 6, 2019, Bri-Chem received a letter from the TSX indicating that the TSX had commenced a remedial review of Bri-Chem's eligibility for continued listing on the TSX of its securities, pursuant to Part VII (S.712(a)) of the TSX Manual (Market Value of listed securities(units) of $3.0 million for 30 previous consecutive trading days). In response to the aforementioned letter from the TSX, the board of directors of Bri-Chem have reviewed the TSX eligibility for listing requirements as outlined in the TSX Manual in relation to Bri-Chem's recent share price and trading activity on the TSX. If the Company cannot demonstrate that it meets all TSX requirements set out in Part VII of the Manual on or before March 5, 2020, the Company's securities will be delisted 30 days from such date and Bri-Chem will take all reasonable and prudent steps as required to coordinate a proposed transfer of our listing to the TSX Venture Exchange to ensure, to the extent possible, uninterrupted trading for the Company's securities. On March 25, 2020, the TSX Continuing Listing Committee determined to suspend the listing review until December 31, 2020 due to relief granted in respect of Sections 712 (a) and (b) of the TSX Company Manual.

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 Loss and Adjusted EBITDA

Adjusted Net Loss are defined as net loss before non-recurring events, net of corporate income taxes ("Adjusted Net Loss"). Management believes that in addition to net loss, Adjusted Net Loss is a useful supplemental measure that represents normalized net (loss)/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 loss under IFRS, as disclosed in the annual consolidated financial statements, to Adjusted Net Loss and Adjusted EBITDA:

(in 000's)	Three months ended December 31 2019		Three months ended December 31 2018		Twelve months ended December 31 2019		Twelve months ended December 31 2018
Net loss	**$**	**(3,104)**	$	(5,570)	**$**	**(3,656)**	$	(9,355)
Add:								
Inventory impairment		**-**		899		**-**		4,106
Property and equipment impairment (1)		**2,207**		1,636		**2,207**		1,636
Deferred tax asset impairment		**-**		2,136		**-**		2,136
Restructuring costs (2)		**210**		242		**234**		962
Adjusted net loss		**(687)**		(657)		**(1,215)**		(515)
Add:								
Interest		**564**		766		**2,663**		2,881
Income taxes		**42**		195		**15**		80
Depreciation and amortization		**43**		276		**1,481**		1,066
Adjusted EBITDA	**$**	**(38)**	$	580	**$**	**2,944**	$	3,512

(1) Represents impairment charge of $2.2 million on property, plant and equipment in relation to the one of its CGUs as market conditions declined resulting from the novel coronavirus and turmoil in global oil and gas markets.

(2) Represents warehouse movement costs in 2019. Oil-based mud tanks from Leetsdale, Pennsylvania to Clinton, Oklahoma as part of restructuring oil-base mud operations in late 2018. In Q2 2018, the Company discontinued operating from Kermit and Three Rivers, Texas and moved from Enid, Oklahoma to Ada, Oklahoma in an effort to redeploy inventory and equipment in higher margin opportunities.

Adjusted Operating Earnings

Adjusted operating earnings are defined as operating earnings before non-recurring events ("Adjusted Operating Earnings"). Management believes that in addition to operating earnings, Adjusted Operating 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. The following table provides a reconciliation of operating earnings under IFRS, as disclosed in the annual consolidated financial statements, to Adjusted Operating Earnings:

(in 000's)	Three months ended December 31 2019		Three months ended December 31 2018		Twelve months ended December 31 2019		Twelve months ended December 31 2018
Operating income/(loss)	**$**	**42**	$	699	**$**	**1,493**	$	(855)
Add:								
Restructuring costs (1)		**210**		242		**234**		962
Inventory impairment (1)		**-**		899		**-**		4,106
Adjusted operating income		**252**		1,840		**1,727**		4,213

(1) Represents warehouse movement costs in 2019. Oil-based mud tanks from Leetsdale, Pennsylvania to Clinton, Oklahoma as part of restructuring oil-base mud operations in late 2018. In Q2 2018, the Company discontinued operating from Kermit and Three Rivers, Texas and moved from Enid, Oklahoma to Ada, Oklahoma in an effort to redeploy inventory and equipment in higher margin opportunities.

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 December 31, 2019 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.

- A material weakness was identified relating to the evaluation of impairment for property and equipment which was corrected and resulted in an impairment charge of $2.2 million for the year ended December 31, 2019. This weakness was also disclosed in 2018 and resulted in an impairment charge of $1.6 million for the year ended December 31, 2018.
- 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 2019 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 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, 2018 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

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Spruce Grove, Alberta

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Eric Sauze, CPA, CA, CFA(1) (2)
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