BRI-CHEM
Right product. Right place. Right time.

Q4 2016

MD&A Report

"For over 30 years we have proven our ability to combine strategic supplier relationships and expert logistics making us the premier supplier of drilling fluid chemicals and drilling fluid additives to the North American oil and gas industry."

North America's Largest Pure Play

Oil and Gas Drilling Fluids Distribution & Blending Company

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") was prepared as of March 29, 2017. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the 2016 fourth quarter and year ended December 31, 2016 and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2016 and 2015.

The Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), and are presented in Canadian dollars unless otherwise indicated.
The Company's consolidated financial statements include the accounts of Bri-Chem Corp. and its subsidiaries as follows:

- 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 references in this report to financial information concerning the Company refer to such information in accordance with IFRS. This report also makes reference to certain non-IFRS measures in assessing the Company's financial performance. Non-IFRS measures do not have any standard meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These non-IFRS financial measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. These measures are discussed in the "Non-IFRS Measures" section of the report.

References in this MD&A to "Bri-Chem", the "Company", "us", "we", and "our" mean Bri-Chem Corp. and its subsidiaries, unless the context otherwise requires. Additional information relating to the Company, including the annual information form for the year ended December 31, 2016 is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or Bri-Chem's future plans and performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Bri-Chem believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon.
In particular, this MD&A contains forward-looking statements pertaining to the following:

- adequacy of capital resources required to finance the Company's inventories and other operations;
- the business objectives of the Company;
- results of operations and the performance of the Company;
- the ability of the Company to extend its credit facilities;
- the ability of the Company to develop its relationships with customers and potential new customers; and
- the ability of the Company to expand and broaden its areas of operation.

With respect to the forward-looking information contained in the MD&A, Bri-Chem has made assumptions regarding, among other things:

- the Company's relationships with its key suppliers and customers;
- economic conditions that influence the demand of the Company's customers for supplies and services;
- the Company's cash flow from sales; and
- the availability of existing credit facilities.

Although the forward-looking information contained in this MD&A is based upon what Management believes are reasonable assumptions, Bri-Chem cannot assure readers that actual results will be consistent with this forward-looking information. Although the Company believes that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Some of the risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A, include but are not limited to:

- supply and demand for oilfield services, and drilling fluids;
- competition for, among other things, capital and skilled personnel;
- incorrect assessments of the value of acquisitions;
- fluctuations in the market for oil and natural gas and related products and services;
- liabilities and risks, including environmental liabilities and risks inherent in chemical storage and handling and oil and natural gas service operations;
- fluctuations in foreign exchange or interest rates;
- political and economic conditions;

- failure of counter-parties to perform on contracts;
- regional competition;
- the Company's ability to attract and retain customers;
- amounts retained by the Company for capital expenditures;
- volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oil and gas services generally;
- stock market volatility and market valuations;
- unplanned equipment outages and other unforeseen disruptions that may affect operations;
- the presence of heavy competition in the industry in which the Company currently operates;
- general economic conditions in Canada and the United States and globally;
- the availability of capital on acceptable terms; and
- the other factors disclosed under “Risk & Uncertainties” in this MD&A.

Many of these risk factors are discussed further in detail herein, specifically in the “Risks and Uncertainties” section, and in the Company’s Annual Information Form on file with Canadian securities commissions at www.sedar.com. Readers are also referred to the risk factors described in other documents filed with Canadian securities commissions periodically throughout the year.

Readers are cautioned that these factors and risks are difficult to predict. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Readers are also cautioned that the list of factors above and the risk factors set forth under the heading “Risks & Uncertainties” are not exhaustive. Before placing any reliance on any forward-looking statements to make decisions with respect to an investment in securities of Bri-Chem, prospective investors and others should carefully consider the factors identified above and other risks, uncertainties and potential changes that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. In addition, the forward-looking statements contained in this MD&A are made as of the date of this MD&A. Bri-Chem does not undertake any obligation to publicly update or to revise any forward-looking statements except as expressly required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by the cautionary statements contained herein.

2016 FOURTH QUARTER AND OVERALL PERFORMANCE

The discussion in this section is qualified in its entirety by the "Cautionary Statement Regarding Forward-Looking Information" section presented at the beginning of the MD&A. This Overview section is provided for information purposes only and readers are cautioned the information contained herein may not be appropriate for other purposes.

During the fourth quarter of 2016, drilling activity levels continued to show signs of recovery as the active USA rig count increased 106 rigs on average from the third quarter, while Canada increased from 144 average active rigs in the third quarter to 172 average active rigs for the fourth quarter of 2016. The Q4 2016 increase in drilling activity resulted in a 23% increase in quarterly revenues and a $1.57M increase in quarterly EBITDA as compared to Q3 2016. As a result of the increase in recent activity levels, the Company, subsequent to year end, obtained an increase of $5,000,000 in credit available under its ABL facility and no further amendments were made to the sub-debt loan which matures effective November 2017.

Bri-Chem's Q4 2016 consolidated revenues from its North American oil and gas drilling fluids distribution, blending and packaging businesses was $22,097,598 compared to $21,507,712 in the same prior period in 2015. This comparable quarter revenue increase is a direct result of an increase in oil and gas drilling activity throughout North America. The Company generated $62,091,325 in revenues for the year ended December 31, 2016 compared to sales of $96,822,080, representing a decrease of 36% year over year. Earnings before interest, taxes, amortization and depreciation, share-based payments expense, and impairment charges ("EBITDA") were $1,244,236 and ($955,696) for the three and twelve months ended December 31, 2016, compared to ($5,695,852) and ($2,761,020) for the same periods in 2015. Net loss for the three month period was $2,570,028 compared to net loss of $13,373,037 for the same period of 2015, while net loss for the twelve month period was $6,793,064 compared to a net loss of $14,357,367 for the same period of 2015.

North American Drilling Fluids Distribution Divisions

Bri-Chem's Canadian drilling fluids distribution division generated sales of $9,551,720 and $22,377,480 for the three and twelve months ended December 31, 2016, compared to sales of $6,873,850 and $29,606,959 over the comparable periods in 2015. 2016 sales were affected by the overall continued decline in drilling activity, while the industry did see a modest recovery in rig activity late in Q4 2016, which led to a 39% increase in sales quarter over quarter. With continued unstable oil prices, many companies remain cautious and are not commencing drilling projects until commodity prices become more favorable. The number of wells drilled in Western Canada for the three month period ended December 31, 2016 was 1,483, representing an increase of 17% quarter over quarter.

Bri-Chem's United States drilling fluids distribution division generated sales of $8,565,823 and $24,685,969 for the three and twelve month periods ended December 31, 2016, compared to revenues of $8,995,967 and $45,986,292 in the comparable periods of 2015, representing decreases of 5% and 46% respectively. The average number of active rigs running in the USA during the fourth quarter of 2016 was 586, a decrease of 22% from comparable quarters. The decline in 2016 revenue is primarily driven by a reduction in drilling activity as the average number of active rigs running in 2016 was 560 compared to 1022 in 2015, a decrease of 45.2%.

North American Drilling Fluids Blending & Packing Divisions

Bri-Chem's Canadian drilling fluids blending and packaging division generated sales of $3,434,795 and $11,163,466 for the quarter and year ended December 31, 2016 compared to the prior year period sales of

$4,119,208 and $15,323,772 representing a 17% decrease quarter over quarter and 27% decrease year over year. This decrease is directly related to lower customer demand for blending services as a result of the significant decline in drilling activity throughout 2016.

Bri-Chem's USA fluids blending and packaging division, generated sales of $545,263 for the three month period ended December 31, 2016, while reporting sales of $3,864,411 for the year of 2016 compared to $1,518,688 and $5,905,357 respectively for the comparable periods in 2015.

Outlook Summary

Bri-Chem is more optimistic about its future prospects than a year ago as various industry benchmarks and recent activity levels signal improved industry stability for the medium to long-term. North American oil and gas drilling activity levels, throughout 2016, continued to decline year over year, however, the industry did experience a healthy increase in activity levels in Q4 2016, compared to Q3 2016, as commodity prices have rebounded from their 2016 lows and oil and gas companies have cautiously increased drilling activity as a result. We expect a continued modest increase in North American activity levels into Q1 2017 with PSAC forecasting the number of wells to be drilled in Western Canada to increase by 25.6% in 2017.

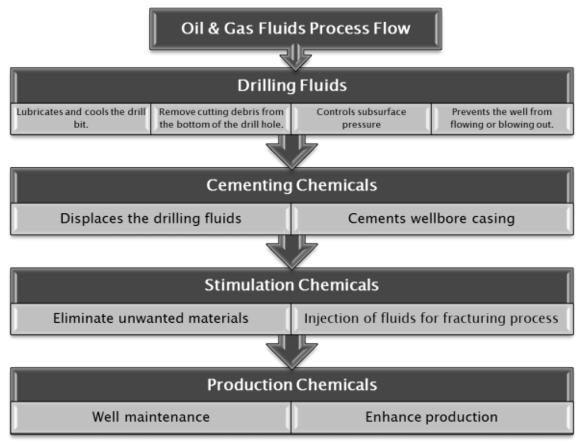
It is the Company's view that further development of increased crude oil transportation capacity, through proposed pipeline expansion to tidewater, is required in order for Canada to have any profound increase to its future oilfield activity levels. The oilfield activity levels in the USA have seen a recent rebound from their historic lows and we expect this trend to continue so long as commodity prices remain at or near current levels. Bri-Chem has been proactive in response to the recent increase in North American business activity and has successfully managed to supply and service its customers during this recent surge in demand for oilfield chemicals.

As activity levels continue to improve over the short to medium term, we remain committed to providing superior customer service, having sufficient inventory levels to meet demand of our customers while maintaining our North American exceptional industry infrastructure located throughout Canada and the U.S. We will serve to be a valuable contributor to many of our customers throughout North America and will benefit appreciably when the market returns to more reasonable and stable levels as observed in Q4 2016.

DESCRIPTION OF BUSINESS

Bri-Chem 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 27 strategically located warehouses throughout Canada and the United States. Bri-Chem has been operating in Canada since 1985 and as a result of the increasing market demand for oilfield chemicals during the past 5 years, we expanded into the United States in 2011 and have successfully obtained significant market penetration. Additional information about Bri-Chem is available at www.sedar.com or at Bri-Chem's website at www.brichem.com.

The Company is headquartered in Edmonton, Alberta and owns a 100% interest in Bri-Chem Supply Ltd. ("Bri-Chem Supply"), 100% interest in Sodium Solutions Inc. ("Sodium"), and 100% interest in Solution Blend Service Ltd. ("Solution Blend"). The Company also owns 100% interest in Bri-Corp USA Inc. ("Bri-Corp"), which has three 100% owned subsidiaries, Bri-Chem Supply Corp, LLC ("Bri-Chem USA") Sun Coast Materials, LLC ("Sun Coast") and Bri-Chem Logistics, LLC ("Logistics").



NORTH AMERICAN OILFIELD CHEMICAL DIVISIONS

Canadian Drilling Fluids Distribution Division

Bri-Chem is one of Canada's largest wholesale distributors of drilling fluid products to the oil and gas industry in the Western Canadian Sedimentary Basin ("WCSB"). The drilling fluids division focuses on the oil & gas drilling stage, providing over 100 drilling fluid products and custom-blended products to major and independent oilfield service companies. Bri-Chem distributes its drilling fluid products from 10 strategically located warehouses throughout the WCSB. Drilling fluids are used in the process of drilling deep vertical or horizontal boreholes. The drilling fluids are an integral part of the drilling process, serving a number of functions, including controlling subsurface pressures, lubricating the drill bit, stabilizing the wellbore, and carrying the cuttings to the surface, among other functions.

USA Drilling Fluids Distribution Division

Bri-Chem services its USA drilling fluids customers through its 14 warehouse locations strategically placed in the major resource plays in the USA. The division is establishing its market presence as a leading full service independent national wholesaler of drilling fluids to service the USA unconventional resource plays. The USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. Bri-Chem will continue to focus on its product offerings and customer service in the regions it currently services.

Canadian Fluids Blending and Packaging Division

The WCSB oil and gas drilling and completion segment utilizes cementing, stimulation, fracturing and production chemical fluids. Many of these products are a blended formulation utilizing specialty additives that Bri-Chem can supply in both packaged and truckload quantities. Cementing is performed when the cement slurry is deployed into the well via pumps, displacing the drilling fluids still located within the well, and replacing them with cement. Well stimulation involves introducing special blends of chemicals and acid to oil or gas producing formations in order to diminish or eliminate unwanted materials. The fracturing process injects fluids and sand at high pressure which creates small fractures in the rock that extend out from the well.

Production chemicals are specialty blended products that help maximize well production and minimize well maintenance costs. Bri-Chem has dedicated facilities, located in Acheson, Camrose and Calgary, Alberta, with capacity to blend and package specialty additive fluids for customer specific products.

USA Fluids Blending and Packaging Division

Bri-Chem services the well abandonment market of California through its subsidiary of Sun Coast Materials LLC. ("Sun Coast"). Sun Coast provides blended cement additives for customers in the California market that require various mixtures of cement products to complete shut ins on well abandonments in the region. Sun Coast's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers.

Training and Fluid Analysis

With a laboratory in Calgary, Alberta, Bri-Chem serves its customers throughout the WCSB with testing equipment, quality assurance, mud school training, and research and analysis of various oilfield Chemicals.

Seasonality of Operations

Weather conditions can affect the sale of the Company's fluids, chemical, and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up have a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern WCSB are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. 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.

FINANCIAL SUMMARY

The following selected two year consolidated financial information has been derived from and should be read in conjunction with the Company's Financial Statements for the year ended December 31, 2016 and 2015.

In $'000s *(except per share amounts)*	For the three months ended December 31, 2016	2015	Change $	%	For the year ended December 31 2016	2015	Change $	%
Sales	**$ 22,098**	$ 21,508	$ 590	3%	**$ 62,091**	$ 96,822	$ (34,731)	(36%)
Gross margin	**3,942**	1,564	2,378	152%	**11,016**	13,481	(2,465)	(18%)
	17.8%	7.3%			**17.7%**	13.9%		
Operating expenses [1]	**2,698**	7,260	(4,562)	(63%)	**12,011**	16,242	(4,231)	(26%)
EBITDA [2]	**1,244**	(5,696)	6,940	(122%)	**(995)**	(2,761)	1,766	(64%)
Depreciation and amortization	**254**	385	(131)	(34%)	**1,064**	1,611	(547)	(34%)
Interest [3]	**761**	1,083	(322)	(30%)	**2,960**	3,308	(348)	(11%)
Share-based payments	**20**	72	(52)	(72%)	**201**	517	(316)	(61%)
Impairment charges [4]	**322**	6,126	(5,804)	(95%)	**322**	6,126	(5,804)	(95%)
Loss before income taxes	**(113)**	(13,362)	13,249	(99%)	**(5,542)**	(14,323)	8,781	(61%)
Income tax recovery - current	**(339)**	(2,751)	2,412	(88%)	**(2,081)**	(2,728)	647	(24%)
Income tax expense - deferred	**2,796**	2,762	34	1%	**3,332**	2,762	570	21%
Net loss	**$ (2,570)**	$ (13,373)	$ 10,803	(81%)	**$ (6,793)**	$ (14,357)	$ 7,564	(53%)
Loss per share								
Basic	**$ (0.11)**	$ (0.57)	$ 0.46	(81%)	**$ (0.29)**	$ (0.61)	$ 0.32	(53%)
Diluted	**$ (0.11)**	$ (0.57)	$ 0.46	(81%)	**$ (0.29)**	$ (0.61)	$ 0.32	(53%)
Adjusted basic [5]	**$ (0.09)**	$ (0.28)	$ 0.19	(68%)	**$ (0.27)**	$ (0.29)	$ 0.02	(7%)
Adjusted diluted	**$ (0.09)**	$ (0.28)	$ 0.19	(68%)	**$ (0.27)**	$ (0.29)	$ 0.02	(7%)
EBITDA per share								
Basic	**$ 0.05**	$ (0.24)	$ 0.29	(122%)	**$ (0.04)**	$ (0.12)	$ 0.08	(65%)
Diluted	**$ 0.05**	$ (0.24)	$ 0.29	(122%)	**$ (0.04)**	$ (0.12)	$ 0.08	(65%)
Weighted average shares outstanding								
Basic	23,623,981	23,623,981			23,655,900	23,655,900		
Diluted	23,923,981	23,623,981			23,655,900	23,655,900		

(1) See page 33 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, impairment charges and share-based payments (See page 33 for a further explanation of this non-IFRS measure).
(3) Interest expense for the year ended December 31, 2016 includes amortization of capitalized deferred financing cost of $266,619 (December 31, 2015: $520,005).
(4) Impairment charges are related to bad debts, plant and equipment, goodwill and other intangible assets
(5) Excludes after tax effect of impairment of plant and equipment, goodwill and other intangible assets (See page 33 for a further explanation of this non-IFRS measure).

2016 Q4 AND YEAR END RESULTS

The discussion in this section is qualified in its entirety by the "Cautionary Statement Regarding Forward-Looking Information" section presented at the beginning of the MD&A.

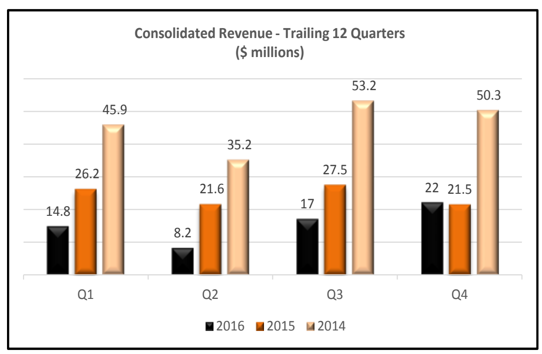
Sales by Segment

	For the three months ended December 31				For the year ended December 31			
	2016	2015	Change		2016	2015	Change	
In $'000s	$	$	$	%	$	$	$	%
Fluids Distribution - Canada	**9,552**	6,874	2,678	39%	**22,378**	29,607	(7,229)	(24%)
Fluids Distribution - USA	**8,566**	8,996	(430)	(5%)	**24,686**	45,986	(21,300)	(46%)
Total Fluids Distribution	**18,118**	15,870	2,248	14%	**47,064**	75,593	(28,529)	(38%)
Fluids Blending & Packaging - Canada (1)	**3,435**	4,119	(684)	(17%)	**11,163**	15,324	(4,161)	(27%)
Fluids Blending & Packaging - USA	**545**	1,519	(974)	(64%)	**3,864**	5,905	(2,041)	(35%)
Total Fluids Blending & Packaging	**3,980**	5,638	(1,658)	(29%)	**15,027**	21,229	(6,202)	(29%)
Total	**22,098**	21,508	590	3%	**62,091**	96,822	(34,731)	(36%)

(1) The fluids blending and packaging division sells products to the drilling fluids distribution division, which in turn sells it to the end user. Sales to the drilling fluids distribution division were an additional $2,712,037 and $5,172,211 for the three and twelve months ended December 31, 2016, respectively (2015 - $667,350 and $3,016,344 respectively). This revenue has been eliminated upon consolidation.

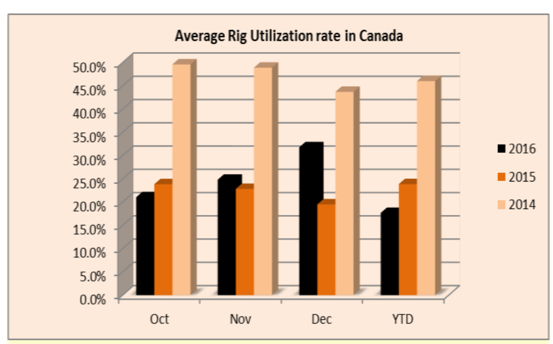
North American Drilling Fluids Distribution Divisions

The Company's North American drilling fluids distribution divisions recorded combined sales of $22,097,601 and $62,091,325 for the three and twelve months ended December 31, 2016 compared to sales of $21,507,713 and $96,822,080 in 2015, representing an increase of 3% quarter over quarter and a decrease of 36% year over year. The Canadian fluids distribution divisions' sales increased by 39% for the three month period ended December 31, 2016, while the USA fluids distribution division experienced a slight sales decline of 5% over the same comparable fourth quarter in 2015.

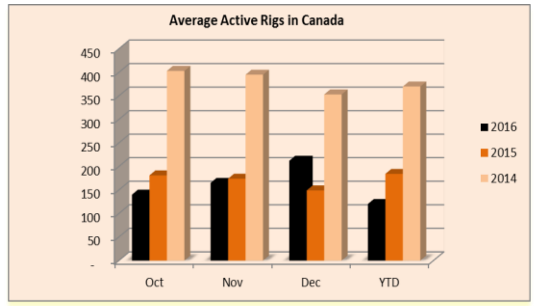


Canadian Drilling Fluids Distribution Division

Bri-Chem's Canadian drilling fluids distribution division generated revenues of $9,551,720 for the three months ended December 31, 2016, compared to sales of $6,873,849 over the same comparable period in 2015. The 39% increase in sales during the fourth quarter was due to an increase in drilling activity as a result of a rebound of oil commodity prices from their lows early in fiscal 2016. The number of wells drilled in Q4 2016 in Western Canada was 1,483 compared to the 1,270 wells drilled in Q4 2015, representing an increase of 17% quarter over quarter. In Canada, drilling rig utilization averaged 26% for the fourth quarter in 2016, an increase of 4% quarter over quarter.



The Alberta market sales reached $7,706,786 for the three month period ended December 31 2016, an increase of 54% compared to the same period in 2015, while the number of wells drilled in this region increased in Q4 2016 by 21% quarter over quarter. The increase in sales in Alberta was mainly due to increased drilling activity in the region during Q4 2016. Many customers depleted inventories during the industry downturn and as such required to purchase more inventories when activities levels started to increase. The Saskatchewan region experienced a decrease in sales of 35% for the three months ended December 31, 2016, while the number of wells drilled in the Q4 2016 increased by 22.3%. The decrease in Saskatchewan sales quarter over quarter is the result of our customers not obtaining as much of the increased drilling activity in that region. British Columbia regional sales were $1,264,772 representing an increase of 29% during the fourth quarter in 2016 as compared to same period in 2015. Our customers remained busy in the region despite a 24.3% decrease in drilling activity in the region.



Bri-Chem's Canadian drilling fluids distribution division revenue in 2016 decreased 24% compared to the prior year. The prolonged industry downturn resulted in lower activity with particularly low activity in the first quarter, which is traditionally the busiest quarter of the year.

Summary of the number wells drilled:

Area	Q4 2016	Q4 2015	Change	Change in %
Alberta	788	650	138	21.2%
British Columbia	103	136	(33)	(24.3%)
Saskatchewan	592	484	108	22.3%
Western Canada[1]	1,483	1,270	213	16.8%

(1) Total Western Canada excludes Manitoba
(2) Source – PSAC

Summary of wells drilled in meters:

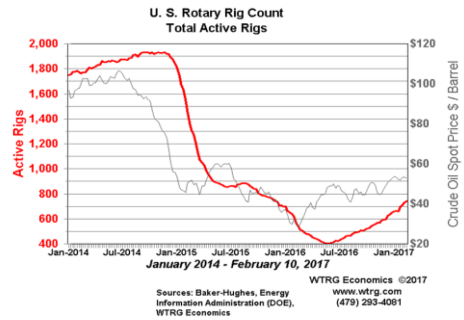
Area	Q4 2016	Q4 2015	Change	Change in %
Alberta	2,381,440	1,981,958	399,482	20.2%
British Columbia	453,655	544,335	(90,680)	(16.7%)
Saskatchewan	1,167,152	678,482	488670	72.0%
Western Canada[1]	4,002,247	3,204,775	797,473	24.9%

(1) Total Western Canada excludes Manitoba
(2) Source – PSAC

United States Drilling Fluids Distribution Division

The Company's USA drilling fluids distribution division generated revenues of $8,565,823 for the three months ended December 31, 2016 compared to $8,995,967 in 2015, representing a 5% decrease. In the USA, the average number of active rigs running during Q4 2016 was 586, as compared to 755 rigs running in Q4 2015, a decrease of 22% quarter over quarter. The 5% decrease in Q4 2016 USA drilling fluids distribution sales was due to less drilling activity and a corresponding decrease in demand for drilling fluid products quarter over quarter.

Bri-Chem's USA drilling fluids distribution division revenue in 2016 decreased 46% compared to the prior year. The decline in revenue is primarily driven by a reduction in drilling activity as the average number of active rigs running in 2016 was 560 compared to 1022 in 2015, a decrease of 45.2%. The drop in drilling and well completions across the USA negatively impacted revenue in all product lines and geographical areas. The Company remains optimistic that the USA market will provide new opportunities as we have maintained the most comprehensive product distribution coverage throughout the major resource plays



Fluids Blending and Packaging Division

Canadian Fluids Blending and Packaging Division

For the fourth quarter of 2016, sales were $3,434,795 compared to $4,119,208 in 2015 representing a 17% decrease quarter over quarter. This decrease is related to weaker levels of blending of production chemicals as there is a lag from drilling activity level increases to production activity increases. The bulk packaging of commodity chemicals noticed improvements as many customers had minimal inventories during the downturn and therefore purchased products as activity increased.

For the year ended 2016, sales decreased 27% as compared to 2015. This decrease is due to considerable decline in drilling activity in 2016 caused by significant decrease in crude oil and natural gas prices. These decreases negatively affected the demand on blending and packaging products and service offerings across Western Canada.

United States Fluids Blending and Packaging Division

For the three months ended December 31, 2016 sales were $545,263 compared to $1,518,688 for the same comparable period in 2015 representing a 64% decrease quarter over quarter. The Company has implemented management and employee restructuring measures to secure stronger business relationships moving forward into fiscal 2017. In addition, weather conditions during the quarter, together with lower rig activity in California, also had an impact on Q4 2016 sales.

For the year ended December 31, 2016 sales declined 35% as compared to 2015. This decrease during the year is due to the significant drop in drilling and well abandonment activity in the California region as a result of the prolonged industry downturn experienced in 2016.

Gross margin

The discussion in this section is qualified in its entirety by the "Cautionary Statement Regarding Forward-Looking Information" section presented at the beginning of the MD&A.

	For the three months ended December 31						For the year ended December 31					
	2016		2015		Change		2016		2015		Change	
In $'000s	$	% (1)	$	% (1)	$	%	$	% (1)	$	% (1)	$	%
Distribution - Canada	**1,363**	**14.3%**	(1,429)	(21%)	2,792	195%	**2,542**	**11.4%**	233	0.8%	2,309	991%
Distribution - USA	**1,631**	**19.0%**	1,386	15.4%	245	18%	**4,093**	**16.6%**	7,225	15.7%	(3,132)	(43%)
Total distribution	**2,994**	**16.5%**	(43)	(0.3%)	3,037	7063%	**6,635**	**14.1%**	7,458	9.9%	(823)	(11%)
Blending - Canada (1)	**838**	**24.4%**	919	22.3%	(81)	(9%)	**2,826**	**25.3%**	3,418	22.3%	(592)	(17%)
Blending - USA	**110**	**20.1%**	688	45.3%	(578)	(84%)	**1,555**	**40.2%**	2,605	44.1%	(1,050)	(40%)
Total Blending	**948**	**23.8%**	1,607	28.5%	(659)	(41%)	**4,381**	**29.2%**	6,023	28.4%	(1,642)	(27%)
Total	$ 3,942	17.8%	$1,564	7.3%	$ 2,378	152%	$11,016	17.7%	13,481	13.9%	(2,465)	-18%

(1) As a percentage of divisional revenues

Adjusted Gross margins

In $'000s	For the three months ended December 31 2016	2015	For the year ended December 31 2016	2015
Gross Margin ($)	**3,942**	1,564	**11,016**	13,481
As percentage of sales	**17.8%**	7.3%	**17.7%**	13.9%
Addback: Losses from sale related to inventory reduction program (1)	**-**	2,519	**314**	3,646
Adjusted Gross Margin ($) (2)	**3,942**	4,083	**11,330**	17,127
Sales	**22,098**	21,508	**62,091**	96,822
Less: Sales associated with inventory reduction program due to economic downturn	**-**	993	**1,856**	12,747
Adjusted sales	**22,098**	20,515	**60,235**	84,075
Adjusted gross margin as percentage of adjusted sales	**17.8%**	**19.9%**	**18.8%**	**20.4%**

(1) Losses are due to the sale of large quantities of inventory as part of the Company's inventory reduction program. These one-time sales are due to the significant decline in industry activity and our ongoing program "Right-Size" operations.
(2) Adjusted gross margins reflect the gross margin under IFRS excluding one-time losses from sales under unfavourable terms due to restructuring of the Company's operations caused by the downturn (See page 33 for further explanation of this non-IFRS measure).

The drilling fluids distribution division margins increased 10.5% and 3.8% respectively for the three and twelve months ended December 31, 2016 compared to the same periods in 2015. The increase is mainly due to the write down of inventory experienced in 2015 as a result of the declining drilling activity levels in Q4 2015. Adjusted gross margins for the year ended December 31, 2016 were 18.8% compared to 20.4% for 2015. Significant adjustments included the add-back of inventory sold at or below cost in 2015 due to the concentrated effort by the Company to rapidly reduce inventory levels to match industry activity levels. Margins on fluid sales vary based on product mix and drilling formations.

Canadian fluid distribution margins averaged 14.3% for the fourth quarter ended December 31, 2016 compared to a negative margin for the same period in 2015, which included an inventory write-down. Adjusted gross margins, excluding the effect of one-time sale transactions below costs, disposals and obsolete provisions, were 14.3% for the fourth quarter of 2016 compared to adjusted gross margins of 12.5% for the same comparable period. Gross margins for the 2016 were 11.4% compared to 0.8% for 2015. During 2015, the division sold certain products at below costs as part of its inventory reduction program. In addition, the division took a provision for obsolete inventory in the amount of $2,023,313 in the fourth quarter of 2015. Selling prices started to stabilize in late 2016 which resulted in higher gross margins year over year. Adjusted gross margins, adjusting for one-time sale transactions below cost and the obsolete provisions for the year ended December 31, 2016 were 12.7% compared to 10.4% for 2015.

The USA fluids distribution margins were 19.0% for the three months ended December 31, 2016; an increase of 2.4% compared to the same period in 2015. With an increase in USA rig count and stability of pricing to customers, the division started to recover in Q4 2016 from the prolonged margin compressions experienced during the first half of 2016 due to the rapid decline in drilling activity. In 2015, as part of the Company's inventory reduction program, the division moved inventory from less active warehouses to regions where activity levels were stronger. Transportation costs to move product also compressed margins during the quarter. Adjusted gross margins, excluding the effect of one-time sale transactions below cost, disposal and obsolete provisions, were 16.7% for the fourth quarter of 2016 compared to adjusted gross margins of 20.1% for the same comparable period. Gross margins for the year ended December 31, 2016 were 16.6% an increase of 0.9% over fiscal 2015 gross margins of 15.7%. As described above, the division incurred additional transportation costs to move product to more active warehouses in 2015 along with pricing pressures from customers due to weaker drilling activity, pushed gross margins down during 2015. The division had one-time sales of invert and barite along with an impairment charge of inventory recorded in 2015. Adjusted gross margins, for the year ended December 31, 2016 were 16.7% compared to 19.2% for 2015, adjusting for one-time sale transactions below cost and obsolete provisions.

Canadian fluids blending and packaging division margins were 24.4% for the three months ended December 31, 2016, compared to 22.3% for the comparable prior year period. This increase in gross margin was attributable to less selling price reductions as the market has started to experience stabilized pricing. Gross margins for fiscal 2016 were 25.3% compared to 22.3% for the same comparable period of 2015. Margins increased for the year as the division was able to maintain strong selling prices through 2016 as customers had reduced inventories from 2015 and required blended and packaged product rather than utilizing excess inventories in 2015. The United States blending and packaging division generated gross margins of 20.2% for the Q4 2016 which represents a decrease of 6.8%. The decrease of the gross margin in Q4 2016 relates to the decrease of sales of high margin product during the fourth quarter of 2016. Gross margins for the year ended December 31, 2016 were 40.2% compared to 44.1% for the same comparable period in 2015. The decrease was primarily the result of the decrease in margins in the fourth quarter of 2016.

Gross margins – outlook

For fiscal 2017, we are anticipating gross margins on fluid sales to somewhat stabilize as market industry benchmarks and recent activity levels signal improved industry stability for the medium to long-term. We have sufficient levels of inventory throughout North America to meet the demands of our customers. In addition, we are not anticipating any further inventory reductions which resulted in margin compression in the past as we transported inventories from less active warehouses to more robust areas in an effort to reduce inventories. As such, those additional transportation costs and less selling pricing pressures from customers will cause margins to improve in Canada and USA over the medium term. We still remain cautious, however, that the volatility in commodity prices in the future could have an adverse effect on margins. We are unable to predict the value of the Canadian dollar in relation to foreign currencies in the future; therefore, we are uncertain as to the potential impact on the Company's gross margin in relation to foreign purchases of product.

Operating Expenses

Salaries and employee benefits

In $'000s	For the three months ended December 31 2016 $	2015 $	Change $	%	For the year ended December 31 2016 $	2015 $	Change $	%
Salaries and benefits	**1,747**	1,681	66	4%	**7,250**	8,746	(1,496)	(17%)
% of sales	**8.2%**	5.4%			**7.5%**	6.2%		

Salaries and benefits have increased slightly by $66,556 for the fourth quarter of 2016 compared to the prior period of 2015. Salaries and benefits, as a percentage of sales, for twelve months ended December 31, 2016 was 7.5%, compared to 6.2% for the same comparable period 2015. The increase in salaries and benefits for the quarter was a result of salary adjustments made for certain employees who took additional salary rollbacks in 2015, and were adjusted in the fourth quarter of 2016 to reflect the rollbacks implemented in 2015. In addition, sales commissions increased due to higher sales levels in fluids distribution division in Canada. The Company experienced a 17% decrease in salaries and benefits year over year. The decrease in salaries and wages was a result of the Company's "Right-Size" plans that continued into 2016 due to continued soft drilling activity levels. In addition, share-based payments decreased by $51,902 and $316,180 for the three and twelve months ended December 31, 2016.

The Company employed 74 (29 Canada and 45 USA) employees at December 31, 2016 compared to 75 (30 Canada and 45 USA) at December 31, 2015. With the decline in oil prices and industry activity, Bri-Chem commenced right sizing its operations in the first quarter of 2015 and laid off approximately 45% of its staff, rolled back wages 5% to 10% and suspended various nonessential employee benefits. Management is constantly re-evaluating the infrastructure of the Company and may continue to adjust employee levels given the level of drilling fluid demand in the industry.

Selling, general and administration

In $'000s	For the three months ended December 31 2016 $	2015 $	Change $	%	For the year ended December 31 2016 $	2015 $	Change $	%
Selling	**80**	57	23	40%	**369**	626	(257)	(41%)
Professional and consulting	**96**	189	(93)	(49%)	**457**	612	(155)	(25%)
General and administrative	**311**	563	(252)	(45%)	**1,424**	1,735	(311)	(18%)
Rent, utilities, and occupancy costs	**734**	587	147	25%	**2,653**	2,742	(89)	(3%)
	1,221	1,396	(175)	(13%)	**4,903**	5,715	(812)	(14%)
Foreign exchange (gain)/loss	**(365)**	3,740	(4,105)	(110%)	**(212)**	975	(1,187)	(122%)
Total	**856**	**5,136**	**(4,280)**	**-83%**	**4,691**	**6,690**	**(1,999)**	**-30%**

Selling expenses increased by $22,986 in Q4 2016 compared to Q4 2015. The increase was due to higher travel and accommodation expenses due to stronger activity levels quarter over quarter. The Company did also experience an increase in advertising and promotional expenses as sales personnel increased spending marginally as a result of increased drilling activity. In Q4 2015, the Company reclassified $56,700 of travel expenses to restructuring costs as the Company incurred additional expenses related to the Right-Sizing initiatives undertaken by the Company during 2015. For year ended December 31, 2016 the Company experienced a decrease of $256,801 in selling expenses compared to 2015. The decrease was the result in further discretionary spending cuts that occurred in 2016 as a result of weak drilling activity levels. The year over year decrease included a decline of $107,036 in advertising, promotion and meals and entertainment, along with a decrease of $155,411 in travel costs year over year. Public company costs related to investor relation activities decreased by $6,174 year over year. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses decreased by $93,107 and $155, 215 for the three and twelve months ended December 31, 2016 compared to the same periods in 2015. The decrease in professional and consulting expenses relates to a decrease in legal and accounting fee accruals. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses for the three and twelve months ended December 31, 2016 decreased by $252,030 and $308,086 respectively compared to the same periods of 2015. The decreases quarter over quarter and year over year were due to significant discretionary spending cuts as part of management's continued effort to control costs during the soft drilling market. Most notably, waste disposal expense was down $15,598 and $84,387 respectively quarter over quarter and year over year. The most significant decreases was a decline in insurance of $55,741 for the fourth quarter of 2016 compared to Q4 2015, while insurance costs were reduced by $101,379 for fiscal 2016 compared to fiscal 2015. All other office costs were reduced year over year as the Company was cautious about expenditures given the environment in 2016. General and administration expenses include bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy costs increased by $145,263 for the fourth quarter ended December 31, 2016 compared to the same prior year quarter. The increase was due to increase in utility costs of approximately $10,000 along with increases in repairs and maintenance to warehouses of approximately $17,000. A portion of the Company's sublease of certain properties expired in late 2016, which was offset against rent expense in prior periods. Costs were consistent year over year as the Company reduced costs where they could in 2015, and maintained infrastructure in 2016 in an effort not to impact supply of products to customers. The costs in this category are comprised mainly of rent, utilities, and warehouse expenses for the Edmonton, Leduc, Camrose, Acheson and USA locations as well as liquid storage tank rentals.

During 2016, the Canadian dollar decreased its value in relation to the US dollar. This decrease in the Canadian dollar exchange rate caused the Company to have an unfavorable position on certain net advances denominated in USD, which resulted in having a foreign exchange gain of $365,216 for the year ended December 31, 2016.

Right-Size Cost Savings and Restructuring Costs

During the three and twelve months ended December 31, 2016, the Company recognized $270,820 of restructuring costs compared to $1,323,009 of restructuring costs for 2015. The restructuring costs are comprised of severance costs of $20,820 due to personnel termination, provision of $250,000 for lease cancelations. In addition, the Company also took an impairment on certain trucking assets of $116,871 and bad debts on accounts of $205,323 during the fourth quarter of 2016.

Depreciation and amortization

In $'000s	For the three months ended December 31				For the year ended December 31			
	2016	2015	Change		2016	2015	Change	
	$	$	$	%	$	$	$	%
Amortization on intangible assets	**-**	67	(67)	(100%)	**-**	367	(367)	(100%)
Depreciation on property and equipment	**253**	318	(65)	(20%)	**1,064**	1,244	(180)	(14%)
Total amortization and depreciation	**253**	385	(132)	(34%)	**1,064**	1,611	(547)	(34%)
Impairment of property and equipment	**117**	1,629	(1,512)	(93%)	**117**	1,629	(1,512)	(93%)
Impairment of goodwill and intangible assets	**-**	3,534	(3,534)	(100%)	**-**	3,534	(3,534)	(100%)
Total	**370**	**5,548**	**(5,178)**	**-93%**	**1,181**	**6,774**	**(5,593)**	**-83%**

The depreciation of property and equipment decreased during the three and twelve months ended December 31, 2016 with book values reduced due to normal amortization that occurred during the year. During 2016, the Company had no amortization of intangible assets as the intangible assets were written off as an impairment in late 2015.

As a result of the continued decline in commodity prices and reduced capital budgets set by oil and gas producers, the Company recognized a goodwill impairment expense of $1,910,108 in 2015 using the "value in use" approach with various assumptions. This goodwill impairment charge arose in the Canadian Fluids Blending and Packaging division ("CGU"). Based on management's estimates it was determined that the carrying values of the CGU exceeded their fair values, and the negative difference between the estimated recoverable amounts of the CGU and their carrying values were greater than the goodwill values as of the test date. As a result, in addition to goodwill impairment loss, the Company recorded a $1,624,198 impairment related to customer relationships, and non-compete agreements and an impairment on certain plant and equipment assets in the amount of $116,871 in 2016 ($1,629,297 in 2015).

Interest

In $'000s	For the three months ended December 31				For the year ended December 31			
	2016	2015	Change		2016	2015	Change	
	$	$	$	%	$	$	$	%
Interest on short-term operating debt	**268**	416	(148)	(36%)	**1,084**	1,700	(616)	(36%)
Interest on long-term debt	**490**	662	(172)	(26%)	**1,860**	1,592	268	17%
Interest on obligiatons under finance lease	**3**	5	(2)	(40%)	**17**	16	1	6%
Total	**761**	**1,083**	**(322)**	**-30%**	**2,961**	**3,308**	**(347)**	**-10%**
Deduct non-cash interest expense:								
Amortization of deferred financing costs	**68**	314	(246)	(78%)	**267**	520	(253)	(49%)
Cash interest expense(1)	**693**	**769**	**(76)**	**-10%**	**2,694**	**2,788**	**(94)**	**-3%**

(1) See page 33 for further explanation of this non-IFRS measure.

Interest on short-term operating debt decreased by $147,535 for the three months ended December 31, 2016. The short term interest expense for Q4 2016 was lower than in the comparable Q4 2015 as the Company maintained a lower credit facility balance on a quarter over quarter basis. Interest on short-term operating debt for the twelve months ended December 31, 2016 decreased 36% compared to 2015, as the Company maintained a lower credit facility balance throughout 2016, resulting in less interest expense.

Interest on long-term debt for the three months ended December 31, 2016 decreased compared to Q4 2015, as the Company expensed the remainder of its transaction costs in Q4 2015. For fiscal 2016, interest on long-term debt increased as the company occurs a compounded deferral fee on the unpaid balance of the long-term debt.

Income (recovery)/tax expense

	For the three months ended December 31				For the year ended December 31			
	2016	2015	Change		2016	2015	Change	
In $'000s	$	$	$	%	$	$	$	%
Current	**(339)**	(2,751)	2,412	(88%)	**(2,081)**	(2,728)	647	(24%)
Deferred	**2,796**	2,762	34	1%	**3,332**	2,762	570	21%
Total	**2,457**	**11**	**2,446**	**22236%**	**1,251**	**34**	**1,217**	**3579%**

The provision for income taxes for the year ended December 31, 2016 is a net current tax expense of $1,250,986 compared to an expense of $34,036 in the prior year. The significant change in current tax expense during the year is a result of the Company being in a net loss position and is able to carry-back tax losses to prior periods and cover tax paid from prior years. The Company had a deferred tax expense of $3,331,688 for the year ended December 31, 2016 compared to an expense of $2,761,926 in 2015, which included a $2,500,000 write-off of deferred tax assets relating to the Canadian divisions. The deferred tax expense is due to the utilization of deferred tax assets that were utilized this year as a result of tax planning initiatives. The Company's effective income tax rate is 25% for the twelve months ended December 31, 2016 (2015 – 26%).

Net loss and EBITDA

	For the three months ended December 31				For the year ended December 31			
	2016	2015	Change		2016	2015	Change	
In $'000s	$	$	$	%	$	$	$	%
Net Loss	**(2,570)**	(13,373)	10,803	81%	**(6,793)**	(14,357)	7,564	53%
% of sales	**(11%)**	(62%)			**(11%)**	(15%)		
Adjusted net loss [1]	**(2,125)**	(6,733)	4,608	68%	**(6,348)**	(6,908)	560	8%
% of sales	**(10%)**	(31%)			**(10%)**	(7%)		
EBITDA [2]	**1,244**	(5,696)	6,940	122%	**(995)**	(2,761)	1,766	64%
% of sales	**6%**	(26%)			**(2%)**	(3%)		
Adjusted EBITDA [3]	**1,515**	(5,182)	6,697	129%	**(724)**	(1,435)	711	50%
% of sales	**7%**	(24%)			**(1%)**	(1%)		

(1) Adjusted net earnings excludes the after tax effect of restructuring costs (see page 33 for a further explanation of this non-IFRS measure).
(2) Represents earnings before interest, taxes, depreciation, amortization, share-based payments and impairment charges (see page 33 for a further explanation of this non-IFRS measure).
(3) Represents earnings before interest, taxes, depreciation, amortization, share-based payments and impairment charges adjusted for restructuring costs (see page 33 for a further explanation of this non-IFRS measure).

The Company had a net loss, for the three months ended December 31, 2016, of $2,570,028 compared to net loss of $13,373,037 in the same period in 2015. The net losses as a percentage of revenues for the Q4 2016 was 11% compared to net loss as a percentage of revenue of 62% from Q4 2015. The net loss for the three months ended December 31, 2016 was significantly less than the prior year quarter as the Company had taken significant impairment changes in Q4 2015. In addition, drilling activities started to recover in Q4 2016 from their lows over the past two years, which resulted in improved profitability quarter over quarter. The adjusted net loss, net of the after tax impairment charge of plant and equipment, goodwill and other intangible assets, for the three months ended December 31, 2016, was $2,125,211 or 10% as a percentage of revenues, which represents an increase of $4,607,492 compared to the same period in 2015. This increase is due to improved drilling rig activity quarter over quarter. For the year ended December 31, 2016 the Company had a net loss of $6,793,064 compared to net loss of $14,357,367 for 2015. Adjusted Net loss was $6,348,303 for fiscal 2016 compared to a net loss of $6,908,111. The improvement experienced in Q4 2016, provided improved profitability year over year.

EBITDA was $1,244,236 for the three months ended December 31, 2016 compared to ($5,695,852) in the same comparable prior year period; an increase of $6,940,080 quarter over quarter. EBITDA, excluding the foreign exchange gain, was $879,020 for the quarter ended December 31, 2016.

Basic and diluted losses per share for the three months ended December 31, 2016 were $0.00. Adjusted basic and diluted adjusted earnings per share for the three months ended December 31, 2016 was $0.02. Both the losses per share and adjusted earnings per share were based on the weighted average number of shares outstanding during the quarter ended December 31, 2016. The basic and diluted weighted average numbers of shares outstanding for the quarter ended December 31, 2016 were 23,623,981 and 23,623,981(December 31, 2015 – 23,623,981 and 24,623,981) respectively.

SUMMARY OF QUARTERLY DATA

In $'000s	2016 Q4	2016 Q3	2016 Q2	2016 Q1	Total TTM
Sales	$ 22,098	$ 16,999	$ 8,173	$ 14,821	$ 62,091
Gross margin ($)	3,942	2,735	1,902	2,438	11,017
Gross margin (%)	17.8%	16.1%	23.3%	16.4%	17.7%
EBITDA (1)	1,244	99	(944)	(1,394)	(995)
Net loss (2)	$ (2,570)	$ (688)	$ (1,437)	$ (2,098)	(6,793)
Basic loss per share	$ (0.11)	$ (0.03)	$ (0.06)	$ (0.09)	$ (0.29)
Diluted loss per share	$ (0.11)	$ (0.03)	$ (0.06)	$ (0.09)	$ (0.29)

In $'000s	2015 Q4	2015 Q3	2015 Q2	2015 Q1	Total TTM
Sales	$ 21,507	$ 27,495	$ 21,610	$ 26,210	$ 96,822
Gross margin ($)	1,564	4,833	3,201	3,883	13,481
Gross margin (%)	7.3%	17.6%	14.8%	14.8%	13.9%
EBITDA (1)	(5,696)	2,339	(1,125)	1,721	(2,761)
Net earnings/(loss) from continuing operations (2)	$ (13,373)	$ 351	$ (1,709)	$ 373	(14,358)
Basic earnings/ (loss) per share from continuing operations	$ (0.57)	$ 0.01	$ (0.07)	$ 0.02	$ (0.61)
Diluted earnings/ (loss) per share from continuing operations	$ (0.57)	$ 0.01	$ (0.07)	$ 0.02	$ (0.61)

(1) EBITDA is non-IFRS measures which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. (See page 33 for a further explanation of these non-IFRS measures).

(2) In Q4 2016, the Company recognized impairment charges on plant and equipment, goodwill and other intangible assets in the amount of $593,014 (2015 -6,126,247).

FINANCIAL CONDITION & LIQUIDITY

The discussion in this section is qualified in its entirety by the "Cautionary Statement Regarding Forward-Looking Information" section presented at the beginning of the MD&A.

The Company's primary liquidity and capital resource needs are to fund ongoing operations, capital expenditures, growth opportunities and potential future acquisitions. In addition, the Company must service its debt, including interest payments and finance working capital needs. The Company relies on its cash flow from operations, debt and equity financings and borrowings under the Company's ABL Facility for liquidity.

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 costs. The Company's cash flow from operations has historically been sufficient to meet the Company's working capital, capital expenditure and debt servicing requirements.

As at December 31, 2016, the Company had positive working capital of $12.7 million compared to $24.5 million at December 31, 2015. The Company's current ratio (defined as current assets divided by current liabilities) was 1.33 to 1 compared to 1.81 to 1 as at December 31, 2015.

The following table summarizes the Company's sources and uses of funds for the year ended December 31, 2016 and 2015:

Summary of Consolidated Statements of Cash Flows Year ended (In 000's)		December 31 2016		December 31 2015
Continued operations				
Cash provided by operating activities	**$**	**10,037**	$	39,491
Cash used in financing activities		**(9,725)**		(38,641)
Cash used in investing activities		**(312)**		(850)
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of the year		**-**		-
Cash and cash equivalents, end of the year	**$**	**-**	$	-

Operating activities

Cash provided by operating activities for the year ended December 31, 2016 was $10,037,170 compared to cash provided of $39,490,666 for the prior year. The decrease in the Company's cash flow provided by operating activities mainly relates to the overall decrease in oil and gas activity throughout North America over the past couple of years. With less sales during 2016, the Company collected less from customers. In late 2016, activity levels started to increase which resulted in the Company increasing its purchases of inventory to keep up to new demand for drilling fluid products. Inventories reduced by $4.9 million while accounts payable increased by $7.7 million.

Financing activities

Cash used in financing activities was $9,725,195 for the year ended December 31, 2016, compared to cash used of $38,640,570 in the comparable 2015 year. The cash used in financing activities in 2016 and 2015 relates to repayments of the ABL Facility. The net repayment of the operating line is a combination of collection of accounts receivable, net reduction of inventory and payments out to vendors. The Company did manage to repay an additional $8 million on its operating facility in fiscal 2016. With a right sized inventory, the Company focused on maintaining a positive working capital positon throughout 2016. The Company also paid $1.8 million in interest on borrowing during 2016 along with making a payment on its promissory note payable from the acquisition of Solution Blend Service in 2014.

Investing activities

Cash used in investing activities amounted to $311,975 for the year ended December 31, 2016 compared to $850,096 in 2015. The decrease was a result of less cash used for capital assets during 2016. Since the decline in drilling activity, the Company cut back its capital expenditure program in 2016 and is expected to spend approximately $350,000 on capital expenditures in 2017, mainly in the USA.

Credit Facilities

Effective August 12, 2011, the Company entered into a secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. and HSBC Bank Canada. The ABL Facility is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable. On November 14, 2013 the Company amended the terms of the ABL Facility to increase the borrowing base up to a maximum of $90,000,000, reducing interest rates and extending the maturity of the facility to August 12, 2016. At December 31, 2014 the ABL Facility bears interest either at prime rate (2013 -prime rate) or bankers' acceptance rate plus 1.50% (2013 -bankers' acceptance rate plus 1.50%) or LIBOR plus 1.50% (2013 -LIBOR plus 1.50%), a collateral management fee of $1,500 per month (2013 -$1,500 per month) and a standby fee of 0.25% (2013 -0.25%) on unused amounts of the ABL Facility.

On November 30, 2015, the Company amended the terms of the ABL Facility to decrease the maximum borrowing base down to $40,000,000. Other amendments include an increase in interest rates, a change in the financial covenants with no change to the maturity date of the facility. The ABL Facility bears interest either at the Canadian prime rate plus 1.5% (2014 – Canadian prime rate) or bankers' acceptance rate plus 3.00% (2014 - bankers' acceptance rate plus 1.50%) or LIBOR plus 3.00% (2014 - LIBOR plus 1.50%), a collateral management fee of $1,500 per month (2014 - $1,500 per month) and a standby fee of 0.25% (2014 - 0.25%) on unused amounts of the ABL Facility. The ABL Facility is secured by a general security agreement covering all present and acquired property and postponements of claims from related parties.

On August 11, 2016, the Company renewed and amended the terms of the ABL Facility to decrease the maximum borrowing base down to $20,000,000. Other amendments included an increase in interest rates, adjustment to the financial covenants and an extension of the maturity date to August 12, 2017. The ABL Facility bears interest either at the Canadian prime rate plus 3.0% (2015 – Canadian prime rate plus 1.5%) or bankers' acceptance rate plus 4.50% (2015 - bankers' acceptance rate plus 3.00%) or LIBOR plus 4.50% (2015 - LIBOR plus 1.50%). All other terms of the ABL Facility remain unchanged. Subsequent to year end, the Company obtained an increase of $5,000,000 in credit available under the ABL facility. There were no changes to interest rates or covenant requirements as a result of this increase.

As at December 31, 2016, the Company had drawn $14,533,938, net of unamortized transaction costs of $94,749, on its available credit facilities of $20,000,000, as compared to $23,055,007 at December 31, 2015. The Company is required to comply with two financial covenants under its ABL Facility being a minimum adjusted tangible net worth ratio and maximum annual eligible capital expenditures. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness.

The minimum adjusted tangible net worth covenant requires the Company to ensure adjusted tangible net worth is greater than $24,484,000 as at December 31, 2016. This is defined, on a consolidated basis, as total assets, less intangibles and goodwill less total liabilities. The capital expenditures limit is set at a maximum of

120% of consolidated budgeted yearly capital expenditures, but does not include capital additions by way of finance lease.

Effective November 30, 2012, the Company secured a subordinated debt facility with Fulcrum. The initial term of the sub debt facility is for five years and is secured by a second charge general security agreement coving all present and after acquired property and postponement of claim from related parties. The sub debt facility bears interest at 11.50%, with repayments of interest only for the first fifteen months of the agreement, then quarterly principal repayments of $300,000 plus interest. Total transaction costs relating to the subordinate debt facility amounted to $312,786.

On August 11, 2016, the Company amended certain terms of its subordinated debenture agreement, in conjunction with the amendment to the ABL Facility. In accordance with this amendment, the Company has deferred quarterly principal payments due on September 30, 2016, December 31, 2016, March 31, 2017 and September 30, 2017. The amendment also modifies certain financial covenants and registers a first charge on specific assets. The entire debenture is due November 30, 2017.

The subordinated debt facility contains financial covenants that are consistent with the ABL Facility. In addition, the Company is required to maintain a twelve month rolling actual adjusted EBITDA in excess of 70% of projected adjusted EBITDA. Adjusted EBITDA is defined as net income before interest on debt, taxes on net income, depreciation and amortization, and non-recurring charges (including one-time transaction, acquisition and restructuring expenses, share based payments, and foreign exchange gains or losses), and after unfunded capital expenditures.

The Company's ability to continue as a going concern is dependent on the Company's ability to generate future profitable operations, realize forecasted revenues, control operational expenditures and secure future financing when required. Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Revenues are projected based on demand for drilling fluid products, which is driven by forecasted commodity prices and drilling activity levels. The timing and extent of operating and general administrative expenditures are projected based on the estimated revenue levels. The actual commodity prices may differ significantly from the forecasted commodity prices used by management.

	December 31, 2016		December 31, 2015	
	As calculated	**Minimum required**	As calculated	Minimum required
Minimum adjusted tangible net worth	**$ 29,827,222**	**$ 24,484,000**	$ 34,292,132	$ 31,864,000
Eligible capital expenditures	**$ 364,187**	**$ 723,480**	N/A	N/A
Actual adjusted EBITDA greater than 70% of projected adjusted EBITDA	**$ (1,316,611)**	**$ (4,681,987)**	$ 2,251,957	$1,016,889

The minimum covenants are noted in the above table. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a monthly basis. As at December 31, 2016, the Company was in compliance with all financial covenants.

Cash Requirements for Capital Expenditures

Historically, the Company has financed its capital expenditures and acquisitions through its ABL Facility, subordinated debt and equity. The budgeted future capital expenditures for 2017 are approximately $350,000 (2015 - $250,000) which may include future equipment upgrades to blending and packaging equipment for the Canadian blending and packaging division as well as laboratory equipment for the USA blending division. The

Company also plans to purchase storage tanks for its liquid mud blending facility in Texas. Capital expenditures typically are comprised of betterments and upgrades to existing assets, and additions incurred during the period. The Company ensures equipment is efficient and profitable or the equipment is replaced when the cost of maintenance and operating the equipment is not feasible. However, if a sustained period of market and commodity price uncertainty and financial market volatility persists in 2017, the Company's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Commitments under operating lease and liquidity analysis

The Company has committed to numerous operating lease arrangements for property and equipment.

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
December 31, 2016	$ 1,282,274	$ 2,529,476	$ 818,869	$ 4,630,619
December 31, 2015	$ 2,352,953	$ 5,335,786	$ 1,058,538	$ 8,747,277

The table below analyzes the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

Contractual obligations related to financial liabilities at December 31, 2016 are as follows:

	Bank credit facility	Accounts payable	Long-term debt	Promissory note payable	Finance leases	Total
2017	$ 14,533,936	$ 13,215,951	$ 11,013,599	$ 272,077	$ 48,175	$ 39,083,738
2018	—	—	—	—	17,059	17,059
Total	$ 14,533,936	$ 13,215,951	$ 11,013,599	$ 272,077	$ 65,234	$ 39,100,797

Off-balance sheet arrangements

The Company did not enter into any off-balance sheet arrangements during the current or comparable reporting period.

Transactions with related parties

During the year ended December 31, 2016, the Company incurred office sharing costs of $60,000 (December 31, 2016 – $60,000) that were paid to a company over which a director has control.

OUTLOOK

The discussion in this section is qualified in its entirety by the "Cautionary Statement Regarding Forward-Looking Information" section presented at the beginning of the MD&A. This Outlook section is provided for information purposes only and readers are cautioned the information contained herein may not be appropriate for other purposes.

Bri-Chem is more optimistic than a year ago as various industry benchmarks and recent activity levels signal improved industry stability for the medium to long-term. North American oil and gas drilling activity levels, throughout 2016, continued to decline year over year, however, the industry did experience a healthy increase in activity levels in Q4 2016, compared to Q3 2016, as commodity prices have rebounded from their 2016 lows and oil and gas companies have cautiously increased drilling activity as a result. We expect a continued modest increase in North American activity levels into Q1 2017 with PSAC forecasting the number of wells to be drilled in Western Canada to increase by 25.6% in 2017.

It is the Company's view that further development of increased crude oil transportation capacity, through proposed pipeline expansion to tidewater, is required in order for Canada to have any profound increase to its future oilfield activity levels. The oilfield activity levels in the USA has seen a recent rebound from their historic lows and we expect this trend to continue so long as commodity prices remain at or near current levels. Bri-Chem has been proactive in response to the recent increase in North American business activity and has successfully managed to supply and service its customers during this recent surge in demand for oilfield chemicals.

As activity levels continue to improve over the short to medium term, we remain committed to providing superior customer service, having sufficient inventory levels to meet demand of our customers while maintaining our North American exceptional industry infrastructure located throughout Canada and the U.S. We will serve to be a valuable contributor to many of our customers throughout North America and will benefit appreciably when the market returns to more reasonable and stable levels as observed in Q4 2016.

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, 2016. 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.

Risk Relating to Bri-Chem and its Business

Industry Conditions

There is a strong correlation between oil and gas drilling activity and demand for the Company's products. The capital expenditure programs of oil and gas companies largely affect the products provided by the Company. The magnitude of capital expenditures determines the demand for the Company's drilling fluids to the oil and gas industry. The primary catalysts to high expenditures and activity levels in the energy industry are oil and gas prices which, in turn, are influenced strongly by supply and demand expectations. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company.

Prolonged low oil and natural gas prices, like the prices which have existed since late 2014, generally depress the level of exploration and production activity by E&P companies which causes a corresponding decline in the demand for drilling fluid products and services and, as a result, has an adverse effect on the Company's business and financial results. The level of activity in the Canadian and United States oil and gas exploration and production industry is volatile. There can be no assurance that the future level of demand for the Company's products or future conditions in the oil and natural gas and oilfield services industries will not decline.

Oil and Natural Gas Prices

The revenue, cash flow and earnings of the Company are substantially dependent upon and affected by the level of activity associated with oil and natural gas exploration. Both short-term and long-term trends in oil and natural gas prices affect the level of such activity. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for and the supply of oil and natural gas. Weather conditions, governmental regulation, levels of consumer demand, the availability of pipeline capacity and other factors beyond the Company's control may also affect the supply of and demand for oil and natural gas leading to future price volatility. The drilling industry is cyclical and the fluctuations in the level of oil and natural gas exploration and development activity have a direct impact on the Company's business. Any significant reduction in industry levels of drilling activity in the WCSB and the United States may severely reduce activity levels for the Company and its resulting revenue, cash flow and earnings.

Regulations Affecting the Oil and Natural Gas Industry

The operations of the Company and its customers are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate. As a result of changes in regulations and laws relating to the oil and natural gas industry, the Company's customers' operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with applicable regulations could cause customers to discontinue or limit their operations and may discourage companies from continuing activities. As a result, demand for the Company's products and services could be substantially affected by regulations and taxation adversely impacting the oil and natural gas industry.

Provincial Royalty Rate Changes

The provincial governments of Alberta, British Columbia, Manitoba, Quebec and Saskatchewan collect royalties on the production from Crown lands. These fiscal royalty regimes are reviewed and adjusted from time to time by the respective governments for appropriateness and competitiveness. These changes, as well as the potential for future changes in these and other jurisdictions, add uncertainty to the outlook of the oilfield services sector.

Seasonal Weather

In Canada, the level of activity in the oil and natural gas industry is influenced by seasonal weather patterns. Spring break-up during the second quarter of each year leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of energy services. In addition, many jurisdictions enforce road bans during such times that restrict the movement of heavy equipment. The timing and duration of spring break-up is dependent on weather patterns and the duration of this period will have an impact on the level of business of the Company. There is greater drilling activity and therefore a greater demand for the Company's products in the winter season when the ground is frozen allowing the movement and operation of heavy equipment. This peak season typically runs from November to early March. However, if unseasonably warm temperatures in the winter occur it may prevent sufficient freezing, and drilling activity may be adversely affected, impacting the Company's operations and financial condition.

Ability to Maintain Obligations Under Asset-Based Lending Facility and Other Debt

Bri-Chem has borrowed a considerable amount of cash under its ABL and subordinate debt facilities. Bri-Chem is required to satisfy certain financial covenants in order to maintain its good standing under the ABL and subordinate debt facilities. Bri-Chem may from time to time enter into other arrangements to borrow money in order to fund its operations and expansion plans, and such arrangements may include covenants that have similar obligations or that restrict its business in some way. Events may occur in the future, including events out of Bri-Chem's control that would cause Bri-Chem to fail to satisfy its obligations under the credit facilities or other debt instruments. In such circumstances, the amounts drawn under Bri-Chem's debt agreements may become due and payable before the agreed maturity date and Bri-Chem may not have the financial resources to repay such amounts when due. The credit facilities are secured by all of Bri-Chem's assets. If Bri-Chem were to default on its obligations under the credit facility or other secured debt instruments in the future, the lender(s) under such debt instruments could enforce their security and seize all or significant portions of Bri-Chem's assets.

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The changes in the global financial markets and weak economic conditions, can have a significant impact on the ability of the Company to obtain funding for future financial requirements.

Due to these factors, the Company cannot be certain that funding will be available when needed and to the extent required, on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

Market Price Volatility of Common Shares

The market price of the Company's common shares may be volatile. The volatility may affect the ability of shareholders to sell the common shares at an advantageous price. Market price fluctuations in the common shares may be due to the Company's operating results failing to meet the expectations of investors and stock market analysts in any quarter, downward revision in securities analysts' estimates, governmental regulatory actions, adverse change in market conditions or economic trends, acquisitions, business or asset dispositions and material announcements by the Company or its competitors, along with a variety of additional factors, including, but not limited to, those set forth in *"Cautionary Statement Regarding Forward-Looking Information"* herein. In addition, the stock markets, including TSX, may experience significant price and trading fluctuations. These fluctuations may result in volatility in the stock market prices that often has been unrelated or disproportionate to changes in operating performance. These market fluctuations may adversely affect the market prices of the Company's common shares.

Availability of Future Funding

The Company's business strategy is based in part upon the continued expansion of the Company's strategic network of warehouse facilities. In order to continue to implement its business strategy, the Company may be required to further finance these expenditures through ongoing cash flow from operations, borrowings under its credit facilities and by raising capital through the sale of additional debt or equity securities. The Company's ability to obtain financing or to access the capital markets for future offerings may be limited by the restrictive covenants in the Company's current and future debt agreements, by the Company's future financial condition, and by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties beyond the Company's control. In addition, capital markets can be volatile and continued industry volatility could limit the Company's ability to obtain new financing, The Company's inability to raise funding to support ongoing operations and to fund capital expenditures or acquisitions may limit Bri-Chem's growth or may have a material adverse effect upon the Company.

Credit Risk

The oilfield services sector is directly affected by the financial health of its customers, and as a result of low oil prices, cash flows have declined significantly, having a negative impact on capital spending programs. Further, the long duration of an industry downturn may result in many companies having over-leveraged balance sheets, bank covenant breaches and limited access to financial capital markets. The Company's revenues are predominantly generated from products sold to oil and gas fluid engineering companies which may result in significant exposure to one customer or on a combined basis to several individual customers.

The Company's management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. During times of weak economic conditions, the risk of payment delays and failure to pay increases due to a reduction in customer's cash flow. The Company generally grants unsecured credit to its customers; however, it evaluates all new customers and analyzes and reviews the financial health of its current customers on an ongoing basis. The Company also closely monitors the amount and age of balances outstanding and establishes a provision for bad debts based on specific customer's credit risk, historical trends and other economic information. Failure to collect accounts receivable from customers could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Concentration risk

The top 6 customers (2015: top 8) of the Company account for approximately 33% (2015: 44%) of revenue for the year ended December 31, 2016, of which no single customer accounting for more than approximately 10%. 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 customers, any significant decrease in sales to a customer, or prices paid or any other changes to the terms of service with customers, could have a material adverse effect on the financial results, cash flows, and the overall financial condition of the Company.

Supply Risk

The Company distributes drilling fluid products manufactured or supplied by a number of domestic and international suppliers. The Company does not have long-term contracts with any of its major suppliers. Although the Company believes that it has access to similar products from competing suppliers, any disruption in the Company's sources of supply, particularly of the most commonly sold items or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon the Company's results of operations and financial condition. Also, supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short-term material adverse effect on the Company's results of operations and financial condition.

Inventory Risk

The Company distributes to markets that are highly sensitive to price, quality of product and timeliness of the delivery and adequate supply levels. In addition, product sales are dependent on demand and demand fluctuates with the seasonality of the drilling industry in Western Canada. The Company purchases products to stock warehouses to sufficient levels to meet the demands of customers. Inventory levels are monitored in an attempt to achieve balance between maximum inventory turnover and optimal customer service. Since the Company maintains significant quantities of inventory, the value is subject to the risk of changing prices.

Transportation and Distribution Network Risk

The Company relies on a wide distribution network to manage its inventory flow between locations and 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. If they were to experience a breakdown in this network, it could have a potential material effect on sales, margins and profitability.

Insurance Risk

The Company maintains insurance coverage adequate to cover the risks associated with operations of the Company. Such insurance is subject to coverage limits and exclusions and may not cover the Company in all circumstances. There is no assurance that the Company's insurance coverage will be adequate to cover the Company's liabilities or will be generally available in the future. Future changes in insurance premiums could affect the Company's ability to purchase adequate insurance coverage and could impact the settlement of future claims. This could have a material adverse effect on the Company's ability to conduct normal business operations and on its financial conditions, results of operations and cashflow.

Competitive Conditions

The Company competes with a number of companies throughout North America. There can be no assurance that competitors will not substantially increase their resources devoted to the development of their business that compete with those of the Company, or that new or existing competitors will not enter the various markets in which the Company is active. In addition, reduced levels of activity in the oil and natural gas industry could intensify competition and the pressure on competitive pricing and may result in lower revenues or margins to the Company in all divisions. The Company's customers may elect not to purchase its products and services if they view the Company's financial viability as unacceptable, which would cause the Company to lose customers.

Asset Impairment

The Company is required to periodically review asset balances including goodwill and capital assets for impairment when certain factors indicate the need for analysis. In the case of goodwill, if any exists on the balance sheet, an impairment test must be completed at least annually. These calculations are based on management's estimates and assumptions at the time the analysis is made. Several factors are included in this analysis and may include changes in share price, cash flow and earnings estimates, changes in market conditions, and general local and global economic conditions. Any resulting future impairment write down to goodwill or capital assets could result in a non-cash charge against net earnings, and could be material in nature.

Regulatory Compliance Risk

The operations of the Company are subject to laws and regulations relating to workplace safety and work health related regulations, the conduct of operations, and the transportation, storage and disposal of fluid products.

The Company acts in the best interests to ensure it is compliant with such laws and regulations. As future laws and regulations change, this may give rise to additional expenditures or liabilities. Any change to laws or regulations could have an adverse effect on the operations of the Company and its financial condition, results of operations and cash flow.

Workplace Safety, Health and Wellness

The Company's employees may face workplace health and safety risks and hazards, which could potentially result in injury or lost time. The Company's Safety Program is in place to reduce risks to people, the environment and the Company's business, and is continually updated as new risks and hazards are identified. These risks and hazards could result in personal injury, loss of life, environmental damage, or other damage to the Company's property or the property of others. The Company cannot fully protect or insure against all these risks, and could become liable for damages arising from these events against which are not insured.

Product Liability Claims

Although Bri-Chem believes it offers superior products in the market place, the Company may, from time to time, have claims for damages resulting from misapplication of products or from product defects. The Company mitigates this risk by providing standard MSDS information for all fluids products sold. However, the defense of claims could prove costly, therefore increasing the Company's expenses. If a claim would be successful or partially successful, it could result in monetary liabilities and future scrutiny from customers on products sold.

Income Tax Expense

The Company collects, accrues, and pays significant amounts of income taxes and has significant deferred tax liabilities and tax expense. The amounts reported are based on management's best estimates using currently enacted tax rules and accounting principles related to income tax reporting at the time of preparation. Tax interpretations, regulations, and legislation that pertain to the Company's activities are subject to continual change. There is a risk that the actual tax owing may differ from this amount, which could affect the Company's reported net income after tax and earnings per share reported. Management engages a third party specialist to review the calculation of deferred income taxes to help mitigate the risks in this area.

Foreign Currency and Interest Rate Risk

The Company is exposed to foreign currency fluctuations in relation to its sales and purchases in US dollars. Any change in the value of the Canadian dollar relative to the US dollar during a given financial reporting period would result in a foreign currency gain or loss on the translation of our US dollar denominated debt and assets into Canadian dollars. Therefore the Company is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not hedge inventories purchased specifically from US markets, instead the Company relies on its inventory turnover.

The Company is exposed to interest rate risk on its ABL credit facilities. Floating-rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate should the Canadian prime rate and or the Bankers' Acceptance rate increase.

Integration of Acquisitions

The Company may experience difficulties in integrating an acquired business into the existing operations, including but not limited to integrating administrative functions, financial reporting, operational and information systems, improvements in operational effectiveness, standardization of controls, policies and procedures and recognizing the synergistic opportunities of the combined entity. The success of the integration also depends on the ability to retain key employees of the acquired company.

Potential Liabilities from Acquisitions

In pursuing acquisitions, the Company conducts due diligence procedures on the business being acquired. It seeks to understand and identify all liabilities and representations of the business being acquired. Despite such efforts, there can be no assurance that the Company may not become subject to undisclosed liabilities as a result of acquisitions. Liabilities may exist which were not discovered during the due diligence process prior to completing the acquisition. This failure to discover potential liabilities may be due to various factors, such as our failure to accurately assess all of the pre-existing liabilities of the operations acquired or vendors failing to comply with laws. If this occurs, the Company may be responsible for such violations which could have a material adverse effect on the business.

Entering New Business Lines

The Company may enter into new business lines with new acquisitions or other opportunities for growth related to the current business of the Company. There is no guarantee that these new business lines will be successful in the marketplace to which they are directed. Management makes its best efforts to research and forecast future profitability of any new business ventures prior to commencing in any new endeavor, however there are underlying risks that are intangible at the time of entry. The success of any new venture is also dependent on the areas of sales and marketing, customer demand, market stability, existing barriers to entry, and other factors of product introduction.

Dependence on Key Personnel

The success of the Company will be dependent on the services of the members of its senior management. The experience and talents of these individuals will be a significant factor in the success and growth of the Company. The loss of one or more of these individuals could have a material adverse effect on the operations and business prospects of Bri-Chem, furthermore, as part of the Company’s growth strategy, it must continue to hire highly qualified individuals, including financial, sales and operations personnel. There can be no assurance that the Company will be able to attract and retain qualified personnel in the future. The compensation program in place includes salary, benefits, and bonus structures, and is designed to provide fair compensation to all personnel and adequate performance incentives. Other non-monetary measures including training and development and recognition are used to ensure the culture stays focused on key personnel retention.

Ability to Achieve Profitability

There can be no assurance that the Company will be able to achieve profitability in future periods. The Company’s future operating results will depend on a number of global factors that are affecting commodity prices and that are beyond the control of the Company. There can be no assurance that the Company will be successful in achieving the objectives of its corporate strategic plan or that its corporate strategic plan will enable it to achieve, maintain or sustain profitability.

Environmental Liability

As a result of the Company’s operations dealing with petroleum products and chemical additives used in connection with the transportation, storage and disposal of drilling fluid products, the Company is exposed to potential environmental liability in connection with its business. The Company maintains compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials, however, there can be no assurance that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company or that such damage has not already occurred. Although the Company enforces a program to identify and address contamination issues before acquiring or leasing properties, and attempts to utilize generally accepted operating and disposal practices, hydrocarbons or other wastes may have been disposed of or released on or under properties owned, leased, or operated by the Company prior to the Company owning, leasing or operating these properties. These properties and the wastes disposed thereon may be subject to environmental laws that could require the Company to remove the wastes or remediate sites where they have been released. Laws and regulations relating to the environment that apply to the business and operations of the Company is likely to change and become more stringent in the future. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, the Company cannot predict the nature of the restrictions that may be imposed. The Company may be required to increase operating expenses or capital expenditures in order to comply with any new environmental restrictions or regulations which could have a materially adverse effect on the operations of the Company and its financial condition, results of operations and cash flow.

Disclosure Controls & Procedures

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, is made known to the Chief Executive Officer and Chief Financial Officer by others within the Company, particularly during the period in which the annual and interim filings of the Company are being prepared, in an accurate and timely manner in order for the Company to comply with its disclosure and financial reporting obligations and in order to safeguard the Company's assets. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

Internal Controls Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. While management of the Company has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Company's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated.

Forward-Looking Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on the Company's forward-looking statements because the Company can give no assurance that they will prove to be correct. By their nature, forward-looking statements reflect numerous inherent known and unknown risks and uncertainties that contribute to the possibility that the forward looking statements may prove to be incorrect and could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties are found in this MD&A under the heading *"Cautionary Statement Regarding Forward-Looking Information".*

CRITICAL ACCOUNTING ESTIMATES

In preparing the annual consolidated financial statements, in conformity with International Financial Reporting Standards ("IFRS"), management is required to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the reporting date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and, consequently, the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired or the environment in which the Company operates changes. The accounting policies and practices that involve the use of estimates that have significant impact on the Company's financial results include the allowance for doubtful accounts receivable, the sales return provision, inventory obsolescence, net realizable value inventory write-downs and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of deferred tax assets, the impairment testing of goodwill and long-lived assets, valuations of accrued liabilities and deferred tax liabilities, the fair value of derivative financial instruments, and stock based compensation. Management feels actual results will not be materially different from these estimates. The most significant estimates made by management include:

Impairment of financial assets

All of the Company's financial assets are reviewed for indicators for impairment, in accordance with the accounting policy stated in the note 2 to the annual consolidated financial statements. At the end of each reporting period, management reviews the individual balances in accounts receivable and assesses their recoverability based on the aging of outstanding balances, historical bad debt experience, and indicators of changes in customer credit worthiness, and changes in customer payment terms, to identify and determine the extent of impairment if any.

Sales return provision

Accounts receivable are considered a significant financial asset. Included in this balance is a sales return provision for the fluids distribution division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision already recorded.

Inventory valuations

Inventory is measured at the lower of cost and net realizable value. Net realizable value is an estimate of future selling prices less the costs to sell. Management reviews inventory periodically and uses the most reliable evidence in determining the net realizable values of the inventories. This includes examining the value of inventory against aging of the inventory, current market conditions, past sales history, and future sales trends predictions to determine the recoverable amount. When impairment is recorded, management tracks the future sales of these items and reverses any write-down where the net realizable value has subsequently increased.

Impairment testing of intangible assets and property and equipment

The Company is required to test for impairment of intangible assets with definite useful life and property and equipment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortization (goodwill) are tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment. An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. Impairment losses are allocated first to goodwill, then to remaining assets. To determine the value-in-use, management estimates expected future cash flows from each cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management. Impairment loss is charged to the items in each cash-generating unit, first to goodwill, then to all other items on a pro-rata basis. An impairment charge relating to property and equipment, and intangible assets, excluding goodwill, is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Income taxes
Management calculates the provision for income taxes based on all available information at the time of reporting. This includes recording deferred tax assets related to losses incurred by the Company that are expected to be recovered in future periods. The calculation requires certain areas of significant judgment interpreting tax rulings and regulations, which are constantly changing. This includes the calculation of deferred taxes, which is based on the tax jurisdiction's substantively enacted rates at the time the differences between accounting and income tax are expected to reverse. The effect of a change in rates would be included in the period during which the change is considered to be substantively enacted.

Business combinations
The Company uses valuation techniques in determining fair values of the various elements of a business combination, including intangible assets, based on future expected cash flows and a discount rate. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risks and weighted average cost of capital. If future events or results differ significantly from these estimates and assumptions, the Company could record impairment charges in the future.

Stock-based compensation
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 the actual expense incurred 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 exchanging for the option.

SHARE DATA

As at March 29, 2017, the Company had 23,632,981 common shares issued and outstanding. As of December 31, 2015, options to purchase 1,495,000 common shares were outstanding at an average price of $2.40 per common share.

NON-IFRS MEASURES

Certain supplementary information and financial measures referred to in the MD&A and explained below, namely EBITDA, Adjusted EBITDA, Adjusted Net Loss, Adjusted Net Loss per Share, Operating Expenses, Operating EBITDA, and Cash Interest Expense are not recognized under IFRS.

EBITDA
Management believes that, in addition to net earnings, EBITDA is a useful supplemental measure that provides a measure of operating performance without reference to financing decisions, depreciation or income tax impacts, which are not controlled at the operating management level. Investors should be cautioned that EBITDA should not be construed as alternatives to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBITDA may differ from that of other entities and accordingly may not be comparable to measures used by other entities.

EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment charges and share-based payments. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A.

EBITDA	For the three months ended December 31 2016	2015	For the year ended December 31 2016	2015
Net loss	**$ (2,570)**	$ (13,373)	**$ (6,793)**	$ (14,357)
Add:				
Interest	**761**	1,084	**2,960**	3,308
Income taxes	**2,457**	10	**1,251**	34
Depreciation and amortization	**254**	385	**1,064**	1,610
Share-based payment	**20**	72	**201**	517
Impairment charges (1)	**322**	6,126	**322**	6,126
EBITDA	**$ 1,244**	**$ (5,696)**	**$ (995)**	**$ (2,762)**

(1) Impairment charges are related to plant and equipment, bad debts

Adjusted EBITDA

Adjusted EBITDA is measure which has been reported in order to assist in the comparison of historical EBITDA to current results. The calculation of Adjusted EBITDA normalizes the impact of non-recurring one time unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within next two years, and the related impact on net earnings and net earnings per share. The normalization of this net expense is the calculation of Adjusted EBITDA is considered by management to be a more accurate representation of the EBITDA from continuing operations.

In $'000s	For the three months ended December 31 2016	2015	For the year ended December 31 2016	2015
EBITDA	**$ 1,244**	$ (5,696)	**$ (995)**	$ (2,761)
Add				
Restructuring costs	**271**	514	**271**	1,326
Adjusted EBITDA	**$ 1,515**	$ (5,182)	**$ (724)**	$ (1,435)

Adjusted Net Loss and Adjusted Net Loss per Share

Adjusted net loss and adjusted net loss per share are measures which have been reported in order to assist in the comparison of historical net earnings to current results. The calculation of Adjusted Net Earnings normalizes the impact of non-recurring one time unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within next two years, and the related impact on net earnings and net earnings per share. The normalization of this net expense is the calculation of Adjusted Net Earnings and Adjusted Net Earnings per share is considered by management to be a more accurate representation of the net earnings from continuing operations.

In $'000s (except per share amounts)	For the three months ended December 31 2016	2015	For the year ended December 31 2016	2015
Net loss	$ **(2,570)**	$ (13,373)	$ **(6,793)**	$ (14,357)
Add/(deduct), net of corporate income taxes:				
Restructuring costs	**203**	514	**203**	1,323
Impairment charges on goodwill and other assets	**242**	6,126	**242**	6,126
Adjusted net loss per share	$ **(2,125)**	$ (6,733)	$ **(6,348)**	$ (6,908)
Weighted average number of shares				
Basic	23,623,981	23,623,981	23,655,900	23,655,900
Diluted	23,923,981	23,623,981	23,655,900	23,655,900
Adjusted net earnings/(loss), per share				
Basic	$ **(0.09)**	$ (0.29)	$ **(0.27)**	$ (0.29)
Diluted	**(0.09)**	(0.29)	**(0.27)**	(0.29)

Adjusted Gross Margins

In compliance with IFRS accounting standards, the Company's gross margins must include all direct and overhead costs associated with ongoing activities regardless of whether or not the loss from sales of products was incurred due to the restructuring the Company's operations caused by the economic downturn. Adjusted gross margins reflect the product selling price less the cost of the product in the ordinary course of business and exclude losses incurred due to restructuring of the Company's operations. Management believes that the adjusted gross margin is useful information as it provides a more accurate gross margin contribution for comparative purposes. The following is a reconciliation of adjusted gross margins to IFRS compliant gross margins for each of the periods presented in this MD&A.

In $'000s	For the three months ended December 31 2016	2015	For the year ended December 31 2016	2015
Gross Margin ($)	**3,942**	1,564	**11,016**	13,481
As percentage of sales	**17.8%**	7.3%	**17.7%**	13.9%
Addback: Losses from sale related to inventory reduction program	**-**	2,519	**314**	3,646
Adjusted Gross Margin ($)	**3,942**	4,083	**11,330**	17,127
Sales	**22,098**	21,508	**62,091**	96,822
Less: Sales associated with inventory reduction program due to economic downturn	**-**	993	**1,856**	12,747
Adjusted sales	**22,098**	20,515	**60,235**	84,075
Adjusted gross margin as percentage of adjusted sales	**17.8%**	**19.9%**	**18.8%**	**20.4%**

Operating Expenses

Operating expenses is not a concept recognized under IFRS as it does not include interest, share based payments, depreciation and amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the December 31, 2016 annual consolidated financial statements:

	For the three months ended December 31		For the year ended December 31	
	2016	2015	2016	2015
Operating expenses	**$ 2,698**	$ 16,242	**$ 12,011**	$ 16,242
Add:				
Interest	**761**	3,308	**2,960**	3,308
Depreciation and amortization	**254**	1,610	**1,064**	1,611
Share-based payments	**20**	517	**201**	517
Impairment charge	**322**	6,126	**322**	6,126
Total expenses	$ 4,055	$ 27,803	$ 16,558	$ 27,804

Operating EBITDA

Management believes that, in addition to net earnings, Operating EBITDA is a useful supplemental measure that provides a measure of operating performance without reference to inter group corporate cost allocations, financing decisions, depreciation or income tax impacts, which are not controlled at the operating management level. Investors should be cautioned that Operating EBITDA should not be construed as alternatives to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating Operating EBITDA may differ from that of other entities and accordingly may not be comparable to measures used by other entities.

Operating EBITDA is defined as earnings before inter group corporate cost allocations, interest, taxes, depreciation, amortization, impairment charges and share-based payments. The following is a reconciliation of EBITDA, per annual consolidated financial statements for the year ended December 31, 2015, to Operating EBITDA for each of the periods presented in this MD&A.

	For the three months ended December 31, 2016			For the year ended December 31, 2016		
In $'000s	EBITDA	Corporate cost allocation	Operating EBITDA	EBITDA	Corporate cost allocation	Operating EBITDA
Fluids Distribution - Canada	**$ (1,022)**	$ -	$ (1,022)	**$ (1,202)**	$ -	$ (1,202)
Fluids Distribution - USA	**1,433**	-	1,433	**(1,189)**	-	(1,189)
Total Fluids Distribution	**411**	$ -	411	**(2,391)**	-	(2,391)
Fluids Blending & Packaging - Canada	**(347)**	-	(347)	**(438)**	-	(438)
Fluids Blending & Packaging - USA	**(322)**	-	- 322	**108**	-	108
Total Fluids Blending & Packaging	**(669)**	-	(669)	**(330)**	-	(330)
Other **	**1,502**	-	1,502	**1,726**	-	1,726
Total	**$ 1,244**	$ -	$ 1,244	**$ (995)**	$ -	$ (995)

In $'000s	For the three months ended December 31, 2015 EBITDA $	 Corporate cost allocation $	 Operating EBITDA $	For the year ended December 31, 2015 EBITDA $	 Corporate cost allocation $	 Operating EBITDA $
Fluids Distribution - Canada	**$ (3,773)**	$ 1,075	$ (2,698)	**$ (3,998)**	$ 11	$ (3,987)
Fluids Distribution - USA	**(2,346)**	1,406	(940)	**(2,145)**	2,208	63
Total Fluids Distribution	**(6,119)**	$ 2,481	(3,638)	**(6,143)**	2,219	- 3,924
Fluids Blending & Packaging - Canada	**213**	-	213	**419**	94	513
Fluids Blending & Packaging - USA	**380**	58	438	**1,072**	226	1,298
Total Fluids Blending & Packaging	**593**	58	651	**1,491**	320	1,811
Other **	**(180)**	(2,539)	(2,719)	**1,890**	(2,539)	(649)
Total	**$ (5,706)**	$ -	$ (5,706)	**$ (2,762)**	$ -	$ (2,762)

Cash interest expense

Cash interest expense represents interest expense under IFRS adjusted to exclude non-cash interest expense related to the amortization of deferred financing costs on both the ABL Facility and Fulcrum debt. Management believes that this metric assists in determining the cash interest expense of the Company.

In $'000s	For the three months ended December 31 2016 $	 2015 $	 Change $	 %	For the year ended December 31 2016 $	 2015 $	 Change $	 %
Interest on short-term operating debt	**268**	416	(148)	(36%)	**1,084**	1,700	(616)	(36%)
Interest on long-term debt	**490**	662	(172)	(26%)	**1,860**	1,592	268	17%
Interest on obligiatons under finance lease	**3**	5	(2)	(40%)	**17**	16	1	6%
Total	**761**	**1,083**	**(322)**	**-30%**	**2,961**	**3,308**	**(347)**	**-10%**
Deduct non-cash interest expense:								
Amortization of deferred financing costs	**68**	314	(246)	(78%)	**267**	520	(253)	(49%)
Cash interest expense[1]	**693**	**769**	**(76)**	**-10%**	**2,694**	**2,788**	**(94)**	**-3%**

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, 2016 and, based on that evaluation, have concluded that these controls and procedures are effective in providing such reasonable assurance.

Internal controls over financial reporting

The CEO and CFO, together with management, are also responsible for establishing and maintaining internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's ICFR as of December 31, 2016 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance. There were no changes in the Company's internal control over financial reporting that occurred in 2016 that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.

Limitations over the effectiveness of controls

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, 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.

Corporate Information

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Chairman, President, CEO and Director
Edmonton, Alberta

Jason Theiss, CA
CFO
Edmonton, Alberta

Trent Abraham
President, Fluids Division
Denver, Colorado

Albert Sharp(1) (2)
Director
Spruce Grove, Alberta

Eric Sauze, CA(1) (2)
Director
Edmonton, Alberta

Brian Campbell(1)
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Toronto Stock Exchange
Trading Symbol – BRY

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(2) Member of Compensation Committee

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Share Capital

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