BRI-CHEM

Right product. Right place. Right time.

First Quarter 2017 Interim Condensed Report (unaudited)

Q1 2017

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Right product. Right place. Right time.

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company is disclosing that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the three months periods ended March 31, 2017 and 2016.

Interim Condensed Consolidated Statements of Operations

(Canadian dollars)
(unaudited)

	Note	March 31 2017 (three months ended)	March 31 2016 (three months ended)
Sales		**$ 33,989,547**	$ 14,820,659
Cost of sales		**28,597,214**	12,382,368
		5,392,333	2,438,291
Expenses			
Salaries and benefits		**1,849,153**	1,925,440
Selling and administration		**1,458,637**	1,451,285
Depreciation on property and equipment		**235,885**	272,897
		3,543,675	3,649,622
Operating earnings (loss)		**1,848,658**	(1,211,331)
Financing costs		**823,892**	793,626
Foreign exchange loss		**81,310**	527,260
		905,202	1,320,886
Earnings (loss) before income taxes		**943,456**	(2,532,217)
Income tax expense (recovery)			
Current		**217,803**	(657,696)
Deferred		**44,891**	223,116
		262,694	(434,580)
Net earnings (loss)		**$ 680,762**	$ (2,097,637)
Earnings (loss) per share	6		
Basic		**$ 0.03**	$ (0.09)
Diluted		**$ 0.03**	$ (0.09)

The accompanying notes are an integral part of the interim condensed consolidated financial statements

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(Canadian dollars)

(unaudited)

	(three months ended)	
	March 31	March 31
	2017	2016
Net earnings (loss)	**$ 680,762**	$ (2,097,637)
Other comprehensive loss, net of tax of $nil (2016-$nil)		
Foreign currency translation adjustment	**12,925**	(114,217)
Total comprehensive income (loss)	**$ 693,687**	$ (2,211,854)

The accompanying notes are an integral part of the interim condensed consolidated financial statements

Interim Condensed Consolidated Statements of Financial Position

(Canadian dollars)
(unaudited)

	Note	March 31 2017	December 31 2016
Assets			
Current			
Accounts receivable		**$ 28,969,453**	$ 18,999,389
Inventories		**25,621,453**	28,487,402
Prepaid expenses and deposits		**787,980**	1,202,192
Income taxes receivable		**873,599**	2,163,439
		56,252,485	50,852,422
Non-current			
Property and equipment		**11,479,391**	11,924,208
Deferred tax assets		**2,635,739**	2,680,630
Other long-term assets		**65,896**	120,764
		$ 70,433,511	$ 65,578,024
Liabilities			
Current			
Bank indebtedness		**$ 17,766,511**	$ 14,533,936
Accounts payable and accrued liabilities		**14,181,860**	13,215,951
Current portion of long-term debt		**9,217,164**	8,993,854
Current portion of obligations under finance lease		**37,995**	43,354
Promissory notes payable		**—**	272,077
		41,203,530	37,059,172
Non-current			
Obligations under finance lease		**11,131**	16,543
Deferred tax liabilities		**121,967**	121,967
Other long-term liabilities		**98,020**	106,900
		41,434,648	37,304,582
Equity			
Share capital	5	**33,263,473**	33,263,473
Contributed surplus		**4,015,222**	3,983,488
Warrants		**209,226**	209,226
Retained loss		**(6,323,573)**	(7,004,335)
Accumulated other comprehensive loss		**(2,165,485)**	(2,178,410)
		28,998,863	28,273,442
		$ 70,433,511	$ 65,578,024

The accompanying notes are an integral part of the interim consolidated financial statements

Interim Condensed Consolidated Statements of Changes in Equity

(Canadian dollars)

(unaudited)

	Share capital	Contributed surplus	Warrants	Accumulated other comprehensive loss	Retained loss	Total equity
Balance at January 1, 2017	$ 33,263,473	$ 3,983,488	$ 209,226	$ (2,178,410)	$ (7,004,335)	$ 28,273,442
Employee share-based payment options	—	31,734	—	—	—	31,734
Net earnings	—	—	—	—	680,762	680,762
Total comprehensive income	—	—	—	12,925	—	12,925
Balance at March 31, 2017	$ 33,263,473	$ 4,015,222	$ 209,226	$ (2,165,485)	$ (6,323,573)	$ 28,998,863

	Share capital	Contributed surplus	Warrants	Accumulated other comprehensive loss	Retained loss	Total equity
Balance at January 1, 2016	$ 33,263,473	$ 3,782,365	$ 209,226	$ (1,803,050)	$ (211,272)	$ 35,240,742
Employee share-based payment options	—	71,947	—	—	—	71,947
Net loss	—	—	—	—	(2,097,637)	(2,097,637)
Total comprehensive loss	—	—	—	(114,217)	—	(114,217)
Balance at March 31, 2016	$ 33,263,473	$ 3,854,312	$ 209,226	$ (1,917,267)	$ (2,308,909)	$ 33,100,835

The accompanying notes are an integral part of the interim condensed consolidated financial statements

Interim Condensed Consolidated Statements of Cash Flows

(Canadian dollars)

(unaudited)

For the three months ended	**March 31 2017**	March 31 2016
Operating activities		
Net earnings (loss)	**$ 680,762**	$ (2,097,637)
Adjustments for items not affecting cash:		
Depreciation on property and equipment	**235,885**	272,897
Amortization of debt related transaction costs	**70,382**	55,812
Deferred tax expense	**44,891**	223,116
Share-based payments	**31,733**	71,947
Foreign exchange loss on debt	**104,486**	520,290
Unrealized foreign exchange loss	**19,901**	1,963,603
Interest on debt and finance leases	**554,139**	554,282
Loss on disposal of equipment	**67,335**	—
Other gain	**(1,372)**	(7,934)
	1,808,142	1,556,376
Change in non-cash working capital	**(4,589,655)**	3,832,952
Total cash generated (used) in operating activities	**(2,781,513)**	5,389,328
Financing activities		
Interest paid on debt and finance leases	**(571,387)**	(571,122)
Repayments on promissory notes payable	**(274,374)**	(263,125)
Advances (repayments) on operating line	**3,366,318**	(4,677,541)
Advances on long-term debt	**192,427**	167,023
Repayments of obligations under finance lease	**(10,460)**	(15,640)
Total cash generated (used) in financing activities	**2,702,524**	(5,360,405)
Investing activities		
Purchase of property and equipment	**(44,094)**	(28,923)
Proceeds on disposal of equipment	**123,083**	—
Total cash generated (used) in investing activities	**78,989**	(28,923)
Net change in cash and cash equivalents	**—**	—
Cash and cash equivalents, beginning of the period	**—**	—
Cash and cash equivalents, end of the period	**$ —**	$ —

The accompanying notes are an integral part of the interim consolidated financial statements

1. Nature of operations

Bri-Chem Corp.'s ("the Company" or "Bri-Chem") shares are publicly traded on the Toronto Stock Exchange under the symbol BRY. Since 1985, Bri-Chem has established itself as one of North America's largest independent wholesale suppliers of drilling fluids for the oil and gas industry. The Company provides drilling fluid products, cementing, acidizing and stimulation additives from multiple strategically located warehouses throughout Canada and the United States. Bri-Chem Corp. is incorporated and located in Canada. Its registered and primary place of business is #15 - 53016 Highway 60, Acheson, Alberta T7X 5A7.

These interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. As at March 31, 2017, the Company has debt facilities of $26,983,675 that mature in 2017, The Company has also incurred losses of $6,793,064 and $14,357,367 for the years ended December 31, 2016 and 2015, respectively.

The Company's debt facilities include a subordinated debenture with an outstanding balance of $9,217,164 as at March 31, 2017, maturing in December 2017, and $17,766,511 outstanding on the Company's Asset-Based Lending Facility (the "ABL Facility") that matures on August 12, 2017. Management does not anticipate the Company's cash flow and liquidity position will be sufficient to fund the indebtedness that matures in 2017. Management is working on plans to refinance or extend the maturity on the indebtedness, including seeking extensions or renewals of these facilities, or other potential funding sources which include the issuance of common shares to public investors, the sale of assets or operating segments or obtaining other sources of financing.

The Company's ability to continue as a going concern is dependent upon its ability to negotiate an extension or refinancing of its indebtedness, obtain alternative financing on acceptable terms or obtain sufficient funds from the sale of assets. The Company has pledged its assets as collateral to secure its indebtedness. In the event the Company is unable to fund the maturities of its indebtedness, the Company risks losing some or all of its assets. If this occurs, the business and results of operations would be materially adversely affected. The above material uncertainties may cast significant doubt with respect to the ability of the Company to continue as a going concern. Should the Company be unable to meet its obligations as they become due and is unable to fund or source new funding, the preparation of these interim condensed consolidated financial statements on a going concern basis may not be appropriate. These financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern. Such adjustments may be material.

Management has considered the judgements, estimates, financing options, and related uncertainties disclosed above and have concluded that there is a reasonable expectation that the Company will be able to access adequate resources to continue operations for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

1. Nature of operations *(cont'd)*

Should the Company be unable to meet its obligations as they become due and is unable to fund or source new funding for future operations, the preparation of these interim condensed consolidated financial statements on a going concern basis may not be appropriate. The consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Such adjustments may be material.

The directors have considered the judgements, estimates, financing options, and related uncertainties disclosed above and have concluded that there is a reasonable expectation that the Company will be able to access adequate resources to continue operations for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

2. Basis of presentation

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They do not contain all the necessary annual disclosures in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016.

These interim condensed consolidated financial statements, in all material respects, follow the same accounting policies and method of application as the annual consolidated financial statements of the preceding fiscal year, except as noted in Note 3.

The interim condensed consolidated financial statements for the quarter ended March 31, 2017 were authorized for issue by the Board of Directors on May 11, 2017.

3. Accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's annual financial statements for the year ended December 31, 2016.

4. Seasonality of operations

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern Western Canadian Sedimentary Basin ("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.

(Canadian dollars)

5. Share capital

Issued and outstanding Common shares	Number	Amount
Balance, January 1, 2016	**23,632,981**	**$ 33,263,473**
Shares issued	—	—
Balance, December 31, 2016	**23,632,981**	**$ 33,263,473**
Shares issued	—	—
Share capital balance, March 31, 2017	**23,632,981**	**$ 33,263,473**

6. Earnings (loss) per share

Both the basic and diluted earnings (loss) per share have been calculated using the profit attributable to shareholders of the Company as the numerator.

(three months ended)	**March 31, 2017**	March 31, 2016
Net earnings (loss) attributable to the shareholders of the Company	**$ 680,762**	$ (2,097,637)
Basic weighted average number of ordinary shares	**23,632,981**	23,632,981
Dilutive options/warrants issued and outstanding	**300,000**	—
Diluted weighted average number of ordinary shares	**23,932,981**	23,632,981
Basic earnings (loss) per share	**$ 0.03**	$ (0.09)
Diluted earnings (loss) per share	**$ 0.03**	$ (0.09)

7. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Chief Executive Officer and Chief Financial Officer who make strategic decisions.

The chief operating decision-makers consider the business from both a geographic and a product perspective. Geographically, management considers the performance in Canada and the USA. From a product perspective, management separately considers the fluids distribution, and fluids blending & packaging in these geographies.

The chief operating decision-makers assess the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes from net earnings the effects of interest, taxes, amortization and depreciation, and the effect of equity-settled share based payments. Corporate overhead costs, interest income and expenditure, excluding interest expense on finance leases, are not allocated to segments, as these types of activity are driven by the central treasury function, which manages the cash position of the Company.

The amounts provided to the chief operating decision-makers with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The Company has five reportable segments: Fluids Distribution Canada, Fluids Distribution USA, Fluids Blending & Packaging Canada, Fluids Blending & Packaging USA, and Other. The Other segment represents insignificant segments and all remaining costs not directly attributable to an operating segment, such as corporate overhead.

Revenues between Fluids Blending & Packaging Canada and Fluids Distribution Canada are recorded on the same basis as an equivalent arm's length transaction. Revenue between the remaining divisions are recognized at cost. The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the interim condensed consolidated statement of operations.

For the three months ended March 31, 2017 (Canadian dollars) (Unaudited)

7. Segment reporting *(cont'd)*

Selected financial information by reportable segment is disclosed as follows:

For 3 months ended March 31, 2017	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	$ 16,320,293	$ 12,210,372	$ 28,530,665	$ 6,832,583	$ 586,145	$ 7,418,728	$ -	$ 35,949,393
Revenues from internal customers	274,180	19,835	294,015	1,665,831	-	1,665,831	-	1,959,846
Revenues from external customers	16,046,113	12,190,537	28,236,650	5,166,752	586,145	5,752,897	-	33,989,547
Cost of sales	14,220,613	9,915,480	24,136,093	4,002,879	458,242	4,461,121	-	28,597,214
EBITDA	1,362,464	718,993	2,081,457	454,858	(198,975)	255,883	(302,374)	2,034,966
Depreciation	17,682	95,912	113,594	25,317	68,507	93,824	28,467	235,885
Interest	171	1,468	1,639	-	-	-	822,253	823,892
Share based compensation	-	-	-	-	-	-	31,734	31,734
Income tax expense (recovery)	363,045	167,836	530,881	115,976	(72,220)	43,756	(311,943)	262,694
Segment profit (loss)	$ 981,566	$ 453,777	$ 1,435,343	$ 313,565	$ (195,262)	$ 118,303	$ (872,885)	$ 680,761
Segment assets	$ 27,459,810	$ 25,447,032	$ 52,906,842	$ 6,302,223	$ 2,851,819	$ 9,154,042	$ 8,372,627	$ 70,433,511
Capital expenditures	$ -	$ 37,458	$ 37,458	$ 2,910	$ 3,726	$ 6,636	$ -	$ 44,094

* Other includes corporate overhead costs.

For the three months ended March 31, 2017 (Canadian dollars) (Unaudited)

7. Segment reporting *(cont'd)*

For 3 months ended March 31, 2016	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	$ 5,397,076	$ 5,005,339	$ 10,402,415	$ 3,774,223	$ 1,482,602	$ 5,256,825	$ -	$ 15,659,240
Revenues from internal customers	46,669	92,039	138,708	699,873	-	699,873	-	838,581
Revenues from external customers	5,350,407	4,913,300	10,263,707	3,074,350	1,482,602	4,556,952	-	14,820,659
Cost of sales	5,035,492	4,116,730	9,152,222	2,378,238	851,908	3,230,146	-	12,382,368
EBITDA	(194,843)	(1,044,055)	(1,238,898)	30,901	273,144	304,045	(458,894)	(1,393,747)
Depreciation	19,565	99,407	118,972	26,342	98,888	125,230	28,695	272,897
Interest	298	5,404	5,702	-	5,318	5,318	782,606	793,626
Share based compensation	-	-	-	-	-	-	71,947	71,947
Income tax expense	(284,802)	(424,364)	(709,166)	(53,676)	105,146	51,470	223,116	(434,580)
Segment profit (loss)	$ 70,096	$ (724,502)	$ (654,406)	$ 58,235	$ 63,792	$ 122,027	$ (1,565,258)	$ (2,097,637)
Segment assets	$ 21,566,341	$ 22,840,386	$ 44,406,727	$ 5,873,307	$ 3,905,097	$ 9,778,404	$ 10,185,998	$ 64,371,129
Capital expenditures	$ 6,679	$ 20,614	$ 27,293	$ 1,630	$ -	$ 1,630	$ -	$ 28,923

* Other includes corporate overhead costs.

(Canadian dollars)

7. Segment reporting *(cont'd)*

The Company's operations are conducted in the following geographic locations:

for the 3 months ended	March 31, 2017	March 31, 2016
Revenue		
Canada and International	$ 21,212,866	$ 8,424,757
United States	12,776,681	6,395,659
	$ 33,989,547	$ 14,820,659
Non-current assets		
Canada and International	$ 7,668,607	$ 11,200,293
United States	6,512,419	7,023,065
	$ 14,181,026	$ 18,223,358

8. Related party transactions

During the three months ended March 31, 2017, the Company incurred office sharing costs of $9,000 (March 31, 2016 – $15,000), that were paid to a company over which a director has control. These office sharing costs were made on terms equivalent to those that prevail in arm's length transactions.

9. Capital management policies and procedures

Management's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on the Company's debt and credit facilities and preserve financial flexibility in order to benefit from potential opportunities that may arise.

The Company includes the following in the definition of capital:

	March 31 2017	December 31 2016
Bank indebtedness	$ 17,766,511	$ 14,533,936
Long-term debt	9,217,164	8,993,854
Promissory notes payable	—	272,077
Obligations under finance lease	49,126	59,897
Equity	28,998,863	28,273,442
Total capital	$ 56,031,664	$ 52,133,206

(Canadian dollars)

9. Capital management policies and procedures *(cont'd)*

The Company uses a combination of debt and equity financings to help it achieve its objectives. The percentage levels of each capital component may change as the entity attempts to take advantage of prevailing market conditions. The Company is not subject to capital requirements imposed by a regulator.

The ABL facility and subordinated debenture require the Company to maintain certain financial covenants. The Company monitors these requirements on a monthly basis. The Company renewed and amended the ABL facility and amended its subordinated debenture as at August 11, 2016. Included in these amendments were changes to the financial covenants.

These covenants are summarized as follows:

	Mar 31 2017	**Requirement**	Dec 31 2016	Requirement
Minimum tangible net worth	**$ 28,210,883**	**Must exceed 25,682,400**	$ 29,571,250	Must exceed $ 24,484,000
Eligible capital expenditures	**44,094**	**Not to exceed 452,235**	$ 364,187	Not to exceed $ 723,480
Adjusted EBITDA	**$ 1,466,069**	**Must exceed (2,879,823)**	$ (1,505,447)	Must exceed $ (4,601,987)

As a March 31, 2017, the Company was in compliance with all financial covenants.

On August 11, 2016, the Company amended and renewed the terms of the ABL Facility to decrease the maximum borrowing base down to $20,000,000. Other amendments include an increase in interest rates, and a change in the financial covenants with the ABL Facility maturing on August 12, 2017. On February 16, 2017 the Company amended the terms of the ABL Facility to increase the maximum borrowing base up to $25,000,000. The ABL Facility bears interest either at the Canadian prime rate plus 3.0% (2016 – Canadian prime rate plus 1.50%) or bankers' acceptance rate plus 4.50% (2016 - bankers' acceptance rate plus 3.00%) or LIBOR plus 4.50% (2016 - LIBOR plus 3.00%), a collateral management fee of $1,500 per month (2016 - $1,500 per month) and a standby fee of 0.25% (2016 - 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.

Facility requires the company to comply with two financial covenants being a minimum adjusted tangible net worth covenant and a maximum annual eligible capital expenditure.

9. Capital management policies and procedures *(cont'd)*

The minimum tangible net worth covenant requires the Company to ensure tangible net worth is greater than $25,682,400 as at March 31, 2017. This is defined, on a consolidated basis, as total assets, less intangibles and goodwill, excluding deferred tax assets less total liabilities, excluding deferred tax liabilities. The minimum value changes slightly on a monthly basis in 2017 with the lowest minimum value in July 2017 of $23,913,000. 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.

In addition, there is a covenant with the subordinated debenture relating to ensuring that at any given month, the twelve month rolling actual adjusted EBITDA is in excess of 70% of projected adjusted EBITDA. Adjusted EBITDA in the subordinated debenture agreement is defined as net income before interest on debt, taxes on net income and 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.

Failure to comply with the obligations in either of these credit facilities could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness.

10. Reclassification of comparative amounts

Certain comparative amounts for the prior period have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders' equity.

(signed) "Don Caron"
Don Caron, Director

(signed) "Eric Sauze"
Eric Sauze, Director