Bri-Chem Corp.

Management's Discussion and Analysis

Three Months Ended March 31, 2013

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of May 13, 2012. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the three months ended March 31, 2013, and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the unaudited interim financial statements for the period ended March 31, 2013, as well as the annual audited consolidated financial statements for the twelve months ended December 31, 2012.

The Company's consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard 34, "Interim Financial Reporting", and are presented in Canadian dollars unless otherwise indicated.

The Company's consolidated financial statements include the accounts of Bri-Chem Corp. and subsidiaries Bri-Chem Supply Ltd., Sodium Solutions Inc., Bri-Steel Corporation, Bri-Steel Manufacturing Inc. and Bri-Corp USA, Inc, including its three subsidiaries Bri-Chem Supply Corp, LLC, Stryker Transportation Ltd and General Supply Company. All references in this report to financial information concerning the Company refer to such information in accordance with IFRS and all dollar amounts in this report are in Canadian dollars unless otherwise indicated.

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 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, drilling fluids and steel pipe products;
- competition for, among other things, capital and skilled personnel;
- incorrect assessments of the value of acquisitions;
- fluctuations in the market for steel pipe, oil and natural gas and related products and services;
- liabilities and risks, including environmental liabilities and risks inherent in steel pipe, 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;
- volatility in prices for raw materials and steel and the effect of this volatility on the demand for steel pipe products generally and on the value of inventory;
- 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.

2013 FIRST QUARTER OVERALL PERFORMANCE:

The discussion in this section is qualified in its entirety by the "Caution 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 first quarter of 2013, Bri-Chem has continued to sustain exceptional year over year sales growth in its USA fluids distribution division, a 176% increase, and in its steel pipe manufacturing division, a 113% increase. Despite the overall Q1 2013 decline in drilling and completion activity across the Western Canadian Sedimentary Basin ("WCSB"), Bri-Chem's consolidated revenues remained solid at $49,695,536 for the quarter ended March 31, 2013, compared to $52,706,137 in Q1 2012, a decrease of 5.7%. Net earnings for the three months ended March 31, 2013 were $1,834,704 or $0.11 diluted earnings per share compared to net earnings of $2,893,604 or $0.18 diluted earnings per share for 2012, a decrease of 36.6%. Adjusted earnings before interest, taxes, amortization and share-based payments expense ("Adjusted EBITDAC") was $4,389,964 or $0.25 per share, a decrease of $910,481 compared to 2012. The decrease in earnings and Adjusted EBITDAC is mainly due to two significant non-cash related items being foreign exchange, as the US dollar rose in comparison to the Canadian dollar, resulting in a $513,775 foreign exchange difference from the prior period, as well as a $242,126 increase in stock-based compensation.

The Company's North American oil and gas drilling fluids divisions recorded sales of $41,525,559 for the three months ended March 31, 2013, a decrease of 4.7% compared to the same period in 2012. In Canada, drilling rig utilization averaged 60.9% for the quarter ended March 31, 2013, a decrease of 6.8% from 2012 when utilization rates average 67.7%. The Canadian fluids division generated sales of $33,782,959 for the quarter ended March 31, 2013, compared to sales of $40,627,807 over the comparable period in 2012. The decrease in Canadian fluid sales was mainly due to the lower rig utilization and a decline in quarter over quarter liquid invert sales.

With the completion of the December 31, 2012 acquisition of General Supply Company and their three key Oklahoma warehouse locations, Bri-Chem has now expanded to fourteen warehouses in the USA. Although the USA rig count has decreased 11.7% quarter over quarter, the Company's USA drilling fluids division grew by 176% to $7,742,600 for quarter ended March 31, 2013 compared to sales of $2,798,103 for the same period in 2012. This increase is the result of the strategic warehouse and infrastructure investment that occurred throughout 2012. With fourteen warehouses operating in all the major resource plays in the USA, the division will focus on continuing to grow its market share.

The steel pipe distribution division recorded sales of $3,836,292 for the three months ended March 31, 2013, compared to revenues of $7,115,801 for the same period in 2012. The steel distribution division experienced a decrease in demand for seamless pipe in November 2012 and it continues to be negatively affected by reduced demand from steel pipe service suppliers into Q1 2013. The Canadian market has excess steel pipe inventory as many distributors were anticipating a more robust demand for steel pipe product during the winter drilling season. The steel pipe distribution division will concentrate on reducing inventory and increasing turns while maintaining superior customer service, with the appropriate quantities and sizes of steel pipe to meet the demand of its customers.

The steel pipe manufacturing division continued to build efficiencies to its manufacturing process which will result in a more consistent production output in future quarters. The steel manufacturing division generated sales of $4,333,685 for the three months ended March 31, 2013 compared to sales of $2,034,247 for the comparable period in 2012, an increase of 113%. Notwithstanding the increase in sales, the Company continues to be challenged by volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints. These factors are contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which has deferred demand for large diameter steel in Q1 2013.

Outlook Summary

The Petroleum Services Association of Canada (PSAC) has forecasted 11,976 wells to be drilled in Western Canada for 2013, a forecasted increase of 7.8% over 2012. That being said, the 2013 Q1 winter drilling season in the WCSB experienced a decline of 6.8% from the first quarter of 2012, however, it is anticipated to improve in the second half of 2013. Spring break up may be longer due to the unusual slow melt from winter which may have an adverse impact on second quarter Canadian fluid sales. Looking beyond Q2, it is difficult to determine if demand for oilfield activity will increase as economic concerns are still impacting the stability of commodity prices. Bri-Chem will continue to invest into its USA drilling fluid market expansion plan where significant market share is vastly obtainable. As we continue to gain market share, more product and acquisition opportunities become available. We will also continue to closely monitor North American steel pipe demand and seek to increase production capacity at the Thermal Pipe Expansion manufacturing facility when demand returns to more normal levels. The Company has also announced a letter of intent to acquire a specialty cement blending company which management anticipates the closing of the acquisition during the second quarter of 2013.

DESCRIPTION OF BUSINESS

Since our formation in 1985, Bri-Chem has established two primary segments of business through a combination of internal growth and acquisitions: Bri-Chem's Drilling Fluid Division is North America's largest independent wholesale supplier of drilling fluids for the oil and gas industry. We provide over 100 drilling fluid products, cementing, acidizing and stimulation additives from 29 strategically located warehouses throughout Canada and the United States; Bri-Chem's Steel Pipe Division distributes a broad range of seamless pipe and is the first company to introduce and construct a Thermal Pipe Expansion (TPE) facility in North America for manufacturing, testing and supply of large diameter seamless steel pipe for the energy industry. 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"), 100% interest in Bri-Steel Corporation ("Bri-Steel"), and a 70% interest in Bri-Steel Manufacturing Inc. ("Manufacturing"). The Company also owns 100% interest in Bri-Corp USA Inc. ("Bri-Corp"), which has three 100%, owned subsidiaries, Stryker Transportation Ltd., Bri-Chem Supply Corp, LLC, and General Supply Company. Bri-Chem continues to concentrate on expanding its market presence with the focus being on the following two divisions:

OIL AND GAS FLUIDS DIVISION

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"). Bri-Chem focuses on the oil & gas drilling stage, providing over 100 critical drilling fluid products and custom-blended products to major and independent oilfield service providers. Bri-Chem distributes its drilling fluid products from 15 strategically located warehouses throughout the WCSB. Drilling fluids is 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. Drilling fluids cuts down on friction, lowering the heat of drilling, and reducing the risk of friction and pressure related complications such as borehole stability.

USA Drilling Fluids Distribution Division

In June 2011, Bri-Chem expanded into the United States with the acquisition of a drilling fluids wholesaler based in Denver, CO. Since the completion of the acquisition, Bri-Chem has grown from three warehouse locations to fourteen and 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 expanding its product offerings in the regions it currently services as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from independent drilling fluid engineering companies.

On December 31, 2012, the Company acquired all of the outstanding common shares of General Supply Company ("General"), an Oklahoma based drilling fluid wholesale distribution business. The purchase price of $2,500,000 USD consisted of the issuance of 95,451 Bri-Chem common shares at a fair market value of $147,792. The common shares have resale restrictions attached to them that expire evenly over three years. Cash payment terms were $2,050,000USD on closing, and a promissory note payable with a fair value of $250,000USD bearing interest at 4% per annum, repayable in February 2014. The acquisition of General and their three key Oklahoma warehouse locations is an extremely complementary addition to our strategy of becoming the dominant independent national supplier of drilling fluids in the United States. General's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers.

Fluids Blending and Packaging Division

The WCSB oil and gas drilling process also uses cementing, stimulation, and fracturing 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. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these critical fluid applications. Bri-Chem has dedicated facilities, located in Acheson and Camrose, Alberta, with capacity to blend and package specialty additive fluids for customer specific products. Bri-Chem is pursuing to diversify into the liquid fracturing and stimulation blending market for further customer penetration and industry diversification.

On November 30, 2012, the Company acquired assets and business operations of Kemik Inc., an Alberta based packager of proprietary cementing additives for the oil and gas industry. The purchase price of $1,800,000 consisted of all cash in exchange for accounts receivable, inventory, fixed assets and certain accounts payable. The acquisition was a complementary fit for the Company's fluids blending and packaging division.

On April 30, 2013, the Company announced a letter of intent to acquire the assets and ongoing operations of a California, USA based specialty cement chemical blending and packaging company ("Cementco"). Under the terms of the letter of intent, Bri-Chem has agreed to purchase certain assets of Cementco including the land and building assets related to its operation which includes a transloading facility that provides a six car rail spur for bulk purchasing and shipping of materials. The transaction, the terms of which are confidential, is expected to be completed on or about May 31, 2013, subject to certain closing conditions.

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 fluids.

STEEL PIPE DIVISION

Steel Pipe Distribution Division

Bri-Steel is the Company's wholesale distributor for steel pipe ranging in sizes from quarter inch to thirty-six inch. Bri-Steel manages its steel product inventory through one pipe yard in Edmonton, Alberta, which is the primary stock location for steel pipe in North America and also maintains a stock facility in Houston, Texas, which allows the Company to service major pipe distributors throughout the Eastern and Mid-Western USA. The Company's superior international vendor relationships have provided access for hard to find products. Bri-Steel's broad base of steel pipe is primarily used in the energy industry, however the Company does distribute steel pipe to non-oilfield related industries such as construction, industrial and mining.

Steel Pipe Manufacturing Division

Bri-Steel's manufacturing division is the first business to introduce and construct an American Petroleum Institute (API) certified Thermal Pipe Expansion (TPE) facility in North America for manufacturing, testing and supply of large diameter seamless steel pipe for the energy industry. The division produces steel pipe ranging in diameter from 14" to 36" which is manufactured from carbon steel tubes using the TPE process that heats the steel tubes while being pushed by a horizontal hydraulic press over a mandrel, thereby expanding the pipe. The TPE process has been utilized for producing large diameter steel pipe for several years in China and Bri-Chem partnered with a Chinese corporation to in-source the technology to Canada. The manufacturing subsidiary is 70% owned by Bri-Chem and 30% owned by a Chinese corporation.

Seasonality of Operations

Weather conditions can affect the sale of the Company's fluids, chemical, steel 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 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.

Growth Strategy

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

The Company will continue to focus on its North American growth strategy by expanding its market presence in the oil and gas drilling fluids, wholesale distribution markets and steel pipe manufacturing opportunities. The fluids division will concentrate on providing superior customer service with the right product mix in strategic locations to meet the changing needs of our customers, while managing its inventory levels. The Company will explore opportunities that will enable the division to become more basic in drilling fluids by seeking to become more directly involved in the manufacturing and blending of drilling fluid products. In addition, the Company is penetrating into other drilling fluid and blending segments, such as stimulation and completion fluids, which adds support to Bri-Chem's focus on becoming the leading fully integrated drilling fluid supplier in North America. In the USA, Bri-Chem will continue to aggressively pursue expanding its footprint and strive to become the leading national independent wholesale distributor of drilling fluids for the unconventional resource plays located throughout the USA. The steel distribution business will manage inventory prudently to ensure the division has the right quantity and specifications of steel pipe products to meet the growing needs of its customers. In the short term, the steel pipe manufacturing division will focus on efficiencies within its current production process. Over the medium term, the division will solidify a production plan that will meet the demand of our customers. In addition, the steel pipe manufacturing division will examine new strategic partnerships for possible new micro-mill locations and technologies.

Acquisitions may play a significant role in the Company's growth. Management recognizes that the key determinants to successfully building shareholder value from acquisitions are reaching agreement on an appropriate valuation and efficiently integrating corporate cultures. Acquisitions are intended to increase product, geographical, industry and seasonal diversification.

FINANCIAL SUMMARY

The following selected three-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarter End Report for the period ended March 31, 2013.

Consolidated statements of operations	**For the three months ended March 31**		**Change**	
	2013	2012 (6)	**$**	**%**
Sales	**$ 49,695,536**	$ 52,706,137	$ (3,010,601)	-5.7%
Gross margin	**8,683,823**	8,413,369	$ 270,454	3.2%
	17.5%	16.0%		
Operating expenses (1)	**4,541,617**	3,392,903	1,148,714	33.9%
EBITDAC (2)	**4,142,206**	5,020,466	(878,260)	-17.5%
Amortization - production equipment	**247,758**	279,979	(32,221)	-11.5%
Adjusted EBITDAC (3)	**4,389,964**	5,300,445	(910,481)	-17.2%
Amortization (4)	**584,057**	558,640	25,417	4.5%
Interest	**810,356**	736,073	74,283	10.1%
Share-based payments	**339,860**	97,734	242,126	247.7%
Earnings before income taxes	**2,655,691**	3,907,998	(1,252,307)	-32.0%
Income taxes - current	**779,120**	1,171,155	(392,035)	-33.5%
Income taxes (recovery) - deferred	**41,867**	(156,761)	198,628	126.7%
Net earnings	**$ 1,834,704**	$ 2,893,604	$ (1,058,900)	-36.6%
Net earnings attributable to shareholders of the Company	**$ 1,859,851**	$ 3,061,478	$ (1,201,627)	-39.2%
Net loss attributable to NCI (5)	**$ (25,147)**	$ (167,874)	$ 142,727	-85.0%
Earnings per share				
Basic	**$ 0.11**	$ 0.18	$ (0.07)	-38.9%
Diluted	**$ 0.11**	$ 0.18	$ (0.07)	-38.9%
Adjusted EBITDAC per share				
Basic	**$ 0.25**	$ 0.31		
Diluted	**$ 0.25**	$ 0.30		
Weighted average shares outstanding				
Basic	**17,461,806**	17,193,631		
Diluted	**17,527,623**	17,414,312		

(1) See page 32 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (see page 32 for a further explanation of this non-IFRS measure).
(3) Adjusted EBITDAC includes amortization of production equipment which is included in cost of sales for financial statement purposes to conform with IFRS (See page 32 for a further explanation of this non-IFRS measure).
(4) Amortization includes amortization of production equipment of $247,758 (2012 - $279,979), which is included in cost of sales for financial statement purposes to conform with IFRS
(5) Bri-Steel Manufacturing Inc. is a 70% owned subsidiary of Bri-Chem Corp. NCI represents the 30% non-controlling interest's ("NCI") portion of loss of the subsidiary for the three month period ended March 31, 2013.
(6) The Company reclassified amounts in the Statement of Operations relating to sublease revenue and production costs for its manufacturing facility to categorize production overheads consistently. The 2012 comparatives have been reclassified as a result.

RESULTS OF OPERATIONS

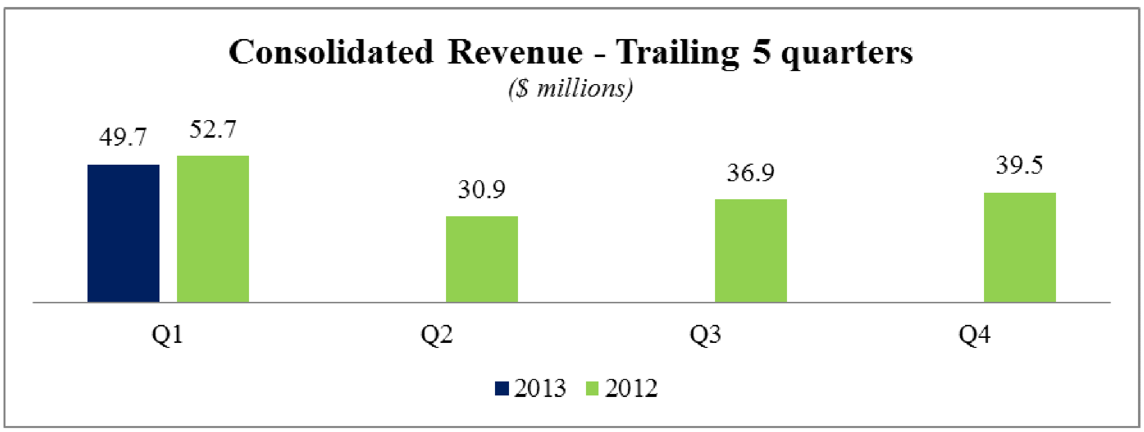
Sales

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

Sales by segment

	For the three months ended March 31					
	2013		2012		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids Distribution - Canada	**$ 29,441,344**	**59.2**	$ 37,996,836	72.1	$ (8,555,492)	-22.5%
Fluids Distribution - USA	**7,742,600**	**15.6**	2,798,103	5.3	4,944,497	176.7%
Total Fluids Distribution	**37,183,944**	**74.8**	40,794,939	77.4	(3,610,995)	-8.9%
Fluids Blending & Packaging (1)	**4,341,615**	**8.7**	2,630,971	5.0	1,710,644	65.0%
Fluids Transportation	**-**	**-**	130,179	0.2	(130,179)	-100.0%
Steel Distribution	**3,836,292**	**7.7**	7,115,801	13.5	(3,279,509)	-46.1%
Steel Manufacturing	**4,333,685**	**8.7**	2,034,247	3.9	2,299,438	113.0%
	$ 49,695,536	**100.0**	$ 52,706,137	100.0	$ (3,010,601)	-5.7%

(1) Fluids blending and packaging division sells products to the fluids distribution division, which in turn sells it to the end user. In Q1 2013 sales to the distribution division were $3,599,023 (2012 - $3,534,394). This revenue has been eliminated upon consolidation.



Drilling Fluids Distribution Divisions

The Company's North American drilling fluids distribution divisions recorded combined sales of $37,183,944 for the three months ended March 31, 2013 compared to sales of $40,794,939 in 2012, representing a decrease of 8.9% quarter over quarter. The Canadian fluids distribution division declined by 22.5%, while the USA fluids distribution division grew 176.7% in Q1 2013 over same period in 2012.

Canadian Fluids Distribution

Bri-Chem's Canadian drilling fluids distribution division generated sales of $29,441,344 for the three months ended March 31, 2013, compared to sales $37,996,836 over the same comparable period in 2012. The decrease in sales was mainly due to the overall decrease in drilling rig utilization rates as they averaged 60.9% in Q1 2013 compared to 67.7% in Q1 2012, a decrease of 6.8%. The number of average active rigs operating during the first quarter of 2013 also decreased by 9.1% falling from 584 in Q1 2012 to 531 in Q1 2013 and liquid invert sales was down 24.7% as compared to Q1 2012.

The Alberta market experienced a decrease in sales of 22.5% for Q1 2013, while the number of wells drilled increased by 7.6% in the region. In Saskatchewan, wells drilled increased by 2.1% quarter over quarter and revenues decreased by 6.4%. The decrease in sales in these regions was mainly due to a reduction of liquid invert sales and our independent drilling fluid engineering customers not obtaining some of the work in these regions as major North American drilling fluid engineering companies acquired a higher percentage of the work and serviced those wells in the regions with their own inventories. British Columbia has seen a decrease of 12.6% in rig activity and as a result revenue decreased 22.7% for the quarter due mainly to excess supply of dry natural gas which has resulted in many drilling companies deciding to cut spending on natural gas drilling in this region.

Bri-Chem blends, reconditions and stores a petroleum based liquid drilling fluid, known as liquid invert, which is used in deep, horizontal, high temperature drilling applications. Last year, in the second quarter of 2012, two of the Company's larger customers established their own blending and storage facilities to service their needs within the north central region of Alberta. For the three months ended March 31, 2013, Bri-Chem has had a 24.7% decrease in liquid invert sales, which is substantially less of a decline than Q4 2012 (45%) as more independent fluid engineering customers have begun to take advantage of their access to our liquid invert availability resulting in increased invert sales from smaller and mid-size customers. We anticipate that starting in the second quarter of 2013 and beyond that liquid invert sales are expected to be comparable to those in the prior year. In addition, any increase in overall drilling activity could result in additional work for independent fluid engineering companies which would increase demand for liquid invert sales and a rebound in natural gas prices could reactivate liquid invert drilling activity in the northern British Columbia region.

United States Fluids Distribution

Bri-Chem's market presence in the USA has now expanded to fourteen warehouses after the December 31, 2012 acquisition of General Supply Company and their three well positioned Oklahoma warehouse locations. The Company's USA drilling fluids distribution division generated revenues of $7,742,600 for the three months ended March 31, 2013 compared to $2,798,103 in 2012, representing a 176.7% increase. In addition, the Company had fluid sales of $19,159 for the three months ended March 31, 2013 (2012 - $402,067) from the Canadian fluids distribution division sold into the USA. Bri-Chem's expansion into new geographic regions has brought new customers and demand for drilling fluids as Bri-Chem is establishing its market presence as a leading full service independent national wholesaler of drilling fluids. The USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. As such, the Company continues to focus on expanding its product offerings in the regions it currently services as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from an independent wholesaler.

Fluids Blending and Packaging Division

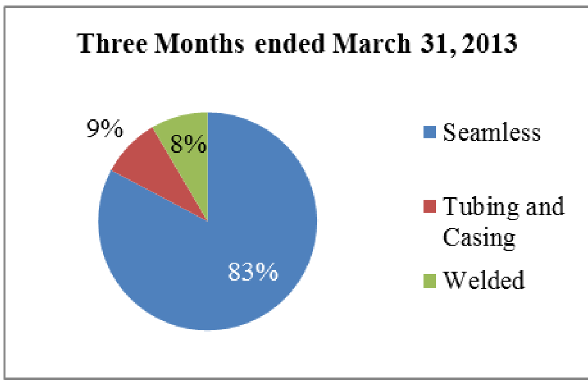
The fluids blending and packaging division previously recorded its sales in the fluids distribution segment but is now being shown separately as its own operating segment. This division continues to expand it products which now includes the blending and packaging of cementing, stimulation, and fracturing fluids. Many of these products are a blended formulation utilizing specialty additives that Bri-Chem can supply in both packaged and truckload quantities. For the three months ended March 31, 2013, sales were $4,341,615 as compared to $2,630,971 representing a 65.0% increase quarter over quarter. On November 30, 2012, the Company purchased the assets of Kemik Inc., a Calgary based cementing chemical blender and packager which is expected to enhance the Company's presence for cementing sales throughout North America.

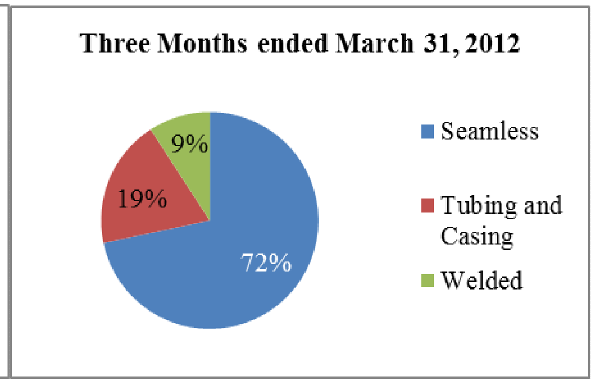
Fluid Transportation Division

As a result of Bri-Chem's expansion from three warehouses in May of 2011 to fourteen national warehouses, management has been able to secure superior independent highway transportation rates which are less than the cost of running our own fleet. The Company has reduced its highway transportation fleet from ten tractors to zero and maintains four trailers.

On December 31, 2012, the Company acquired all of the outstanding common shares of General Supply Company, an Oklahoma based drilling fluid wholesale distribution business. As part of the acquisition, Bri-Chem acquired a fleet of specialized rig hauling trucks that are used to secure delivery of drilling fluids to customers on site. This field service transportation revenue is a value added service offered to customers and the revenue is included in the USA fluids distribution division.

Steel Pipe Division



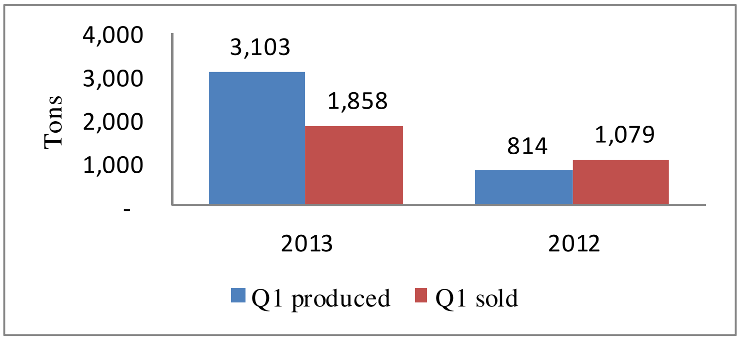


Steel Pipe Distribution

For the first quarter ended March 31, 2013, the steel pipe distribution division generated sales of $3,836,292, a decrease of 46.1% over the comparable period in 2012. The steel distribution division experienced a decrease in demand for seamless pipe in November 2012 and it continues to be negatively affected by reduced demand from steel pipe service suppliers into Q1 2013. In addition, in early 2012 we liquidated a significant amount of welded and tubing and casing pipe inventory in an effort to concentrate our sales focus on the seamless steel pipe product line that yields more consistent margins and requires less inventory on hand. The Company intends on decreasing its current inventory level of seamless steel pipe in 2013 to increase inventory turns given current demand levels. Volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints are all factors contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which will reduce overall steel pipe sales activity in the WCSB.

Steel pipe sales in the USA amounted to $308,632 compared to $1,553,430 in 2012, a decrease of 80.1%. The decrease is due to the Company's strategic decision to focus on the Canadian markets. USA sales are the result of the Company maintaining certain relationships in the USA and servicing those customers with steel pipe products when orders are received. The division continues to serve its USA customers with mill direct orders but is not focusing sales efforts in this area at this time.

Steel Pipe Manufacturing



The steel pipe manufacturing division manufactures large diameter seamless steel pipe primarily used in the oil and gas, petro-chemical, and oilsands markets. The Edmonton based manufacturing facility is producing large diameter seamless pipe 24 hours a day, 4 days a week. The Company received its American Petroleum Institute (API) for mill certification in 2012 which allows the division to offer the production capacity to a number of companies throughout North America.

The manufacturing division achieved a 113% increase in Q1 sales to $4,333,685 (1,858 tons sold) for the three months ended March 31, 2013 compared to sales of $2,034,247 (1,079 tons sold) for the same comparable period in 2012. During the first quarter of 2013, the division produced 3,103 tons as compared to 814 tons produced in the first quarter of 2012 despite one of the expanders being under maintenance for three weeks during the quarter. The Company expects production tonnage to increase next quarter and for the remainder of 2013, with annual production projected to come in at approximately 12,000 - 16,000 tons for fiscal 2013. Volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints are all factors contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which deferred demand for large diameter steel in Q1 2013. During 2013, management will monitor production capacity to ensure it meets the short and medium term product demands from our customers. In the longer term, management will assess the addition of a third shift based on equipment performance and customer demands.

Gross margin

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

	For the three months ended March 31				Change	
	2013		2012			
	$	**%***	$	%*	**$**	**%**
Fluids Distribution - Canada	**$ 4,464,399**	**15.2%**	$ 6,157,919	16.4%	$ (1,693,520)	-27.5%
Fluids Distribution - USA	**1,802,079**	**23.3%**	643,444	23.0%	$ 1,158,635	180.1%
Total Fluids Distribution	**6,266,478**	**16.8%**	6,801,363	16.7%	$ (534,885)	-7.9%
Fluids Blending & Packaging	**852,246**	**19.6%**	563,454	21.4%	288,792	51.3%
Fluids Transportation	**(12,109)**	**0.0%**	49,144	37.8%	(61,253)	-124.6%
Steel Distribution	**1,117,879**	**29.1%**	1,194,437	16.8%	(76,558)	-6.4%
Steel Manufacturing	**459,329**	**10.6%**	(195,029)	-9.6%	654,358	335.5%
Total	**$ 8,683,823**	**17.2%**	$ 8,413,369	16.9%	$ 270,454	3.1%

* as a percentage of divisional revenues

Fluids Distribution and Packaging Divisions

The fluids distribution division margins have remained relatively consistent over the prior comparable quarter in 2012. Margins on fluid sales vary based on product mix and drilling formations. Deeper, non-conventional wells require more technologically advanced fluids. Oil based drilling fluids, known as liquid invert, have been developed to service deeper, high temperature and more environmentally sensitive drilling projects. The USA fluid distribution margins are traditionally higher than those of the Canadian operations, and were 23.3% for the first three months ended March 31, 2013 consistent to the comparable period in 2012. In the short to medium term, margins are anticipated to remain consistent in the fluids distribution division, however a change in product mix could impact margins.

Bri-Chem has dedicated facilities, located in Acheson and Camrose, Alberta, with capacity to blend and package specialty additive fluids for customer specific products. As a result, the fluids blending and packaging division tend to have higher margins for the value-added service. In the first quarter of 2013, the fluids packaging gross margin was 19.6% as compared to 21.4% in the comparable period of 2012.

Steel Distribution and Manufacturing Divisions

The steel distribution division gross margins were 29.1% for the first three months ended March 31, 2013, compared to 16.8% in 2012. Steel distribution margins include sublease rental income of $309,346 in Q1 2013 compared to $139,689 in Q1 2012. Adjusting gross margins to exclude the sublease rental income would result in margins of 22.9% for the three months ended March 31, 2013 as compared to 15.1% in 2012. The Company's inventory management program has allowed the division to replace high costed inventory with more favourably costed product, which has led to improved margins in the first quarter of 2013. Gross margins are expected to remain consistent in 2013; however any future volatility in steel commodity prices may impact gross margins in upcoming periods.

	For the three months ended March 31		Change	
	2013	2012	**$**	**%**
Gross Margin ($) (1)	**459,329**	(195,029)	654,358	335.5%
As percentage of sales	**10.6%**	-9.6%		
Addback: Fixed overheads in production (2)	**836,144**	539,243	296,901	55.1%
Amortization of production equipment	**247,758**	279,979	(32,221)	-11.5%
Adjusted Gross Margin ($) (3)	**1,543,231**	624,193	919,038	147.2%
As percentage of sales	**35.6%**	30.7%		

(1) In compliance with IFRS standards cost of sales include all overheads related to production regardless of whether or not the facility is operating at full capacity.

(2) Fixed overheads costs include production facility lease costs, utilities and indirect labour costs related to the steel manufacturing facility.

(3) Adjusted gross margins reflect the selling price less the cost of product and direct labour to manufacturer the product. (See page 32 for a further explanation of this non-IFRS measure).

The steel manufacturing division achieved gross margins of 10.6% for the first quarter of 2013 compared to (9.6%) in the same comparable period of 2012. Adjusted gross margin, which exclude fixed overheads and amortization of production equipment, was 35.6% for 2013 compared to 30.7% for the same comparable period in 2012. As the result of increased production and improved efficiencies the division has experienced improved margins over the past several quarters. In first quarter of 2013, the division produced 3,103 tons compared to 814 tons in 2012. The increase in production resulted in lower cost of production per ton in the first quarter of 2013, which resulted in increased margins quarter over quarter. As production continues to become more consistent over the next several quarters, margins should continue to be consistent to that experienced during the first quarter of 2013. Margins have the potential to fluctuate depending on the size and grade of pipe being produced. More specialized sizes such as 30" are anticipated to yield higher margins than common sizes such as 16" standard A106 pipe. Management is focused on meeting the size requirements of its customers, while being competitively priced.

For the second quarter of 2013, we are anticipating gross margins on fluid sales to be consistent to those experienced in the first quarter of 2013. 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. Steel distribution margins are expected to be consistent for 2013, due to our procurement strategies and solid vendor relationships. The steel manufacturing division continues to target adjusted gross margins between 27% and 32% based on increased production, current raw material costs and estimated finished product sale prices.

Operating expenses

Salaries and employee benefits

	For the three months ended March 31		Change	
	2013	2012	$	%
Salaries and benefits	**$ 2,835,944**	$ 2,226,483	$ 609,461	27.4%
% of sales	**5.7%**	4.2%		1.5%

Salaries and benefits have increased by 27.4% over the prior quarter due to additional staff acquired from the recent Oklahoma based acquisition and for new hires related to sales and administration for the USA operations. Also, additional benefits incurred include costs related to an employee share purchase program that was introduced in 2012. Share-based payments increased by $242,126 from the prior comparable quarter as the Company issued new stock options to directors, executive and senior management of the Company in mid-2012, which impacts the current quarter expense.

The Company employed 139 (111 Canada and 28 USA) employees at March 31, 2013 compared to 117 (90 Canada and 27 USA) for the same time period in 2012. Wages and benefits of the steel manufacturing division are recorded in cost of sales.

The Company expects salaries and employee benefits to increase slightly for the remainder of 2013 as the Company is anticipating adding a global procurement manager, safety and administrative personnel. As the Company continues with its growth plans, personnel requirements will be revisited as required.

Selling, general and administration

	For the three months ended March 31			
	2013		2012	
	$	**%***	$	%*
Selling	**$ 203,582**	**0.4**	$ 314,683	0.6
Professional and consulting	**212,747**	**0.4**	121,944	0.2
General and administration	**562,302**	**1.1**	525,343	1.0
Rent, utilities and occupancy costs	**1,020,204**	**2.1**	769,261	1.5
Foreign exchange loss/(gain)	**46,698**	**0.1**	(467,077)	(0.9)
	$ 2,045,533	**4.1**	$ 1,264,154	2.5

* As a percentage of consolidated revenues

The following is an analysis of the selling, general and administrative categories:

Selling expenses decreased for the quarter ended March 31, 2013 compared to the same period in 2012. This includes a decrease of $57,313 in public company costs related to investor relation activities, as well as a decrease of $32,027 in travel and accommodation costs. Auto expenses decreased by $29,580 due to reduced lease costs in the transportation division as the division reduced its highway transportation fleet in late 2012. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses for the quarter ended March 31, 2013 increased as legal fees increased by $31,467 relating to fees associated to the 2012 acquisitions. Professional fees increased by $16,335 for valuation work completed on the acquisitions late in 2012. In addition, the Company increased its audit accrual to account for the semi-annual ABL audits. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses increased for the period ended March 31, 2013. Bad debts increased by $46,663 for the first quarter of 2013 compared to 2012. All other costs remained relatively consistent from the comparable prior year quarter. General and administration expenses include bad debts, bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy costs increased in the first quarter of 2013. The increase relates to infrastructure costs including warehouse rents as a result of continued geographic expansion in the USA. Some of the additional warehouses added throughout 2012 have small monthly rental charges which increased the occupancy expense year over year. Costs in this category are comprised mainly of rent, utilities, and warehouse expense for the Edmonton, Leduc, Camrose, Acheson and USA locations.

During the first quarter of 2013, the US dollar gained strength in relation to other currencies, and was higher than the Canadian dollar at March 31, 2013. The increase in the US dollar resulted in a foreign exchange loss for the three months ended March 31, 2013, as the increased US rate caused the Company to have an unfavourable position on its lending facility which is partially held in USD compared to a weaker US dollar during the same period in 2012. (See "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Amortization

	For the three months ended March 31		Change	
	2013	2012	**$**	**%**
Property and equipment	**$ 155,183**	$ 162,202	$ (7,019)	-4.3%
Intangible assets	**181,116**	116,459	64,657	55.5%
Total	**$ 336,299**	$ 278,661	$ 57,638	20.7%

The decrease in property and equipment amortization is the result of certain assets being disposed of in the first quarter of 2013 that were in use in 2012. Intangible asset amortization has increased due to the straight line amortization incurred for the Kemik and General acquisitions which took place late in 2012.

Interest

	For the three months ended March 31 2013	2012	Change $	%
Interest on short-term operating debt	$ **512,937**	$ 715,108	$ (202,171)	-28.3%
Interest on long-term debt	**290,891**	4,955	285,936	5770.7%
Interest on obligations under finance lease	**6,528**	16,010	(9,482)	-59.2%
Total	$ **810,356**	$ 736,073	$ 74,283	10.1%

Interest on short-term operating debt decreased by $202,171 for the quarter ended March 31, 2013 due to decreases in the revolving line of credit balance outstanding as compared to the prior period. Interest on long-term debt increased as the result of the subordinated debt agreement incurred in the fourth quarter of 2012.

On November 30, 2012, the Company received a $10,000,000 subordinated debenture from Fulcrum Partners Inc. ("Fulcrum"). The debenture bears interest at 11.5%, repayable monthly from December 2012 to December 2013 interest only, March 2014 to December 2017, quarterly installments of $300,000 plus interest.

Income taxes

The provision for income taxes for the quarter ended March 31, 2013 is a net current tax expense of $779,120 compared to $1,171,155 in the same quarter of 2012. The decrease in taxes is a result of the decrease in earnings and margins. The Company's effective tax rate is 29.3% for the quarter ended March 31, 2013. The Company had a deferred tax expense of $41,867 during the quarter compared to a deferred tax recovery of $156,761 for the comparable period in 2012.

Net earnings and earnings per share

	For the three months ended March 31 2013	2012	Change $	%
Net earnings	$ **1,834,704**	$ 2,893,604	$ (1,058,900)	-36.6%
% of sales	**3.7%**	5.5%		
Adjusted EBITDAC (1)	$ **4,389,964**	$ 5,300,445	$ (910,481)	-17.2%
% of sales	**8.8%**	10.1%		

(1) Represents adjusted earnings before interest, taxes, depreciation, amortization, and share-based payments (see page 32 for a further explanation of this non-IFRS measure).

The Company had net earnings for the quarter ended March 31, 2013 of $1,834,704 compared to earnings of $2,893,604 in the prior year. Net earnings as a percentage of consolidated revenues for the period was 3.7% compared to 5.5% for the same quarter of the prior year. Adjusted EBITDAC was $4,389,964 compared to $5,300,445 in the prior period, a decrease of $910,481. The decrease in net earnings and Adjusted EBITDAC for the period is mainly due to two significant non-cash related items being foreign exchange as the US dollar rose in comparison to the Canadian dollar, resulting in a $513,775 foreign exchange difference from the prior period, as well as $242,126 difference in stock-based compensation expense representing a total quarter over quarter change of $755,901.

Basic and diluted earnings per share for the quarter ended March 31, 2013 were $0.11 and $0.11 respectively. Earnings per share were based on the weighted average number of shares outstanding during the period. The basic and diluted weighted average number of shares outstanding for the quarter ended March 31, 2013 were 17,461,806 and 17,527,623 respectively compared to 17,193,631 and 17,414,312 for the same comparative period in 2012.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2013 Q1	2012 Q4	2012 Q3	2012 Q2	Total TTM
Sales	$ 49,696	$ 39,515	$ 36,916	$ 30,931	$ 157,058
Gross margin ($)	8,684	4,304	6,109	3,917	23,014
Gross margin (%)	17.5%	10.9%	16.5%	12.7%	14.7%
EBITDAC (1)	4,142	2,105	2,964	182	9,393
Amortization - Production Equipment	248	72	232	223	775
Adjusted EBITDAC (1)	4,390	2,177	3,196	405	10,168
Net earnings (loss)	$ 1,834	$ 1,330	$ 1,439	$ (770)	$ 3,833
Basic earnings (loss) per share	$ 0.11	$ 0.06	$ 0.10	$ (0.03)	$ 0.24
Diluted earnings (loss) per share	$ 0.11	$ 0.06	$ 0.10	$ (0.03)	$ 0.24

(in thousands of Cdn $)	2012 Q1	2011 Q4	2011 Q3	2011 Q2	Total TTM
Sales	$ 52,706	$ 48,270	$ 61,236	$ 25,871	$ 188,083
Gross margin ($)	8,413	7,017	9,599	3,971	29,000
Gross margin (%)	16.0%	14.5%	15.7%	15.3%	15.4%
EBITDAC (1)	5,020	4,205	6,346	1,490	17,061
Amortization - Production Equipment	280	430	123	30	863
Adjusted EBITDAC (1)	5,300	4,635	6,469	1,520	17,924
Net earnings	$ 2,894	$ 2,431	$ 3,962	$ 437	$ 9,724
Basic earnings per share	$ 0.18	$ 0.17	$ 0.25	$ 0.03	$ 0.63
Diluted earnings per share	$ 0.18	$ 0.16	$ 0.24	$ 0.03	$ 0.61

(1) EBITDAC and Adjusted EBITDAC are non-IFRS measures which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. (See page 32 for a further explanation of these non-IFRS measures).

Quarterly revenue has seen a decrease over the past few quarters as drilling activity in the WCSB has continued to decline. EBITDAC, Adjusted EBITDAC and net earnings has followed a similar trend to revenue, however, the recent acquisitions completed by the Company and the investment in the USA drilling fluids market share growth strategy have not been fully realized. EBITDAC, Adjusted EBITDAC and net earnings are also impacted by the reduced activity associated with traditional spring break up in the WCSB during the second quarter of the Company's fiscal year.

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 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 CONDITION & LIQUIDITY

Summary Balance Sheet As at		March 31 2013		December 31 2012
Current assets	$	**120,107,514**	$	110,593,078
Property and equipment		**13,235,318**		13,006,408
Other assets		**5,503,345**		5,655,573
TOTAL ASSETS	$	**138,846,177**	$	129,255,059
Current liabilities	$	**74,974,735**	$	66,746,849
Non-current lliabilities		**10,471,834**		10,778,849
TOTAL LIABILITIES		**85,446,569**		77,525,698
Share capital		**24,390,465**		24,396,817
Non-controlling interest		**2,387,078**		2,412,225
Retained earnings and contributed surplus		**26,622,065**		24,920,319
TOTAL SHAREHOLDERS' EQUITY		**53,399,608**		51,729,361
TOTAL LIABILITIES AND EQUITY	$	**138,846,177**	$	129,255,059

Financial Ratios	**March 31 2013**	December 31 2012
Working capital ratio	**1.60**	1.66
Days sales in receivables	**76.5**	104.7
Inventory turns	**2.3**	2.1
Days purchases in payables	**47.6**	71.9

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

As at March 31, 2013, the Company had positive working capital of $45,132,779 compared to $43,846,229 at December 31, 2012. The Company's working capital ratio (defined as current assets divided by current liabilities) was 1.60 to 1 for the period ended March 31, 2013, compared to 1.66 to 1 for the year ended December 31, 2012.

As at March 31, 2013, the Company had drawn $53,117,352, net of transaction costs of $430,390, on its available credit facilities of $80,000,000, as compared to $44,398,833, net of transaction costs of $500,304, at December 31, 2012. Financial covenants of the Company's Asset Based Lending (ABL) Facility include a minimum adjusted tangible net worth and a maximum on annual capital expenditures. As at March 31, 2013, the Company was in compliance with its financial covenants.

The March 31, 2013 day's sales in receivables are 76.5, lower than the ratio from December 31, 2012 of 104.7. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference in the calculation of the days sales in receivables. Given the significant increase in sales in the fourth quarter related to the increase in drilling activity in the winter drilling season, combined with the faster AR collections in the USA fluids division, this ratio is reasonable. The decrease in days' purchases in payables at March 31, 2013 compared to December 31, 2012 is as a result of the Company using its ABL Facility to pay vendors more quickly as well as the Company collecting more cash from 2012 fourth quarter sales.

As at March 31, 2013, accounts receivable was $44,636,683, an increase of $7,041,682 or 18.7% from the December 31, 2012 balance of $37,594,701. The increase is due to the busy winter drilling program in Western Canada, which increases the demand for the Company's drilling fluids products. In addition, the Company has seen an increase in sales from its USA fluids distribution division in the first quarter of 2013.

Inventory increased by $1,315,558 or 1.9% to $71,602,197 compared to the 2012 year-end balance of $70,286,639. Inventory turns increased slightly from 2.1 at December 31, 2012 to 2.3 at March 31, 2013. A significant portion of the inventory increase relates to product returns in the fluid distribution division as well as more raw steel tubes for the steel manufacturing division as production increases. Canadian fluid inventories have remained consistent with a high volume of purchases directly correlated to sales volumes. Inventory values are expected to increase slightly in the steel manufacturing division as the result of raw pipe tubes required for the continuation of production, while being offset by a reduction in commodity sizes of seamless pipe inventory. Management is prudently managing its inventory and is anticipating reducing inventory levels modestly in future quarters without impacting the service levels of our customers.

The Company's prepaid expenses and deposits have increased by $1,005,065 to $3,716,803 at March 31, 2013 as compared to the 2012 year-end balance of $2,711,738. The increase was due to deposits being made on steel pipe purchases from a few international vendors that do not provide credit terms.

The Company's liquidity will depend upon operating cash flows, existing working capital, the unused credit facility and the ability to access debt and equity markets. The Company currently has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. The Company continues to assess its requirements for capital on an on-going basis. Based on current budgeted operating expenditures for the remainder of the 2013 year, the Company will have sufficient funds to meet its obligations.

Summary of Consolidated Statements of Cash Flows **Period ended**		**March 31** **2013**		March 31 2012
Cash used by operating activities	**$**	**(6,623,630)**	$	(12,122,353)
Cash provided by financing activities		**7,090,003**		12,787,653
Cash used by investing activities		**(466,373)**		(665,300)
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of year		**-**		-
Cash and cash equivalents, end of year	**$**	**-**	$	-

Cash flow used by operating activities

Cash used by operating activities for the quarter ended March 31, 2013 was $6,623,630 compared to cash used of $12,122,353 for the same period in 2012. The Company's cash used by operating activities relates to less advances of credit for purchases of inventory during the quarter as the Company collected receivables from Q4 2012 sales. There was also a decrease in the balance of accounts payable outstanding as the Company continued to pay for purchases of fluid and steel pipe inventory to meet the demand of increased sales to customers. Inventory levels have increased due to increased USA fluid demand as well as raw material pipe for the steel manufacturing division. The Company expects to see cash used by operations to decrease for the second quarter of 2013, as the Company traditionally collects more sales during this period. The Company intends to continue to manage its inventory levels and spending in order to conserve its balance sheet strength and minimize any increase in debt levels.

Cash flow provided by financing activities

Cash provided by financing activities was $7,090,003 for the quarter ended March 31, 2013, compared to $12,787,653 in the comparable 2012 period. The cash provided by financing activities is related to advances on the operating line to fund period operations. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second and third quarters, which it will use to repay the operating line. This trend is reversed in fourth and first quarters when significant sales and purchases occur, while collections are often delayed until the second quarter. With the increased purchasing activity during the quarter, increased borrowing was required to pay vendors ahead of the collection of receivables on the increased sales.

Cash flow used by investing activities

Cash used in investing activities amounted to $466,373 for the quarter ended March 31, 2013 compared to $665,300 during the same period in 2012. The decrease is due to fewer capital asset additions required in the steel manufacturing facility as the facility is now in operations. The main investing activities are for the purchase and set up of a liquid invert facility and storage tanks in the USA as well as additional testing equipment for the steel pipe mill. The Company expects cash to be used for investing activities during the remainder of 2013 for the various continued process efficiencies in the steel manufacturing division as well as additional blending equipment in Canada and the USA to expand the packaging and blending division.

Covenants

	March 31, 2013		December 31, 2012	
	As calculated	**Minimum required**	As calculated	Minimum required
		To exceed		To exceed
Adjusted tangible net worth	**$ 48,494,179**	$ 27,105,000	$ 46,586,121	$ 27,105,000
		Not to exceed		Not to exceed
Eligible capital expenditures	**$ 504,565**	$ 4,262,700	$ 3,463,991	$ 4,300,000
		Not to exceed		Not to exceed
Funded term debt to EBITDA	**0.94**	1.5:1	0.91	1.5:1

The Company has credit facilities which contain two financial covenants being a minimum tangible net worth and a maximum annual capital expenditures with the asset based lending agreement. In addition, there is an additional covenant with the subordinated debenture relating to funded term debt to EBITDA. 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.

Adjusted tangible net worth is set at a minimum and defined, on a consolidated basis, as total assets, less intangibles and goodwill, excluding deferred tax assets less total liabilities, excluding deferred tax liabilities. Capital expenditures limit is set at a maximum of 120% of the consolidated budgeted yearly capital expenditures. The funded debt to EBITDA covenant is set at 1.50 to 1. Funded term debt is any term debt without limitation the subordinated debt facility and any capital lease obligations. EBITDA is net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including transaction and acquisition expenses) and extraordinary items and share based payments during any of its recently completed four fiscal quarters.

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 March 31, 2013, the Company was in compliance with all financial covenants.

Property and equipment

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

The Company's investment in property and equipment for the quarter ended March 31, 2013 was $504,565. The capital expenditures were funded from the Company's operating line of credit.

The future capital expenditures for the remainder of 2013 are approximately $2,900,000. Proposed future equipment upgrades may include an additional liquid invert facility, bulk storage tanks and blending and packaging equipment for the USA drilling fluids distribution division as well as additional testing equipment for the steel manufacturing division. 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.

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 quarter ended March 31, 2013, the Company incurred office sharing costs of $15,000 (March 31, 2012 - $15,750) in the normal course of operations with BRC Advisors Inc., which a certain director and officer has control over.

Post-reporting date event

On April 30, 2013, the Company entered into a letter of intent to acquire assets and ongoing operations of a California, USA based specialty cement chemical blending and packaging company. The transaction is expected to be completed on or about May 31, 2013, subject to certain closing conditions.

OUTLOOK

The discussion in this section is qualified in its entirety by the "Caution 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.

First quarter drilling rig utilization decreased by 6.8% compared to the first quarter of 2012. Despite the decrease in drilling rig utilization, the Petroleum Services Association of Canada (PSAC) has forecasted 11,976 wells to be drilled in Western Canada for 2013, a forecasted increase of 7.8% over 2012. The Canadian fluids division remains cautiously optimistic that the increase in forecasted wells drilled will increase the demand for drilling fluid products in Western Canada. Due to the amount of snow in Western Canada, spring break up is anticipated to be prolonged as wet weather could delay rigs starting back up and delay the summer drilling program. In the second half of 2013, we anticipate drilling activity to increase which should drive increased demand for drilling fluid products in Western Canada.

Bri-Chem will continue to invest into its USA drilling fluid market expansion plan where significant market share is vastly obtainable. The continued growth in the USA drilling fluids division is the result of geographic and product expansion that management has been implementing for the past several quarters. The strategically placed warehouses located throughout the USA have allowed us the ability to better service customers in major drilling regions which has and will continue to drive growth in sales and future earnings. We are continuing to examine additional strategic warehouse locations in the USA that will provide revenue and earnings growth as we establish Bri-Chem as the leading national independent wholesale supplier of drilling fluids for the USA drilling fluids market.

The Company's fluids blending and packaging division continued its growth in the first quarter of 2013. Management remains focused on seeking out new product offerings, which we anticipate will result in new sales and earnings growth. The recent announcement of a letter of intent to purchase a specialty cement blender and packager provides a new USA market place for which the division will be able to offer products. Management believes that further opportunities exist to develop a liquid stimulation and specialty additives blending division to leverage additional business from existing clients that we currently service. Bri-Chem continues to actively seek to acquire companies that manufacture and blend liquid stimulation and specialty additive products to increase market share in the completion and stimulation fluids segment.

The steel pipe distribution division is continuing to service its customers with competitively priced seamless steel pipe, in various lengths and grades. With the ongoing weak demand from Q4 2012 into Q1 2013, the division is managing its inventory to increase its turns given current demand levels, while ensuring there is an adequate amount of inventory to meet the demand of our customers. Margins may decrease marginally over the short term as the division implements its inventory management program, but the division remains optimistic it can continue to achieve solid gross margins over the medium to long term. We are also examining the feasibility of servicing more customers on a mill direct basis for larger orders.

The steel manufacturing division has experienced increased sales and profitability over the past two quarters as the result of redundancies and efficiencies that transpired throughout 2012. The division anticipates similar or slightly higher production to that experienced in the first quarter of 2013. Management remains committed to its production forecast of 12,000 to 16,000 tons of production in 2013. In the short term, the division is focused on completing the production for a backlog of current sales orders. The division is securing sales orders to complete a production schedule based on confirmed sales orders to ensure maximum production given current staffing. Volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints are all factors contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which may reduce or defer small and large diameter steel pipe sales activity for Q2 2013, however demand is expected to increase in the second half of 2013.

Management and the Board of Directors are constantly evaluating additional acquisition opportunities and will continue to seek and identify targets that fit the corporate requirements as accretive and geographically favorable. Management is aggressively seeking and evaluating a number of opportunities which meets the strategic growth initiatives of the Company including product and geographic diversification as mentioned above.

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, 2012. 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.

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 and cash equivalents 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, such as those experienced in the past two years, can have a significant impact on the ability of the Company to obtain funding for future financial requirements.

In addition, the cost of obtaining money from the credit market has generally increased as many lenders have increased interest rates, enacted tighter lending standards, and are not refinancing existing debt at maturity on terms similar to current debt and, in some cases, ceased to provide funding. 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.

Competition and Industry Conditions

There is a strong correlation between drilling activity and demand for the Company's product. Industry demand for the Company's drilling products is further determined by activity levels that are focused on deep well drilling and applications common to the foothills region and northern Alberta and British Columbia, areas known for deeper drilling. Oil and gas activity in these geographic regions is normally strong during winter months or other times when climatic conditions are favorable.

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 and steel pipe 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. The Company attempts to mitigate this risk factor by assessing current drilling activity reports and future predictions from industry associations and reporting bodies when creating product demand forecasts.

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 adversely impacting the oil and natural gas industry.

Supply Risk

The Company distributes industrial products manufactured or supplied by a number of 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.

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 has a direct impact on the Company's business. Any significant reduction in industry forecasted levels of drilling activity in the WCSB and the United States may severely reduce activity levels for the Company and the resulting cash flows. Future changes in oil and natural gas prices could result in substantial increases or decreases in total revenues of the Company. Prolonged financial instability could result in oil and natural gas projects being deferred or cancelled thereby limiting new revenue streams to the Company.

Commodity Price Risk

The cost and availability of steel and selling prices fluctuate due to a number of factors beyond our control, including global market conditions, foreign currency exchange rates, and demand for steel, trade sanctions, tariffs, competition and price surcharges. Fluctuations in availability and cost of steel and selling prices may materially affect our business, financial condition and cash flow. We attempt to pass along product costs increases to customers, however, to the extent we are not able to pass on the entire increase to our customers, our business, financial condition and cash flow may be materially affected.

Interest Rate Risk

The Company is subject to interest rate risk from its financial leverage of its inventory and accounts receivable because they are based on floating rates of interest. The cash flow required to service the debt will fluctuate with changes in market rates. Increases in prime lending rates may reduce net profits after income tax. The Company has not entered into derivative arrangements to mitigate these risks.

Foreign Currency 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 USA markets, instead the Company relies on its inventory turnover. The Company has small amounts of sales to areas outside the USA and Canada periodically, for which transactions are entered into in US dollars.

Integration of Acquisitions

The Company is expected to continue to grow through 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.

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.

Government Trade Tariffs

The Company imports its steel products. Many of these imports may be subject to USA or Canadian trade laws. Under these trade laws, duties can be imposed against dumped products, which are products sold at a price that is below domestic producer's sales price in its home market or at a price that is lower than its cost of production. Additional duties can be imposed against products that benefited from foreign government financial assistance. Both the USA and Canada have filed antidumping cases against certain steel pipe from China. These antidumping cases may have dramatic impacts on the Company's access to product from its current suppliers. As a result of these charges, Bri-Chem has established relationships with manufacturers in countries such as Vietnam, India and the United States, however further charges could affect the Company's ability to source product in a timely manner.

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. 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.

Product Liability Claims

Although the Company believes it offers superior products in the market place, the Company may have claims for damages resulting from misapplication of products or from product defects. The Company mitigates this risk by providing standard Material Safety Data Sheets information for fluids products and complete specifications for steel pipe 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.

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 factors, including its ability to continue to successfully execute its corporate strategic plan. 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 maintain or sustain profitability. Failure to successfully execute any material part of the Company's strategic plan could have a material adverse effect on its business, financial condition, results or operations and cash flows.

Credit Risk

The Company's revenues are predominantly from products sold to oil and gas fluid engineering companies and steel pipe distributors which may result in significant exposure to one customer or on a combined basis to several individual customers. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. 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 increased payment delays and failure to pay increases due to a reduction in customer's cash flow. 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. The Company generally grants unsecured credit to its customers; however, it evaluates all new customers as appropriate and analyzes and reviews the financial health of its current customers on an ongoing basis.

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.

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

The Company has borrowed a significant amount of cash under its ABL Facility and is required to satisfy certain financial covenants in order to maintain its good standing under the ABL Facility. The Company 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 the Company's control that would cause the Company to fail to satisfy its obligations under the ABL Facility or other debt instruments. In such circumstances, the amounts drawn under the Company's debt agreements may become due and payable before the agreed maturity date and the Company may not have the financial resources to repay such amounts when due. The ABL Facility is secured by the majority of the Company's property. If the Company were to default on its obligations under the ABL 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 the Company's assets.

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 taxes to help mitigate the risks in this area.

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.

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.

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 the Company. 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.

Insurance risk

The Company has insurance and risk management programs in place to protect its assets, operations and employees. Although the Company has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, could have a material adverse effect on the results of operations and financial condition.

Fuel Prices

The Company incurs costs relating to fuel for its transportation company and as such higher fuel prices could have a material adverse effect on the Company's operations, results of operations and financial position. The Company mitigates this risk by implementing fuel economy, asset utilization, routine repairs and maintenance program and minimizing loss miles by utilizing back hauling.

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.

CRITICAL ACCOUNTING ESTIMATES

In preparing the interim consolidated financial statements, in conformity with International Financial Reporting Standards ("IFRS"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Principal areas where uncertainty is inherent include the valuations of accounts receivable, the allowance for doubtful accounts, the sales return provision, inventory obsolescence, work in progress, 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 the fair value of options and warrants using the Black-Scholes Option Pricing Model. Management feels actual results will not be materially different from these estimates.

The most significant estimates made by management include:

Sales return provision

Accounts receivable is a significant asset at March 31, 2013. 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 are 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 when factors indicate that a potential for impairment of the net realizable value exists. This includes examining the value of inventory against 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.

Fair value of derivative financial instruments

The Company enters into foreign exchange forward purchase contracts to help mitigate its foreign exchange risk in US dollars throughout the year. At each reporting period, management must estimate the fair market value of the contracts outstanding at that date and record an effect to unrealized foreign exchange at that date. Estimates of this value are based on the rate that would be applicable to enter into the same contract at that time, as compared to the rate originally entered into, with a potential gain or loss resulting. The actual value of the contract could differ significantly from estimates based on future foreign exchange rate changes.

Impairment testing of intangible assets and property and equipment

The Company is required to test for impairment of intangible assets and property and equipment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. 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 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 based on future expected cash flows and a discount rate. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

ACCOUNTING POLICIES

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

Consolidated Financial Statements

In January 2013, the Company adopted IFRS 10 "Consolidated Financial Statements". IFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Company controls the investee on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10, the Company re-assessed the control conclusion for its investees at January 1, 2013. The Company has made no changes as a result of this process in the current or comparative period.

Fair Value Measurement

In January 2013, the Company adopted IFRS 13 "Fair Value Measurements". IFRS 13 replaces the fair value measurement guidance contained in individual IFRS's with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRS.

IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Company has adopted IFRS 13 prospectively in its financial statements for the annual period beginning January 1, 2013. The Company has made no changes in the current or comparative period.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective as at the date of authorization of these consolidated financial statements and determined that the following may have an impact on the Company:

Amendments to Other Standards

There have been amendments to existing standards, including IFRS 7 - Financial Instruments: Disclosure which requires disclosure about the effects of offsetting financial assets and liabilities and related arrangements on an entity's financial position. IAS 32 - Financial Instruments: Presentation addresses inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

SHARE DATA

As at May 13, 2013, the Company had 17,461,912 common shares issued and outstanding. As of March 31, 2013, the board of directors may grant options to purchase up to a maximum of 1,723,760 common shares. As of March 31, 2013, options to purchase 1,115,000 common shares were outstanding at an average price of $2.73 per common share.

Normal Course Issuer Bid

The Company has entered into a Normal Course Issuer Bid ("NCIB") with the Toronto Stock Exchange. Under the NCIB, the Company is permitted to acquire up to 1,103,327 of its common shares during the period December 17, 2012 to December 17, 2013. All common shares purchased through the bid will be cancelled. At March 31, 2013, 3,176 shares have been repurchased for cancellation under the NCIB for cash consideration of $6,479. The excess of the repurchase price over the carrying value has been charged to retained earnings.

NON-IFRS MEASURES

Certain supplementary information and financial measures referred to in the MD&A and explained below, namely Adjusted Gross Margin, EBITDAC, Adjusted EBITDAC, and Operating Expenses, are not recognized under IFRS.

Adjusted Gross Margin

In compliance with IFRS accounting standards, the Company's cost of sales must include all overheads related to production regardless of whether or not the facility is operating at full capacity. These overhead costs include production facility lease costs, utilities, indirect labour costs and amortization of production equipment related to the steel manufacturing facility. Adjusted gross margins reflect the product selling price less the cost of the product and direct labour to manufacture the product. Management believes that the adjusted gross margin is useful information as it provides a more accurate gross margin contribution in a more conventional format. The following is a reconciliation of adjusted gross margins to IFRS compliant gross margins for each of the periods presented in this MD&A.

	For the three months ended March 31		Change	
	2013	2012	**$**	**%**
Gross Margin ($) (1)	**459,329**	(195,029)	654,358	335.5%
As percentage of sales	**10.6%**	-9.6%		
Addback: Fixed overheads in production (2)	**836,144**	539,243	296,901	55.1%
Amortization of production equipment	**247,758**	279,979	(32,221)	-11.5%
Adjusted Gross Margin ($) (3)	**1,543,231**	624,193	919,038	147.2%
As percentage of sales	**35.6%**	30.7%		

(1) In compliance with IFRS standards, cost of sales include all overheads related to production regardless of whether or not the facility is operating at full capacity.
(2) Fixed overheads costs include production facility lease costs, utilities and indirect labour costs related to the steel manufacturing facility.
(3) Adjusted gross margins reflect the selling price less the cost of product and direct labour to manufacture the product.

EBITDAC and Adjusted EBITDAC

Management believes that, in addition to net earnings (loss), EBITDAC and/or Adjusted EBITDAC 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 EBITDAC and Adjusted EBITDAC should not be construed as alternatives to net earnings (loss) determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBITDAC and Adjusted EBITDAC may differ from that of other entities and accordingly may not be comparable to measures used by other entities.

EBITDAC is defined as earnings before interest, taxes, depreciation, amortization, and share-based payments. Adjusted EBITDAC also includes the add back of amortization of the production equipment that is included in the IFRS compliant gross margins as described above in Adjusted Gross Margins. The following is a reconciliation of EBITDAC and Adjusted EBITDAC to net earnings for each of the periods presented in this MD&A.

EBITDAC and Adjusted EBITDAC		**For the three months ended March 31**		
		2013		2012
Net earnings	**$**	**1,834,704**	$	2,893,604
Add:				
Interest		**810,356**		736,073
Income taxes		**820,987**		1,014,394
Amortization		**336,299**		278,661
Share-based payments (1)		**339,860**		97,734
EBITDAC		**4,142,206**		5,020,466
Amortization of production equipment (2)		**247,758**		279,979
Adjusted EBITDAC	**$**	**4,389,964**	$	5,300,445

(1) Share-based payments includes stock options of $339,860 (2012 - $97,734).

(2) Amortization includes amortization of production equipment of $247,758 (2012 - $279,979), which is included in cost of sales for financial statement purposes to conform with IFRS.

Operating Expenses

Operating expenses is not a concept recognized under IFRS as it does not include interest 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 March 31, 2013 consolidated financial statements:

Operating expenses		**For the three months ended March 31**		
		2013		2012
Operating expenses	**$**	**4,541,617**	$	3,392,903
Add:				
Interest		**810,356**		736,073
Amortization		**336,299**		278,661
Share-based payments		**339,860**		97,734
Total expenses	**$**	**6,028,132**	$	4,505,371

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 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 disclosure controls and procedures as of March 31, 2013 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 March 31, 2013 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance.

On December 31, 2012, the Company acquired all of the business assets of General Supply Company and began consolidating the operations into Bri-Chem Corp. Management excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as at March 31, 2013.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting that occurred as at March 31, 2013 that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.

It should be noted that while the CEO and CFO believe that Bri-Chem Corp.'s disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, 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

Officers and Directors

Don Caron
Chairman, President, CEO and Director
Edmonton, Alberta

Brian Campbell
Director
Edmonton, Alberta

Jason Theiss, CA
CFO
Edmonton, Alberta

Trent Abraham
President, Fluids Division
Calgary, Alberta

Albert Sharp
Director
Spruce Grove, Alberta

Eric Sauze, CA
Director
Edmonton, Alberta

Neil Rasmussen
President, Steel Division
Sherwood Park, Alberta

Auditors

Grant Thornton LLP
1701 Scotia Place 2
10060 Jasper Avenue NW
Edmonton, AB T5J 3R8

Corporate Office

2125 – 64 Avenue
Edmonton, Alberta T6P 1Z4
Ph: 780.455.8667
Fax: 780.451.4420

Shares Listed

Toronto Stock Exchange
Trading Symbol - BRY

Bankers

HSBC Bank Canada
10250 – 101 Street
Edmonton, Alberta T5J 3P4

Lenders

CIBC Asset Based Lending Inc.
4th Floor, 199 Bay Street
Toronto, Ontario M5L 1A2

Transfer Agent

Computershare Investor Services
530 – 8th Avenue SW, #600
Calgary, Alberta T2P 3S8

Share Capital

Issued: 17,461,912

Web Site

www.brichem.com