Bri-Chem Corp.
Management's Discussion and Analysis
Three and Six Months Ended June 30, 2011

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of August 16, 2011. It is provided to assist readers in understanding Bri-Chem Corp.'s ("the Company") financial performance for the three and six month periods ended June 30, 2011, and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the period ended June 30, 2011, as well as the annual audited consolidated financial statements for the year ended December 31, 2010.

The Company's consolidated financial statements are prepared in accordance International Financial Reporting Standards ("IFRS") and International Accounting Standard 34, "Interim Financial Reporting", and are presented in Canadian dollars unless otherwise indicated. For all periods up to and including December 31, 2010 the Company prepared the consolidated financial statements in accordance with previous Canadian GAAP ("previous GAAP"). With first time adoption of the IFRS and the transition date of January 1, 2010, all comparative information for 2010 has been prepared in accordance with IFRS accounting policies under current GAAP ("GAAP"). The 2009 comparative information contained within this MD&A prepared under previous GAAP has not been re-presented on an IFRS basis, as is allowed by the IFRS 1 standard related to first time adoption of IFRS.

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

This report also makes reference to certain non-GAAP measures in assessing the Company's financial performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These non-GAAP financial measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP. These measures are discussed in the "Measures Not In Accordance With Generally Accepted Accounting Principles" 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 clients and potential new clients; 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.

2011 SECOND QUARTER OVERVIEW:

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.

Bri-Chem’s consolidated revenues increased 16.1% in the second quarter of 2011 to $25,770,316 and increased 15.5% year to date to $76,417,804 compared to the prior year comparable periods. Gross margin for the quarter increased 39.0% over the prior comparable period and 27.0% for the year to date. Earnings before interest, taxes, amortization, and stock-based compensation were $1,434,502 or $0.09 per share basic and diluted for the second quarter, an increase of $0.04 per share basic and diluted over Q2 2010. Net earnings were $527,098 for the quarter and $3,242,775 for the first half of 2011 as compared to a loss of ($15,704) and earnings of $2,665,882 respectively for 2010.

The fluids division recorded quarterly sales of $18,239,169 and $61,576,005 for the six months ended June 30, 2011, compared to $14,484,918 and $47,606,990 respectively in the previous comparable periods. This represents an increase of 25.9% and 29.3% respectively over 2010. Drilling rig utilization averaged 24.0% for the quarter as compared to 19.4% in the prior year. Year to date rig utilizations have increased 9.4% over prior year. This increase in utilization directly correlates with an increase in sales for the fluids division given the large market share the Company holds. Drilling activity levels remained high for the quarter and non-conventional drilling remains dominant in the Western Canadian Sedimentary Basin, resulting in an increase in demand for fluid products.

The Company purchased all the ownership interests of both Stryker Ltd. a fluids wholesale distribution business, and Stryker Transportation, Ltd., a transportation and long-haul business on June 1, 2011. This acquisition provides the Company access to new geographic locations in the US and has added additional revenues of $597,108 with margins of 32.4% for the one month of operations ended June 30, 2011.

The steel division recorded sales of $7,393,207 for the three months ended June 30, 2011, consistent with sales of $7,708,715 in the second quarter of 2010. The steel division concentrated its sales efforts on seamless pipe during the first half of 2011. The Company is seeing a return to more historical margins of 15.0%-20.0% on sales from those experienced in 2009 and 2010. The Company recorded additional overhead costs of $208,059 in the second quarter and $404,978 year to date in 2011 related to the setup of the large diameter steel pipe manufacturing facility, for which no income has been recorded to date.

Outlook Summary

In the second half of 2011, Bri-Chem is optimistic it will continue to grow its revenues and earnings in all divisions as drilling activity continues to improve over 2010. With a forecasted 25.6% increase in drilling activity for the third quarter in the WCSB, Bri-Chem’s fluids division in Canada is anticipating a continued demand for its products. The Company’s large diameter steel pipe manufacturing facility will begin light production in the third quarter and the steel distribution division is on track to experience margins similar to the second quarter as inventories are now being replenished with more favourably costed products. The US drilling fluids division will be seeking to grow through adding new sales personnel and securing additional strategic geographic warehouses in an effort to service the increasing demand for drilling fluids in the US. In addition, Bri-Chem continues to evaluate integrated acquisition opportunities that will enhance profitability and provide geographic diversity.

DESCRIPTION OF BUSINESS

Bri-Chem is a leading Canadian based wholesale distributor of drilling fluids, steel products and services to the oil and gas, industrial and construction industries in North America. The Company is headquartered in Acheson, Alberta located 20 kilometers west of Edmonton, Alberta. Bri-Chem owns a 100% interest in Bri-Chem Supply Ltd. ("Bri-Chem Supply"), 100% interest in Sodium Solutions Inc. ("Sodium"), 100% interest in Bri-Chem Steel Corporation ("Bri-Chem Steel"), and a 70% interest in Bri-Steel Manufacturing Inc. ("Manufacturing"). The Company also owns 100% interest in Bri-Corp USA Inc, which has two 100% owned subsidiaries, Stryker Transportation Ltd. and Bri-Chem Supply Corp. Bri-Chem continues to concentrate on expanding its market presence in the wholesale distribution market with the focus being on the following two divisions:

OIL AND GAS FLUIDS DIVISION

Drilling Fluids

Bri-Chem is one of Canada's largest wholesale distributors of drilling fluid supplies to the oil and gas industry in the Western Canadian Sedimentary Basin ("WCSB"). Bri-Chem sells over 350 different products in a wide variety of weights and clays, lost circulation materials, chemicals and oil mud products to mud engineering companies who sell directly to drilling firms engaged by the oil companies. Much of Bri-Chem's success is attributed to its comprehensive network of 16 strategically placed and fully stocked warehouses throughout Alberta, Saskatchewan and British Columbia as mud engineering companies and drilling companies prefer to use one wholesaler for all of their projects. The drilling fluid supply business experiences some seasonality with the spring (April through May) generally being the slowest period, as customers in the natural resource sectors experience a slowdown in their activity. The peak season is in the late fall (October through November) and winter (January through February) when customers are not constrained by environmental conditions to perform their activities.

Chemical Supplies and Packaging

The fluids market in the WCSB also includes completion fluids, cementing, acidizing and fracturing fluids. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these end use applications. Bri-Chem has the ability to mix and blend products to grow and adapt to the changing environment and needs of their clients. The distribution of chemical supplies and packaging is operated through Bri-Chem's blending and packaging facilities located in Camrose and Acheson, Alberta and its principal activity is to offer an extensive product line in both packaged and truckload quantities. Bri-Chem continues to target different industries including agriculture, construction, mining and forestry for product and industry diversification.

Specialty Fluids

With a laboratory in Calgary, Alberta, Bri-Chem serves its customers throughout the WCSB with testing equipment, quality assurance, training, and research and analysis of critical fluids.

Industrial Fluids

Performance Industrial Products ("Performance") is a division of Bri-Chem Supply Ltd. that distributes technologically advanced industrial fluids to the non-oilfield sector. Performance offers chemicals to a diverse number of markets including mining exploration, water well drilling, geothermal and geotechnical drilling, seismic and construction projects.

USA Drilling Fluids Acquisition

On June 1, 2011, Bri-Corp acquired all the outstanding ownership interests in each of Stryker Ltd., a Colorado limited liability fluids wholesale drilling fluids distribution business, and Stryker Transportation Ltd., a Colorado limited liability trucking transportation business. Stryker Ltd. was renamed Bri-Chem Supply Corp upon acquisition. The purchase price of the ownership interests was $1,906,735. The operating results of one month of operations have been included in the consolidated financial information, and as such comparable periods will not include this acquisition. The acquisition will allow the oil and gas drilling fluids division to expand into the estimated $3.2 billion drilling fluids market in the USA. The Stryker Ltd. acquisition provides a platform for the Company's strategic growth plan to create an independent wholesale drilling fluid distribution network to service the USA unconventional resource plays in Texas, Western USA, and the North-East USA. In addition, this acquisition will allow the Company to continue to service certain Canadian customers who are or intend to pursue strategic growth plans in the USA.

STEEL PRODUCTS DIVISION

Steel Pipe

Bri-Chem, through its steel products division, is a wholesale distributor for steel pipe, tubular products and casing. The division primarily services the oil and natural gas, construction, mechanical and industrial markets in Western Canada and Eastern United States. Bri-Chem sells over 2,000 steel products ranging in various lengths and diameters of carbon steel welded pipe, carbon steel seamless pipe, stainless steel pipe, and tubing and casing. The Company's superior vendor relationships have provided access to hard to find products and increased market share in a competitive industry.

Bri-Chem manages its steel product inventory through one warehouse in Leduc, Alberta, which is the primary stock location for steel products 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. Bri-Chem's broad base of steel products are primarily used in the oil and gas industry, however the Company does distribute steel products to non-oilfield related industries such as construction, industrial and mining.

Manufacturing

The Manufacturing subsidiary in the steel products division was formed in late 2010. The subsidiary is 70% owned by Bri-Chem Corp, and 30% owned by Wuxi Huayou Special Steel Co., Ltd ("Wuxi"). Manufacturing will produce steel pipe ranging in outside diameter from 14" to 36" which will be manufactured from carbon steel tubes using a Thermal Pipe Expansion (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 Manufacturing will be the first to introduce TPE production and testing in Canada. The Company is nearing completion of the mill setup, located in Edmonton, Alberta, and is currently in the testing phase, with light production to begin in the third quarter of 2011.

Seasonality of Operations

Weather conditions can affect the sale of the Company's fluid, chemical and 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 growth by expanding its market presence in the oil and gas, industrial wholesale distribution markets and niche 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. In addition, Bri-Chem will seek to establish new geographical markets and expand its blending and packaging opportunities into markets it currently services as well as diversify into new markets such as forestry and agriculture. The steel division will continue to develop a more comprehensive inventory and cash flow management program that will place inventory in markets that allow for better turnover while being able to meet the delivery needs of its customers. The steel division will begin production in its new steel pipe manufacturing micro-mill opportunity and will examine new strategic partnerships with vendors and customers over the medium term.

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 Quarterly Report for the period ended June 30, 2011.

Consolidated statements of operations	For the three months ended June 30 2011	2010	Change $	%
Sales	**$ 25,770,316**	$ 22,193,633	$ 3,576,683	16.1%
Gross margin	**4,493,744**	3,231,191	$ 1,262,553	39.1%
	17.4%	14.6%		
Operating expenses [1]	**3,059,242**	2,600,328	458,914	17.6%
EBITDAC [2]	**1,434,502**	630,863	803,639	127.4%
Amortization	**252,429**	203,968	48,461	23.8%
Interest	**572,680**	399,468	173,212	43.4%
Stock based compensation	**15,098**	26,823	(11,725)	-43.7%
Earnings before income taxes	**594,295**	604	593,691	98293.2%
Income taxes - current	**265,991**	145,638	120,353	82.6%
Income taxes (recovery) - deferred	**(108,453)**	(129,330)	20,877	-16.1%
Net earnings (loss)	**$ 436,757**	$ (15,704)	$ 452,461	2881.2%
Net earnings (loss) attributable to parent	**$ 527,098**	$ (15,704)	$ 542,802	3456.5%
Net loss attributable to NCI [3]	**$ (90,341)**	$ -	$ (90,341)	100.0%
Earnings per share				
Basic	**$ 0.03**	$ 0.00	$ 0.03	100.0%
Diluted	**$ 0.03**	$ 0.00	$ 0.03	100.0%
EBITDAC per share				
Basic	**$ 0.09**	$ 0.05	$ 0.04	80.0%
Diluted	**$ 0.09**	$ 0.05	$ 0.04	80.0%
Weighted average shares outstanding				
Basic	**15,983,693**	13,868,105		
Diluted	**16,741,885**	13,869,254		

(1) See page 37 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and stock-based compensation (see page 37 for a further explanation of this non-GAAP measure).
(3) Bri-Steel Manufacturing Inc. a 70% owned subsidiary of Bri-Chem Corp., was incorporated on October 13, 2010. NCI represents the 30% non-controlling interest's portion of loss of the subsidiary for the period ended June 30, 2011.

The following selected six-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarterly Report for the period ended June 30, 2011.

Consolidated statements of operations		**For the six months ended June 30 2011**		2010		**Change $**	**%**
Sales	**$**	**76,417,804**	$	66,158,459	$	10,259,345	15.5%
Gross margin		**12,168,854**		9,582,490	$	2,586,364	27.0%
		15.9%		14.5%			
Operating expenses (1)		**6,329,283**		4,606,111		1,723,172	37.4%
EBITDAC (2)		**5,839,572**		4,976,379		863,193	17.3%
Amortization		**447,845**		406,071		41,774	10.3%
Interest		**1,173,067**		813,450		359,617	44.2%
Stock based compensation		**34,358**		83,885		(49,527)	-59.0%
Earnings before income taxes		**4,184,302**		3,672,973		511,329	13.9%
Income taxes - current		**1,334,985**		1,154,837		180,148	15.6%
Income taxes (recovery) - deferred		**(219,896)**		(147,746)		(72,150)	48.8%
Net earnings	**$**	**3,069,213**	$	2,665,882	$	403,331	15.1%
Net earnings attributable to parent	**$**	**3,242,775**	$	2,665,882	$	576,893	21.6%
Net loss attributable to NCI (3)	**$**	**(173,562)**	$	-	$	(173,562)	100.0%
Earnings per share							
Basic	**$**	**0.21**	$	0.19	$	0.02	10.5%
Diluted	**$**	**0.20**	$	0.19	$	0.01	5.3%
EBITDAC per share							
Basic	**$**	**0.38**	$	0.35			
Diluted	**$**	**0.36**	$	0.35			
Weighted average shares outstanding							
Basic		**15,270,861**		14,043,209			
Diluted		**16,035,528**		14,043,209			

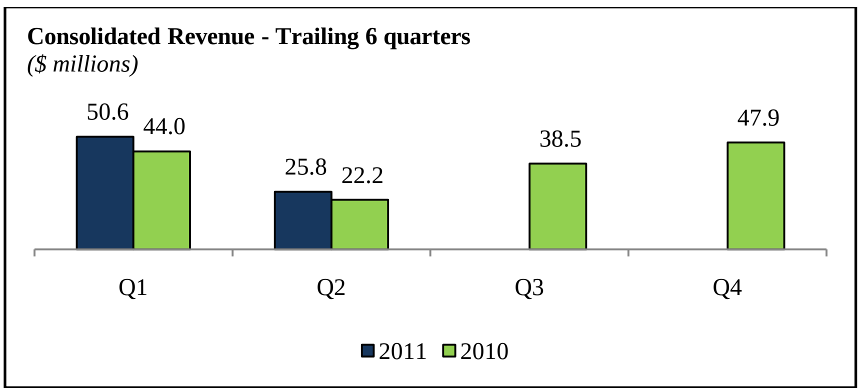
(1) See page 37 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and stock-based compensation (see page 37 for a further explanation of this non-GAAP measure).
(3) Bri-Steel Manufacturing Inc. a 70% owned subsidiary of Bri-Chem Corp., was incorporated on October 13, 2010. NCI represents the 30% non-controlling interest's portion of loss of the subsidiary for the period ended June 30, 2011.

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 June 30					
	2011		2010		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids	**$ 18,239,169**	**70.8**	$ 14,484,918	65.3	$ 3,754,251	25.9%
Steel	**7,393,207**	**28.7**	7,708,715	34.7	(315,508)	-4.1%
Other	**137,940**	**0.5**	-	-	137,940	100.0%
	$ 25,770,316	**100.0**	$ 22,193,633	100.0	$ 3,576,683	16.1%
	For the six months ended June 30					
	2011		2010		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids	**$ 61,576,005**	**80.6**	$ 47,606,990	72.0	$ 13,969,015	29.3%
Steel	**14,703,859**	**19.2**	18,551,469	28.0	(3,847,610)	-20.7%
Other	**137,940**	**0.2**	-	-	137,940	100.0%
	$ 76,417,804	**100.0**	$ 66,158,459	100.0	$ 10,259,345	15.5%



Fluids

Fluids had record high quarterly sales for the first half of 2011, increasing by $13,969,015 (29.3%) over sales in the first half of 2010. Sales for the second quarter of 2011 were 25.9% higher than the comparable 2011 period at $18,239,169. The significant increase is directly attributable to an increase in demand, with drilling rig utilization rates for the second quarter of 2011 averaging 24.0%, an increase of 4.6% from the second quarter of 2011. Year-to-date rig utilization is 9.4% higher compared to the first half of 2010.

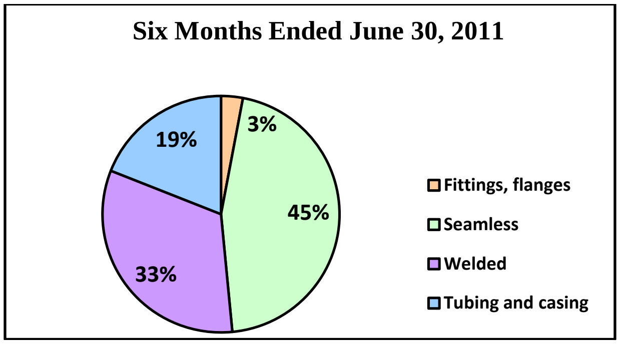
The Alberta market was the single largest factor in this increase, with a sales increase of 44.9% over 2010 year to date and a 35.5% increase for the quarter, while the number of wells drilled in the province increased by 8.8% over the first half of 2010. The Company continues to see its fluids division growing its market share in the WCSB. British Columbia has seen an increase in sales of 47.7% to $2,546,645 over the comparable Q2 2010 period of $1,724,439, while rig activity remained consistent from the comparable prior year period. The continuation of non-conventional drilling applications has led to the demand for more technological drilling fluids, which has resulted in continued increases to sales in this region.

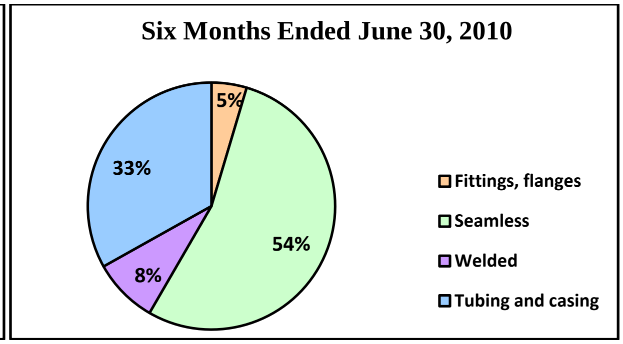
Sales in United States were $695,513 for the quarter, which includes revenues of $459,168 in fluids for the June operations of the Bri-Chem Supply Corp, part of the US acquisition. The US market was not an area of focus for the Company in the first five months of 2011.

Other sales

Other sales include trucking revenues earned by the Company's US based subsidiary of $137,940 for the month ended June 30, 2011. This is a new revenue stream added via the acquisition completed effective June 1, 2011.

Steel Products





For the three months ended June 30, 2011, the steel products division generated revenues of $7,393,207, a decrease of 4.1% over the comparable quarter in 2010. The steel products division sells primarily to the oil and gas industry. The Company has begun to see a recovery of steel prices from the lows experienced in 2009 and 2010 and margins are returning to more historical levels. Demand for pipe is expected to continue to increase as increased activity continues to drive the oilfield services industry. The Company continues to focus on seamless pipe sales in 2011.

Sales in the United States for the three and six months ended June 30, 2011 amounted to $865,690 and $1,444,178 respectively. This is compared to $1,586,875 and $3,225,886 for the comparable 2010 periods. The significant decrease is due to the Company's strategic decision to focus on Canadian markets. The Company has relocated inventory previous held in inventory yards in New Orleans, LA and Chicago, IL to its Leduc location. The division continues to serve its US customers with mill direct orders. The US market is significantly larger than the Canadian market and more geographically disperse, thus the Company will continue to review opportunities to re-enter the market when market prices are at more advantageous levels and US market demand increases. The market in the US has been slow to rebound from the prior levels of overstocked inventory.

The division also had sales internationally of $79,685 and $295,855 for the three and six months ended June 30, 2011 as compared to $941,724 and $941,724 in the prior comparable periods. International sales are comprised of trade orders and are not a main focus of the division.

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 June 30	2011 $	2011 %*	2010 $	2010 %*	Change $	Change %
Fluids	**$ 3,129,825**	**12.2**	$ 2,531,692	11.4	$ 598,133	23.6%
Steel	**1,298,296**	**5.0**	699,499	3.2	598,797	85.6%
Other	**65,623**	**0.2**	-	-	65,623	100.0%
Total	**$ 4,493,744**	**17.4**	$ 3,231,191	14.6	$ 1,262,553	28.1%

For the six months ended June 30	2011 $	2011 %*	2010 $	2010 %*	Change $	Change %
Fluids	**$ 9,903,754**	**13.0**	$ 7,797,450	11.8	$ 2,106,304	27.0%
Steel	**2,199,477**	**2.9**	1,785,040	2.7	414,437	23.2%
Other	**65,623**	**-**	-	-	65,623	100.0%
Total	**$ 12,168,854**	**15.9**	$ 9,582,490	14.5	$ 2,586,364	21.3%

* as a percentage of revenue

Consolidated gross margin as a percentage of sales for the three and six month periods ended June 30, 2011 increased by 5.7% and 3.9% respectively over the prior year.

The fluids division margins were 16.4% for the first half of 2011, consistent with 16.3% for the comparable prior period. 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 invert have been developed to service deeper, high temperature and more environmentally sensitive drilling and are becoming more popular with customers and now makes up approximately 32% of six month fluid sales. The Company continues to monitor product mix with a goal of increasing overall margins. The US operations fluid margins for the one month of operations were 24.1%. The US margins are traditionally higher and as sales increase in future periods, the fluids division expects to see an increasing effect to its overall margins.

For the steel products division, margins were to 17.6% and 15.0% respectively for the three and six months ended June 30, 2011, compared to 9.1% and 9.6% in 2010. The first half of 2011 experienced a return to more normal selling prices, which has created an increase in gross margin. Margins have returned to more historical levels and are similar to the 16.8% experienced in the first half of 2009. As the inventory continues to turn over, the Company is replacing inventory with more favourably costed product, which will continue to drive better gross margins in the short to medium term.

Management made the decision to change the inventory costing method for the steel products division from a first-in first-out method to an average cost method. This had the effect of increasing cost of sales, and thus decreasing gross margin by $78,325 for the three months ended June 30, 2011, and decreasing cost of sales and thus increasing gross margin by $44,002 for the six month period ended June 30, 2011. The accounting policy change was made to conform to industry best practices and to more accurately represent the true cost of inventory held and sold at any point in time. This will help to eliminate the future effects of large swings in steel commodity prices to the margins earned on products.

For 2011, we are anticipating gross margins on fluid sales will be similar or slightly higher than 2010 based on predicted drilling activity levels being slightly higher to those of 2010. 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. The steel products division will continue to experience improved margins throughout 2011, as the Company has replaced its high costed inventory with new inventory that will yield traditional margins ranging from 15% to 17%.

Operating expenses

Salaries and employee benefits

		For the three months ended June 30				Change	
		2011		2010		**$**	**%**
Salaries and benefits	**$**	**1,645,832**	$	1,446,970	$	198,862	13.7%
% of sales		**6.4%**		6.5%			-0.1%
		For the six months ended June 30				**Change**	
		2011		2010		**$**	**%**
Salaries and benefits	**$**	**3,304,459**	$	3,049,332	$	255,127	8.4%
% of sales		**4.3%**		4.6%			-0.3%

Salaries and benefits have increased over prior year comparable period. There were $55,343 of additional expenses related to the one month of operations of the US subsidiaries included in this increase is 17 additional staff ranging from operations, administration and long-haul truck drivers. The Company incurred $97,351 in salaries and benefits costs related to 7 employees hired for the manufacturing setup to the end of June 2011. These costs are for the general manager and labourers who are aiding in the procurement and setup of the manufacturing facility to ready it for use. Additionally, increases were also incurred for the addition of a mandatory long-term disability benefit to the employee benefits program beginning in February 2011, which had not previously been offered by the Company. Significant premium increases were also incurred for 2011 over the prior year comparable period for employee benefits.

The Company also renegotiated the terms of one fluid salesman contract in Q1 2011 to provide a higher base rather than to pay commissions. In addition, the Company reduced its employee count with the elimination of a receptionist, purchasing personnel and warehouse personnel.

The Company expects salaries and employee benefits to increase throughout the third quarter of 2011 with the addition of second operation shift for the steel manufacturing facility, two new US based and one new Canadian based sales staff, and growth in the corporate office and accounting staff. These changes are expected due to the growing size of the Company given its overall strategic plan and operations, and will be revisited as required.

Selling, general and administration

	For the three months ended June 30					
		2011			2010	
		$	**%**		$	%
Selling	**$**	**272,581**	**1.1**	$	184,282	0.8
Professional and consulting		**17,343**	**0.1**		66,038	0.3
General and administration		**384,870**	**1.5**		262,675	1.2
Rent, utilities and occupancy costs		**799,744**	**3.1**		507,732	2.3
Foreign exchange loss/(gain)		**(46,028)**	**(0.2)**		159,454	0.7
	$	**1,428,510**	**5.6**	$	1,180,181	5.3

	For the six months ended June 30					
		2011			2010	
		$	**%**		$	%
Selling	**$**	**456,016**	**0.6**	$	300,774	0.5
Professional and consulting		**267,116**	**0.3**		186,826	0.3
General and administration		**758,221**	**1.0**		545,690	0.8
Rent, utilities and occupancy costs		**1,629,246**	**2.1**		1,035,515	1.6
Foreign exchange gain		**(51,418)**	**(0.1)**		(428,141)	(0.6)
	$	**3,059,181**	**3.9**	$	1,640,664	2.6

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

Selling expenses increased for the three and six month period ended June 30, 2011 compared to the same periods in 2010. This includes an increase of $34,545 in public company costs related to investor relation activities, as well as approximately $26,000 in promotion and entertainment costs for customers. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses for the six months ended June 30, 2011 increased due to the increased cost of the first quarter review and transition to IFRS and estimated additional fees for consulting work and increased legal fees were also incurred for services related to setup and review of the Stryker acquisition. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses increased for the period ended June 30, 2011. Bad debt expense increased by $60,700 due to the write-off of one fluids customer account. Insurance costs increased by $88,297 over the comparable six month period in the current year, due to the addition of the manufacturing facility and an increase to liability insurance levels. Waste disposal expenses have increased $57,213 compared to the prior six month period, significantly due to the manufacturing facility setup requirements. Computer maintenance costs have increased $37,351 for the six months ended June 30, 2011 as compared to the same 2010 period related to upgrades of the Company's computer systems and data storage facility. All other costs remained relatively consistent from the comparable prior period. General and administration expenses include bad debts, bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy cost expenses increased significantly over prior year. The steel division incurred increased lease expense for its manufacturing facility, located in Edmonton, Alberta, of $465,793 for the first six months of 2011. Related utilities costs have also increased significantly with an additional $88,115 incurred for the manufacturing facility for the first half of 2011. Total additional occupancy costs related to the manufacturing facility were $284,240 for the three months ended June 30, 2011. The steel division offset this increased expense with the subleasing of its Leduc, Alberta warehouse and a portion of its yard to a third party in June 2011. There was also an increase to rent and utilities costs in the month of June of $7,559 relating to the new US locations added. Costs in this category are comprised mainly of rent, utilities, and warehouse expense for the Edmonton, Leduc, Camrose, Acheson and US locations as well as liquid storage tank rentals.

During the second quarter of 2011, the US dollar lost strength in relation to other currencies, but was comparable to prior periods. The decrease in the US dollar resulted in a foreign exchange gain during the three and six months ended June 30, 2011, causing the Company to have a favourable position in purchases in foreign currencies. The Company reported a smaller foreign exchange gain than the comparable 2010 period gains due to the strength of the dollar as compared to the prior year. These foreign exchange gains arose on the translation of the foreign denominated assets and liabilities held by the Company, as well as the fair value of derivative financial instruments (see "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Amortization

	For the three months ended June 30		Change	
	2011	2010	**$**	**%**
Property and equipment	**$ 152,842**	$ 122,395	$ 30,447	24.9%
Intangible assets	**99,587**	81,573	18,014	22.1%
Total	**$ 252,429**	$ 203,968	$ 48,461	23.8%

	For the six months ended June 30		Change	
	2011	2010	**$**	**%**
Property and equipment	**$ 262,917**	$ 242,651	$ 20,266	8.4%
Intangible assets	**184,928**	163,420	21,508	13.2%
Total	**$ 447,845**	$ 406,071	$ 41,774	10.3%

The increase in property and equipment amortization is a result of additions to the steel division for manufacturing facility assets that have begun to be depreciated. There was also $14,202 in property and equipment and $13,978 in intangible amortization recorded to the new US subsidiary for the month of June 2011, which did not exist in prior year. There were significant additions for the three and six months ended June 30, 2011 that occurred related to the commissioning phase of the manufacturing facility. The majority of the steel pipe manufacturing equipment has not yet being amortized as they are not yet in a state ready for use. Amortization of these items is expected to begin in the third quarter of 2011, which will increase amortization expense for the second half of the year. The increase in amortization expense for intangibles relates to the normal depreciating balance outstanding, offset by the addition of $803,066 of new intangibles for the acquisition of Stryker Transportation and Bri-Chem Supply Corp.

Interest

		For the three months ended June 30 2011		2010		Change $	%
Interest on long-term debt	$	**103,782**	$	166,580	$	(62,798)	-37.7%
Interest on short-term operating debt		**458,456**		230,950		227,506	98.5%
Interest on obligations under capital lease		**10,442**		1,938		8,504	438.8%
Total	$	**572,680**	$	399,468	$	173,212	43.4%

		For the six months ended June 30 2011		2010		Change $	%
Interest on long-term debt	$	**250,744**	$	332,417	$	(81,673)	-24.6%
Interest on short-term operating debt		**909,858**		478,072		431,786	90.3%
Interest on obligations under capital lease		**12,465**		2,961		9,504	321.0%
Total	$	**1,173,067**	$	813,450	$	359,617	44.2%

Interest on short-term debt increased by $227,506 and $431,786 for the three and six months ended June 30, 2011 due to increases in the revolving line of credit balance outstanding as compared to prior period. Borrowing increased significantly over the prior year comparable period due increased purchases of inventory given the increase in sales demand over prior period, as well as for increased capital expenditures.

As at June 30, 2011, long-term debt consisted of a $2,000,000 promissory notes payable plus accrued interest at 6% to the former owners of Bri-Chem Steel Corporation, a $339,010 promissory note payable plus accrued interest at 6% to the former owner of the Stryker acquisition, a $1,209,734 prime plus 1.75% non-revolving loan outstanding with a Canadian chartered bank, and a $1,482,708 subordinated loan bearing interest at prime plus a fixed charge with a financial institution. Interest on long-term debt decreased for the three and six months ended June 30, 2011 due to the decreased principal balance on the sub-debt and the non-revolving loan outstanding in line with continuous repayments of these amounts.

Income taxes

The provision for income taxes for the quarter ended June 30, 2011 is a net current tax expense of $157,538 compared to $16,308 in the same quarter last year. The increase in taxes is a result of the increase in earnings and margins in the steel division. The Company’s effective tax rate is 26.5% for the six months ended June 30, 2011, as compared to 28% in 2010 for the comparable period.

Net earnings and earnings per share

	For the three months ended June 30			Change	
	2011	2010		$	%
Net earnings (loss)	**$ 527,098**	$ (15,704)	$	542,802	3456.5%
% of sales	**2.0%**	0.1%			
EBITDAC (1)	**$ 1,434,502**	$ 630,863	$	803,639	-127.4%
% of sales	**5.6%**	2.8%			

	For the six months ended June 30			Change	
	2011	2010		$	%
Net earnings	**$ 3,242,775**	$ 2,665,882	$	576,893	-21.6%
% of sales	**4.2%**	4.0%			
EBITDAC (1)	**$ 5,839,572**	$ 4,976,379	$	863,193	-17.3%
% of sales	**7.6%**	7.5%			

(1) Represents earnings before interest, taxes, depreciation, amortization, and stock based compensation (see page 37 for a further explanation of this non-GAAP measure).

The Company had net earnings for the three month period ended June 30, 2011 of $527,098 compared to a loss of $15,704 in the prior year. Net earnings as a percentage of revenues for the period was 2.0% as compared to 0.1% for the period ended June 30, 2010. Net earnings for the six months ended June 30, 2011 increased by $576,893 over comparable prior year period, and as a percentage of revenues for the period were 4.2% and 4.0% respectively.

The increase in EBITDAC for the period is due to the increase in fluid sales activity in the period as a result of the increased drilling activity. EBITDAC as a percentage of revenues has increased for the three and six months ended June 30, 2011 as demand for fluids and improved margins on steel pipe products has lead to improved EBITDAC margins.

Basic and diluted earnings per share for the three month period ended June 30, 2011 were $0.03. For the six months ended June 30, 2011, basic and diluted earnings per share were $0.21 and $0.20 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 three months ended June 30, 2011 were 15,983,693 and 16,741,885, and were 15,270,861 and 16,035,528 respectively for the six months ended June 30, 2011. During the three months ended June 30, 2011, the Company issued 171,289 shares as part of the consideration for the acquisition at a price of $2.85 per share.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2011 Q2	2011 Q1	2010 Q4	2010 Q3	Total TTM
Sales	$ 25,770	$ 50,647	$ 47,854	$ 38,485	$ 162,756
Gross margin ($)	4,494	7,675	6,977	5,720	24,866
Gross margin (%)	17.4%	15.2%	14.6%	14.9%	15.3%
Adjusted EBITDAC (1)	1,434	4,399	2,689	2,468	10,990
Net earnings	$ 527	$ 2,632	$ 2,122	$ 2,202	$ 7,483
Basic earnings per share	$ 0.03	$ 0.19	$ 0.16	$ 0.16	$ 0.54
Diluted earnings per share	$ 0.03	$ 0.18	$ 0.16	$ 0.16	$ 0.53

(in thousands of Cdn $)	2010 Q2	2010 Q1	2009 Q4(3)	2009 Q3(3)	Total TTM
Sales	$ 22,193	$ 43,965	$ 32,058	$ 23,966	$ 122,182
Gross margin ($) (2)	3,231	6,351	893	2,647	13,122
Gross margin (%)	14.6%	14.4%	2.8%	11.0%	10.7%
Adjusted EBITDAC (1)	631	4,335	964	531	6,461
Net earnings (loss)	$ (15)	$ 2,681	$ (1,876)	$ (6,583)	$ (5,793)
Basic earnings (loss) per share	$ -	$ 0.19	$ (0.13)	$ (0.45)	$ (0.39)
Diluted earnings (loss) per share	$ -	$ 0.19	$ (0.13)	$ (0.45)	$ (0.39)

(1) EBITDAC is a non-GAAP measure which the Company defines as earnings before interest, taxes, depreciation and amortization and stock based compensation expense. Adjusted EBITDAC further adjusts this non-GAAP measure for the inventory write down. (See page 37 for a further explanation of this non-GAAP measure).
(2) Cost of sales includes a net realizable value inventory write down of $2,885,551 in Q4 2009. If the write down of steel inventory were excluded from the results above, fourth quarter 2009 gross margins would have been $3,778,390 (a gross margin % of 11.8).
(3) Prepared under previous GAAP. As allowed under IFRS 1 for first time adoption, these amounts are not re-presented on an IFRS basis.

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		June 30 2011		December 31 2010
Current assets	$	**77,072,314**	$	94,167,928
Property and equipment		**6,643,657**		3,684,771
Other assets		**2,398,920**		913,740
TOTAL ASSETS	$	**86,114,891**	$	98,766,439
Current liabilities	$	**47,648,823**	$	70,641,218
Long-term liabilities		**4,660,422**		4,448,167
TOTAL LIABILITIES		**52,309,245**		75,089,385
Share capital		**21,763,037**		14,451,480
Non-controlling interest		**(206,973)**		(33,411)
Retained earnings and contributed surplus		**12,249,582**		9,258,985
TOTAL SHAREHOLDERS' EQUITY		**33,805,646**		23,677,054
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	**86,114,891**	$	98,766,439

Financial Ratios	June 30 2011	December 31 2010
Working capital ratio	**1.62**	1.33
Days sales in receivables	**109.7**	114.6
Inventory turns	**3.3**	2.3
Days purchases in payables	**66.2**	84.2

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 June 30, 2011, the Company had positive working capital of $29,423,491 compared to $23,526,710 at December 31, 2010. The Company's current ratio (defined as current assets divided by current liabilities) was 1.62 to 1 for the period ended June 30, 2011, compared to 1.33 at the end of 2010.

As at June 30, 2011, the Company had $31,584,029 drawn on its available credit facilities of $50,000,000, with a Canadian chartered bank, as compared to $39,552,948 at December 31, 2010. In December 2010, the Company amended its credit facility, which resulted in an increase in the line of credit to $50,000,000 from $40,000,000 with a $5,000,000 bulge under the previous facility.

The June 30, 2011 days sales in receivables are 109.7, slightly lower than the ratio from December 31, 2010. 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. The decrease in days' purchases in payables is due to significant increase in purchases over the comparable prior period.

As at June 30, 2011, accounts receivable was $28,934,072, a $17,793,853 or 38.1% decrease from the December 31, 2010 balance of $46,727,925. The decrease is due to the lower sales activity in the fluids division during the spring break-up months of April and May, combined with the increase in collections from customers for product purchased over the winter drilling season.

Inventory increased by $3,443,742 or 8.1% to $45,857,857 compared to 2010 year end balance. The new US subsidiary held $1,104,101 of inventory at June 30, 2011. A significant portion of this increase also relates to inventory in the steel division, which increased from $8,218,033 held at the end of December 2010 to $10,503,624 at the end of June 2011. This is a result of new purchases of common stock items for the steel division to service its growing demand for seamless pipe. Fluids inventories have remained consistent with high volume of purchases directly correlated to sales volumes. Inventory values are expected to increase in the steel division as the result of raw pipe tubes required for the commencement of pipe manufacturing in the second half of the year. In addition, the Company is anticipating the continuation of geographic expansion in the US and will build up additional fluid inventories to service customers with additional products.

The Company's prepaid expenses and deposits have decreased by $2,919,262 to $2,106,626 at June 30, 2011 as compared to the 2010 year end balance of $5,025,888. At year end, many of the steel products purchased required down payments to vendors prior to the shipment of material that occurred in the first quarter of 2011. Prepaid expenses are greatly reduced for the timing of purchases at the end of June 2011. The Company continues to work with its vendors on the terms of these purchases to reduce the upfront cash deposits needed.

The Company has recorded a loss of $173,562 for non-controlling interest for the six months ended June 30, 2011 and a total equity balance of $206,973 compared to $33,411 at December 31, 2010. The non-controlling interest relates to the establishment of the Manufacturing subsidiary.

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 2011 year, the Company will have sufficient funds to meet its obligations. The Company is currently examining its credit options, including examining the asset based lending model, which will provide additional working capital to allow the Company the ability of continued growth.

Summary of Consolidated Statements of Cash Flows Six months ended		**June 30 2011**		June 30 2010
Cash provided by operating activities	**$**	**7,910,477**	$	9,392,247
Cash used by financing activities		**(4,579,532)**		(9,235,689)
Cash used by investing activities		**(3,330,945)**		(156,558)
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of year		-		-
Cash and cash equivalents, end of year	**$**	**-**	$	-

Cash flow provided by operating activities

Cash provided by operating activities for the six month period ended June 30, 2011 was $7,910,477 compared to cash provided of $9,392,247 for the same period in 2010. The Company's cash provided by operating activities relates to more cash received for the collection of receivables than that paid for inventory as the Company collected on its winter receivables and went through the spring break-up season. This also created a decrease in the balance of accounts payable outstanding. Inventory levels have remained steady as product returns have allowed the Company to meet the demands of its customers through the spring period. We expect to see our cash used in operations increase for the third quarter, as the Company will commence additional purchasing to begin its stock up for the winter drilling season. 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 used by financing activities

Cash used by financing activities was $4,579,532 for the first half of 2011, compared to cash used of $9,235,689 in the half of 2010. The cash used by financing activities is related to repayments on the operating line as the Company collected many of its receivables from the winter drilling season. 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 Q4 and Q1 when significant sales and purchases occur, while collections are often delayed until Q2. With the increased purchasing activity at the end of the quarter, increased borrowing was required to pay vendors ahead of the collection of receivables on the increased sales.

In addition, the Company continues repayment of the subordinated debt facility which began in February 2009. The repayments have been funded through the collection of receivables and the current operating credit facility. The Company also paid $2,200,000 plus interest on the promissory notes. The installment of the $1,000,000 plus interest due in October 2010 and October 2011 installments are scheduled for payment in 2012 provided the Company remains compliant with it credit covenants. Interest will be repaid within the next 12 months and will be funded out of operating cash flow. The Company issued an additional $337,577 note payable due in 2012 as part of the acquisition completed. The principal payments will be funded through the operating line of credit provided funds are available, otherwise postponed until such time the Company has the available funds to pay the amounts due and not in violation of its financial covenants.

Cash flow used by investing activities

Cash used in investing activities amounted to $3,330,945 in the first half of 2011 compared to $156,558 in 2010. The increase is due to the additions to the manufacturing facility to complete the set up of the thermal expansion plant. The Company has capitalized $2,074,060 of assets for the six month period ended June 30, 2011 for this new subsidiary. In addition, the Company used its operating line to purchase the membership interest of Stryker Ltd. and Stryker Transportation Ltd. The Company expects cash to be used for investing activities in the third quarter of 2011 for the final installation and set up costs for the manufacturing facility. The installation costs will be funded through the Company's working capital and operating facility.

Covenants

The Company has credit facilities which contain a number of financial covenants that require the Company to meet certain financial ratios and financial condition tests. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a quarterly basis. As at June 30, 2011, the Company was in compliance with all financial covenants. The subordinated debenture lender has agreed to remove the minimum funded debt to normalized EBITDA ratio covenant for a period of one year beginning December 31, 2010 and ending January 1, 2012.

Obligations under operating lease

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

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
June 30, 2011	$ 1,995,919	5,795,933	1,853,760	$ 9,645,612
December 31, 2010	$ 1,694,932	5,114,953	2,317,200	$ 9,127,085

Contractual obligations related to financial liabilities at June 30, 2011 are as follows:

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Finance leases*	Total
2011	$ 31,584,029	$ 14,300,777	$ 1,466,468	$ 102,285	$ 213,743	$ 47,667,302
2012	-		1,297,355	2,345,954	204,340	3,847,649
2013	-	-	-	-	198,329	198,329
2014	-	-	-	-	158,953	158,953
2015	-	-	-	-	123,059	123,059
After 2015	-	-	-	-	16,861	16,861
Total	$ 31,584,029	$ 14,300,777	$ 2,763,823	$ 2,448,239	$ 915,285	$ 52,012,153

* includes interest calculated to be paid

Intangibles

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at fair value. The assigned values of a group of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill are allocated to the individual assets acquired based on fair value.

Intangible assets with finite useful lives are amortized over their useful lives. Intangible assets with indefinite useful lives are reviewed for impairment annually. The Company has no intangible assets with indefinite lives.

The amortization methods and estimated useful lives of the intangible assets, which are reviewed annually, are as follows:

Customer relationships	5 years straight-line
Non-competition agreements	3 to 5 years straight-line
Computer software	7 years straight-line

The Company reviewed its intangible assets at the end of June 2011 and determined that there were no indicators of potential impairment or impairment reversal.

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 six months ended June 30, 2011 was $3,221,803 including additions through capital leases. This includes additions of $519,131 on acquisition of the US subsidiaries. The capital expenditures were funded from the Company's operating line of credit. Capital expenditures typically are comprised of betterments and upgrades to existing assets. 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. Future capital expenditures of approximately $350,000 are being proposed for the second half of 2011. This includes $2,100,000 of thermal expansion manufacturing equipment to be provided by the Chinese partner in Manufacturing in exchange for preferred shares of equal value in the subsidiary. Of the total remaining planned expenditures, $200,000 is estimated in additional Manufacturing capital assets, including capital leases and leasehold improvements. The residual planned expenditures are for normal upgrades and additions planned in the Company's other subsidiaries. The Company plans to fund the remainder of these capital expenditures from the Company's operating credit line as well as capital leases and the Evergreen line of credit.

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 period ended June 30, 2011, the Company incurred office sharing expenses in the normal course of operations with BRC Advisors Inc. commencing March 2010, and Western America Capital Group, previously, affiliated companies which a certain director and officer has significant influence, as follows:

a) Management advisory services of $nil and $nil respectively (June 30, 2010 – $30,000 and $60,000) to a Company which a director and officer has significant influence.

b) Office sharing expenses of $15,000 and $30,000 respectively (June 30, 2010 – $9,156 and $18,312) were paid to a Company over which a director and officer has significant influence.

The Company expensed interest of $9,666 and $27,419 (June 30, 2010 - $33,000 and $66,000) on promissory notes payable issued in 2007 which are held by two of the Company's directors, and significant shareholders. This entire amount was paid out May 18, 2011 along with the outstanding balance. In addition, the Company expensed interest of $29,918 and $77,220 (June 30, 2010 – $44,877 and $89,261) on promissory notes payable issued in 2008 on the acquisition of Bri-Chem Steel, which are held by three of the former owners of Bri-Chem Steel. The expense had been included in interest on long term debt and added to the balance of the promissory note payable. In addition, the Company expensed interest of $1,726 and $1,726 (June 30, 2010 - $nil and $nil) on promissory notes payable issued on the acquisition of Stryker which is held by the former owner of Stryker. The expense has been included in interest on long term debt and added to the balance of the promissory note payable.

Derivatives

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure on certain committed and anticipated transactions. The foreign exchange forward contracts are recorded at fair value in receivables when the contracts are in a gain position and in accrued liabilities when the contracts are in a loss position. The difference between nominal value and fair value is recorded in foreign exchange expense in the period. The Company purchases foreign exchange forward contracts to mitigate the exposure to purchases and the related payable to suppliers denominated in U.S. dollars. There were no outstanding foreign exchange forward contracts at June 30, 2011.

Post-reporting date events

a) On July 1, 2011, a fire destroyed an estimated $3.8 million of the Company's fluids inventory held at a third party warehouse location. The Company is currently working with its insurance provider on determining the replacement value covered under its coverage plan, and has received $2 million towards this amount as of the date of authorization of the interim consolidated financial statements.

b) On July 4, 2011, the Company received approval to graduate from the TSX Venture Exchange to the Toronto Stock Exchange. Bri-Chem's common shares began trading on the TSX under the symbol "BRY". The shares were de-listed from and cease traded on the TSX Venture Exchange on this date.

c) On August 12, 2011 the Company issued 350,000 stock options at a price of $2.94 to two executive officers, three independent directors and employees of Bri-Chem. The options are granted in accordance with Bri-Chem's stock option plan and have terms that expire ten years from the grant date. The options had a grant date fair value of $999,762.

c) Effective August 12, 2011, the Company entered into a new secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. and HSBC Bank Canada. The ABL Facility has a term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable to a maximum of $80,000,000.

The initial term of the ABL Facility is for three years and the initial advance repaid the outstanding amounts in full to its former credit facility lender HSBC totalling $36,060,524 CDN and $1,718,883 USD. This included amounts of $1,200,986 CDN to settle the outstanding balance on the HSBC Capital subordinated debenture, $1,437,863 CDN to settle outstanding amounts on the HSBC committed non-revolving loan, and $33,421,675 CDN and $1,718,883USD to settle the outstanding bank indebtedness balance. In addition, the Company also repaid $1,000,000 plus interest on the previously postponed promissory notes that were due on October 2010 and the remaining promissory notes will now be classified as current liabilities subsequent to the new financing.

The ABL Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The ABL Facility bears interest at the Company's discretion at prime plus 0.25% or LIBOR plus 1.75% or bankers' acceptance rate plus 1.75%, and a standby fee of 0.25% on unused amounts of the ABL Facility. Significant financial covenants of the ABL Facility include a minimum tangible net worth and a maximum on annual capital expenditures.

No adjusting events have occurred between the reporting date and the date of authorization.

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.

We anticipate oil drilling activity to remain strong in the second half of 2011 which will continue to drive demand for our drilling fluid and blending products. Bri-Chem remains focused on superior customer service, managing inventory levels and controlling costs. As activity levels continue to grow, Bri-Chem is well positioned to grow market presence and profitability through its diverse product offering, strategic distribution network and solid client relationships.

The Petroleum Services Association of Canada (PSAC) has a forecasted 3,808 wells to be drilled in Canada for the third quarter of 2011, a forecasted increase of 25.6% over 2010. Alberta is anticipated to drill approximately 2,473 wells an 18.4% increase from the same period in 2010. As non-conventional, horizontal drilling applications are continue to develop, the Company will benefit from increased revenues as a result of more drilling fluids being consumed in these applications. US drilling activity is more consistent and does not experience the seasonality of that in Canada, as such demand for drilling fluids is more constant. The US currently has approximately 1,800 rigs operating, many of which are unconventional, and horizontal. Management is expected to build additional infrastructure with the addition of sales personnel in the US over the short term. We are continuing to expand both geographically and products offered to our customers. With the current and future strategic stock locations in the US, Bri-Chem will seek to gain market share as an alternative independent wholesale supplier of drilling fluids, which will lead to increased sales and profitability from the US operations.

The Company's chemical blending operation is continuously seeking out new opportunities as more existing and potential customers are looking at new and redevelopment of existing products as non-conventional drilling applications continue to lead drilling activity. Management will continue to focus on expanding blending opportunities in 2011 through blending and packaging of cementing, acidizing and fracturing chemical additives. In addition, we are looking to expand our oil based drilling fluids into strategic locations in the US, where the use of such fluids are dominant. We are continuing to examine new product lines and improving efficiencies while maintaining the ability to meet the increased demand for our blended products and services.

The selling prices of seamless steel pipe have improved to more traditional levels which has lead to improved margins in the steel division. The inventory management program that the Company implemented in early 2010 has resulted in more appropriate inventory levels and product lines. Demand for steel products is continuing to improve and it is expected that demand will continue to improve throughout 2011. In the medium term, we will focus our sales efforts on seamless pipe distribution and will combine efforts with our large diameter seamless pipe mill to meet the needs of our customers with the products they require. Margins are expected to be similar to second quarter, however we could see a slight improvement should commodity prices rise.

The steel manufacturing division is nearing the completion of the installation and commissioning phase of steel pipe plant. Light production and completion of testing is expected for part of the third quarter, while small production runs are being scheduled for late in the third quarter. Management has now turned its efforts on sales and will continue to market the mill securing purchase orders in the short and medium term. In addition, the division will be hiring staff for a second shift in late Q3 as production demands are forecasted to increase. Management is optimistic that the demand for large diameter seamless pipe in Canada will drive the division's sales and profitability. Potential unforeseen production delays could affect the ability to meet industry demand in the short term. Management is also continuing to evaluate further expansion opportunities.

Management and the Board are constantly evaluating additional acquisition opportunities and will continue to seek and identify targets that fit the corporate requirements as accretive and geographically favorable.

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, 2010. 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 products 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.

Alberta Royalty Framework

On October 25, 2007, the Government of Alberta announced a new royalty framework which took effect on January 1, 2009. Under the new royalty framework, royalty rights of the Alberta Government have increased on conventional oil, natural gas and the oil sands. On March 11, 2010, the Alberta Government has made amendments to the Alberta Royal framework. On May 27, 2010 further changes were made which were effective January 1, 2011. The updates are focused on deep basin gas drilling and improving the economics of unconventional gas plays, as well as horizontal oil and gas drilling. It is unclear how oil and natural gas producers will react to the new royalty framework and the related incentives, however over the long-term, indicators suggest oil and natural gas producers view the changes as a positive improvement to the economics of drilling programs for certain Alberta properties. Any future changes to the framework could have a material adverse effect on Bri-Chem's ongoing operations, financial condition, results of operations and cash flows.

Supply Risk

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

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 have no material long-term, fixed price purchase contracts. We attempt to pass along all product costs where able to customers. 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 US markets, instead the Company relies on its inventory turnover.

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

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 Credit Facility and Other Debt

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

Income Tax Expense

The Company collects, accrues, and pays significant amounts of income taxes and has significant future 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 future income 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 Bri-Chem, furthermore, as part of the Company's growth strategy, it must continue to hire highly qualified individuals, including financial, sales and operations personnel. There can be no assurance that the Company will be able to attract and retain qualified personnel in the future. The compensation program in place includes salary, benefits, and bonus structures, and is designed to provide fair compensation to all personnel and adequate performance incentives. Other non-monetary measures including training and development and recognition are used to ensure the culture stays focused on key personnel retention.

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 Bri-Chem 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 Bri-Chem'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 Canadian generally accepted accounting principles, 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, 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 future income tax assets, the impairment testing of goodwill and long-lived assets, valuations of accrued liabilities and future income 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 and judgments used by management include:
Sales return provision

Accounts receivable is the second most significant asset at June 30, 2011. Included in this balance is a sales return provision for the fluids division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision already recorded.

Inventory valuations

Inventory is measured at the lower of cost and net realizable value. Net realizable value is an estimate of future selling prices less the costs to sell. Management reviews inventory periodically 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.

Income taxes

Management calculates the provision for income taxes based on all available information at the time of reporting. The calculation requires certain areas of significant judgment when interpreting tax rulings and regulations, which are constantly changing. This includes the calculation of future income 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.

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.

New accounting policies adopted in the second quarter

Foreign currency translation

For the accounts of foreign operations with the US dollar as the functional currency, assets and liabilities are translated into Canadian dollars, which is the presentation currency at period end exchange rates, while revenues and expenses are translated using average rates over the period, which approximate the rate on the transaction date. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive loss as a separate component of shareholder's equity. As at June 30, 2011, accumulated other comprehensive loss is comprised solely of foreign currency translation adjustments.

Decommissioning liabilities

Decommissioning liabilities include present obligations where the Company will be required to retire tangible long-lived assets from its Steel Manufacturing segment. The decommissioning liabilities are measured at the present value of the expenditure expected to be incurred. The associated asset decommissioning cost is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and the related asset decommissioning cost.

Impairment testing of goodwill

Upon acquisition, goodwill is allocated to the applicable cash-generating unit ("CGU") or aggregated cash-generating units that are expected to benefit from the business combination's synergies. Goodwill is assessed for impairment annually or more frequently if there are indications that impairment may have occurred. Goodwill impairment is tested at the GGU level. To assess impairment, the recoverable amount of the CGU to which the goodwill relates is compared to the carrying amount of that CGU. The recoverable amounts are determined based on the greater of its fair value less costs to sell or value in use. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued operation of the CGU. If the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in net earnings. An impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU. Goodwill impairments are not reversed.

Change in accounting policy which occurred in the first quarter

Effective January 1, 2011, the Company changed its inventory costing method in its steel products division from a first-in first-out method to a weighted average cost method. This method is more consistent with industry practices and will provide a more accurate reflection of the cost of materials sold at any given point in time by reducing the effects of commodity price risk. The change in inventory costing method was applied retrospectively.

Adoption of International Financial Reporting Standards

The Company prepared its June 30, 2011 interim consolidated financial statements in accordance with IFRS accounting policies. In accordance with IFRS 1, the Company has a transition date of January 1, 2010 and therefore comparative information for 2010 has been prepared and re-presented in accordance with IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared under previous GAAP and will not be re-presented.

The Company's IFRS accounting policies are provided in Note 4 to the March 31, 2011 interim consolidated financial statements. Any new accounting policies have been provided in Note 3 to the June 30, 2011 interim consolidated financial statements. In addition, Note 20 to the interim consolidated financial statements presents reconciliations of the following from previous GAAP to IFRS:

- Equity as at June 30, 2010;
- Net earnings and comprehensive income for the three months ended June 30, 2010;
- Net earnings and comprehensive income for the six months ended June 30, 2010;
- Statement of cash flows for the six months ended June 30, 2010

The following is a summarization of the significant accounting policies that the Company has adopted in the transition from previous GAAP to IFRS, including the significant elections and exemptions that are allowed upon first time adoption of IFRS.

IFRS 1

The Company is required to comply with the standards of IFRS 1, "First Time Adoption Under International Financial Reporting Standards" in the first reporting period after the changeover to IFRS. The standard details requirements for retroactive application and circumstances where exemptions are optional. The Company has applied the standard as required and has elected to use the optional exemption to apply the business combinations standard retrospectively to January 1, 2009. Impacts on the application of this standard will be limited to future business combinations performed.

Property and equipment

On transition to IFRS, the Company has elected not to use the IFRS 1 exemption to record its intangible assets at the fair value. All assets are recorded at the carrying amount at the date of transition. Under the standard, the capitalization of the Company's website development costs is not allowed as the site does not provide directly traceable future earnings potential to the Company. The costs of $25,935 and accumulated amortization of $6.916, previously held under property and equipment, were removed from the balance sheet on transition date. Additional website costs of $6,406 and related amortization of $1,893 were removed at the end of the second quarter of 2010.

Share-based payments

The decrease in stock-based compensation as at January 1, 2010 is a result of the addition of a forfeiture rate used in the calculation of the expense. This was applied at January 1, 2010 to all outstanding unvested options. Under previous GAAP, there was no requirement to apply a forfeiture rate into the calculation of the expense. As a result, in the past the Company had assumed a zero forfeiture rate and forfeited options were adjusted for as they occurred.

At December 31, 2010, the Company recorded an additional $1,065 of expenses related to consultant options issued in the period. Previously, these options were valued using the Black Scholes Options Pricing Model, but under IFRS the Company was required to value these options based on the fair value of the services provided in exchange for the option issue.

Intangible assets

Impairments of assets are measure at the cash-generating unit level under IFRS rather than being measured on asset groups. Certain prior recorded impairments may also be reversed under IFRS. The Company has identified its cash-generating units and has performed an impairments test at January 1, 2010 based on these units. As a result, $334,583 of non-competition agreements in the steel cash-generating unit were determined to be impaired and were written off on transition. Amortization of $45,625 for the six months ended June 30, 2010 was reversed from the income statement.

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS Accounting Policies

The Company is required to present its IFRS compliant consolidated financial statements for the year ended December 31, 2011 using the standards that are in effect on December 31, 2011. The Company has applied the standards in place at the current date of reporting, however changes in accounting policies used to year end date may result in material changes to our reported financial position, results of operations and cash flows. Therefore, the consolidated interim financial statements for the period ended June 30, 2011 are subject to change.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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 financial instruments consist of recorded amounts of forward contracts, accounts receivable, as well as bank indebtedness, accounts payable and accrued liabilities, promissory notes payable, obligations under capital lease and long-term debt.

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The carrying value of accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments. The fair value of long term debt and obligations under capital lease approximates the carrying value as the interest is similar to current market rate for similar debt, while the fair value of promissory notes payable reflects the incremental cost of borrowing given current market risks and interest rates for the similar debt.

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. Revenue from the Company's largest two customers accounted for approximately 18% and 18% respectively of revenue for the three months ended June 30, 2011 (June 30, 2010 - 15% and 22%) and 16% and 16% respectively (June 30, 2010 – 22% and 30%) of total accounts receivable at period end, and are reported in the Company's fluids segment.

The Company manages its credit risk through the credit application process and through an extensive collections process. The Company maintains an allowance for estimated credit losses on accounts receivable. The estimate is based on the best assessment of the collectability of the related receivable balances based, in part, on the age of the outstanding accounts receivable and on the Company's historical collection and loss experience. The Company establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information.

For the period ended June 30, 2011, the Company has recorded an allowance for doubtful accounts of $3,179 (December 31, 2010 - $92,000). The allowance is an estimate of the June 30, 2011 trade receivable balances that are considered uncollectible. Changes to the allowance during the period ended June 30, 2011 consisted of a bad debt expense of $115,126 and a receivable write-off of $203,947.

Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. A significant decline in economic conditions within the industry would increase the risk that customers will experience financial difficulty and be unable to fulfill their obligations. The Company's exposure to credit risk arising from granting sales is limited to the carrying value of accounts receivable. The Company's revenues are normally invoiced with payment terms of 30 days. Despite the established payment terms, customers in the oil and gas industry typically pay amounts within 105 days of invoice date.

The aging of accounts receivable was as follows:

June 30, 2011	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 13,682,490	$ -	$ 13,682,490
31 to 60 days	5,989,637	-	5,989,637
61 to 90 days	3,273,421	-	3,273,421
91 to 120 days	4,759,063	-	4,759,063
Over 120 days	1,232,640	(3,179)	1,229,461
Total	$ 28,937,251	$ (3,179)	$ 28,934,072

The changes in allowance for doubtful accounts were as follows:

	June 30 2011	December 31 2010
Balance, beginning of period	**$ 92,000**	$ 169,491
Bad debt expense	**115,126**	202,456
Receivables written off	**(203,947)**	(223,173)
Recovery of receivables		(56,774)
Balance, end of period	**$ 3,179**	$ 92,000

The Company held $74,752 (December 31, 2010 - $294,638) of customer deposits for the purpose of mitigating the credit risk associated with accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balance in the financial statements.

Interest rate risk

Long-term debt and bank indebtedness are subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. It is management's opinion that interest rate risk is not significant.

The effective interest rate on the bank indebtedness balance at June 30, 2011 was Canadian bank prime interest rate plus 100 basis points (4.00%). The long term debt bears interest at bank prime plus a fixed increment. As at June 30, 2011, with other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately $63,144 (June 30, 2010 - $41,826).

Currency risk

The Company is subject to foreign currency risk due to its cash, accounts receivable and accounts payable and accrued liabilities and promissory notes denominated in foreign currencies. Therefore, there is risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities. Although the majority of the Company's operations are in Canada, the Company has operations outside Canada, which increases its exposure to foreign currency risk. Accounts receivable in foreign currency was $1,586,271 as at June 30, 2011 (June 30, 2010 - $654,112), accounts payable in foreign currency outstanding as at June 30, 2011 is $457,363 (June 30, 2010 - $5,322,455) and the promissory note outstanding at June 30, 2010 is $331, 577 (June 30, 2010 - $nil).

Accounts receivable in foreign currency was $1,586,271 as at June 30, 2011 (June 30, 2010 - $654,112), accounts payable in foreign currency outstanding as at June 30, 2011 is $457,363 (June 30, 2010 - $5,322,455) and promissory note in foreign currency outstanding as at June 30, 2011 is $337,577 (June 2010 - $nil). The Company realized a foreign exchange gain of $46,028 (June 30, 2010 – loss of $159,454) during the three month period ended June 30, 2011. Based on the monetary assets and liabilities held in the United States ("US") at June 30, 2011, a 5% increase in exchange rates would impact the Company's net earnings negatively by approximately $38,109 (June 30, 2010 – $170,401).

Commodity risk

Commodity risk arises from the effect that fluctuations of future commodity prices of steel and certain chemicals and may have on the fair value or future cash flows of financial assets and liabilities. The Company does not use derivatives to reduce its commodity risk.

SHARE DATA

As at August 16, 2011, the Company had 16,415,627 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,578,559 common shares. As of June 30, 2011, options to purchase 1,238,688 common shares were outstanding at an average price of $2.03 per common share. Warrants totaling 100,000 with an average exercise price of $2.10 may be exercised into common shares.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Certain financial measures referred to in the MD&A and explained below, namely EBITDAC (earnings before interest, taxes, depreciation, amortization, and stock based compensation) and operating expenses, are not prescribed by Canadian generally accepted accounting principles (GAAP). These non-GAAP financial measures do not have a standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. The Company includes these non-GAAP financial measures for investors who may use the information to analyze operating performance. These non-GAAP financial measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP.

EBITDAC (Earnings before interest, taxes, depreciation and amortization and stock based compensation) is not a concept recognized by generally accepted accounting principles, however is recognized in industry as an indirect measure for operating cash flow, a significant indicator of the success of any business. Management believes that EBITDAC is useful measure of earnings, in addition to net earnings as it provides an indication of the financial results and earnings generated by the Company's primary business activities prior to financing, tax considerations and before non-cash amortization expense. Adjusted EBITDAC includes an adjustment for the inventory write-down (reversal) which is not seen by management to be a normally recurring item. The following is a reconciliation of EBITDAC and Adjusted EBITDAC to net earnings for each of the periods presented in this MD&A.

EBITDAC		For the three months ended June 30		
		2011		2010
Net earnings (loss)	**$**	**436,757**	$	(15,704)
Add:				
Interest		**572,680**		399,468
Income taxes		**157,538**		16,308
Depreciation and amortization		**252,429**		203,968
Stock-based compensation (1)		**15,098**		26,823
EBITDAC		**1,434,502**		630,863

(1) Stock-based compensation includes warrants of $7,784 (2010 - $7,784) and stock options of $7,314 (2010 - $16,710).

EBITDAC		For the six months ended June 30 2011		2010
Net earnings	**$**	**3,069,213**	$	2,665,882
Add:				
Interest		**1,173,067**		813,450
Income taxes		**1,115,089**		1,007,091
Depreciation and amortization		**447,845**		406,071
Stock-based compensation (1)		**34,358**		83,885
EBITDAC		**5,839,572**		4,976,379

(1) Stock-based compensation includes warrants of $15,569 (2010 - $20,226) and stock options of $18,789 (2010 - $63,659).

Operating expenses is not a concept recognized by generally accepted accounting principles 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 June 30, 2011 consolidated financial statements:

Operating expenses		For the three months ended June 30 2011		2010
Operating expenses	**$**	**3,059,242**	$	2,600,328
Add:				
Interest		**572,680**		399,468
Depreciation and amortization		**252,429**		203,968
Stock-based compensation		**15,098**		26,823
Total expenses	**$**	**3,899,449**	$	3,230,587

Operating expenses		For the six months ended June 30 2011		2010
Operating expenses	**$**	**6,329,283**	$	4,606,111
Add:				
Interest		**1,173,067**		813,450
Depreciation and amortization		**447,845**		1,007,091
Stock-based compensation		**34,358**		83,885
Total expenses	**$**	**7,984,553**	$	6,510,537

Corporate Information

Officers and Directors

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Edmonton, Alberta

Alan Campbell
Director
Edmonton, Alberta

Brian Campbell
President, Bri-Chem Supply Ltd.
President, Sodium Solutions Inc.
Director
Edmonton, Alberta

Albert Sharp
Director
Spruce Grove, Alberta

Eric Sauze, CA
Director
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