Bri-Chem Corp.

Management's Discussion and Analysis

Three and Six Months Ended June 30, 2012

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of August 14, 2012. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the three and six months ended June 30, 2012, and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the unaudited interim financial statements for the period ended June 30, 2012, as well as the annual audited consolidated financial statements for the year ended December 31, 2011.

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

The Company's consolidated financial statements include the accounts of Bri-Chem Corp. and subsidiaries Bri-Chem Supply Ltd., Sodium Solutions Inc., Bri-Steel Corporation, Bri-Steel Manufacturing Inc. and Bri-Corp USA, Inc, including its 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 IFRS and all dollar amounts in this report are in Canadian dollars unless otherwise indicated.

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:

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

In particular, this MD&A contains forward-looking statements pertaining to the following:

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

2012 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.

During the second quarter of 2012, Bri-Chem generated consolidated revenues of $30,931,414, an increase of 20.0% for the quarter, compared to $25,770,316 from the prior year. Sales growth in Q2 was driven by USA fluids and transportation sales, which hit a record $6.4 million, and by the steel pipe distribution and manufacturing divisions which generated combined sales of $10.1 million as compared to $7.4 million in 2011. Consolidated revenues for the six months ended June 30, 2012 were $83,497,862 compared to $76,417,804 for the first half of 2011, an increase of 9.3%. Earnings before interest, taxes, amortization and share-based payments expense ("EBITDAC") were $181,640 or $0.01 per share and $5,482,085 or $0.31 per share respectively for the three and six month periods ended June 30, 2012, compared to $1,434,502 and $5,839,572 respectively for the same periods in 2011. The Company incurred a net loss of $769,807 or $0.03 loss per share for the quarter and $2,123,796 or $0.15 earnings per share for the six months ended June 30, 2012 as compared to net earnings of $436,757 and $3,069,213 respectively for 2011.

The North American oil and gas drilling fluids division recorded sales of $17,975,932 and $61,401,842 respectively for the three and six month periods ended June 30, 2012, consistent to the same periods in 2011. In Canada, drilling rig utilization averaged 22.0% for the second quarter which was a decrease of 2.0% compared with the same period last year when utilization rates averaged 24.0%. The number of wells drilled during the first half of 2012 is down 8.1% compared to 2011. The decrease in the number of wells drilled is a result of weaker natural gas and oil prices along with the discount of Canadian oil against the WTI price. This has resulted in less demand for the Company's drilling fluids and a decrease in revenues of 14% year over year. The Petroleum Services Association of Canada (PSAC) has forecasted 3,672 wells to be drilled in Canada for the third quarter of 2012, which is a slight decline over 2011. The Company is cautiously optimistic that activity levels will remain consistent with those of the second half of 2011.

The Company's USA drilling fluids and transportation subsidiaries, acquired on June 1, 2011, generated sales of $6,410,330 and $9,338,612 respectively for the three and six months ended June 30, 2012. The division continued its geographic expansion with the addition of two new warehouses in the first half of 2012 bringing the total warehouse count up to ten. The USA division has quickly established a national geographic network to service customers in all major resource plays in the USA. The infrastructure growth in late 2011 and early 2012 has resulted in increased sales growth and broader territorial coverage.

The steel pipe distribution division recorded sales of $10,110,382 and $17,086,494 respectively for the three and six month periods ended June 30, 2012, increases of 35% and 15% respectively compared to the same periods in 2011. Sales growth in the quarter was mainly due to a significant steel pipe order received late in Q2. The division continues to concentrate on seamless pipe sales which yielded margins at 16.3% for the quarter ended June 30, 2012.

Late in the third quarter of 2011, the Company commenced operations of its large diameter seamless pipe manufacturing facility. The division has made significant improvements to the manufacturing process and is continuing to increase production. The division commenced the hiring and training of a second shift late in the second quarter; however, the CP rail strike in May significantly delayed delivery of raw material shipments which slowed production ramp up and added significant cost to maintain staffing. Notwithstanding, the steel pipe manufacturing division recorded sales of $2,582,669 and $4,616,916 respectively for the three and six month periods ended June 30, 2012 (June 30, 2011 - $Nil).

Outlook Summary

Canadian drilling activity, for the second half of 2012, is forecasted to remain consistent with that of the second half of 2011, however, management anticipates further declines in drilling activity due to extremely wet weather conditions early into Q3 which could have an adverse impact in our core business. In addition, the third quarter drilling activity in Canada will not experience the dramatic ramp up of activity as was experienced in the third quarter of 2011, therefore Canadian fluid revenue is anticipated to be lower than 2011. The forecast for total wells drilled in 2012 is still anticipated be slightly higher than that of 2011 which should lead to a stronger Q4 for 2012. The Company will concentrate on maintaining its dominant position through strong customer service in Canada while looking to expand its sales and profitability in its USA drilling fluids and steel pipe manufacturing divisions. With the addition of new warehouse locations and an expanded product line, the Company is gaining market presence in the USA drilling fluids market. The USA division's liquid invert drilling fluid facility is expected to be operational in the third quarter, which will provide increased sales in the USA. The Company's large diameter steel pipe manufacturing mill is currently training for a full second shift to increase production capacity for the balance of fiscal 2012 and beyond. With the division receiving its American Petroleum Institute (API) certification during Q2, management remains optimistic that the division will obtain a backlog of sales production for the remainder of 2012 and most of 2013. The Company's steel pipe distribution division will manage its inventories and continue to provide a vast array of seamless and welded steel pipe to service customer demands. Bri-Chem also continues to evaluate North American integrated acquisition opportunities that will enhance profitability and provide geographic diversity.

DESCRIPTION OF BUSINESS

Bri-Chem is a leading North American distributor, blender, and manufacturer of drilling fluids and steel pipe for the oil and gas industry 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-Steel Corporation ("Bri-Steel"), and a 70% interest in Bri-Steel Manufacturing Inc. ("Manufacturing"). The Company also owns 100% interest in Bri-Corp USA Inc. ("Bri-Corp"), which has two 100% owned subsidiaries, Stryker Transportation Ltd. and Bri-Chem Supply Corp, LLC. Bri-Chem continues to concentrate on expanding its market presence 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 critical drilling fluid products, cementing, acidizing and stimulation additives from 26 strategically located warehouses throughout Canada and the United States. 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.

Completion Fluids and Blending

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 user 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.

Training and Fluid Analysis

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.

USA Drilling Fluids

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 Acquisition"). Stryker Ltd. was renamed Bri-Chem Supply Corp, LLC upon acquisition. The Denver based 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 PIPE DIVISION

Steel Pipe Distribution

Bri-Chem, through its steel pipe 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 is one of only two companies in North America that can manufacture and supply large diameter seamless steel pipe for the energy industry. The Company's superior vendor relationships have provided access too hard to find products and increased market share in a competitive industry.

Bri-Chem manages its steel product inventory through one warehouse in Edmonton, Alberta, which is the primary stock location for steel pipe in North America and also maintains a minimal 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 pipe are primarily used in the oil and gas industry, however the Company does distribute steel pipe to non-oilfield related industries such as construction, industrial and mining.

Steel Pipe Manufacturing

The steel pipe manufacturing subsidiary is a producer of large diameter seamless pipe for the North American marketplace. The subsidiary is 70% owned by Bri-Chem Corp. and 30% owned by Wuxi Huayou Special Steel Co., Ltd ("Wuxi"). The division produces steel pipe ranging in outside diameter from 14" to 36" which is 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 the steel pipe manufacturing segment is the first to introduce TPE production and testing in Canada.

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 its North American growth strategy by expanding its market presence in the oil and gas drilling fluids, wholesale distribution markets and niche steel pipe manufacturing opportunities. The fluids division will concentrate on providing superior customer service with the right product mix in strategic locations to meet the changing needs of our customers. In the USA, Bri-Chem will continue to aggressively pursue expanding its footprint and strive to become the leading National independent wholesale distributor of drilling fluids for the unconventional resource plays located throughout the USA. Bri-Chem will seek to establish additional capacity and new geographical markets in an effort to expand its completion fluids blending and packaging division. The steel distribution business will continue to increase inventory prudently to ensure the division has the right quantity and specifications of steel pipe products to meet the growing needs of its customers. In the short term, the steel pipe manufacturing division will focus on increasing its production capacity with the addition of second shift during the second quarter. In addition, the steel pipe manufacturing division will examine new strategic partnerships for possible new micro-mill locations and technologies 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 Quarter End Report for the period ended June 30, 2012.

Consolidated statements of operations		**For the three months ended June 30 2012**		2011		**Change $**	**%**
Sales	**$**	**30,931,414**	$	25,770,316	$	5,161,098	20.0%
Gross margin		**4,802,830**		4,493,744	$	309,086	6.9%
		15.5%		17.4%			
Operating expenses (1)		**4,621,189**		3,059,242		1,561,947	51.1%
EBITDAC (2)		**181,641**		1,434,502		(1,252,861)	-87.3%
Amortization		**515,563**		252,429		263,134	104.2%
Interest		**475,973**		572,680		(96,707)	-16.9%
Share-based payments		**97,717**		15,098		82,619	547.2%
(Loss) earnings before income taxes		**(907,612)**		594,295		(1,501,907)	-252.7%
Income taxes - current		**154,998**		265,991		(110,993)	-41.7%
Income taxes (recovery) - deferred		**(292,803)**		(108,453)		(184,350)	170.0%
Net (loss) earnings	**$**	**(769,807)**	$	436,757	$	(1,206,564)	-276.3%
Net (loss) earnings attributable to shareholders of the Company	**$**	**(506,285)**	$	527,098	$	(1,033,383)	-196.1%
Net loss attributable to NCI (3)	**$**	**(263,522)**	$	(90,341)	$	(173,181)	191.7%
(Loss) earnings per share							
Basic	**$**	**(0.03)**	$	0.03	$	(0.06)	-200.0%
Diluted	**$**	**(0.03)**	$	0.03	$	(0.06)	-200.0%
EBITDAC per share							
Basic	**$**	**0.01**	$	0.09			
Diluted	**$**	**0.01**	$	0.09			
Weighted average shares outstanding							
Basic		**17,238,420**		15,983,693			
Diluted		**17,414,896**		16,741,885			

(1) See page 37 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (See page 37 for a further explanation of this non-IFRS measure).
(3) Bri-Steel Manufacturing Inc. is a 70% owned subsidiary of Bri-Chem Corp. NCI represents the 30% non-controlling interest's ("NCI") portion of loss of the subsidiary for the three month period ended June 30, 2012.

The following selected six-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarter End Report for the period ended June 30, 2012.

Consolidated statements of operations	For the six months ended June 30 2012	2011	Change $	%
Sales	**$ 83,497,862**	$ 76,417,804	$ 7,080,058	9.3%
Gross margin	**13,983,932**	12,168,854	$ 1,815,078	14.9%
	16.7%	15.9%		
Operating expenses (1)	**8,501,848**	6,329,283	2,172,565	34.3%
EBITDAC (2)	**5,482,085**	5,839,572	(357,487)	-6.1%
Amortization	**1,074,203**	447,845	626,358	139.9%
Interest	**1,212,046**	1,173,067	38,979	3.3%
Share-based payments	**195,451**	34,358	161,093	468.9%
Earnings before income taxes	**3,000,385**	4,184,302	(1,183,917)	-28.3%
Income taxes - current	**1,326,153**	1,334,985	(8,832)	-0.7%
Income taxes (recovery) - deferred	**(449,564)**	(219,896)	(229,668)	104.4%
Net earnings	**$ 2,123,796**	$ 3,069,213	$ (945,417)	-30.8%
Net earnings attributable to parent	**$ 2,555,192**	$ 3,069,213	$ (514,021)	-16.7%
Net earnings (loss) attributable to NCI (3)	**$ (431,396)**	$ (173,562)	$ (257,834)	100.0%
Earnings per share				
Basic	**$ 0.15**	$ 0.21	$ (0.06)	10.5%
Diluted	**$ 0.15**	$ 0.20	$ (0.05)	5.3%
EBITDAC per share				
Basic	**$ 0.32**	$ 0.38		
Diluted	**$ 0.31**	$ 0.36		
Weighted average shares outstanding				
Basic	**17,216,026**	15,270,861		
Diluted	**17,414,831**	16,035,528		

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

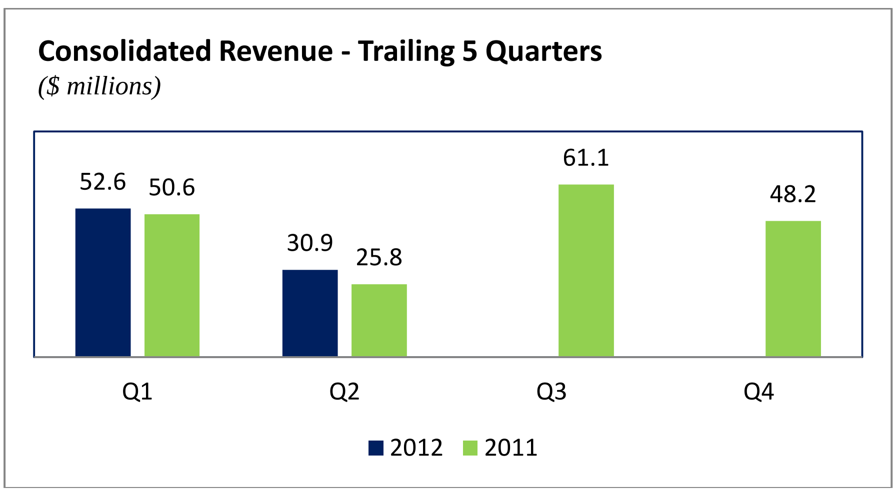
Sales

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								
	2012			2011			**Change**		
	$	**%**		$	%		**$**		**%**
Fluids	**$ 17,975,932**	**58.1**	$	18,239,169	70.8	$	(263,237)		-1.4%
Steel Distribution	**10,110,382**	**32.7**		7,393,207	28.7		2,717,175		36.8%
Steel Manufacturing	**2,582,669**	**8.3**		-	-		2,582,669		0.0%
Other	**262,431**	**0.8**		137,940	0.5		124,491		90.3%
	$ 30,931,414	**100.0**	$	25,770,316	100.0	$	5,161,098		20.0%

	For the six months ended June 30								
	2012			2011			**Change**		
	$	**%**		$	%		**$**		**%**
Fluids	**$ 61,401,842**	**73.5**	$	61,576,005	80.6	$	(174,163)		-0.3%
Steel Distribution	**17,086,494**	**20.5**		14,703,859	19.2		2,382,635		16.2%
Steel Manufacturing	**4,616,916**	**5.5**		-	-		4,616,916		0.0%
Other	**392,610**	**0.5**		137,940	0.2		254,670		184.6%
	$ 83,497,862	**100.0**	$	76,417,804	100.0	$	7,080,058		9.3%



Oil and Gas Fluids Division

Canadian Sales

The Canadian oil and gas fluid division generated sales, for the first half of 2012, of $52,455,841, compared to sales of $60,880,492 over the comparable 2011 period, representing a decrease of $8,424,651 or 13.8%. Sales in the second quarter of 2012 were $11,828,033 compared to $18,239,169 over the same comparable period in 2011. The decrease in Q2 sales was due to the decrease demand for fluids as rig utilization decreased from 24% in Q2 2011 to 22% in Q2 2012. On average there were 6% fewer rigs operating in the second quarter of 2012 compared to the same period in 2011. Year to date rig utilization has declined by 1.1% compared to the first half of 2011. The number of wells drilled in the second quarter of 2012 decreased 6.9% to 1,409 compared to 1,514. The decrease was due to a more traditional wet spring break up which resulted in a slower start to the summer drilling program.

The Alberta market experienced a decrease in sales of 30.3% over the second quarter of the prior year while the number of wells drilled increased by 12.6% in the region. The decrease in sales in the region was mainly due to certain customers not obtaining work in the province resulting in fewer fluid sales and a 34% decrease in liquid invert sales as customers had excess inventories held over from Q1 and certain customers are formulating and blending their own liquid invert at newly constructed invert facilities. Wells drilled in Saskatchewan decreased by 29% while the Company's revenue increased by 51.4% in the province as customers were able to move rigs sooner due to favorable weather conditions after spring break up. British Columbia has seen a 52% decrease in rig activity due to weaker natural gas prices which has resulted in many drilling companies deciding to cut spending on natural gas drilling until pricing returns to better rates making it more affordable to drill again in the region. Sales in the region have decreased 77.8% to $566,038 for the second quarter of 2012 over the comparable prior year amount of $2,549,726. In addition to the 52% decrease in drilling activity, our customers did not obtain the majority of the work in British Columbia as major North American drilling fluid engineering companies acquired the majority of the work and serviced those wells in the regions with their own inventories as these companies are fully integrated with inventory and engineering services.

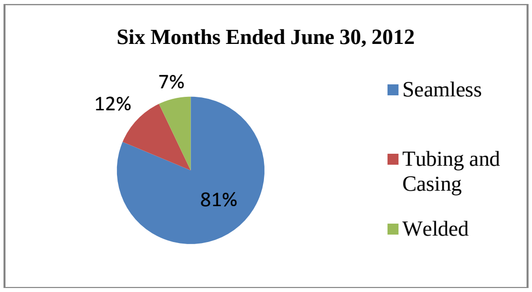
United States Sales

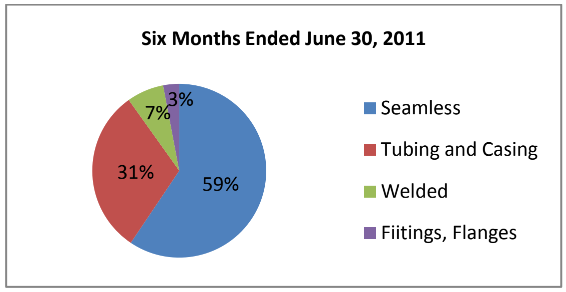
Total fluid sales into the United States ("USA") were $6,613,941 for the quarter ended June 30, 2012, which is comprised of $6,147,899 of drilling fluid sales from the USA fluids division and $466,042 of fluid sales from the Canadian fluids division sold into the USA. The comparable period in 2011 generated sales of $695,513 of which $459,167 related to one month of operations of the USA fluids division. Sales continue to grow on a quarter by quarter basis as the Company's expansion into new geographic regions has brought new customers and demands for drilling fluids as Bri-Chem is establishing its market presence as a leading full service independent national wholesaler of drilling fluids. Drilling activity in the USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. As such, the Company continues to focus on expanding its product offerings in the regions it currently services as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from an independent wholesaler.

Fluid Transportation

Fluid transportation revenues earned by the Company's USA based subsidiary amounted to $262,431 for the quarter ended June 30, 2012 compared to $137,940 for the one month comparable period in 2011. This new revenue stream was added from the Stryker acquisition completed effective June 1, 2011 and is reported under the "Other" category in the "Sales by Segment" chart above. The transportation divisions' main purpose is to service the Company's USA drilling fluids division with transportation services to the various warehouses that the Company distributes its products from. Revenues reported are for third party transportation revenue generated as the result of hauling goods for external customers.

Steel Pipe Division





Steel Pipe Distribution

For the three and six month period ended June 30, 2012, the steel pipe distribution division generated sales of $10,110,382 and $17,086,494, an increase of 36.8% and 16.2% respectively over the comparable periods in 2011. In 2011, the Company shifted its sales focus to seamless steel pipe and began to reduce its tubing and casing inventory as these product lines require more working capital and gross margins are lower as the market is highly competitive. The increase in sales during the second quarter of 2012 was largely due to a $5.1million seamless pipe order that was filled late in the quarter. For 2012, the Company intends to increase its inventories of welded steel pipe but will continue to focus on supplying quantity of seamless steel pipe to meet specific needs of our customers, which is anticipated to result in moderate sales growth for 2012.

Steel pipe sales in the USA amounted to $508,506 and $2,061,936 for the three and six month periods, compared to $865,690 and $1,444,178 for the same comparative periods in 2011. The Company has made a strategic decision to focus on the Canadian market, while USA sales are the result of the Company maintaining certain relationship in the USA and servicing those customers with steel pipe products when orders are received. The division continues to serve its USA customers with mill direct orders but is not focusing sales efforts in this area at this time.

Steel Pipe Manufacturing

The steel manufacturing division had sales of $2,582,669 and $4,616,916 for the three and six month period ended June 30, 2012. The Company has been producing large diameter seamless steel pipe for the past three quarters and is continuing to refine the manufacturing process and improve efficiencies to increase production capacity. Late in the second quarter of 2012, the Company focused on production speeds and tested the ability to operate the machinery on a second shift. The Company produced larger and heavier wall thickness pipe at the beginning of the quarter, which increased revenues as selling price per ton increases as heavy wall pipe is produced. The division commenced the hiring and training of a second shift late in the second quarter, however, the CP rail strike in May significantly delayed delivery of raw material shipments which has slowed production ramp up.

With the division receiving its American Petroleum Institute (API) certification, the Company remains optimistic that the division will obtain a backlog of sales production for the remainder of 2012 and most of 2013.

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					
	2012		2011		Change	
	$	% *	$	% *	$	%
Fluids	$ **2,715,470**	**15.1%**	$ 3,129,825	17.2%	$ (414,355)	-13.2%
Steel Distribution	**1,773,908**	**17.5%**	1,298,296	17.6%	475,612	36.6%
Steel Manufacturing	**190,502**	**7.4%**	-	0.0%	190,502	0.0%
Other	**122,950**	**46.9%**	65,623	47.6%	57,327	87.4%
Total	$ **4,802,830**	**15.5%**	$ 4,493,744	17.4%	$ 309,086	6.4%

	For the six months ended June 30					
	2012		2011		Change	
	$	% *	$	% *	$	%
Fluids	$ **10,168,489**	**16.6%**	$ 9,903,754	16.1%	$ 264,735	2.7%
Steel Distribution	**2,828,657**	**16.6%**	2,199,477	15.0%	629,180	28.6%
Steel Manufacturing	**814,692**	**17.6%**	-	0.0%	814,692	0.0%
Other	**172,094**	**43.8%**	65,623	47.6%	106,471	100.0%
Total	$ **13,983,932**	**16.7%**	$ 12,168,854	15.9%	$ 1,815,078	13.0%

* as a percentage of divisional revenues

Consolidated gross margin as a percentage of sales fell by 1.9% in the quarter, while increasing for the six months from 15.9% to 16.7%, an increase of 0.8%.

Gross margin for the fluids division was 15.1% and 16.6% for the three and six month period ended June 30, 2012 as compared to 17.2% and 16.1% for the comparable prior period. Margins on fluid sales vary based on product mix and drilling formations. Margins for the Canadian fluids division were 14.0% for the three months ended June 30, 2012 compared to 15.7% for the same period in 2011. The decrease of 1.7% is due to a wet spring break up, slower start to the summer drilling program and less sales for oil based invert drilling fluids. Although traditionally margins are lower on base oil invert sales, other higher margin complementary fluid additives were not sold as these products are typically sold along with the invert fluids. The USA fluid margins are traditionally slightly higher than those of the Canadian operations, and were 17.2% for the first half of 2012. Margins in the USA fluids operations have fallen slightly due to increased sales of lower margin products such as barite and bentonite. These products are essential to the drilling fluids industry and have traditionally been high volume, low margin products.

For the steel distribution division, gross margins were 17.5% and 16.6% respectively for the three and six months ended June 30, 2012, compared to 17.6% and 15.0% in 2011. The steel distribution business has reduced its focus on tubing and casing sales and is concentrating sales on higher margin products such as seamless pipe. Gross margins for the second quarter of 2012 are consistent compared to the second quarter of 2011. Gross margins increased by 1.6% for the six months ended June 30, 2012 compared to same period in 2011 as the division had minimal sales of lower margin tubing and casing in the first half of 2012 compared to the first half of 2011.

The steel manufacturing division had margins of 7.4% and 17.6% for the three and six month period ended June 30, 2012. Margins were lower in the quarter as the division incurred additional labour costs of approximately $285,900 related to training of a second shift, as well as time incurred for redundancy of job tasks. In addition, there was an inventory adjustment of $229,835 related to raw materials that were used during production testing and research and development of various sizes. Training and redundancy costs are expected to yield higher production capacity in the second half of the year which will normalize margins between 20% and 30%. If these extraordinary costs were not incurred, the gross margin for the division would have been 27.3% for the second quarter. Margins have the potential to fluctuate depending on the size and grade of pipe being produced. More specialized sizes such as 30" are anticipated to yield higher margins than common sizes such as 16" standard A106 pipe. Management is focused on meeting the size requirements of its customers, while being competitively priced.

For the second half of fiscal 2012, we are anticipating gross margins on fluid sales to be similar to those in the first half of 2012 as drilling activity is forecasted to be comparable to that of 2011. 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 distribution division will remain focused on maintaining margins it has achieved in 2012. As steel commodity prices have remained consistent, margins are expected to improve slightly over the second half of 2012. The steel manufacturing division is targeting margins between 20% and 30% based on current raw material costs and estimated finished product sale prices.

Operating expenses

Salaries and employee benefits

	For the three months ended June 30		Change	
	2012	2011	**$**	**%**
Salaries and benefits	**$ 2,406,094**	$ 1,645,832	$ 760,262	46.2%
% of sales	**7.8%**	6.4%		1.4%

	For the six months ended June 30		Change	
	2012	2011	**$**	**%**
Salaries and benefits	**$ 4,767,568**	$ 3,304,459	$ 1,463,109	44.3%
% of sales	**5.7%**	4.3%		1.4%

Salaries and benefits have increased by $760,262 for the three months ended June 30, 2012 over the prior year comparable period. The Company incurred $535,588 of salaries and benefits related to the USA operations during the second quarter. Share-based payments increased by $90,402 from the prior comparable quarter as the Company issued new stock options to directors, executive and senior management of the Company throughout 2011 which impacts the current period expense.

Salaries and benefits increased $1,463,109 or 44.3% for the six months ended June 30, 2012 compared to the same period in 2011. There were $938,291 of additional expenses for the year to date related to the operations of the USA subsidiaries, which includes 19 additional staff ranging from operations, sales, administration and long-haul truck drivers. Share-based compensation expense increased by $177,162 for the six months ended June 30, 2012 compared to the same period in 2011 as the Company issued new stock options the last half of 2011. In addition, the Company added additional mill rights and lab technicians in the steel manufacturing facility in 2012 more personnel was needed as production started to increase.

The Company employed 139 (102 Canada and 37 USA) employees at June 30, 2012 compared to 89 (71 Canada and 18 USA) at the same time period in 2011.

The Company expects salaries and employee benefits to increase throughout 2012 with the addition of adding a second shift to the steel manufacturing operations and sales and operational employees in the USA as the Company continues to grow its infrastructure to support demand for drilling fluid products. 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					
	2012			2011		
		$	**%***		$	%
Selling	**$**	**336,791**	**1.1**	$	272,580	1.1
Professional and consulting		**89,404**	**0.3**		17,342	0.1
General and administration		**610,499**	**2.0**		384,870	1.5
Rent, utilities and occupancy costs		**1,314,203**	**4.2**		799,744	3.1
Foreign exchange gain		**(38,085)**	**(0.1)**		(46,028)	(0.2)
	$	**2,312,812**	**7.5**	$	1,428,508	5.6

*Percentage of sales

	For the six months ended June 30					
	2012			2011		
		$	**%***		$	%
Selling	**$**	**654,186**	**0.8**	$	456,016	0.6
Professional and consulting		**211,348**	**0.3**		267,116	0.3
General and administration		**1,148,548**	**1.4**		758,221	1.0
Rent, utilities and occupancy costs		**2,420,810**	**2.9**		1,629,246	2.1
Foreign exchange gain		**(505,162)**	**(0.6)**		(51,418)	(0.1)
	$	**3,929,730**	**4.7**	$	3,059,181	3.9

*Percentage of sales

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

Selling expenses increased for the three and six months ended June 30, 2012 compared to the same period in 2011. This includes public company costs related to investor relation activities of $27,240 and $96,854 respectively, as well as $87,754 and $182,192 in travel and accommodation costs related to general business activities. Auto expenses increased by $39,971 and $84,695 respectively due to increased operational costs, lease costs and fuel costs for the forklifts in the steel manufacturing, steel distribution and USA fluids divisions. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses for the three and six month period ended June 30, 2012 were $89,404 and $211,348 respectively. The six month period is at an overall decrease as the Company incurred additional costs for services related to the transition to IFRS in 2011. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses increased for the three and six month period ended June 30, 2012. Bank charges increased by $115,203 and $237,297 for the three and six month period ended June 30, 2012 compared to 2011 as a result of the transaction costs related to the new banking arrangements entered in the third quarter of 2011. Insurance costs increased by $70,736 and $119,924 respectively over the comparable quarter due to the addition of the manufacturing facility and USA operations, and an increase to insurance coverage for all divisions of the

Company. All other costs remained relatively consistent from the comparable prior year quarter. General and administration expenses relating to the USA operations amounted to $116,580. General and administration expenses include bad debts, bank charges, and insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy costs increased over the second quarter of 2011. Rents and utilities from the USA operations amounted to $229,525 and $386,836 for the three and six months ended June 30, 2012, while the division incurred $5,773 for the one month of operation in the first half of 2011 as the division was acquired in June 2011. The Company's incurred increased utility costs of $122,165 and $150,922 for the three and six months ended June 30, 2012. The increases were due to increased utility costs in the steel manufacturing division. The steel distribution division relocated its steel inventory to a new pipe yard in Edmonton, Alberta during late 2011. The steel distribution division offset this increased expense with the subleasing of its Leduc, Alberta warehouse and its yard to two third parties in late 2011and early 2012. For the three and six month period ended June 30, 2012, the rental revenue was $230,547 and $389,545 respectively, which is recorded in sales. Costs in this category are comprised mainly of rent, utilities, and warehouse expense for the Edmonton, Leduc, Camrose, Acheson and USA locations as well as liquid storage tank rentals.

During the second quarter of 2012, the US dollar lost strength in relation to other currencies, and was lower than the Canadian dollar at June 30, 2012. The decrease in the US dollar resulted in a foreign exchange gain for the three and six months ended June 30, 2012 of $38,085 and $505,162, as the decreased US rate caused the Company to have a favourable position on its lending facility which is partially held in USD. In addition, 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	
		2012		2011		**$**	**%**
Property and equipment	**$**	**398,516**	$	152,842	$	245,674	160.7%
Intangible assets		**117,047**		99,587		17,460	17.5%
Total	**$**	**515,563**	$	252,429	$	263,134	104.2%

		For the six months ended June 30				Change	
		2012		2011		**$**	**%**
Property and equipment	**$**	**840,697**	$	262,917	$	577,780	219.8%
Intangible assets		**233,506**		184,928		48,578	26.3%
Total	**$**	**1,074,203**	$	447,845	$	626,358	139.9%

The increase in property and equipment amortization is a result of amortization on the useful life of assets put into use for the steel manufacturing division, which did not exist in the comparable quarter of the prior year. The quarterly amortization expense in 2012 is expected to be similar to that of the second quarter of 2012. Intangible asset amortization has increased due to the addition of $805,532 of intangible assets as a result of the Stryker acquisition that occurred in June 2011.

Interest

		For the three months ended June 30 2012		2011		Change $	%
Interest on long-term debt	**$**	**9,821**	$	103,782	$	(93,961)	-90.5%
Interest on short-term operating debt		**459,889**		458,456		1,433	0.3%
Interest on obligations under finance lease		**6,263**		10,442		(4,179)	-40.0%
Total	**$**	**475,973**	$	572,680	$	(96,707)	-16.9%

		For the six months ended June 30 2012		2011		Change $	%
Interest on long-term debt	**$**	**14,776**	$	250,744	$	(235,968)	-94.1%
Interest on short-term operating debt		**1,174,997**		909,858		265,139	29.1%
Interest on obligations under finance lease		**22,273**		12,465		9,808	78.7%
Total	**$**	**1,212,046**	$	1,173,067	$	38,979	3.3%

Interest on short-term operating debt increased by $1,433 and $265,139 for the three and six month periods ended June 30, 2012 due to increases in the revolving line of credit balance outstanding as compared to the prior period. More borrowing was needed to purchase inventory given new geographic regions, as well as for increased capital expenditures. On August 12, 2011, the Company signed a new asset-based lending agreement with CIBC Asset Based Lending Inc. and HSBC Bank Canada, and settled the prior amounts outstanding under its previous borrowing arrangements with HSBC Bank Canada and HSBC Capital. As a result, interest on long-term debt has decreased in the second quarter of 2012 due to the repayment of long-term debt and the new borrowing agreement, which is classified as short-term operating debt.

As at June 30, 2012, the Company has no long-term debt on its balance sheet other than capital leases that are the result of equipment financing for the steel manufacturing facility and the USA transportation equipment. The Company anticipates it will carry a small amount of long-term debt in 2012 for equipment, to assist with its continued strategic growth plan.

Income taxes

The provision for income taxes for the three and six months ended June 30, 2012 is a net current tax (recovery) expense of ($137,805) and $876,589 compared to $157,538 and $1,115,089 in 2011. The decrease in taxes is a result of the decrease in earnings of the Company. The Company had a deferred tax recovery of $292,803 and $449,564 for the three and six months ended June 30, 2012, largely as a result of the tax effect on losses incurred in the steel manufacturing division.

Net (loss) earnings and (loss) earnings per share

	For the three months ended June 30 2012	2011	Change $	%
Net (loss) earnings	**$ (769,807)**	$ 436,757	$ (1,206,564)	276.3%
% of sales	**-3.0%**	1.7%		
EBITDAC [(1)]	**$ 181,640**	$ 1,434,502	$ (1,252,862)	87.3%
% of sales	**0.7%**	5.6%		

	For the six months ended June 30 2012	2011	Change $	%
Net earnings	**$ 2,123,796**	$ 3,069,213	$ (945,417)	30.8%
% of sales	**2.8%**	4.0%		
EBITDAC [(1)]	**$ 5,482,084**	$ 5,839,572	$ (357,488)	6.1%
% of sales	**7.2%**	7.6%		

(1) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (See page 37 for a further explanation of this non-IFRS measure).

The Company had a net loss for the quarter ended June 30, 2012 of $769,807 compared to earnings of $436,757 in the prior year. The net loss was due to expedited further expansion of USA operations and overall weaker demand for Canadian fluids as certain customers' experienced decreased work. In addition, the steel manufacturing division experienced decreased gross margins as the division was incurred additional labour costs for the training of a second shift and raw material inventory adjustment used for production testing.

The decrease in EBITDAC for the period is also due to USA expansion costs and the decrease in Canadian fluid sales activity in the period. The USA drilling fluids division had lower gross margins as well as the division sold more lower margin products during the quarter. Lastly, lower steel manufacturing margins as the result of additional training costs related to a second shift also impacted EBITDAC for the quarter.

Basic and diluted (loss) earnings per share for the three and six month period ended June 30, 2012 were ($0.03) and $0.15 respectively. (Loss) earnings per share were based on the weighted average number of shares outstanding during the period. The basic and diluted weighted average number of shares outstanding for the quarter ended June 30, 2012 were 17,238,420 and 17,414,896 respectively compared to 15,983,693 and 16,741,885 for the same comparative period in 2011.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2012 Q2	2012 Q1	2011 Q4	2011 Q3	Total TTM
Sales	$ 30,931	$ 52,566	$ 48,170	$ 61,136	$ 192,803
Gross margin ($)	4,802	9,181	8,487	10,381	32,851
Gross margin (%)	15.5%	17.5%	17.6%	17.0%	17.0%
EBITDAC (1)	181,640	5,300	4,205	6,346	197,491
Net (loss) earnings	$ (769)	$ 2,894	$ 2,431	$ 3,962	$ 8,518
Basic (loss) earnings per share	$ (0.03)	$ 0.18	$ 0.17	$ 0.25	$ 0.57
Diluted (loss) earnings per share	$ (0.03)	$ 0.18	$ 0.16	$ 0.24	$ 0.55

(in thousands of Cdn $)	2011 Q2	2011 Q1	2010 Q4	2010 Q3	Total TTM
Sales	$ 25,770	$ 50,647	$ 47,852	$ 38,485	$ 162,754
Gross margin ($)	4,494	7,675	6,962	5,780	24,911
Gross margin (%)	17.4%	15.2%	14.5%	15.0%	15.3%
EBITDAC (1)	1,490	4,399	3,846	3,890	13,625
Net earnings	$ 437	$ 2,632	$ 2,082	$ 2,348	$ 7,499
Basic earnings per share	$ 0.03	$ 0.19	$ 0.15	$ 0.17	$ 0.54
Diluted earnings per share	$ 0.03	$ 0.18	$ 0.15	$ 0.17	$ 0.53

(in thousands of Cdn $)	2010 Q2	2010 Q1	2009 Q4	2009 Q3	Total TTM
Sales	$ 22,193	$ 43,965	$ 32,058	$ 23,966	$ 122,182
Gross margin ($)	3,231	6,351	893	2,647	13,122
Gross margin (%)	14.6%	14.4%	2.8%	11.0%	10.7%
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-IFRS measure which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. (See page 37 for a further explanation of this non-IFRS measure).

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. In the second quarter of 2012 spring break-up occurred approximately two weeks earlier than in the prior comparable quarter.

FINANCIAL CONDITION & LIQUIDITY

Summary Balance Sheet As at		June 30 2012		December 31 2011
Current assets	$	**105,243,892**	$	113,020,921
Property and equipment		**10,244,219**		9,808,587
Other assets		**3,101,325**		2,840,836
TOTAL ASSETS	$	**118,589,436**	$	125,670,344
Current liabilities	$	**71,666,999**	$	80,581,220
Non-current lliabilities		**1,109,680**		1,139,643
TOTAL LIABILITIES		**72,776,679**		81,720,863
Share capital		**26,143,554**		25,862,877
Non-controlling interest		**(1,100,180)**		(668,784)
Retained earnings and contributed surplus		**20,769,383**		18,755,388
TOTAL EQUITY		**45,812,757**		43,949,481
TOTAL LIABILITIES AND EQUITY	$	**118,589,436**	$	125,670,344

Financial Ratios	June 30 2012	December 31 2011
Working capital ratio	**1.47**	1.40
Days sales in receivables	**127.3**	101.8
Inventory turns	**1.6**	3.2
Days purchases in payables	**81.4**	65.1

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, 2012, the Company had positive working capital of $33,576,893 compared to $32,439,701 at December 31, 2011. The Company's working capital ratio (defined as current assets divided by current liabilities) was stronger at 1.47 to 1 for the period ended June 30, 2012, compared to 1.40 to 1 for the year ended December 31, 2011.

As at June 30, 2012, the Company had drawn $45,616,412, net of transaction costs of $499,935, on its available credit facilities of $80,000,000, as compared to $48,910,877, net of transaction costs of $687,558, at December 31, 2011. As at June 30, 2012, the Company was eligible to borrow up to approximately $57,700,000 based on the marginable assets of the Company. 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 advance under the ABL Facility repaid the outstanding amounts in full to its former credit facility lender HSBC Bank Canada totaling $36,060,524 and $1,718,883 USD. This included amounts of $1,200,986 to settle the outstanding balance on the HSBC Capital subordinated debenture, $1,437,863 to settle outstanding amounts on the HSBC Bank Canada committed non-revolving loan, and $33,421,675 and $1,718,883 USD 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.

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 adjusted tangible net worth and a maximum on annual capital expenditures. As at June 30, 2012, the Company was in compliance with its covenants.

The June 30, 2012 day's sales in receivables are 127.3, higher than the ratio from December 31, 2011 of 101.8. 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. Canadian drilling fluids customers have been slower in paying during the spring break up period compared to prior years. Management is confident that there are no major concerns with the collection of amounts outstanding at the end of the quarter. The USA fluids division has experienced slower collections as the result of Canadian fluid engineering customers being serviced by the USA fluids division and Canadian customers are typically slower in paying as they wait for payment from the drilling contractors. The increase in days' purchases in payables at June 30, 2012 compared to December 31, 2011 is as a result of the Company managing its availability of its ABL Facility and try and more closely link the inflow of cash receipts to the outflow of cash to vendors.

As at June 30, 2012, accounts receivable was $31,656,121, a $25,204,539 or 79.6% decrease from the December 31, 2011 balance of $56,860,660. The decrease is due to collections of winter drilling activity as well as slower start up of the summer drilling in Canada due to the wet weather in June.

Inventory increased by $15,220,580 or 21.9% to $69,399,818 compared to the 2011 year end balance of $54,179,238. Inventory turns decreased from 3.2 at December 31, 2011 to 1.6 at June 30, 2012. A significant portion of the inventory increase relates to increase in the steel manufacturing division of $845,378 for additional raw materials and USA fluid division inventory increase of $5,851,953 for additional inventory for new warehouse locations. Canadian fluid inventories have remained consistent with a high volume of purchases directly correlated to sales volumes. Inventory values are expected to decrease in the Canadian fluids division as given the forecasted demand, the Company will aim to reduce inventory levels in certain regions. The steel manufacturing division is forecasted to have higher inventory in the short term as raw tubes are being delivered from overseas to meet growing customer demand. Inventory in the USA fluids division should remain consistent over the short to medium term as management feels there are sufficient inventory levels to meet the demand of USA customers.

The Company's prepaid expenses and deposits have increased by $2,206,930 to $4,187,953 at June 30, 2012 as compared to the 2011 year end balance of $1,981,023. The increase was due to deposits being made on steel pipe purchases from a few international vendors that do not provide credit terms. In 2011, the steel division had obtained terms with a vendor that did not require deposits made on purchases, which had assisted in the operating cashflow of the Company. The vendor still exists, however other sizes were ordered from alternative vendors who do not provide credit terms. The Company continues to work with its other vendors on the terms of these purchases.

The Company has recorded a loss of $263,522 for the non-controlling interest for the quarter ended June 30, 2012 and a total equity balance of $1,100,180 compared to $668,784 at December 31, 2011. The non-controlling interest relates to the establishment of the steel manufacturing division.

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 of approximately

$9,700,000 under its existing ABL facility. Management is evaluating its inventory quantities in all divisions as part of its ongoing inventory management program to ensure the Company has the right product mix with sufficient quantities to meet the demands from customers. The Company continues to assess its requirements for capital on an on-going basis. Based on current budgeted operating expenditures for the remainder of the 2012 year and the availability on its existing credit facility, the Company will have sufficient funds to meet its obligations.

Summary of Consolidated Statements of Cash Flows **Six months ended**		**June 30** **2012**		June 30 2011
Cash provided by operating activities	**$**	**4,674,464**	$	7,910,477
Cash used by financing activities		**(3,472,047)**		(4,579,532)
Cash used by investing activities		**(1,202,417)**		(3,330,945)
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of period		**-**		-
Cash and cash equivalents, end of period	**$**	**-**	$	-

Cash flow used by operating activities

Cash provided by operating activities for the quarter ended June 30, 2012 was $4,674,464 compared to cash used of $7,910,477 for the same period in 2011. The Company's cash provided by operating activities relates to more collections of sales during the quarter. There was also a decrease in the balance of accounts payable outstanding as the Company purchases less inventory during the spring period as fluid demands decrease due to seasonality in the WCSB. Inventory levels have increased due to increased US fluid demand as well as raw material pipe for the steel manufacturing division. The Company expects to see cash provided by operations to increase for the third quarter of 2012, as the Company will see increased purchases for steel pipe and raw materials for steel manufacturing. Drilling fluid purchases will also start to increase as summer drilling programs commence and collections will be lower due to weak sales as the result of spring break-up. The Company intends to continue to manage its inventory levels and spending in order to conserve its balance sheet strength and minimize any increase in debt levels.

Cash flow provided by financing activities

Cash used in financing activities was $3,472,047 for the quarter ended June 30, 2012, compared to cash used of $4,579,532 in the comparable 2011 period. The cash used by financing activities is related to repayments on the operating line to fund period operations. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second and third quarters, which it will use to repay the operating line. This trend is reversed in fourth and second quarters when significant sales and purchases occur, while collections are often delayed until the second quarter. With the increased purchasing activity during the quarter, increased borrowing was required to pay vendors ahead of the collection of receivables on the increased sales.

In addition, the Company issued an additional $337,577 note payable due in 2012 as part of the Stryker acquisition completed in May 2011. The principal payment plus interest was paid June 1, 2012 through the operating line of credit.

Cash flow used by investing activities

Cash used in investing activities amounted to $1,202,417 for the six months ended June 30, 2012 compared to $3,330,945 used during the same period in 2011. The decrease is due to fewer additions required in the steel manufacturing facility as the facility is now in full operation. The main investing activities are for the purchase and set up of a liquid invert facility and storage tanks in the USA as well as new testing equipment for the steel pipe mill. The Company expects cash to be used for investing activities during the remainder of 2012 for the completion of a liquid invert facility in the USA along with a roller and conveyor system to improve material handling in the steel manufacturing facility. Forecasted capital expenditures for the second half of the year total approximately $1,600,000 and will be funded through existing operating facilities and possible capital leases where possible for specific equipment.

Covenants

		June 30 2012 As calculated	June 30 2012 Lender requirement	December 31 2011 As calculated	December 31 2011 Minimum required
Adjusted tangible net worth	$	**43,724,787**	To exceed $27,105,000	40,320,958	To exceed $27,105,000
Eligible capital expenditures		**1,242,235**	Not to exceed $1,500,000	4,204,589	Not to exceed $4,300,000

The Company has credit facilities which contain two financial covenants being a minimum tangible net worth and a maximum annual capital expenditures. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness. Adjusted tangible net worth is set at a minimum and defined, on a consolidated basis, as total assets, less intangibles and goodwill, excluding deferred tax assets less total liabilities, excluding deferred tax liabilities. Capital expenditures limit is set at a maximum of 120% of the consolidated budgeted yearly expenditures. The minimum covenants are noted in the above table. Subsequent to the quarter end, the eligible capital expenditure covenant was updated to budgeted capital expenditures of $2.7 million. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a monthly basis. As at June 30, 2012, the Company was in compliance with all financial covenants.

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, 2012	$	3,388,208	11,497,160	2,170,404	$	17,055,772
December 31, 2012	$	2,871,777	8,743,273	2,108,538	$	13,723,588

Contractual obligations related to financial liabilities at June 30, 2012 are as follows:

	Bank credit facility	Accounts payable	Promissory notes payable *	Finance leases*	Total
2012	$ 45,616,412	$ 25,439,063	$ -	$ 242,755	$ 71,298,230
2013	-	-	-	226,925	226,925
2014	-	-	-	186,907	186,907
2015	-	-	-	131,139	131,139
2016	-	-	-	19,481	19,481
Thereafter	-	-	-	-	-
Total	$ 45,616,412	$ 25,439,063	$ -	$ 807,207	$ 71,862,682

* includes interest calculated to be paid

On September 21, 2011, the Company entered into a three year purchase commitment with a vendor for a liquid mud drilling product that is purchased and distributed by the fluids division. The agreement sets minimum purchase volumes per month and provides the Company access to additional volumes on a preferred basis if the terms are met. Volumes may be reduced if the Company does not meet at least 85% of its contracted volumes on a monthly basis.

On November 17, 2011, the Company entered into a one year purchase commitment with a vendor for a product that is purchased and distributed by the fluids division. The agreement sets a minimum purchase volume at a set price for the year based on twelve monthly purchases.

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	4 to 7 years straight-line

The Company reviewed its intangible assets at the end of June 2012 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 three and six month period ended June 30, 2012 was $494,082 and $1,225,242 respectively. The capital expenditures were funded from the Company's operating line of credit. Future capital expenditures of approximately $700,000 are being proposed for the third quarter of 2012. Approximately $150,000 is estimated to complete the set up an invert blending facility in the USA. The residual planned expenditures are for a roller and conveyor system for the steel manufacturing division to improve efficiencies in moving pipe around the mill, and minimal upgrades and additions planned in the Company's other subsidiaries. Capital expenditures typically are comprised of betterments and upgrades to existing assets, but have also included additions to the setup of the steel manufacturing division this year. 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. The Company plans to fund the remainder of these capital expenditures from the Company's operating credit line and through finance leases.

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 three and six month periods ended June 30, 2012, the Company incurred office sharing costs of $15,000 and $30,000 (June 30, 2011 - $15,000 and $30,000) in the normal course of operations with BRC Advisors Inc., a company which a certain director and officer has significant influence over.

The Company expensed interest of $3,510 and $8,687 (June 30, 2011 - $1,726 and $1,726) on the promissory note 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. The promissory note was paid in full on June 1, 2012.

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, 2012.

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.

Canadian drilling activity is forecasted to remain consistent for the second half of 2012 with that of 2011 although a slow start to the summer drilling program, due to abnormally wet weather conditions, has slowed activity for the beginning of Q3. We are cautiously optimistic that drilling activity will pick up and remain consistent once the weather warms arrives and conditions begin to dry. We will continue to focus on expanding our presence in the USA wholesale drilling fluids market and look to add additional warehouses in strategic geographic regions in the USA. The steel division will continue to concentrate on seamless pipe sales that yield consistent margins. Our steel manufacturing division will grow its production output to service the demand for large diameter seamless pipe by completing the training of a second shift that was hired late in the second quarter. Bri-Chem remains focused on superior customer service, managing inventory levels and controlling costs. Bri-Chem will concentrate on providing customers with competitively priced products in strategic stock locations which will enable the division to maintain its market presence and profitability.

The Petroleum Services Association of Canada (PSAC) has forecasted 7,532 wells to be drilled in Canada for second half of 2012, an increase of 4.0% over 2011. The wells drilled for the third quarter of 2012 are forecasted to be down compared with the third quarter of 2011. A total of 3,672 wells are forecasted to be drilled in Q3 2012 compared to 3,703 for Q3 2011. The decrease of activity in the third quarter coupled with the more traditional summer drilling activity will result in lower Canadian drilling fluid sales in the third quarter compared to the third quarter of 2011. With a relatively subtle increase in forecasted wells to be drilled in 2012, the Canadian fluids division will continue to service its existing customers by focusing on service and ensuring that its strategically located warehouses are fully stocked to meet the demands of our customers. Continued low natural gas prices and a reduction of liquid invert sales, due to customers installing regional blending facilities, may affect future drilling activities levels in certain regions which could reduce the demand for drilling fluids.

The growth in the USA drilling fluids division is the result of geographic and product expansion that management has implementing for the past several quarters. The strategically placed warehouses located throughout the USA have allowed us the ability to better service customers in major drilling regions which has and will continue to drive growth in sales and future earnings. In the short term, the division will focus on completing its liquid invert facility which is expected to increase demand for fluid products. We are continuing to examine additional strategic warehouse locations in the USA that will provide revenue and earnings growth as we establish Bri-Chem as a leading national independent wholesale supplier of drilling fluids for the USA drilling fluids market.

The Company's chemical blending operation has successfully added new blending customers during Q2 and is continuously seeking out new opportunities as existing and potential customers are looking for new products and redevelopment of existing products as non-conventional drilling applications continue to lead drilling activity. Over the short-term, the division will be expanding its existing blending facility to accommodate increased demand for blending and packaging services which management anticipates will result in new sales growth.

The steel distribution division is continuing to service its customers with competitively priced seamless steel pipe, in various lengths and grades of pipe. Gross margins have remained consistent for the first half of the year and management feels that margins should remain consistent for the remainder of 2012. The division was able to success obtain a large seamless pipe order at the end of the second quarter, but it is uncertain if large orders such as this will reoccur in the future. Over the short to medium term, the division will continue to attract customers through its manufacturing of large diameter seamless pipe and look to obtain additional sales volumes in the distribution division for the commodity pipe size range. Sales efforts will be combined between the two steel divisions to better service the needs of our customers with the products they require.

The steel manufacturing division commenced the hiring and training of second shift late in the second quarter that will result in an increase in production capacity which will improve overall efficiencies and drive higher margins as the facility will be producing pipe 24 hours a day, 4 days week mid-way through the third quarter. In the short term, the division is focused on completing the training of the additional staff as well as installing pipe handling equipment that will allow raw material and finished goods to be more efficiently handled leading to shorter handling times and increased sales volumes. With the division receiving its American Petroleum Institute (API) certification during Q2, management remains optimistic that the division will obtain a backlog of sales production for the remainder of 2012 and most of 2013. Management is continuing to sell a large portion of the mills production capacity to the United States where the demand is strong.

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, 2011. These risks and uncertainties are not the only ones facing Bri-Chem. Additional risks and uncertainties not currently known to the Company or that the Company currently considers remote or immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Company could be materially adversely affected.

Liquidity Risk

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

In addition, the cost of obtaining money from the credit market has generally increased as many lenders have increased interest rates, enacted tighter lending standards, and are not refinancing existing debt at maturity on terms similar to current debt and, in some cases, ceased to provide funding. Due to these factors, the Company cannot be certain that funding will be available when needed and to the extent required, on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

Competition and Industry Conditions

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

The capital expenditure programs of oil and gas companies largely affect the products provided by the Company. The magnitude of capital expenditures determines the demand for the Company's drilling fluids and steel pipe to the oil and gas industry. The primary catalysts to high expenditures and activity levels in the energy industry are oil and gas prices which, in turn, are influenced strongly by supply and demand expectations. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company. The Company attempts to mitigate this risk factor by assessing current drilling activity reports and future predictions from industry associations and reporting bodies when creating product demand forecasts.

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. Although the Company believes that it has access to similar products from competing suppliers, any disruption in the Company's sources of supply, particularly of the most commonly sold items or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon the Company's results of operations and financial condition. Also, supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short-term material adverse effect on the Company's results of operations and financial condition.

Oil and Natural Gas Prices

The revenue, cash flow and earnings of the Company are substantially dependent upon and affected by the level of activity associated with oil and natural gas exploration. Both short-term and long-term trends in oil and natural gas prices affect the level of such activity. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for and the supply of oil and natural gas. Weather conditions, governmental regulation, levels of consumer demand, the availability of pipeline capacity and other factors beyond the Company's control may also affect the supply of and demand for oil and natural gas leading to future price volatility. The drilling industry is cyclical and the fluctuations in the level of oil and natural gas exploration and development activity has a direct impact on the Company's business. Any significant reduction in industry forecasted levels of drilling activity in the WCSB and the United States may severely reduce activity levels for the Company and the resulting cash flows. Future changes in oil and natural gas prices could result in substantial increases or decreases in total revenues of the Company. Prolonged financial instability could result in oil and natural gas projects being deferred or cancelled thereby limiting new revenue streams to the Company.

Commodity Price Risk

The cost and availability of steel and selling prices fluctuate due to a number of factors beyond our control, including global market conditions, foreign currency exchange rates, and demand for steel, trade sanctions, tariffs, competition and price surcharges. Fluctuations in availability and cost of steel and selling prices may materially affect our business, financial condition and cash flow. We attempt to pass along all product costs were 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 USA markets, instead the Company relies on its inventory turnover. The Company has small amounts of sales to areas outside the USA and Canada periodically, for which transactions are entered into in US dollars.

Integration of Acquisitions

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

Entering New Business Lines

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

Government Trade Tariffs

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

Seasonal Weather

In Canada, the level of activity in the oil and natural gas industry is influenced by seasonal weather patterns. Spring break-up during the second quarter of each year leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of energy services. The timing and duration of spring break-up is dependent on weather patterns and the duration of this period will have an impact on the level of business of the Company.

Product Liability Claims

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

Ability to Achieve Profitability

There can be no assurance that the Company will be able to achieve profitability in future periods. The Company's future operating results will depend on a number of factors, including its ability to continue to successfully execute its corporate strategic plan. There can be no assurance that the Company will be successful in achieving the objectives of its corporate strategic plan or that its corporate strategic plan will enable it to maintain or sustain profitability. Failure to successfully execute any material part of the Company's strategic plan could have a material adverse effect on its business, financial condition, results or operations and cash flows.

Credit Risk

The Company's revenues are predominantly from products sold to oil and gas fluid engineering companies and steel pipe distributors which may result in significant exposure to one customer or on a combined basis to several individual customers. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. The Company's management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. During times of weak economic conditions, the risk of increased payment delays and failure to pay increases due to a reduction in customer's cash flow. Failure to collect accounts receivable from customers could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. The Company generally grants unsecured credit to its customers; however, it evaluates all new customers as appropriate and analyzes and reviews the financial health of its current customers on an ongoing basis.

Inventory Risk

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

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

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

Income Tax Expense

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

Workplace Safety, Health and Wellness

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

Environmental Liability

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

Dependence on Key Personnel

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

Insurance risk

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

Fuel Prices

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

Potential Liabilities from Acquisitions

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

CRITICAL ACCOUNTING ESTIMATES

In preparing the interim consolidated financial statements, in conformity with International Financial Reporting Standards ("IFRS"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Principal areas where uncertainty is inherent include the valuation of accounts receivable, the allowance for doubtful accounts, the sales return provision, inventory obsolescence, work in progress, net realizable value inventory write-downs and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of deferred tax assets, the impairment testing of goodwill and long-lived assets, valuation of accrued liabilities and deferred tax liabilities, the fair value of derivative financial instruments, and the fair value of options and warrants using the Black-Scholes Option Pricing Model. Management feels actual results will not be materially different from these estimates.

The most significant estimates and judgments used by management include:

Sales return provision

Accounts receivable is one of the most significant assets at June 30, 2012. 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.

The Company enters into pricing contracts for purchase of utilities to help mitigate its pricing risk throughout the year. At each reporting date, management must estimate the fair market value of the contracts outstanding at that date and record an effect to earnings.

Income taxes

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

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.

There were no new accounting policies adopted in the period.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

The Company will be required to adopt the first phase of IFRS 9 – Financial Instruments as of January 1, 2015. The new standard was issued as part of the IASB plan to replace IAS 39 – Financial Instruments with a more robust set of standards for the reporting of financial instruments used by the Company. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

The Company will be required to adopt IFRS 10 – Consolidated Financial Statements supersedes IAS 27 – Consolidated and Separate Financial Statements and SIC 12 – Consolidation – Special Purpose Entities as of January 1, 2013. The standard revises the definition of control together with accompanying guidance to identify an interest in a subsidiary. The basic requirements and mechanics of consolidation and accounting for non-controlling interests and change in control remain the same. The Company has not yet assessed the impact of these standards on the Company's consolidated financial statements.

The Company will be required to adopt IFRS 13 – Fair Value Measurement as of January 1, 2013. The new standard does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. Management has not yet assessed the impact of this new standard on the Company's consolidated financial statements.

The Company will be required to adopt the Amendments to IAS 1 – Presentation of Financial Statements as of January 1, 2013. The Amendments require the Company to group items presented in other comprehensive income into those that, in accordance with other IFRSs, will not be reclassified subsequently into profit or loss, and those that will be reclassified subsequently to profit or loss when specific conditions are met. The Company expects that this will change the presentation of items in other comprehensive income, but the adoption of this standard amendment will not have a material impact on the Company's consolidated financial statements.

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 accounts receivable, as well as bank indebtedness, accounts payable and accrued liabilities and a promissory note payable.

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 promissory note 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 accounts receivable are with customers in the oil and gas industry. Accounts receivable consist of a large number of customers spread across diverse geographical areas and ongoing credit evaluations are performed on the financial condition of accounts receivable. Revenue from the Company's two largest customers accounted for approximately 16% and 9% respectively (June 30, 2011 – 18% and 18%) of total revenue during the period and 6% and 3% respectively (June 30, 2011 – 16% and 16%) of total accounts receivable at period end. These customers are within the Company's fluid and steel distribution segments.

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, 2012, the Company has recorded an allowance for doubtful accounts of $105,149 (December 31, 2011 - $41,852). The allowance is an estimate of the June 30, 2012 trade receivable balances that are considered uncollectible.

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, 2012	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 21,204,273	$ -	$ 21,204,273
31 to 60 days	7,068,236	-	7,068,236
61 to 90 days	1,863,145	-	1,863,145
91 to 120 days	923,730	-	923,730
Over 120 days	701,886	(105,149)	596,737
Total	$ 31,761,270	$ (105,149)	$ 31,656,121

The changes in allowance for doubtful accounts were as follows:

	June 30 2012	December 31 2011
Balance, beginning of period	**$ 41,852**	$ 92,000
Bad debt expense	**63,297**	179,119
Receivables written off	**-**	(229,267)
Balance, end of period	**$ 105,149**	$ 41,852

The Company held $52,859 (December 31, 2011 - $52,859) 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

Bank indebtedness is 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. The interest on promissory notes is at a fixed rate. It is management's opinion that interest rate risk is not significant.

The effective quarterly interest rate on the bank indebtedness at June 30, 2012 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at June 30, 2012, 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 $89,113 (June 30, 2011 – $63,144).

Currency risk

The Company is subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities and promissory note 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. The Company mitigates currency risk through purchases of fixed-rate forward exchange contracts to offset future payables in foreign currencies.

Accounts receivable in foreign currency was USD $6,798,935 as at June 30, 2012 (June 30, 2011 – USD - $1,586,271), accounts payable in foreign currency outstanding as at June 30, 2012 is USD $1,476,112 (June 30, 2011 – USD $457,363), and a promissory note in foreign currency outstanding as at June 30, 2012 is USD $nil (June 30, 2011 - $337,577). The Company realized a foreign exchange gain of $38,085 (June 30, 2011 – gain of $46,028) during the three month period ended June 30, 2012. Based on the monetary assets and liabilities held in the United States ("US") at June 30, 2012, a 5% increase in exchange rates would impact the Company's net earnings by a gain of approximately $288,348 (June 30, 2011 – $38,109).

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 14, 2012, the Company had 17,329,261 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,723,760 common shares. As of June 30, 2012, options to purchase 681,720 common shares were outstanding at an average price of $1.94 per common share. Warrants totaling 66,667 with an average exercise price of $2.10 may be exercised into common shares.

NON-IFRS MEASURES

Certain supplementary information and financial measures referred to in the MD&A and explained below, namely EBITDAC (earnings before interest, taxes, depreciation, amortization, and share-based payments) and operating expenses, are not recognized under IFRS or previous GAAP. Management believes that, in addition to net earnings (loss), EBITDAC is a useful supplemental measure. EBITDAC is provided as a measure of operating performance without reference to financing decisions, depreciation or income tax impacts, which are not controlled at the operating management level. Investors should be cautioned that EBITDAC and should not be construed as alternatives to net earnings (loss) determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBITDAC may differ from that of other entities and accordingly may not be comparable to measures used by other entities. The following is a reconciliation of EBITDAC to net earnings for each of the periods presented in this MD&A.

EBITDAC		**For the three months ended June 30**		
		2012		2011
Net (loss) earnings	**$**	**(769,807)**	$	436,757
Add:				
Interest		**475,973**		572,680
Income taxes		**(137,805)**		157,538
Amortization		**515,563**		252,429
Share-based payments		**97,717**		15,098
EBITDAC		**181,641**		1,434,502

EBITDAC				
	For the six months ended June 30			
		2012		2011
Net earnings	**$**	**2,123,796**	$	3,069,213
Add:				
Interest		**1,212,046**		1,173,067
Income taxes		**876,589**		1,115,089
Amortization		**1,074,203**		447,845
Share-based payments (1)		**195,451**		34,358
EBITDAC		**5,482,085**		5,839,572

Operating expenses is not a concept recognized under IFRS as it does not include interest and amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the June 30, 2012 consolidated financial statements:

Operating expenses				
	For the three months ended June 30			
		2012		2011
Operating expenses	**$**	**4,621,190**	$	3,059,242
Add:				
Interest		**475,973**		572,680
Amortization		**515,563**		252,429
Share-based payments		**97,716**		15,098
Total expenses	**$**	**5,710,442**	$	3,899,449

Operating expenses				
	For the six months ended June 30			
		2012		2011
Operating expenses	**$**	**8,501,848**	$	6,329,283
Add:				
Interest		**1,212,046**		1,173,067
Amortization		**1,074,203**		447,845
Share-based payments		**195,451**		34,358
Total expenses	**$**	**10,983,548**	$	7,984,552

MANAGEMENT'S EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company, together with management, have established and maintain disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner, particularly during the period in which the annual filings are being prepared. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as of June 30, 2012 and, based on that evaluation, have concluded that these controls and procedures are effective in providing such reasonable assurance.

Internal controls over financial reporting

The CEO and CFO, together with management, are also responsible for establishing and maintaining internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's ICFR as of June 30, 2012 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting that occurred in the three and six months ended June 30, 2012 that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.

Corporate Information

Officers and Directors

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

Brian Campbell
Director
Edmonton, Alberta

Jason Theiss, CA
CFO
Edmonton, Alberta

Trent Abraham
President, Fluids Division
Calgary, Alberta

Albert Sharp
Director
Spruce Grove, Alberta

Eric Sauze, CA
Director
Edmonton, Alberta

Neil Rasmussen
President, Steel Division
Edmonton, Alberta

Auditors

Grant Thornton LLP
1401 Scotia Place 2
10060 Jasper Avenue NW
Edmonton, AB T5J 3R8

Shares Listed

Toronto Stock Exchange
Trading Symbol - BRY

Bankers

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

Lenders

CIBC Asset Based Lending Inc.
207 Queens Quay
Toronto, Ontario M5J 1A7

Transfer Agent

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

Share Capital

Issued: 17,329,261

Corporate Office

#15, 53016 Highway 60
Acheson, Alberta T7X 5A7
Ph: 780.455.8667
Fax: 780.451.4420

Web Site

www.brichem.com