Bri-Chem Corp.
Management's Discussion and Analysis
For the Year Ended December 31, 2012

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of March 29, 2013. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the year ended December 31, 2012 and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2012.

The Company's consolidated financial statements are prepared in accordance International Financial Reporting Standards ("IFRS") and International Accounting Standard 1, "Financial Statement Presentation", and are presented in Canadian dollars unless otherwise indicated.

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

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 Q4 AND OVERALL PERFORMANCE:

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

Since the first quarter of 2012, unstable macroeconomic factors and uncertain commodity prices contributed to lower drilling and completion activity across the Western Canadian Sedimentary Basin ("WCSB"). Despite the reduced overall 2012 drilling activity, Bri-Chem's consolidated revenues only modestly decreased 14.0% to $160,068,060 for the year ended December 31, 2012, compared to $186,125,404 from the prior year. Net earnings in 2012 were $4,892,520 or $0.31 diluted earnings per share compared to net earnings of $9,462,267 or $0.61 diluted earnings per share for 2011, a decrease of 49.4%. Earnings before interest, taxes, amortization and share-based payments expense ("EBITDAC") were $10,550,796 or $0.61 per share, a decrease of $5,843,829 (35.65%) compared to 2011.

Consolidated revenues were $39,514,976 in the fourth quarter of 2012, compared to $48,169,674 for the same period in 2011. Net earnings in the fourth quarter were $1,330,141 or $0.06 diluted earnings per share compared to $2,431,287 or $0.16 diluted earnings per share during the same period last year. During the three months ended December 31, 2012, EBITDAC was $2,964,507 or $0.17 per share, a decrease of $1,240,419 or 29.5% over the same period in 2011.

The Company's North American oil and gas drilling fluids division recorded sales of $29,419,513 and $118,745,813 for the three and twelve months ended December 31, 2012, a decrease of 29.6% and 24.3% respectively compared to the same periods in 2011. In Canada, drilling rig utilization averaged 43.6% for the fourth quarter and 43.6% for the year ended December 31, 2012, a decrease of 17.1% and 8.7% respectively from last year when utilization rates averaged 60.7% and 52.3%. The Canadian fluids division generated sales of $24,916,134 and $99,641,313 for the three and twelve months ended December 31, 2012, compared to sales of $38,844,681 and $151,677,999 over the same comparable period in 2011. The decrease in Canadian fluid sales was mainly due to the decrease in the number of wells drilled in 2012 and a sharp decline in liquid invert sales from two of the Company's largest customers. On November 30, 2012, the Company purchased the assets of Kemik Inc., a Calgary based proprietary cementing additives blender and packager which is expected to enhance the Company's presence for cementing sales throughout North America.

Bri-Chem's drilling fluids market presence in the USA has now expanded to fourteen warehouses after the December 31, 2012 acquisition of General Supply Company and its three key Oklahoma warehouse locations. This recent acquisition is a complementary addition to our strategy of pursuing to become the dominant independent national wholesale supplier of drilling fluids in the United States. The Company's USA drilling fluids division, acquired on June 1, 2011, generated revenues of $19,104,500 for the year ended December 31, 2012 compared to seven months sales of $5,246,610 in 2011, representing a 264.1% increase. Fourth quarter sales were $4,503,379 compared to $2,971,577 an increase of 51.5%. Drilling activity in the USA was down approximately 11.3% in 2012 compared to the prior year.

The steel pipe distribution division recorded sales of $3,959,550 and $25,830,959 respectively for the three and twelve months ended December 31, 2012, compared to revenues of $5,044,501 and $27,263,397 for the same periods in 2011. The decline in sales for the quarter was mainly due to lower overall oil and gas drilling activity, however, margins continued to be strong at 29.1% for the quarter. The steel pipe division will continue to concentrate on providing superior customer service, with the appropriate quantities and sizes of steel pipe to meet the demand of its customers.

Throughout 2012, the steel pipe manufacturing division built a number of efficiencies and redundancies to its manufacturing process, which resulted in increased production output. In Q4, the division completed a key capital project which equipped a conveyor system that provides less handling of the material in and out of the production facility. Also during the fourth quarter, the steel pipe manufacturing division progressed to a second full production shift which is now producing 24 hours a day, 4 days a week. With the efficiencies and increased production, the

division achieved sales of $6,099,245 and $14,777,932 for the three and twelve months ended December 31, 2012 respectively compared to sales of $992,090 and $1,174,315 for the same comparable periods in 2011. The steel pipe manufacturing division will continue to review and improve manufacturing efficiencies during production ramp up.

Outlook Summary

After experiencing the industry slowdown in the latter half of 2012, activity in early 2013 has increased and demand for Bri-Chem's drilling fluid products and services is stronger than the fourth quarter of 2012. The Petroleum Services Association of Canada (PSAC) has forecasted 11,499 wells to be drilled in Western Canada for 2013, a forecasted increase of 3.1% over 2012. That being said, the 2013 winter drilling season in the WCSB saw drilling rig activity levels down approximately 10% from the start of the 2012 season. However, drilling activity has improved to a 4% reduction from the prior year by the end of February 2013. The strength of the first quarter is also dependent on the timing of spring breakup. Looking beyond Q1, it is difficult to forecast if demand for oilfield activity will increase as economic concerns are still impacting the stability of commodity prices. Notwithstanding, Bri-Chem will continue to invest into its USA drilling fluid market expansion plan where significant market share is vastly obtainable. As we continue to gain market share, more product and acquisition opportunities become available. With the increased production capacity in the Thermal Pipe Expansion manufacturing facility, our steel manufacturing division is poised to grow its market share, and generate new profits in 2013. Volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints are all factors contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which may reduce or defer small and large diameter steel pipe sales activity for Q1 2013.

DESCRIPTION OF BUSINESS

Since our formation in 1985, Bri-Chem has established two primary segments of business through a combination of internal growth and acquisitions: Bri-Chem's Drilling Fluid Division is North America's largest independent wholesale supplier of drilling fluids for the oil and gas industry. We provide over 100 drilling fluid products, cementing, acidizing and stimulation additives from 30 strategically located warehouses throughout Canada and the United States; Bri-Chem's Steel Pipe Division distributes a broad range of seamless pipe and is the first company to introduce and construct a Thermal Pipe Expansion (TPE) facility in North America for manufacturing, testing and supply of large diameter seamless steel pipe for the energy industry. Additional information about Bri-Chem is available at www.sedar.com or at Bri-Chem's website at www.brichem.com.

The Company is headquartered in Edmonton, Alberta and owns a 100% interest in Bri-Chem Supply Ltd. ("Bri-Chem Supply"), 100% interest in Sodium Solutions Inc. ("Sodium"), 100% interest in Bri-Steel Corporation ("Bri-Steel"), and a 70% interest in Bri-Steel Manufacturing Inc. ("Manufacturing"). The Company also owns 100% interest in Bri-Corp USA Inc. ("Bri-Corp"), which has three 100% owned subsidiaries, Stryker Transportation Ltd., Bri-Chem Supply Corp, LLC., and General Supply Company. Bri-Chem continues to concentrate on expanding its market presence with the focus being on the following two divisions:

OIL AND GAS FLUIDS DIVISION

Canadian Drilling Fluids Division

Bri-Chem is one of Canada's largest wholesale distributors of drilling fluid products to the oil and gas industry in the Western Canadian Sedimentary Basin ("WCSB"). Bri-Chem focuses on the oil & gas drilling stage, providing over 100 critical drilling fluid products and custom-blended products to major and independent oilfield service providers. Bri-Chem distributes its drilling fluid products from 16 strategically located warehouses throughout the WCSB. Drilling fluids is used in the process of drilling deep vertical or horizontal boreholes. The drilling fluids are an integral part of the drilling process, serving a number of functions, including controlling subsurface pressures, lubricating the drill bit, stabilizing the wellbore, and carrying the cuttings to the surface, among other functions.

Drilling fluids cuts down on friction, lowering the heat of drilling, and reducing the risk of friction and pressure related complications such as borehole stability.

USA Drilling Fluids Distribution Division

In June 2011, Bri-Chem expanded into the United States with the acquisition of a drilling fluids wholesaler based in Denver, CO. Since the completion of the acquisition, Bri-Chem has grown from three warehouse locations to fourteen and is establishing its market presence as a leading full service independent national wholesaler of drilling fluids to service the USA unconventional resource plays. The USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. Bri-Chem will continue to focus on expanding its product offerings in the regions it currently services as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from independent drilling fluid engineering companies.

On December 31, 2012, the Company acquired all of the outstanding common shares of General Supply Company ("General"), an Oklahoma based drilling fluid wholesale distribution business. The purchase price of $2,500,000 USD consisted of the issuance of 95,451 Bri-Chem common shares at a fair market value of $148,546. The common shares have resale restrictions attached to them that expire evenly over three years. Cash payment terms were $2,050,000USD on closing, and a promissory note payable with a fair value of $250,000USD bearing interest at 4% per annum, repayable in February 2014. The acquisition of General and their three key Oklahoma warehouse locations is an extremely complementary addition to our strategy of pursuing becoming the dominant independent national supplier of drilling fluids in the United States. General's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers.

Fluids Blending and Packaging Division

The WCSB oil and gas drilling process also uses cementing, stimulation, and fracturing fluids. Many of these products are a blended formulation utilizing specialty additives that Bri-Chem can supply in both packaged and truckload quantities. Cementing is performed when the cement slurry is deployed into the well via pumps, displacing the drilling fluids still located within the well, and replacing them with cement. Well stimulation involves introducing special blends of chemicals and acid to oil or gas producing formations in order to diminish or eliminate unwanted materials. The fracturing process injects fluids and sand at high pressure which creates small fractures in the rock that extend out from the well. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these critical fluid applications. Bri-Chem has dedicated facilities, located in Acheson and Camrose, Alberta, with capacity to blend and package specialty additive fluids for customer specific products. Bri-Chem is pursuing to diversify into the liquid fracturing and stimulation blending market for further customer penetration and industry diversification.

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

Training and Fluid Analysis

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

STEEL PIPE DIVISION

Steel Pipe Distribution Division

Bri-Steel is the Company's wholesale distributor for seamless steel pipe ranging in sizes from half inch to thirty-six inch. Bri-Steel 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 stock facility in Houston, Texas, which allows the Company to service major pipe distributors throughout the Eastern and Mid-Western USA. Bri-Steel's broad base of seamless steel pipe is 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. The Company's superior international vendor relationships have provided access for hard to find products and increased market share in a competitive industry.

Steel Pipe Manufacturing Division

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

Seasonality of Operations

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

Growth Strategy

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

The Company will continue to focus on its North American growth strategy by expanding its market presence in the oil and gas drilling fluids, wholesale distribution markets and 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, while managing its inventory levels. The Company will explore opportunities that will enable the division to become more basic in drilling fluids by examining the manufacturing of drilling fluid products. In addition, the Company is exploring other fluid products used during the drilling process, such as stimulation products, which would establish Bri-Chem as a fully integrated fluid supplier in North America. In the USA, Bri-Chem will continue to aggressively pursue expanding its footprint and strive to become the leading national independent wholesale distributor of drilling fluids for the unconventional resource plays located throughout the USA. Bri-Chem will seek to establish additional capacity and new geographical markets in an effort to expand its fluids blending and packaging division. The steel distribution business will manage inventory prudently to ensure the division has the right quantity and specifications of steel pipe products to meet the growing needs of its customers. In the short term, the steel pipe manufacturing division will focus on

efficiencies within its current production process. Over the medium term, the division will solidify a production plan that will meet the demand of our customers. In addition, the steel pipe manufacturing division will examine new strategic partnerships for possible new micro-mill locations and technologies 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 two year consolidated financial information has been derived from and should be read in conjunction with the Company's Year End Report for the year ended December 31, 2012.

Consolidated statements of operations		For the year ended December 31 2012		2011		Change $	%
Sales	$	**160,068,860**	$	186,125,404	$	(26,056,544)	-14.0%
Gross margin		**25,382,537**		31,439,053		(6,056,516)	-19.3%
		15.9%		16.9%			
Operating expenses [1]		**14,831,741**		14,998,449		(166,708)	-1.1%
EBITDAC [2]		**10,550,796**		16,440,604		(5,889,808)	-35.8%
Amortization		**1,013,097**		1,448,019		(434,922)	-30.0%
Interest		**2,262,607**		1,938,080		324,527	16.7%
Share-based payments		**791,040**		234,433		556,607	237.4%
Earnings before income taxes		**6,484,052**		12,820,072		(6,336,020)	-49.4%
Income taxes - current		**2,397,373**		4,126,894		(1,729,521)	-41.9%
Income taxes (recovery) - deferred		**(805,841)**		(769,089)		(36,752)	4.8%
Net earnings	$	**4,892,520**	$	9,462,267	$	(4,569,747)	-48.3%
Net earnings attributable to parent	$	**5,365,835**	$	10,097,640	$	(4,731,805)	-46.9%
Net loss attributable to NCI [3]	$	**(473,315)**	$	(635,373)	$	162,058	-25.5%
Earnings per share							
Basic	$	**0.31**	$	0.64	$	(0.33)	-51.5%
Diluted	$	**0.31**	$	0.61	$	(0.30)	-49.4%
EBITDAC per share							
Basic	$	**0.61**	$	1.04			
Diluted	$	**0.61**	$	1.00			
Weighted average shares outstanding							
Basic		**17,282,955**		15,878,345			
Diluted		**17,400,848**		16,470,219			

(1) See page 41 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (See page 41 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 year ended December 31, 2012.

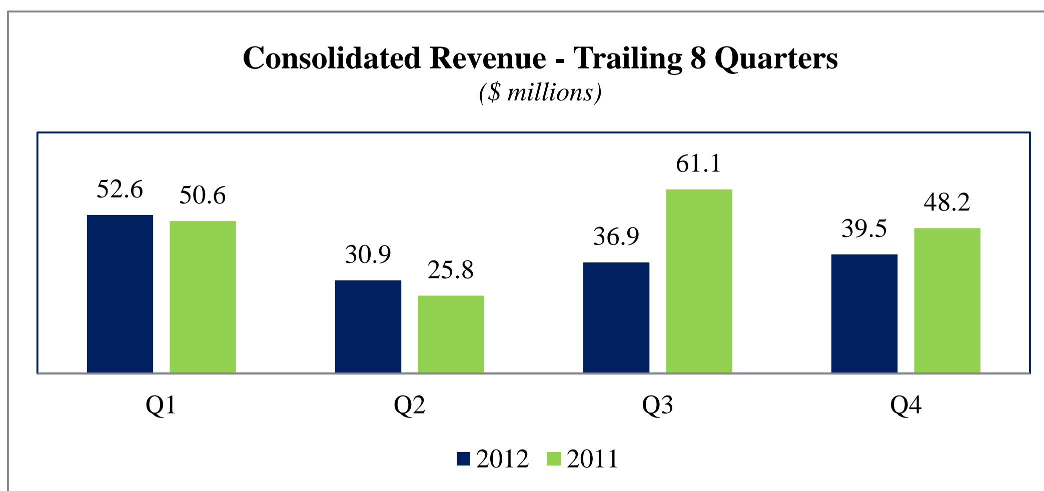
RESULTS OF OPERATIONS

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 year ended December 31					
	2012		2011		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids Distribution - Canada	**$ 89,427,571**	**55.9**	$ 141,880,256	76.2	$ (52,452,685)	-37.0%
Fluids Distribution - USA	**19,104,500**	**11.9**	5,246,610	2.8	13,857,890	264.1%
Total Fluids Distribution	**108,532,071**	**67.8**	147,126,866	79.0	(38,594,795)	-26.2%
Fluids Packaging [(1)]	**10,213,742**	**6.4**	9,797,743	5.3	415,999	4.2%
Fluids Transportation	**713,356**	**0.4**	763,019	0.4	(49,663)	-6.5%
Steel Distribution	**25,830,959**	**16.1**	27,263,461	14.6	(1,432,502)	-5.3%
Steel Manufacturing	**14,777,932**	**9.2**	1,174,315	0.6	13,603,617	1158.4%
	$ 160,068,060	**100.0**	$ 186,125,404	100.0	$ (26,057,344)	-14.0%

(1) The fluids blending and packaging division sells products to the fluids distribution division which in turn sell it to the end user. In the fourth quarter of 2012 sales to the distribution division were $9,352,059 (2011 - $15,375,902). This revenue has been eliminated on consolidation.



Drilling Fluids Distribution Divisions

The Company's North American drilling fluids distribution divisions recorded combined sales of $108,532,071 for the twelve months ended December 31, 2012 compared to sales of $147,126,866 in 2011, representing a decrease of 26.2% year over year. The Canadian fluids distribution division declined by 37.0%, however, the USA fluids distribution division grew 264.1% over 2011.

Canadian Fluids Distribution

Bri-Chem's Canadian drilling fluids distribution generated sales of $89,427,571 for the year ended December 31, 2012, compared to sales $141,880,256 over the same comparable period in 2011. The decrease in sales was due in part to the decrease in the number of wells drilled in 2012 and a sharp decline in liquid invert sales as two of the Company's largest customers have recently established their own blending and storage facilities to service their liquid invert needs within the north central regions of Alberta. The number of wells drilled in 2012 decreased by 14.4% falling from 12,973 in 2011 to 11,106 in 2012. Drilling rig utilization rates averaged 43.6% in 2012 compared to 52.3% in 2011, a decrease of 8.7%.

The Alberta market experienced a decrease in sales of 35.7% for 2012, while the number of wells drilled decreased by 16.7% in the region. In Saskatchewan, wells drilled decreased by 10.8% for the year and revenues decreased by 19.4% for the year. The decrease in sales in these regions was mainly due to a decrease in industry activity levels and a 52.1% decrease in liquid invert sales in Alberta as certain customers are formulating and blending their own liquid invert at newly constructed invert facilities. British Columbia has seen a decrease of 24.4% in rig activity and as a result revenue decreased 61.5% for the year due mainly to excess supply of dry natural gas which has resulted in many drilling companies deciding to cut spending on natural gas drilling. In addition, many of our independent drilling fluid engineering customers did not obtain any 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.

Bri-Chem blends, reconditions and stores a petroleum based liquid drilling fluid, known as liquid invert, which is used in deep, horizontal, high temperature drilling applications. Canadian liquid invert sales had grown from 10.7% in 2008 to 30.9% of consolidated sales in 2011 with an average gross margin of approximately 10%. In 2012 liquid invert sales represented 15% of consolidated sales. In the latter half of 2012, Canadian drilling activity experienced a sharp decline which has had a direct impact on liquid invert sales and two of the Company's larger customers established their own blending and storage facilities to service their needs within the north central region of Alberta. For the year ended December 31, 2012, Bri-Chem has had a 52.1% decrease in liquid invert sales. It is expected that the first quarter of 2013 will have reduced liquid invert sales as compared to the prior year period however, we anticipate liquid invert sales to level off for the balance of 2013. In addition, an increase in overall drilling activity could result in additional work for independent fluid engineering companies which would increase demand for liquid invert sales and a rebound in natural gas prices could reactivate drilling activity in the northern British Columbia region.

United States Fluids Distribution

Bri-Chem's market presence in the USA has now expanded to fourteen warehouses after the December 31, 2012 acquisition of General Supply Company and their three key Oklahoma warehouse locations. The Company's USA drilling fluids distribution division, acquired on June 1, 2011, generated revenues of $19,104,500 for the year ended December 31, 2012 compared to seven months sales of $5,246,610 in 2011, representing a 264.1% increase. In addition, the Company had fluid sales of $1,357,961 from the Canadian fluids division sold into the USA for the year ended December 31, 2012. Bri-Chem's expansion into new geographic regions has brought new customers and demand for drilling fluids as Bri-Chem is establishing its market presence as a leading full service independent national wholesaler of drilling fluids. Drilling activity in the USA was down approximately 11.3% in 2012 compared to the prior year. The USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. As such, the Company continues to focus on expanding its product offerings in the regions it currently services as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from an independent wholesaler.

Fluids Blending and Packaging Division

The fluids blending and packaging division previously recorded its sales in the fluids distribution segment but is now being shown separately as its own operating segment. This division continues to expand and includes the blending and packaging of cementing, stimulation, and fracturing fluids. Many of these products are a blended formulation utilizing specialty additives that Bri-Chem can supply in both packaged and truckload quantities. For the twelve months ended December 31, 2012, sales were $10,213,742 as compared to $9,797,743 representing a 4.2% increase year over year. On November 30, 2012, the Company purchased the assets of Kemik Inc., a Calgary based cementing chemical blender and packager which is expected to enhance the Company's presence for cementing sales throughout North America.

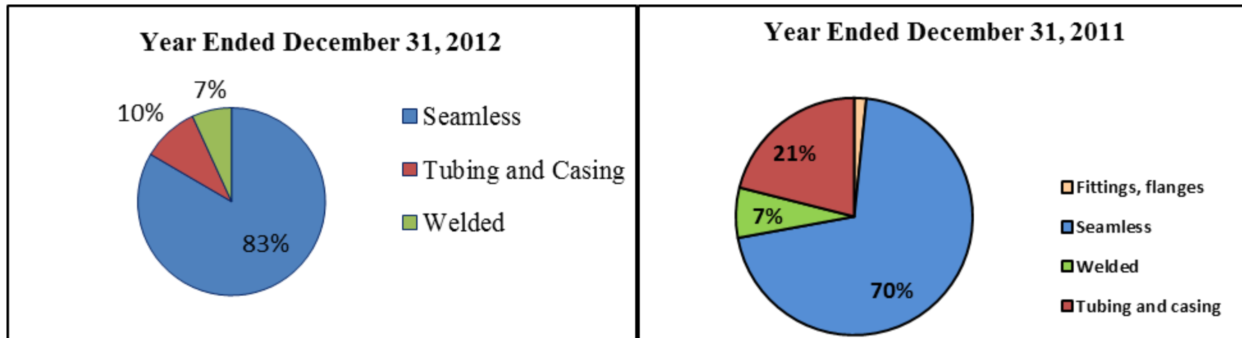
Fluid Transportation Division

Fluid transportation revenues earned by the Company's USA based subsidiary amounted to $713,356 for the year ended December 31, 2012 compared to $763,019 for the same period last year. 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 external third party transportation services.

As a result of Bri-Chem expanding from 3 warehouses in May of 2011 to 14 current national warehouses, management has been able to secure superior independent highway transportation rates which are less than the cost of running our own fleet. The Company has reduced its highway transportation fleet from ten tractor trailers to one in 2012 and management is evaluating further offers to liquidate its remaining highway transportation fleet.

On December 31, 2012, the Company acquired all of the outstanding common shares of General Supply Company, an Oklahoma based drilling fluid wholesale distribution business. As part of the acquisition, Bri-Chem acquired a fleet of specialized rig hauling trucks that are used to secure delivery of drilling fluids to customers on site.

Steel Pipe Division



For the year ended December 31, 2012, the steel pipe distribution division generated revenues of $25,830,959, a decrease of 5.3% over the comparable period in 2011. The steel pipe distribution division sells primarily to the oil and gas industry. In 2012, the Company concentrated its sales focus on the seamless steel pipe product line and focused on margin improvements. With the stabilization of steel commodity prices in 2012 the division was able to provide customers with quality seamless pipe at competitive prices while strengthening margins. In early 2011 the division sold off the remainder of its tubing and casing product lines as these product lines require more working capital and gross margins are lower for tubing and casing products as the market is highly competitive. Demand for seamless pipe started to softened in November 2012 and as a result the Company intends to increase its inventories of welded steel pipe in 2013. Volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints are all factors contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which will reduce overall steel pipe sales activity in the WCSB.

Steel pipe sales in the USA amounted to $2,350,121 compared to $2,725,632 in 2011, a decrease of 13.8%. The decrease is due to the Company’s strategic decision to focus on the Canadian markets. USA sales are the result of the Company maintaining certain relationships in the USA and servicing those customers with steel pipe products when orders are received. The division continues to serve its USA customers with mill direct orders but is not focusing sales efforts in this area at this time.

Steel Pipe Manufacturing Division

Throughout 2012, the steel pipe manufacturing division built a number of efficiencies and redundancies to its manufacturing process, which resulted in increased production output. In Q4, the division completed a key capital project which equipped a conveyor system that provides less handling of the material in and out of the production facility. Also during the fourth quarter, the steel pipe manufacturing division progressed to a second production shift which is now producing 24 hours a day, 4 days a week. With the efficiencies and increased production, the division achieved sales of $14,777,932 for the twelve months ended December 31, 2012 compared to sales of $1,174,315 for the same comparable period in 2011.

The division manufactures large diameter seamless steel pipe primarily used in the oil and gas, petro-chemical, and oilsands markets. The Edmonton based manufacturing operation manufactured and shipped its first large diameter steel pipe, consisting of 40 foot lengths of 18”OD standard wall A106B seamless pipes September 15, 2011. Fine-tuning and testing of the equipment was ongoing throughout the fourth quarter of 2012 and management will continue to review and improve manufacturing efficiencies during production ramp up.

The Company received its American Petroleum Institute (API) for mill certification in 2012 which allows the division to offer the production capacity to a number of companies throughout North America. During 2012 the division produced 8,575 tons, with 3,458 tons produced in the fourth quarter of 2012. The Company intends to continue similar production schedule into 2013 and anticipates producing approximately 12,000 - 16,000 tons in 2013. Volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints are all factors contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which may reduce or defer large diameter steel pipe sales activity for Q1 2013. During 2013, management will monitor production capacity to ensure its meets the short and medium term product demands from our customers. In the longer term, management will assess the addition of a third shift based on equipment performance and customer demands.

Gross margin

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

	For the year ended December 31					
	2012		2011		**Change**	
	$	**%***	$	%*	**$**	**%**
Fluids Distribution - Canada	**$ 14,574,490**	**16.3%**	$ 22,450,428	15.9%	$ (7,875,938)	-35.1%
Fluids Distribution - USA	**4,014,409**	**20.9%**	1,125,270	21.8%	$ 2,889,139	256.8%
Total Fluids Distribution	**18,588,899**	**17.1%**	23,575,698	16.1%	$ (4,986,799)	-21.2%
Fluids Packaging	**1,435,238**	**14.1%**	1,653,948	16.9%	(218,710)	-13.2%
Fluids Transportation	**98,607**	**13.8%**	362,077	27.3%	(263,470)	-72.8%
Steel Distribution	**5,243,086**	**20.3%**	5,544,545	19.1%	(301,459)	-5.4%
Steel Manufacturing	**16,707**	**0.1%**	302,785	25.8%	(286,078)	-94.5%
Total	**$ 25,382,537**	**15.9%**	$ 31,439,053	16.9%	$ (6,056,516)	-23.9%

* as a percentage of divisional revenues

Fluids Distribution and Packaging Divisions

The fluids distribution division margins have increased slightly over the prior year. Average gross margin as a percentage of fluid packaging sales was 17.1% in 2012 as compared to 16.1% in 2011. Margins on fluid sales vary based on product mix and drilling formations. Deeper, non-conventional wells require more technologically advanced fluids. Oil based drilling fluids, known as liquid invert, have been developed to service deeper, high temperature and more environmentally sensitive drilling projects. Liquid invert sales makes up approximately 24.2% of Canadian fluid distribution sales in 2012. The USA fluid distribution margins are traditionally higher than those of the Canadian operations, and were 20.9% for fiscal 2012. Margins are anticipated to remain consistent in 2013.

Bri-Chem has dedicated facilities, located in Acheson and Camrose, Alberta, with capacity to blend and package specialty additive fluids for customer specific products. As a result, the fluids blending and packaging division tend to have high margins for the value-added service. In 2012 the fluids packaging gross margin was 14.1% as compared to 16.9% in 2011.

Steel Distribution and Manufacturing Divisions

The steel distribution division gross margins were 20.3% for the year ended December 31, 2012, compared to 19.1% in 2011. Steel commodity prices have stabilized while selling prices have marginally increased, which has created a slight increase in gross margin. The Company's inventory management program has allowed the division to replace high costed inventory with more favourably costed product, which has led to improved margins in 2012. Gross margins are expected to remain consistent in 2013 however any future volatility in steel commodity prices may impact gross margins in upcoming periods.

	Q1	Q2	Q3	Q4	Total 2012
Gross Margin ($) [1]	**(195,032)**	**(695,217)**	**(99,958)**	**1,006,915**	**$ 16,708**
As percentage of sales	**-9.6%**	**-26.9%**	**-2.5%**	**16.5%**	**0.1%**
Addback: Fixed overheads in production [2]	539,243	662,598	754,236	650,273	2,606,350
Amortization of production equipment	279,979	223,121	232,329	71,571	807,000
Adjusted Gross Margin ($) [3]	624,190	190,502	886,607	1,728,759	$3,430,058
As percentage of sales	30.7%	7.4%	21.8%	28.3%	23.2%

(1) In compliance with IFRS standards cost of sales must include all overheads related to production regardless of whether or not the facility is operating at full capacity.
(2) Fixed overheads costs include production facility lease costs, utilities and indirect labour costs related to the steel manufacturing facility.
(3) Adjusted gross margins reflect the selling price less the cost of product and direct labour to manufacturer the product. See page 41 for a further explanation of this non-IFRS measure.

The steel manufacturing division achieved adjusted gross margin of 23.2% for 2012 compared to 25.8% in 2011. Gross margins including all fixed overheads and amortization of production equipment was 0.1% for 2012 as the division was completing a number of projects to scale-up production in 2012 which included training additional staff for a second full shift and installing and testing new equipment and process efficiencies and redundancies. In 2011, there was little production and as a result insignificant fixed overhead costs were recorded in selling, general and administration costs. As production continues to become more consistent over the next several quarters, margins should continue to improve and be similar to those experienced in the fourth 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 first quarter of 2013, we are anticipating gross margins on fluid sales to be slightly lower as winter drilling activity will lead to increased liquid invert which is lower margin product. Additional cost of transportation to move product to more active warehouses may lower margins in the fluids division in the short term. 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. Steel commodity prices have been stable over recent quarters therefore margins are expected to be consistent for 2013. The steel manufacturing division continues to target margins between 25% and 30% based on increased production, current raw material costs and estimated finished product sale prices.

Operating expenses

Salaries and employee benefits

	For the year ended December 31		Change	
	2012	2011	**$**	**%**
Salaries and benefits	$ **9,579,021**	$ 7,642,993	$ 1,936,028	25.3%
% of sales	**6.0%**	4.1%		1.9%

Salaries and benefits have increased by 25.3% over the prior year. There were $1,783,893 of additional expenses year to date related to the operations of the USA subsidiaries, which includes 10 additional staff ranging from operations, sales, administration and long-haul truck drivers.

Additional benefits incurred include costs related to an employee share purchase program that was introduced in 2012. Share-based payments increased by $556,607 from the prior year as the Company issued new stock options to directors, executive and senior management of the Company in 2012 which impacts the current year expense.

The Company employed 132 (112 Canada and 20 USA) employees at December 31, 2012 compared to 106 (96 Canada and 10 USA) for the same time period in 2011. Wages and benefits of the steel manufacturing division are recorded in cost of sales.

The Company expects salaries and employee benefits to remain consistent in 2013 as all divisions are adequately staffed given current business activities. As the Company continues with its growth plans, personnel requirements will be revisited as required.

Selling, general and administration

	For the year ended December 31			
	2012		2011	
	$	**%***	$	%*
Selling	$ **1,267,515**	**0.8**	$ 1,065,700	0.6
Professional and consulting	**683,445**	**0.4**	700,006	0.4
General and administration	**1,383,604**	**0.9**	1,803,949	1.0
Rent, utilities and occupancy costs	**4,674,676**	**2.9**	3,684,688	2.0
Foreign exchange (gain) loss	**(982,740)**	**(0.6)**	167,773	0.1
	$ **7,026,500**	**4.4**	$ 7,422,116	4.1

* Percentage of sales

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

Selling expenses increased for the year ended December 31, 2012 compared to 2011. This includes an increase of $85,750 in costs related to investor relation activities, as well as $197,467 in travel costs to conduct business activities. Auto expenses increased by $97,438 due to increased operational costs, lease costs and fuel costs for the forklifts in the steel pipe manufacturing, steel pipe distribution and USA fluids divisions. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses for the year ended December 31, 2012 decreased slightly in 2012. Professional advisory fees decreased by $93,311 due to professional recruitment fees that were not incurred in 2012. Audit fees increased by $100,937 mostly due to ABL audits performed surrounding the lending agreement with CIBC. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses decreased for the period ended December 31, 2012. The decrease relates to operating overheads that related to the start up of the steel manufacturing division, which were recorded as selling, general and administrative costs in 2011. Bank charges increased by $255,462 for 2012 compared to 2011 as a result of the ABL finance transaction costs that were capitalized and amortized starting in September 2011. Insurance costs increased by $148,595 over the comparable year, due to an increase to insurance coverage for all divisions of the Company. All other costs remained relatively consistent from the comparable prior year, with a 10-15% increase related to the acquired USA companies as well as the operation of the steel pipe manufacturing division which did not exist in the prior year. General and administration expenses include bad debts, bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy cost expenses increased over prior year due to additional warehouses being occupied in the US. Rental revenue from the Leduc land and warehouse sublease was $923,333 for the year ended December 31, 2012, which is recorded in sales. Costs related to the manufacturing facility are recorded in cost of 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 final quarter of 2012, the US dollar lost strength in relation to other currencies, and was lower than the Canadian dollar at December 31, 2012. The decrease in the US dollar resulted in a foreign exchange gain for the year ended December 31, 2012 of $982,740 compared to a loss of $167,773 in 2011. 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 (see "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Amortization

	For the year ended December 31 **2012**	2011	Change **$**	**%**
Property and equipment	**$ 619,925**	$ 1,005,459	$ (385,534)	-38.3%
Intangible assets	**393,172**	442,560	(49,388)	-11.2%
Total	**$ 1,013,097**	$ 1,448,019	$ (434,922)	-30.0%

The decrease 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 were not fully in use in the comparable prior year, resulting in additional amortization during 2012 which is included under cost of sales in 2012. Intangible asset amortization has decreased due to the straight line amortization incurred for the Stryker acquisition which occurred in June 2011.

Interest

	For the year ended December 31 **2012**	2011	Change $	%
Interest on long-term debt	**$ 87,251**	$ 347,300	$ (260,049)	-74.9%
Interest on short-term operating debt	**2,134,394**	1,550,773	583,621	37.6%
Interest on obligations under finance lease	**40,962**	40,007	955	2.4%
Total	**$ 2,262,607**	$ 1,938,080	$ 324,527	16.7%

Interest on short-term debt increased by $583,621 for the year ended December 31, 2012 due to increases in the revolving line of credit balance outstanding as compared to the prior period. Interest on long-term debt has decreased for 2012 due to the repayment of the long-term debt in 2011 and the new long-term borrowing agreement, which was not received until the end of 2012.

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

Short-term borrowing increased significantly over the prior year due to increased purchases of inventory over prior year, as well as for increased capital expenditures.

Income taxes

The provision for income taxes for the year ended December 31, 2012 is a net current tax expense of $2,397,373 compared to $4,126,894 in 2011. The decrease in taxes is a result of the decrease in earnings and margins in the fluids division. The Company's effective tax rate is 25.0% for the year ended December 31, 2012. The Company had a deferred tax recovery of $805,841 during the year, largely as a result of the tax effect on losses incurred in the steel pipe manufacturing division.

Net earnings and earnings per share

	For the year ended December 31 **2012**	2011	Change $	%
Net earnings	**$ 4,892,520**	$ 9,462,267	$ (4,569,747)	-48.3%
% of sales	**3.1%**	5.1%		
EBITDAC [(1)]	**$ 10,550,796**	$ 16,440,604	$ (5,889,808)	-35.8%
% of sales	**6.6%**	8.8%		

(1) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (See page 41 for a further explanation of this non-IFRS measure).

The Company had net earnings for the year ended December 31, 2012 of $4,892,520 compared to earnings of $9,462,267 in the prior year. Net earnings as a percentage of consolidated revenues for the year was 3.1%, as compared to 5.1% from the prior year. The decrease is due to the decrease in drilling activity levels in 2012, which decreased the demand for the Company's drilling fluids. In addition, the Company's steel pipe manufacturing division experienced additional operating cost overheads for the first nine months of 2012.
Basic and diluted earnings per share for the year ended December 31, 2012 were $0.31 and $0.31 respectively. Earnings per share were based on the weighted average number of shares outstanding during the year. The basic

and diluted weighted average numbers of shares outstanding for the year ended December 31, 2012 were 17,282,955 and 17,400,848 respectively.

SUMMARY OF QUARTERLY DATA

	2012	2012	2012	2012	Total
(in thousands of Cdn $)	Q4	Q3	Q2	Q1	TTM
Sales	$ 39,515	$ 36,916	$ 30,931	$ 52,706	$ 160,068
Gross margin ($)	4,304	7,095	4,803	9,181	25,383
Gross margin (%)	10.9%	19.2%	15.5%	17.4%	15.9%
EBITDAC [(1)]	2,105	2,964	182	5,300	10,551
Net earnings (loss)	$ 1,330	$ 1,439	$ (770)	$ 2,894	$ 4,893
Basic earnings (loss) per share	$ 0.06	$ 0.10	$ (0.03)	$ 0.18	$ 0.31
Diluted earnings (loss) per share	$ 0.06	$ 0.10	$ (0.03)	$ 0.18	$ 0.31

	2011	2011	2011	2011	Total
(in thousands of Cdn $)	Q4	Q3	Q2	Q1	TTM
Sales	$ 48,270	$ 61,236	$ 25,871	$ 50,748	$ 186,125
Gross margin ($)	8,587	10,481	4,596	7,775	31,439
Gross margin (%)	17.8%	17.1%	17.8%	15.3%	16.9%
EBITDAC [(1)]	4,205	6,346	1,490	4,399	16,440
Net earnings	$ 2,431	$ 3,962	$ 437	$ 2,632	$ 9,462
Basic earnings per share	$ 0.17	$ 0.25	$ 0.03	$ 0.19	$ 0.64
Diluted earnings per share	$ 0.16	$ 0.24	$ 0.03	$ 0.18	$ 0.61

(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 41 for a further explanation of this non-IFRS measure).

Quarterly revenue has seen a decreased year over year, over the past few quarters as drilling activity has continued to decline. EBITDAC and net earnings has followed a similar trend to revenue, steadily decreasing due to the acquisitions completed by the Company and the USA drilling fluids market share growth, however, EBITDAC and net earnings was impacted by the reduced activity associated with more of a traditional spring break up in the second quarter of 2012 as well as lower activity in the last half of 2012.

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.

FOURTH QUARTER RESULTS AND DISCUSSION

The following selected three-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Year End Report for the year ended December 31, 2012.

Consolidated statements of operations		**For the thee months ended December 31**				**Change**	
		2012		2011		**$**	**%**
Sales	**$**	**39,514,976**	$	48,169,674	$	(8,654,698)	-18.0%
Gross margin		**6,133,461**		8,487,394		(2,353,933)	-27.7%
		15.5%		17.6%			
Operating expenses (1)		**3,168,955**		4,282,469		(1,113,514)	-26.0%
EBITDAC (2)		**2,964,507**		4,204,926		(1,240,419)	-29.5%
Amortization		**327,844**		618,585		(290,741)	-47.0%
Interest		**575,408**		279,043		296,365	106.2%
Share-based payments		**416,408**		88,455		327,953	370.8%
Earnings before income taxes		**1,644,847**		3,218,842		(1,573,995)	-48.9%
Income taxes - current		**494,360**		1,188,142		(693,782)	-58.4%
Income taxes (recovery) - deferred		**(179,654)**		(400,587)		220,933	-55.2%
Net earnings	**$**	**1,330,141**	$	2,431,287	$	(1,101,146)	-45.3%
Net earnings attributable to parent	**$**	**1,128,701**	$	2,768,023	$	(1,639,322)	-59.2%
Net earnings (loss) attributable to NCI (3)	**$**	**201,440**	$	(336,733)	$	538,173	-159.8%
Earnings per share							
Basic	**$**	**0.06**	$	0.17	$	(0.11)	46.8%
Diluted	**$**	**0.06**	$	0.16	$	(0.10)	46.7%
EBITDAC per share							
Basic	**$**	**0.17**	$	0.28			
Diluted	**$**	**0.17**	$	0.27			
Weighted average shares outstanding							
Basic		**17,366,461**		16,530,573			
Diluted		**17,418,815**		16,919,034			

(1) See page 41 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and stock-based compensation (See page 41 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 portion of loss of the subsidiary for the period ended December 31, 2012.

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 December 31					
	2012		2011		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids Distribution - Canada	**$ 21,646,713**	**54.8**	$ 35,789,291	74.3	$ (14,142,578)	-39.5%
Fluids Distribution - USA	**4,503,379**	**11.4**	2,971,577	6.2	1,531,802	51.5%
Total Fluids Distribution	**26,150,092**	**66.2**	38,760,868	80.5	(12,610,776)	-32.5%
Fluids Packaging (1)	**3,269,421**	**8.3**	3,055,390	6.3	214,031	7.0%
Fluid Transportation	**36,668**	**0.1**	316,825	0.7	(280,157)	-88.4%
Steel Distribution	**3,959,550**	**10.0**	5,044,501	10.5	(1,084,951)	-21.5%
Steel Manufacturing	**6,099,245**	**15.4**	992,090	2.1	5,107,155	514.8%
	$ 39,514,976	**100.0**	$ 48,169,674	100.0	$ (8,654,698)	-18.0%

(1) The fluids blending and packaging division sells products to the fluids distribution division which in turn sell it to the end user. In the fourth quarter of 2012 sales to the distribution division were $1,779,417 (2011 - $5,471,637). This revenue has been eliminated on consolidation.

Fluids Distribution Divisions

The Company's North American drilling fluids distribution divisions recorded combined sales of $26,150,092 for the three months ended December 31, 2012 compared to sales of $38,760,868 in 2011, representing a decrease of 32.5% year over year. The Canadian fluids distribution division declined by 39.5%, however, the USA fluids distribution division grew by 51.5% over 2011.

Canadian Fluids Distribution

Canadian fluids distribution revenues decreased by 39.5% to $21,646,713 compared to $35,789,291 in the comparable quarter of 2011. The decrease in the number of wells drilled in Q4 2012 was 21.3% at 2,736 compared to 3,477 over the same comparable period in 2011. Similar to the third quarter of 2012, the Canadian fluids division experienced a 45% decrease in its liquid invert sales in the fourth quarter of 2012 compared to the same period in 2011, due to two of Bri-Chem's largest customers building their own invert facilities.

Alberta sales were $17,736,489 in the fourth quarter with 1,780 wells drilled, a 24.3% decrease in drilling activity from the fourth quarter of 2011, while sales revenues decreased by 45.0% over the fourth quarter of 2011. British Columbia sales experienced a decrease of 57.4% over the prior period, generating $1,499,076 in sales from this region during the quarter with a 20.4% decrease in drilling activity in the region. The decrease was due to Bri-Chem's customers not obtaining the majority of the work in the region. The fluids division had Saskatchewan sales of $2,418,151 a decrease of 26.1% over the comparable period last year while drilling activity decreased by 15.7%. Stronger sales for the fluids division are expected during the first quarter of 2013 over the fourth quarter of 2012 due to increased drilling activity during the winter drilling season. The outlook for 2013 in Western Canada is a slight increase in rig activity of 10,799 rigs compared to 10,521 in 2012.

The Company's USA drilling fluids distribution division generated revenues of $4,503,379 for the three months ended December 31, 2012 compared to $2,971,577 in 2011, representing a 51.5% increase. In addition, the Company had fluid sales of $29,665 from the Canadian fluids division sold into the USA for the year ended December 31, 2012. The increase in sales was mainly due to market penetration and acquiring new USA based customers. On December 31, 2012 Bri-Chem acquired General Supply Company and their three key Oklahoma warehouse locations.

Fluids Blending and Packaging Division

The fluids blending and packaging division previously recorded its sales in the drilling fluids distribution segment but is now being shown separately as its own operating segment. For the three months ended 2012, sales were $3,269,421 as compared to $3,055,390 representing a 7.0% increase year over year. On November 30, 2012, the Company purchased the assets of Kemik Inc., a Calgary based cementing chemical blender and packager which is expected to enhance the Company's presence for cementing sales throughout North America.

Steel Pipe Distribution Division

For the three months ended December 31, 2012, the steel pipe distribution division generated revenues of $3,959,550, a decrease of 21.5% over the comparable quarter in 2011. The decrease was the result of lower industry demand for seamless pipe in Western Canada as many customers had sufficient inventory that they were working through during the fourth quarter of 2012. The demand for steel pipe is expected to be soft over the short to medium term as customers work through excess inventory levels. Increased drilling activity will be a key factor to drive future demand for steel pipe sales.

Steel Pipe Manufacturing Division

The steel pipe manufacturing division had sales of $6,099,245 in the quarter, an increase of 514.8% over the comparable quarter in 2011. During the quarter the division increased its production capacity to operate two full shifts 24 hours a day, 4 days a week with a fifth day allocated for plant maintenance. The division was able to produce 3,458 tons during the fourth quarter, which is the result of the efficiencies and redundancies that were put in place throughout 2012.

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 December 31							
	2012			2011			**Change**	
		$	**%***		$	%*	**$**	**%**
Fluids Distribution - Canada	**$**	**3,116,757**	**14.4%**	$	4,986,469	13.9%	$ (1,869,712)	-37.5%
Fluids Distribution - USA		**1,182,886**	**26.3%**		718,604	23.3%	464,282	64.6%
Fluids Packaging		**508,632**	**15.6%**		444,299	15.4%	64,333	14.5%
Fluids Transportation		**(112,356)**	**0.0%**		-	0.0%	(112,356)	0.0%
Steel Distribution		**1,152,470**	**29.1%**		1,575,554	31.6%	(423,084)	-26.9%
Steel Manufacturing		**285,072**	**4.6%**		229,622	23.2%	55,450	24.1%
Total	**$**	**6,133,461**	**15.5%**	$	7,954,548	16.7%	$ (1,821,087)	-29.7%

* as a percentage of divisional revenues

Fluids Distribution and Packaging Divisions

The fluids distribution division margins were 15.4% for the three months ended December 31, 2012, increasing from 15.6% for the comparable prior year period. Margins on fluid sales vary based on product mix and drilling formations. Margins increased in the fourth quarter of 2012 over the same period in 2011 as the fluids distribution division sold less invert products during the quarter, which are sold at lower margins.

The USA fluids distribution division gross margins are traditionally slightly higher than those of the Canadian operations, and were 26.3% for the fourth quarter of 2012. As sales increase in future periods, the fluids division expects to see margins ranging from 20% to 23%, however should product mix change to more competitively priced lower margin products, the division could see an adverse impact on gross margins.

The fluids blending and packaging division margins were 15.6% for the three months ended December 31, 2012, consistent to the 15.4% for the comparable prior year period. Margins on fluids blending and packaging division are consistent on a quarter over quarter basis as the division provides value add services of blending as a markup above the commodity chemical mark up. Products for the fourth quarter remained consistent to those in the same comparable period of 2011.

Steel Distribution and Manufacturing Divisions

For the steel pipe distribution division margins were 29.1% for the three months ended December 31, 2012, compared to 31.6% for the same comparable period in 2011. The steel distribution business has seen consistent gross margins on seamless pipe sales over the past several quarters as the cost of steel has been relatively stable over the year. Gross margins are expected to weaken slightly as the division eliminates excess inventory of certain size pipe over the short term. Overall margins are expected to remain strong throughout 2013, however any weakening of steel commodity prices may cause selling price pressure for the division, which may result in moderately lower gross margins.

The steel manufacturing division margins were 16.5% for the three months ended December 31, 2012. Adjusted gross margins were 28.3% for the three months ended December 31, 2012, when adjusting for fixed overheads and amortization of production equipment as compared to 23.2% for the same comparable period in 2012. In 2011, there was little production and as a result insignificant fixed overhead costs were recorded in selling, general and administration costs. Now that production volumes have increased to a more consistent volume, fixed overheads and amortization of production equipment will be included in the cost of production. Margins have the potential to fluctuate depending on the size and grade of pipe being produced. Management is focused on meeting the size requirements of its customers, while being competitively priced.

Wages and Salaries

Wages and salaries decreased by $75,725 or 0.3% for the fourth quarter of 2012 compared to same period in 2011. The decrease is due to wages incurred in 2011 that were not considered as part of the production costs in the steel manufacturing division as the division was in its start up during 2011 and those wages were expensed as period costs.

Operating expenses

Operating expenses decreased by $1,113,514 or 26.0% compared to the same period in 2011. The significant decrease relates to operating overheads that related to the start up of the steel manufacturing division, which were recorded as selling, general and administrative costs in 2011. Selling costs marginally increased by $35,774 while general and administration costs increased by $198,612 over the comparable prior period. Insurance coverage has increased due to the additional warehouses and inventory in the USA during 2012. Professional fees increased by $173,089 over the comparable prior period. The increase is due to ABL audit fees and legal fees related to the two acquisitions that were completed in the fourth quarter of 2012. The Company recorded a foreign exchange gain of $23,508 for the fourth quarter of 2012 compared to a foreign exchange loss of $3,261 in the fourth quarter of 2011.

This was largely a result of foreign exchange gains realized due to the difference in the Canadian and US dollar during the period.

Depreciation, amortization and interest

Depreciation and amortization expense decreased by $290,741 or 47% compared to the same period in 2011, as the Company recorded amortization on certain manufacturing assets as expenses in 2011, which are now recorded as cost of sales in 2012 as production has commenced. Interest expense increased by $296,364 or 106.2% compared to the same period in 2011. The increase was due to increased borrowing on the Company's asset-based lending facility that was implemented in August 2011. In addition, the Company incurred $95,833 of interest on long-term debt in the fourth quarter of 2012 resulting from the new subordinated debt facility.

Net earnings

Net earnings for the three months ended December 31, 2012 was $1,330,141 or $0.06 diluted per share, compared to net earnings of $2,431,287 or $0.16 diluted earnings per share over the comparative quarter in 2011. The 21.3% decrease in the number of wells drilled in the fourth quarter of 2012 compared to the same period in 2011, along with a decrease in liquid invert sales resulted in lower sales and profits for the quarter compared to the prior year. Earnings per share were calculated based on the weighted average number of shares outstanding during the three months ended December 31, 2012 of 17,366,461 basic and 17,418,815 diluted and the comparative three month period ended December 31, 2011 of 16,530,573 basic and 16,919,034 diluted.

FINANCIAL CONDITION & LIQUIDITY

Summary Balance Sheet **As at**		**December 31** **2012**		December 31 2011
Current assets	**$**	**110,593,078**	$	113,020,921
Property and equipment		**13,006,408**		9,895,011
Other assets		**5,655,573**		2,754,412
TOTAL ASSETS	**$**	**129,255,059**	$	125,670,344
Current liabilities	**$**	**66,746,849**	$	80,581,220
Non-current liabilities		**10,778,849**		1,139,643
TOTAL LIABILITIES		**77,525,698**		81,720,863
Share capital		**24,396,817**		23,727,210
Non-controlling interest		**2,412,225**		1,466,882
Retained earnings and contributed surplus		**24,920,319**		18,755,389
TOTAL EQUITY		**51,729,361**		43,949,481
TOTAL LIABILITIES AND EQUITY	**$**	**129,255,059**	$	125,670,344

Financial Ratios	**December 31** **2012**	December 31 2011
Working capital ratio	**1.66**	1.40
Days sales in receivables	**104.7**	101.8
Inventory turns	**2.1**	3.2
Days purchases in payables	**71.9**	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 December 31, 2012 the Company had positive working capital of $43,846,229 compared to $32,439,701 at December 31, 2011. The Company's current ratio (defined as current assets divided by current liabilities) was 1.66 to 1 for the year ended December 31, 2012, compared to 1.4 to 1 for the year ended 2011.

As at December 31, 2012, the Company had drawn $44,899,139 net of unamortized transaction costs of $500,304, on its available credit facilities of $80,000,000, as compared to $48,910,877 at December 31, 2011. Effective August 12, 2011, the Company entered into a new secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. and HSBC Bank Canada. The ABL Facility has a term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable to a maximum of $80,000,000.

The initial term of the ABL Facility is for three years and the initial advance repaid the outstanding amounts in full to its former credit facility lender HSBC 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.

On November 30, 2012, the Company received a $10,000,000 subordinated debenture from Fulcrum Partners Inc. ("Fulcrum"). The debenture bears interest at 11.5%, repayable monthly from December 2012 to December 2013 interest only, March 2014 to December 2017, quarterly installments of $300,000 plus interest. The minimum interest payable is $2,000,000 prior to any pre-payment. In addition, the Lender has received 300,000 warrants with a fair value of $209,226.

The December 31, 2012 days sales in receivables are 104.7, marginally higher than the ratio from December 31, 2011. 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. As drilling activity started to increase in late 2012, many customers will have not collected money from their customers, which in turn delays payments to Bri-Chem. This trend usually occurs in fourth quarter when activity is increasing for the winter drilling season. The increase in days' purchases in payables at December 31, 2012 compared to December 31, 2011 is as a result of the Company managing its availability of its ABL Facility by closely linking the inflow of cash receipts to the outflow of cash to vendors.

As at December 31, 2012, accounts receivable was $37,594,701 a $19,265,959 or 33.9% decrease from the December 31, 2011 balance of $56,860,660. The decrease is due to a significant decrease in sales activity in the Canadian fluids division during the third and fourth quarters of 2012 as the result of slower drilling activity in Western Canada.

Inventory increased by $16,107,401 or 29.7% to $70,286,639 compared to the 2011 year end balance. Inventory turns decreased from 3.2 at December 31, 2011 to 2.2 at December 31, 2012. A significant portion of the inventory increase relates to increase in the steel manufacturing division of $5,197,444 for additional raw materials and $3,161,218 of finished goods inventory. The USA fluid division increased inventory by $8,570,967 to stock additional new warehouse locations enabling the division to meet the fluid demand from its customers. Fluid packaging inventories have increased by $1,240,165 as a result of the increased activity from the acquisition in November. In addition, the Canadian fluids division anticipated higher drilling activity during the quarter and had

purchased product on expected sales demand. Inventory values are expected to decrease modestly in the USA fluids division as demand and market share continues to improve. The steel manufacturing division is forecasted to remain stable over the short to medium term as raw materials are continually being purchased to keep the production line operating efficiently. Finished goods inventory is expected to decrease as the division experienced a timing delay of when goods were produced compared to when the goods were shipped.

The Company's prepaid expenses and deposits have increased by $730,715 to $2,711,738 at December 31, 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 $473,315 for non-controlling interest for the year ended December 31, 2012 and a total non-controlling interest equity balance of $2,412,225 compared to $1,466,882 at December 31, 2011. The non-controlling interest relates to the establishment of the steel pipe manufacturing division. In addition, the preferred shares that were previously recorded as share capital were reclassified to non-controlling interest since they relate to the interest of the steel manufacturing division. The Company advanced additional working capital to Bri-Steel Manufacturing Inc. and as a result the minority partner also increased their investment by providing additional inventory of $1,059,450 and equipment of $359,208 in 2012.

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 $15,000,000 under its existing ABL facility. Management is evaluating its inventory quantities in all divisions as part of its ongoing inventory management program. Given the slower drilling activity levels in Western Canada the Company will prudently manage its inventory levels over the next few quarters to ensure there is sufficient amount of inventory to meet the demands from customers. The Company continues to assess its requirements for capital on an on-going basis. With winter drilling activity and the steel pipe manufacturing mill increasing production, the Company's cashflow should improve over the next few quarters, however could be impacted by any slowdown in drilling activity in Canada or the USA.

Summary of Consolidated Statements of Cash Flows **Year Ended**		**December 31** **2012**		December 31 2011
Cash provided (used) by operating activities	**$**	**3,256,224**	$	(2,256,866)
Cash provided by financing activities		**3,858,841**		7,008,638
Cash used by investing activities		**(7,115,065)**		(4,751,772)
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of period		**-**		-
Cash and cash equivalents, end of period	**$**	**-**	$	-

Cash flow provided (used) by operating activities

Cash provided by operating activities for the year ended December 31, 2012 was $3,256,224 compared to cash used of $2,256,866 for the same period in 2011. Despite the lower receivable balances in 2012 compared to the prior year, the Company has increased inventory as a result of increased demand in the USA drilling fluids division and increased raw material inventory required in the steel pipe manufacturing division. There was also a decrease in the balance of accounts payable outstanding as the Company used its operating facility to purchase the increased inventory. We expect to see our cash used in operations decrease for the first quarter, as the Company will continue to see higher sales entering the winter drilling season, and we will have sufficient inventory levels to meet the demand of our customers. The Company intends to continue to manage its inventory levels and spending in all divisions in order to conserve its balance sheet strength and minimize any increase in debt levels.

Cash flow provided by financing activities

Cash provided by financing activities was $3,858,841 for the year ended December 31, 2012, compared to cash provided of $7,008,638 in the comparable 2011 period. The cash provided by financing activities is related to advances in the amount of $10,000,000 from a subordinated debenture facility obtained in November 2012. These funds are anticipated to be used to fund future acquisitions or for general working capital purposes. The Company paid $358,352 of a promissory note plus interest related to the Stryker acquisition. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second and third quarters, which it will use to repay the operating line. This trend is reversed in Q4 and Q1 when significant sales and purchases occur, while collections are often delayed until the second quarter. The Company is currently evaluating a number of potential acquisitions which would be funded from the subordinated debt facility.

Cash flow used by investing activities

Cash used in investing activities amounted to $7,115,065 for the year ended of 2012 compared to $4,751,772 in 2011. 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 along with a roller and conveyor system to improve material handling in the steel manufacturing facility. In addition, the Company used its operating line to purchase the assets and operations of two acquisitions, Kemik and General Supply. Forecasted capital expenditures for 2013 are approximately $3,500,000 and will be funded through existing operating facilities and possible capital leases where possible for specific equipment.

Covenants

	As calculated	**Minimum required**	As calculated	Minimum required
		To exceed		To exceed
Adjusted tangible net worth	**$ 46,586,121**	$ 27,105,000	$ 40,320,958	$ 27,105,000
		Not to exceed		Not to exceed
Eligible capital expenditures	**$ 3,463,991**	$ 3,630,600	$ 4,204,589	$ 4,300,000
		Not to exceed		
Funded term debt to EBITDA	**0.91**	1.5:1	-	-

The Company has credit facilities which contain two financial covenants being a minimum tangible net worth and a maximum annual capital expenditures with the asset based lending agreement. In addition, there is an additional covenant with the subordinated debenture relating to funded term debt to EBITDA. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness.

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

The minimum covenants are noted in the above table. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a monthly basis. As at December 31, 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
December 31, 2012	$ 3,349,602	10,728,056	1,706,964	$ 15,784,622
December 31, 2011	$ 2,871,777	8,743,273	2,108,538	$ 13,723,588

Contractual obligations related to financial liabilities at December 31, 2012 are as follows:

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Finance leases*	Total
2013	$ 44,398,833	$ 21,753,134	$ 1,054,167	$ -	$ 185,719	$ 67,391,853
2014	-	-	2,407,424	260,593	148,711	2,816,728
2015	-	-	2,169,482	-	111,453	2,280,935
2016	-	-	2,030,155	-	70,304	2,100,459
2017	-	-	7,090,828	-	-	7,090,828
Thereafter	-	-	-	-	-	-
Total	$ 44,398,833	$ 21,753,134	$ 14,752,056	$ 260,593	$ 516,187	$ 81,680,803

* 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. Given the decreased volumes, the Company was not able to meet the minimum requirement. Therefore, the contract is no longer in place.

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. The Company did not renew the contract at the end of the one year term.

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	2 to 7 years straight-line
Non-competition agreements	2 to 5 years straight-line
Computer software	4 to 7 years straight-line
Supply agreement	4 years straight line
Distribution agreement	5 years straight line

Amortization has been recognized in profit or loss for the period. Costs associated with maintaining computer software such as expenditures relating to patches and other minor updates as well as their installation are expensed as incurred. The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognized in profit or loss.

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 year ended December 31, 2012 was $3,319,254 including additions through finance leases of $181,400, and additions of $1,178,040 on acquisitions. The capital expenditures were funded from the Company's operating line of credit.

The future capital expenditures for 2013 are approximately $3,500,000. Purposed future equipment upgrades may include a liquid invert facility, storage tanks and blending and packaging equipment for the USA drilling fluids division and additional steel manufacturing equipment. Any residual planned expenditures are for normal 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 year ended December 31, 2012, the Company incurred office sharing costs of $60,000 (December 31, 2011 – $60,000) that were paid to a company over which a director has control.

The Company expensed interest of $nil (December 31, 2011 - $27,419) on promissory notes payable issued in the prior year which were held by two of the Company's directors, senior management and significant shareholders. This entire amount was paid out May 18, 2011 along with the outstanding balance. The Company expensed interest of $nil (December 31, 2011 - $116,672) on promissory notes payable issued on the acquisition of Bri-Steel Corporation which were held by three of the former owners of Bri-Steel Corporation. This entire amount was paid out on October 28, 2011 along with the outstanding balance.

Post-reporting date events

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

OUTLOOK

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

After experiencing the industry slowdown in the latter half of 2012, activity in early 2013 has increased and demand for Bri-Chem's drilling fluid products and services is stronger than the fourth quarter of 2012. The Petroleum Services Association of Canada (PSAC) has forecasted 11,499 wells to be drilled in Western Canada for 2013, a forecasted increase of 3.1% over 2012. That being said, the 2013 winter drilling season in the WCSB saw drilling rig activity levels down approximately 10% from the start of the 2012 season, however, it has improved to a 4% reduction from the prior year by the end of February 2013. The strength of the first quarter is also dependent on the timing of spring breakup. Looking beyond Q1, it is difficult to determine if demand for oilfield activity will increase as economic concerns are still impacting the stability of commodity prices.

Bri-Chem will continue to invest into its USA drilling fluid market expansion plan where significant market share is vastly obtainable. As we continue to gain market share in the USA more product and acquisition opportunities become available. The continued growth in the USA drilling fluids division is the result of geographic and product expansion that management has been implementing for the past several quarters. The strategically placed warehouses located throughout the USA have allowed us the ability to better service customers in major drilling regions which has and will continue to drive growth in sales and future earnings. The acquisition of General Supply on December 31, 2012 allowed us to penetrate into Oklahoma which is another critical USA drilling fluid market. Despite the modest decline in USA rig count, the division is well positioned through its product offerings and strategic geographic locations to continue to gain market share. We are continuing to examine additional strategic warehouse locations in the USA that will provide revenue and earnings growth as we establish Bri-Chem as the leading national independent wholesale supplier of drilling fluids for the USA drilling fluids market.

The Company's fluids blending and packaging division is experiencing growth as management has made this a focus for 2013 and beyond and will continue to seek out new product offerings, which management anticipates will result in new sales and earnings growth for 2013. With the recent acquisition of Kemik, the fluids blending and packaging division has established a new chemical vendor relationship with an international company that has over 2,500 unique chemicals in its portfolio. Over the short term, we will be evaluating a number of chemicals to determine if there application is suited for oil and natural gas drilling. Management believes that a significant opportunity exists to develop a liquid stimulation and specialty additives blending division to leverage additional business from existing clients that we currently service. Bri-Chem continues to actively seek to acquire companies that manufacture and blend liquid stimulation and specialty additive products to increase market share in the completion and stimulation fluids segment.

The steel pipe distribution division is continuing to service its customers with competitively priced seamless steel pipe, in various lengths and grades. The division remains optimistic it can continue to achieve solid gross margins into 2013 consistent to that achieved during 2012. Over the short to medium term, the division will continue to attract new customers through the marketing of its niche manufacturing of large diameter seamless pipe. The division will manage its inventory to ensure there is an adequate amount of inventory on hand to meet the demand of

our customers. We are also examining the feasibility of servicing more customers on a mill direct basis for larger orders.

The steel manufacturing division has experienced increased sales and profitability in the fourth quarter of 2012 as the result of redundancies and efficiencies that transpired throughout 2012. With all major planned capital projects complete, coupled with sufficient raw material inventory and the production facility operating 24 hours a day, 4 days a week, the steel manufacturing division is anticipating that margins will begin to increase over the next several quarters. Management is forecasting between 12,000 to 16,000 tons of production in 2013, a significant increase from 2012. In the short term, the division is focused on completing the production for a backlog of current sales orders and for 2013 the division is securing sales orders to complete a production schedule based on confirmed sales orders to ensure maximum production given current staffing. Volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints are all factors contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which may reduce or defer small and large diameter steel pipe sales activity for Q1 2013.

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. Management is aggressively seeking and evaluating a number of opportunities which meets the strategic growth initiatives of the Company including product and geographic diversification as mentioned above.

RISKS AND UNCERTAINTIES

The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with; the detailed information appearing elsewhere in this MD&A and Bri-Chem's other public disclosure documents, including the Annual Information Form for the Company for the year ended December 31, 2012. These risks and uncertainties are not the only ones facing Bri-Chem. Additional risks and uncertainties not currently known to the Company or that the Company currently considers remote or immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Company could be materially adversely affected.

Liquidity Risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company mitigates liquidity risk by maintaining adequate credit and lending facilities and through the management of its operational cash flows.

Competition and Industry Conditions

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

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

Regulations Affecting the Oil and Natural Gas Industry

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

Supply Risk

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

Oil and Natural Gas Prices

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

Commodity Price Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Integration of Acquisitions

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

Entering New Business Lines

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

Government Trade Tariffs

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

Seasonal Weather

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

Product Liability Claims

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

claim would be successful or partially successful, it could result in monetary liabilities and future scrutiny from customers on products sold.

Ability to Achieve Profitability

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

Credit Risk

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

Inventory Risk

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

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

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

Income Tax Expense

The Company collects, accrues, and pays significant amounts of income taxes and has significant deferred tax liabilities and tax expense. The amounts reported are based on management's best estimates using currently enacted tax rules and accounting principles related to income tax reporting at the time of preparation. Tax interpretations, regulations, and legislation that pertain to the Company's activities are subject to continual change. There is a risk

that the actual tax owing may differ from this amount, which could affect the Company's reported net income after tax and earnings per share reported. Management engages a third party specialist to review the calculation of deferred taxes to help mitigate the risks in this area.

Workplace Safety, Health and Wellness

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

Environmental Liability

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

Dependence on Key Personnel

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

Insurance risk

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

were in excess of policy limits, could have a material adverse effect on the results of operations and financial condition.

Fuel Prices

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

Potential Liabilities from Acquisitions

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

CRITICAL ACCOUNTING ESTIMATES

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

The most significant estimates made by management include:

Sales return provision

Accounts receivable is the most significant asset at December 31, 2012. Included in this balance is a sales return provision for the fluids distribution division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision already recorded.

Inventory valuations

Inventory is measured at the lower of cost and net realizable value. Net realizable value is an estimate of future selling prices less the costs to sell. Management reviews inventory periodically when factors indicate that a potential for impairment of the net realizable value exists. This includes examining the value of inventory against current market conditions, past sales history, and future sales trends predictions to determine the recoverable amount. When

impairment is recorded, management tracks the future sales of these items and reverses any write-down where the net realizable value has subsequently increased.

Fair value of derivative financial instruments

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

Impairment testing of intangible assets and property and equipment

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

Income taxes

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

Business combinations

The Company uses valuation techniques in determining fair values of the various elements of a business combination based on future expected cash flows and a discount rate. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

ACCOUNTING POLICIES

There were no new accounting policies adopted in the year.

EARLY ADOPTION OF PRONOUNCEMENTS

<u>IAS 1 - Presentation of Financial Statements</u>

In 2012, the Company has early adopted the Annual Improvements to IFRSs 2009 - 2011 Cycle of IAS 1 - Presentation of Financial Statements. The amendments to IAS 1 clarifies the requirements for comparative

information when entities apply accounting policies retrospectively, makes a retrospective restatement of items in the financial statements, or when items are reclassified in its financial statements. By early adopting the standard, the Company has determined that they are not required to present a third statement of financial position for items that have been reclassified retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2013 but can be applied earlier.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 9 - Financial Instruments

IFRS 9 is effective for annual periods beginning on or after 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.

IFRS 10 - Consolidated Financial Statements

IFRS 10 - Consolidated Financial Statements, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company does not expect a material impact on the consolidated financial statements other than additional note disclosure.

IFRS 13 - Fair Value Measurement

The Company will be required to adopt IFRS 13 as of January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS's with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRS.

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

The Company will adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. Management has determined that IFRS 13 may impact fair value assessments in future purchase price allocations and may result in increased note disclosures surrounding the fair value of financial instruments and their calculation.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IFRS 7 - Financial Instruments: Disclosure which require disclosure about the effects of offsetting financial assets and liabilities and related arrangements on an entity's financial position. IAS 27 - Separate Financial Statements addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 - Investments in Associates and Joint Ventures has been amended to include join ventures in its scope and to address the changes in IFRS 10 - 13. IAS 32 - Financial Instruments: Presentation addresses inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

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, long-term debt and 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 notes payable reflects the incremental cost of borrowing given current market risks and interest rates for the similar debt. The carrying value of the long-term debt approximates its fair value as the loan was obtained near the end of the reporting period and interest rates have not significantly changed since this time.

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 largest two customers accounted for approximately 15%, and 10% respectively (December 31, 2011 – 21%, 18%) of total revenue during the year and 10%, and 20% respectively (December 31, 2011 – 27%, 22%) of total accounts receivable at year end.

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 year ended December 31, 2012, the Company has recorded an allowance for doubtful accounts of $95,549 (December 31, 2011 - $41,852). The allowance is an estimate of the December 31, 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:

December 31, 2012		Gross accounts receivable		Allowance for doubtful accounts		Net accounts receivable
Current	$	13,887,018	$	-	$	13,887,018
31 to 60 days		11,430,701		-		11,430,701
61 to 90 days		7,175,157		-		7,175,157
91 to 120 days		3,413,384		-		3,413,384
Over 120 days		1,783,900		(95,459)		1,688,441
Total	$	37,690,160	$	(95,459)	$	37,594,701

The changes in allowance for doubtful accounts were as follows:

		December 31 2012		December 31 2011
Balance, beginning of year	$	**41,852**	$	92,000
Bad debt expense		**231,441**		179,119
Receivables written off		**(177,744)**		(229,267)
Balance, end of year	$	**95,549**	$	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 interest rate on the bank indebtedness balance at December 31, 2012 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at December 31, 2012, with other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately $87,631 (December 31, 2011 - $91,188).

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 US$8,653,875 as at December 31, 2012 (December 31, 2011 - US$1,699,851), accounts payable in foreign currency outstanding as at December 31, 2012 is US$7,780,564 (December 31, 2011 - US$3,076,389) and a promissory note in foreign currency outstanding at US$250,000 (December 31, 2011 - $368,466) . The Company realized a foreign exchange gain of $982,740 (December 31, 2011 – loss of $167,773) during the year ended December 31, 2012. Based on the monetary assets and liabilities held in the USA at December 31, 2012 a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $52,883 (December 31, 2011 – $47,373).

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 March 29, 2013, the Company had 17,461,912 common shares issued and outstanding. As of December 31, 2012, the board of directors may grant options to purchase up to a maximum of 1,723,760 common shares. As of December 31, 2012, options to purchase 1,115,000 common shares were outstanding at an average price of $2.73 per common share.

NON-IFRS MEASURES

Certain supplementary information and financial measures referred to in the MD&A and explained below, namely Adjusted Gross Margin, EBITDAC (earnings before interest, taxes, depreciation, amortization, and share-based payments) and operating expenses, are not recognized under IFRS. Adjusted gross margins reflect the selling price less the cost of product and direct labour to manufacturer the product. Management believes this measure is useful given the initial startup that occurred in 2011. 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 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 December 31**		
		2012		2011
Net earnings	**$**	**1,330,141**	$	2,431,287
Add:				
Interest		**575,408**		279,043
Income taxes		**314,705**		787,555
Amortization		**327,844**		618,585
Share-based payments		**416,408**		88,455
EBITDAC	**$**	**2,964,506**	$	4,204,925

EBITDAC		**For the year ended December 31, 2012**		
		2012		2011
Net earnings	**$**	**4,892,520**	$	9,462,267
Add:				
Interest		**2,262,607**		1,938,080
Income taxes		**1,591,532**		3,357,805
Amortization		**1,013,097**		1,448,019
Share-based payments		**791,040**		234,433
EBITDAC	**$**	**10,550,796**	$	16,440,604

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 December 31, 2012 interim consolidated financial statements:

Operating expenses				
		For the three months ended December 31		
		2012		2011
Operating expenses	**$**	**3,168,955**	$	4,282,466
Add:				
Interest		**575,408**		279,043
Amortization		**327,844**		618,585
Share-based payments		**416,407**		88,455
Total expenses	**$**	**4,488,614**	$	5,268,549

Operating expenses				
		For the year ended December 31		
		2012		2011
Operating expenses	**$**	**14,831,741**	$	14,998,449
Add:				
Interest		**2,262,607**		1,938,080
Amortization		**1,013,097**		1,448,019
Share-based payments		**791,040**		234,433
Total expenses	**$**	**18,898,485**	$	18,618,981

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 December 31, 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 December 31, 2012 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance.

On December 31, 2012, the Company acquired all of the business assets of General Supply Company and began consolidating the operations into Bri-Chem Corp. Management excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as at December 31, 2012. The Company has not recognized any net income attributable to this business for the year ended December 31, 2012 given that the effective date of the acquisition was December 31, 2012.

Changes in internal control over financial reporting

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

It should be noted that while the CEO and CFO believe that Bri-Chem Corp.'s disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Corporate Information

Officers and Directors

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

Brian Campbell
Director
Edmonton, Alberta

Jason Theiss, CA
CFO
Edmonton, Alberta

Trent Abraham
President, Fluids Division
Calgary, Alberta

Albert Sharp
Director
Spruce Grove, Alberta

Eric Sauze, CA
Director
Edmonton, Alberta

Neil Rasmussen
President, Steel Division
Edmonton, Alberta

Auditors

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Shares Listed

Toronto Stock Exchange
Trading Symbol - BRY

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Lenders

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Transfer Agent

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