



*A North American Leader*

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***Drilling Fluids, Blending & Packaging***

**Bri-Chem Corp.  
Management's Discussion and Analysis  
Three and Six Months Ended June 30, 2014**

## INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of August 13, 2014. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the three and six months ended June 30, 2014 and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the unaudited interim financial statements for the period ended June 30, 2014, as well as the annual audited consolidated financial statements for the twelve months ended December 31, 2013.

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

The Company sold all of its steel pipe manufacturing and steel pipe distribution assets and ongoing business operations ("Discontinued Operations") effective July 15, 2014. Bri-Chem business operations, financial and corresponding operating results will be concentrated entirely on its North American leading oil and gas drilling fluids distribution, blending & packaging businesses. ("Continued Operations").

The Company's interim consolidated financial statements include the accounts of Bri-Chem Corp. and its subsidiaries: Bri-Chem Supply Ltd., Sodium Solutions Inc., Bri-Corp USA, Inc., including its three subsidiaries Bri-Chem Supply Corp, LLC, Sun Coast Materials, LLC and Bri-Chem Logistics, LLC, (all together Continued Operations), and Bri-Steel Corporation, Bri-Steel Manufacturing Inc. (70%) (all together Discontinued Operations). 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, including the annual information form for the year ended December 31, 2013 is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:**

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

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

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

With respect to the forward-looking information contained in the MD&A, Bri-Chem has made assumptions regarding, among other things:

- the Company's relationships with its key suppliers and customers;
- economic conditions that influence the demand of the Company's customers for supplies and services;
- the Company's cash flow from sales; and
- the availability of existing credit facilities.

Although the forward-looking information contained in this MD&A is based upon what Management believes are reasonable assumptions, Bri-Chem cannot assure readers that actual results will be consistent with this forward-looking information. Although the Company believes that the expectations reflected in the forward-looking information are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Some of the risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A, include but are not limited to:

- supply and demand for oilfield services, and drilling fluids;
- competition for, among other things, capital and skilled personnel;
- incorrect assessments of the value of acquisitions;
- fluctuations in the market for oil and natural gas and related products and services;
- liabilities and risks, including environmental liabilities and risks inherent in 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;
- 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](http://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.**

**2014 SECOND QUARTER OVERALL PERFORMANCE:**

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

During the second quarter of 2014, Bri-Chem announced its intention to sell the ongoing business operations and assets of its steel pipe divisions. The Company completed the sale of its Steel Pipe Manufacturing division and Steel Pipe Distribution division to a USA based steel company effective July 15, 2014. As a result of the sale, the Company will not retain any steel pipe assets or conduct any further steel pipe business operations going forward and has therefore reclassified the associated assets and liabilities of these businesses from assets and liabilities held for sale in Q2 to assets and liabilities related to discontinued operations for all periods presented. Bri-Chem's business operations, financial and corresponding operating results will now concentrate entirely on its North American leading oil and gas drilling fluids distribution, blending & packaging businesses ("Continued Operations").

Bri-Chem's consolidated revenues from Continued Operations during the second quarter increased 73.4% to \$35,185,988 compared to \$20,291,424 from the prior period in 2013. This quarter-over-quarter increase is primarily a result of significant organic sales growth from Bri-Chem's USA drilling fluids distribution division which experienced sales growth of 76.1%. Despite the traditional Q2 spring breakup and resulting lower drilling activity in Canada, the Company's Canadian drilling fluids distribution division also grew sales in Q2 by 56.4%. Consolidated revenues for the six months ended June 30, 2014 were \$81,133,207 compared to \$61,816,983 for the comparable period of 2013, an increase of 31.2%. Earnings before interest, taxes, amortization and share-based payments expense ("EBITDA") was \$932,288 or \$0.04 per share and \$4,886,307 or \$0.20 per share respectively for the three and six month periods ended June 30, 2014, compared to \$998,456 and \$4,837,557 respectively for the same periods in 2013. Net loss for the three month period was \$596,515 or \$0.02 diluted loss per share and net earnings of \$1,124,686 or \$0.05 diluted earnings per share for the six months ended June 30, 2014 as compared to net loss of \$266,517 and net earnings of \$1,529,609 respectively for the same periods in 2013.

Bri-Chem's Canadian drilling fluids distribution division generated sales of \$11,919,343 and \$38,214,124 for the three and six months ended June 30, 2014, compared to sales of \$7,622,595 and \$36,405,324 over the comparable periods in 2013. The increase in sales was due to the increase in drilling activity during the second quarter of 2014 in Western Canada and better overall weather conditions. The number of wells drilled in Q2 2014 in Western Canada was 1,460, compared to the 1,167 wells drilled in Q2 2013, representing an increase of 25.1% quarter over quarter. Drilling rig utilization rates averaged 24.7% in Q2 2014 compared to 18.4% in Q2 2013, an increase of 6.2%. Year to date rig utilization has increased 4.8% compared to the first half of 2013.

Bri-Chem's United States fluids distribution division generated sales of \$18,185,066 and \$30,686,122 for the three and six month periods ended June 30, 2014, compared to revenues of \$10,323,809 and \$18,066,409 in the comparable periods of 2013, representing an increase of \$7,861,257 or 76.1% quarter over quarter, while increasing 69.9% year over year. The USA fluids distribution division has continued to see sales growth throughout Q2 2014 as a result of increased industry activity, and product and geographic expansion throughout the major resource plays in the USA. In the USA, the average number of active rigs running during the second quarter was 1,852, an increase of 5.2% quarter over quarter. The division has built a solid infrastructure with personnel and inventory to service the expanding needs of our customers. Colorado, Pennsylvania, Oklahoma, Wyoming and Texas generated the majority of sales in the USA for the three months ended June 30, 2014. At June 30, 2014 Bri-Chem had 17 operating warehouses, compared to 14 warehouses at June 30, 2013. The Company remains focused on expanding its product offerings as well as expanding into

new geographic regions in the USA to meet the increasing demand for drilling fluids from an independent wholesaler.

The Canadian fluids blending and packaging division also continues to grow as the Company generated sales of \$2,783,857 and \$8,293,495 for the three and six months ended June 30, 2014 compared to the comparable prior year period sales of \$2,345,020 and \$7,345,250 representing 18.7% increase quarter over quarter. The division continues to increase market share by utilizing new expanded capacity to meet the increasing demand of our customers. The acquisition of Sun Coast Materials LLC in the third quarter of 2013, our USA fluids blending and packaging division, generated sales of \$2,297,722 and \$3,939,466 for the second quarter of 2014 and six months ended June 30, 2014.

During the three and six months ended June 30, 2014 the Company recorded an impairment expense of \$4,336,245 and \$15,434,501, respectively, to reflect the net assets of the Steel Pipe divisions at their estimated fair value, less costs to sell. Loss from Discontinued Operations was \$2,579,502 and \$12,268,345 for the three and six month periods ended June 30, 2014 respectively (\$777,296 and \$738,718 loss for the three and six month periods ended June 30, 2013).

### **Outlook Summary**

Drilling activity, in accordance with the Petroleum Services Association of Canada (PSAC), is forecasted to increase marginally for the second half of 2014 compared to that of 2013. We are cautiously optimistic that increased drilling activity experienced in late Q2 2014 will continue for the remainder of the year, which will drive sales increases in Canadian drilling fluids distribution as well as Canadian fluid products blending and packaging divisions. PSAC has forecasted 6,534 wells to be drilled in Canada for the second half of 2014, an increase of 5.7% over 2013. PSAC also has forecasted 3,391 wells to be drilled in Canada for the third quarter of 2014, an increase of 5.2% over the third quarter of 2013. In the USA, the number of active rigs running during the first half of 2014 was 1,852, an increase of 5.2% over the first half of 2013. The average rig count for 2014 is expected to increase approximately 5.0% compared to 2013. We believe the increased activity in the USA will drive increased year over year sales and profitability in our fluids division throughout the back half of 2014. Bri-Chem will continue to invest into its USA drilling fluid market expansion plan with the goal of obtaining new market share. As we continue to gain market share in the USA drilling fluids market, more product and acquisition opportunities become available. Bri-Chem will continue to evaluate its opportunities in the USA marketplace for fluids blending and packaging. Throughout 2014, we will examine a number of opportunities that will provide product expansion, while exploring alternatives to enable us to become basic in certain commodities and chemicals.

## DESCRIPTION OF BUSINESS

Bri-Chem has established its 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 sell, blend, package and distribute a full range of drilling fluid products, cementing, acidizing and stimulation additives from 33 strategically located warehouses throughout Canada and the United States.. Additional information about Bri-Chem is available at [www.sedar.com](http://www.sedar.com) or at Bri-Chem's website at [www.brichem.com](http://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, Bri-Chem Supply Corp, LLC, ("Bri-Chem USA") Sun Coast Materials, LLC ("Sun Coast") and Bri-Chem Logistics, LLC ("Logistics").

The Company sold all of its steel pipe manufacturing and steel pipe distribution assets and ongoing business operations ("Discontinued Operations") effective July 15, 2014. Bri-Chem business operations, financial and corresponding operating results will be concentrated entirely on its North American leading oil and gas drilling fluids distribution, blending & packaging businesses. ("Continued Operations").

Bri-Chem will continue to concentrate on expanding its market presence with the focus being on the following oil and gas drilling fluid 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 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 are 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.

#### *USA Drilling Fluids Distribution Division*

Bri-Chem services its USA drilling fluids customers through its 17 warehouse locations strategically placed in the major resource plays in the USA. The division 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.

#### *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 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 September 6, 2013, the Company acquired assets and business operations of Sun Coast Materials LLC. ("Sun Coast"), a California based packager and specialty cement blender to oil well contractors operating in southern and central California. The purchase price of \$6,722,296 (USD\$6,470,816) consisted of all cash payments with terms of \$6,493,506 (USD\$6,250,000) on closing, and a promissory note payable with a fair value of \$229,420 (USD\$220,816) bearing interest at 4% per annum, repayable in September 2014. The acquisition of Sun Coast and their transportation fleet further expands Bri-Chem's product offerings into the USA market and provides a solid growth platform to offer cementing products and blending services throughout the USA. Sun Coast's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers.

#### *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.

#### **Seasonality of Operations**

Weather conditions can affect the sale of the Company's fluids, chemical, 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 "Cautionary Statement Regarding Forward-Looking Information" section presented at the beginning of the MD&A.*

Bri-Chem 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. The Company will explore opportunities that will enable the division to become more basic in drilling fluids by seeking to become more directly involved in the manufacturing and blending of drilling fluid products. The Company is continuing to evaluate other drilling fluid and blending segments, such as stimulation and completion fluids, which adds support to Bri-Chem's focus on becoming the leading fully integrated drilling fluid supplier in North America.

In the USA, Bri-Chem will continue to aggressively pursue expanding its footprint and strive to become the leading national independent wholesale distributor of drilling fluids for the unconventional resource plays located throughout the USA. The recent acquisition of Sun Coast Materials, LLC, a California based packager

and specialty cement blender to oil well contractors operating in southern and central California, is expected to further expand Bri-Chem's product offerings into the USA market.

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

**FINANCIAL SUMMARY**

The following selected three-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarter End Report for the period ended June 30, 2014.

Consolidated statements of operations	For the three months ended June 30		Change	
	2014	2013 <sup>(4)</sup>	\$	%
Sales	\$ 35,185,988	\$ 20,291,424	\$ 14,894,564	73.4%
Gross margin	6,054,554	3,819,835	2,234,719	58.5%
Operating expenses <sup>(1)</sup>	17.2%	18.8%		
Operating expenses <sup>(1)</sup>	5,122,266	2,821,379	2,300,887	81.6%
EBITDA <sup>(2)</sup>	932,288	998,456	(66,168)	-6.6%
Depreciation and amortization	524,837	303,187	221,650	73.1%
Interest <sup>(5)</sup>	717,845	546,654	171,191	31.3%
Share-based payments	230,580	339,862	(109,282)	-32.2%
Loss from continued operations before income taxes	(540,974)	(191,247)	(349,727)	182.9%
Income tax expense - current	13,046	33,494	(20,448)	-61.0%
Income tax expense - deferred	42,495	41,776	719	1.7%
Loss from continued operations	(596,515)	(266,517)	(329,998)	123.8%
Loss from discontinued operations	\$ (2,579,502)	\$ (777,296)	\$ (1,802,206)	231.9%
Net loss	\$ (3,176,017)	\$ (1,043,813)	\$ (2,132,204)	204.3%
<b>Net loss from continued operations attributable to</b>				
Shareholders of the Company	\$ (596,515)	\$ (266,517)	\$ (329,998)	123.8%
NCI <sup>(3)</sup>	\$ -	\$ -	\$ -	0.0%
<b>Net loss from discontinued operations attributable to</b>				
Shareholders of the Company	\$ (2,621,616)	\$ (625,705)	\$ (1,995,911)	319.0%
Net loss attributable to NCI <sup>(3)</sup>	\$ 42,114	\$ (151,591)	\$ 193,705	-127.8%
<b>Loss per share from continued and discontinued operations</b>				
Basic from continued operations	\$ (0.02)	\$ (0.02)	\$ -	0.0%
Basic from discontinued operations	\$ (0.11)	\$ (0.04)	\$ (0.07)	175.0%
Diluted from continued operations	\$ (0.02)	\$ (0.02)	\$ -	0.0%
Diluted from discontinued operations	\$ (0.11)	\$ (0.04)	\$ (0.07)	175.0%
<b>EBITDA per share from continued operations</b>				
Basic	\$ 0.04	\$ 0.06		
Diluted	\$ 0.04	\$ 0.06		
<b>Weighted average shares outstanding</b>				
Basic	24,010,736	17,443,636		
Diluted	24,010,736	17,443,636		

(1) See page 38 for a further explanation of this non-IFRS measure.

(2) Represents earnings before interest, taxes, depreciation, amortization, impairment charges and share-based payments (See page 38 for a further explanation of this non-IFRS measure).

(3) Bri-Steel Manufacturing Inc. is a 70% owned subsidiary of Bri-Chem Corp. NCI represents the 30% non-controlling interest's ("NCI") portion of loss of the subsidiary for the three months ended June 30, 2014.

(4) The Company reclassified amounts in the Statement of Operations relating to discontinued operations, transaction costs of financial liabilities, sublease revenue and lease expense to categorize results of discontinued operations, interest expense and net sublease income consistently.

(5) Interest expense for the three months ended June 30, 2014 includes amortization of capitalized deferred financing cost of \$101,494 (June 30, 2013: \$59,092).

The following selected six-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarter End Report for the period ended June 30, 2014.

Consolidated statements of operations	For the six months ended June 30		Change	
	2014	2013 <sup>(4)</sup>	\$	%
Sales	\$ 81,133,207	\$ 61,816,983	\$ 19,316,224	31.2%
Gross margin	13,522,788	10,926,449	2,596,339	23.8%
	16.7%	17.7%		
Operating expenses <sup>(1)</sup>	8,636,481	6,088,892	2,547,589	41.8%
EBITDA <sup>(2)</sup>	4,886,307	4,837,557	48,750	1.0%
Depreciation and amortization	1,033,503	593,764	439,739	74.1%
Interest <sup>(5)</sup>	1,464,142	1,176,357	287,785	24.5%
Share-based payments	472,793	679,722	(206,929)	-30.4%
Earnings from continued operations before income taxes	1,915,869	2,387,714	(471,845)	-19.8%
Income tax expense - current	705,797	774,462	(68,665)	-8.9%
Income tax expense - deferred	85,386	83,643	1,743	2.1%
Earnings from continued operations	1,124,686	1,529,609	(404,923)	-26.5%
Loss from discontinued operations	\$ (12,268,345)	\$ (738,718)	\$ (11,529,627)	1560.8%
Net loss	\$ (11,143,659)	\$ 790,891	\$ (11,934,550)	-1509.0%
<b>Net earnings from continued operations attributable to</b>				
Shareholders of the Company	\$ 1,124,686	\$ 1,529,609	\$ (404,923)	-26.5%
NCI <sup>(3)</sup>	\$ -	\$ -	\$ -	0.0%
<b>Net loss from discontinued operations attributable to</b>				
Shareholders of the Company	\$ (9,427,346)	\$ (561,980)	\$ (8,865,366)	1577.5%
NCI <sup>(3)</sup>	\$ (2,840,999)	\$ (176,738)	\$ (2,664,261)	1507.5%
<b>(Loss) earnings per share from continued and discontinued operations</b>				
Basic from continued operations	\$ 0.05	\$ 0.09	\$ (0.04)	-43.0%
Basic from discontinued operations	\$ (0.39)	\$ (0.03)	\$ (0.36)	1111.2%
Diluted from continued operations	\$ 0.05	\$ 0.09	\$ (0.04)	-43.0%
Diluted from discontinued operations	\$ (0.39)	\$ (0.03)	\$ (0.36)	1113.2%
<b>EBITDA per share from continued operations</b>				
Basic	\$ 0.20	\$ 0.28		
Diluted	\$ 0.20	\$ 0.28		
<b>Weighted average shares outstanding</b>				
Basic	24,010,736	17,452,673		
Diluted	24,030,746	17,481,627		

(1) See page 38 for a further explanation of this non-IFRS measure.

(2) Represents earnings before interest, taxes, depreciation, amortization, impairment charges and share-based payments (See page 38 for a further explanation of this non-IFRS measure).

(3) Bri-Steel Manufacturing Inc. is a 70% owned subsidiary of Bri-Chem Corp. NCI represents the 30% non-controlling interest's ("NCI") portion of loss of the subsidiary for the three months ended June 30, 2014.

(4) The Company reclassified amounts in the Statement of Operations relating to discontinued operations, transaction costs of financial liabilities, sublease revenue and lease expense to categorize results of discontinued operations, interest expense and net sublease income consistently.

(5) Interest expense for the six months ended June 30, 2014 includes amortization of capitalized deferred financing cost of \$250,559 (June 30, 2013: \$138,843).

**RESULTS OF CONTINUED OPERATIONS**
**Sales**

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

Sales by Segment	For the three months ended June 30						\$	%
	2014		2013		Change			
Fluids Distribution - Canada	\$ 11,919,343	33.9%	\$ 7,622,595	37.6%	\$ 4,296,748	56.4%		
Fluids Distribution - USA	18,185,066	51.7%	10,323,809	50.9%	7,861,257	76.1%		
<b>Total Fluids Distribution</b>	<b>30,104,409</b>	<b>85.6%</b>	17,946,404	88.4%	12,158,005	67.7%		
Fluids Blending & Packaging - Canada <sup>(1) (2)</sup>	2,783,857	7.9%	2,345,020	11.6%	438,837	18.7%		
Fluids Blending & Packaging - USA <sup>(3)</sup>	2,297,722	6.5%	-	0.0%	2,297,722	100.0%		
<b>Total Fluids Blending &amp; Packaging</b>	<b>5,081,579</b>	<b>14.4%</b>	2,345,020	11.6%	2,736,559	116.7%		
<b>Total</b>	<b>\$ 35,185,988</b>	<b>100%</b>	\$ 20,291,424	100%	\$ 14,894,564	73.4%		

(1) Fluids blending and packaging division sells products to the fluids distribution division, which in turn sells it to the end user. In Q2 2014 the three months sales to the fluids distribution division were an additional \$1,138,624 (2013 - \$963,139). This revenue has been eliminated upon consolidation.

(2) In July 2013, the fluids blending & Packaging division started selling certain products directly to end users. Q2 2013 sales were reclassified for presentation purposes.

(3) Includes sales resulting from the acquisition of Sun Coast which was effective September 6, 2013.

Sales by Segment	For the six months ended June 30						\$	%
	2014		2013		Change			
Fluids Distribution - Canada	\$ 38,214,124	47.1%	\$ 36,405,324	58.9%	\$ 1,808,800	5.0%		
Fluids Distribution - USA	30,686,122	37.8%	18,066,409	29.2%	12,619,713	69.9%		
<b>Total Fluids Distribution</b>	<b>68,900,246</b>	<b>84.9%</b>	54,471,733	88.1%	14,428,513	26.5%		
Fluids Blending & Packaging - Canada <sup>(1) (2)</sup>	8,293,495	10.2%	7,345,250	11.9%	948,245	12.9%		
Fluids Blending & Packaging - USA <sup>(3)</sup>	3,939,466	4.9%	-	0.0%	3,939,466	100.0%		
<b>Total Fluids Blending &amp; Packaging</b>	<b>12,232,961</b>	<b>15.1%</b>	7,345,250	11.9%	4,887,711	66.5%		
<b>Total</b>	<b>\$ 81,133,207</b>	<b>100%</b>	\$ 61,816,983	100%	\$ 19,316,224	31.2%		

(1) Fluids blending and packaging division sells products to the fluids distribution division, which in turn sells it to the end user. The six month sales to the fluids distribution division were an additional \$3,838,697 (2013 - \$4,562,162). This revenue has been eliminated upon consolidation.

(2) In July 2013, the fluids blending & Packaging division started selling certain products directly to end users. The 2013 six month sales were reclassified for presentation purposes.

(3) Includes sales resulting from the acquisition of Sun Coast which was effective September 6, 2013.



#### **North American Drilling Fluids Distribution Divisions**

The Company's North American drilling fluids distribution divisions recorded combined sales of \$30,104,409 and \$68,900,246 for the three and six months ended June 30, 2014 compared to sales of \$17,946,404 and \$54,471,733 in 2013, representing an increase of 67.7% quarter over quarter and 26.5% year over year. The Canadian fluids distribution divisions' sales increased by 56.4% and 5.0% for the three and six month periods, while the USA fluids distribution division experienced sales growth of 76.1% and 69.9% over the same comparable periods in 2013.

#### *Canadian Drilling Fluids Distribution Division*

Bri-Chem's Canadian drilling fluids distribution division generated sales of \$11,919,343 for the three months ended June 30, 2014, compared to sales of \$7,622,595 over the same comparable period in 2013. The increase in sales was due to the increase in drilling activity during the second quarter of 2014 in Western Canada. The number of wells drilled in Q2 2014 in Western Canada was 1,460, compared to the 1,167 wells drilled in Q2 2013, representing an increase of 25.1% quarter over quarter. Drilling rig utilization rates averaged 24.7% in Q2 2014 compared to 18.4% in Q2 2013, an increase of 6.2%. Year to date rig utilization has increased 4.8% compared to the first half of 2013. These increases largely have to do with the dry spring break up and increased natural gas drilling, which resulted in higher demand for fluids products.

The Alberta market experienced an increase in sales of 37.8% for the three months ended June 30, 2014, while the number of wells drilled increased by 13.6% in the region. The increase in sales in the Alberta region was due to an increase in industry activity and improved weather conditions compared to Q2 2013. The Saskatchewan market experienced a growth in revenue of 66.8% for the three months period ended June 30, 2014. The increase in sales for Q2 2014 in this region was due to higher industry activity levels and better spring break-up weather conditions compared to the same quarter in 2013. The number of wells drilled for three months ended June 30, 2014 increased by 59.9% compared to the same 2013 period. British Columbia has seen an increase in sales of more than 378.7% for the three months ended June 30, 2014. This increase is due to higher rig activities, including natural gas drilling, in Q2 2014. The British Columbia region experienced growth of 48.9% in the number of wells drilled during the second quarter of 2014 compared to same period in 2013, which resulted in obtaining more work by our independent drilling fluid engineering customers in this area.

## Summary of the number wells drilled:

Area	Rig Count in Q2 2014	Rig Count in Q2 2013	Change in %	Rig Count YTD 2014	Rig Count YTD 2013	Change in %
Alberta	971	855	13.6%	3,106	3,235	(4.0%)
British Columbia	134	90	48.9%	348	257	35.4%
Saskatchewan	355	222	59.9%	1,399	1,215	15.1%
Western Canada <sup>1</sup>	1,460	1,167	25.1%	4,853	4,707	3.1%

(1) Total Western Canada excludes Manitoba

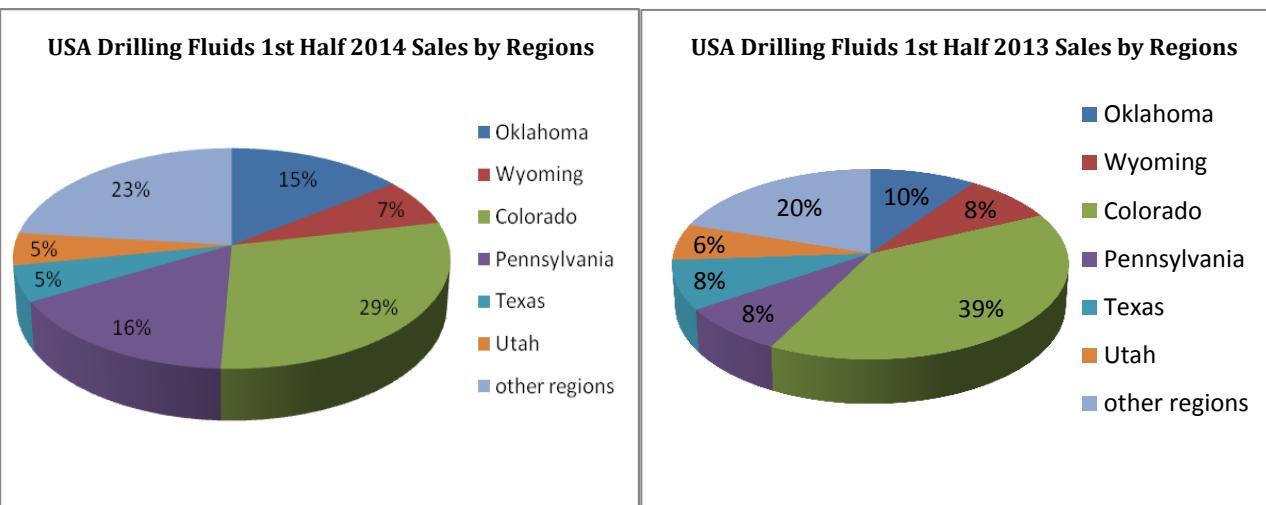
(2) Source - PSAC

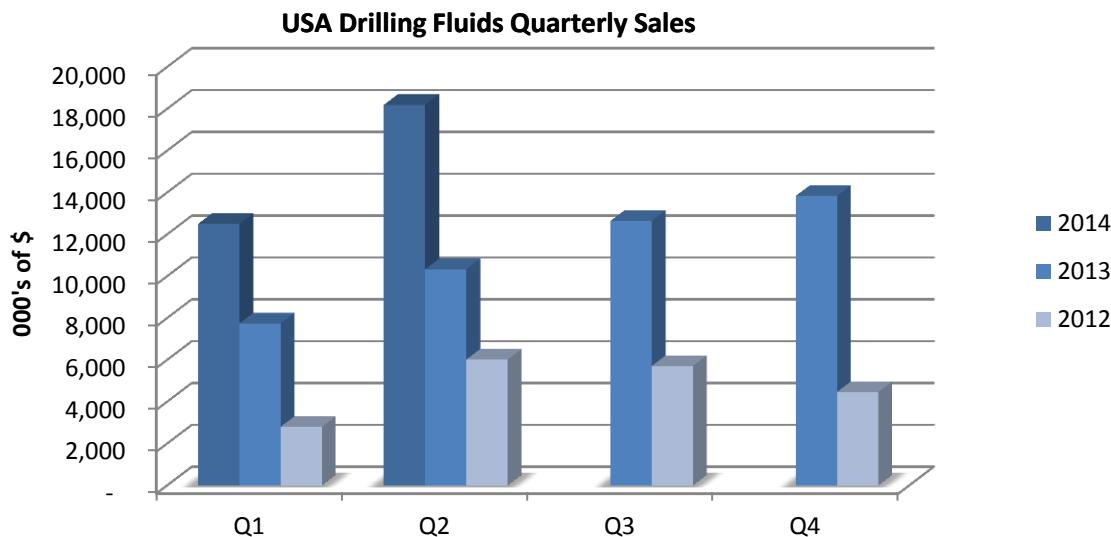
## Summary of wells drilled in meters:

Area	Rig Count in Q2 2014	Rig Count in Q2 2013	Change in %	Rig Count YTD 2014	Rig Count YTD 2013	Change in %
Alberta	2,396,489	1,758,319	36.3%	7,256,783	6,452,856	12.5%
British Columbia	545,012	399,917	36.3%	1,325,497	978,079	35.5%
Saskatchewan	560,464	444,429	26.1%	2,384,467	2,101,222	13.5%
Western Canada <sup>1</sup>	3,501,965	2,602,665	32.5%	20,496,607	9,532,157	12.3%

(1) Total Western Canada excludes Manitoba

(2) Source - PSAC

*United States Drilling Fluids Distribution Division*




Bri-Chem's United States fluids distribution division generated sales of \$18,185,066 and \$30,686,122 for the three and six month periods ended June 30, 2014, compared to revenues of \$10,323,809 and \$18,066,409 in the same comparable periods of 2013, representing an increase of \$7,861,257 or 76.1% quarter over quarter, while increasing 69.9% year over year. The USA fluids distribution division has continued to see sales growth throughout Q2 2014 as a result of an increased customer base, industry activity, range of product, and customer's business and geographic expansion throughout the major resource plays in the USA. In the USA, the average number of active rigs running during the second quarter was 1,852, an increase of 5.2% quarter over quarter. The division has built a solid infrastructure with personnel and inventory to service the expanding needs of our customers. Colorado, Pennsylvania, Oklahoma, Wyoming and Texas generated the majority of sales in the USA for the three months ended June 30, 2014. At June 30, 2014 Bri-Chem had 17 operating warehouses, compared to 14 warehouses at June 30, 2013. The Company remains focused on expanding its product offerings 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***

##### ***Canadian Fluids Blending and Packaging Division***

For the second quarter of 2014, sales were \$2,783,857 compared to \$2,345,020 in 2013 representing an 18.7% increase quarter over quarter. This increase is due to increased industry activity and better weather conditions in Q2 2014 and the division expanding its capacity and introducing new products and receiving more blending and packaging orders from customers within Western Canada. In particular the regions of British Columbia and Saskatchewan continue to contribute to the majority of sales growth for the first half of 2014, as existing and new customers started using more blended products in these regions.

##### ***United States Fluids Blending and Packaging Division***

On September 6, 2013, the Company acquired certain assets and business operations of Sun Coast Materials LLC., a California based packager and specialty cement blender to oil well contractors operating in southern and central California. Sun Coast is expected to further expand Bri-Chem's product offerings into the USA market and provide a solid growth platform to offer cementing products and blending services throughout the USA. Sun Coast's business currently has no geographic overlap with Bri-Chem and they have built a strong

market position with many long term customers. Sales were \$2,297,722 and \$3,939,466 for the three and six month periods ended June 30, 2014.

### Gross margin

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

Gross Margin	For the three months ended June 30					
	2014	2013	Change			
	\$	% *	\$	% *	\$	%
Fluids Distribution - Canada	\$ 1,420,687	11.9%	\$ 976,191	12.8%	\$ 444,496	45.5%
Fluids Distribution - USA	3,200,952	17.6%	2,368,341	22.9%	832,611	35.2%
<b>Total Fluids Distribution</b>	<b>4,621,639</b>	<b>15.4%</b>	<b>3,344,532</b>	<b>18.6%</b>	<b>1,277,107</b>	<b>38.2%</b>
Fluids Blending & Packaging - Canada	472,699	17.0%	475,303	20.3%	(2,604)	(0.5%)
Fluids Blending & Packaging - USA	960,216	41.8%	-	0.0%	960,216	100.0%
<b>Total Fluids Blending &amp; Packaging</b>	<b>1,432,915</b>	<b>28.2%</b>	<b>475,303</b>	<b>20.3%</b>	<b>957,612</b>	<b>201.5%</b>
<b>Total</b>	<b>\$ 6,054,554</b>	<b>17.2%</b>	<b>\$ 3,819,835</b>	<b>18.8%</b>	<b>\$ 2,234,719</b>	<b>58.5%</b>

\* As a percentage of divisional revenues

Gross Margin	For the six months ended June 30					
	2014	2013	Change			
	\$	% *	\$	% *	\$	%
Fluids Distribution - Canada	\$ 4,817,161	12.6%	\$ 5,297,002	14.6%	\$ (479,841)	(9.1%)
Fluids Distribution - USA	5,638,332	18.4%	4,158,310	23.1%	1,480,022	35.6%
<b>Total Fluids Distribution</b>	<b>10,455,493</b>	<b>15.2%</b>	<b>9,455,312</b>	<b>17.4%</b>	<b>1,000,181</b>	<b>10.6%</b>
Fluids Blending & Packaging - Canada	1,445,390	17.4%	1,471,137	20.0%	(25,747)	(1.8%)
Fluids Blending & Packaging - USA	1,621,905	41.2%	-	0.0%	1,621,905	100.0%
<b>Total Fluids Blending &amp; Packaging</b>	<b>3,067,295</b>	<b>25.1%</b>	<b>1,471,137</b>	<b>20.0%</b>	<b>1,596,158</b>	<b>108.5%</b>
<b>Total</b>	<b>\$ 13,522,788</b>	<b>16.7%</b>	<b>\$ 10,926,449</b>	<b>17.7%</b>	<b>\$ 2,596,339</b>	<b>23.8%</b>

\* As a percentage of divisional revenues

### Fluids Distribution and Blending & Packaging Divisions

The drilling fluids distribution division margins declined by 3.2% for the three months ended June 30, 2014 compared to the same period in 2013. Margins on fluid sales vary based on product mix and drilling formations. Canadian fluid distribution margins averaged 11.9% for the three months period ended June 30, 2014, lower by approximately 1% than the same comparable period of 2013. The decrease is due to increased pricing pressure in the market, aggressive reduction of slow and obsolete inventory and a higher volume of lower margin commodity products being sold during the Q2 2014. In addition, a weaker Canadian dollar over the past couple of quarters has led to increased prices of imported goods that increased cost of sales in Q2 2014. The USA fluids distribution margins are traditionally higher than those of the Canadian operations, and were 17.6% for the three months ended June 30, 2014; a decrease of 5.3% compared the same period in 2013. The decrease is related to a larger volume of lower margin commodity products being sold during the second quarter of 2014. In the short to medium term, margins are anticipated to remain consistent in the fluids distribution division, however a change in product mix could impact margins.

Average gross margin as a percentage of fluid blending and packaging sales was 17.0% for the three month period ended June 30, 2014 as compared to 20.3% in the same 2013 period. 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 tends to have higher margins for this value-added service. With the weakened Canadian dollar in 2014, the gross margin of Canadian fluids blending and packaging division for the three months ended June 30, 2014 decreased by 3.3% compared to the same prior year period. Sun Coast, the United States blending and packaging division, generated gross margins of 41.8% for the three months ended June 30, 2014.

### **Gross margins – outlook**

For the third quarter of 2014, we are anticipating gross margins on fluid sales to be consistent with those experienced in the second quarter of 2014. 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.

### **Operating expenses**

#### **Salaries and employee benefits**

Salaries and employee benefits	For the three months ended June 30		Change	
	2014	2013	\$	%
<b>Salaries and benefits</b>	\$ 2,883,934	\$ 2,073,068	\$ 810,866	39.1%
% of sales	8.2%	10.2%		(2.0%)

Salaries and employee benefits	For the six months ended June 30		Change	
	2014	2013	\$	%
<b>Salaries and benefits</b>	\$ 5,586,424	\$ 4,478,427	\$ 1,107,997	24.7%
% of sales	6.9%	7.2%		(0.4%)

Salaries and benefits have increased by \$810,866 for the three months ended June 30, 2014 compared to the same period in 2013, while increasing by \$1,107,997 or 24.7% for six months ended June 30, 2014 compared to the same period in 2013. Salaries and benefits as percentage of sales for three and six months reduced to 8.2% and 6.9%, respectively, compared to 10.2% and 7.2% in the same 2013 periods. The headcount, excluding Sun Coast, increased by 31.8% and 19.7% during three and six months ended June 2014, while salaries and benefits, excluding Sun Coast increased by 26.2% and 12.5% respectively. Salaries for the three month and six month periods ended June 30, 2014 include \$267,593 and \$548,511 of wages and benefits related to the Sun Coast acquisition. Salaries and benefits during the quarter increased due to the hiring of a global procurement manager, warehouse supervisor, distribution manager in the Canadian fluids distribution division in mid 2013 as well as sales staff, two additional accounting personnel in late 2013 in the USA fluids distribution division, three operational personnel during Q2 2014 in the USA fluids blending & packaging division and a production operator in the Canadian fluids blending & packaging division in order to keep up with sales growth. As a result of the overall increase in personnel, benefits increased by \$64,502 and \$258,361 for the quarter and six months ended June 30, 2014, respectively. In addition, sales commissions increased by \$110,639 during three months and by \$180,906 during six months ended June 30 2014 as a result of fluids sales growth in the USA. These increases were partially offset by decline of \$109,282 in share-based payments during the Q2 2014.

The Company employed 112 (51 Canada and 61 USA) employees at June 30, 2014 compared to 76 (51 Canada and 25 USA) at June 30, 2013.

The Company expects salaries and employee benefits to remain consistent in 2014 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

<b>Selling, general and administration</b>	<b>For the three months ended June 30</b>			
	<b>2014</b>	<b>%*</b>	<b>2013</b>	<b>%*</b>
Selling	\$ 308,059	0.9%	\$ 270,185	1.3%
Professional and consulting	329,912	0.9%	200,534	1.0%
General and administration	501,816	1.4%	312,139	1.5%
Rent, utilities and occupancy costs	732,231	2.1%	447,951	2.2%
Foreign exchange (gain) loss	596,894	1.7%	(142,636)	(0.7%)
Total	\$ 2,468,912	7.0%	\$ 1,088,173	5.4%

\* As a percentage of consolidated revenues

<b>Selling, general and administration</b>	<b>For the six months ended June 30</b>			
	<b>2014</b>	<b>%*</b>	<b>2013</b>	<b>%*</b>
Selling	\$ 515,837	0.6%	\$ 415,848	0.7%
Professional and consulting	426,032	0.5%	407,299	0.7%
General and administration	1,003,414	1.2%	624,791	1.0%
Rent, utilities and occupancy costs	1,383,057	1.7%	833,276	1.3%
Foreign exchange (gain) loss	194,510	0.2%	8,973	0.0%
Total	\$ 3,522,850	4.3%	\$ 2,290,187	3.7%

\* As a percentage of consolidated revenues

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

Selling expenses increased by \$37,874 during the three months ended June 30, 2014 compared to the same period in 2013, while selling expenses for the six month period ended June 30, 2014 increased by \$99,989 compared to the same period in 2013. The increase in selling expenses for three and six month periods ended June 30, 2014 includes an increase of \$19,974 in public company costs related to investor relation activities, an increase of 13,883 and \$73,614 auto expenses, and an increase of \$8,696 and \$52,612 in advertising and promotional costs relating to sales efforts in both Canadian and USA fluids divisions. These increases were partially offset by a decrease in travel and accommodation costs. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses increased by \$129,378 during the three months ended June 30, 2014 compared to the same period in 2013, while professional and consulting expenses were relatively consistent for the six month period ended June 30, 2014 compared to the same period in 2013. The increase in professional and consulting expenses for three months ended June 30, 2014 includes an increase of \$120,522 in legal fees in USA fluids divisions related to the finalization of the Sun Coast acquisition. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses for the three month and six month periods ended June 30, 2014 increased by \$189,677 and \$378,623 compared to the same period in 2013. This increase of general and administration expenses for the second quarter and six months ended June 30, 2014 was due to higher bad debt expense of \$99,463, increased safety costs of \$53,135 and \$94,792, and office expenses of \$67,133 and \$105,009. The increase in safety costs relates to security expenses on the property the Company purchased for the USA fluids blending & packaging division late 2013. These fees will reduce once we occupy the

warehouse in third quarter. All other expenses remained relatively consistent from the comparable prior year quarter. General and administration expenses include bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy costs increased by \$284,280 for the second quarter ended June 30, 2014 and by \$549,781 for the six months ended June 30, 2014 compared to the same prior year periods. The increase for the three months ended June 30, 2014 relates to infrastructure costs including warehouse rent as a result of continued geographic expansion in the USA. At June 30, 2014 Bri-Chem had 33 warehouses in total compared to 30 at June 30, 2013. The costs in this category are comprised mainly of rent, utilities, and warehouse expenses for the Edmonton, Leduc, Camrose, Acheson and USA locations as well as liquid storage tank rentals.

During the second quarter of 2014, the Canadian dollar increased its value in relation to the US dollar, but remained lower than the US dollar at June 30, 2014. This increase in the Canadian dollar exchange rate caused the Company to have an unfavorable position on certain net advances denominated in USD, which resulted in having a foreign exchange loss of \$596,894 for the three month period ended June 30, 2014.

#### **Depreciation and amortization**

<b>Depreciation and amortization</b>	<b>For the three months ended June 30</b>		<b>Change</b>	
	<b>2014</b>	<b>2013</b>	<b>\$</b>	<b>%</b>
Property and equipment	\$ <b>212,489</b>	\$ 125,563	\$ 86,926	69.2%
Intangible assets	\$ <b>312,348</b>	\$ 177,624	\$ 134,724	75.8%
Total	\$ <b>524,837</b>	\$ 303,187	\$ 221,650	73.1%
<b>Depreciation and amortization</b>	<b>For the three months ended June 30</b>		<b>Change</b>	
	<b>2014</b>	<b>2013</b>	<b>\$</b>	<b>%</b>
Property and equipment	\$ <b>407,060</b>	\$ 238,215	\$ 168,845	70.9%
Intangible assets	\$ <b>626,443</b>	\$ 355,549	\$ 270,894	76.2%
Total	\$ <b>1,033,503</b>	\$ 593,764	\$ 439,739	74.1%

The depreciation of property and equipment increased during the three month period ended June 30, 2014 as a result of capital expenditures completed in Q2 2014 and depreciation taken on certain assets, including the building purchased late 2013 for the USA fluids division, which had been put into use throughout 2013 and the first half of 2014. Amortization of intangible assets has increased due to acquired intangible assets such as customer relationships and brands from the acquisition that occurred in the third quarter of 2013.

**Interest**

Interest	For the three months ended June 30			Change	
	2014	2013		\$	%
Interest on short-term operating debt	\$ 406,802	\$ 225,635	\$ 181,167	80.3%	
Interest on long-term debt	\$ 310,156	\$ 320,117	\$ (9,961)	(3.1%)	
Interest on obligations under finance lease	\$ 887	\$ 902	\$ (15)	(1.7%)	
Total interest expense	\$ 717,845	\$ 546,654	\$ 171,191	31.3%	
Deduct non-cash interest expense:					
Amortization of capitalized deferred financing costs	\$ 101,494	\$ 59,092	\$ 42,402	71.8%	
Cash interest expense <sup>(1)</sup>	\$ 616,351	\$ 487,562	\$ 128,789	26.4%	

(1) See page 38 for a further explanation of this non-IFRS measure.

Interest	For the six months ended June 30			Change	
	2014	2013		\$	%
Interest on short-term operating debt	\$ 836,554	\$ 536,990	\$ 299,564	55.8%	
Interest on long-term debt	\$ 625,815	\$ 637,594	\$ (11,779)	(1.8%)	
Interest on obligations under finance lease	\$ 1,773	\$ 1,773	\$ -	0.0%	
Total interest expense	\$ 1,464,142	\$ 1,176,357	\$ 287,785	24.5%	
Deduct non-cash interest expense:					
Amortization of capitalized deferred financing costs	\$ 250,559	\$ 138,843	\$ 111,716	80.5%	
Cash interest expense <sup>(1)</sup>	\$ 1,213,583	\$ 1,037,514	\$ 176,069	17.0%	

(1) See page 38 for a further explanation of this non-IFRS measure.

Interest on short-term operating debt increased by \$181,167 and \$299,564 for the three and six months ended June 30, 2014, respectively. The short term interest expense for the second quarter of 2014 was higher than in the same 2013 period as the Company maintained a higher credit facility balance over the recent quarters due to the increased operations in both Canada and the USA.

Interest on long-term debt and interest on obligation under finance lease for the three month and six month periods ended June 30, 2014 were relatively consistent compared to the same periods in 2013.

**Income taxes**

The provision for income taxes for the three and six months ended June 30, 2014 is a net current tax expense of \$13,046 and \$705,797, and is relatively consistent compared to an expense of \$33,494 and \$774,462 in the same periods in 2013. The Company's effective tax rate is 36.9% for the six months ended June 30, 2014 (32.4% - June 30, 2013). The Company had a deferred tax expense of \$42,495 during Q2 2014 and \$85,386 during the six months ended June 2014, which is relatively consistent to the same periods in 2013.

**Net (loss) earnings and earnings (loss) per share from continued operations**

Net (loss) earnings and EDITDA	For the three months ended June 30		Change	
	<u>2014</u>	<u>2013</u>	\$	%
Net (loss) earnings	\$ <b>(596,515)</b>	\$ (266,517)	\$ (329,998)	123.8%
% of sales	<b>(1.7%)</b>	(1.3%)		
EBITDA <sup>(1)</sup>	\$ <b>932,288</b>	\$ 998,456	\$ (66,168)	(6.6%)
% of sales	<b>2.6%</b>	4.9%		

Net (loss) earnings and EDITDA	For the six months ended June 30		Change	
	<u>2014</u>	<u>2013</u>	\$	%
Net (loss) earnings	\$ <b>1,124,686</b>	\$ 1,529,609	\$ (404,923)	(26.5%)
% of sales	<b>1.4%</b>	2.5%		
EBITDA <sup>(1)</sup>	\$ <b>4,886,307</b>	\$ 4,837,557	\$ 48,750	1.0%
% of sales	<b>6.0%</b>	7.8%		

(1) Represents adjusted earnings before interest, taxes, depreciation, amortization, and share-based payments (see page 38 for a further explanation of this non-IFRS measure).

The Company had a net loss for the quarter ended June 30, 2014 of \$596,515 compared to a net loss of \$266,517 in the prior year, while the Company had net earnings of \$1,124,686 for the six months ended June 30, 2014, which is lower by \$404,923 than net earnings in the same 2013 period. The second quarter net loss as a percentage of revenues for the period was 1.7% compared to 1.3% from the prior year quarter. The net loss increased for the quarter ended June 30, 2014 due to the decline in gross margin as percentage of consolidated sales to 17.2%, an increase of depreciation and amortization by \$221,650, an increase of interest expense by \$171,191. These increases were partially offset by the decline of share-based payments and income tax expense.

EBITDA was \$932,288 and \$4,886,307 for the three and six month periods ended June 30, 2014 compared to \$998,456 and \$4,837,557 in the same comparable prior periods; a decrease of \$66,168 quarter over quarter. EBITDA decreased for the three months ended June 30, 2014 despite gross margin dollar increase of \$2.2 million which was offset by increased operating expense of \$2.3 million.

Basic and diluted (loss)/earnings per share for the three and six month periods ended June 30, 2014 were (\$0.02) and \$0.05, respectively. The (loss)/earnings per share were based on the weighted average number of shares outstanding during the three months ended June 30, 2014. The basic and diluted weighted average numbers of shares outstanding for the quarters ended June 30, 2014 and June 30, 2013 were 24,010,736 and 17,443,636 respectively. The increase of 6.6 million shares issued was as a result of an equity financing completed on December 20, 2013.

### Discontinued operations

As a result of a strategic review, announced late 2013, and the follow-up Q1 2014 announcement where the Company disclosed its intention to sell its steel pipe divisional assets and ongoing steel pipe business operations, the Company, effective July 15, 2014, completed the sale of its Steel Pipe Manufacturing division assets and Steel Pipe Distribution division assets and all ongoing business operations to a USA based steel company for total proceeds of \$18 million. The net proceeds from the sale were used to reduce amounts outstanding under the Company's secured ABL credit facility. The Company will not retain any steel pipe assets or conduct any further steel pipe business operations going forward. In addition, the sale of the Steel Pipe Manufacturing division and Steel Pipe Distribution division reduced the Company's exposure to exchange rate risks and is no longer subject to the government trade tariffs risk related to the imported steel pipe products. The Company has reclassified the associated assets and liabilities of these businesses to assets and liabilities held for sale and the operations are reflected as discontinued operations for all periods presented. During the six months ended June 2014 the Company recorded impairment and re-measurement expenses of \$15,434,501 to reflect the net assets at their estimated selling prices, less costs to sell, which is recorded in expenses and loss recognized on the re-measurement of the disposal group. Loss from discontinued operations was \$2,579,502 and \$12,268,345 for the three and six month periods ended June 30, 2014 respectively (\$777,296 and \$738,718 for the three and six month periods ended June 2013). The following table summarizes the loss from discontinued operations as of the dates indicated:

	(three months ended)		(six months ended)	
	June 30	June 30	June 30	June 30
	2014	2013	2014	2013
Sales	\$ 7,521,550	\$ 7,669,804	\$ 14,428,592	\$ 15,530,435
Cost of sales	5,148,176	7,166,409	11,796,908	13,759,178
Expenses	2,263,493	1,555,321	14,709,768	2,746,458
Earnings (loss) before tax of discontinued operations	109,881	(1,051,926)	(12,078,084)	(975,201)
Income tax recovery	(562,802)	(274,630)	(3,061,924)	(236,483)
<b>After tax earnings (loss) of discontinued operations before re-measurement</b>	<b>672,683</b>	<b>(777,296)</b>	<b>(9,016,160)</b>	<b>(738,718)</b>
Pre tax loss recognized on the re-measurement of disposal group	4,336,245	—	4,336,245	—
Income tax recovery	(1,084,060)	—	(1,084,060)	—
After tax loss recognized on the re-measurement of assets of disposal group	3,252,185	—	3,252,185	—
<b>Net loss for the period from discontinued operations</b>	<b>\$ 2,579,502</b>	<b>\$ 777,296</b>	<b>\$ 12,268,345</b>	<b>\$ 738,718</b>

**SUMMARY OF QUARTERLY DATA**

(in thousands of Cdn \$)	2014 Q2	2014 Q1	2013 Q4	2013 Q3	Total TTM
Sales	\$ 35,186	\$ 45,947	\$ 44,899	\$ 43,324	\$ 169,356
Gross margin (\$)	6,055	7,468	7,642	8,075	29,240
Gross margin (%)	17.2%	16.3%	17.0%	18.6%	17.3%
EBITDA <sup>(1)</sup>	932	3,954	3,687	4,239	12,812
Net (loss) earnings from continued operations <sup>(2)(3)</sup>	\$ (597)	\$ 1,721	\$ (128)	\$ 2,386	3,382
Net (loss) earnings from discontinued operations <sup>(2)(3)</sup>	(2,580)	(9,689)	(2,074)	(1,308)	(15,651)
Basic (loss) earnings per share from continued operations	\$ (0.02)	\$ 0.07	\$ (0.01)	\$ 0.14	\$ 0.18
Diluted (loss) earnings per share from continued operations	\$ (0.02)	\$ 0.07	\$ (0.01)	\$ 0.14	\$ 0.18
Basic (loss) earnings per share from discontinued operations	\$ (0.11)	\$ (0.28)	\$ (0.11)	\$ (0.08)	\$ (0.58)
Diluted (loss) earnings per share from discontinued operations	\$ (0.11)	\$ (0.28)	\$ (0.11)	\$ (0.08)	\$ (0.58)
(in thousands of Cdn \$)	2013 Q2	2013 Q1	2012 Q4	2012 Q3	Total TTM
Sales	\$ 20,291	\$ 41,526	\$ 29,459	\$ 28,204	\$ 119,480
Gross margin (\$)	3,820	7,107	4,695	5,027	20,649
Gross margin (%)	18.8%	17.1%	15.9%	17.8%	17.3%
EBITDA <sup>(1)</sup>	998	3,500	2,564	3,082	10,144
Net (loss) earnings from continued operations <sup>(2)</sup>	\$ (267)	\$ 1,796	\$ (892)	\$ 2,488	3,125
Net (loss) earnings from discontinued operations <sup>(2)</sup>	(777)	38	2,222	(1,049)	434
Basic (loss) earnings per share from continued operations	\$ (0.02)	\$ 0.10	\$ (0.05)	\$ 0.14	\$ 0.17
Diluted (loss) earnings per share from continued operations	\$ (0.02)	\$ 0.10	\$ (0.05)	\$ 0.14	\$ 0.17
Basic (loss) earnings per share from discontinued operations	\$ (0.03)	\$ -	\$ 0.13	\$ (0.06)	\$ 0.04
Diluted (loss) earnings per share from discontinued operations	\$ (0.03)	\$ -	\$ 0.13	\$ (0.06)	\$ 0.04

(1) EBITDA in non-IFRS measures which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. (See page 38 for a further explanation of these non-IFRS measures).

(2) Subsequent to Q2, 2014, the Company completed the sale of its Steel Pipe Manufacturing division assets and Steel Pipe Distribution division assets and all ongoing business operations. The Company reclassified the associated assets and liabilities of these businesses to assets and liabilities held for sale and the operations are reflected as discontinued operations for all periods presented. The Company recognized the impairment expenses of \$4,336,245 and \$15,434,501 for three and six months ended June 2014 to reflect net assets at their estimated fair value, less costs to sell.

(3) In Q4, 2013 the Company recognized impairment charges related to the steel pipe distribution division inventory, bad debts and other items in the amount of \$3,194,759, which is presented within discontinued operations.

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up during Q2 has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern WCSB are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

### FINANCIAL CONDITION & LIQUIDITY – CONTINUED OPERATIONS

Summary Balance Sheet As at	June 30 2014	December 31 2013 <sup>1</sup>
Current assets	\$ 84,432,539	\$ 94,896,686
Assets held for sale	21,981,221	38,365,392
Property and equipment	9,044,291	8,060,949
Other assets	14,964,938	11,888,633
<b>TOTAL ASSETS</b>	<b>\$ 130,422,989</b>	\$ 153,211,660
Current liabilities	\$ 69,424,460	\$ 77,033,639
Liabilities held for sale	3,151,597	7,178,073
Non-current liabilities	8,409,514	8,822,082
<b>TOTAL LIABILITIES</b>	<b>80,985,571</b>	93,033,794
Share capital	33,647,907	33,647,907
Non-controlling interest	(915,981)	1,925,018
Retained earnings and contributed surplus	16,705,492	24,604,941
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>49,437,418</b>	60,177,866
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 130,422,989</b>	\$ 153,211,660

(1) The 2013 comparative numbers have been reclassified to reflect assets and liabilities held for sale

Financial Ratios	June 30 2014	December 31 2013 <sup>1</sup>
Working capital ratio	1.22	1.23
Days sales in receivables	90.9	126.4
Inventory turns	2.3	1.5
Days purchases in payables	58.9	73.4

(1) The 2013 comparative numbers have been reclassified to reflect assets and liabilities held for sale

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

As at June 30, 2014 the Company had positive working capital of \$15,008,079 compared to \$17,863,047 at December 31, 2013. The Company's current ratio (defined as current assets divided by current liabilities) was 1.22 to 1 as at June 30, 2014, compared to 1.23 to 1 as at December 31, 2013.

As at June 30, 2014, the Company had drawn \$50,750,624 net of unamortized transaction costs of \$290,120, on its available credit facilities of \$90,000,000, as compared to \$53,495,254 at December 31, 2013. Financial covenants under the Company's Asset Based Lending (ABL) Facility include the fixed charge coverage ratio and eligible capital expenditures. As at June 30, 2014, the Company was in compliance with its financial covenants.

The June 30, 2014 days sales in receivables are 90.9, lower than the ratio from December 31, 2013 of 126.4. 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. US companies usually pay their suppliers quicker than in Canada and as a result of the increased revenue in the US fluids divisions, both the days in sales and the days purchases in payables ratios decreased during the three months ended June 30, 2014. The decrease in the days' purchases in payables at June 30, 2014 compared to December 31, 2013 is also a result of the Company's ABL Facility management closely linking the inflow of cash receipts to the outflow of cash to vendors, and to the increased operating activity of the Company in the USA.

As at June 30, 2014, accounts receivable was \$29,187,883 a decrease of \$11,696,217 or -28.6% from the December 31, 2013 balance of \$40,884,100. The decrease is the result of the increased collection of trade receivables of \$14,647,642 in both the Canadian fluids distribution and packaging divisions during the Q2 2014. This decline was partially offset by the increase of accounts receivable in the USA fluids distribution division of \$2,700,360 as a result of revenue increase. Management is confident that there are no major concerns with the carrying amounts of accounts receivable as at June 30, 2014.

Inventory balance as at June 30, 2014 stayed relatively consistent compared to the 2013 fourth quarter end balance. Inventory turns increased to 2.3 at June 30, 2014 compared to 1.5 as at December 31, 2013. The increase in inventory turnover relates to the increased sales of fluid products during the three months ended June 30, 2014.

The Company's prepaid expenses and deposits have increased by \$545,374 to \$1,623,511 at June 30, 2014 as compared to the December 31, 2013 balance of \$1,078,137. The growth was due to the increase of deposits being made in the USA fluids division on certain capital assets purchases.

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 \$16,323,594 under its existing ABL facility. The Company is able to meet the long-term payment obligations of its outstanding loans. The Company continues to assess its requirements for capital on an on-going basis. Based on current budgeted operating expenditures for 2014, the Company will have sufficient funds to meet its obligations.

Summary of Consolidated Statements of Cash Flows	June 30	June 30
Period ended	2014	2013
<b>Continued operations</b>		
Cash provided by operating activities	\$ 11,174,689	\$ 14,267,422
Cash used in financing activities	(9,808,326)	(14,221,062)
Cash used in investing activities	(1,406,484)	(643,531)
<b>Net cash provided by discontinued operations</b>	<b>40,121</b>	<b>597,171</b>
Net increase in cash and cash equivalents	\$ -	\$ -
Cash and cash equivalents, beginning of the period	-	-
Cash and cash equivalents, end of the period	\$ -	\$ -

### Cash flow provided by operating activities in continued operations

Cash provided by operating activities for the six month period ended June 30, 2014 was \$11,174,689 compared to cash provided of \$14,267,422 for the same period in 2013. The decrease in Company's cash flow provided by operating activities relates to the decrease of accounts payable and accrued liabilities and income tax payable balances by approximately \$3.6 million during the six months ended June 30, 2014. This decrease was partially offset by the decrease of accounts receivable and prepaid expenses. The decrease in accounts receivable is the result of the increased collection of trade receivables in both the Canadian fluids distribution and packaging divisions during the second quarter of 2014. The Company intends to continue to manage its inventory levels and spending in order to conserve its balance sheet strength and minimize any increase in debt levels.

### Cash flow provided by financing activities

Cash used in financing activities was \$9,808,326 for the six months ended June 30, 2014, compared to cash used of \$14,221,062 in the comparable 2013 period. The cash used in financing activities in first half of 2014 relates to repayments of ABL Facility of \$7.7 million, long term debt of \$0.7 million and interest on borrowed funds of \$1.3 million. The repayment on the operating line was due to the increased collection of trade receivables experienced during the Q2 2014. In addition, the Company fully repaid the promissory note payable of \$260,312 related to acquisition of General Supply Company.

### Cash flow used in investing activities

Cash used in investing activities amounted to \$1,406,484 for the six months ended June 30, 2014 compared to \$643,531 in the same period of 2013. This increase is due to the more capital asset additions related to the USA fluids divisions. Forecasted capital expenditures for the remainder of 2014 are approximately \$3,200,000 and will be funded through existing operating facilities and possible finance leases where possible for specific equipment.

### Covenants

	June 30, 2014		December 31, 2013	
	As calculated	Minimum required	As calculated	Minimum required
	To exceed		To exceed	
Fixed charge coverage ratio	<b>2.10</b>	1.10	1.16	1.10
	<b>Not to exceed</b>		Not to exceed	
Eligible capital expenditures	\$ <b>1,570,018</b>	\$ 5,806,980	\$ 3,277,181	\$ 4,262,700
	<b>Not to exceed</b>		Not to exceed	
Funded term debt to EBITDA	<b>0.65</b>	1.5:1	0.98	1.5:1

The Company is required to comply with two financial covenants under its ABL Facility being a minimum fixed charge coverage ratio and maximum annual eligible capital expenditures. In addition, there is an additional covenant under 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.

The fixed charge coverage ratio is set at a minimum of 1.10 to 1 level and defined as the trailing twelve months of EBITDA, less non-funded capital expenditures, to the sum of cash interest paid, plus cash income taxes paid, plus the aggregate of all dividends, distributions and principal repayments, and any amortization

in the borrowing base of any eligible real property and/or eligible machinery and equipment. 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. Capital expenditures limit is set at a maximum of 120% of the consolidated budgeted yearly capital expenditures. The funded term debt to EBITDA covenant is set at a maximum of 1.50 to 1. Funded term debt is any term debt including, without limitation, the subordinated debt facility and any capital lease obligations. EBITDA is net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including transaction and acquisition expenses) and extraordinary items and share based payments during any of its recently completed four fiscal quarters.

The minimum covenants are noted in the above table. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a monthly basis. As at June 30, 2014, the Company was in compliance with all financial covenants.

### **Property and equipment**

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

The Company's investment in property and equipment for the three and six month periods ended June 30, 2014 was \$1,149,001 and \$1,392,728 respectively. The capital expenditures were funded from the Company's operating line of credit.

The budgeted future capital expenditures for the rest of 2014 are approximately \$3,200,000. Proposed future equipment upgrades may include bulk storage tanks and blending and packaging equipment for the USA drilling fluids distribution division, and three storage tents for fluids products. Capital expenditures typically are comprised of betterments and upgrades to existing assets, and additions incurred during the period. The Company ensures equipment is efficient and profitable or the equipment is replaced when the cost of maintenance and operating the equipment is not feasible.

### **Off-balance sheet arrangements**

The Company did not enter into any off-balance sheet arrangements during the current or comparable reporting period.

### **Transactions with related parties**

During the three and six month periods ended June 30, 2014, the Company incurred office sharing costs of \$15,000 and \$30,000 (June 30, 2013 - \$15,000 and \$30,000) in the normal course of operations with BRC Advisors Inc., which a certain director and officer controls.

### **Post-reporting date events**

Subsequent to June 30, 2014, Bri-Chem has completed the sale of its Steel Pipe Manufacturing division and Steel Pipe Distribution division including their respective assets and ongoing business operations to a USA based steel company.

On August 7, 2014 the Company granted 405,000 stock options to certain employees. These stock options vest over the three-year period, are exercisable over term of ten years and have an exercise price of \$1.87. The fair value of granted stock options is \$687,253, based on the date of grant valuation using Black-Scholes option pricing model.

## OUTLOOK

*The discussion in this section is qualified in its entirety by the "Cautionary Statement 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.*

Drilling activity is forecasted to increase marginally for the second half of 2014 compared to that of 2013. We are cautiously optimistic that increased drilling activity experienced in late Q2 2014 will continue for the remainder of the year, which will drive sales in the Canadian drilling fluids distribution division as well as Canadian blending and package divisions. For the first half of 2014, drilling rig activity increased by 3.1% compared to the first half of 2013. The Petroleum Services Association of Canada (PSAC) has forecasted 6,534 wells to be drilled in Western Canada for the second half of 2014, a forecasted increase of 5.7% over 2013. PSAC also has forecasted 1,852 wells to be drilled in Canada for the third quarter of 2014, an increase of 5.2% over the third quarter of 2013. In the USA, the number of active rigs running during the first half of 2014 was 1,852, an increase of 5.2% over the first half of 2013. The average rig count for 2014 is expected to increase approximately 5.0%. We believe the increased activity in the USA will drive increased year over year sales in our USA drilling fluids distribution division throughout the second half of 2014.

The Canadian fluids distribution division activity is expected to increase as rig activity is forecasted to increase in the second half of 2014 from the prior year. Given current drilling activity in early Q3, we are anticipating activity levels to remain strong throughout the quarter, which will drive demand for our drilling fluid products. Bri-Chem has actively been focused on seeking to acquire companies that formulate specialty drilling fluid products, aimed at production and stimulation fluids, for further penetration into the Canadian drilling fluids market place.

Bri-Chem's USA fluids distribution division has continued to see sales and earnings growth into the first half of 2014 due to product and geographic expansion throughout the major resource plays in the USA. With new infrastructure continually being added and strategically placed, well stock warehouses located throughout the USA, we are able to better service existing and potential customers in the major drilling regions which will continue to drive sales and earnings growth. The division will continue to strive for further penetration into the independent wholesale fluids market and will focus expansion efforts in the Texas marketplace, which has a large number of rigs operating. In addition, the division will seek out opportunities to expand its liquid mud plants into regions, such as Oklahoma that consume high volumes of this product. We continue to explore new expansion opportunities in geographic regions where drilling activity and demand for our product is in high demand.

The Company's fluids blending and packaging division continued its growth in the first half of 2014. Management intends to continue adding additional product offerings, blending and packaging services to service both existing and new potential customers. In addition, Bri-Chem will focus to establish and expand its market presence in blending and packaging of cement and packaging products in the USA. During the third quarter, the division will complete the move into its new blending and packaging facility in Bakersfield, CA. The new facility will allow Bri-Chem to expand in late Q3 or early Q4. Management believes that further opportunities exist to develop a liquid stimulation and specialty additives blending division to leverage additional business from existing clients that we currently service.

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

## 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, 2013. 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 to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The changes in the global financial markets and weak economic conditions, can have a significant impact on the ability of the Company to obtain funding for future financial requirements.

Due to these factors, the Company cannot be certain that funding will be available when needed and to the extent required, on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

### **Market Price Volatility of Common Shares**

The market price of the Company's common shares may be volatile. The volatility may affect the ability of shareholders to sell the common shares at an advantageous price. Market price fluctuations in the common shares may be due to the Company's operating results failing to meet the expectations of investors and stock market analysts in any quarter, downward revision in securities analysts' estimates, governmental regulatory actions, adverse change in market conditions or economic trends, acquisitions, business or asset dispositions and material announcements by the Company or its competitors, along with a variety of additional factors, including, but not limited to, those set forth in "*Cautionary Statement Regarding Forward-Looking Information*" herein. In addition, the stock markets, including TSX, may experience significant price and trading fluctuations. These fluctuations may result in volatility in the stock market prices that often has been unrelated or disproportionate to changes in operating performance. These market fluctuations may adversely affect the market prices of the Company's common shares.

### **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 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 fluctuation 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 certain fluid products fluctuate due to a number of factors beyond our control, including global market conditions, foreign currency exchange rates, and demand for product, trade sanctions, tariffs, competition and price surcharges. Fluctuations in availability, cost 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.

### ***Concentration risk***

The top seven customers of the Company account for approximately 28% of revenue for the three months ended June 30, 2014, of which no single customer accounting for more than approximately 10%. The Company does not usually enter into long term contracts with its customers and there can be no assurance that the current customers will continue their relationships with the Company. The loss of one or more major customers, any significant decrease in sales to a customer, or prices paid or any other changes to the terms of service with customers, could have a material adverse affect on the financial results, cash flows, and the overall financial condition of the Company.

### ***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.

### ***Divestiture business divisions or product lines***

We continually evaluate the performance of all our businesses and may seek, from time to time, to sell a subsidiary company, assets, or product lines. Divestitures involve risks, including difficulties in the separation of operations, services, products and personnel, the diversion of management's attention from other business concerns, the disruption of our business, the potential loss of key employees and the retention of uncertain

environmental and other contingent liabilities related to the divested business. There can be no guarantee, if Bri-Chem seeks to enter into a transaction to sell a subsidiary company, assets or product line, that it will be able to successfully complete a transaction or find a buyer once a decision to sell has been made. Changes in capital markets, economic environments and other factors could delay a sale or substantially reduce the planned selling price, thereby reducing the profitability and planned sources of future funding. In addition, divestitures may result in significant asset impairment charges, including those related to goodwill and other long lived tangible and intangible assets, which could have a material adverse effect on our financial condition and results of operations. We can not assure you that we will be successful in managing these or any other significant risks that we encounter in divesting a business, assets or product lines, and any divestiture we undertake could materially and adversely affect our business, financial condition, results of operations and cash flows.

#### ***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. 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 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 at year end 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 programs.

#### ***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 judgments that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the reporting date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and, consequently, the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired or the environment in which the Company operates changes. The accounting policies and practices that involve the use of estimates that have significant impact on the Company's financial results include the allowance for doubtful accounts receivable, the sales return provision, inventory obsolescence, net realizable value inventory write-downs and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of 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 stock based compensation. Management feels actual results will not be materially different from these estimates. The most significant estimates made by management include:

### *Impairment financial assets*

All of the Company's financial assets are reviewed for indicators for impairment, in accordance with the accounting policy stated in the note 2 to the annual consolidated financial statements. At the end of each reporting period, management reviews the individual balances in accounts receivable and assesses their recoverability based on the aging of outstanding balances, historical bad debt experience, indicators of changes in customer credit worthiness, and changes in customer payment terms, to identify and determine the extent of impairment if any.

### *Sales return provision*

Accounts receivable is the most significant financial asset at June 30, 2014. 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 and uses the most reliable evidence in determining the net realizable values of the inventories. This includes examining the value of inventory against aging of the inventory, 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.

#### *Impairment testing of intangible assets and property and equipment*

The Company is required to test for impairment of intangible assets with definite useful life and property and equipment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortization (goodwill) are tested annually for impairment. 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 relating to property and equipment, and intangible assets, excluding goodwill, 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, including intangible assets, based on future expected cash flows and a discount rate. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risks and weighted average cost of capital. If future events or results differ significantly from these estimates and assumptions, the Company could record impairment charges in the future.

#### *Stock-based compensation*

The Company uses the Black-Scholes Option Pricing Model for valuing its stock options to employees and directors at the date of issue. Management uses estimates of the expected life, the risk-free rate, expected volatility, and expected forfeiture rate when calculating the value of the options issued. These estimates may vary from the actual expense incurred and are updated at each reporting period based on information available at that time. The Company values options issued to non-employees based on available evidence of the value the transaction represents to the Company based on services provided in exchanging for the option.

## ACCOUNTING POLICIES

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

The interim consolidated financial statements for the quarter ended June 30, 2014 have been prepared in accordance with the accounting policies adopted in the Company's annual financial statements for the year ended December 31, 2013, except for the following:

### *Amendments to IAS 32 - Financial Instruments: Presentation*

In January 2014, the Company adopted amendments to IAS 32, which relate to the application guidance in IAS 32, and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The Company assessed the impact of the amendment on its consolidated financial statements. The Company has made no changes as a result of this process in the current or comparative period.

### *Amendment to IAS 36 - Impairment of assets*

In January 2014, the Company adopted the amendment to IAS 36, which includes the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This amendment does not have a material impact on the Company's financial statements.

### *IFRIC 21 - Levies*

In January 2014, the Company adopted IFRIC 21, which is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligation event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This amendment does not have a material impact on the Company's financial statements.

## FUTURE ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the interim financial statements for the quarter ended June 30, 2014. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective as at the date of the interim consolidated financial statements for the three month period ended June 30, 2014 and determined that the following may have an impact on the Company:

### *Amendment to IFRS 2 – Share based payment*

The amendment is effective for share- based payment transactions for which the grant date is on or after July 1, 2014. This amendment clarifies the definition of a 'vesting condition' and defines 'performance condition' and 'service condition'.

### *Amendment to IFRS 3 – Business combinations*

The amendment is effective for business combinations where the acquisition date is on or after July 1, 2014. The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the

definitions in IAS 32, 'Financial Instruments: Presentation'. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

#### *Amendment to IFRS 8 – Operating Segments*

The amendment is effective for annual periods beginning on or after July 1, 2014. The standard is amended to require the disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

#### *IFRS 9 – Financial Instruments*

IFRS 9, Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes guidance on recognition and de recognition of financial assets and financial liabilities, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

#### *IFRS 15 – Revenue from Contracts with Customers*

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, with early adoption permitted and is to be applied retrospectively.

### SHARE DATA

As at August 13, 2014, the Company had 24,010,736 common shares issued and outstanding. As of June 30, 2014, the board of directors may grant options to purchase up to a maximum of 2,402,662 common shares. As of June 30, 2014, options to purchase 1,265,000 common shares were outstanding at an average price of \$2.61 per common share.

### NON-IFRS MEASURES

Certain supplementary information and financial measures referred to in the MD&A and explained below, namely EBITDA, Operating Expenses, Operating EBITDA, and Cash Interest Expense are not recognized under IFRS.

#### **EBITDA**

Management believes that, in addition to net earnings, EBITDA is a useful supplemental measure that provides a measure of operating performance without reference to financing decisions, depreciation or income tax impacts, which are not controlled at the operating management level. Investors should be cautioned that EBITDA should not be construed as alternatives to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBITDA may differ from that of other entities and accordingly may not be comparable to measures used by other entities.

EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment charges and share-based payments. The following is a reconciliation of EBITDA to net (loss) earnings for each of the periods presented in this MD&A.

	For the three months ended June 30	
	2014	2013
<b>EBITDA from continued operations</b>		
Net loss	\$ <b>(596,515)</b>	\$ (266,517)
Add:		
Interest	<b>717,845</b>	546,654
Income taxes	<b>55,541</b>	75,270
Depreciation and amortization	<b>524,837</b>	303,187
Share-based payment	<b>230,580</b>	339,862
<b>EBITDA</b>	<b>\$ 932,288</b>	<b>\$ 998,456</b>

	For the six months ended June 30	
	2014	2013
<b>EBITDA from continued operations</b>		
Net earnings	\$ <b>1,124,686</b>	\$ 1,529,609
Add:		
Interest	<b>1,464,142</b>	1,176,357
Income taxes	<b>791,183</b>	858,105
Depreciation and amortization	<b>1,033,503</b>	593,764
Share-based payment	<b>472,793</b>	679,722
<b>EBITDA</b>	<b>\$ 4,886,307</b>	<b>\$ 4,837,557</b>

### Operating Expenses

Operating expenses is not a concept recognized under IFRS as it does not include interest, share based payments, depreciation and amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the June 30, 2014 interim consolidated financial statements:

	For the three months ended June 30	
	2014	2013
<b>Operating expenses</b>		
Operating expenses	\$ <b>5,122,266</b>	\$ 2,821,379
Add:		
Interest	<b>717,845</b>	546,654
Depreciation and amortization	<b>524,837</b>	303,187
Share-based payments	<b>230,580</b>	339,862
<b>Total expenses</b>	<b>\$ 6,595,528</b>	<b>\$ 4,011,082</b>

<b>Operating expenses</b>	<b>For the six months ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Operating expenses	\$ <b>8,636,481</b>	\$ 6,088,892
Add:		
Interest	<b>1,464,142</b>	1,176,357
Depreciation and amortization	<b>1,033,503</b>	593,764
Share-based payments	<b>472,793</b>	679,722
Total expenses	\$ <b>11,606,919</b>	\$ 8,538,735

### Operating EBITDA

Management believes that, in addition to net earnings, Operating EBITDA is a useful supplemental measure that provides a measure of operating performance without reference to inter group corporate cost allocations, financing decisions, depreciation or income tax impacts, which are not controlled at the operating management level. Investors should be cautioned that Operating EBITDA should not be construed as alternatives to net earnings determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating Operating EBITDA may differ from that of other entities and accordingly may not be comparable to measures used by other entities.

Operating EBITDA is defined as earnings before inter group corporate cost allocations, interest, taxes, depreciation, amortization, impairment charges and share-based payments. The following is a reconciliation of EBITDA, per interim consolidated financial statements for three and six months ended June 30, 2014, to Operating EBITDA for each of the periods presented in this MD&A.

	For the three months ended June 30, 2014					
	<u>Adjusted EBITDA</u>		<u>Corporate cost allocation</u>		<u>Operating EBITDA</u>	
	\$	%*	\$	%*	\$	%
Fluids Distribution - Canada	\$ 479,638	4.0%	\$ (487,489)	(4.1%)	\$ (7,851)	(0.1%)
Fluids Distribution - USA	777,533	4.3%	399,385	2.2%	1,176,918	6.5%
<b>Total Fluids Distribution</b>	<b>1,257,171</b>	<b>4.2%</b>	<b>(88,104)</b>	<b>(0.3%)</b>	<b>1,169,067</b>	<b>3.9%</b>
Fluids Blending & Packaging - Canada	39,900	1.4%	40,200	1.4%	80,100	2.9%
Fluids Blending & Packaging - USA	409,303	17.8%	47,904	2.1%	457,207	19.9%
<b>Total Fluids Blending &amp; Packaging</b>	<b>449,203</b>	<b>8.8%</b>	<b>88,104</b>	<b>1.7%</b>	<b>537,307</b>	<b>10.6%</b>
<b>Other **</b>	<b>(774,086)</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>	<b>(774,086)</b>	<b>N/A</b>
<b>Total</b>	<b>\$ 932,288</b>	<b>2.6%</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 932,288</b>	<b>2.6%</b>

\* As a percentage of divisional revenues

\*\* Other includes corporate overhead costs

	For the six months ended June 30, 2014					
	<u>Adjusted EBITDA</u>		<u>Corporate cost allocation</u>		<u>Operating EBITDA</u>	
	\$	%*	\$	%*	\$	%
Fluids Distribution - Canada	\$ 2,645,696	6.9%	\$ (894,283)	(2.3%)	\$ 1,751,413	4.6%
Fluids Distribution - USA	1,149,114	3.7%	718,075	2.3%	1,867,189	6.1%
<b>Total Fluids Distribution</b>	<b>3,794,810</b>	<b>5.5%</b>	<b>(176,208)</b>	<b>(0.3%)</b>	<b>3,618,602</b>	<b>5.3%</b>
Fluids Blending & Packaging - Canada	700,478	8.4%	80,400	1.0%	780,878	9.4%
Fluids Blending & Packaging - USA	517,208	13.1%	95,808	2.4%	613,016	15.6%
<b>Total Fluids Blending &amp; Packaging</b>	<b>1,217,686</b>	<b>10.0%</b>	<b>176,208</b>	<b>1.4%</b>	<b>1,393,894</b>	<b>11.4%</b>
<b>Other **</b>	<b>(126,189)</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>	<b>(126,189)</b>	<b>N/A</b>
<b>Total</b>	<b>\$ 4,886,307</b>	<b>6.0%</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 4,886,307</b>	<b>6.0%</b>

\* As a percentage of divisional revenues

\*\* Other includes corporate overhead costs

	For the three months ended June 30, 2013					
	<u>Adjusted EBITDA</u>		<u>Corporate cost allocation</u>		<u>Operating EBITDA</u>	
	\$	%*	\$	%*	\$	%
Fluids Distribution - Canada	\$ (214,336)	(1.8%)	\$ -	0.0%	\$ (214,336)	(1.8%)
Fluids Distribution - USA	1,191,074	11.5%	-	0.0%	1,191,074	11.5%
<b>Total Fluids Distribution</b>	<b>976,738</b>	<b>5.4%</b>	<b>-</b>	<b>0.0%</b>	<b>976,738</b>	<b>5.4%</b>
Fluids Blending & Packaging - Canada	25,481	1.2%	-	0.0%	25,481	1.2%
Fluids Blending & Packaging - USA	-	0.0%	-	0.0%	-	0.0%
<b>Total Fluids Blending &amp; Packaging</b>	<b>25,481</b>	<b>1.2%</b>	<b>-</b>	<b>0.0%</b>	<b>25,481</b>	<b>1.2%</b>
<b>Other **</b>	<b>(3,763)</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>	<b>(3,763)</b>	<b>N/A</b>
<b>Total</b>	<b>\$ 998,456</b>	<b>4.9%</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 998,456</b>	<b>4.9%</b>

\* As a percentage of divisional revenues

\*\* Other includes corporate overhead costs

	For the six months ended June 30, 2013					
	Adjusted EBITDA		Corporate cost allocation		Operating EBITDA	
	\$	% *	\$	% *	\$	%
Fluids Distribution - Canada	\$ 2,432,077	6.5%	\$ -	0.0%	\$ 2,432,077	6.5%
Fluids Distribution - USA	\$ 1,815,868	10.1%	\$ -	0.0%	\$ 1,815,868	10.1%
<b>Total Fluids Distribution</b>	<b>\$ 4,247,945</b>	<b>7.7%</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 4,247,945</b>	<b>7.7%</b>
Fluids Blending & Packaging - Canada	\$ 870,293	13.5%	\$ -	0.0%	\$ 870,293	13.5%
Fluids Blending & Packaging - USA	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%
<b>Total Fluids Blending &amp; Packaging</b>	<b>\$ 870,293</b>	<b>13.5%</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 870,293</b>	<b>13.5%</b>
<b>Other **</b>	<b>(280,681)</b>	<b>N/A</b>	<b>\$ -</b>	<b>N/A</b>	<b>(280,681)</b>	<b>N/A</b>
<b>Total</b>	<b>\$ 4,837,557</b>	<b>7.8%</b>	<b>\$ -</b>	<b>0.0%</b>	<b>\$ 4,837,557</b>	<b>7.8%</b>

\* As a percentage of divisional revenues

\*\* Other includes corporate overhead costs

### Cash interest expense

Cash interest expense represents interest expense under IFRS adjusted to exclude non-cash interest expense related to the amortization of deferred financing costs on both the ABL Facility and Fulcrum debt. Management believes that this metric assists in determining the cash interest expense of the Company. Cash interest expense is calculated as follows:

Interest	For the three months ended June 30			Change	
	2014	2013		\$	%
Interest on short-term operating debt	\$ 406,802	\$ 225,635	\$ 181,167	80.3%	
Interest on long-term debt	\$ 310,156	\$ 320,117	\$ (9,961)	(3.1%)	
Interest on obligations under finance lease	\$ 887	\$ 902	\$ (15)	(1.7%)	
Total interest expense	\$ 717,845	\$ 546,654	\$ 171,191	31.3%	
Deduct non-cash interest expense:					
Amortization of capitalized deferred financing costs	\$ 101,494	\$ 59,092	\$ 42,402	71.8%	
Cash interest expense <sup>(1)</sup>	\$ 616,351	\$ 487,562	\$ 128,789	26.4%	

Interest	For the six months ended June 30			Change	
	2014	2013		\$	%
Interest on short-term operating debt	\$ 836,554	\$ 536,990	\$ 299,564	55.8%	
Interest on long-term debt	\$ 625,815	\$ 637,594	\$ (11,779)	(1.8%)	
Interest on obligations under finance lease	\$ 1,773	\$ 1,773	\$ -	0.0%	
Total interest expense	\$ 1,464,142	\$ 1,176,357	\$ 287,785	24.5%	
Deduct non-cash interest expense:					
Amortization of capitalized deferred financing costs	\$ 250,559	\$ 138,843	\$ 111,716	80.5%	
Cash interest expense <sup>(1)</sup>	\$ 1,213,583	\$ 1,037,514	\$ 176,069	17.0%	

**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 ("DC&P") 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 DC&P as of June 30, 2014 and, based on that evaluation, have concluded that these controls and procedures are effective in providing such reasonable assurance.

*Internal controls over financial reporting*

The CEO and CFO, together with management, are also responsible for establishing and maintaining internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's ICFR as of June 30, 2014 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance.

*Limitation on Scope of Design*

In accordance with section 3.3(1) (b) of National Instrument 52-109, which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to the end of the fiscal period, the controls, policies and procedures of Sun Coast, which was acquired by the Company effective September 6, 2013, have been excluded from the control design assessments discussed above. The scope limitation is based on the time required to document and assess the DC&P and ICFR of Sun Coast in a manner consistent with the Company's other operations. The Company's management is currently in the process of integrating Sun Coast into the existing controls and procedures of Bri-Chem Corp.

Sun Coast constitutes 8.2% of total assets, 2.0% of net assets, 4.9% of net revenues, and \$250,236 of earnings before income taxes of the consolidated financial statement amounts as at and for the three months ended June 30, 2014.

*Changes in internal control over financial reporting*

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

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

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## Corporate Information

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**Officers and Directors**

Don Caron<sup>(2)</sup>  
Chairman, President, CEO and Director  
Edmonton, Alberta

Brian Campbell<sup>(1)</sup>  
Director  
Edmonton, Alberta

Jason Theiss, CA  
CFO  
Edmonton, Alberta

Trent Abraham  
President, Fluids Division  
Calgary, Alberta

Albert Sharp<sup>(1) (2)</sup>  
Director  
Spruce Grove, Alberta

Eric Sauze, CA<sup>(1) (2)</sup>  
Director  
Edmonton, Alberta

**Auditors**

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

**Corporate Office**

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

**Shares Listed**

Toronto Stock Exchange  
Trading Symbol – BRY

(1) Member of Audit Committee  
(2) Member of Compensation Committee

**Bankers**

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

**Lenders**

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

**Transfer Agent**

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

**Share Capital**

Issued: 24,010,736

**Web Site**

[www.brichem.com](http://www.brichem.com)