Bri-Chem Corp.

Management's Discussion and Analysis

March 31, 2011

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of May 19, 2011. It is provided to assist readers in understanding Bri-Chem Corp.'s financial performance for the period ended March 31, 2011, and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2011, as well as the annual audited consolidated financial statements for the year ended December 31, 2010.

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

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:

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

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

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

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

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

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

- supply and demand for oilfield services, drilling fluids and steel pipe products;
- competition for, among other things, capital and skilled personnel;
- incorrect assessments of the value of acquisitions;
- fluctuations in the market for steel pipe, oil and natural gas and related products and services;
- liabilities and risks, including environmental liabilities and risks inherent in steel pipe, chemical storage and handling and oil and natural gas service operations;
- fluctuations in foreign exchange or interest rates;
- political and economic conditions;
- failure of counter-parties to perform on contracts;
- regional competition;
- the Company's ability to attract and retain customers;
- amounts retained by the Company for capital expenditures;

- volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oil and gas services generally;
- stock market volatility and market valuations;
- volatility in prices for raw materials and steel and the effect of this volatility on the demand for steel pipe products generally and on the value of inventory;
- unplanned equipment outages and other unforeseen disruptions that may affect operations;
- the presence of heavy competition in the industry in which the Company currently operates;
- general economic conditions in Canada and the United States and globally;
- the availability of capital on acceptable terms; and
- the other factors disclosed under "Risk & Uncertainties" in this MD&A.

Many of these risk factors are discussed further in detail herein, specifically in the "Risks and Uncertainties" section, and in the Company's Annual Information Form on file with Canadian securities commissions at www.sedar.com. Readers are also referred to the risk factors described in other documents filed with Canadian securities commissions periodically throughout the year

Readers are cautioned that these factors and risks are difficult to predict. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Readers are also cautioned that the list of factors above and the risk factors set forth under the heading "Risks & Uncertainities" are not exhaustive. Before placing any reliance on any forward-looking statements to make decisions with respect to an investment in securities of Bri-Chem, prospective investors and others should carefully consider the factors identified above and other risks, uncertainties and potential changes that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. In addition, the forward-looking statements contained in this MD&A are made as of the date of this MD&A. Bri-Chem does not undertake any obligation to publicly update or to revise any forward-looking statements except as expressly required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by the cautionary statements contained herein.

2011 FIRST QUARTER OVERVIEW:

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

Bri-Chem's drilling fluids revenue increased 30.8% in the first quarter of 2011, while Western Canadian oil and gas drilling rig utilization increased 14.1% in the same period. Overall consolidated revenue was up 15.2% over the comparable prior year period. The key driver behind the substantial increase in fluids revenue is the continued activity in non-conventional drilling applications which has led to a surge in demand for more technologically advanced drilling fluids.

Consolidated revenues were $50,647,489 compared to $43,964,826 for first quarter of 2010. Earnings before interest, taxes, amortization, and stock-based compensation ("EBITDAC") were $4,399,788 or $0.30 per share basic and $0.29 per share diluted, an increase of $64,388 compared to the same period last year. Net earnings were $2,632,453, a decrease of 1.8% compared to the prior year. The Company recorded additional overhead costs of $196,119 in the first quarter of 2011 related to the setup of the large diameter steel pipe manufacturing facility, for which no income has been recorded to date.

The fluids division's record high quarterly sales of $43,336,837 for the three month period ended March 31, 2011 was a $10,214,766 or 30.8% increase over sales in the comparable period of $33,122,071. Drilling rig utilization averaged 67.8% for the quarter as compared to 53.6% in the prior year. This increase in utilization directly correlated with an increase in sales for the fluids division given the large market share the Company holds. Drilling activity levels remained high for the quarter and non-conventional drilling remains dominant in the Western Canadian Sedimentary Basin, resulting in an increase in demand for fluid products.

The steel division recorded sales of $7,310,652 for the period, a decrease of (32.6%) over sales of $10,842,755 in the first quarter of 2010. The steel division concentrated its sales efforts on seamless pipe during the first quarter of 2011. In the first quarter of 2010, the Company was completing its destocking of excess tubing and casing which led to higher sales during the first quarter of 2010 compared to 2011. While the division experienced a lag in receipt of new common stock sizes in the first quarter, as these continue to arrive, sales are expected to increase.

Outlook Summary

In 2011, Bri-Chem will continue to focus on strengthening market position in its drilling fluid and steel pipe divisions and executing on its business strategy. The investment in the large diameter steel pipe manufacturing operation and the recent announcement of the pending acquisition of Stryker, Ltd., a Denver, USA based drilling fluids wholesaler, and Stryker Transportation, Ltd., its transportation division, will strengthen the Company's market position and will continue to provide the Company with opportunities for growth outside of its traditional geographic base. Bri-Chem expects the demand for the Company's drilling fluid products to continue to increase based on drilling rig activity levels forecasted to increase 7.2% for 2011 over those experienced in 2010. The Company expects to incur the typical seasonal slowdown due to decreased activity levels in the second quarter of 2011, but remains optimistic for the second half of 2011. Demand for steel pipe products is increasing as markets are returning to more traditional demand levels and the Company is now replenishing inventories with more favourably costed products. In addition, Bri-Chem continues to evaluate integrated acquisition opportunities that will enhance profitability and provide geographic diversity.

DESCRIPTION OF BUSINESS

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

OIL AND GAS FLUIDS DIVISION

Western Canadian Sedimentary Basin (WCSB)

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

Chemical Supplies and Packaging

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

Specialty Fluids

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

Industrial Fluids

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

STEEL PRODUCTS DIVISION

Bri-Chem, through its steel products division, is a wholesale distributor for steel pipe, tubular products and casing. The division primarily services the oil and natural gas, construction, mechanical and industrial markets in Western Canada and Eastern United States. Bri-Chem sells over 2,000 steel products ranging in various lengths and diameters of carbon steel welded pipe, carbon steel seamless pipe, stainless steel pipe, and tubing and casing. The

Company's superior vendor relationships have provided access to hard to find products and increased market share in a competitive industry.

Bri-Chem manages its steel product inventory through one warehouse in Leduc, Alberta, which is the primary stock location for steel products in North America and also maintains a small stock facility in Houston, Texas, which allows the Company to service major pipe distributors throughout the Eastern and Mid-Western USA. Bri-Chem's broad base of steel products are primarily used in the oil and gas industry, however the Company does distribute steel products to non-oilfield related industries such as construction, industrial and mining.

The Manufacturing subsidiary in the steel products division was created in late 2010. The subsidiary is 70% owned by Bri-Chem Corp, and 30% owned by Wuxi Huayou Special Steel Co., Ltd ("Wuxi"). Manufacturing will produce steel pipe ranging in outside diameter from 14" to 36" which will be manufactured from carbon steel tubes using a Thermal Pipe Expansion (TPE) process that heats the steel tubes while being pushed by a horizontal hydraulic press over a mandrel, thereby expanding the pipe. The TPE process has been utilized for producing large diameter steel pipe for several years in China and Manufacturing will be the first to introduce TPE production and testing in Canada. The Company has begun the process of setting up the mill, located in Edmonton, Alberta, and is currently in the commissioning phase, with light production projected to begin in late spring 2011.

Seasonality of Operations

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

Growth Strategy

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

The Company will continue to focus on growth by expanding its market presence in the oil and gas, industrial wholesale distribution markets and niche manufacturing opportunities. The fluids division will concentrate on providing superior customer service with the right product mix in strategic locations to meet the changing needs of our customers. In addition, Bri-Chem will seek to establish new geographical markets and expand its blending and packaging opportunities into markets it currently services as well as diversify into new markets such as forestry and agriculture. The steel division will continue to develop a more comprehensive inventory management program that will place inventory in markets that allow for better turnover while being able to meet the delivery needs of its customers. The steel division will continue with the installation and commissioning of its new steel pipe manufacturing micro-mill opportunity and will examine new strategic partnerships with vendors and customers over the medium term.

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

FINANCIAL SUMMARY

The following selected two three-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarterly Report for the period ended March 31, 2011.

Consolidated statements of operations		**For the three months ended March 31**			**Change**	
		2011		2010	**$**	**%**
Sales	**$**	**50,647,489**	$	43,964,826	$ 6,682,663	15.2%
Gross margin		**7,675,110**		6,351,298	$ 1,323,812	20.8%
		15.2%		14.4%		
Operating expenses [1]		**3,275,323**		2,015,898	1,259,425	62.5%
EBITDAC [2]		**4,399,788**		4,335,400	64,388	1.5%
Depreciation and amortization		**195,418**		202,103	(6,685)	-3.3%
Interest		**600,388**		413,982	186,406	45.0%
Stock based compensation		**13,976**		46,949	(32,973)	-70.2%
Earnings before income taxes		**3,590,006**		3,672,366	(82,360)	-2.2%
Income taxes - current		**1,068,994**		1,009,199	59,795	5.9%
Income taxes (recovery) - deferred		**(111,441)**		(18,416)	(93,025)	505.1%
Net earnings	**$**	**2,632,453**	$	2,681,583	$ (49,130)	-1.8%
Net earnings attributable to parent	**$**	**2,715,674**	$	2,681,583	$ 34,091	1.3%
Net loss attributable to NCI [3]	**$**	**(83,221)**	$	-	$ (83,221)	100.0%
Earnings per share						
Basic	**$**	**0.19**	$	0.19	$ -	0.0%
Diluted	**$**	**0.18**	$	0.19	$ (0.01)	5.3%
EBITDAC per share						
Basic	**$**	**0.30**	$	0.30		
Diluted	**$**	**0.29**	$	0.30		
Weighted average shares outstanding						
Basic		**14,550,108**		14,220,258		
Diluted		**15,338,896**		14,220,258		

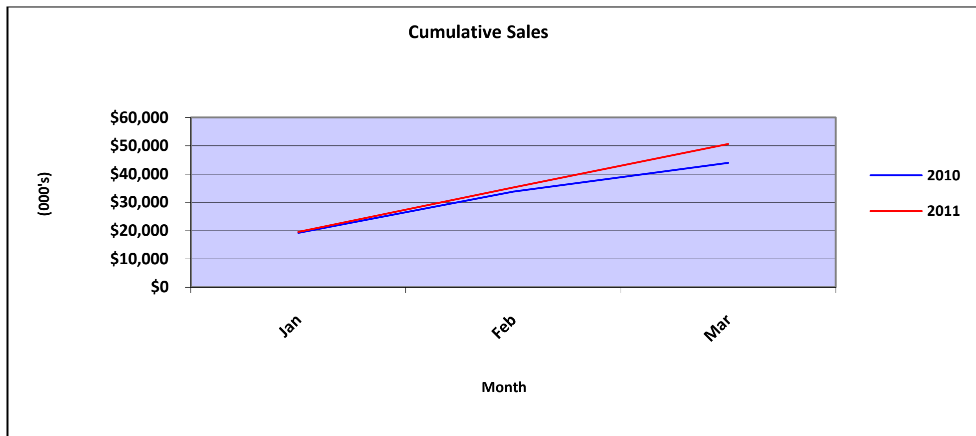
(1) See page 33 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and stock-based compensation (see page 32 for a further explanation of this non-GAAP measure).
(3) Bri-Steel Manufacturing Inc. a 70% owned subsidiary of Bri-Chem Corp., was incorporated on October 13, 2010. NCI represents the 30% non-controlling interest's portion of loss of the subsidiary for the period ended March 31, 2011.

RESULTS OF OPERATIONS

Sales

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

Sales by segment For the three months ended		March 31 2011		March 31 2010		Change $	%
Fluids	$	**43,336,837**	$	33,122,071	$	10,214,766	30.8%
Steel Distribution		**7,310,652**		10,842,755		(3,532,103)	-32.6%
	$	**50,647,489**	$	43,964,826	$	6,682,663	15.2%



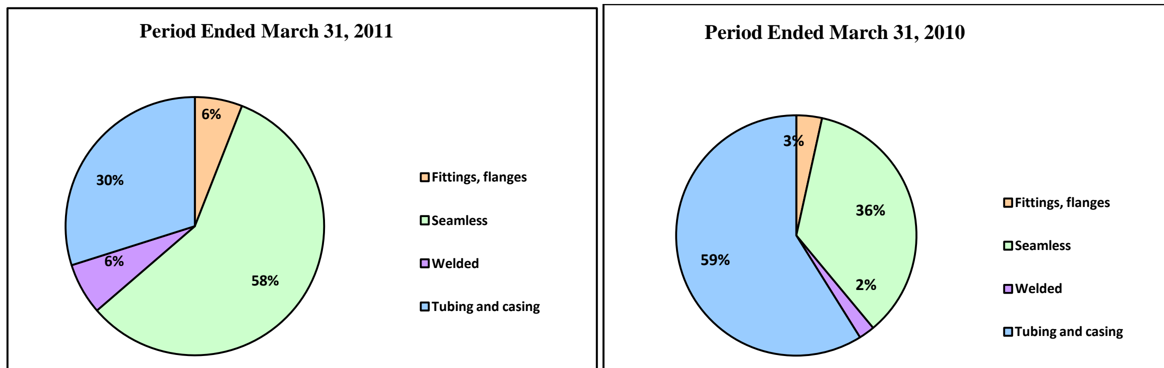
Fluids

Fluids had record high quarterly sales for the first quarter of 2011, increasing by $10,214,766 (30.8%) over sales in the first quarter of 2010. The significant increase is directly attributable to an increase in demand, with drilling rig utilization rates for the first quarter of fiscal 2011 averaging 68%, an increase of 14% compared to 54% utilization in 2010.

The Alberta market was the single largest factor in this increase, with a sales increase of 49.1% over the comparable quarter in 2010, while the number of wells drilled in the province remained high with 2,692, a 2% increase over prior year. The Company continues to see its fluids division growing its market share in the WCSB. The Saskatchewan warehouses experienced an 11.4% increase in sales with a 23.4% increase in the number of wells drilled over the first quarter of 2010. Wells drilled in British Columbia decreased 19.3% to 196 compared to Q1 2010 levels, while Company sales in the area decreased 26.5%. The continuation of non-conventional drilling applications has led to the demand for more technological drilling fluids, which has resulted in continued increases to sales in this region.

Sales to United States were $388,832 compared to $315,632 for the same period in 2010, an increase of 23.2%. The US market was not an area of focus for the Company in the first quarter of 2011. The Company expects US sales to increase dramatically late in the second quarter of 2011 with the projected completion of the acquisition of a US-based fluid distribution and transportation company, Stryker Ltd. Refer to the Outlook section for further discussions of this potential acquisition.

Steel Products



For the period ended March 31, 2011, the steel products division generated revenues of $7,310,652 compared to $10,842,755 for the comparable quarter ended March 31, 2010. The steel products division sells primarily to the oil and gas industry. The Company has seen a slow recovery from the economic crisis as steel prices have begun to return to normal levels. The division has lowered selling prices for certain products to remain competitive in the current market. As the division depleted 2009 overstock inventory levels, management did not replenish steel inventory at the same level, due to the strict inventory management policy put in place in 2010. The division focused on clearing out overstocked product, which often had lower selling prices, in order to free up cash for future purchases. The Company has focused on seamless pipe sales in 2011, and destocked its overhang of OCTG pipe in Q1 of 2010.

The steel division decided to discontinue sales of fitting and flanges in 2010 in order to concentrate cash flows in more profitable and growing areas. The Company sold the remaining fitting and flanges inventory in the quarter.

Sales in the United States amounted to $578,488, a decrease of 65.7% compared to $1,639,011 in the first quarter of 2010. The significant decrease is due to the Company's strategic decision to focus on Canadian markets. The Company has relocated inventory previous held in inventory yards in New Orleans, LA and Chicago, IL to its Leduc, AB and Houston TX locations and has discontinued use of those third-party inventory yards. The division continues to serve its US customers with mill direct orders. The US market is significantly larger than the Canadian market and more geographically disperse, thus the Company will continue to review opportunities to re-enter the market when market prices are at more advantageous levels and US market demand increases. The market in the US has been slow to rebound from the prior levels of overstocked inventory.

The division also had sales internationally of $216,171 in the period as compared to $nil in the prior comparable quarter.

Gross margin

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

For the three months ended		March 31 2011		March 31 2010		Change $	%
Gross margin	$	**7,675,110**	$	6,351,298	$	1,323,812	20.8%
% of sales		**15.2%**		14.2%			1.0%

Consolidated gross margin for the period ended March 31, 2011 was $7,675,110, an increase of 20.8% over the prior year. The gross margin as a percentage of sales increased by 1.0% from March 31, 2010 and is returning to traditional levels.

The fluids division margins were 15.6% for the first quarter of 2011, consistent with 15.5% for the comparable prior period. Margins on fluid sales vary based on product mix and drilling formations. Deeper, non-conventional wells require more technologically advanced fluids that are typically higher priced, lower margined specialty products. Liquid drilling fluids (invert) have been developed to service deeper, high temperature and more environmentally sensitive drilling and are becoming more popular with customers and now makes up approximately 35% of first quarter fluid sales. The Company continues to monitor product mix with a goal of increasing overall margins.

For the steel products division, margins increased slightly to 12.3% for the first quarter of 2011, compared to 11.1% in the first quarter of 2010. The beginning of 2010 was highly affected by the trend of destocking excess inventory at reduced selling prices to clear out high priced inventory. The beginning of 2011 experienced a return to more normal selling prices, which has created an increase in gross margin. As the inventory continues to turn over to new product as opposed to the older, higher priced inventory, we expect margins to increase further. The steel division also sold its remaining fittings and flanges inventory as part of a management's decision to discontinue stocking these products to focus on other pipe areas, such as seamless pipe. The division made several mill direct sales in the first quarter of 2011 which typically yield approximately a 5% lower gross margin.

Management made the decision to change inventory costing method for the steel products division from a first-in first-out method to an average cost method. This had the effect of increasing March 31, 2010 cost of sales, and thus decreasing gross margin by $122,326. The accounting policy change was made to conform to industry standards and to more accurately represent the true cost of inventory held and sold at any point in time. This will help to eliminate the future effects of large swings in steel commodity prices to the margins earned on products.

For 2011, we are anticipating gross margins on fluid sales will be similar or slightly higher than 2010 based on predicted drilling activity levels being slightly higher to those of 2010. We are unable to predict the value of the Canadian dollar in relation to foreign currencies in the future; therefore, we are uncertain as to the potential impact on the Company's gross margin in relation to foreign purchases of product. The steel products division will continue to experience improved margins throughout 2011, as the Company has replaced its high costed inventory with new inventory that will yield traditional margins ranging from 15% to 17%.

Operating expenses

Salaries and employee benefits

For the three months ended	March 31 2011	March 31 2010	Change $	%
Salaries and benefits	$ **1,658,626**	$ 1,602,326	$ 56,300	3.5%
% of sales	**3.3%**	3.6%		-0.3%

Salaries and benefits have increased over prior year comparable period, but as a percentage of total sales have decreased 0.3%. The Company incurred $118,975 in salaries and benefits costs related to nine employees hired for the Manufacturing setup to the end of March 2011. These costs are for the general manager and eight labourers who are aiding in the procurement and setup of the manufacturing facility to ready it for use. Additionally, increases were also incurred for the addition of a mandatory long-term disability benefit to the employee benefits program beginning in February 2011, which had not previously been offered by the Company. Significant premium increases were also incurred for 2011 over the prior year comparable period for employee benefits. The Company also renegotiated the terms of one fluid salesman contract to provide a higher base rather than to pay commissions. In addition, the Company reduced its employee count with the elimination of a receptionist, purchasing personnel and warehouse personnel.

The Company expects salaries and employee benefits to increase throughout the second quarter of 2011 for additional staff hired as part of the Manufacturing facility setup completion and beginning live production. Staffing in other divisions is expected to remain steady and will be revisited as required by changes to the Company's overall strategic plan and operations.

Selling, general and administration

For the period ended	March 31 2011	March 31 2010	Change $	%
Selling	$ **183,436**	$ 116,492	$ 66,944	57.5%
Professional and consulting	**249,773**	120,788	128,985	106.8%
General and administration	**373,351**	283,016	90,335	31.9%
Rent, utilities and occupancy costs	**829,503**	527,784	301,719	57.2%
Foreign exchange gain	**(5,390)**	(587,595)	582,205	-99.1%
	$ **1,630,673**	$ 460,485	$ 1,170,188	254.1%
Selling, general and administrative expenses (as a % of sales)				
Selling	0.4%	0.3%		
Professional and consulting	0.5%	0.3%		
General and administration	0.7%	0.6%		
Rent, utilities and occupancy costs	1.6%	1.2%		
Foreign exchange gain	0.0%	-1.3%		
	3.2%	1.0%		

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

Selling expenses increased for the period ended March 31, 2011 compared to the same period in 2010. This includes an increase of $34,545 in public company costs related to investor relation activities, $12,819 in promotion

costs related to acquiring additional branded items in the fluids division and a $13,683 increase in meals and entertainment for customers. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses increased over March 31, 2010 due to additional fees of $105,000 accrued related to the IFRS opening balance sheet numbers and additional review over the first quarter interim report. Increased legal fees were also incurred for services related to setup and review of potential acquisitions. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses increased for the period ended March 31, 2011. Bad debt expense increased by $60,700 due to the write-off of one fluids customer account. Insurance costs increased by $35,112 over the comparable period in the current year, due to the addition of the manufacturing facility and an increase to liability insurance levels. All other costs remained relatively consistent from the comparable prior period. General and administration expenses include bad debts, bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy cost expenses increased significantly over prior year. The steel division incurred increased lease expense for its manufacturing facility, located in Edmonton, Alberta, of $234,540 for the first three months of 2011. Related utilities costs have also increased significantly with an additional $57,100 incurred for the manufacturing facility. Additional, warehouse repairs and maintenance costs have increased by $26,506 for the period ended March 31, 2011 over comparable prior period. Of this $14,544 relates to the manufacturing facility setup and modifications made to the facility warehouse. Total additional occupancy costs related to the manufacturing facility were $307,759, which comprises the 57% total change in costs over the comparable prior period. The steel division has a sublease agreement in place for its warehouse in Leduc, Alberta which will reduce occupancy expenses in late Q2 2011. Costs in this category are comprised mainly of rent, utilities, and warehouse expense for the Edmonton, Leduc, Camrose, Acheson and Estevan locations as well as liquid storage tank rentals.

During the first quarter of 2011, the US dollar remained weaker in relation to other currencies, but was comparable to prior periods. The decrease in the US dollar resulted in a foreign exchange gain during the current period ended March 31, 2011, causing the Company to have a favourable position in purchases in foreign currencies. The Company reported a foreign exchange gain of $5,390 for the period, compared to $587,595 in the first quarter of 2010. These foreign exchange gains arose on the translation of the foreign denominated assets and liabilities held by the Company, as well as the fair value of derivative financial instruments (see "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Amortization

For the three months ended		March 31 2011		March 31 2010		Change $	%
Property and equipment	**$**	**110,076**	$	120,255	$	(10,179)	-8.5%
Intangibles		**85,340**		81,848		3,492	4.3%
Total	**$**	**195,416**	$	202,103	$	(6,687)	-3.3%

The decrease in property and equipment amortization is a result of small disposals and normal declining balance calculations. While significant additions occurred in the period related to the commissioning phase of the manufacturing facility, many of these items were added late in March of 2011. The additions of manufacturing equipment at this facility are not yet being amortized as they are not yet in a state ready for use. Amortization of these items is expected to begin by the end of the second quarter of 2011. The decrease in amortization expense for intangibles relates to the normal depreciating balance outstanding.

Interest

For the three months ended		March 31 2011		March 31 2010		Change $	%
Interest on short-term operating debt	**$**	**451,402**	$	247,122	$	204,280	82.7%
Interest on long-term debt		**146,962**		165,837		(18,875)	-11.4%
Interest on obligations under finance lease		**2,024**		1,023		1,001	97.8%
Total	**$**	**600,388**	$	413,982	$	186,406	45.0%

Interest on short-term debt increased by $204,280 this year due to increases in the revolving line of credit balance outstanding as compared to prior period. Borrowing increased significantly over the prior year comparable period due increased purchases of inventory given the large increase in sales demand over prior period.

As at March 31, 2011, long-term debt consisted of a $1,200,000, 6% note payable plus accrued interest issued to shareholders of the Company as a result of the January 2007 reverse takeover of Gwelan Supply Ltd., 6% promissory notes payable of $2,000,000 plus accrued interest to the former owners of Bri-Chem Steel Corporation, a $1,484,329 prime plus 1.75% non-revolving loan outstanding with a Canadian chartered bank, and a $1,440,000 subordinated loan bearing interest at prime plus a fixed charge with a financial institution. Interest on long-term debt decreased in the first quarter of 2011 due to the decreased principal balance on the sub-debt and the non-revolving loan outstanding in line with continuous repayments of these amounts.

Income taxes

The provision for income taxes for the period ended March 31, 2011 is a net current tax expense of $957,553 compared to $990,783 in the same period last year. The decrease in taxes is a result of the decrease in earnings. The Company's effective tax rate decreased to 26.5% for the first quarter of 2011, as compared to 28% in 2010 for the comparable period.

Net earnings and earnings per share

For the three months ended		March 31 2011		March 31 2010		Change $	%
Net earnings	**$**	**2,632,453**	$	2,681,583	$	(49,130)	-1.8%
% of sales		**5.2%**		6.1%			
EBITDAC [(1)]	**$**	**4,399,788**	$	4,335,400	$	64,388	1.5%
% of sales		**8.7%**		9.9%			

(1) Represents earnings before interest, taxes, depreciation, amortization, and stock based compensation (see page 32 for a further explanation of this non-GAAP measure).

The Company had net earnings for the period ended March 31, 2011 of $2,632,453 compared to $2,681,583 in the prior year. Net earnings as a percentage of revenues for the year was 5.2% as compared to 6.1% for the period ended March 31, 2010.

The increase in EBITDAC for the period is due to the increase in fluid sales activity in the period as a result of the increased drilling activity. EBITDAC as a percentage of revenues has decreased due to the large costs of setting up the manufacturing facility which have been incurred to date, with no additional revenues to offset these costs.

Basic and diluted earnings per share for the period ended March 31, 2011 were $0.19 and $0.18 respectively. Earnings per share were based on the weighted average number of shares outstanding during the period. The basic and diluted weighted average number of shares outstanding for the period ended March 31, 2011 was 14,550,108 and 15,338,896 respectively. During the period ended March 31, 2011, the Company issued 140,000 stock options to the consultants at a price of $3.00 per share. The Company also issued 2,000,000 shares under an equity financing at a price of $3.00 per share.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)		2011 Q1		2010 Q4		2010 Q3		2010 Q2		Total TTM
Sales	$	50,647	$	47,852	$	38,485	$	22,193	$	159,177
Gross margin ($)		7,675		6,977		5,720		3,315		23,687
Gross margin (%)		15.2%		14.6%		14.9%		14.9%		14.9%
Adjusted EBITDAC (1)		4,399		2,689		2,468		726		10,282
Net earnings	$	2,632	$	2,122	$	2,202	$	45	$	7,001
Basic earnings per share	$	0.19	$	0.16	$	0.16	$	-	$	0.51
Diluted earnings per share	$	0.18	$	0.16	$	0.16	$	-	$	0.50

(in thousands of Cdn $)		2010 Q1		2009 Q4(3)		2009 Q3(3)		2009 Q2(3)		Total TTM
Sales	$	43,965	$	32,058	$	23,966	$	10,118	$	110,107
Gross margin ($) (2)		6,351		893		2,647		1,869		11,760
Gross margin (%)		14.4%		2.8%		11.0%		18.5%		10.7%
Adjusted EBITDAC (1)		4,335		964		531		(232)		5,598
Net earnings (loss)	$	2,681	$	(1,876)	$	(6,583)	$	(848)	$	(6,626)
Basic earnings (loss) per share	$	0.19	$	(0.13)	$	(0.45)	$	(0.06)	$	(0.45)
Diluted earnings (loss) per share	$	0.19	$	(0.13)	$	(0.45)	$	(0.06)	$	(0.45)

(1) EBITDA is a non-GAAP measure which the Company defines as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDAC further adjusts this non-GAAP measure for stock-based compensation expense and the inventory write down. (See page 32 for a further explanation of this non-GAAP measure).
(2) Cost of sales includes a net realizable value inventory write down of $2,885,551 in Q4 2009. If the write down of steel inventory were excluded from the results above, fourth quarter 2009 gross margins would have been $3,778,390 (a gross margin % of 11.8).
(3) Prepared under previous GAAP. As allowed under IFRS 1 for first time adoption, these amounts are not re-presented on an IFRS basis.

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

FINANCIAL CONDITION & LIQUIDITY

Summary Balance Sheet As at		March 31 2011		December 31 2010
Current assets	$	**103,383,483**	$	94,167,928
Property and equipment		**4,851,074**		3,684,771
Other assets		**1,063,523**		913,740
TOTAL ASSETS	$	**109,298,080**	$	98,766,439
Current liabilities	$	**73,488,966**	$	70,641,218
Long-term liabilities		**3,803,965**		4,448,167
TOTAL LIABILITIES		**77,292,931**		75,089,385
Share capital		**20,095,535**		14,451,480
Non-controlling interest		**(116,632)**		(33,411)
Retained earnings and contributed surplus		**12,026,246**		9,258,985
TOTAL SHAREHOLDERS' EQUITY		**32,005,149**		23,677,054
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	**109,298,080**	$	98,766,439

Financial Ratios	March 31 2011	December 31 2010
Working capital ratio	**1.41**	1.33
Days sales in receivables	**109.0**	114.6
Inventory turns	**3.4**	2.3
Days purchases in payables	**66.2**	84.2

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

As at March 31, 2011, the Company had positive working capital of $29,894,517 compared to $23,526,710 at December 31, 2010. The Company's current ratio (defined as current assets divided by current liabilities) was 1.41 to 1 for the period ended March 31, 2011, compared to 1.33 at the end of 2010.

As at March 31, 2011, the Company had $42,328,605 outstanding under its available credit facilities of $50,000,000, with a Canadian chartered bank, as compared to $39,552,948 at December 31, 2010. In December 2010, the Company amended its credit facility, which resulted in an increase in the line of credit to $50,000,000 from $40,000,000 with a $5,000,000 bulge under the previous facility.

The March 31, 2011 days sales in receivables are 109.0, slightly lower than the ratio from December 31, 2010. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference in the calculation of the days sales in receivables. The decrease in days' purchases in payables is due to significant increase in purchases over the

comparable prior period. Given the high sales volume experienced by the Company in the current period, purchases increased by 61% to meet the increase in demand.

As at March 31, 2011, accounts receivable was $54,111,298, a $7,383,373 or 15.8% increase from the December 31, 2010 balance of $46,727,925. The increase is due to the increase in sales activity in the fluids division for the first quarter of 2011 due to increased drilling rig activity, combined with the delay in payments from customers as is common practice in the industry.

Inventory increased by $1,172,546 or 2.8% to $43,586,661 compared to 2010 year end balance of $42,414,115. A significant portion of this relates to inventory in the steel division, which increased from $8,218,033 held at the end of December 2010 to $9,218,633 at the end of March 2011. This is a result of new purchases of common item stock for the steel division, for which orders had been placed prior to year end but were not received until the first quarter of the year. Fluids inventories have remained consistent given the high volume of purchases directly correlates to the high volume of sales experienced. This is in line with the Company's normal seasonality of sales experienced.

The Company's prepaid expenses and deposits have increased by $659,636 to $5,685,524 at March 31, 2011 as compared to the 2010 year end balance of $5,025,888. Many of the steel products purchased required down payments to vendors prior to the shipment of material in the quarter. Additional raw materials inventory was ordered and required deposit prior to shipment for the manufacturing subsidiary. The Company continues to work with its vendors on the terms of these purchases to reduce the upfront cash deposits needed.

The Company has recorded a loss of $83,221 for non-controlling interest in the period, and a total equity balance of $116,632 compared to $33,411 at December 31, 2010. The non-controlling interest relates to the establishment of the Manufacturing subsidiary.

The Company's liquidity will depend upon operating cash flows, existing working capital, the unused credit facility and the ability to access debt and equity markets. The Company currently has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. The Company continues to assess its requirements for capital on an on-going basis. Based on current budgeted operating expenditures for the 2011 year, the Company will have sufficient funds to meet its obligations. The Company has traditionally relied upon the working capital and available operating line of credit to satisfy its capital requirements. As part of the Company's amended credit facility in December 2010, the Company obtained a $1,000,000 Evergreen Line of Credit for the purposes of funding capital expenditures in 2011.

Summary of Consolidated Statements of Cash Flows Periods ended		**March 31 2011**		March 31 2010
Cash used by operating activities	**$**	**(6,000,353)**	$	(4,371,954)
Cash provided by financing activities		**6,930,833**		4,502,984
Cash used by investing activities		**(930,480)**		(131,030)
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of year		**-**		-
Cash and cash equivalents, end of year	**$**	**-**	$	-

Cash flow used by operating activities

Cash used by operating activities for the period ended March 31, 2011 was $6,000,353 compared to cash provided of $4,371,954 for the same period in 2010. The Company's increase in cash used for operating activities relates to more cash paid for the purchase of inventory as the Company increased purchases to maintain stock for the level of sales demand experienced. This also created an increase in the balance of accounts payable outstanding. There are significant receivables balances outstanding at March 31, 2011 as compared to the prior year given the significant

increase in sales that occurred in the first quarter of 2011. We expect to see our cash from operations to improve in improve for the second quarter, as the Company will commence collection on receivables from winter work, and will not be required to pay out as much in payables as the Company will have sufficient inventory levels to meet demand. The Company intends to continue to manage its inventory levels and spending in order to conserve its balance sheet strength and minimize any increase in debt levels.

Cash flow provided by financing activities

Cash provided by financing activities was $6,930,833 for the first quarter of 2011, compared to cash provided of $4,502,984 in the first quarter of 2010. The cash provided by financing activities is related to advances on the operating line to fund increased purchases to meet the increased demand in the year. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second and third quarters, which it will use to repay the operating line. This trend is reversed in Q4 and Q1 when significant sales and purchases occur, while collections are often delayed until Q2. With the increased purchasing activity, increased borrowing was required to pay vendors ahead of the collection of receivables on the increased sales.

The significant increase over the comparable prior period is due to the equity financing that was completed in February of 2011, which provided $6,000,000 additional financing, prior to related expenses. In addition, the Company continues repayment of the subordinated debt facility which began in February 2009. The repayments have been funded through the collection of receivables and the current operating credit facility. The Company also paid $1,000,000 plus interest on one of the promissory notes. The payment of $1,200,000 plus interest due in May 2010 will be paid in May 2011 using operating cashflow. The installment of the $1,000,000 plus interest due in October 2010 is scheduled for repayment on or around October 2011 and October 2011 installment is schedule for payment early in 2012 provided the Company remains compliant with it credit covenants. Interest will be repaid within the next 12 months and will be funded out of operating cash flow. The principal payments will be funded through the operating line of credit provided funds are available, otherwise postponed until such time the Company has the available funds to pay the amounts due and not in violation of its financial covenants.

Cash flow used by investing activities

Cash used in investing activities amounted to $930,480 in the first quarter of 2011 compared to $131,030 in 2010. The increase is due to the additions to the manufacturing facility during its initial setup phase. The Company has capitalized $1,279,980 of assets to the end of March 2011 for this new subsidiary, including $349,050 in capital lease assets. The Company expects significant increases in the second quarter of 2011 of an estimated $2,400,000 in additions related to the manufacturing facility as well for the final purchase of the manufacturing equipment. This equipment is to be provided by the third party non-controlling interest owner of the manufacturing subsidiary in exchange for preferred shares in the subsidiary, as per the original agreement between companies.

Covenants

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

Obligations under operating lease

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

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

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
March 31, 2011	$ 1,661,417	4,951,899	2,085,480	$ 8,698,796
December 31, 2010	$ 1,694,932	5,114,953	2,317,200	$ 9,127,085
January 1, 2010	$ 1,090,366	3,828,475	3,244,080	$ 8,162,921

Contractual obligations related to financial liabilities at March 31, 2011 are as follows:

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Finance leases*	Total
2011	$ 42,328,605	$ 27,363,359	$ 1,657,727	$ 1,277,706	$ 79,825	$ 72,707,222
2012	-		1,292,597	2,121,490	106,434	3,520,521
2013	-	-	-	-	106,434	106,434
2014	-	-	-	-	74,437	74,437
2015	-	-	-	-	74,437	74,437
After 2015	-	-	-	-	65,416	65,416
Total	$ 42,328,605	$ 27,363,359	$ 2,950,324	$ 3,399,196	$ 506,983	$ 76,548,467

* includes interest calculated to be paid

Intangibles

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

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

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

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

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

Property and equipment

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

The Company's investment in property and equipment for the period was $926,881 including additions through capital leases. The capital expenditures were funded from the Company's operating line of credit. Capital expenditures typically are comprised of betterments and upgrades to existing assets. The Company ensures equipment is efficient and profitable or the equipment is replaced when the cost of maintenance and operating the equipment is not feasible. Future capital expenditures of approximately $3,917,900 are being proposed for fiscal 2011. This includes $2,100,000 of thermal expansion manufacturing equipment to be purchased by the Chinese partner in Manufacturing in exchange for preferred shares of equal value in the subsidiary. Of the total remaining planned expenditures, $1,608,400 is estimated in additional Manufacturing capital assets, including capital leases and leasehold improvements. The residual planned expenditures are for normal upgrades and additions planned in the Company's other subsidiaries. The Company plans to fund the remainder of these capital expenditures from the Company's operating credit line as well as capital leases and the Evergreen line of credit.

Off-balance sheet arrangements

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

Transactions with related parties

During the period ended March 31, 2011, the Company incurred selling, general and administration expenses in the normal course of operations with BRC Advisors Inc. commencing March 2010, and Western America Capital Group, previously, affiliated companies which a certain director and officer has significant influence, as follows:

a) Management advisory services of $30,000 (March 31, 2010 – $30,000) to a Company which a director and officer has significant influence.

b) Accounting, administrative, office and corporate expenses of $7,405 (March 31, 2010 – $9,156) were paid to a Company over which a director and officer has significant influence.

The Company expensed interest of $17,753 (March 31, 2010 - $33,000) on promissory notes payable issued in 2006 which are held by two of the Company's directors, and significant shareholders. In addition, the Company expensed $48,894 (March 31, 2010 – $44,384) on promissory notes payable issued on the acquisition of Bri-Chem Steel, which are held by three of the former owners of Bri-Chem Steel.

Derivatives

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure on certain committed and anticipated transactions. The foreign exchange forward contracts are recorded at fair value in receivables when the contracts are in a gain position and in accrued liabilities when the contracts are in a loss position. The difference between nominal value and fair value is recorded in foreign exchange expense in the period. The Company purchases foreign exchange forward contracts to mitigate the exposure to purchases and the related payable to suppliers denominated in U.S. dollars.

OUTLOOK

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

We anticipate oil drilling activity to remain strong in 2011 which will continue to drive demand for our drilling fluid and blending products. Oil prices have rebounded and appear to have stabilized which will lead to increased drilling activity thus positively affecting the demand for the Company's fluid and steel products. Bri-Chem remains focused on superior customer service, managing inventory levels and controlling costs. As activity levels continue to grow, Bri-Chem is well positioned to grow market presence and profitability through its diverse product offering, strategic distribution network and solid client relationships.

The Petroleum Services Association of Canada (PSAC) has forecasted 12,906 wells to be drilled in Canada for 2011, a forecasted increase of 7.2% over 2010. In addition, PSAC has forecasted a 12.0% increase in number of wells drilled to 1,349 in the second quarter of 2011 compared to 1,205 in the second quarter of 2010. The numbers of wells may not reach this level in the second quarter due to the late spring breakup that may impact duration of spring break up in the WCSB. With the projected increase for 2011, the fluids division is expected to experience increased sales and profitability as demand for fluids will be driven by the continued non-conventional, horizontal drilling applications occurring in the WCSB.

The Company's chemical blending operation is expected to experience additional growth during 2011, as demand for blending proprietary customer products is expanding due to the increase in non-conventional drilling activity. Management will continue to focus on expanding blending opportunities in 2011 through blending and packaging of cementing, acidizing and fracturing chemical additives. We are continuing to examine new product lines and improving efficiencies while maintaining the ability to meet the increased demand for our blended products and services.

The recently announced letter of intent to acquire Stryker Ltd., a Denver, USA based drilling fluids wholesaler, and Stryker Transportation Ltd., its transportation division, will allow the oil and gas drilling fluids division to expand into the estimated $3.2 billion drilling fluids market in the USA. The proposed acquisition is in line with the Company's strategic growth plan to create an independent wholesale drilling fluid distribution network to service the USA unconventional resource plays in Texas, Western USA, and the North-East USA. In addition, this acquisition will allow the Company to continue to service certain Canadian customers who are or intend to pursue strategic growth plans in the USA. The Company is currently working through the due diligence process and expects the acquisition to be completed by the end of May 2011.

Excess North American steel inventory levels were reduced during 2010 and have returned to near normal levels. Demand for steel products is starting to improve and it is expected that demand will continue to improve throughout 2011. We anticipate margins to improve over the short to medium term to more traditional levels as commodity prices continue to rebound from the lows of 2009. Management continued to focus on seamless steel pipe distribution and trading in Q1 and will look to increase its presence in Oil Country Tubular Goods (OTCG) throughout the balance of the year.

The steel manufacturing division continues installation of the equipment and prep work at the new facility during the first quarter. Installation is expected to be completed by the end of May, with early testing and light production by the end of Q2 2011. In the short to medium term, management expects to continue marketing the micro-mill large diameter seamless steel pipe to customers and securing purchase orders to fill the production schedule for the remainder of the year. Management is optimistic that the demand for large diameter seamless pipe in Canada will drive the division's sales and profitability. Potential unforeseen production delays could affect the ability to meet industry demand in the short term. Management is also continuing to evaluate further expansion opportunities.

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

RISKS AND UNCERTAINTIES

The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A and Bri-Chem's other public disclosure documents, including the Annual Information Form for the Company for the year ended December 31, 2010. These risks and uncertainties are not the only ones facing Bri-Chem. Additional risks and uncertainties not currently known to the Company or that the Company currently considers remote or immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Company could be materially adversely affected.

Liquidity Risk

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

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

Competition and Industry Conditions

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

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

Alberta Royalty Framework

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

Any future changes to the framework could have a material adverse effect on Bri-Chem's ongoing operations, financial condition, results of operations and cash flows.

Supply Risk

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

Oil and Natural Gas Prices

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

Commodity Price Risk

The cost and availability of steel and selling prices fluctuate due to a number of factors beyond our control, including global market conditions, foreign currency exchange rates, and demand for steel, trade sanctions, tariffs, competition and price surcharges. Fluctuations in availability and cost of steel and selling prices may materially affect our business, financial condition and cash flow. We have no material long-term, fixed price purchase contracts. We attempt to pass along all product costs where able to customers. To the extent we are not able to pass on the entire increase to our customers, our business, financial condition and cash flow may be materially affected.

Interest Rate Risk

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

Foreign Currency Risk

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

Integration of Acquisitions

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

Entering New Business Lines

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

Government Trade Tariffs

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

Seasonal Weather

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

Product Liability Claims

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

Ability to Achieve Profitability

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

Credit Risk

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

Inventory Risk

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

Ability to Maintain Obligations Under Credit Facility and Other Debt

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

Income Tax Expense

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

Workplace Safety, Health and Wellness

The Company's employees may face workplace health and safety risks and hazards, which could potentially result in injury or lost time. The Company's Safety Program is in place to reduce risks to people, the environment and the Company's business, and is continually updated as new risks and hazards are identified. These risks and hazards could result in personal injury, loss of life, environmental damage, or other damage to the Company's property or

the property of others. The Company cannot fully protect or insure against all these risks, and could become liable for damages arising from these events against which are not insured.

Adoption of International Financial Reporting Standards ("IFRS")

As the Company prepares for the implementation of IFRS effective January 1, 2011 there may be certain standards that may materially affect the Company's financial results and results from operations. These standards also continue to be revised and updated for new issues and concepts which may alter impacts and results from those determined by Management at this time. Management continues to monitor these changes and respond to the potential for future impacts.

Environmental Liability

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

Dependence on Key Personnel

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

CRITICAL ACCOUNTING ESTIMATES

In preparing the interim consolidated financial statements, in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Principal areas where uncertainty is inherent include the valuations of accounts receivable, the allowance for doubtful accounts, the sales return provision, inventory obsolescence, net realizable value inventory write-downs and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of future income tax assets, the impairment testing of goodwill and long-lived assets, valuations of accrued liabilities and future income tax liabilities, the fair value of derivative financial instruments, and the fair value of options and warrants using the Black-Scholes Option Pricing Model. Management feels actual results will not be materially different from these estimates.
The most significant estimates and judgments used by management include:

Sales return provision

Accounts receivable is the most significant asset at March 31, 2011. Included in this balance is a sales return provision for the fluids division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision already recorded.

Inventory valuations

Inventory is measured at the lower of cost and net realizable value. Net realizable value is an estimate of future selling prices less the costs to sell. Management reviews inventory periodically when factors indicate that a potential for impairment of the net realizable value exists. This includes examining the value of inventory against current market conditions, past sales history, and future sales trends predictions to determine the recoverable amount. When impairment is recorded, management tracks the future sales of these items and reverses any write-down where the net realizable value has subsequently increased.

Fair value of derivative financial instruments

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

Income taxes

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

ACCOUNTING POLICIES

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

Change in accounting policy

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

Adoption of International Financial Reporting Standards

The Company prepared its March 31, 2011 interim consolidated financial statements in accordance with IFRS accounting policies. In accordance with IFRS 1, the Company has a transition date of January 1, 2010 and therefore comparative information for 2010 has been prepared and re-presented in accordance with IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared under previous GAAP and will not be re-presented.

The Company's IFRS accounting policies are provided in Note 4 to the interim consolidated financial statements. In addition, Note 25 to the interim consolidated financial statements presents reconciliations of the following from previous GAAP to IFRS:

- Equity as at January 1, 2010;
- Equity as at March 31, 2010;
- Equity as at December 31, 2010;
- Net earnings and comprehensive income for the three months ended March 31, 2010;
- Net earnings and comprehensive income for the year ended December 31, 2010;
- Statement of cash flows for the three months ended March 31, 2010

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

IFRS 1

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

Property and equipment

On transition to IFRS, the Company has elected not to use the IFRS 1 exemption to record its intangible assets at the fair value. All assets are recorded at the carrying amount at the date of transition. Under the standard, the capitalization of the Company's website development costs is not allowed as the site does not provide directly traceable future earnings potential to the Company. The costs of $25,935 and accumulated amortization of $6.916, previously held under property and equipment, were removed from the balance sheet on transition date. Additional website costs of $3,205 and related amortization of $802 were removed at the end of the first quarter of 2010.

Share-based payments

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

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

Intangible assets

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

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS Accounting Policies

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. Revenue from the Company's largest three customers accounted for approximately 24%, 14% and 14% respectively of revenue for the period ended March 31, 2011 (March 31, 2010 - 18%, 16% and 9%) and 27%, 16% and 16% respectively (March 31, 2010 – 23%, 18%, 10%) of total accounts receivable at year end.

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

For the period ended March 31, 2011, the Company has recorded an allowance for doubtful accounts of $184,576 (December 31, 2010 - $92,000). The allowance is an estimate of the March 31, 2011 trade receivable balances that are considered uncollectible. Changes to the allowance during the period ended March 31, 2011 consisted of a bad debt expense of $92,576.

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

The aging of accounts receivable was as follows:

March 31, 2011	**Gross accounts receivable**	**Allowance for doubtful accounts**	**Net accounts receivable**
Current	$ 14,045,306	$ -	$ 14,045,306
31 to 60 days	14,606,720	-	14,606,720
61 to 90 days	18,354,597	-	18,354,597
91 to 120 days	4,650,841	-	4,650,841
Over 120 days	2,638,410	(184,576)	2,453,834
Total	$ 54,295,874	$ (184,576)	$ 54,111,298

The changes in allowance for doubtful accounts were as follows:

	2011	2010
Balance, beginning of period	**$ 92,000**	$ 169,491
Bad debt expense	**92,576**	202,456
Receivables written off		(223,173)
Recovery of receivables		(56,774)
Balance, end of period	**$ 184,576**	$ 92,000

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

Interest rate risk

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

The effective interest rate on the bank indebtedness balance at March 31, 2011 was Canadian bank prime interest rate plus 100 basis points (4.00%). The long term debt bears interest at bank prime plus a fixed increment. As at March 31, 2011, with other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately $83,152 (March 31, 2010 - $65,973).

Currency risk

The Company is subject to foreign currency risk due to its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies. Therefore, there is risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities. Although the majority of the Company's operations are in Canada, the Company has operations outside Canada, which increases its exposure to foreign currency risk. Accounts receivable in foreign currency was $1,481,719 as at March 31, 2011 (March 31, 2010 - $1,470,286) and accounts payable in foreign currency outstanding as at March 31, 2011 is $3,362,456 (March 31, 2010 - $10,020,062).

For the period ended March 31, 2011, the Company realized a foreign exchange gain of $5,390 (March 31, 2010 - $587,595). Based on the monetary assets and liabilities held in the United States ("US") at March 31, 2011, a five percent increase or decrease in exchange rates would impact the Company's net earnings by approximately $63,822 (March 31, 2010 - $297,781).

Commodity risk

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

SHARE DATA

As at March 30, 2011, the Company had 15,785,886 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,400,000 common shares. As of March 31, 2011, options to purchase 1,372,000 common shares were outstanding at an average price of $1.91 per common share. Warrants totaling 350,000 with an average exercise price of $2.03 may be exercised into common shares.

Equity Raise

On January 19, 2011, the Company announced an equity financing of up to 2,000,000 common shares of the Company at a price of $3.00 per share. The financing was completed February 22, 2011 with 2,000,000 common shares issued for gross proceeds of $6,000,000. In consideration for services related to the offering, the Company has agreed to pay Macquarie Private Wealth Inc. ("the Agent"), a fee equal to 6% of the gross proceeds of the offering, totaling an aggregate commission of $360,000, plus a corporate finance fee of $30,000 plus tax. The Agent also received non-transferrable agent options equal to 7% of the number of shares sold under the offering. Upon closing of the offering, 140,000 non-transferrable agent options were issued to the Agent, entitling the Agent to

purchase one Bri-Chem common share, at a price of $3.00 per share, with an expiry date of August 22, 2012. The value of the options issued at February 22, 2011 was $105,000, charged to share capital at that date.

The Company has used the net proceeds of this equity financing to repay a portion of the promissory notes payable, and a portion of its indebtedness under its credit facility, thereby freeing up borrowing capacity to fund operational working capital, current and future strategic growth opportunities. The additional share capital issue is also expected to increase the trading liquidity of the listed common shares.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Certain financial measures referred to in the MD&A and explained below, namely EBITDAC (earnings before interest, taxes, depreciation, amortization, and stock based compensation) and operating expenses, are not prescribed by Canadian generally accepted accounting principles (GAAP). These non-GAAP financial measures do not have a standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. The Company includes these non-GAAP financial measures for investors who may use the information to analyze operating performance. These non-GAAP financial measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP.
EBITDAC (Earnings before interest, taxes, depreciation and amortization and stock based compensation) is not a concept recognized by generally accepted accounting principles, however is recognized in industry as an indirect measure for operating cash flow, a significant indicator of the success of any business. Management believes that EBITDAC is useful measure of earnings, in addition to net earnings as it provides an indication of the financial results and earnings generated by the Company's primary business activities prior to financing, tax considerations and before non-cash amortization expense. Adjusted EBITDAC includes an adjustment for the inventory write-down (reversal) which is not seen by management to be a normally recurring item. The following is a reconciliation of EBITDAC and Adjusted EBITDAC to net earnings for each of the periods presented in this MD&A.

EBITDAC				
		For the three months ended March 31		
		2011		2010
Net earnings	**$**	**2,632,453**	$	2,681,583
Add:				
Interest		**600,388**		413,982
Income taxes		**957,553**		990,783
Depreciation and amortization		**195,418**		202,103
Stock-based compensation [1]		**13,976**		46,949
EBITDAC		**4,399,788**		4,335,400

(1) Stock-based compensation includes warrants of $2,501 (2010 - $10,113) and stock options of $11,475 (2010 - $36,836).

Operating expenses is not a concept recognized by generally accepted accounting principles as it does not include interest and amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the March 31, 2011 consolidated financial statements:

Operating expenses				
		For the three months ended March 31		
		2011		2010
Operating expenses	**$**	**3,275,323**	$	2,015,898
Add:				
Interest		**600,388**		413,982
Depreciation and amortization		**195,416**		202,103
Stock-based compensation		**13,976**		46,949
Total expenses	**$**	**4,085,103**	$	2,678,932

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