Bri-Chem Corp.
Management's Discussion and Analysis
Three Months Ended March 31, 2012

INTRODUCTION:

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

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

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:

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

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

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

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

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

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

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

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

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

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

2012 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.

During the first quarter of 2012, Bri-Chem generated consolidated sales of $52,566,448 an increase of 3.8% for the quarter compared to $50,647,489 from the prior year. Net earnings increased by 9.9% to $2,893,604 or $0.18 diluted earnings per share in the same period compared to net earnings of $2,632,453 or $0.18 diluted earnings per share for 2011. The Company had additional weighted average number of shares in the quarter of 2,075,416 which resulted in the dilution of EPS of $0.02 for the first quarter of 2012 compared to the first quarter of 2011. Earnings before interest, taxes, amortization and share-based payments expense ("EBITDAC") were $5,300,445 or $0.30 per share for the three months ended March 31, 2012, an increase of $900,657 compared to same period in 2011.

The North American oil and gas drilling fluids division recorded sales of $43,425,910, an increase of 0.2% for the three months ended March 31, 2012, compared to the same periods in 2011. In Canada, drilling rig utilization averaged 67.7% for the first quarter which was relatively consistent with the same period last year when utilization rates averaged 67.8%, however the number of wells drilled declined by 8.6% to 3,377 in Western Canada compared to 3,696 for the same quarter in 2011. The current price of natural gas had an adverse affect on the drilling activity levels in certain regions in Western Canada, which affects the demands for drilling fluid products. The Petroleum Services Association of Canada (PSAC) has forecasted 13,150 wells to be drilled in Canada for 2012, an increase of 2.3% over 2011. The Company is cautiously optimistic that activity levels will remain consistent with those of 2011.

The Company's USA drilling fluids and transportation subsidiaries, acquired on June 1, 2011, generated sales of $2,928,282 for the quarter ended March 31, 2012. During the quarter, these subsidiaries focused on expanding Bri-Chem's market presence with increased inventories and sales personal to help service the demand for drilling fluid products in regions of the USA. These efforts resulted in new sales growth and broader territorial coverage.

The steel pipe distribution division recorded sales of $6,976,112 for the three months ended March 31, 2012, compared to sales of $7,310,652 for the same period in 2011. The division concentrated on seamless pipe sales which yielded better margins at 15.1% for the quarter ended March 31, 2012, compared to 12.3% in same comparable period of 2011. The focus of this division, for fiscal 2012, is to provide seamless and welded pipe products to the oil and gas and mechanical industries in Canada.

Late in the third quarter of 2011, the Company commenced operations of its large diameter seamless pipe manufacturing facility. After building in numerous process efficiencies and fine-tuning and testing of the equipment throughout the fourth quarter, the Company increased its production in January 2012. As a result, the steel pipe manufacturing division recorded sales of $2,034,247 for the three months ended March 31, 2012 (March 31, 2011 - $Nil). The majority of the steel pipe manufacturing sales were to customers in the USA which yielded margins of 27.6% during the quarter.

Outlook Summary

Canadian drilling activity, for remainder of 2012, is forecasted to remain consistent with those of 2011 which will allow our core business to remain steady. The Company will concentrate on maintaining its dominate position through strong customer service in Canada while looking to expand its sales and profitability in its USA drilling fluids and steel pipe manufacturing divisions. Bri-Chem anticipates fiscal 2012 sales and earnings will continue to grow as the Company is gaining market presence in the USA drilling fluids market as well as increasing manufacturing production of its large diameter seamless pipe mill. Canadian drilling activity in the second quarter of 2012 is expected to be similar to that of second quarter of 2011, as Canadian spring break up will impact drilling fluid demand in Canada. The USA fluids division will continue to grow inventory levels and seek additional geographic warehouse locations to pursue becoming the dominate national independent wholesaler of drilling fluids. We believe further geographic expansion will allow the division to gain market share and increase sales and profitability. The Company's steel pipe distribution division will manage its inventories and continue to provide a vast array of seamless and welded steel pipe to service customer demands. The Company's large diameter steel pipe manufacturing mill is currently in production with one full shift operating four days a week. The division will seek to add a second full shift in later half of the second quarter to increase production capacity for the balance of fiscal 2012 and beyond. Bri-Chem also continues to evaluate North American integrated acquisition opportunities that will enhance profitability and provide geographic diversity.

DESCRIPTION OF BUSINESS

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

OIL AND GAS FLUIDS DIVISION

Drilling Fluids

Bri-Chem is one of Canada's largest wholesale distributors of drilling fluid supplies to the oil and gas industry in the Western Canadian Sedimentary Basin ("WCSB"). Bri-Chem sells 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. Bri-Chem operates from a 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.

Completion Fluids and Blending

The fluids market in the WCSB also includes completion fluids, cementing, acidizing and fracturing fluids. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these end 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.

Training and Fluid Analysis

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

USA Drilling Fluids

On June 1, 2011, Bri-Corp acquired all the outstanding ownership interests in each of Stryker Ltd., a Colorado limited liability fluids wholesale drilling fluids distribution business, and Stryker Transportation Ltd., a Colorado limited liability trucking transportation business ("Stryker Acquisition"). Stryker Ltd. was renamed Bri-Chem Supply Corp, LLC upon acquisition. The Denver based acquisition provides a platform for the Company's strategic growth plan to create an independent wholesale drilling fluid distribution network to service the USA unconventional resource plays in Texas, Western USA, and the North-East USA. In addition, this acquisition will allow the Company to continue to service certain Canadian customers who are or intend to pursue strategic growth plans in the USA.

STEEL PIPE DIVISION

Steel Pipe Distribution

Bri-Chem, through its steel pipe division, is a wholesale distributor for steel pipe, tubular products and casing. The division primarily services the oil and natural gas, construction, mechanical and industrial markets in Western Canada and Eastern United States. Bri-Chem sells over 2,000 steel products ranging in various lengths and diameters of carbon steel welded pipe, carbon steel seamless pipe and stainless steel pipe. 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 Edmonton, Alberta, which is the primary stock location for steel pipe in North America and also maintains a stock facility in Houston, Texas, which allows the Company to service major pipe distributors throughout the Eastern and Mid-Western USA. Bri-Chem's broad base of steel pipe are primarily used in the oil and gas industry, however the Company does distribute steel pipe to non-oilfield related industries such as construction, industrial and mining.

Steel Pipe Manufacturing

The steel pipe manufacturing subsidiary is a producer of large diameter seamless pipe for the North American marketplace. The subsidiary is 70% owned by Bri-Chem Corp. and 30% owned by Wuxi Huayou Special Steel Co., Ltd ("Wuxi"). The division produces steel pipe ranging in outside diameter from 14" to 36" which is manufactured from carbon steel tubes using a Thermal Pipe Expansion (TPE) process that heats the steel tubes while being pushed by a horizontal hydraulic press over a mandrel, thereby expanding the pipe. The TPE process has been utilized for producing large diameter steel pipe for several years in China and the steel pipe manufacturing segment is the first to introduce TPE production and testing in Canada.

Seasonality of Operations

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

Growth Strategy

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

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

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

FINANCIAL SUMMARY

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

Consolidated statements of operations		For the three months ended March 31 2012		2011		Change $	%
Sales	$	**52,566,448**	$	50,647,489	$	1,918,959	3.8%
Gross margin		**9,181,102**		7,675,110	$	1,505,992	19.6%
		17.5%		15.2%			
Operating expenses (1)		**3,880,657**		3,275,322		605,335	18.5%
EBITDAC (2)		**5,300,445**		4,399,788		900,657	20.5%
Amortization		**558,640**		195,418		363,222	185.9%
Interest		**736,073**		600,388		135,685	22.6%
Share-based payments		**97,734**		13,976		83,758	599.3%
Earnings before income taxes		**3,907,998**		3,590,006		317,992	8.9%
Income taxes - current		**1,171,155**		1,068,994		102,161	9.6%
Income taxes (recovery) - deferred		**(156,761)**		(111,441)		(45,320)	40.7%
Net earnings	$	**2,893,604**	$	2,632,453	$	261,151	9.9%
Net earnings attributable to shareholders of the Company	$	**3,061,478**	$	2,715,674	$	345,804	12.7%
Net loss attributable to NCI (3)	$	**(167,874)**	$	(83,221)	$	(84,653)	101.7%
Earnings per share							
Basic	$	**0.18**	$	0.19	$	(0.01)	-5.3%
Diluted	$	**0.18**	$	0.18	$	-	0.0%
EBITDAC per share							
Basic	$	**0.31**	$	0.30			
Diluted	$	**0.30**	$	0.29			
Weighted average shares outstanding							
Basic		**17,193,631**		14,550,108			
Diluted		**17,414,312**		15,338,896			

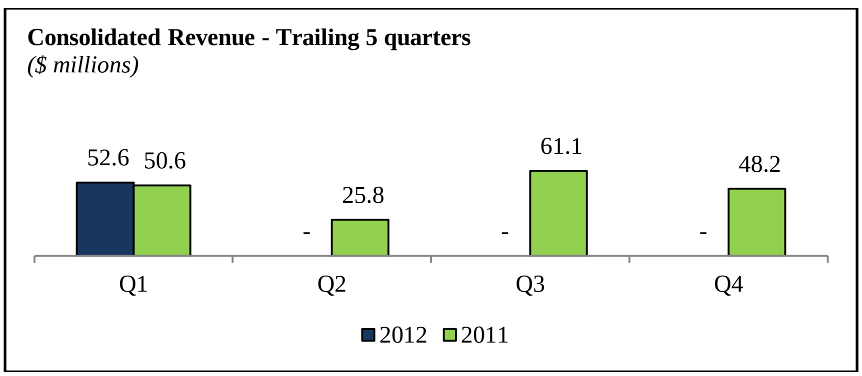
(1) See page 33 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (see page 33 for a further explanation of this non-IFRS measure).
(3) Bri-Steel Manufacturing Inc. is a 70% owned subsidiary of Bri-Chem Corp. NCI represents the 30% non-controlling interest's ("NCI") portion of loss of the subsidiary for the three month period ended March 31, 2012.

RESULTS OF OPERATIONS

Sales

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

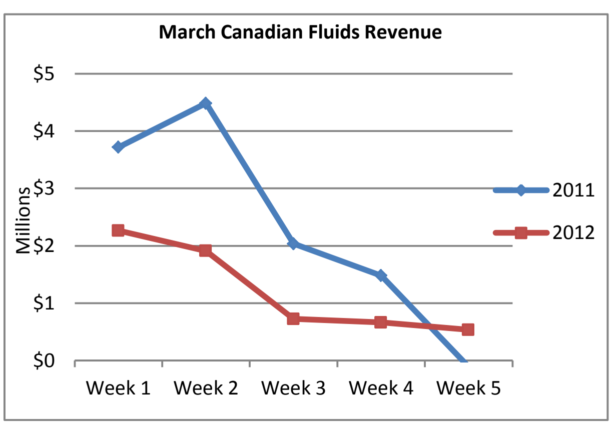
Sales by segment						
	For the three months ended March 31					
	2012		2011		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids	**$ 43,425,910**	**82.6**	$ 43,336,837	85.6	$ 89,073	0.2%
Steel Distribution	**6,976,112**	**13.3**	7,310,652	14.4	(334,540)	-4.6%
Steel Manufacturing	**2,034,247**	**3.9**	-	-	2,034,247	100.0%
Other	**130,179**	**0.2**	-	-	130,179	100.0%
	$ 52,566,448	**100.0**	$ 50,647,489	100.0	$ 1,918,959	3.8%



Oil and Gas Fluids Division

Canadian Sales

The Canadian oil and gas fluids division generated sales for the first quarter in 2012 of $40,627,808, compared to sales of $43,336,837 over the comparable 2011 quarter representing a decrease of $2,709,029 or 6.3%. The decrease in sales was due to the number of wells drilled in Western Canada which decreased in the first quarter of 2012 from 3,696 to 3,377 or 8.6% over the prior comparative period and the winter drilling season in 2012 experienced more traditional activity levels resulting in a normal mid March spring breakup, whereas in Q1 2011, the oil and gas industry experienced a longer winter drilling season, thus causing more wells to be drilled. Therefore the first quarter of 2012 experienced less sales as rigs shut down mid March compared to late March in 2011 as shown in the March Canadian Fluids Revenue graph. Average drilling rig utilization rates remained relatively consistent for the first three months of 2012 at 67.7% compared to the same period in 2011 of 67.8%. The Alberta market



experienced the least impact of the decrease in sales of 0.4% over the first quarter of the prior year while the number of wells drilled decreased by 17.8% in the region. Wells drilled in Saskatchewan increased by 20.4%, while the Company's revenue decreased by 10.1% in the province. British Columbia has seen a significant decrease in sales of 44.7% to $2,871,617 for the first quarter of 2012 over the comparable prior year amount of $5,190,157 while rig activity decreased 2.6% from 2011. The decrease in sales in the region was mainly as a result of our customers not obtaining the majority of the work which was due to the North American major drilling fluid engineering companies obtaining the majority of the work and servicing those wells in the regions with their own inventories as these companies are fully integrated with inventory and engineering services.

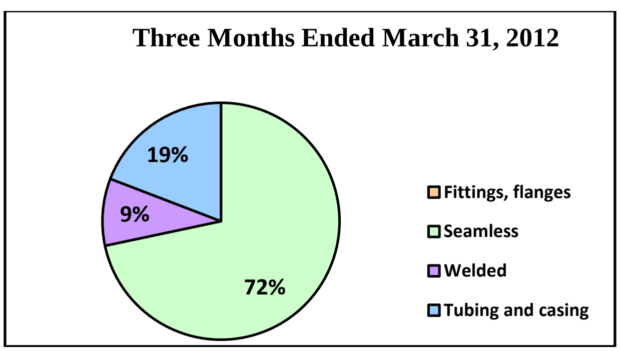
United States Sales

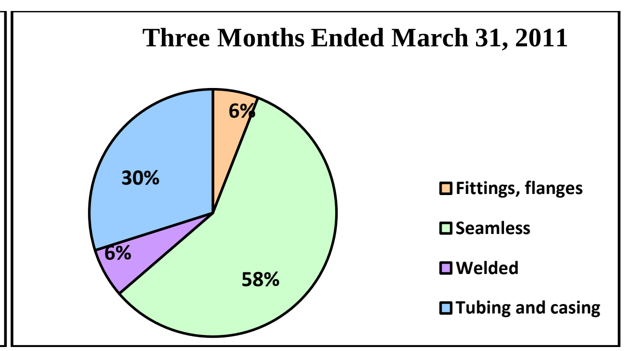
Total fluid sales into the United States ("USA") were $3,200,170 for the quarter ended March 31, 2012, which is comprised of $2,798,103 of drilling fluid sales from the USA fluids division and $402,067 of fluid sales from the Canadian fluids division sold into the USA. Drilling activity in the USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. As such, the Company continues to focus on expanding its product offerings in the regions it currently services as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from an independent wholesaler. This includes the Stryker acquisition which was completed on June 1, 2011. The consolidated financial statements contain the operating results of this acquisition for the first quarter of 2012, however, no comparable period is included in the consolidated financial information from this acquisition.

Fluid Transportation

Fluid transportation revenues earned by the Company's USA based subsidiary amounted to $130,179 for the quarter ended March 31, 2012. This new revenue stream was added from the Stryker acquisition completed effective June 1, 2011 and is reported under the "Other" category in the "Sales by Segment" chart above. The transportation divisions' main purpose is to service the Company's USA drilling fluids division with transportation services to the various warehouses that the Company distributes its products from.

Steel Pipe Division





Steel Pipe Distribution

For the quarter ended March 31, 2012, the steel pipe distribution division generated sales of $6,976,112, a decrease of 4.6% over the comparable period in 2011. In 2011, the Company shifted its sales focus to seamless steel pipe and began to reduce its tubing and casing inventory as these product lines require more working capital and gross margins are lower as the market is highly competitive. The Company continued to divest its remaining tubing and casing inventory in the first quarter of 2012 and primarily sold seamless steel pipe. For 2012, the Company intends to increase its inventories of welded steel pipe but will continue to focus on supplying quantity of seamless steel pipe to meet specific needs of our customers, which is anticipated to result in moderate sales growth in 2012.

Steel pipe sales in the USA amounted to $1,553,430, compared to $578,488 in the same quarter of 2011, an increase of 169%. The increase in the quarter is due to tubing sales of $938,282 that was remaining stock in the USA. The Company has made a strategic decision to focus on the Canadian market, while USA sales are the result of the Company maintaining certain relationship in the USA and servicing those customers with steel pipe products when orders are received. The division continues to serve its USA customers with mill direct orders but is not focusing sales efforts in this area at this time..

Steel Pipe Manufacturing

The steel manufacturing division had sales of $2,034,247 for the quarter ended March 31, 2012. There were no revenues in the first quarter of 2011 as the Company commenced its production phase late in the third quarter of 2011. The first shipment of manufactured large diameter seamless steel pipe was transported September 15, 2011. After fine-tuning and testing of the equipment throughout the fourth quarter of 2011, the Company increased its operating staff and began increasing production in January 2012. During the first quarter of 2012, the Company continued to refine its manufacturing processes and build in redundancies. The division intends to move to a second production shift late in the second quarter of 2012.

The Company has submitted its application to the American Petroleum Institute (API) for mill certification and has received approval on the documentary portion of the audit. The API facility audit is expected to commence in the second quarter of 2012. These manufacturing revenues represent a significant milestone for the Company as the manufacturing process employed to produce the steel pipe is the first of its kind to operate in North America.

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							
	2012			2011			**Change**	
		$	**%***		$	%*	**$**	**%**
Fluids	**$**	**7,453,017**	**14.2**	$	6,773,929	13.4	$ 679,088	10.0%
Steel Distribution		**1,054,748**	**2.0**		901,181	1.8	153,567	17.0%
Steel Manufacturing		**624,193**	**1.2**		-	-	624,193	100.0%
Other		**49,144**	**0.1**		-	-	49,144	100.0%
Total	**$**	**9,181,102**	**17.5**	$	7,675,110	15.2	$ 1,505,992	19.6%

* as a percentage of consolidated revenues

Consolidated gross margin increased by $1,505,992 or 19.6% for the quarter ended March 31, 2012.

The fluids division margins have increased over the prior year. Average gross margin as a percentage of fluid sales was 17.3% in the first quarter of 2012 as compared to 15.6% in 2011. Margins on fluid sales vary based on product mix and drilling formations. Deeper, non-conventional wells require more technologically advanced fluids. Oil based drilling fluids, known as invert, have been developed to service deeper, high temperature and more environmentally sensitive drilling projects and has become a critical and interrelated part of the drilling operations with customers. These sales now make up approximately 30% of Canadian fluid sales in the first quarter ended March 31, 2012. The USA operations fluid margins are traditionally slightly higher than those of the Canadian operations, and were 22.1% for the first quarter of 2012.

For the steel distribution division, gross margins were 15.1% for the quarter ended March 31, 2012, compared to 12.3% in same comparable period of 2011. The steel distribution business has reduced its focus on tubing and casing sales and is concentrating sales on higher margin products such as seamless pipe. During the quarter ended March

31, 2012, the division sold the remainder of its casing at cost, which reduced the division's gross margins down by 2.4%. Steel pricing is anticipated to remain consistent in the short to medium term which will keep gross margins consistent in 2012.

The steel manufacturing division had margins of 27.6% for the quarter ended March 31, 2012 which is in line with management's expectations. Margins have the potential to fluctuate depending on the size and grade of pipe being produced. More specialized sizes such as 30" are anticipated to yield higher margins than common sizes such as 16" standard A106 pipe. Management is focused on meeting the size requirements of its customers, while being competitively priced. Margins may decline in the short term as the division ramps up personnel for a second shift, which will yield higher production in the second half of 2012.

For fiscal 2012, we are anticipating gross margins on fluid sales will remain consistent to those in 2011 based on forecasted drilling activity levels being comparable to those of 2011. We are unable to predict the value of the Canadian dollar in relation to foreign currencies in the future; therefore, we are uncertain as to the potential impact on the Company's gross margin in relation to foreign purchases of product. The steel distribution division will remain focused on maintaining margins that it experienced in late 2011 and early 2012. As steel commodity prices have remained consistent, margins are expected to improve slightly over the first quarter of 2012. The steel manufacturing division is targeting margins between 20% and 30% based on current raw material costs and estimated finished product sale prices.

Operating expenses

Salaries and employee benefits

	For the three months ended March 31		Change	
	2012	2011	**$**	**%**
Salaries and benefits	**$ 2,361,473**	$ 1,658,626	$ 702,847	42.4%
% of sales	**4.5%**	3.3%		1.2%

Salaries and benefits have increased over the prior year comparable period for the quarter. There were $402,703 of additional expenses for the year to date related to the operations of the USA subsidiaries, which includes 29 additional staff ranging from operations, sales, administration and long-haul truck drivers.

The Company incurred an additional $90,653 in salaries and benefits costs for the first quarter of 2012 related to new employees hired in 2012 for the steel manufacturing segment. These costs are for the general manager, mill right technicians, lab technicians who are not part of the direct labour costs of manufacturing the large diameter seamless pipe. Stock-based payments increased from the prior comparable quarter as the Company issued new stock options to directors, executive and senior management of the Company throughout 2011 which impacts the current period expense. Group benefits increased in 2012 due to additional $54,672 for benefits related to operations in the USA, which did not exist in 2011.

The Company employed 117 employees at March 31, 2012 compared to 59 at the same time period in 2011.

The Company expects salaries and employee benefits to increase throughout 2012 with the addition of sales and operational employees in the USA as the Company continues to grow its infrastructure to support demand for drilling fluid products. Additional staff may be required in the corporate office and accounting staff. These changes are expected due to the growing size of the Company given its overall strategic plan and operations and will be revisited as required.

Selling, general and administrative

	For the three months ended March 31			
	2012		2011	
	$	**%***	$	%*
Selling	**$ 317,395**	**0.6**	$ 183,435	0.4
Professional and consulting	**121,944**	**0.2**	249,773	0.5
General and administration	**538,049**	**1.0**	373,351	0.7
Rent, utilities and occupancy costs	**1,106,607**	**2.1**	829,503	1.6
Foreign exchange loss/(gain)	**(467,077)**	**(0.9)**	(5,390)	(0.0)
	$ 1,616,918	**3.1**	$ 1,630,672	3.2

* As a percentage of consolidated revenues

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

Selling expenses increased for the quarter ended March 31, 2012 compared to the same period in 2011. This includes an increase of $33,975 in public company costs related to investor relation activities, as well as $62,992 in travel and accommodation costs. Auto expenses increased by $44,793 due to increased operational costs, lease costs and fuel costs for the forklifts in the steel manufacturing, steel distribution and USA fluids divisions. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses for the quarter ended March 31, 2012 decreased as audit fees decreased by $105,000 as the costs for services related to the transition to IFRS occurred in 2011 but not in 2012. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses increased for the period ended March 31, 2012. Bank charges increased by $107,559 for the first quarter of 2012 compared to 2011 as a result of the transaction costs related to the new banking arrangements entered in the third quarter of 2011. Insurance costs increased by $52,618 over the comparable quarter due to the addition of the manufacturing facility and USA operations, and an increase to insurance coverage for all divisions of the Company. All other costs remained relatively consistent from the comparable prior year quarter, with a 10-15% increase related to the acquired USA companies. General and administration expenses include bad debts, bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy costs increased over the first quarter of 2011. The steel manufacturing division incurred increased utility costs of $32,180 as the division increased its production capacity in the first quarter of 2012. In addition, the steel manufacturing division also incurred additional repairs and maintenance to machinery and warehouse of $101,814 relating to small repairs to the warehouse and equipment. The steel distribution division relocated its steel inventory to a new pipe yard in Edmonton, Alberta during late 2011. The steel distribution division offset this increased expense with the subleasing of its Leduc, Alberta warehouse and its yard to a third party in mid and late 2011. There was also an increase to rent and utilities costs in the year of $157,311 relating to the new USA locations acquired in June 2011 in the Stryker Acquisition. Costs in this category are comprised mainly of rent, utilities, and warehouse expense for the Edmonton, Leduc, Camrose, Acheson and USA locations as well as liquid storage tank rentals.

During the first quarter of 2012, the US dollar lost strength in relation to other currencies, and was lower than the Canadian dollar at March 31, 2012. The decrease in the US dollar resulted in a foreign exchange gain for the three months ended March 31, 2012, as the decreased US rate caused the Company to have a favourable position on its lending facility which is partially held in USD. In addition, these foreign exchange gains arose on the translation of the foreign denominated assets and liabilities held by the Company, as well as the fair value of derivative financial instruments (see "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Amortization

	For the three months ended March 31 2012	2011	Change $	%
Property and equipment	**$ 442,181**	$ 110,078	$ 332,103	301.7%
Intangible assets	**116,459**	85,340	31,119	36.5%
Total	**$ 558,640**	$ 195,418	$ 363,222	185.9%

The increase in property and equipment amortization is a result of amortization on the useful life of assets put into use for the steel manufacturing division, which did not exist in the comparable quarter of the prior year. Significant additions in 2011 in the steel manufacturing division have created additional amortization expense of $288,874. The quarterly amortization expense in 2012 is expected to be similar to that of the first quarter of 2012. Intangible asset amortization has increased due to the addition of $805,532 of intangible assets as a result of the Stryker acquisition that occurred in June 2011.

Interest

	For the three months ended March 31 2012	2011	Change $	%
Interest on short-term operating debt	**$ 715,108**	$ 451,402	$ 263,706	58.4%
Interest on long-term debt	**4,955**	146,962	(142,007)	-96.6%
Interest on obligations under finance lease	**16,010**	2,024	13,986	691.0%
Total	**$ 736,073**	$ 600,388	$ 135,685	22.6%

Interest on short-term operating debt increased by $263,706 for the quarter ended March 31, 2012 due to increases in the revolving line of credit balance outstanding as compared to the prior period. More borrowing was needed to purchase inventory given new geographic regions, as well as for increased capital expenditures. On August 12, 2011, the Company signed a new asset-based lending agreement with CIBC Asset Based Lending Inc. and HSBC Bank Canada, and settled the prior amounts outstanding under its previous borrowing arrangements with HSBC Bank Canada and HSBC Capital. As a result, interest on long-term debt has decreased in the first quarter of 2012 due to the repayment of long-term debt and the new borrowing agreement, which is classified as short-term operating debt.

As at March 31, 2012, the Company has no long-term debt on its balance sheet other than capital leases that are the result of equipment financing for the steel manufacturing facility and the USA transportation equipment. The Company anticipates it will carry a small amount of long-term debt in 2012 for equipment, to assist with its continued strategic growth plan.

Income taxes

The provision for income taxes for the quarter ended March 31, 2012 is a net current tax expense of $1,171,155 compared to $1,068,994 in the same quarter of 2011. The increase in taxes is a result of the increase in earnings and margins. The Company's effective tax rate is 26% for the quarter ended March 31, 2012. The Company had a deferred tax recovery of $156,761 during the quarter, largely as a result of the tax effect on losses incurred in the steel manufacturing division.

Net earnings and earnings per share

	For the three months ended March 31		Change	
	2012	2011	**$**	**%**
Net earnings	**$ 2,893,604**	$ 2,632,453	$ 261,151	9.9%
% of sales	**5.5%**	5.2%		
EBITDAC (1)	**$ 5,300,445**	$ 4,399,788	$ 900,657	20.5%
% of sales	**10.1%**	8.7%		

(1) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (see page 33 for a further explanation of this non-IFRS measure).

The Company had net earnings for the quarter ended March 31, 2012 of $2,893,604 compared to earnings of $2,632,453 in the prior year. Net earnings as a percentage of consolidated revenues for the period were 5.5%, slightly higher than the same quarter of the prior year. The increase is due to improved margins in the steel distribution business, along with contribution from the Company's two new divisions – steel manufacturing and the USA drilling fluids divisions. In addition, the Company experienced stronger margins on the Canadian drilling fluids segment.

The increase in EBITDAC for the period is due to the increase in fluid sales activity in the period as a result of the USA drilling fluids division as well as improved gross margins on steel distribution division sales. EBITDAC as a percentage of revenues has increased for the quarter ended March 31, 2012 as demand for fluids and improved margins on steel pipe products has led to improved EBITDAC margins.

Basic and diluted earnings per share for the quarter ended March 31, 2012 were $0.18 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 quarter ended March 31, 2012 were 17,193,631 and 17,414,312 respectively compared to 14,550,108 and 15,338,896 for the same comparative period in 2011.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)		2012 Q1		2011 Q4		2011 Q3		2011 Q2		Total TTM
Sales	$	52,566	$	48,170	$	61,136	$	25,770	$	187,642
Gross margin ($)		9,181		8,487		10,381		4,494		32,543
Gross margin (%)		17.5%		17.6%		17.0%		17.4%		17.3%
EBITDAC (1)		5,300		4,205		6,346		1,490		17,341
Net earnings	$	2,894	$	2,431	$	3,962	$	437	$	9,724
Basic earnings per share	$	0.18	$	0.17	$	0.25	$	0.03	$	0.63
Diluted earnings per share	$	0.18	$	0.16	$	0.24	$	0.03	$	0.61

(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		6,962		5,780		3,231		23,648
Gross margin (%)		15.2%		14.5%		15.0%		14.6%		14.9%
EBITDAC (1)		4,399		3,846		3,890		631		12,766
Net earnings (loss)	$	2,632	$	2,082	$	2,348	$	(15)	$	7,047
Basic earnings (loss) per share	$	0.19	$	0.15	$	0.17	$	-	$	0.51
Diluted earnings (loss) per share	$	0.18	$	0.15	$	0.17	$	-	$	0.50

(1) EBITDAC is a non-IFRS measure which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. (See page 33 for a further explanation of this non-IFRS measure).

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern WCSB are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period. In the first quarter of 2012 spring break-up occurred approximately two weeks earlier than in the prior comparable quarter.

FINANCIAL CONDITION & LIQUIDITY

Summary Balance Sheet **As at**		**March 31** **2012**		December 31 2011
Current assets	**$**	**119,621,478**	$	113,020,921
Property and equipment		**9,986,219**		9,808,587
Other assets		**2,865,630**		2,840,836
TOTAL ASSETS	**$**	**132,473,327**	$	125,670,344
Current liabilities	**$**	**84,416,003**	$	80,581,220
Non-current lliabilities		**1,063,180**		1,139,643
TOTAL LIABILITIES		**85,479,183**		81,720,863
Share capital		**25,948,921**		25,862,877
Non-controlling interest		**(836,658)**		(668,784)
Retained earnings and contributed surplus		**21,881,881**		18,755,388
TOTAL SHAREHOLDERS' EQUITY		**46,994,144**		43,949,481
TOTAL LIABILITIES AND EQUITY	**$**	**132,473,327**	$	125,670,344

Financial Ratios	**March 31** **2012**	December 31 2011
Working capital ratio	**1.42**	1.40
Days sales in receivables	**96.8**	101.8
Inventory turns	**3.0**	3.2
Days purchases in payables	**54.0**	65.1

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

As at March 31, 2012, the Company had positive working capital of $35,205,475 compared to $32,439,701 at December 31, 2011. The Company's working capital ratio (defined as current assets divided by current liabilities) was slightly stronger at 1.42 to 1 for the period ended March 31, 2012, compared to 1.40 to 1 for the year ended December 31, 2011.

As at March 31, 2012, the Company had drawn $61,943,861, net of transaction costs of $607,494, on its available credit facilities of $80,000,000, as compared to $48,910,877, net of transaction costs of $687,558, at December 31, 2011. Effective August 12, 2011, the Company entered into a new secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. and HSBC Bank Canada. The ABL Facility has a term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable to a maximum of $80,000,000.

The initial advance under the ABL Facility repaid the outstanding amounts in full to its former credit facility lender HSBC Bank Canada totaling $36,060,524 and $1,718,883 USD. This included amounts of $1,200,986 to settle the outstanding balance on the HSBC Capital subordinated debenture, $1,437,863 to settle outstanding amounts on the HSBC Bank Canada committed non-revolving loan, and $33,421,675 and $1,718,883 USD to settle the outstanding bank indebtedness balance. In addition, the Company also repaid $1,000,000 plus interest on the previously postponed promissory notes that were due on October 2010.

The ABL Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The ABL Facility bears interest at the Company's discretion at prime plus 0.25% or LIBOR plus 1.75% or bankers' acceptance rate plus 1.75%, and a standby fee of 0.25% on unused amounts of the ABL Facility. Significant financial covenants of the ABL Facility include a minimum adjusted tangible net worth and a maximum on annual capital expenditures. As at March 31, 2012, the Company was in compliance with its covenants.

The March 31, 2012 day's sales in receivables are 96.8, lower than the ratio from December 31, 2011 of 101.8. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference in the calculation of the days sales in receivables. Given the significant increase in sales in the fourth quarter related to the increase in drilling activity in the winter drilling season, combined with the faster AR collections of the USA fluids division, this ratio is reasonable. The decrease in days' purchases in payables at March 31, 2012 compared to December 31, 2011 is as a result of the Company using its ABL Facility to pay vendors more quickly as well as the Company collecting more cash from 2011 fourth quarter sales.

As at March 31, 2012, accounts receivable was $54,649,870, a $2,210,790 or 3.9% decrease from the December 31, 2011 balance of $56,860,660. The decrease is due to improved collections as cash is collected from the busy fall and early winter sales activity.

Inventory increased by $6,435,494 or 11.9% to $60,614,732 compared to the 2011 year end balance of $54,179,238. Inventory turns decreased slightly from 3.2 at December 31, 2011 to 3.0 at March 31, 2012. A significant portion of the inventory increase relates to increase in the steel manufacturing division of $1,331,499 for additional raw materials and USA fluid division inventory of $3,938,119. Canadian fluid inventories have remained consistent with a high volume of purchases directly correlated to sales volumes. Inventory values are expected to increase slightly in the steel manufacturing division as the result of raw pipe tubes required for the continuation of production. In addition, the Company is anticipating continued geographic expansion in the USA will build up additional fluid inventories to service customers with additional products.

The Company's prepaid expenses and deposits have increased by $2,375,853 to $4,356,876 at March 31, 2012 as compared to the 2011 year end balance of $1,981,023. The increase was due to deposits being made on steel pipe purchases from a few international vendors that do not provide credit terms. In 2011, the steel division had obtained terms with a vendor that did not require deposits made on purchases, which had assisted in the operating cashflow of the Company. The vendor still exists, however other sizes were ordered from alternative vendors who do not provide credit terms. The Company continues to work with its other vendors on the terms of these purchases.

The Company has recorded a loss of $167,874 for the non-controlling interest for the quarter ended March 31, 2012 and a total equity balance of $836,658 compared to $668,784 at December 31, 2011. The non-controlling interest relates to the establishment of the steel manufacturing division.

The Company's liquidity will depend upon operating cash flows, existing working capital, the unused credit facility and the ability to access debt and equity markets. The Company currently has sufficient liquidity 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 remainder of the 2012 year, the Company will have sufficient funds to meet its obligations.

Summary of Consolidated Statements of Cash Flows Period ended		**March 31 2012**		March 31 2011
Cash used by operating activities	**$**	**(12,287,355)**	$	(6,000,353)
Cash provided by financing activities		**12,952,655**		6,930,833
Cash used by investing activities		**(665,300)**		(930,480)
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 quarter ended March 31, 2011 was $12,287,355 compared to cash used of $6,000,353 for the same period in 2011. The Company's cash used by operating activities relates to more advances of credit for purchases of inventory during the quarter. There was also a decrease in the balance of accounts payable outstanding as the Company continued to pay for purchases of fluid and steel pipe inventory to meet the demand of increased sales to customers. Inventory levels have increased due to increased US fluid demand as well as raw material pipe for the steel manufacturing division. The Company expects to see cash used by operations increase for the second quarter of 2012, as the Company will see lower sales during the spring break-up. The Company intends to continue to manage its inventory levels and spending in order to conserve its balance sheet strength and minimize any increase in debt levels.

Cash flow provided by financing activities

Cash provided by financing activities was $12,952,655 for the quarter ended March 31, 2012, compared to cash provided of $6,930,833 in the comparable 2011 period. The cash provided by financing activities is related to advances on the operating line to fund period operations. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second and third quarters, which it will use to repay the operating line. This trend is reversed in fourth and first quarters when significant sales and purchases occur, while collections are often delayed until the second quarter. With the increased purchasing activity during the quarter, increased borrowing was required to pay vendors ahead of the collection of receivables on the increased sales.

In addition, the Company issued an additional $337,577 note payable due in 2012 as part of the Stryker acquisition completed in May 2011. The principal 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 will not be in violation of its financial covenants.

Cash flow used by investing activities

Cash used in investing activities amounted to $665,300 for the quarter ended March 31, 2012 compared to $930,480 during the same period in 2011. The decrease is due to fewer additions required in the steel manufacturing facility as the facility is now in operations. The main investing activities are for the purchase and set up of a liquid invert facility and storage tanks in the US as well as new testing equipment for the steel pipe mill. The Company expects cash to be used for investing activities during the remainder of 2012 for the completion of a liquid invert facility in the USA along with a third thermal pipe expansion machine for the steel for the manufacturing facility.

Covenants

The Company has credit facilities which contain two financial covenants being a minimum tangible net worth and a maximum annual capital expenditures. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a monthly basis. As at March 31, 2012, the Company was in compliance with all financial covenants.

Obligations under operating lease

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

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

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
March 31, 2012	$ 3,115,967	11,154,261	2,402,124	$ 16,672,352
December 31, 2011	$ 2,871,777	8,743,273	2,108,538	$ 13,723,588

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

	Bank credit facility	Accounts payable	Promissory notes payable *	Finance leases*	Total
2012	$ 62,551,354	$ 21,175,757	$ 366,574	$ 178,882	$ 84,272,567
2013	-		-	177,751	177,751
2014	-	-	-	165,301	165,301
2015	-	-	-	152,613	152,613
2016	-	-	-	20,798	20,798
Thereafter	-	-	-	1,748	1,748
Total	$ 62,551,354	$ 21,175,757	$ 366,574	$ 697,093	$ 84,790,778

* includes interest calculated to be paid

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

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

Intangibles

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

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

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

Customer relationships	5 years straight-line
Non-competition agreements	3 to 5 years straight-line
Computer software	4 to 7 years straight-line

The Company reviewed its intangible assets at the end of March 2012 and determined that there were no indicators of potential impairment or impairment reversal.

Property and equipment

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

The Company's investment in property and equipment for the quarter ended March 31, 2012 was $731,161. The capital expenditures were funded from the Company's operating line of credit. Future capital expenditures of approximately $200,000 are being proposed for the second quarter of 2012. Approximately $100,000 is estimated to complete the set up an invert blending facility in the USA. The residual planned expenditures are for minor additions to the steel manufacturing division, and normal upgrades and additions planned in the Company's other subsidiaries. Capital expenditures typically are comprised of betterments and upgrades to existing assets, but have also included additions to the setup of the steel manufacturing division this year. The Company ensures equipment is efficient and profitable or the equipment is replaced when the cost of maintenance and operating the equipment is not feasible. The Company plans to fund the remainder of these capital expenditures from the Company's operating credit line and through finance leases.

Off-balance sheet arrangements

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

Transactions with related parties

During the quarter ended March 31, 2012, the Company incurred office sharing costs of $15,750 (March 31, 2011 - $7,405) in the normal course of operations with BRC Advisors Inc., which a certain director and officer has significant influence over.

The Company expensed interest of $nil (March 31, 2011 - $17,753) on promissory notes payable issued in the prior year which were held by one of the Company's directors, and a significant shareholder. This entire amount was paid out May 18, 2011 along with the outstanding balance. The Company expensed interest of $nil (March 31, 2011 - $48,894) on promissory notes payable issued on the acquisition of Bri-Steel Corporation which were held by three of the former owners of Bri-Steel Corporation. This entire amount was paid out on October 28, 2011 along with the outstanding balance. In addition, the Company expensed interest of $5,178 (March 31, 2011 - $nil) on a promissory note payable issued on the Stryker Acquisition which is held by the former owner. The expense has been included in interest on long term debt and added to the balance of the promissory note payable.

Derivatives

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure on certain committed and anticipated transactions. The foreign exchange forward contracts are recorded at fair value in receivables when the contracts are in a gain position and in accrued liabilities when the contracts are in a loss position. The difference between nominal value and fair value is recorded in foreign exchange expense in the period. The Company purchases foreign exchange forward contracts to mitigate the exposure to purchases and the related payable to suppliers denominated in U.S. dollars. There were no outstanding foreign exchange forward contracts at March 31, 2012.

Post-reporting date event

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

OUTLOOK

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

Canadian drilling activity, for remainder of 2012, is forecasted to remain consistent with those of 2011 which will allow our core business to remain steady. We will continue to focus on expanding our presence in the USA wholesale drilling fluids market and look to add additional warehouses in strategic geographic regions in the USA. The steel division will continue to concentrate on seamless pipe sales that yield higher margins. Our steel manufacturing division will grow its production output to service the demand for large diameter seamless pipe by adding a second shift late in the second quarter. Bri-Chem remains focused on superior customer service, managing inventory levels and controlling costs. Bri-Chem will concentrate on providing customers with competitively priced products in strategic stock locations which will enable the division to maintain its market presence and profitability.

The Petroleum Services Association of Canada (PSAC) has aforecasted 13,150 wells to be drilled in Canada for 2012, an increase of 2.3% over 2011. The forecasted wells drilled for the second quarter of 2012 are consistent with the second quarter of 2011 at 1,591 wells forecasted to be drilled. With a relatively subtle increase in forecasted wells to be drilled in 2012, the Canadian fluids division will continue to service its existing customers by focusing on service and ensuring that its strategically located warehouses are fully stocked to meet the demands of our customers. Continued low natural gas prices may affect future drilling activities levels in certain regions which could reduce the demand for drilling fluids.

USA drilling activity is more consistent and does not experience the seasonality of that in Canada which provides a stronger second quarter demand for drilling fluids. The USA currently has approximately 2,000 rigs operating, many of which are unconventional and horizontal. Management continues to add additional infrastructure in the USA with new sales personnel along with warehouse and transportation fleet expansion. The strategically placed warehouses located throughout the USA will allow us the ability to better service customers in major drilling regions which will drive growth in sales and earnings. We are continuing to examine additional strategic warehouse locations in the USA that will provide revenue and earnings growth as we establish Bri-Chem as a leading national independent wholesale supplier of drilling fluids for the USA drilling fluids market.

The Company's chemical blending operation is continuously seeking out new opportunities as existing and potential customers are looking for new products and redevelopment of existing products as non-conventional drilling applications continue to lead drilling activity. Over the medium term, the division will seek out additional blended products and possible further geographic and blending capacity expansion.

The steel distribution division has experienced gross margins return to traditional levels. The division will continue to target sales efforts on seamless steel pipe, both at small and large diameter ranges. We expect gross margins in 2012 to remain consistent to those experienced in 2011. Over the short to medium term, the division will continue to attract customers through its manufacturing of large diameter seamless pipe and look to obtain additional sales volumes in the distribution division for the commodity pipe size range. Sales efforts will be combined between the two steel divisions to better service the needs of our customers with the products they require. Management will also provide distribution of welded pipe in 2012 to service demand in the construction and mechanical industries.

The steel manufacturing division has commenced production in first quarter of 2012 and have been working on efficiency improvements and redundancies within the production facility. In the short term, the division is focused on hiring staff for a second shift to increase production to meet the increased demand for the large diameter pipe.

Sales staff continue to work on securing purchase orders over the short to medium term. Management is expected to continue to sell a portion of the mills production capacity to the United States where the demand is strong, which will drive the division's sales and profitability. Management is optimistic that the demand for large diameter seamless in Canada and the USA will drive the division's sales and profitability.

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

RISKS AND UNCERTAINTIES

The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A and Bri-Chem's other public disclosure documents, including the Annual Information Form for the Company for the year ended December 31, 2011. These risks and uncertainties are not the only ones facing Bri-Chem. Additional risks and uncertainties not currently known to the Company or that the Company currently considers remote or immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Company could be materially adversely affected.

Liquidity Risk

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

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

Competition and Industry Conditions

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

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

Alberta Royalty Framework

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

Supply Risk

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

Oil and Natural Gas Prices

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

Commodity Price Risk

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

Integration of Acquisitions

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

Entering New Business Lines

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

Government Trade Tariffs

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

Seasonal Weather

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

Product Liability Claims

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

Ability to Achieve Profitability

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

Credit Risk

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

Inventory Risk

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

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

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

Income Tax Expense

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

Workplace Safety, Health and Wellness

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

Environmental Liability

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

Dependence on Key Personnel

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

Insurance risk

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

Fuel Prices

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

Potential Liabilities from Acquisitions

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

CRITICAL ACCOUNTING ESTIMATES

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

The most significant estimates and judgments used by management include:

Sales return provision

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

Inventory valuations

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

Fair value of derivative financial instruments

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

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

Income taxes

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

ACCOUNTING POLICIES

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

There were no new accounting policies adopted in the period.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

The Company's financial instruments consist of recorded amounts of accounts receivable, as well as bank indebtedness, accounts payable and accrued liabilities and a promissory note payable.

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

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. Sales from the Company's largest two customers accounted for approximately 22% and 17% respectively of total sales for the three months ended March 31, 2012 (March 31, 2011 – 24% and 14%) and 24% and 25% respectively (March 31, 2011 – 27% and 16%) of total accounts receivable at quarter end, and are reported in the Company's fluids segment.

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

For the period ended March 31, 2012, the Company has recorded an allowance for doubtful accounts of $71,853 (December 31, 2011 - $41,852). The allowance is an estimate of the March 31, 2012 trade receivable balances that are considered uncollectible.

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

The aging of accounts receivable was as follows:

March 31, 2012	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 9,705,415	$ -	$ 9,705,415
31 to 60 days	19,992,077	-	19,992,077
61 to 90 days	20,523,050	-	20,523,050
91 to 120 days	3,152,186	-	3,152,186
Over 120 days	1,348,995	(71,853)	1,277,142
Total	$ 54,721,723	$ (71,853)	$ 54,649,870

The changes in allowance for doubtful accounts were as follows:

	March 31 2012	December 31 2011
Balance, beginning of period	**$ 41,852**	$ 92,000
Bad debt expense	**30,001**	179,119
Receivables written off	**-**	(229,267)
Balance, end of period	**$ 71,853**	$ 41,852

The Company held $88,633 (December 31, 2011 - $52,859) of customer deposits for the purpose of mitigating the credit risk associated with accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balance in the financial statements.

Interest rate risk

Bank indebtedness is subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. The interest on promissory notes is at a fixed rate. It is management's opinion that interest rate risk is not significant.

The effective interest rate on the bank indebtedness balance at March 31, 2012 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at March 31, 2012, with other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately $116,502 (March 31, 2011 - $83,152).

Currency risk

The Company is subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities and promissory note denominated in foreign currencies. Therefore, there is risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities. Although the majority of the Company's operations are in Canada, the Company has operations outside Canada, which increases its exposure to foreign currency risk. The Company mitigates currency risk through purchases of fixed-rate forward exchange contracts to offset future payables in foreign currencies.

Accounts receivable in foreign currency was $3,840,078 as at March 31, 2012 (December 31, 2011 - $1,699,857), accounts payable in foreign currency outstanding as at March 31, 2012 was $2,384,900 (December 31, 2011 - $3,076,389) and a promissory note in foreign currency outstanding at $367,490. The Company realized a foreign exchange gain of $467,077 (March 31, 2011 – gain of $5,390) during the period ended March 31, 2012. Based on the monetary assets and liabilities held in the USA at March 31, 2012, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $51,754 (March 31, 2011 – $63,822).

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 May 14, 2012, the Company had 17,237,595 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,578,559 common shares. As of March 31, 2012, options to purchase 681,720 common shares were outstanding at an average price of $1.94 per common share. Warrants totaling 100,000 with an average exercise price of $2.10 may be exercised into common shares.

NON-IFRS MEASURES

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

EBITDAC		For the three months ended March 31 2012		2011
Net earnings	$	**2,893,604**	$	2,632,453
Add:				
Interest		**736,073**		600,388
Income taxes		**1,014,394**		957,553
Amortization		**558,640**		195,418
Share-based payments (1)		**97,734**		13,976
EBITDAC		**5,300,445**		4,399,788

(1) Share-based payments includes warrants of $nil (2011 - $2,501) and stock options of $97,734 (2011 - $11,475).

Operating expenses is not a concept recognized under IFRS as it does not include interest and amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the March 31, 2012 consolidated financial statements:

Operating expenses		For the three months ended March 31 2012		2011
Operating expenses	$	**3,880,657**	$	3,275,322
Add:				
Interest		**736,073**		600,388
Amortization		**558,640**		195,418
Share-based payments		**97,734**		13,976
Total expenses	$	**5,273,104**	$	4,085,104

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

Disclosure controls and procedures

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company, together with management, have established and maintain disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner, particularly during the period in which the annual filings are being prepared. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as of March 31, 2012 and, based on that evaluation, have concluded that these controls and procedures are effective in providing such reasonable assurance.

Internal controls over financial reporting

The CEO and CFO, together with management, are also responsible for establishing and maintaining internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's ICFR as of March 31, 2012 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance, excluding the policies and procedures of a business that was acquired less than 365 days prior to the financial year end of the Company.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting that occurred in the three months ended March 31, 2012 that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.

Corporate Information

Officers and Directors

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

Brian Campbell
Director
Edmonton, Alberta

Jason Theiss, CA
CFO
Edmonton, Alberta

Trent Abraham
President, Fluids Division
Calgary, Alberta

Albert Sharp
Director
Spruce Grove, Alberta

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Neil Rasmussen
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Share Capital

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