Bri-Chem Corp.

Management's Discussion and Analysis

Three and Nine Months Ended September 30, 2011

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of November 14**,** 2011. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the three and nine month periods ended September 30, 2011, and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the period ended September 30, 2011, as well as the annual audited consolidated financial statements for the year ended December 31, 2010.

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

The Company's consolidated financial statements include the accounts of Bri-Chem Corp. and subsidiaries Bri-Chem Supply Ltd., Sodium Solutions Inc., Bri-Chem Steel Corporation, 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 GAAP 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 or previous GAAP 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.

2011 THIRD QUARTER OVERVIEW:

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

Bri-Chem achieved record revenue and EBITDAC during Q3 2011 of $61.1 million and $6.3 million, respectively, as the Company continues to experience strong demand for its drilling fluid products in western Canada and US operating regions. Activity levels have sustained through early Q4 2011 in both regions, with the busy winter drilling season about to begin in Western Canada.

Consolidated revenues increased 58.9% in the third quarter of 2011 to $61,135,841 and increased 31.5% year to date to $137,553,645 compared to the prior year comparable periods. Net earnings were $3,961,767 or $0.24 fully diluted earnings per share for the quarter and $7,030,977 or $0.45 fully diluted earnings per share for the nine months ended September 30, 2011 as compared to net earnings of $2,347,758 and $5,013,639 respectively for 2010. Gross margin for the quarter increased 79.6% over the prior comparable period and 46.8% for the year to date over the prior comparable period. Earnings before interest, taxes, amortization, and share-based payments were $6,346,580 or $0.39 per share basic and $0.38 per share diluted for the third quarter, an increase of $0.11 per share basic and $0.10 per share diluted over Q3 2010.

The fluids division recorded quarterly sales of $53,532,344 and $115,108,414 for the three and nine months ended September 30, 2011, compared to $31,707,155 and $79,314,144 respectively in the previous comparable periods. This represents an increase of 68.8% and 45.1% respectively over 2010. Drilling rig utilization averaged 56.8% for the quarter as compared to 40.5% in the prior year. Year to date rig utilizations have increased 11.7% over prior year. This increase in utilization has driven the increase in drilling fluid sales as the customers that the Company services have continued to have a significant market presence. Non-conventional horizontal drilling has become the standard in Western Canada, which has resulted in more complex drilling programs which drives the demand for our drilling fluid products.

The Company's US drilling fluids and transportation divisions, acquired on June 1, 2011, generated revenues of $1,517,459 and $439,613 respectively with margins of 19.5% for the three month of operations ended September 30, 2011. The division expanded its fleet with the addition of two truck and trailer units to help service the demand for drilling fluid products in regions of the US.

The steel division recorded sales of $7,113,018 for the three months ended September 30, 2011, an increase of 5.0% compared to the third quarter of 2010. The steel division has recovered from pricing pressures experienced in the past two years. The division is now sustaining margins of approximately 16%. The Company commenced operations of its large diameter seamless pipe mill late in Q3 2011 and generated sales of $182,225. These 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. The large diameter seamless steel pipe produced during the commissioning phase exceeded management quality expectations and was validated by certain of the Company's customers. The Company expects to increase production in the fourth quarter of 2011 and beyond.

Outlook Summary

As the busy winter drilling season approaches, Bri-Chem remains optimistic that drilling activity levels will continue to improve over the fourth quarter of 2010. This improvement will lead to increases in revenues and earnings in all divisions for the fourth quarter. With a forecasted 16.4% increase in drilling activity for the fourth quarter in the WCSB, Bri-Chem's fluids division in Canada is anticipating a continued demand for its products. The Company's large diameter steel pipe manufacturing facility completed its testing phase in the third quarter and is now concentrating on increasing production and securing sales for 2012. The US drilling fluids division has added sales personnel to assist with meeting the needs of customers. We believe increased sales presence and further geographic expansion will allow the division to gain market share and increase sales and profitability. In addition, Bri-Chem continues to evaluate integrated acquisition opportunities that will enhance profitability and provide geographic diversity.

DESCRIPTION OF BUSINESS

Bri-Chem is a leading 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-Chem Steel Corporation (“Bri-Chem 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.

Industrial Fluids

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

USA Drilling Fluids Acquisition

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 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, stainless steel pipe, and tubing and casing. The Company's superior vendor relationships have provided access to hard to find products and increased market share in a competitive industry.

Bri-Chem manages its steel product inventory through one warehouse in Leduc, Alberta, which is the primary stock location for steel 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 Manufacturing subsidiary in the steel pipe division was formed in late 2010. The subsidiary is 70% owned by Bri-Chem Corp, and 30% owned by Wuxi Huayou Special Steel Co., Ltd ("Wuxi"). Manufacturing 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 Manufacturing is the first to introduce TPE production and testing in Canada. The Company commenced light production in late Q3 2011 and is expected to continue to increase production over the next several quarters.

Seasonality of Operations

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

Growth Strategy

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

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

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

FINANCIAL SUMMARY

The following selected three-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarterly Report for the period ended September 30, 2011.

Consolidated statements of operations		**For the three months ended September 30**			**Change**	
		2011	2010		**$**	**%**
Sales	**$**	**61,135,841**	$ 38,484,673	$	22,651,168	58.9%
Gross margin		**10,380,720**	5,779,524	$	4,601,196	79.6%
		17.0%	15.0%			
Operating expenses [1]		**4,034,140**	1,889,887		2,144,253	113.5%
EBITDAC [2]		**6,346,580**	3,889,637		2,456,943	63.2%
Amortization		**381,589**	173,948		207,641	119.4%
Interest		**485,970**	399,790		86,180	21.6%
Share-based payments		**62,093**	98,204		(36,111)	-36.8%
Earnings before income taxes		**5,416,928**	3,217,695		2,199,233	68.3%
Income taxes - current		**1,603,767**	1,034,491		569,276	55.0%
Income taxes (recovery) - deferred		**(148,606)**	(164,554)		15,948	-9.7%
Net earnings	**$**	**3,961,767**	$ 2,347,758	$	1,614,009	68.7%
Net earnings attributable to shareholders of the Company	**$**	**4,086,845**	$ 2,347,758	$	1,739,087	74.1%
Net loss attributable to NCI [3]	**$**	**(125,078)**	$ -	$	(125,078)	100.0%
Earnings per share						
Basic	**$**	**0.25**	$ 0.17	$	0.08	47.1%
Diluted	**$**	**0.24**	$ 0.17	$	0.07	41.2%
EBITDAC per share						
Basic	**$**	**0.39**	$ 0.28			
Diluted	**$**	**0.38**	$ 0.28			
Weighted average shares outstanding						
Basic		**16,421,279**	13,719,622			
Diluted		**16,916,864**	13,806,836			

(1) See page 37 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (see page 37 for a further explanation of this non-IFRS measure).
(3) Bri-Steel Manufacturing Inc. a 70% owned subsidiary of Bri-Chem Corp., was incorporated on October 13, 2010. NCI represents the 30% non-controlling interest's ("NCI") portion of loss of the subsidiary for the period ended September 30, 2011.

The following selected nine-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarterly Report for the period ended September 30, 2011.

Consolidated statements of operations	**For the nine months ended September 30**		**Change**	
	2011	2010	**$**	**%**
Sales	**$ 137,553,645**	$ 104,643,132	$ 32,910,513	31.5%
Gross margin	**22,549,574**	15,362,014	$ 7,187,560	46.8%
	16.4%	14.7%		
Operating expenses (1)	**10,313,898**	6,495,998	3,817,900	58.8%
EBITDAC (2)	**12,235,676**	8,866,016	3,369,660	38.0%
Amortization	**829,434**	580,019	249,415	43.0%
Interest	**1,659,037**	1,213,241	445,796	36.7%
Share-based payments	**145,978**	182,087	(36,109)	-19.8%
Earnings before income taxes	**9,601,227**	6,890,669	2,710,558	39.3%
Income taxes - current	**2,938,752**	2,189,328	749,424	34.2%
Income taxes (recovery) - deferred	**(368,502)**	(312,300)	(56,202)	18.0%
Net earnings	**$ 7,030,977**	$ 5,013,641	$ 2,017,336	40.2%
Net earnings attributable to shareholders of the Company	**$ 7,329,617**	$ 5,013,641	$ 2,315,976	46.2%
Net loss attributable to NCI (3)	**$ (298,640)**	$ -	$ (298,640)	100.0%
Earnings per share				
Basic	**$ 0.47**	$ 0.36	$ 0.11	30.1%
Diluted	**$ 0.45**	$ 0.36	$ 0.09	24.8%
EBITDAC per share				
Basic	**$ 0.78**	$ 0.64		
Diluted	**$ 0.75**	$ 0.64		
Weighted average shares outstanding				
Basic	**15,658,547**	13,934,162		
Diluted	**16,324,297**	13,937,572		

(1) See page 37 for a further explanation of this non-IFRS measure.

(2) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (see page 36 for a further explanation of this non-IFRS measure).

(3) Bri-Steel Manufacturing Inc. a 70% owned subsidiary of Bri-Chem Corp., was incorporated on October 13, 2010. NCI represents the 30% non-controlling interest's portion of loss of the subsidiary for the period ended September 30, 2011.

RESULTS OF OPERATIONS

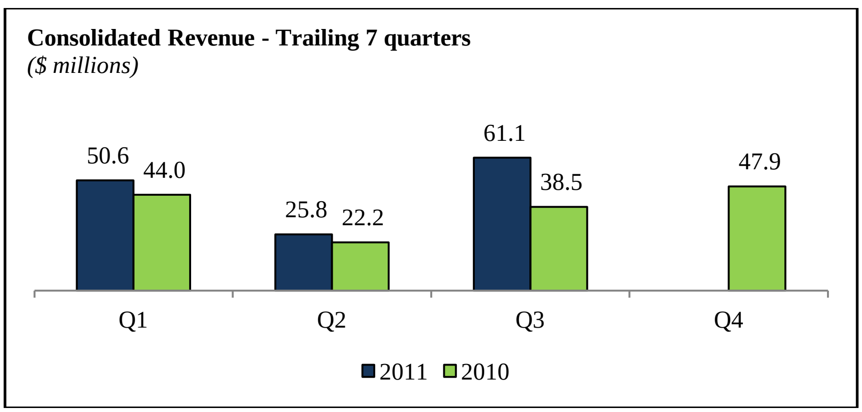
Sales

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

Sales by segment

	For the three months ended September 30					
	2011		2010		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids	**$ 53,532,344**	**87.6**	$ 31,707,155	82.4	$ 21,825,189	68.8%
Steel Distribution	**7,113,018**	**11.6**	6,777,518	17.6	335,500	5.0%
Steel Manufacturing	**182,225**	**0.3**	-	-	182,225	100.0%
Other	**308,254**	**0.5**	-	-	308,254	100.0%
	$ 61,135,841	**100.0**	$ 38,484,673	100.0	$ 22,651,168	58.9%

	For the nine months ended September 30					
	2011		2010		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids	**$ 115,108,414**	**83.7**	$ 79,314,144	75.8	$ 35,794,270	45.1%
Steel Distribution	**21,816,811**	**15.9**	25,328,988	24.2	(3,512,177)	-13.9%
Steel Manufacturing	**182,225**	**0.1**	-	-	182,225	100.0%
Other	**446,195**	**0.3**	-	-	446,195	100.0%
	$ 137,553,645	**100.0**	$ 104,643,132	100.0	$ 32,910,513	31.5%



Oil and Gas Fluids Division

The oil and gas fluids division continues to experience record high sales for the year, with an increase for the third quarter of $21,825,189, or 68.8%, over the comparable prior year quarter. This includes sales from our recent USA acquisition of $1,957,072 for Bri-Chem Supply Corp, LLC. Sales for the nine months ended September 30, 2011 have increased by 45.1% or $35,794,270 over 2010.

The Company continues to experience an increased demand over prior years. Drilling rig utilization rates remained strong during the third quarter with an average rig utilization of 56.8%, an increase of 16.3% compared to 40.5% for the same comparable period. Year to date rig utilization is 49.5% for 2011 compared to 40.9% in 2010, an increase of 11.7%.

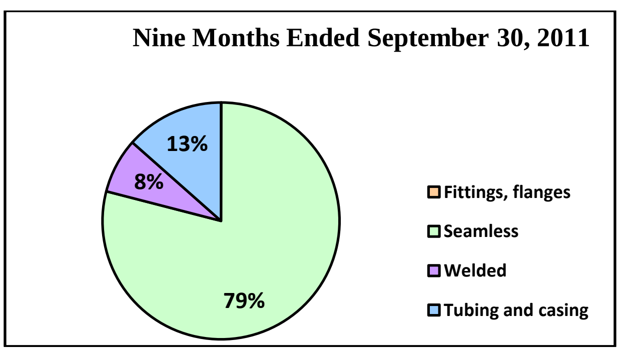
The Alberta market experienced increases in sales of 51.4% and 59.8% respectively for the three and nine months ended September 30, 2011. The number of wells drilled in the province increased by 11.1% and 15.9% respectively over the same period. With many old abandoned wells being re-entered, the Company continues to experience demand for its products. British Columbia has seen an increase in sales of 117.2% to $4,745,834 over the comparable Q3 2010 period of $2,184,943 while rig activity increased 2.8% from the comparable prior year period. The increase in sales in the region was due to significant increases in petroleum based liquid mud and additives that are used in the liquid mud drilling systems. Sales in Saskatchewan decreased by 23.9% over the comparable period last year, while the number of wells increased by 54.9% over the comparable quarter. The decrease in revenue was due to a few customers stocking certain inventory items in their own facilities.

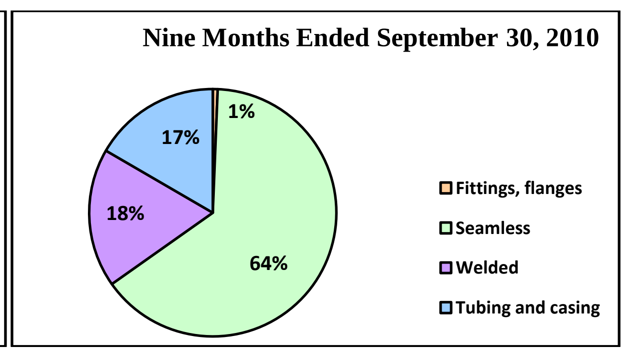
Total consolidated sales into the United States were $2,183,636 for the quarter, which is comprised of $1,517,459 of drilling fluid sales from the US fluids division, $439,613 from the US transportation division and $226,564 of fluid sales from the Canadian fluids division into the US. Drilling activity in the US 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 products offering in the regions it currently services to meet the increasing demand for drilling fluids from an independent wholesaler. This USA acquisition was completed on June 1, 2011 and therefore three months of operating results are included for Q3 2011 and four months year-to-date of operations have been included in the consolidated financial information. No comparable periods are included in the consolidated financial information from this acquisition.

Fluid Transportation

Fluid transportation revenues earned by the Company's US based subsidiary amounted to $439,613 and $575,235 for the three and nine months ended September 30, 2011. This is a new revenue stream added from the USA acquisition completed effective June 1, 2011.

Steel Pipe Division





For the three months ended September 30, 2011, the steel pipe distribution segment generated revenues of $7,113,018, an increase of 5.0% over the comparable quarter in 2010. The steel pipe distribution segment sells primarily to the oil and gas industry. The Company has begun to see a recovery of steel prices from the lows experienced in 2009 and 2010 and margins are returning to more profitable levels. Demand for steel pipe is expected to continue to increase as increased activity continues to drive the oilfield services industry. The Company continues to focus on carbon seamless steel pipe sales in 2011.

Sales in the United States for the three and nine months ended September 30, 2011 amounted to $750,503 and $2,194,681 respectively. This is compared to $668,433 and $3,894,319 for the comparable 2010 periods. The significant decrease year to date is due to the Company's strategic decision to focus on the Canadian markets. The Company has relocated inventory previously held in inventory yards in New Orleans, LA and Chicago, IL to its Leduc location. The division continues to serve its US customers with mill direct orders but is not focusing sales efforts in this area at this time. The US market is significantly larger than the Canadian market and more geographically disperse, thus the Company will continue to review opportunities to re-enter the market when market prices are at more advantageous levels and US market demand increases.

The steel pipe distribution segment also had international sales of $80,158 and $376,013 for the three and nine months ended September 30, 2011, a decrease of 27.3% and 67.5% over the comparable prior periods. International sales are comprised of trade orders and are not a main focus of the segment.

Steel Manufacturing

The steel manufacturing segment had sales of $182,225 in the quarter, the first revenues the segment has recorded for the upstart of the mill. These 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. The large diameter seamless steel pipe produced during the commissioning phase exceeded management quality expectations and was validated by certain of the Company's customers. The Company expects to increase production in the fourth quarter of 2011 and beyond.

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 September 30							
	2011			2010		**Change**		
		$	**%** *		$	% *		**$**	**%**
Fluids	**$**	**8,884,737**	**14.5**	$	5,248,682	13.6	$	3,636,055	69.3%
Steel Distribution		**1,367,365**	**2.2**		530,842	1.4		836,523	157.6%
Steel Manufacturing		**73,164**	**0.1**		-	-		73,164	100.0%
Other		**55,454**	**0.1**		-	-		55,454	100.0%
Total	**$**	**10,380,720**	**17.0**	$	5,779,524	15.0	$	4,601,196	44.3%

	For the nine months ended September 30								
	2011			2010			**Change**		
		$	**%** *		$	% *		**$**	**%**
Fluids	**$**	**18,788,556**	**13.7**	$	13,002,130	12.4	$	5,786,426	44.5%
Steel Distribution		**3,566,776**	**2.6**		2,359,884	2.3		1,206,892	51.1%
Steel Manufacturing		**73,164**	**0.1**		-	-		73,164	100.0%
Other		**121,078**	**0.1**		-	-		121,078	100.0%
Total	**$**	**22,549,574**	**16.4**	$	15,362,014	14.7	$	7,187,560	31.9%

* as a percentage of total revenues

Consolidated gross margin as a percentage of sales for the three and nine month periods ended September 30, 2011 increased by 44.3% and 31.9% respectively over the prior year.

The fluids division margins were 15.6% for the three months ended September 30, 2011, slightly higher than 13.7% for the comparable prior period. Margins on fluid sales vary based on product mix and drilling formations. Deeper, non-conventional wells require more technologically advanced fluids. Oil based drilling fluids, known as invert, have been developed to service deeper, high temperature and more environmentally sensitive drilling projects and are becoming more popular with customers and now makes up approximately 32% of fluid sales over the last nine months. The Company continues to monitor product mix with a goal of increasing overall margins. The US operations fluid margins are traditionally slightly higher than those of the Canadian operations, and were 22.5% for the four months of operations included year to date. As sales increase in future periods, the fluids division expects to see the increasing effect to its overall margins continue.

For the steel pipe division, margins were 19.0% and 16.3% respectively for the three and nine months ended September 30, 2011, compared to 7.0% and 8.9% in 2010. The division continues to experience a return to more traditional selling prices with the changes in commodity steel prices, which has created an increase in gross margin. Margins have returned to more profitable levels and are similar to the 16.8% experienced in the first half of 2009. As the inventory continues to turn over, the Company is replacing inventory with more favourably costed product, which will continue to drive better gross margins in the short to medium term.

Management made the decision to change the inventory costing method for the steel pipe division from a first-in first-out method to an average cost method. This had the effect of increasing cost of sales, and thus decreasing gross margin by $78,325 for the three months ended September 30, 2011, and decreasing cost of sales and thus increasing gross margin by $44,002 for the nine month period ended September 30, 2011. The accounting policy change was made to conform to industry best practices and to more accurately represent the true cost of inventory held and sold at any point in time. This will help to eliminate the effects of large swings in steel commodity prices to the margins earned on products.

For the last quarter of 2011, we are anticipating gross margins on fluid sales will continue to be similar or slightly higher than 2010 based on predicted drilling activity levels being slightly higher to those of 2010, and on the results seen year to date. 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 pipe division will continue to experience improved margins throughout 2011, as the Company has replaced its high cost inventory with new inventory that will yield more traditional margins of approximately 17%. The Steel manufacturing division is expected to have margins between 25% and 30% based on current projections for the remaining quarter of 2011.

Operating expenses

Salaries and employee benefits

	For the three months ended September 30		Change	
	2011	2010	**$**	**%**
Salaries and benefits	**$ 1,972,090**	$ 1,505,713	$ 466,377	31.0%
% of sales	**3.3%**	3.9%		-0.6%

	For the nine months ended September 30		Change	
	2011	2010	**$**	**%**
Salaries and benefits	**$ 5,276,549**	$ 4,555,044	$ 721,505	15.8%
% of sales	**3.9%**	4.2%		-0.3%

Salaries and benefits have increased over the prior year comparable period for the quarter and year to date. There were $179,281 of additional expenses for the year to date related to the operations of the US subsidiaries, which includes 17 additional staff ranging from operations, administration and long-haul truck drivers. The Company hired two new sales staff in the period to help expand its fluids coverage into new markets.

The Company incurred $276,657 in salaries and benefits costs year to date related to 20 employees hired for the manufacturing setup to the end of September 2011. These costs are for the general manager and laborers who are aiding in the procurement and setup of the manufacturing facility to ready it for use. The Manufacturing facility had 21 employees in the quarter and has averaged 20 year to date, as compared to none in the prior year. Additionally, increases were also incurred for the addition of a mandatory long-term disability benefit to the employee benefits program beginning in February 2011, which had not previously been offered by the Company. Significant premium increases were also incurred for 2011 over the prior year comparable period for employee benefits.

Additional salary and benefits costs related to increased commissions for fluid sales personnel for the current quarter and year to date as the fluid sales have increased significantly over the prior comparative period.

The Company expects salaries and employee benefits to increase throughout the fourth quarter of 2011 with the addition of two new US based sales staff and growth 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 administration

	For the three months ended September 30			
	2011		2010	
	$	**%***	$	%
Selling	**$ 291,274**	**0.5**	$ 200,148	0.5
Professional and consulting	**282,428**	**0.5**	131,167	0.3
General and administration	**553,867**	**0.9**	181,045	0.5
Rent, utilities and occupancy costs	**780,643**	**1.3**	502,285	1.3
Foreign exchange loss/(gain)	**215,931**	**0.4**	(532,267)	(1.4)
	$ 2,124,143	**3.5**	$ 482,378	1.2

	For the nine months ended September 30			
	2011		2010	
	$	**%***	$	%
Selling	**$ 747,290**	**0.5**	$ 500,923	0.5
Professional and consulting	**549,544**	**0.4**	317,993	0.3
General and administration	**1,312,088**	**1.0**	726,734	0.7
Rent, utilities and occupancy costs	**2,409,889**	**1.8**	1,537,801	1.5
Foreign exchange loss/(gain)	**164,513**	**0.1**	(960,408)	(0.9)
	$ 5,183,324	**3.8**	$ 2,123,043	2.1

* As a percentage of revenues

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

Selling expenses increased for the three and nine month periods ended September 30, 2011 compared to the same periods in 2010. This includes an increase of $130,571 in public company costs related to investor relation activities, as well as $63,666 in promotion and entertainment costs for customers. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses for the nine months ended September 30, 2011 increased due to the increased cost of the first quarter review and transition to IFRS and estimated additional fees for consulting work. Increased legal fees of $135,088 over the prior year nine-month period were also incurred for services related to setup and review of the Stryker acquisition. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses increased for the period ended September 30, 2011. Bank charges increased by $58,279 for the first nine months of 2011 as compared to 2010 as a result of the new banking arrangements entered into and the increased borrowing base required to meet the Company's growing cash flow needs. Transaction costs of $73,078 were expensed as a result of the termination of the Company`s prior lending arrangement and an additional $67,948 of costs incurred to enter the new banking arrangements were expensed in the quarter. Insurance costs increased by $146,955 over the comparable nine month period in the current year, due to the addition of the manufacturing facility and US operations, and an increase to liability insurance levels for all divisions of the Company. Waste disposal expenses have increased $65,099 compared to the prior nine month period, significantly due to the manufacturing facility setup requirements. Computer maintenance costs have increased $104,997 for the nine months ended September 30, 2011 as compared to the same 2010 period related to upgrades of the Company's computer systems and implementation of an off-site data storage facility. All other costs remained relatively consistent from the comparable prior period, with a 10-15% increase related to the acquired US companies as well as the operation of the Manufacturing division which did not exist in the prior year. General and administration expenses include bad debts, bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy cost expenses increased significantly over prior year. The steel division incurred increased lease expense for its manufacturing facility, located in Edmonton, Alberta, of $700,333 for the first nine months of 2011. Related utilities costs have also increased significantly with an additional $136,148 incurred for the manufacturing facility for the same period. The steel division offset this increased expense with the subleasing of its Leduc, Alberta warehouse and a portion of its yard to a third party in June 2011. There was also an increase to rent and utilities costs in the quarter of $68,986 relating to the new US locations acquired in June 2011. Costs in this category are comprised mainly of rent, utilities, and warehouse expense for the Edmonton, Leduc, Camrose, Acheson and US locations as well as liquid storage tank rentals.

During the third quarter of 2011, the US dollar gained strength in relation to other currencies, and was higher than the Canadian dollar at September 30, 2011. The increase in the US dollar resulted in a foreign exchange loss during the three and nine months ended September 30, 2011, causing the Company to have an unfavourable position in purchases in foreign currencies. These foreign exchange losses 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 September 30		Change	
	2011	2010	**$**	**%**
Property and equipment	**$ 255,983**	$ 92,306	$ 163,677	177.3%
Intangible assets	**125,606**	81,642	43,964	53.8%
Total	**$ 381,589**	$ 173,948	$ 207,641	119.4%

	For the nine months ended September 30 2011	2010	Change $	%
Property and equipment	**$ 518,900**	$ 334,957	$ 183,943	54.9%
Intangible assets	**310,534**	245,062	65,472	26.7%
Total	**$ 829,434**	$ 580,019	$ 249,415	43.0%

The increase in property and equipment amortization is a result of additions to the steel manufacturing division in the year that did not exist in the prior year. Significant additions for the three and nine months in this division have added additional amortization expense of $93,593 and $124,245 respectively. The majority of the steel pipe manufacturing equipment is not yet being amortized as they are not yet in a state ready for use. Amortization expense is expected to increase further by year end when these significant additions are finalized. Intangible amortization has increased due to the addition of $805,532 of intangible assets June 1, 2011 on acquisition of Bri-Chem Supply Corp, LLC and Stryker Transportation Ltd.

Interest

	For the three months ended September 30 2011	2010	Change $	%
Interest on long-term debt	**$ 43,870**	$ 156,929	$ (113,059)	-72.0%
Interest on short-term operating debt	**427,780**	241,039	186,741	77.5%
Interest on obligations under finance lease	**14,320**	1,822	12,498	685.9%
Total	**$ 485,970**	$ 399,790	$ 86,180	21.6%

	For the nine months ended September 30 2011	2010	Change $	%
Interest on long-term debt	**$ 294,614**	$ 489,347	$ (194,733)	-39.8%
Interest on short-term operating debt	**1,337,638**	719,111	618,527	86.0%
Interest on obligations under finance lease	**26,785**	4,783	22,002	460.0%
Total	**$ 1,659,037**	$ 1,213,241	$ 445,796	36.7%

Interest on short-term debt increased by $186,741 and $618,527 for the three and nine months ended September 30, 2011 due to increases in the revolving line of credit balance outstanding as compared to prior period. Interest on long-term debt has decreased for the three and nine months ended September 30, 2011 due to the repayment of the long-term debt and the new borrowing agreement signed, which is classified as short-term operating debt.

On August 12, 2011, the Company signed a new asset-based lending agreement with CIBC, and settled the prior amounts outstanding under its previous borrowing arrangements with HSBC and HSBC Capital.

As at September 30, 2011, long-term debt consisted of a $1,000,000 promissory note payable plus accrued interest at 6% to the former owners of Bri-Chem Steel Corporation and a $339,010 promissory note payable plus accrued interest at 6% to the former owner of the Stryker acquisition.

Borrowing increased significantly over the prior year comparable period due to increased purchases of inventory given the increase in sales demand over prior period, as well as for increased capital expenditures.

Income taxes

The provision for income taxes for the quarter ended September 30, 2011 is a net current tax expense of $1,455,161 compared to $869,937 in the same quarter last year. The increase in taxes is a result of the increase in earnings and margins in the fluids division. The Company's effective tax rate is 26.5% for the nine months ended September 30, 2011, as compared to 27% in 2010 for the comparable period.

Net earnings and earnings per share

	For the three months ended September 30		Change	
	2011	2010	**$**	**%**
Net earnings	**$ 3,961,767**	$ 2,347,758	$ 1,614,009	68.7%
% of sales	**6.5%**	6.1%		
EBITDAC (1)	**$ 6,346,580**	$ 3,889,637	$ 2,456,943	63.2%
% of sales	**10.4%**	10.1%		

	For the nine months ended September 30		Change	
	2011	2010	**$**	**%**
Net earnings	**$ 7,030,977**	$ 5,013,641	$ 2,017,336	40.2%
% of sales	**5.1%**	4.8%		
EBITDAC (1)	**$ 12,235,676**	$ 8,866,016	$ 3,369,660	38.0%
% of sales	**8.9%**	8.5%		

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

The Company had net earnings for the three month period ended September 30, 2011 of $3,961,767 compared to earnings of $2,347,758 in the prior year. Net earnings as a percentage of revenues for the period were 6.5%, slightly higher than in prior periods due to the higher margins earned in the US. Net earnings for the nine months ended September 30, 2011 increased by $2,017,336 over comparable prior year period and were 5.1% of total revenues year to date.

The increase in EBITDAC for the period is due to the increase in fluid sales activity in the period as a result of the increased drilling activity. EBITDAC as a percentage of revenues has increased for the three and nine months ended September 30, 2011 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 three month period ended September 30, 2011 were $0.25 and $0.24 respectively. For the nine months ended September 30, 2011, basic and diluted earnings per share were $0.47 and $0.45 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 three months ended September 30, 2011 were 16,421,279 and 16,916,864, and were 15,658,547 and 16,324,297 respectively for the nine months ended September 30, 2011.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2011 Q3	2011 Q2	2011 Q1	2010 Q4	Total TTM
Sales	$ 61,136	$ 25,770	$ 50,647	$ 47,854	$ 185,407
Gross margin ($)	10,381	4,494	7,675	6,977	29,527
Gross margin (%)	17.0%	17.4%	15.2%	14.6%	15.9%
Adjusted EBITDAC (1)	6,346	1,434	4,399	2,689	14,868
Net earnings	$ 3,962	$ 527	$ 2,632	$ 2,122	$ 9,243
Basic earnings per share	$ 0.25	$ 0.03	$ 0.19	$ 0.16	$ 0.63
Diluted earnings per share	$ 0.24	$ 0.03	$ 0.18	$ 0.16	$ 0.61

(in thousands of Cdn $)	2010 Q3	2010 Q2	2010 Q1	2009 Q4(3)	Total TTM
Sales	$ 38,485	$ 22,193	$ 43,965	$ 32,058	$ 136,701
Gross margin ($) (2)	5,780	3,231	6,351	893	16,255
Gross margin (%)	15.0%	14.6%	14.4%	2.8%	11.9%
Adjusted EBITDAC (1)	3,890	631	4,335	964	9,820
Net earnings (loss)	$ 2,348	$ (15)	$ 2,681	$ (1,876)	$ 3,138
Basic earnings (loss) per share	$ 0.17	$ -	$ 0.19	$ (0.13)	$ 0.23
Diluted earnings (loss) per share	$ 0.17	$ -	$ 0.19	$ (0.13)	$ 0.23

(1) EBITDAC is a non-IFRS measure which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. Adjusted EBITDAC further adjusts this non-IFRS measure for the inventory write down, net of tax of $2,917,669. If the write down is included in the above results, fourth quarter 2009 EBITDAC would have been a loss of $1,953,669. (See page 37 for a further explanation of this non-IFRS measure).

(2) Cost of sales includes a net realizable value inventory write down of $2,885,551 in Q4 2009. If the write down of steel inventory were excluded from the results above, fourth quarter 2009 gross margins would have been $3,778,390 (a gross margin % of 11.8).

(3) Prepared under previous GAAP. As allowed under IFRS 1 for first time adoption, these amounts are not re-presented on an IFRS basis.

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

FINANCIAL CONDITION & LIQUIDITY

Summary Balance Sheet As at		September 30 2011	December 31 2010
Current assets	$	**110,607,148**	$ 94,167,928
Property and equipment		**9,355,023**	3,684,771
Other assets		**2,518,942**	913,740
TOTAL ASSETS	$	**122,481,113**	$ 98,766,439
Current liabilities	$	**83,479,512**	$ 70,641,218
Long-term liabilities		**1,109,028**	4,448,167
TOTAL LIABILITIES		**84,588,540**	75,089,385
Share capital		**21,783,487**	14,451,480
Non-controlling interest		**(332,051)**	(33,411)
Retained earnings and contributed surplus		**16,441,137**	9,258,985
TOTAL SHAREHOLDERS' EQUITY		**37,892,573**	23,677,054
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	**122,481,113**	$ 98,766,439

Financial Ratios	September 30 2011	December 31 2010
Working capital ratio	**1.32**	1.33
Days sales in receivables	**135.3**	114.6
Inventory turns	**2.6**	2.3
Days purchases in payables	**94.5**	84.2

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

As at September 30, 2011, the Company had positive working capital of $27,127,636 compared to $23,526,710 at December 31, 2010. The Company's current ratio (defined as current assets divided by current liabilities) was 1.32 to 1 for the period ended September 30, 2011, comparable to year end 2010.

As at September 30, 2011, the Company had drawn $46,078,993, prior to net transaction costs of $687,558, on its available credit facilities of $80,000,000, with a Canadian chartered bank, as compared to $39,552,948 at December 31, 2010 under its prior arrangements. Effective August 12, 2011, the Company entered into a new secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. and HSBC Bank Canada. The ABL Facility has a term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable to a maximum of $80,000,000.

The initial term of the ABL Facility is for three years and the initial advance repaid the outstanding amounts in full to its former credit facility lender HSBC totaling $36,060,524 CDN and $1,718,883 USD. This included amounts of $1,200,986 CDN to settle the outstanding balance on the HSBC Capital subordinated debenture, $1,437,863 CDN to settle outstanding amounts on the HSBC committed non-revolving loan, and $33,421,675 CDN 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 September 30, 2011, the Company was in compliance with its covenants.

The September 30, 2011 days sales in receivables are 135.3, higher than the ratio from December 31, 2010. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference in the calculation of the days sales in receivables. Given the significant increase in sales in the third quarter related to the increase in drilling activity in preparation for the winter drilling season, this ratio is reasonable. The increase in days' purchases in payables is due to increase in purchases over the comparable prior period, including additional purchases of inventory for the steel manufacturing segment.

As at September 30, 2011, accounts receivable was $63,962,263, a $17,234,338 or 36.9% increase from the December 31, 2010 balance of $46,727,925. The increase is due to the significant increased sales activity in the fluids division during the third quarter of the year, combined with lower collections due to the slow-down in sales in the second quarter for the spring break-up period.

Inventory increased by $2,534,977 or 6.0% to $44,949,092 compared to the 2010 year end balance. A significant portion of this increase relates to inventory in the steel division, which increased from $8,218,033 held at the end of December 2010 to $10,151,381 at the end of September 2011, and inventory held in the steel manufacturing division of $1,330,864 at the end of the quarter compared to $nil at the end of December 2010. This is a result of new purchases of common stock items for the steel division to service its growing demand for seamless pipe. Fluid inventories have remained consistent with a high volume of purchases directly correlated to sales volumes. Inventory values are expected to increase in the steel division as the result of raw pipe tubes required for the commencement of pipe manufacturing in the fourth quarter of the year. In addition, the Company is anticipating the continuation of geographic expansion in the US and will build up additional fluid inventories to service customers with additional products.

The Company's prepaid expenses and deposits have decreased by $3,330,095 to $1,695,793 at September 30, 2011 as compared to the 2010 year end balance of $5,025,888. At year end, many of the steel pipe purchased required down payments to vendors prior to the shipment of material that occurred in the first quarter of 2011. Prepaid expenses are greatly reduced for the timing of purchases at the end of September 2011 as the Company continues to work on reducing the requirements for upfront cash deposits with its vendors. The Company continues to work with its vendors on the terms of these purchases.

The Company has recorded a loss of $298,640 for non-controlling interest for the nine months ended September 30, 2011 and a total equity balance of $332,051 compared to $33,411 at December 31, 2010. 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 2011 year, the Company will have sufficient funds to meet its obligations.

Summary of Consolidated Statements of Cash Flows Nine months ended		**September 30 2011**		September 30 2010
Cash used by operating activities	**$**	**(1,180,245)**	$	(892,274)
Cash provided by financing activities		**5,226,857**		1,119,174
Cash used by investing activities		**(4,046,612)**		(226,900)
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 nine month period ended September 30, 2011 was $1,180,245 compared to cash used of $892,274 for the same period in 2010. The Company's cash used by operating activities relates to more advances of credit under accounts receivables than that collected in the period. There was also an increase in the balance of accounts payable outstanding as the Company purchased more inventory to meet the demand of increased sales to customers. Inventory levels have remained steady as the Company works to replace inventory sold on a timely basis during this period of high sales volume. We expect to see our cash used in operations increase for the fourth quarter, as the Company will continue to see higher sales entering the winter drilling season, and require continual restocking of inventory. 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 $5,226,857 for the nine months ended September 30, 2011, compared to cash provided of $1,119,174 in the comparable 2010 period. The cash provided by financing activities is related to advances on the operating line and repayment of $3,200,000 outstanding notes payable, plus accrued interests during the period. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second and third quarters, which it will use to repay the operating line. This trend is reversed in Q4 and Q1 when significant sales and purchases occur, while collections are often delayed until Q2. With the increased purchasing activity at the end of the quarter, increased borrowing was required to pay vendors ahead of the collection of receivables on the increased sales.

In addition, the Company repaid its outstanding debt under their previous lending agreement in August 2011. The Company issued an additional $337,577 note payable due in 2012 as part of the acquisition completed. 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 $4,046,612 for the three quarters of 2011 compared to $226,900 in 2010. The increase is due to the additions to the manufacturing facility to complete the set up of the thermal expansion plant. The Company has capitalized $5,473,983 of assets for the nine month period ended September 30, 2011 for this new subsidiary, including $2,201,220 of assets contributed by the non-controlling interest partner. In addition, the Company used its operating line to purchase the ownership interest of Stryker Ltd. and Stryker Transportation Ltd. The Company expects cash to be used for investing activities in the fourth quarter of 2011 for the final installation and testing costs 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 September 30, 2011, 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
September 30, 2011	$ 2,055,813	$ 5,830,192	$ 1,853,760	$ 9,739,765
December 31, 2010	1,694,932	5,114,953	2,317,200	9,127,085

Contractual obligations related to financial liabilities at September 30, 2011 are as follows:

	Bank credit facility	Accounts payable	Promissory notes payable *	Finance leases*	Total
2011	$ 45,391,435	$ 35,933,046	$ 1,030,205	$ 223,055	$ 82,577,741
2012	-		375,977	216,678	592,655
2013	-	-	-	189,178	189,178
2014	-	-	-	148,391	148,391
2015	-	-	-	106,539	106,539
After 2015	-	-	-	12,826	12,826
Total	$ 45,391,435	$ 35,933,046	$ 1,406,182	$ 896,667	$ 83,627,330

* 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 product normally 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 contact volumes on a monthly basis.

Intangibles

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

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

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

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

The Company reviewed its intangible assets at the end of September 2011 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 nine months ended September 30, 2011 was $3,941,294 including additions through finance leases of $349,500, and additions of $519,131 on acquisition of the US subsidiaries. The capital expenditures were funded from the Company's operating line of credit. An additional $2,201,220 of thermal expansion manufacturing equipment provided by the Chinese partner was recorded in the quarter, for which preferred shares of equal value in the subsidiary will be issued in the fourth quarter of 2011.

Future capital expenditures of approximately $200,000 are being proposed for the last quarter of 2011. Approximately $120,000 is estimated in additional steel manufacturing capital assets, including finance leases and leasehold improvements. The residual planned expenditures are for replacement of two forklifts 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 period ended September 30, 2011, the Company incurred office sharing expenses in the normal course of operations with BRC Advisors Inc. commencing March 2010 (previously Western America Capital Group), which a certain director and officer has significant influence over, as follows:

a) Management advisory services of $nil and $nil respectively (September 30, 2010 – $30,000 and $90,000) to a Company which a director and officer has significant influence.

b) Office sharing expenses of $15,000 and $45,000 respectively (September 30, 2010 – $9,156 and $27,468) were paid to a Company over which a director and officer has significant influence.

The Company expensed interest of $nil and $27,419 (September 30, 2010 - $33,000 and $99,000) on promissory notes payable issued in 2007 which are held by two of the Company's directors, and significant shareholders. This entire amount was paid out May 18, 2011 along with the outstanding balance. In addition, the Company expensed interest of $32,115 and $109,335 (September 30, 2010 – $45,370 and $134,361) on promissory notes payable issued in 2008 on the acquisition of Bri-Chem Steel, which are held by three of the former owners of Bri-Chem Steel. The expense had been included in interest on long term debt and added to the balance of the promissory note payable. In addition, the Company expensed interest of $5,205 and $6,931 (September 30, 2010 - $nil and $nil) on promissory notes payable issued on the acquisition of Stryker which is held by the former owner of Stryker. The expense has been included in interest on long term debt and added to the balance of the promissory note payable.

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 September 30, 2011.

Post-reporting date event

On October 28, 2011 the Company repaid the $1,000,000 promissory note payable outstanding, plus accrued interest of $24,329, to the three former owners of Bri-Chem Steel Corporation.

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.

Despite the recent volatility of commodity and equity markets, we remain optimistic that drilling activity levels will remain strong in the fourth quarter of 2011 which will continue to drive demand for our drilling fluid and blending products. Bri-Chem remains focused on superior customer service, managing inventory levels and controlling costs. As activity levels continue to grow, 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 a forecasted 4,487 wells to be drilled in Canada for the fourth quarter of 2011, a forecasted increase of 15% over 2010. Saskatchewan and BC are expected to see increases in the number of wells drilled in the fourth quarter of 2011 compared to 2010. Saskatchewan is anticipating an increase in wells drilled of approximately 62.8% while BC is forecasting an increase of 7.9% compared to the fourth quarter of 2010. US drilling activity is more consistent and does not experience the seasonality of that in Canada, as such demand for drilling fluids is more consistent. The US currently has approximately 2,000 rigs operating, many of which are unconventional, and horizontal. Management has started building additional infrastructure with the addition of sales personnel and warehouse expansion in the US. The strategic warehouse in Alice, Texas will provide us an opportunity to service the Eagleford Shale play in East Texas. We are continuing to examine additional strategic warehouse locations in the US that will provide revenue and earnings growth as we establish Bri-Chem as an alternative independent wholesale supplier of drilling fluids for the US drilling fluids market.

The Company's chemical blending operation is continuously seeking out new opportunities as existing and potential customers are looking at new products and redevelopment of existing products as non-conventional drilling applications continue to lead drilling activity. Management is examining expansion opportunities to offer additional cementing, acidizing and fracturing chemical additives. The division is evaluating the opportunity of setting up a blending facility in the US to meet the demand for chemical additives. Over the medium term, the division will seek out additional blended products and possible further geographic expansion.

The selling prices of seamless steel pipe has returned to more profitable levels which have led to recovered margins in the steel division. The strategic focus to concentrate sales efforts on seamless steel pipe, both at small and large diameter ranges, will continue to drive consistent sales of steel pipe. We are continuing to concentrate on seamless pipe sales as demand has continued to improve throughout 2011. Gross margins are expected to remain consistent with those of the third quarter and the division will focus sales efforts on seamless pipe distribution and will combine efforts with our large diameter seamless pipe mill to meet the needs of our customers with the products they require. Management will also provide distribution of welded pipe in 2012 to service the construction and mechanical industries.

The steel manufacturing division is working through the testing phase at the end of third quarter, with one shift production runs completed at quarter end. Management has now turned its efforts on sales and will continue to market the mill securing purchase orders in the short and medium term. In addition, the division will be hiring staff for a second shift in early Q1 2012 as production demands are forecasted to increase. Management is expected 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 also continuing to evaluate further expansion opportunities.

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

RISKS AND UNCERTAINTIES

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

Liquidity Risk

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

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

Competition and Industry Conditions

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

The capital expenditure programs of oil and gas companies largely affect the products provided by the Company. The magnitude of capital expenditures determines the demand for the Company's drilling fluids and steel 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 have no material long-term, fixed price purchase contracts. We attempt to pass along all product costs where able to customers. To the extent we are not able to pass on the entire increase to our customers, our business, financial condition and cash flow may be materially affected.

Interest Rate Risk

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

Foreign Currency Risk

The Company is exposed to foreign currency fluctuations in relation to its sales and purchases in US dollars. Any change in the value of the Canadian dollar relative to the US dollar during a given financial reporting period would result in a foreign currency gain or loss on the translation of our US dollar denominated debt and assets into Canadian dollars. Therefore the Company is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not hedge inventories purchased specifically from US markets, instead the Company relies on its inventory turnover. The Company has small amounts of sales to areas outside the US 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 US or Canadian trade laws. Under these trade laws, duties can be imposed against dumped products, which are products sold at a price that is below domestic producer's sales price in its home market or at a price that is lower than its cost of production. Additional duties can be imposed against products that benefited from foreign government financial assistance. Both the US and Canada have filed antidumping cases against certain steel pipe from China. These antidumping cases may have dramatic impacts on the Company's access to product from its current suppliers. As a result of these charges, Bri-Chem has established relationships with manufacturers in countries such as Vietnam, India and the United States, however further charges could affect the Company's ability to source product in a timely manner.

Seasonal Weather

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

Product Liability Claims

Although Bri-Chem believes it offers superior products in the market place, the Company may 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

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

Income Tax Expense

The Company collects, accrues, and pays significant amounts of income taxes and has significant 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 Bri-Chem, furthermore, as part of the Company's growth strategy, it must continue to hire highly qualified individuals, including financial, sales and operations personnel. There can be no assurance that the Company will be able to attract and retain qualified personnel in the future. The compensation program in place includes salary, benefits, and bonus structures, and is designed to provide fair compensation to all personnel and adequate performance incentives. Other non-monetary measures including training and development and recognition are used to ensure the culture stays focused on key personnel retention.

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 Bri-Chem 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 Bri-Chem'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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Principal areas where uncertainty is inherent include the valuations of accounts receivable, the allowance for doubtful accounts, the sales return provision, inventory obsolescence, net realizable value inventory write-downs and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of 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 the most significant asset at September 30, 2011. Included in this balance is a sales return provision for the fluids division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision already recorded.

Inventory valuations

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

Fair value of derivative financial instruments

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

Income taxes

Management calculates the provision for income taxes based on all available information at the time of reporting. 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.

New accounting policies adopted in the quarter

Foreign currency translation

For the accounts of foreign operations with the US dollar as the functional currency, assets and liabilities are translated into Canadian dollars, which is the presentation currency at period end exchange rates, while revenues and expenses are translated using average rates over the period, which approximate the rate on the transaction date. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive loss as a separate component of shareholder's equity. As at September 30, 2011, accumulated other comprehensive loss is comprised solely of foreign currency translation adjustments.

Decommissioning liabilities

Decommissioning liabilities include present obligations where the Company will be required to retire tangible long-lived assets from its Steel Manufacturing segment. The decommissioning liabilities are measured at the present value of the expenditure expected to be incurred. The associated asset decommissioning cost is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and the related asset decommissioning cost.

Impairment testing of goodwill

Upon acquisition, goodwill is allocated to the applicable cash-generating unit ("CGU") or aggregated cash-generating units that are expected to benefit from the business combination's synergies. Goodwill is assessed for impairment annually or more frequently if there are indications that impairment may have occurred. Goodwill impairment is tested at the GGU level. To assess impairment, the recoverable amount of the CGU to which the goodwill relates is compared to the carrying amount of that CGU. The recoverable amounts are determined based on the greater of its fair value less costs to sell or value in use. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued operation of the CGU. If the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in net earnings. An impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU. Goodwill impairments are not reversed.

Change in accounting policy which occurred in the first quarter

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

Adoption of International Financial Reporting Standards

The Company prepared its September 30, 2011 interim consolidated financial statements in accordance with IFRS accounting policies. In accordance with IFRS 1, the Company has a transition date of January 1, 2010 and therefore comparative information for 2010 has been prepared and re-presented in accordance with IFRS accounting policies. The 2009 financial information contained within this MD&A has been prepared under previous GAAP and will not be re-presented.

The Company's IFRS accounting policies are provided in Note 4 to the March 31, 2011 interim consolidated financial statements. Any new accounting policies have been provided in Note 3 to the September 30, 2011 interim consolidated financial statements. In addition, Note 19 to the interim consolidated financial statements presents reconciliations of the following from previous GAAP to IFRS:

- Equity as at September 30, 2010;
- Net earnings and comprehensive income for the three months ended September 30, 2010;
- Net earnings and comprehensive income for the nine months ended September 30, 2010;
- Statement of cash flows for the nine months ended September 30, 2010

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

IFRS 1

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

Property and equipment

On transition to IFRS, the Company has elected not to use the IFRS 1 exemption to record its intangible assets at the fair value. All assets are recorded at the carrying amount at the date of transition. Under the standard, the capitalization of the Company’s website development costs is not allowed as the site does not provide directly traceable future earnings potential to the Company. The costs of $25,935 and accumulated amortization of $6,916, previously held under property and equipment, were removed from the balance sheet on transition date. Additional website costs of $6,405 and related amortization of $3,164 were removed to the end of the third quarter of 2010.

Share-based payments

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

Intangible assets

Impairments of assets are measure at the cash-generating unit level under IFRS rather than being measured on asset groups. Certain prior recorded impairments may also be reversed under IFRS. The Company has identified its cash-generating units and has performed an impairments test at January 1, 2010 based on these units. As a result, $334,583 of non-competition agreements in the steel cash-generating unit were determined to be impaired and were written off on transition. Related amortization of $68,437 for the nine months ended September 30, 2010 was reversed from the income statement.

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS Accounting Policies

The Company is required to present its IFRS compliant consolidated financial statements for the year ended December 31, 2011 using the standards that are in effect on December 31, 2011. The Company has applied the standards in place at the current date of reporting, however changes in accounting policies used to year end date may result in material changes to our reported financial position, results of operations and cash flows. Therefore, the consolidated interim financial statements for the period ended September 30, 2011 are subject to change.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

The Company’s financial instruments consist of recorded amounts of forward contracts, accounts receivable, as well as bank indebtedness, accounts payable and accrued liabilities and promissory notes payable.

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

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. Revenue from the Company's largest two customers accounted for approximately 25% and 21% respectively of revenue for the three months ended September 30, 2011 (September 30, 2010 – 21% and 28%) and 29% and 24% respectively (September 30, 2010 – 34% and 26%) of total accounts receivable at period 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 September 30, 2011, the Company has recorded an allowance for doubtful accounts of $nil (December 31, 2010 - $92,000). The allowance is an estimate of the September 30, 2011 trade receivable balances that are considered uncollectible. Changes to the allowance during the period ended September 30, 2011 consisted of a bad debt expense of $15,984 and a receivable write-off of $19,163.

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:

September 30, 2011	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 22,436,054	$ -	$ 22,436,054
31 to 60 days	18,768,744	-	18,768,744
61 to 90 days	15,247,748	-	15,247,748
91 to 120 days	4,805,956	-	4,805,956
Over 120 days	2,703,761	-	2,703,761
Total	$ 63,962,263	$ -	$ 63,962,263

The changes in allowance for doubtful accounts were as follows:

		September 30 2011		December 31 2010
Balance, beginning of period	**$**	**3,179**	$	169,491
Bad debt expense		**15,984**		202,456
Receivables written off		**(19,163)**		(223,173)
Recovery of receivables		**-**		(56,774)
Balance, end of period	**$**	**-**	$	92,000

The Company held $51,139 (December 31, 2010 - $294,638) of customer deposits for the purpose of mitigating the credit risk associated with accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balance in the financial statements.

Interest rate risk

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 September 30, 2011 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at September 30, 2011, with other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately $84,670 (September 30, 2010 - $60,495).

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 $2,269,778 as at September 30, 2011 (September 30, 2010 - $1,390,316), accounts payable in foreign currency outstanding as at September 30, 2011 is $3,850,556 (September 30, 2010 - $7,321,929) and a promissory note in foreign currency outstanding at $374,234. The Company realized a foreign exchange loss of $215,931 (September 30, 2010 – gain of $532,267) during the three month period ended September 30, 2011. Based on the monetary assets and liabilities held in the United States ("US") at September 30, 2011, a 5% increase in exchange rates would impact the Company's net earnings negatively by approximately $50,356 (September 30, 2010 – $209,271).

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 November 14, 2011, the Company had 16,425,627 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,578,559 common shares. As of September 30, 2011, options to purchase 1,303,376 common shares were outstanding at an average price of $1.41 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. On page 19, adjusted EBITDAC ("Adjusted EBITDAC") includes an adjustment for the inventory write-down (reversal) which is not seen by management to be a normally recurring item. Investors should be cautioned that EBITDAC and Adjusted EBITDAC should not be construed as alternatives to net earnings (loss) determined in accordance with IFRS as an indicator of the Company's performance. The Company's method of calculating EBITDAC may differ from that of other entities and accordingly may not be comparable to measures used by other entities. The following is a reconciliation of EBITDAC to net earnings for each of the periods presented in this MD&A.

EBITDAC	For the three months ended September 30			
		2011		2010
Net earnings	**$**	**3,961,767**	$	2,347,758
Add:				
Interest		**485,970**		399,790
Income taxes		**1,455,161**		869,937
Amortization		**381,589**		173,948
Share-based payments (1)		**62,093**		98,204
EBITDAC		**6,346,580**		3,889,637

(1) Share-based payments includes warrants of $34,504 (2010 - $10,113) and stock options of $27,589 (2010 - $88,090).

EBITDAC	For the nine months ended September 30			
		2011		2010
Net earnings	**$**	**7,030,977**	$	5,013,641
Add:				
Interest		**1,659,037**		1,213,241
Income taxes		**2,570,250**		1,877,028
Amortization		**829,434**		580,019
Share-based payments (1)		**145,978**		182,087
EBITDAC		**12,235,676**		8,866,016

(1) Share-based payments includes warrants of $54,730 (2010 - $30,338) and stock options of $91,248 (2010 - $151,749).

Operating expenses is not a concept recognized under IFRS or previous GAAP 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 September 30, 2011 consolidated financial statements:

Operating expenses				
		For the three months ended September 30		
		2011		2010
Operating expenses	**$**	**4,034,140**	$	1,889,887
Add:				
Interest		**485,970**		399,790
Amortization		**381,589**		173,948
Share-based payments		**62,093**		98,204
Total expenses	**$**	**4,963,792**	$	2,561,829

Operating expenses				
		For the nine months ended September 30		
		2011		2010
Operating expenses	**$**	**10,313,898**	$	6,495,998
Add:				
Interest		**1,659,037**		1,213,241
Amortization		**829,434**		580,019
Share-based payments		**145,978**		182,087
Total expenses	**$**	**12,948,347**	$	8,471,345

Corporate Information

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Edmonton, Alberta

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Director
Edmonton, Alberta

Brian Campbell
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President, Sodium Solutions Inc.
Director
Edmonton, Alberta

Albert Sharp
Director
Spruce Grove, Alberta

Eric Sauze, CA
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