Bri-Chem Corp.
Management's Discussion and Analysis
Three and Nine Months Ended September 30, 2012

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of November 14, 2012. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the three and nine months ended September 30, 2012, 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, 2012, as well as the annual audited consolidated financial statements for the year ended December 31, 2011.

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

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:

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

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

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

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

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

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

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

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

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

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

2012 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.

Although the Canadian drilling industry had strong demand for rigs in the first quarter of 2012, activity in the second and third quarter was significantly hampered by wet weather and uncertain economic conditions. As a result, Canada experienced a 25% decline in drilling activity in the third quarter of 2012 with the average number of operating rigs decreasing to 339 rigs compared to an average of 454 rigs for the comparable period in 2011. Bri-Chem generated consolidated revenues of $36,915,533, a decrease of 39.6% for the third quarter, compared to $61,135,841 from the prior year, however, USA fluids sales rose 68.2% to $5,709,059 and steel pipe manufacturing sales increase 2131% to $4,065,418. Consolidated revenues for the nine months ended September 30, 2012 were $120,413,395 compared to $137,553,645, a decrease of 12.5%. Earnings before interest, taxes, amortization and share-based payments expense ("EBITDAC") were $2,963,885 or $0.17 per share and $8,445,974 or $0.49 per share respectively for the three and nine month periods ended September 30, 2012, compared to $6,346,580 and $12,235,676 respectively for the same periods in 2011. The Company had net earnings of $1,438,579 or $0.10 diluted earnings per share for the quarter and $3,562,379 or $0.24 diluted earnings per share for the nine months ended September 30, 2012 as compared to net earnings of $3,961,767 and $7,030,977 respectively for 2011.

The North American drilling fluids division recorded sales of $27,914,492 and $89,316,333 respectively for the three and nine month periods ended September 30, 2012, as compared to $53,532,344 and $115,108,414 for the same periods last year. In Canada, drilling rig utilization averaged 41.3% for the third quarter which was a decrease of 15.5% compared with the same period last year when utilization rates averaged 56.8%. Year to date rig utilizations have decreased 5.9% over the prior year and the number of wells drilled during the third quarter of 2012 is down 19.8% compared to the same period in 2011. Canadian drilling activity has seen a sharp decline in Q3 2012 which has had a direct impact on liquid invert sales and two of the Company's largest customers have recently established their own blending and storage facilities to service their liquid invert needs within the north central regions of Alberta. The Petroleum Services Association of Canada (PSAC) has forecasted 3,860 wells to be drilled in Canada for the fourth quarter of 2012, which is a slight decline over 2011.

The Company's USA drilling fluids and transportation subsidiaries, acquired on June 1, 2011, generated sales of $5,999,456 and $15,338,068 respectively for the three and nine months ended September 30, 2012 with gross margins increasing to 23.7% for the three months ended September 30, 2012 compared to 22.5% for the same period last year. The division continued its geographic expansion with the addition of one new warehouse in the third quarter of 2012 bringing the total warehouse count up to eleven. The USA division has quickly established a national geographic network to service customers in all major resource plays in the USA. The infrastructure growth in late 2011 and early 2012 has resulted in increased sales growth and broader territorial coverage.

Throughout the third quarter of 2012, the steel pipe manufacturing division continued to optimize efficiencies and redundancies to the manufacturing process in order to ramp-up production output. The division was near completion of its final throughput component which is a conveyor system that provides less handling of the material in and out of the production facility. Also during the quarter, a second production shift was fully trained and as a result of moving to a 24 hour shift, production increased 20-30% due to less heating and cooling change overs. The division achieved record sales of $4,065,418 and $8,682,335 respectively for the three and nine months ended September 30, 2012 and gross margins were 26.2% for the three months ended September 30, 2012.

The steel pipe distribution division recorded sales of $4,645,226 and $21,731,720 respectively for the three and nine month periods ended September 30, 2012, decreases of 34.7% and 0.4% respectively compared to the same periods in 2011. The decline in sales in the quarter was mainly due to lower overall oil and gas drilling activity. Despite the lower demand for seamless steel pipe in the quarter, the division yielded margins of 24.2% for the quarter. The division continues to concentrate on providing superior customer service, with the appropriate quantities and sizes of steel pipe to meet the demand of its customers.

Outlook Summary

Canadian drilling activity has recently become more volatile with the uncertainty of future crude oil and natural gas pricing, coupled with an unclear economic environment. This uncertainty is expected to result in lower Canadian drilling activity in the fourth quarter of 2012 as compared to the same period of the prior year. Currently, the largest challenges facing the drilling industry are reduced spending, pricing differentials on Canadian crude oil, low natural gas prices, a strengthening Canadian dollar and the challenge to attract and retain skilled labour. As such, the Company expects lower Canadian fluid product demand for the remainder of 2012 and into 2013. Notwithstanding the softening of Canadian drilling activity, Bri-Chem continues to invest into its USA drilling fluid market expansion plan where significant market share is rapidly obtainable. In addition, with the recent completion of the Thermal Pipe Expansion manufacturing facility, our steel manufacturing division will seek to grow its production output to record levels in the fourth quarter and into 2013 to service the demand for large diameter seamless pipe in North America. Bri-Chem also continues to aggressively evaluate North American integrated acquisition opportunities that will enhance profitability and provide geographic diversity.

DESCRIPTION OF BUSINESS

Since our formation in 1985, Bri-Chem has established two primary segments of business through a combination of internal growth and acquisitions: Bri-Chem's Drilling Fluid Division is North America's largest independent wholesale supplier of drilling fluids for the oil and gas industry. We provide over 100 drilling fluid products, cementing, acidizing and stimulation additives from 27 strategically located warehouses throughout Canada and the United States; Bri-Chem's Steel Pipe Division is the first company to introduce and construct a Thermal Pipe Expansion (TPE) facility in North America for manufacturing, testing and supply of large diameter seamless steel pipe for the energy industry. Additional information about Bri-Chem is available at www.sedar.com or at Bri-Chem's website at www.brichem.com.

The Company is headquartered in Edmonton, Alberta and owns a 100% interest in Bri-Chem Supply Ltd. ("Bri-Chem Supply"), 100% interest in Sodium Solutions Inc. ("Sodium"), 100% interest in Bri-Steel Corporation ("Bri-Steel"), and a 70% interest in Bri-Steel Manufacturing Inc. ("Manufacturing"). The Company also owns 100% interest in Bri-Corp USA Inc. ("Bri-Corp"), which has 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

Canadian Drilling Fluids

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

Cementing, Stimulation, and Fracturing Specialty Fluid Additives

The WCSB oil and gas drilling process also uses cementing, stimulation, and fracturing fluids. Many of these products are a blended formulation utilizing specialty additives that Bri-Chem can supply in both packaged and truckload quantities. Cementing is performed when the cement slurry is deployed into the well via pumps, displacing the drilling fluids still located within the well, and replacing them with cement. Well stimulation involves introducing special blends of chemicals and acid to oil or gas producing formations in order to diminish or eliminate

unwanted materials. The fracturing process injects fluids and sand at high pressure which creates small fractures in the rock that extend out from the well. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these critical fluid applications. Bri-Chem has dedicated facilities, located in Acheson and Camrose, Alberta, with capacity to blend and package specialty additive fluids for customer specific products. Bri-Chem is pursuing to diversify into the liquid fracturing and stimulation blending market for further customer penetration and industry diversification.

Training and Fluid Analysis

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

USA Drilling Fluids

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

STEEL PIPE DIVISION

Steel Pipe Distribution

Bri-Steel is the Company's wholesale distributor for seamless steel pipe ranging in sizes from half inch to thirty-six inch. Bri-Steel manages its steel product inventory through one warehouse in Edmonton, Alberta, which is the primary stock location for steel pipe in North America and also maintains a minimal stock facility in Houston, Texas, which allows the Company to service major pipe distributors throughout the Eastern and Mid-Western USA. Bri-Steel's broad base of seamless steel pipe is primarily used in the oil and gas industry, however the Company does distribute steel pipe to non-oilfield related industries such as construction, industrial and mining. The Company's superior international vendor relationships have provided access for hard to find products and increased market share in a competitive industry.

Steel Pipe Manufacturing

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

Seasonality of Operations

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

freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

Growth Strategy

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

The Company will continue to focus on its North American growth strategy by expanding its market presence in the oil and gas drilling fluids, wholesale distribution markets and niche steel pipe manufacturing opportunities. The fluids division will concentrate on providing superior customer service with the right product mix in strategic locations to meet the changing needs of our customers, while managing its inventory levels. The Company will explore opportunities that will enable to the division to become more basic in drilling fluids by examining the manufacturing of drilling fluid products. In the USA, Bri-Chem will continue to aggressively pursue expanding its footprint and strive to become the leading National independent wholesale distributor of drilling fluids for the unconventional resource plays located throughout the USA. Bri-Chem will seek to establish additional capacity and new geographical markets in an effort to expand its completion fluids blending and packaging division. The steel distribution business will continue to increase inventory prudently to ensure the division has the right quantity and specifications of steel pipe products to meet the growing needs of its customers. In the short term, the steel pipe manufacturing division will focus on increasing its production capacity through improved efficiencies and the ability to produce pipe 24 hours a day, 4 days a week. In addition, the steel pipe manufacturing division will examine new strategic partnerships for possible new micro-mill locations and technologies over the medium term.

Acquisitions may play a significant role in the Company's growth. Management recognizes that the key determinants to successfully building shareholder value from acquisitions are reaching agreement on an appropriate valuation and efficiently integrating corporate cultures. The Company is currently evaluating a number of potential acquisitions that provide product, geographic, industry and seasonal diversification.

FINANCIAL SUMMARY

The following selected three-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarter End Report for the period ended September 30, 2012.

Consolidated statements of operations		**For the three months ended September 30 2012**		2011		**Change $**	**%**
Sales	**$**	**36,915,533**	$	61,135,841	$	(24,220,308)	-39.6%
Gross margin		**7,095,120**		10,380,720		(3,285,600)	-31.7%
		19.2%		17.0%			
Operating expenses [1]		**4,131,235**		4,034,140		97,095	2.4%
EBITDAC [2]		**2,963,885**		6,346,580		(3,382,695)	-53.3%
Amortization		**418,051**		381,589		36,462	9.6%
Interest		**527,835**		485,970		41,865	8.6%
Share-based payments		**179,182**		62,093		117,089	188.6%
Earnings before income taxes		**1,838,817**		5,416,928		(3,578,111)	-66.1%
Income taxes - current		**576,860**		1,603,767		(1,026,907)	-64.0%
Income taxes (recovery) - deferred		**(176,622)**		(148,606)		(28,016)	18.9%
Net earnings	**$**	**1,438,579**	$	3,961,767	$	(2,523,188)	-63.7%
Net earnings attributable to parent	**$**	**1,681,937**	$	4,086,845	$	(2,404,908)	-58.8%
Net loss attributable to NCI [3]	**$**	**(243,358)**	$	(125,078)	$	(118,280)	94.6%
Earnings per share							
Basic	**$**	**0.10**	$	0.25	$	(0.15)	-60.0%
Diluted	**$**	**0.10**	$	0.24	$	(0.14)	-58.3%
EBITDAC per share							
Basic	**$**	**0.17**	$	0.39			
Diluted	**$**	**0.17**	$	0.38			
Weighted average shares outstanding							
Basic		**17,331,854**		16,421,279			
Diluted		**17,401,877**		16,916,864			

(1) See page 38 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (See page 38 for a further explanation of this non-IFRS measure).
(3) Bri-Steel Manufacturing Inc. is a 70% owned subsidiary of Bri-Chem Corp. NCI represents the 30% non-controlling interest's ("NCI") portion of loss of the subsidiary for the three month period ended September 30, 2012.

The following selected nine-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarter End Report for the period ended September 30, 2012.

Consolidated statements of operations	For the nine months ended September 30 2012	2011	Change $	%
Sales	**$ 120,413,395**	$ 137,553,645	$ (17,140,250)	-12.5%
Gross margin	**21,079,053**	22,549,574	(1,470,521)	-6.5%
	17.5%	16.4%		
Operating expenses [1]	**12,633,080**	10,313,899	2,319,181	22.5%
EBITDAC [2]	**8,445,974**	12,235,676	(3,789,702)	-31.0%
Amortization	**1,492,253**	829,434	662,819	79.9%
Interest	**1,739,881**	1,659,037	80,844	4.9%
Share-based payments	**374,633**	145,978	228,655	156.6%
Earnings before income taxes	**4,839,207**	9,601,226	(4,762,019)	-49.6%
Income taxes - current	**1,903,013**	2,938,752	(1,035,739)	-35.2%
Income taxes (recovery) - deferred	**(626,186)**	(368,502)	(257,684)	69.9%
Net earnings	**$ 3,562,380**	$ 7,030,976	$ (3,468,596)	-49.3%
Net earnings attributable to parent	**$ 4,237,134**	$ 7,329,617	$ (3,092,483)	-42.2%
Net loss attributable to NCI [3]	**$ (674,755)**	$ (298,640)	$ (376,115)	125.9%
Earnings per share				
Basic	**$ 0.25**	$ 0.47	$ (0.22)	46.8%
Diluted	**$ 0.24**	$ 0.45	$ (0.21)	46.7%
EBITDAC per share				
Basic	**$ 0.49**	$ 0.78		
Diluted	**$ 0.49**	$ 0.75		
Weighted average shares outstanding				
Basic	**17,254,916**	15,658,547		
Diluted	**17,402,703**	16,324,297		

(1) See page 38 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and stock-based compensation (See page 38 for a further explanation of this non-IFRS measure).
(3) Bri-Steel Manufacturing Inc. is a 70% owned subsidiary of Bri-Chem Corp. NCI represents the 30% non-controlling interest's portion of loss of the subsidiary for the period ended September 30, 2012.

RESULTS OF OPERATIONS

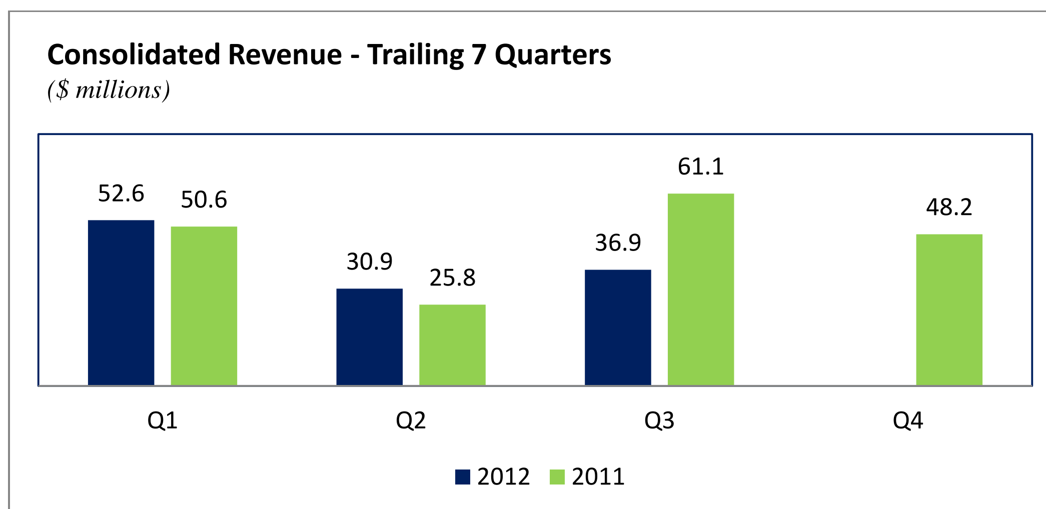
Sales

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

Sales by segment

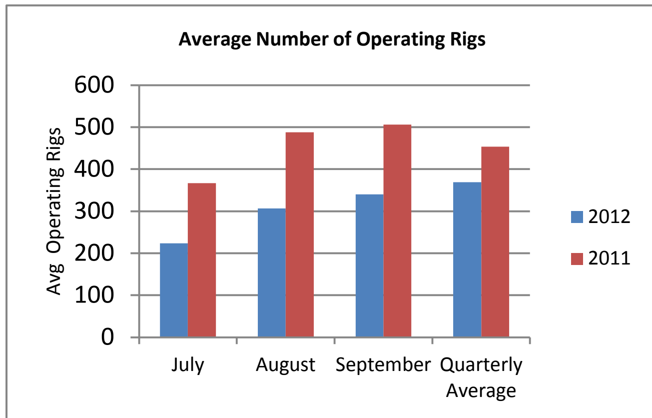
	For the three months ended September 30					
	2012		2011		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids	**$ 27,914,492**	**75.6**	$ 53,532,344	87.6	$ (25,617,852)	-47.9%
Steel Distribution	**4,645,226**	**12.6**	7,113,018	11.6	(2,467,792)	-34.7%
Steel Manufacturing	**4,065,418**	**11.0**	182,225	0.3	3,883,193	2131.0%
Other	**290,397**	**0.8**	308,254	0.5	(17,857)	-5.8%
	$ 36,915,533	**100.0**	$ 61,135,841	100.0	$ (24,220,308)	-39.6%

	For the nine months ended September 30					
	2012		2011		**Change**	
	$	**%**	$	%	**$**	**%**
Fluids	**$ 89,316,333**	**74.2**	$ 115,108,414	83.7	$ (25,792,081)	-22.4%
Steel Distribution	**21,731,720**	**18.0**	21,816,811	15.9	(85,091)	-0.4%
Steel Manufacturing	**8,682,335**	**7.2**	182,225	0.1	8,500,110	4664.6%
Other	**683,007**	**0.6**	446,195	0.3	236,812	53.1%
	$ 120,413,395	**100.0**	$ 137,553,645	100.0	$ (17,140,250)	-12.5%



Oil and Gas Fluids Division

Canadian Sales



Canadian drilling activity in the third quarter of 2012 was impacted by wet weather, resulting in difficulty preparing and getting to leases, and uncertain economic conditions which resulted in some customers cancelling or delaying drilling programs. Bri-Chem's Canadian fluid division generated sales of $22,205,241 and $74,661,082 for the three and nine months ended September 30, 2012, compared to sales of $50,966,478 and $112,542,484 over the same comparable 2011 periods, representing a decrease of 54.4% and 33.7% respectively. The decrease in third quarter sales was due in part to the decline in the number of active rigs running during the quarter and a significant reduction of regional liquid invert blending sales. The average number of active rigs running in the third quarter of 2012 was 339 compared to an average of 454 active rigs during the third quarter of 2011. In 2011, there was a strong start to the summer drilling program which resulted in the average number of operating rigs climbing quickly from 239 rigs in June 2011 to 506 average rigs in September 2011. In 2012, the average active rigs increased at a much slower rate with 224 average rigs operating in June 2012 increasing to 369 average operating rigs in September 2012. The slower summer drilling activity resulted in less demand for drilling fluid products. Rig utilization decreased from 56.8% in Q3 2011 to 41.3% in Q3 2012. Year to date the average operating rigs declined by 10% with 352 rigs operating on average for the nine months in 2012, compared to 393 for the same period in 2011. The number of wells drilled in the third quarter of 2012 decreased 19.8% to 2,969 compared to 3,703.

The Alberta market experienced a decrease in sales of 61.2% over the third quarter of the prior year while the number of wells drilled decreased by 13.8% in the region and wells drilled in Saskatchewan decreased by 8.9% while the Company's revenue decreased by 40.5% in the province. The decrease in sales in these regions was mainly due to a decrease in industry activity levels and a 34% decrease in liquid invert sales in Alberta as certain customers are formulating and blending their own liquid invert at newly constructed invert facilities. British Columbia has seen a 25.7% decrease in rig activity due to excess supply of dry natural gas which has resulted in many drilling companies deciding to cut spending on natural gas drilling until levels deplete making it more attractive to drill again in the region. In addition, many of our independent drilling fluid engineering customers did not obtain any of the work in British Columbia as major North American drilling fluid engineering companies acquired the majority of the work and serviced those wells in the regions with their own inventories.

Liquid Invert Sales

In Canada, Bri-Chem blends, reconditions and stores a petroleum based liquid drilling fluid, known as liquid invert, which is used in deep, horizontal, high temperature drilling applications. Canadian liquid invert sales had grown from 10.7% in 2008 to 30.9% of consolidated sales in 2011 with an average gross margin of approximately 10%. Canadian drilling activity has seen a sharp decline which has had a direct impact on liquid invert sales and two of the Company's largest customers have recently established their own blending and storage facilities to service their needs within the north central region of Alberta. In addition, British Columbia had nominal liquid invert sales during the third quarter of 2012, while the same period in 2011 the Company had liquid invert sales of $2,699,103 in the region as major North American drilling fluid engineering companies acquired the majority of the work and serviced those wells with their own inventories. Bri-Chem has experienced a 62.5% reduction in liquid invert sales for the nine months ended September 30, 2012 and anticipates the fourth quarter and the first quarter of 2013 to have reduced liquid invert sales as compared to the prior year periods. An increase in overall drilling activity could result in additional work for independent fluid engineering companies which would increase demand

for liquid invert sales and a rebound in natural gas prices could reactivate drilling activity in the northern British Columbia region.

United States Sales

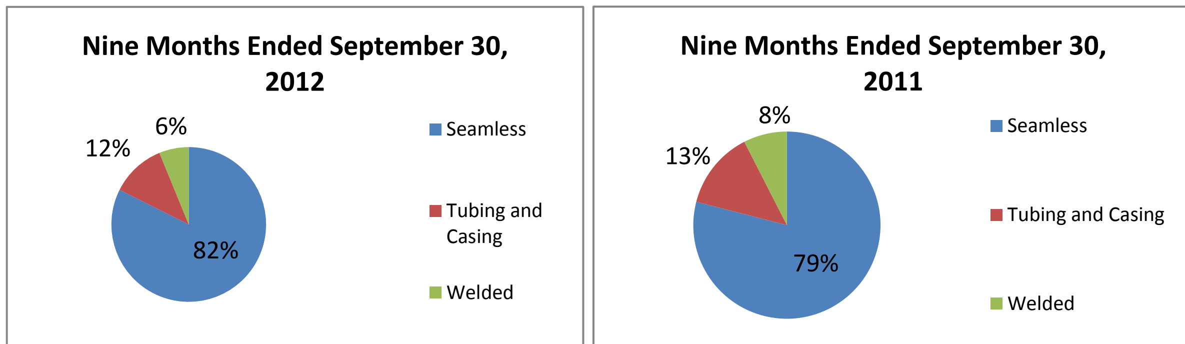
Total fluid sales for the US fluids division were $5,709,059 and $14,655,061 for the three and nine months ended September 30, 2012, compared to $1,815,866 and $2,275,033 for the same comparable period in 2011 representing an increase of 214.4% and 544.2% respectively. In addition, the Company had fluid sales of $460,187 and $1,328,296 from the Canadian fluids division sold into the USA during the three and nine months ended September 30, 2012. Bri-Chem's expansion into new geographic regions has brought new customers and demand for drilling fluids as Bri-Chem is establishing its market presence as a leading full service independent national wholesaler of drilling fluids. Drilling activity in the USA is down approximately 10% compared to the prior year, which may have short term impact on demand for drilling fluid products in the regions where the Company operates. Over the medium to long term the USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. As such, the Company continues to focus on expanding its product offerings in the regions it currently services as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from an independent wholesaler.

Fluid Transportation

Fluid transportation revenues earned by the Company's USA based subsidiary amounted to $290,397 for the three months ended September 30, 2012 compared to $308,254 for the comparable period in 2011. This new revenue stream was added from the Stryker acquisition completed effective June 1, 2011 and is reported under the "Other" category in the "Sales by Segment" chart above. The transportation divisions' main purpose is to service the Company's USA drilling fluids division with transportation services to the various warehouses that the Company distributes its products from. Revenues reported are for external third party transportation services.

As a result of Bri-Chem expanding from three warehouses in May of 2011 to eleven current national warehouses, management has been able to secure superior independent transportation rates which are less than the cost of running our own fleet. The Company is reviewing offers received to sell the majority of its transportation fleet and will look to shift its transportation services to third party independent contractors.

Steel Pipe Division



Steel Pipe Distribution

For the three and nine month period ended September 30, 2012, the steel pipe distribution division generated sales of $4,645,226 and $21,731,720, a decrease of 34.7% and 0.4% respectively over the comparable periods in 2011. The decrease in seamless pipe sales was mainly as a result of a decline in drilling activity during the third quarter of 2012 of approximately 25% compared to the same period in 2011. Revenues are expected to increase moderately in the fourth quarter as the demand for seamless pipe typically increases during the winter drilling season. The division has sufficient inventory levels to meet customer demand for seamless pipe in the WCSB.

Steel Pipe Manufacturing

The steel manufacturing division had sales of $4,065,418 and $8,682,335 for the three and nine month period ended September 30, 2012 representing an increase of 2131.0% and 4664.6% respectively. The Company has improved efficiencies with the manufacturing process that has resulted in a 20% – 30% increase in capacity. During the third quarter, the Company commenced the installation of a conveyor system to move pipe in and out of the production facility easier, therefore lower handling time and improving production speeds. As production output continues to improve, the division is focused on completing the outstanding backlog of orders for the remainder of 2012. For the majority of the fourth quarter the division will be operating two full shifts 24 hours a day, 4 days a week with one day allocated for shut-down maintenance. During 2013, management will assess adding another shift based on equipment performance and customer demands. The Company's selling price on the large diameter seamless pipe produced has improved due to API certification and the growing demand from customers.

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					
	2012		2011		**Change**	
	$	**%** *	$	% *	**$**	**%**
Fluids	**$ 5,047,374**	**18.1%**	$ 8,884,737	16.6%	$ (3,837,363)	-43.2%
Steel Distribution	**1,122,271**	**24.2%**	1,367,365	19.2%	(245,094)	-17.9%
Steel Manufacturing	**886,607**	**21.8%**	73,164	40.2%	813,443	0.0%
Other	**38,868**	**13.4%**	55,454	18.0%	(16,586)	-29.9%
Total	**$ 7,095,120**	**19.2%**	$ 10,380,720	17.0%	$ (3,285,600)	-46.3%

	For the nine months ended September 30					
	2012		2011		**Change**	
	$	**%** *	$	% *	**$**	**%**
Fluids	**$ 15,156,870**	**17.0%**	$ 18,788,556	16.3%	$ (3,631,686)	-19.3%
Steel Distribution	**3,830,927**	**17.6%**	3,566,776	16.3%	264,151	7.4%
Steel Manufacturing	**1,880,294**	**21.7%**	73,164	40.2%	1,807,130	0.0%
Other	**210,962**	**30.9%**	121,078	27.1%	89,884	100.0%
Total	**$ 21,079,053**	**17.5%**	$ 22,549,574	16.4%	$ (1,470,521)	-7.0%

* as a percentage of divisional revenues

Consolidated gross margin as a percentage of sales increased by 2.2% in the quarter, while increasing for the nine months from 16.4% to 17.5%, an increase of 1.1%.

Gross margin for the fluids division was 18.1% and 17.0% for the three and nine month period ended September 30, 2012 as compared to 16.6% and 16.3% for the comparable prior periods. Margins on fluid sales vary based on product mix and drilling formations. Margins for the Canadian fluids division were 14.5% for the three months ended September 30, 2012 compared to 15.3% for the same period in 2011. The decrease of 0.8% is due to slightly lower selling prices on certain fluids in efforts to remain competitive in the marketplace. In addition, the division incurred increased transportation costs related to moving certain inventories from slower warehouses to warehouses where demand was higher. This was done as part of the Company's comprehensive inventory management program, whereby management is constantly evaluating levels of inventory in each warehouse to ensure the division

has sufficient levels of inventory to meet the needs of customers. The division also experienced lower sales of liquid invert, which are traditionally at lower margins; other higher margin complementary fluid additives sales were lower as the result of the decreased liquid invert sales. The USA fluid margins are traditionally slightly higher than those of the Canadian operations, and were 24.4% for the three months ended September 30, 2012 compared to 22.5% for the same period last year. Margins in the USA fluids operations have increased slightly due to improved pricing and selling less low margin inventory such as barite and bentonite.

The steel distribution division, gross margins were 24.2% and 17.6% respectively for the three and nine months ended September 30, 2012, compared to 19.2% and 16.3% in 2011. The steel distribution business has seen marginal increases in margins on seamless pipe sales as the cost of steel has been lower in past quarter, while selling prices have remained stable during this period. Gross margins are expected to remain consistent in the fourth quarter, however further weakening of steel commodity prices may cause selling price pressure for the division, which may result in moderately lower gross margins.

The steel manufacturing division had margins of 21.8% and 21.7% for the three and nine month period ended September 30, 2012. Margins have remained consistent in the quarter, as the division completed a number of efficiencies and redundancies, whereby production volumes have increased as a result. As production continues to increase, costs will be attributed to cost of the product rather than incurring additional labour costs as the result of training and rework of equipment to improve efficiencies, which are anticipated to improve margins over the short to medium term. Margins have the potential to fluctuate depending on the size and grade of pipe being produced. More specialized sizes such as 30" are anticipated to yield higher margins than common sizes such as 16" standard A106 pipe. Management is focused on meeting the size requirements of its customers, while being competitively priced.

For the fourth quarter of fiscal 2012 and into Q1 2013, we are anticipating gross margins on fluid sales to be modestly lower as the Company will continue to reduce inventory based on current demand levels. Additional cost of transportation to move product to more active warehouses may lower margins in the fluids division. We are unable to predict the value of the Canadian dollar in relation to foreign currencies in the future; therefore, we are uncertain as to the potential impact on the Company's gross margin in relation to foreign purchases of product. The steel distribution division will remain focused on maintaining margins it has achieved in 2012. As steel commodity prices have been lower in recent months, margins are expected to be similar in the fourth quarter of 2012 to those experienced in the third quarter. The steel manufacturing division continues to target margins between 25% and 30% based on current raw material costs and estimated finished product sale prices.

Operating expenses

Salaries and employee benefits

	For the three months ended September 30		Change	
	2012	2011	**$**	**%**
Salaries and benefits	**$ 2,520,736**	$ 1,972,090	$ 548,646	27.8%
% of sales	**6.8%**	3.2%		3.6%

	For the nine months ended September 30		Change	
	2012	2011	**$**	**%**
Salaries and benefits	**$ 7,288,302**	$ 5,276,549	$ 2,011,753	38.1%
% of sales	**6.1%**	3.8%		2.2%

Salaries and benefits have increased by $548,646 for the three months ended September 30, 2012 over the prior year comparable period. The Company incurred $509,817 of salaries and benefits related to the USA operations during

the third quarter. Share-based payments increased by $117,089 from the prior comparable quarter as the Company issued new stock options to directors, executive and senior management of the Company throughout 2012 which impacts the current period expense.

Salaries and benefits increased $2,011,753 or 38.1% for the nine months ended September 30, 2012 compared to the same period in 2011. There were $1,437,586 of additional expenses for the year to date related to the operations of the USA subsidiaries, which includes 19 additional staff ranging from operations, sales, administration and long-haul truck drivers. Share-based compensation expense increased by $228,655 for the nine months ended September 30, 2012 compared to the same period in 2011. In addition, the Company added additional mill rights and lab technicians in the steel manufacturing facility in 2012 as more personnel was needed as production started to increase.

The Company employed 142 (110 Canada and 32 USA) employees at September 30, 2012 compared to 93 (75 Canada and 18 USA) at the same time period in 2011. Of the 142 employees, 55 employees related to steel manufacturing division and their salaries and benefits are recorded in cost of sales.

The Company expects salaries and employee benefits to remain consistent for the remainder of 2012 as all divisions are adequately staffed given current business activities. As the Company continues with its growth plans, personnel requirements will be revisited as required.

Selling, general and administration

	For the three months ended September 30			
	2012		2011	
	$	**%***	$	%
Selling	**$ 259,146**	**0.7**	$ 291,274	0.5
Professional and consulting	**148,546**	**0.4**	282,428	0.5
General and administration	**565,334**	**1.5**	553,867	0.9
Rent, utilities and occupancy costs	**1,259,064**	**3.4**	780,643	1.3
Foreign exchange (gain) loss	**(442,409)**	**(1.2)**	215,931	0.4
	$ 1,789,681	**4.8**	$ 2,124,143	3.5

*Percentage of sales

	For the nine months ended September 30			
	2012		2011	
	$	**%***	$	%
Selling	**$ 913,332**	**0.8**	$ 747,290	0.6
Professional and consulting	**359,894**	**0.3**	549,544	0.3
General and administration	**1,641,502**	**1.4**	1,312,091	1.0
Rent, utilities and occupancy costs	**3,752,253**	**3.1**	2,409,889	2.1
Foreign exchange (gain) loss	**(947,570)**	**(0.8)**	164,513	(0.1)
	$ 5,719,411	**4.7**	$ 5,183,327	3.9

*Percentage of sales

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

Selling expenses decreased for the three months ended September 30, 2012 compared to the same period in 2011. The decrease was due to less selling expenses for promotion and travel costs during the quarter as sales demand had

declined. Selling expenses increased for the nine months ended September 30, 2012 due to automotive expenses increases of $113,973 which is due to increased operational costs, lease costs and fuel costs for the forklifts in the steel manufacturing, steel distribution and USA fluids divisions. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses for the three and nine month period ended September 30, 2012 were $148,546 and $359,894 respectively. The nine month period is at an overall decrease as the Company had incurred additional costs for services related to the transition to IFRS in 2011. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses increased 2.1% and 2.5% respectively for the three and nine month periods ended September 30, 2012 compared to the same period in 2011. Bank charges increased by $3,114 and $234,184 for the three and nine month period ended September 30, 2012 compared to 2011 as a result of the transaction costs related to the new banking arrangements entered in the third quarter of 2011. Insurance costs increased by $4,520 and $124,445 respectively over the comparable quarter due to the addition of the manufacturing facility and USA operations, and an increase to insurance coverage for all divisions of the Company. All other costs remained relatively consistent from the comparable prior year quarter. General and administration expenses include bad debts, bank charges, and insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy costs increased over the third quarter of 2012 compared to the same period in 2011. Rents and utilities from the USA operations amounted to $238,656 and $624,037 for the three and nine months ended September 30, 2012, compared to $76,857 of operation in the first nine months of 2011 as the division was acquired in June 2011. The Company incurred increased utility costs of $166,746 and $462,969 for the three and nine months ended September 30, 2012. The increases were due to electrical costs for running thermal pipe expansion equipment in the steel manufacturing division. The steel distribution division relocated its steel inventory to a new pipe yard in Edmonton, Alberta during late 2011. For the three and nine month period ended September 30, 2012, the rental revenue was $272,958 and $705,085 respectively, which is recorded in sales. Costs in this category are comprised mainly of rent, utilities, and warehouse expense for the Edmonton, Leduc, Camrose, Acheson and USA locations as well as liquid storage tank rentals.

During the third quarter of 2012, the US dollar lost strength in relation to other currencies, and was lower than the Canadian dollar at September 30, 2012. The decrease in the US dollar resulted in a foreign exchange gain for the three and nine months ended September 30, 2012 of $442,409 and $947,570, as the decreased US rate caused the Company to have a favourable position on its lending facility which is partially held in USD. In addition, these foreign exchange gains arose on the translation of the foreign denominated assets and liabilities held by the Company, as well as the fair value of derivative financial instruments (see "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Amortization

	For the three months ended September 30				Change	
		2012		2011	**$**	**%**
Property and equipment	**$**	**350,981**	$	255,983	$ 94,998	37.1%
Intangible assets		**67,070**		125,606	(58,536)	-46.6%
Total	**$**	**418,051**	$	381,589	$ 36,462	9.6%

	For the nine months ended September 30		Change	
	2012	2011	**$**	**%**
Property and equipment	**$ 1,191,677**	$ 518,900	$ 672,777	129.7%
Intangible assets	**300,576**	310,534	(9,958)	-3.2%
Total	**$ 1,492,253**	$ 829,434	$ 662,819	79.9%

The increase in property and equipment amortization is a result of amortization on the useful life of assets put into use for the steel manufacturing division, which were not fully in use in the comparable quarter of the prior year. The quarterly amortization expense in the fourth quarter of 2012 is expected to be similar to that of the third quarter of 2012. Intangible asset amortization has decreased due to the straight line amortization incurred for the Stryker acquisition which occurred in June 2011.

Interest

	For the three months ended September 30		Change	
	2012	2011	**$**	**%**
Interest on long-term debt	**$ 20,289**	$ 43,870	$ (23,581)	-53.8%
Interest on short-term operating debt	**497,504**	427,780	69,724	16.3%
Interest on obligations under finance lease	**10,042**	14,320	(4,278)	-29.9%
Total	**$ 527,835**	$ 485,970	$ 41,865	8.6%

	For the nine months ended September 30		Change	
	2012	2011	**$**	**%**
Interest on long-term debt	**$ 56,173**	$ 294,614	$ (238,441)	-80.9%
Interest on short-term operating debt	**1,651,393**	1,337,638	313,755	23.5%
Interest on obligations under finance lease	**32,315**	26,785	5,530	20.6%
Total	**$ 1,739,881**	$ 1,659,037	$ 80,844	4.9%

Interest on short-term operating debt increased by $69,724 and $313,755 for the three and nine month periods ended September 30, 2012 due to increases in the revolving line of credit balance outstanding as compared to the prior period. More borrowing was needed to purchase inventory given new geographic regions, as well as for increased capital expenditures. The Company purchased additional fluid inventory in Canada for an expected busier summer drilling activity, which turned out to be slower than anticipated. On August 12, 2011, the Company signed a new asset-based lending agreement with CIBC Asset Based Lending Inc. and HSBC Bank Canada, and settled the prior amounts outstanding under its previous borrowing arrangements with HSBC Bank Canada and HSBC Capital. As a result, interest on long-term debt has decreased in the third quarter of 2012 due to the repayment of long-term debt and the new borrowing agreement, which is classified as short-term operating debt.

As at September 30, 2012, the Company has no long-term debt on its balance sheet other than capital leases that are the result of equipment financing for the steel manufacturing facility and the USA transportation equipment. The Company is examining alternative long-term debt financing options to assist in accelerating its continued strategic growth plan.

Income taxes

The provision for income taxes for the three and nine months ended September 30, 2012 is a net current tax expense of $400,238 and $1,276,827 compared to $1,455,161 and $2,570,250 in 2011. The decrease in taxes is a result of the decrease in earnings of the Company. The Company had a deferred tax recovery of $176,622 and $626,186 for the three and nine months ended September 30, 2012, largely as a result of the tax effect on losses incurred in the steel manufacturing division. The deferred tax recovery is believed to be recognizable as the division has completed its efficiency and redundancy plan and is now in full production, which management feels will provide future profitability to the division.

Net earnings and earnings per share

	For the three months ended September 30		Change	
	2012	2011	**$**	**%**
Net earnings	**$ 1,438,579**	$ 3,961,767	$ (2,523,188)	-63.7%
% of sales	**3.9%**	6.5%		
EBITDAC (1)	**$ 2,963,885**	$ 6,346,580	$ (3,382,695)	-53.3%
% of sales	**8.0%**	10.4%		

	For the nine months ended September 30		Change	
	2012	2011	**$**	**%**
Net earnings	**$ 3,562,379**	$ 7,030,976	$ (3,468,597)	-49.3%
% of sales	**3.0%**	5.1%		
EBITDAC (1)	**$ 8,445,973**	$ 12,235,676	$ (3,789,703)	31.0%
% of sales	**7.0%**	8.9%		

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

The Company had net earnings for the quarter ended September 30, 2012 of $1,438,579 compared to earnings of $3,961,767 in the prior year. Net earnings as a percentage of revenues for the period were 3.9%, slightly higher than in prior period due to the higher margins earned in the US fluids and the steel distribution divisions. Net earnings for the nine months ended September 30, 2012 decreased by $3,468,598 over comparable prior year period and were 3.0% of total revenues year to date.

The decrease in EBITDAC for the period is also due to weaker drilling activity in Canada during the quarter as well as increased USA infrastructure costs relating to geographic expansion. The Canadian fluids division experienced lower liquid invert product sales in the third quarter, which also caused a decrease in EBITDAC when compared to the same period in 2011.

Basic and diluted earnings per share for the three and nine month period ended September 30, 2012 were $0.10 and $0.25 respectively. Earnings per share were based on the weighted average number of shares outstanding during the period. The basic and diluted weighted average number of shares outstanding for the quarter ended September 30, 2012 were 17,331,854 and 17,401,877 respectively compared to 16,421,279 and 16,916,864 for the same comparative period in 2011.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2012 Q3	2012 Q2	2012 Q1	2011 Q4	Total TTM
Sales	$ 36,916	$ 30,931	$ 52,566	$ 48,170	$ 168,583
Gross margin ($)	7,095	4,803	9,181	8,487	29,566
Gross margin (%)	19.2%	15.5%	17.5%	17.6%	17.5%
EBITDAC [(1)]	2,964	182	5,300	4,205	12,651
Net earnings (loss)	$ 1,439	$ (770)	$ 2,894	$ 2,431	$ 5,994
Basic earnings (loss) per share	$ 0.10	$ (0.03)	$ 0.18	$ 0.17	$ 0.42
Diluted earnings (loss) per share	$ 0.10	$ (0.03)	$ 0.18	$ 0.16	$ 0.41

(in thousands of Cdn $)	2011 Q3	2011 Q2	2011 Q1	2010 Q4	Total TTM
Sales	$ 61,136	$ 25,770	$ 50,647	$ 47,852	$ 185,405
Gross margin ($)	10,381	4,494	7,675	6,962	29,512
Gross margin (%)	17.0%	17.4%	15.2%	14.5%	15.9%
EBITDAC [(1)]	6,346	1,490	4,399	3,846	16,081
Net earnings	$ 3,962	$ 437	$ 2,632	$ 2,082	$ 9,113
Basic earnings per share	$ 0.25	$ 0.03	$ 0.19	$ 0.15	$ 0.62
Diluted earnings per share	$ 0.24	$ 0.03	$ 0.18	$ 0.15	$ 0.60

(in thousands of Cdn $)	2010 Q3	2010 Q2	2010 Q1	2009 Q4	Total TTM
Sales	$ 38,485	$ 22,193	$ 43,965	$ 32,058	$ 136,701
Gross margin ($)	5,780	3,231	6,351	893	16,255
Gross margin (%)	15.0%	14.6%	14.4%	2.8%	11.9%
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. (See page 38 for a further explanation of this non-IFRS measure).

Quarterly revenue has steadily increased due to the Company's continued growth through acquisitions and drilling fluid market share growth. The exception to the growth in revenue occurred in the third quarter of 2012, which was impacted by a 25% decline in year over year oil and gas drilling activity and a reduction in liquid invert sales.

EBITDAC and net earnings has followed a similar trend to revenue, steadily increasing due to the acquisitions completed by the Company and drilling fluids market share growth. EBITDAC and net earnings was impacted by

the reduced activity associated with more of a traditional spring break up in the second quarter of 2012 as well as lower activity in the third quarter of 2012.

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

FINANCIAL CONDITION & LIQUIDITY

Summary Balance Sheet **As at**		**September 30** **2012**		December 31 2011
Current assets	**$**	**110,272,550**	$	113,020,921
Property and equipment		**10,647,442**		9,808,587
Other assets		**3,256,103**		2,840,836
TOTAL ASSETS	**$**	**124,176,095**	$	125,670,344
Current liabilities	**$**	**73,549,163**	$	80,581,220
Non-current liabilities		**1,056,701**		1,139,643
TOTAL LIABILITIES		**74,605,864**		81,720,863
Share capital		**24,249,025**		23,727,210
Non-controlling interest		**1,851,577**		1,466,882
Retained earnings and contributed surplus		**23,469,629**		18,755,389
TOTAL EQUITY		**49,570,231**		43,949,481
TOTAL LIABILITIES AND EQUITY	**$**	**124,176,095**	$	125,670,344

Financial Ratios	**September 30** **2012**	December 31 2011
Working capital ratio	**1.50**	1.40
Days sales in receivables	**78.4**	101.8
Inventory turns	**1.7**	3.2
Days purchases in payables	**81.9**	65.1

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

As at September 30, 2012, the Company had positive working capital of $36,723,387 compared to $32,439,701 at December 31, 2011. The Company's working capital ratio (defined as current assets divided by current liabilities) was stronger at 1.50 to 1 for the period ended September 30, 2012, compared to 1.40 to 1 for the year ended December 31, 2011.

As at September 30, 2012, the Company had drawn $44,305,746, net of transaction costs of $392,376, on its available credit facilities of $80,000,000, as compared to $48,910,877, net of transaction costs of $687,558, at December 31, 2011. As at September 30, 2012, the Company was eligible to borrow up to approximately $57,700,000 based on the marginable assets of the Company. Effective August 12, 2011, the Company entered into a new secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. and HSBC Bank Canada. The ABL Facility has a term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable to a maximum of $80,000,000.

The initial advance under the ABL Facility repaid the outstanding amounts in full to its former credit facility lender HSBC Bank Canada totaling $36,060,524 and $1,718,883 USD. This included amounts of $1,200,986 to settle the outstanding balance on the HSBC Capital subordinated debenture, $1,437,863 to settle outstanding amounts on the HSBC Bank Canada committed non-revolving loan, and $33,421,675 and $1,718,883 USD to settle the outstanding bank indebtedness balance. In addition, the Company also repaid $1,000,000 plus interest on the previously postponed promissory notes that were originally 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, 2012, the Company was in compliance with its covenants.

The September 30, 2012 day's sales in receivables are 78.4, lower than the ratio from December 31, 2011 of 101.8. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference in the calculation of the days sales in receivables. Due to the decrease in sales in the third quarter related to the decrease in drilling activity in Western Canada, the Company was able to collect many of its receivables and had lower balances outstanding at the end of the quarter. The increase in days' purchases in payables at September 30, 2012 compared to December 31, 2011 is as a result of the Company managing its availability of its ABL Facility by closely linking the inflow of cash receipts to the outflow of cash to vendors.

As at September 30, 2012, accounts receivable was $31,789,001, a $25,071,659 or 44.1% decrease from the December 31, 2011 balance of $56,860,660. The decrease is due to a significant decrease in sales activity in the Canadian fluids division during the third quarter as the result of slower summer drilling activity in Canada.

Inventory increased by $16,372,304 or 30.2% to $70,551,542 compared to the 2011 year-end balance of $54,179,238. Inventory turns decreased from 3.2 at December 31, 2011 to 1.7 at September 30, 2012. A significant portion of the inventory increase relates to increase in the steel manufacturing division of $4,093,309 for additional raw materials and $3,368,580 of finished goods inventory. The USA fluid division increased inventory by $7,281,577 to stock additional new warehouse locations. Canadian fluid inventories have increased by $1,726,931 as the division anticipated higher drilling activity during the quarter and had purchased product on expected sales demand. Inventory values are expected to decrease in the Canadian fluids division as the forecasted drilling activity is to remain lighter than previous years, therefore the Company will aim to reduce inventory levels in certain regions. The steel manufacturing division is forecasted to have higher inventory in the short term as raw tubes are being delivered from overseas to meet growing customer demand and production schedules. Inventory in the USA fluids division should remain consistent over the short to medium term as management feels there are sufficient inventory levels to meet the demand of USA customers.

The Company's prepaid expenses and deposits have increased by $5,950,984 to $7,932,007 at September 30, 2012 as compared to the 2011 year-end balance of $1,981,023. The increase was due to deposits being made on steel pipe purchases from a few international vendors that do not provide credit terms. In 2011, the steel division had obtained terms with a vendor that did not require deposits made on purchases, which had assisted in the operating cashflow of

the Company. The vendor still exists, however other sizes were ordered from alternative vendors who do not provide credit terms. The Company continues to work with its other vendors on the terms of these purchases.

The Company has recorded a loss of $243,358 for the non-controlling interest for the quarter ended September 30, 2012 and a total equity balance of $1,851,577 compared to $1,466,882 at December 31, 2011. The non-controlling interest relates to the establishment of the steel manufacturing division. In addition, the preferred shares that were previously recorded as share capital were reclassed to non-controlling interest since they relates to the interest of the steel manufacturing division. The Company also had an increase of partner investment, as inventory, of $1,059,450.

The Company's liquidity will depend upon operating cash flows, existing working capital, the unused credit facility and the ability to access debt and equity markets. The Company currently has sufficient liquidity of approximately $9,700,000 under its existing ABL facility. Management is evaluating its inventory quantities in all divisions as part of its ongoing inventory management program. Given the slower drilling activity levels in Western Canada and the higher quantity of inventory on hand, the Company will prudently manage its inventory levels over the next few quarters to ensure there is sufficient amount of inventory to meet the demands from customers. The Company continues to assess its requirements for capital on an on-going basis. The Company is currently evaluating long-term debt alternatives that will expedite the strategic growth initiatives of the Company and assist with meeting the short term financial obligations of the Company.

Summary of Consolidated Statements of Cash Flows **Nine months ended**		**September 30** **2012**		September 30 2011
Cash provided by operating activities	**$**	**7,250,232**	$	801,794
Cash (used) provided by financing activities		**(5,083,174)**		3,244,818
Cash used by investing activities		**(2,167,058)**		(4,046,612)
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of period		**-**		-
Cash and cash equivalents, end of period	**$**	**-**	$	-

Cash flow used by operating activities

Cash provided by operating activities for the quarter ended September 30, 2012 was $7,250,232 compared to $801,794 for the same period in 2011. The Company's cash provided by operating activities relates to more collections of receivables during the quarter. There was also a decrease in the balance of accounts payable outstanding as the Company purchased less inventory during the summer period as fluid demands decreased due to lower drilling activity levels in the WCSB. Inventory levels have increased due to increased US fluid demand as well as raw material pipe for the steel manufacturing division. The Company expects to see cash provided by operations to be similar for the fourth quarter of 2012, as the Company will see increased purchases for steel pipe and raw materials for steel manufacturing, offset against the decrease of Canadian fluid purchases as the division has an overstock of certain inventory items given forecasted activity levels. The Company intends to continue to manage its inventory levels and spending in order to conserve its balance sheet strength and minimize any increase in debt levels.

Cash flow provided by financing activities

Cash used in financing activities was $5,083,174 for the quarter ended September 30, 2012, compared to cash provided of $3,244,818 in the comparable 2011 period. The cash used by financing activities is related to repayments on the operating line to fund period operations. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second and third quarters, which it will use to repay the operating line. This trend is reversed in Q4 and Q1 when significant sales and purchases occur, while collections are

often delayed until the second quarter. In the third quarter of 2011, there was a significant ramp up in drilling activity which resulted in additional cash being used to purchase inventory to keep up with demand. The drilling activity was down 25% in the third quarter of 2012, which resulted in fewer purchases of fluid products. The Company is currently evaluating long-term debt facilities that may result in an improved indebtedness position. The use of the funds would be for general working capital purposes as well as to expedite the strategic growth of the Company.

As part of the Stryker acquisition completed in May 2011, the Company issued a $337,577 note payable due in 2012. The principal payment plus interest was paid June 1, 2012 through the operating line of credit.

Cash flow used by investing activities

Cash used in investing activities amounted to $2,167,058 for the nine months ended September 30, 2012 compared to $4,046,612 used during the same period in 2011. The decrease is due to fewer capital additions required in the steel manufacturing facility as the facility is now in full operation. The main investing activities are for the purchase and set up of a liquid invert facility and storage tanks in the USA as well as new testing equipment along with a roller and conveyor system to improve material handling in the steel manufacturing facility. Forecasted capital expenditures for the short term are approximately $300,000 and will be funded through existing operating facilities and possible capital leases where possible for specific equipment.

Covenants

	September 30, 2012		December 31, 2011	
	As calculated	**Minimum required**	As calculated	Minimum required
Adjusted tangible net worth	**$ 46,881,241**	**To exceed $27,105,000**	40,320,958	To exceed $27,105,000
Eligible capital expenditures	**$ 2,110,582**	**Not to exceed $3,272,516**	4,204,589	Not to exceed $4,300,000

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. Adjusted tangible net worth is set at a minimum and defined, on a consolidated basis, as total assets, less intangibles and goodwill, excluding deferred tax assets less total liabilities, excluding deferred tax liabilities. Capital expenditures limit is set at a maximum of 120% of the consolidated budgeted yearly expenditures. The minimum covenants are noted in the above table. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a monthly basis. As at September 30, 2012, the Company was in compliance with all financial covenants.

Obligations under operating lease

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

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

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
September 30, 2012	$ 3,384,843	$ 11,081,006	$ 1,938,684	$ 16,404,533
December 31, 2011	2,871,777	8,743,273	2,108,538	13,723,588

Contractual obligations related to financial liabilities at September 30, 2012 are as follows:

	Bank credit facility	Accounts payable	Promissory notes payable *	Finance leases*	Total
2012	$ 44,305,746	$ 28,813,040	$ -	$ 242,755	$ 73,361,541
2013	-	-	-	226,925	226,925
2014	-	-	-	186,907	186,907
2015	-	-	-	131,139	131,139
2016	-	-	-	19,481	19,481
Thereafter	-	-	-	-	-
Total	$ 44,305,746	$ 28,813,040	$ -	$ 807,207	$ 73,925,993

* includes interest calculated to be paid

On September 21, 2011, the Company entered into a three year purchase commitment with a vendor for a liquid mud drilling product that is purchased and distributed by the fluids division. The agreement sets minimum purchase volumes per month and provides the Company access to additional volumes on a preferred basis if the terms are met. Volumes may be reduced if the Company does not meet at least 85% of its contracted volumes on a monthly basis. Given the decreased volumes, the Company was not able to meet the minimum requirement. Therefore, the contract is no longer in place.

On November 17, 2011, the Company entered into a one year purchase commitment with a vendor for a product that is purchased and distributed by the fluids division. The agreement sets a minimum purchase volume at a set price for the year based on twelve monthly purchases. The Company has no intention to renew the contact at the end of the term.

Intangibles

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

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

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

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

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

Property and equipment

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

The Company's investment in property and equipment for the three and nine month period ended September 30, 2012 was $943,755 and $2,175,005 respectively. The capital expenditures were funded from the Company's operating line of credit. Future capital expenditures of approximately $300,000 are being proposed for the fourth quarter of 2012. Approximately $150,000 is estimated to complete the set up a liquid invert blending facility in the USA. The residual planned expenditures are for small additions to the steel manufacturing facility for equipment, tools as well as upgrades to the fluid blending and packaging facilities. 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 three and nine month periods ended September 30, 2012, the Company incurred office sharing costs of $15,000 and $45,000 (September 30, 2011 - $15,000 and $45,000) in the normal course of operations with BRC Advisors Inc., a company which a certain director and officer has significant influence over.

The Company expensed interest of $nil and $8,687 (September 30, 2011 - $3,510 and $8,687) on the promissory note 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. The promissory note was paid in full on June 1, 2012.

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, 2012.

OUTLOOK

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

Canadian drilling activity has recently become more volatile with the uncertainty of future crude oil and natural gas pricing, coupled with an unclear economic environment. This uncertainty is expected to result in lower Canadian drilling activity in the fourth quarter of 2012 as compared to the same period of the prior year. Currently, the largest challenges facing the drilling industry are reduced spending, pricing differentials on Canadian crude oil, low natural gas prices, a strengthening Canadian dollar and the challenge to attract and retain skilled labour. As such, the Company expects lower Canadian fluid product demand for the remainder of 2012 and into 2013. Notwithstanding the softening of Canadian drilling activity, Bri-Chem continues to invest into its USA drilling fluid market expansion plan where significant market share is vastly obtainable. In addition, with the recent completion of the Thermal Pipe Expansion manufacturing facility, our steel manufacturing division will seek to grow its production output to record levels in the fourth quarter and into 2013 to service the demand for niche large diameter seamless pipe in North America.

The Petroleum Services Association of Canada (PSAC) has forecasted 2,927 wells to be drilled in Western Canada for the fourth quarter of 2012, a forecasted decrease of 15.8 % over 2011. The decrease of activity in the fourth quarter coupled with a reduction of liquid invert sales, due to customers installing their own regional blending facilities, will result in lower Canadian drilling fluid sales in the fourth quarter compared to the fourth quarter of 2011. PSAC also has forecasted 11,400 wells to be drilled in Canada for 2013, which is similar to the number of wells estimated in 2012. The Canadian fluids division will continue to service its existing customers by focusing on service and ensuring that inventory levels are strategically managed to meet the demands of our customers. In addition, Bri-Chem is actively seeking to acquire companies that formulate specialty drilling fluid products for further penetration into the drilling fluids market place.

The growth in the USA drilling fluids division is the result of geographic and product expansion that management has been implementing for the past several quarters. The strategically placed warehouses located throughout the USA have allowed us the ability to better service customers in major drilling regions which has and will continue to drive growth in sales and future earnings. The division will look to open its first liquid invert blending facility in the fourth quarter, which is expected to increase demand for fluid products. Despite the modest decline in USA rig count, the division is well positioned through its product offerings and strategic geographic locations to continue to gain market share. We are continuing to examine additional strategic warehouse locations in the USA that will provide revenue and earnings growth as we establish Bri-Chem as a leading national independent wholesale supplier of drilling fluids for the USA drilling fluids market.

The Company's chemical blending and packaging division is expanding its current facility, located in Acheson, AB, to accommodate increased demand for blending and packaging services which management anticipates will result in new sales and earnings growth for 2013. Acheson was previously the head office location for administrative and executive functions and effective September 2012 all administration and executive staff were moved to the new corporate office located on the second floor of the steel manufacturing facility. This move allows for further blending capacity to be added inside the Acheson building and for additional space outside to manage raw materials and finished goods. Management believes that a significant opportunity exists to develop a liquid stimulation and specialty additives blending division to leverage additional business from existing clients that we currently service. Bri-Chem is actively seeking to acquire companies that manufacture and blend liquid stimulation and specialty additive products to increase market share in the completion and stimulation fluids segment.

The steel pipe distribution division is continuing to service its customers with competitively priced seamless steel pipe, in various lengths and grades. The division remains optimistic it can continue to achieve gross margins in Q4 and into 2013 consistent to that achieved during the first nine months of 2012. Over the short to medium term, the division will continue to attract new customers through the marketing of its niche manufacturing of large diameter seamless pipe. Significant synergies have also been achieved, within the two steel divisions, by combining sales and administrative functions which has prevented the need to duplicate staff and add additional overhead costs.

The steel manufacturing division has completed the training of a second shift during the third quarter and developed further redundancies throughout the manufacturing process, which will drive higher production capacity in the fourth quarter of 2012 and into 2013. Early in the fourth quarter, the Company commissioned the installation of a conveyor system to move pipe in and out of the production facility easier, therefore lowering handling time and improving production speeds. The facility will now be producing steel pipe 24 hours a day, 4 days a week early in the fourth quarter and thereon into 2013. During 2013, management will assess adding another shift based on equipment performance and customer demands. In the short term, the division is focused on completing the production for a backlog of current sales orders and for 2013 the division is securing a backlog of sales orders to complete a production schedule based on confirmed sales orders to ensure maximum production given current staffing. Management is continuing to sell a large portion of the mills production capacity to the United States where the demand is strong which will drive new revenue and profitability in the division.

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

RISKS AND UNCERTAINTIES

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

Liquidity Risk

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

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

Competition and Industry Conditions

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

The capital expenditure programs of oil and gas companies largely affect the products provided by the Company. The magnitude of capital expenditures determines the demand for the Company's drilling fluids and steel pipe to the

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

Alberta Royalty Framework

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

Supply Risk

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

Oil and Natural Gas Prices

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

Commodity Price Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Integration of Acquisitions

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

Entering New Business Lines

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

Government Trade Tariffs

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

Seasonal Weather

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

Product Liability Claims

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

Ability to Achieve Profitability

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

Credit Risk

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

Customer Risk

Although the Company operates in several industries, the Company's two largest customers (operating predominately in the WCSB) comprise a significant portion of the Company's total sales for the three and nine months ended September 30, 2012. As is customary in the industrial drilling fluids industry, the Company does not have long-term contracts with any of its major customers. As a result, any decline in sales from these customers could have a material adverse effect upon the Company's results of operations and financial condition.

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.

Potential Replacement or Reduced Use of Products and Services

Certain of the Company's drilling fluid products or blending services may become obsolete or experience a decrease in demand through the introduction of competing blending facilities or products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. The Company will need to keep current with the changing market for drilling fluids and technological

and regulatory changes. If the Company fails to do so, this could have a material adverse effect on its business, financial condition, results of operations and cash flows.

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

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

Income Tax Expense

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

Workplace Safety, Health and Wellness

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

Environmental Liability

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

materially adverse effect on the operations of the Company and its financial condition, results of operations and cash flow.

Dependence on Key Personnel

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

Insurance risk

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

Fuel Prices

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

Potential Liabilities from Acquisitions

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

CRITICAL ACCOUNTING ESTIMATES

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

The most significant estimates and judgments used by management include:

Sales return provision

Accounts receivable is one of the most significant assets at September 30, 2012. Included in this balance is a sales return provision for the fluids division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision already recorded.

Inventory valuations

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

Fair value of derivative financial instruments

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

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

Income taxes

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

ACCOUNTING POLICIES

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

There were no new accounting policies adopted in the period.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

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

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on accounts receivable are with customers in the oil and gas industry. Accounts receivable consist of a large number of customers spread across diverse geographical areas and ongoing credit evaluations are performed on the financial condition of accounts receivable. Revenue from the Company's two largest customers accounted for approximately 13% and 10% respectively (September 30, 2011 – 25% and 21%) of total revenue during the period and 16% and 12% respectively (September 30, 2011 –29% and 24%) of total accounts receivable at period end. These customers are within 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, 2012, the Company has recorded an allowance for doubtful accounts of $135,305 (December 31, 2011 - $41,852). The allowance is an estimate of the September 30, 2012 trade receivable balances that are considered uncollectible. Changes to the allowance during the period ended September 30, 2012 consisted of a bad debt of $93,453.

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, 2012	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 11,923,547	$ -	$ 11,923,547
31 to 60 days	10,954,714	-	10,954,714
61 to 90 days	5,798,238	-	5,798,238
91 to 120 days	2,043,547	-	2,043,547
Over 120 days	1,204,260	(135,305)	1,068,955
Total	$ 31,924,306	$ (135,305)	$ 31,789,001

The changes in allowance for doubtful accounts were as follows:

		September 30 2012		December 31 2011
Balance, beginning of period	$	**41,852**	$	92,000
Bad debt expense		**93,453**		179,119
Receivables written off		**-**		(229,267)
Balance, end of period	$	**135,305**	$	41,852

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

Interest rate risk

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

The effective interest rate on the bank indebtedness at September 30, 2012 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at September 30, 2012, 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 $88,353 (September 30, 2011 – $84,670).

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 a 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 expanded its 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 USD$7,112,032 as at September 30, 2012 (September 30, 2011 - USD$2,269,778), accounts payable in foreign currency outstanding as at September 30, 2012 is USD$2,068,621 (September 30, 2011 - USD$3,850,556), and a promissory note in foreign currency outstanding at $nil (September 30, 2011 - USD$374,234). The Company realized a foreign exchange gain of $442,409 (September 30, 2011 – loss of $215,931) 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, 2012, a 5% increase in exchange rates would impact the Company's net earnings by approximately $320,376 (September 30, 2011 – $50,468).

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, 2012, the Company had 17,366,461 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,723,760 common shares. As of September 30, 2012, options to purchase 1,115,000 common shares were outstanding at an average price of $2.73 per common share.

NON-IFRS MEASURES

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

EBITDAC				
		For the three months ended September 30		
		2012		2011
Net earnings	**$**	**1,438,579**	$	3,961,767
Add:				
Interest		**527,835**		485,970
Income taxes		**400,238**		1,455,161
Amortization		**418,051**		381,589
Share-based payments		**179,182**		62,093
EBITDAC	**$**	**2,963,885**	$	6,346,580

EBITDAC				
		For the nine months ended September 30		
		2012		2011
Net earnings	**$**	**3,562,380**	$	7,030,977
Add:				
Interest		**1,739,881**		1,659,037
Income taxes		**1,276,827**		2,570,250
Amortization		**1,492,253**		829,434
Share-based payments		**374,633**		145,978
EBITDAC	**$**	**8,445,974**	$	12,235,677

Operating expenses is not a concept recognized under IFRS as it does not include interest and amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the September 30, 2012 interim consolidated financial statements:

Operating expenses		For the three months ended September 30		
		2012		2011
Operating expenses	**$**	**4,131,234**	$	4,034,140
Add:				
Interest		**527,835**		485,970
Amortization		**418,051**		381,589
Share-based payments		**179,182**		62,093
Total expenses	**$**	**5,256,302**	$	4,963,792

Operating expenses		For the nine months ended September 30		
		2012		2011
Operating expenses	**$**	**12,633,080**	$	10,313,899
Add:				
Interest		**1,739,881**		1,659,037
Amortization		**1,492,253**		829,434
Share-based payments		**374,633**		145,978
Total expenses	**$**	**16,239,847**	$	12,948,347

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

Disclosure controls and procedures

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company, together with management, have established and maintain disclosure controls and procedures for the Company in order to provide reasonable assurance that material information relating to the Company is made known to them in a timely manner, particularly during the period in which the annual filings are being prepared. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as of September 30, 2012 and, based on that evaluation, have concluded that these controls and procedures are effective in providing such reasonable assurance.

Internal controls over financial reporting

The CEO and CFO, together with management, are also responsible for establishing and maintaining internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's ICFR as of September 30, 2012 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting that occurred in the three and nine months ended September 30, 2012 that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.

Corporate Information

Officers and Directors

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

Brian Campbell
Director
Edmonton, Alberta

Jason Theiss, CA
CFO
Edmonton, Alberta

Trent Abraham
President, Fluids Division
Calgary, Alberta

Albert Sharp
Director
Spruce Grove, Alberta

Eric Sauze, CA
Director
Edmonton, Alberta

Neil Rasmussen
President, Steel Division
Edmonton, Alberta

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