Bri-Chem Corp.

Management's Discussion and Analysis

Three and Nine months ended September 30, 2013

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of November 13, 2013. 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, 2013, and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the unaudited interim financial statements for the period ended September 30, 2013, as well as the annual audited consolidated financial statements for the twelve months ended December 31, 2012.

The Company's unaudited consolidated interim financial statements are prepared in accordance with 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. (70%) and Bri-Corp USA, Inc., including its three subsidiaries Bri-Chem Supply Corp, LLC, Sun Coast Materials, LLC and Bri-Chem Logistics, LLC. 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 customers and potential new customers; and
- the ability of the Company to expand and broaden its areas of operation.

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

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

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

- supply and demand for oilfield services, 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.

2013 THIRD QUARTER OVERALL PERFORMANCE:

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

During the third quarter of 2013, Bri-Chem's consolidated quarterly revenues increased 40.1% to $51,730,842 compared to $36,915,533 from the comparable prior period in 2012. This year-over-year increase is primarily a result of organic sales growth from Bri-Chem's North American drilling fluids distribution and blending divisions which recorded combined sales of $43,286,604 for the three months ended September 30, 2013 compared to sales of $27,914,492 in the comparable quarter in 2012, representing an increase of 55% quarter over quarter. In addition, Bri-Chem continued to make strong progress in growing quarter over quarter sales in its steel pipe manufacturing division having realized a 22% increase. Overall consolidated gross margin increased to 16.9% due to management's ongoing geographic and product diversification strategy, targeting increased profitability.

Consolidated revenues for the nine months ended September 30, 2013 were $129,669,861 compared to $120,553,084 for the comparable period of 2012, an increase of 7.6%. Adjusted earnings before interest, taxes, amortization and share-based payments expense ("Adjusted EBITDAC") was $3,672,060 or $0.21 per share and $8,544,940 or $0.49 per share respectively for the three and nine month periods ended September 30, 2013, compared to $2,963,886 and $8,445,973 respectively for the same periods in 2012. Net earnings for the three month period were $1,077,982 or $0.07 diluted earnings per share and $1,868,872 or $0.13 diluted earnings per share for the nine months ended September 30, 2013 as compared to net earnings of $1,438,579 and $3,562,379 respectively for the same periods in 2012. Net earnings decreased for the three and nine month periods ended September 30, 2013 mainly due to three significant non-cash related items being amortization increasing by $391,994 as more assets were put into use over the last year, a $579,826 increase in stock-based compensation and foreign exchange as the US dollar rose in comparison to the Canadian dollar, resulting in a $873,051 foreign exchange difference. In addition, the Company incurred $624,664 of additional interest expense related to a new subordinated debt facility acquired in late 2012. As of September 30, 2013, the Company's net book value per share was $2.36.

Bri-Chem's North American oil and gas drilling fluids distribution and blending divisions recorded sales of $43,286,604 and $105,103,587 respectively for the three and nine month periods ended September 30, 2013, an increase of 55.1% and 17.7% over the same comparable periods in 2012. On September 6, 2013, the Company acquired assets and business operations of Sun Coast Materials, a California, USA based specialty cement chemical blending and packaging company, that is expected to further expand Bri-Chem's product offerings into the USA market and provides a solid growth platform to offer cementing products and blending services throughout the USA market.

In Canada, drilling rig utilization averaged 41.3% for the third quarter, which was consistent compared to the same quarter in 2012 when utilization rates averaged 41.0%, and the number of active operating rigs were also comparable, quarter over quarter, at 338 rigs. Despite the nominal year over year change in Q3 drilling activity, the Canadian drilling fluids distribution division generated sales of $24,126,287 and $61,443,414 for the three and nine months ended September 30, 2013, compared to sales of $18,918,970 and $67,591,020 for the comparable periods in 2012. The 27.5% increase in Q3 Canadian fluid sales is due to the return of increased demand in Northern British Columbia, which resulted in Bri-Chem experiencing a 50.2% increase in liquid invert sales during the third quarter compared to the third quarter of 2012, along with Bri-Chem's customers increasing work in certain regions such as Lloydminster and Rosetown, Saskatchewan. The extensive weather and flooding in Western Canada that occurred during the spring, delayed the start to the summer drilling programs, which resulted in increased demand and sales into the third quarter.

The USA drilling fluids distribution division is growing at an extraordinary pace as a result of our extensive market outreach to new customers in numerous geographic regions throughout the USA. For the three and nine month periods ended September 30, 2013, the division experienced sales of $12,643,406 and $30,709,816, an increase of 122% and 112% respectively over the same periods in 2012. With sixteen warehouses operating in all the major resource plays in the USA, the division will focus on continuing to grow its overall market share.

The Canadian fluids blending and packaging division continues to significantly expand as the Company generated sales of $6,068,099 and $12,501,545 compared to prior year sales of $3,287,218 and $7,208,769 representing an 85% and 73% increase respectively for the three and nine months ended September 30, 2013. The division has realized increased sales as a result of penetrating new customers by providing cementing products into new geographic regions throughout North America and adding additional blending and storage capacity at its Acheson facility. In addition, the recent acquisition of Sun Coast Materials, the USA fluids blending and packaging division, generated new sales of $448,812 for the three weeks of operations during the third quarter.

The steel pipe distribution division recorded sales of $3,457,866 and $10,755,477 respectively for the three and nine month periods ended September 30, 2013, compared to revenues of $4,645,226 and $21,871,408 for the same periods in 2012. Since the fourth quarter of 2012, the Canadian market has experienced excess steel pipe inventory as many distributors were anticipating a stronger demand for steel pipe product during the 2013 winter drilling season. In addition, sales in the second quarter of 2012 included a substantial one-time mill direct order of approximately $5.1 million. The steel pipe distribution division will concentrate on replacing certain inventory with higher demand sizes that will increase inventory turns while maintaining superior customer service, with the appropriate quantities and sizes of steel pipe to meet the demand of its customers.

The steel pipe manufacturing division recorded sales of $4,949,451 and $13,773,876 respectively for the three and nine month periods ended September 30, 2013, an increase of 22% and 59% over the prior comparable periods. With the many major pipeline projects being delayed, the division has not experienced the robust demand for its large diameter seamless pipe. Despite the weaker demand, the division has been actively quoting for various jobs and is diligently working with a number of major energy companies that would place Bri-Chem on approved manufacturer's lists. As the market works through inventories and capital projects commence, the division is cautiously optimistic that 2014 will see increased demand which will drive increased sales and earnings growth.

Outlook Summary

The Petroleum Services Association of Canada (PSAC) has forecasted 2,908 wells to be drilled in Western Canada for the fourth quarter of 2013, a forecasted increase of 6.2% over 2012. Spring break up was longer than anticipated due to the unusually wet spring which delayed many summer drilling programs to Q3 2013. The Company anticipates drilling activity will remain strong for the remainder of the year and into the winter drilling programs in 2014. A return to drilling in Northern British Columbia will also assist in the demand for drilling fluid products and will drive Canadian fluid sales. Bri-Chem will continue to invest into its USA drilling fluid market expansion plan with the goal of obtaining significant market share. As we continue to gain market share in the USA drilling fluids market, more product and acquisition opportunities become available and the Company will continue to pursue its market presence in the USA. With the recent acquisition of Sun Coast, Bri-Chem has now established a platform for fluids blending and packaging in the USA market place and will look to grow its market presence by distributing its blending products and services into other regions in the USA where we currently operate. We will also continue to closely monitor North American steel pipe demand and seek to increase production capacity at the Thermal Pipe Expansion manufacturing facility when demand returns to more normal levels.

DESCRIPTION OF BUSINESS

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 31 strategically located warehouses throughout Canada and the United States; Bri-Chem's Steel Pipe Division distributes a broad range of seamless pipe and 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 three 100% owned subsidiaries, Bri-Chem Supply Corp, LLC, ("Bri-Chem USA") Sun Coast Materials, LLC ("Sun Coast") and Bri-Chem Logistics, LLC ("Logistics"). 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 Distribution Division

Bri-Chem is one of Canada's largest wholesale distributors of drilling fluid products to the oil and gas industry in the 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 are an integral part of the drilling process, serving a number of functions, including controlling subsurface pressures, lubricating the drill bit, stabilizing the wellbore, and carrying the cuttings to the surface, among other functions. 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.

USA Drilling Fluids Distribution Division

Bri-Chem services its USA drilling fluids customers through its 16 warehouse locations strategically placed in the major resource plays in the USA. The division is establishing its market presence as a leading full service independent national wholesaler of drilling fluids to service the USA unconventional resource plays. The USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. Bri-Chem will continue to focus on expanding its product offerings in the regions it currently services as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from independent drilling fluid engineering companies.

On December 31, 2012, the Company acquired all of the outstanding common shares of General Supply Company ("General"), an Oklahoma based drilling fluid wholesale distribution business. The purchase price of $2,500,000 USD consisted of the issuance of 95,451 Bri-Chem common shares at a fair market value of $147,792. The common shares have resale restrictions attached to them that expire evenly over three years. Cash payment terms were $2,050,000USD on closing, and a promissory note payable with a fair value of $250,000USD bearing interest at 4% per annum, repayable in February 2014. The acquisition of General and their three key Oklahoma warehouse locations was an extremely complementary addition to our strategy of becoming the dominant independent national supplier of drilling fluids in the United States.

Fluids Blending and Packaging Division

The WCSB oil and gas drilling process also uses cementing, stimulation, and fracturing fluids. Many of these products are a blended formulation utilizing specialty additives that Bri-Chem can supply in both packaged and truckload quantities. Cementing is performed when the cement slurry is deployed into the well via pumps, displacing the drilling fluids still located within the well, and replacing them with cement. Well stimulation involves introducing special blends of chemicals and acid to oil or gas producing formations in order to diminish or eliminate unwanted materials. The fracturing process injects fluids and sand at high pressure which creates small fractures in the rock that extend out from the well. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these 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.

On November 30, 2012, the Company acquired assets and business operations of Kemik Inc., an Alberta based packager of proprietary cementing additives for the oil and gas industry. The purchase price of $1,800,000 consisted of all cash in exchange for accounts receivable, inventory, fixed assets and certain accounts payable. The acquisition was a complementary fit for the Company's fluids blending and packaging division.

On September 6, 2013, the Company acquired assets and business operations of Sun Coast Materials Co. ("Sun Coast"), a California based packager and specialty cement blender to oil well contractors operating in southern and central California. The purchase price of $6,487,945USD consisted of all cash payments with terms of $6,250,000USD on closing, and a promissory note payable with a fair value of $237,945USD bearing interest at 4% per annum, repayable in September 2014. The acquisition of Sun Coast and their transportation fleet further expands Bri-Chem's product offerings into the USA market and provides a solid growth platform to offer cementing products and blending services throughout the USA. Sun Coast's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers.

Training and Fluid Analysis

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

STEEL PIPE DIVISION

Steel Pipe Distribution Division

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

Steel Pipe Manufacturing Division

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.

Bri-Chem will continue to focus on its North American growth strategy by expanding its market presence in the oil and gas drilling fluids wholesale distribution markets and steel pipe manufacturing opportunities. The Company will explore opportunities that will enable the division to become more basic in drilling fluids by seeking to become more directly involved in the manufacturing and blending of drilling fluid products. The Company is continuing to evaluate other drilling fluid and blending segments, such as stimulation and completion fluids, which adds support to Bri-Chem's focus on becoming the leading fully integrated drilling fluid supplier in North America.

In the USA, Bri-Chem will continue to aggressively pursue expanding its footprint and strive to become the leading national independent wholesale distributor of drilling fluids for the unconventional resource plays located throughout the USA. The recent acquisition of Sun Coast Materials, LLC, a California based packager and specialty cement blender to oil well contractors operating in southern and central California, is expected to further expand Bri-Chem's product offerings into the USA market and provide a solid growth platform to offer cementing products and blending services throughout the USA.

The steel distribution business will manage 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 efficiencies within its current production process, which includes evaluating cost structures that lower the overall cost of production. Over the medium term, the division will solidify a production and sales plan that will meet the demand of our customers. In addition, the steel pipe manufacturing division has been working with pipeline and resource production companies to achieve approved manufacturer status that will increase our customer base to oil sands and pipeline projects.

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

FINANCIAL SUMMARY

The following selected three-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Quarter End Report for the period ended September 30, 2013.

Consolidated statements of operations	For the three months ended September 30 2013		2012 [5]	Change $	%
Sales	$ **51,730,842**	$	36,915,533	$ 14,815,309	40.1%
Gross margin	**8,767,510**		6,059,106	2,708,404	44.7%
	16.9%		16.4%		
Operating expenses [1]	**5,368,349**		3,317,714	2,050,635	61.8%
EBITDAC [2]	**3,399,161**		2,741,392	657,769	24.0%
Amortization - production equipment	**272,899**		222,494	50,405	22.7%
Adjusted EBITDAC [3]	**3,672,060**		2,963,886	708,174	23.9%
Amortization	**697,354**		418,051	279,303	66.8%
Interest	**770,793**		527,835	242,958	46.0%
Share-based payments	**274,737**		179,183	95,554	53.3%
Earnings before income taxes	**1,929,176**		1,838,817	90,359	4.9%
Income tax expense - current	**800,636**		576,860	223,776	38.8%
Income tax expense (recovery) - deferred	**50,558**		(176,622)	227,180	128.6%
Net earnings	$ **1,077,982**	$	1,438,579	$ (360,597)	-25.1%
Net earnings attributable to shareholders of the Company	$ **1,246,619**	$	1,681,937	$ (435,318)	-25.9%
Net loss attributable to NCI [4]	$ **(168,637)**	$	(243,358)	$ 74,721	-30.7%
Earning per share					
Basic	$ **0.07**	$	0.10	$ (0.03)	-30.0%
Diluted	$ **0.07**	$	0.10	$ (0.03)	-30.0%
Adjusted EBITDAC per share					
Basic	$ **0.21**	$	0.17		
Diluted	$ **0.21**	$	0.17		
Weighted average shares outstanding					
Basic	**17,392,366**		17,331,854		
Diluted	**17,414,095**		17,401,877		

(1) See page 37 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and share-based payments (see page 37 for a further explanation of this non-IFRS measure).
(3) Adjusted EBITDAC does not include amortization of production equipment which is included in cost of sales for financial statement purposes to conform with IFRS (See page 37 for a further explanation of this non-IFRS measure).
(4) 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, 2013.
(5) The Company reclassified amounts in the Statement of Operations relating to sublease revenue and production costs for its manufacturing facility to categorize production overheads consistently. The 2012 comparatives have been reclassified as a result.

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, 2013.

Consolidated statements of operations		For the nine months ended September 30 2013		2012 (5)	Change $		%
Sales	$	**129,669,861**	$	120,553,084	$	9,116,777	7.6%
Gross margin		**22,056,816**		18,310,255		3,746,561	20.5%
		17.0%		15.2%			
Operating expenses (1)		**14,285,389**		10,580,697		3,704,692	35.0%
EBITDAC (2)		**7,771,427**		7,729,558		41,869	0.5%
Amortization - production equipment		**773,513**		716,415		57,098	8.0%
Adjusted EBITDAC (3)		**8,544,940**		8,445,973		98,967	1.2%
Amortization		**1,884,247**		1,492,253		391,994	26.3%
Interest		**2,364,545**		1,739,881		624,664	35.9%
Share-based payments		**954,459**		374,633		579,826	154.8%
Earnings before income taxes		**3,341,689**		4,839,206		(1,497,517)	-30.9%
Income tax expense- current		**1,338,616**		1,903,013		(564,397)	-29.7%
Income tax expense (recovery) - deferred		**134,201**		(626,186)		760,387	121.4%
Net earnings	$	**1,868,872**	$	3,562,379	$	(1,693,507)	-47.5%
Net earnings attributable to shareholders of the Company	$	**2,214,247**	$	4,237,134	$	(2,022,887)	-47.7%
Net loss attributable to NCI (4)	$	**(345,375)**	$	(674,755)	$	329,380	-48.8%
Earnings per share							
Basic	$	**0.13**	$	0.25	$	(0.12)	-48.0%
Diluted	$	**0.13**	$	0.24	$	(0.11)	-45.8%
Adjusted EBITDAC per share							
Basic	$	**0.49**	$	0.49			
Diluted	$	**0.49**	$	0.49			
Weighted average shares outstanding							
Basic		**17,432,347**		17,254,916			
Diluted		**17,456,732**		17,402,703			

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

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

(3) Adjusted EBITDAC does not include amortization of production equipment which is included in cost of sales for financial statement purposes to conform with IFRS (See page 37 for a further explanation of this non-IFRS measure).

(4) 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 nine month period ended September 30, 2013.

(5) The Company reclassified amounts in the Statement of Operations relating to sublease revenue and production costs for its manufacturing facility to categorize production overheads consistently. The 2012 comparatives have been reclassified as a result.

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 2013 $	%	2012 $	%	Change $	%
Fluids Distribution - Canada	**$ 24,126,287**	**46.6%**	$ 18,918,970	51.2%	$ 5,207,317	27.5%
Fluids Distribution - USA	**12,643,406**	**24.4%**	5,708,304	15.5%	6,935,102	121.5%
Total Fluids Distribution	**36,769,693**	**71.1%**	24,627,274	67%	12,142,419	49.3%
Fluids Blending & Packaging - Canada (1)	**6,068,099**	**11.7%**	3,287,218	8.9%	2,780,881	84.6%
Fluids Blending & Packaging - USA (1)	**448,812**	**0.9%**	-	0.0%	448,812	100.0%
Total Fluids Blending & Packaging	**6,516,911**	**12.6%**	3,287,218	8.9%	3,229,693	98.3%
Fluids Transportation	**36,921**	**0.1%**	290,397	0.8%	(253,476)	-87.3%
Steel Distribution	**3,457,866**	**6.7%**	4,645,226	12.6%	(1,187,360)	-25.6%
Steel Manufacturing	**4,949,451**	**9.6%**	4,065,418	11.0%	884,033	21.7%
Total	**$ 51,730,842**	**100%**	$ 36,915,533	100%	$ 14,815,309	40.1%

(1) Fluids blending and packaging division sells products to the fluids distribution division, which in turn sells it to the end user. In Q3 2013 the three month sales to the distribution division were an additional $2,778,795 (2012 - $2,343,178). This revenue has been eliminated upon consolidation.
(2) Fluids Blending & Packaging USA revenue include sales resulting from the acquisition of Sun Coast which was effective September 6, 2013.

Sales by Segment	For the nine months ended September 30 2013 $	%	2012 $	%	Change $	%
Fluids Distribution - Canada	**$ 61,443,414**	**47.4%**	$ 67,591,020	56.1%	$ (6,147,606)	-9.1%
Fluids Distribution - USA	**30,709,816**	**23.7%**	14,516,546	12.0%	16,193,270	111.6%
Total Fluids Distribution	**92,153,230**	**71.1%**	82,107,566	68.1%	10,045,664	12.2%
Fluids Blending & Packaging - Canada (1)	**12,501,545**	**9.6%**	7,208,769	6.0%	5,292,776	73.4%
Fluids Blending & Packaging - USA (2)	**448,812**	**0.3%**	-	0.0%	448,812	100.0%
Total Fluids Blending & Packaging	**12,950,357**	**10.0%**	7,208,769	6.0%	5,741,588	79.6%
Fluids Transportation	**36,921**	**0.0%**	683,007	0.6%	(646,086)	-94.6%
Steel Distribution	**10,755,477**	**8.3%**	21,871,408	18.1%	(11,115,931)	-50.8%
Steel Manufacturing	**13,773,876**	**10.6%**	8,682,334	7.2%	5,091,542	58.6%
Total	**$ 129,669,861**	**100%**	$ 120,553,084	100%	$ 9,116,777	7.6%

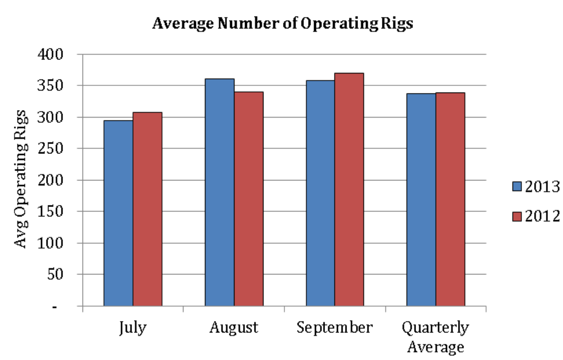
(1) Fluids blending and packaging division sells products to the fluids distribution division, which in turn sells it to the end user. In Q3 2013 the three month sales to the distribution division were an additional $7,340,957 (2012 - $8,001,352). This revenue has been eliminated upon consolidation.
(2) Fluids Blending & Packaging USA revenue include sales resulting from the acquisition of Sun Coast which was effective September 6, 2013.

North American Drilling Fluids Distribution Divisions

The Company's North American drilling fluids distribution divisions recorded combined sales of $36,769,693 and $92,153,230 for the three and nine months ended September 30, 2013 compared to sales of $24,627,274 and $82,107,566 in 2012, representing an increase of 49.3% quarter over quarter. The Canadian fluids distribution division increased by 27.5% for the three month and declined by 9.1% for the nine month periods, while the USA fluids distribution division grew 121.5% and 111.6% respectively over same comparable periods in 2012.

Canadian Drilling Fluids Distribution Division

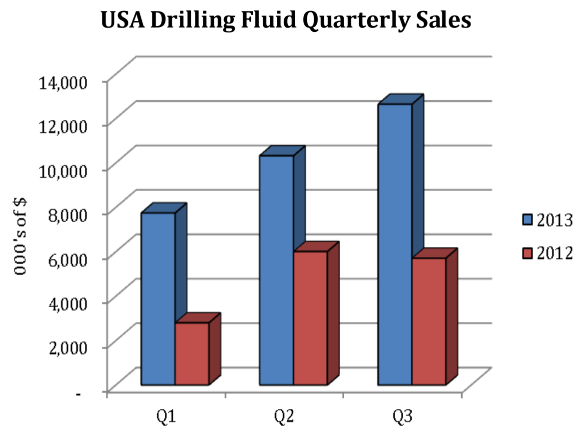
Bri-Chem's Canadian drilling fluids distribution division generated sales of $24,126,287 and $61,443,414 for the three and nine months ended September 30, 2013 compared to sales of $18,918,970 and $67,591,020 in 2012, representing an increase of 27.5% quarter over quarter. The increase in Q3 sales was mainly due to a backlog of drilling activity caused by extremely wet weather in Q2 2013 which delayed the start of the summer drilling programs until July 2013. Drilling rig utilization rates averaged 41.3% in Q3 2013 compared to 41.0% in Q3 2012, an increase of 0.3%. Year to date rig utilization has declined 3.4% compared to the same period in 2012.



Drilling activity in Alberta experienced a 3.0% decrease in the number of wells drilled in the region. Despite the decrease in activity, the division experienced improved sales of $2,796,413 quarter over quarter. The result of the summer drilling program being delayed into the third quarter due to flooding in Southern Alberta as well as the large amount of precipitation in June. In Saskatchewan, the number of wells drilled increased by 17.8% quarter over quarter and revenues increased by 52.1%. The increase in sales in this region was due to the opening of a strategically placed warehouse in Rosetown, Saskatchewan in Q2 2013, which serviced rigs within the region as well as a backlog of drilling activity caused by large amount of precipitation in June which delayed the start of the summer drilling program in this region. British Columbia has seen an increase of 41.7% in rig activity, while the revenue increased by 173.0% for the quarter mainly due to our independent drilling fluid engineering customers obtaining more work in this region and a surge of new liquid invert sales.

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. Bri-Chem experienced a 50.2% increase in liquid invert sales during the third quarter compared to the third quarter of 2012 which was mainly due to increased drilling activity in Northern British Columbia where invert product is more frequently used. In addition, the increase in drilling activity as the result of a later than normal start to the summer drilling programs also contributed to the increase in liquid invert sales. More independent fluid engineering customers have begun to take advantage of their access to our liquid invert availability resulting in new invert sales from smaller and mid-size customers. We anticipate fourth quarter liquid invert sales to increase over the same comparable period last year as more independent customers are being able to compete due to availability of product. In addition, any 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 liquid invert drilling activity in the northern British Columbia region.

United States Drilling Fluids Distribution Division



Bri-Chem's United States fluids distribution division generated sales of $30,709,816 for the nine month period ended September 30, 2013, compared to revenues of $14,516,546 in the prior year, representing an increase of $16,193,270 or 111.6%. Sales in the third quarter were $12,643,406 compared to $5,708,304 for the same quarter in 2012. In addition, the Company had fluid sales of $234,346 for the nine months ended 2013 compared to $1,328,296 in 2012 from the Canadian fluids distribution division sold into the USA. Bri-Chem's expansion into new geographic regions has brought new customers and demand for drilling fluids as Bri-Chem is continuing to expand its market presence as a leading full service independent national wholesaler of drilling fluids. In particular, the regions of Colorado, Oklahoma and Texas generated the majority of sales in the USA for the third quarter. 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 remains focused on expanding its product offerings as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from an independent wholesaler.

Fluids Blending and Packaging Division

Canadian Fluids Blending and Packaging Division

The fluids blending and packaging division previously recorded its sales in the fluids distribution segment but is now being shown separately as its own operating segment. This division continues to expand it's products which now includes the blending and packaging of 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. For the three and nine months ended September 30, 2013, sales were $6,068,099 and $12,501,545 compared to sales of $3,287,218 and $7,208,769 representing an 84.6% and 73.4% increase respectively. With the acquisition of Kemik Inc. in Q4 2012 the division has seen increased sales as a result of providing cementing products in additional geographic regions not previously offered by Kemik Inc.

United States Fluids Blending and Packaging Division

On September 6, 2013, the Company acquired certain assets and business operations of Sun Coast Materials, a California based packager and specialty cement blender to oil well contractors operating in southern and central California, which is expected to further expand Bri-Chem's product offerings into the USA market and provide a solid growth platform to offer cementing products and blending services throughout the USA. Sun Coast's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers. Sales were $448,812 for the three weeks in the third quarter. During the fourth quarter, the division will focus on continuing to service its existing customers with superior customer service while exploring new product and geographic expansion opportunities.

Fluid Transportation Division

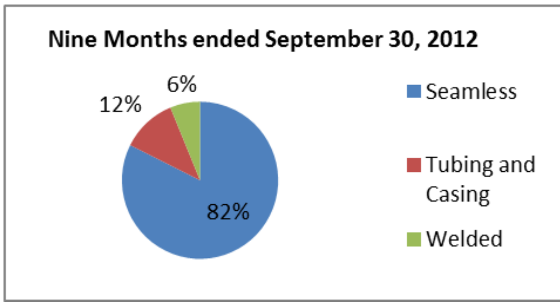
As a result of Bri-Chem's expansion from three warehouses in May of 2011 to sixteen national warehouses, management has been able to secure superior independent highway transportation rates which are less than the cost of running our own fleet. During 2012, the Company reduced its highway transportation fleet from ten tractors to none and now only maintains four trailers.

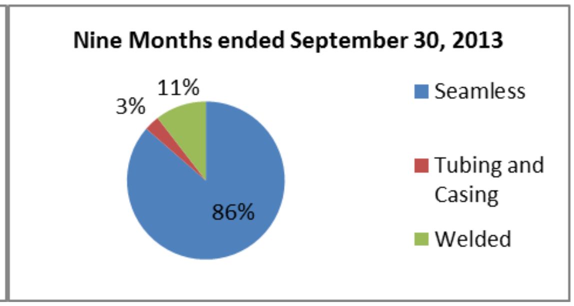
On December 31, 2012, the Company acquired all of the outstanding common shares of General Supply Company, an Oklahoma based drilling fluid wholesale distribution business. As part of the acquisition Bri-Chem acquired a fleet of specialized rig hauling trucks that are used to deliver drilling fluids to customers work sites. This field service transportation is a value added service offered to customers and the revenue generated is included in the USA fluids distribution division.

On September 6, 2013, the Company acquired assets and business operations of Sun Coast, a California based packager and specialty cement blender to oil well contractors operating in southern and central California. As part of the acquisition, Bri-Chem acquired a transportation fleet of trucks that are used to deliver cementing fluids to customers work sites. This transportation revenue of $36,921 in September 2013 was included in the fluids transportation division.

Steel Pipe Division

Steel Pipe Distribution Division

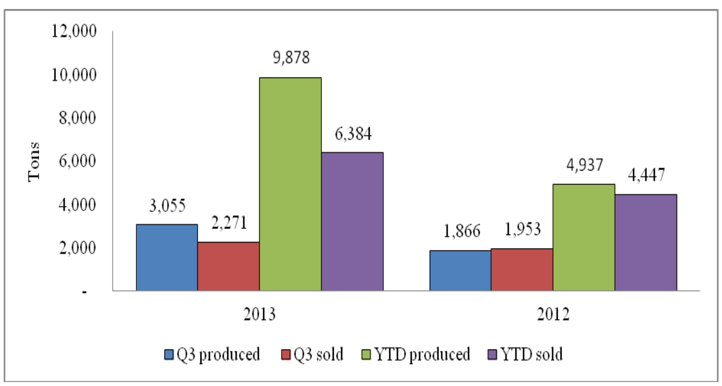




For the three and nine months ended September 30, 2013, the steel pipe distribution division generated sales of $3,457,866 and $10,755,477 a decrease of $1,187,360 and $11,115,931 respectively over the same comparable periods in 2012. In the second quarter of 2012, the steel pipe distribution division recorded a one-time $5.1 million seamless pipe project. Capital spending for projects in North America has been down significantly in 2013. This combined with the excess inventory in the market, has resulted in an overall decrease in purchase of seamless pipe by nearly 25% year on year. During the quarter, the Company has been diligent about right sizing inventory by removing slow moving stock and increasing quantities on fast moving items.. This inventory management program is expected to further increase inventory turns. Volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints are all factors contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which will reduce overall steel pipe sales activity in the WCSB.

Steel Pipe Manufacturing Division

The steel pipe manufacturing division manufactures large diameter seamless steel pipe primarily used in the oil and gas, petro-chemical, and oil sands markets. The Edmonton based manufacturing facility is producing large diameter seamless pipe 24 hours a day, 4 days a week. The Company received its American Petroleum Institute (API) for mill certification in 2012 and 2013 which allows the division to offer the production capacity to a number of companies throughout North America.



The manufacturing division achieved sales of $4,949,451 and $13,733,876 for the three and nine months ended September 30, 2013, representing a 21.7% and 58.6% increase respectively over the same comparable periods in 2012. During the nine months of 2013, the division produced 9,878 tons, an increase of 4,941 or 100.1% compared to 4,937 tons produced in the same period of 2012. The Company sold a total of 6,384 tons for the nine months ended September 30, 2013, compared to 4,447 tons for the same period in 2012. The increase in tons produced and tons sold is the result of the increasing market presence of the large diameter seamless pipe in North America and the division ramping up its production over the past several quarters. The Company expects production tonnage for the fourth quarter of 2013 to be similar to the production output experienced in the third quarter of 2013, which will result in an estimated 2013 total production of 13,000 tons. Volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints are all factors contributing to exploration and production companies deferring or curtailing 2013 capital spending programs which deferred demand for large diameter steel in the nine month period ended September 30, 2013.

During the fourth quarter of 2013, management will monitor production capacity to ensure it meets the short and medium term product demands of our customers. We anticipate consistent demand in Q4 2013 and are cautiously optimistic the demand will increase in 2014 with the commencement of capital projects in Canada and the USA. Over the short to medium term, the division will work on fulfilling its current backlog of orders and procure new master and major distributors to have the TPE Facility included on approved manufactures lists, which will drive increased sales and profitability.

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					
	2013		2012		**Change**	
Gross Margin	**$**	**%***	$	%*	**$**	**%**
Fluids Distribution - Canada	**$ 3,760,678**	**15.6%**	$ 2,891,458	15.3%	$ 869,220	30.1%
Fluids Distribution - USA	**2,790,802**	**22.1%**	1,385,824	24.3%	1,404,978	101.4%
Total Fluids Distribution	**6,551,480**	**17.8%**	4,277,282	17.4%	2,274,198	53%
Fluids Blending & Packaging - Canada	**1,351,161**	**22.3%**	710,808	21.6%	$ 640,353	90.1%
Fluids Blending & Packaging - USA	**141,246**	**31.5%**	-	0.0%	141,246	100.0%
Total Fluids Blending & Packaging	**1,492,407**	**22.9%**	710,808	21.6%	781,599	110.0%
Fluids Transportation	**31,408**	**85.1%**	38,868	13.4%	(7,460)	-19.2%
Steel Distribution	**592,001**	**17.1%**	1,122,271	24.2%	(530,270)	-47.2%
Steel Manufacturing	**100,214**	**2.0%**	(90,123)	-2.2%	190,337	211.2%
Total	**$ 8,767,510**	**16.9%**	$ 6,059,106	16.4%	$ 2,708,404	44.7%

* As a percentage of divisional revenues

Gross Margin	For the nine months ended September 30 2013 $	%*	2012 $	%*	Change $	%
Fluids Distribution - Canada	**$ 9,246,359**	**15.0%**	$ 10,623,163	15.7%	$ (1,376,804)	-13.0%
Fluids Distribution - USA	**6,961,557**	**22.7%**	2,834,761	19.5%	4,126,796	145.6%
Total Fluids Distribution	**16,207,916**	**17.6%**	13,457,924	16.4%	2,749,992	20%
Fluids Blending & Packaging - Canada	**2,633,285**	**21.1%**	1,512,417	21.0%	$ 1,120,868	74.1%
Fluids Blending & Packaging - USA	**141,246**	**31.5%**	-	0.0%	141,246	100.0%
Total Fluids Blending & Packaging	**2,774,531**	**21.4%**	1,512,417	21.0%	1,262,114	83.5%
Fluids Transportation	**19,298**	**52.3%**	211,799	31.0%	(192,501)	-90.9%
Steel Distribution	**2,240,341**	**20.8%**	3,945,113	18.0%	(1,704,772)	-43.2%
Steel Manufacturing	**814,730**	**5.9%**	(816,998)	-9.4%	1,631,728	199.7%
Total	**$ 22,056,816**	**17.0%**	$ 18,310,255	15.2%	$ 3,746,561	20.5%

* As a percentage of divisional revenues

Drilling Fluids Distribution and Packaging Divisions

The drilling fluids distribution division margins were relatively consistent for the three month period ended September 30, 2013 compared to the same period in 2012. Margins on fluid sales vary based on product mix and drilling formations. Deeper non-conventional wells require more technologically advanced fluids such as oil based drilling fluids known as liquid invert. These fluids have been developed to service deeper, high temperature and more environmentally sensitive drilling projects. The USA fluid distribution margins are traditionally higher than those of the Canadian operations, and averaged 22.1% for the three month period ended September 30, 2013. This is slightly lower than gross margins in the same comparable period of 2012. The decrease is related to more commodity products, such as barite and bentonite, being sold during the third quarter of 2013. These products are traditionally sold at lower margins. In the short to medium term, margins are anticipated to remain consistent in the fluids distribution division; however a change in product mix could impact margins.

Bri-Chem has dedicated facilities, located in Acheson and Camrose, Alberta, with capacity to blend and package specialty additive fluids for customer specific products. As a result, the fluids blending and packaging division tends to have higher margins for this value-added service. In the three and nine month periods ended September 30, 2013, the gross margin of Canadian fluids packaging division were 22.3% and 21.1% respectively compared to 21.6% and 21.0% in the comparable periods of 2012. With the acquisition of Sun Coast in September 2013, the United States blending and packaging division generated gross margins of 31.5% for the three week sales period in the third quarter.

Steel Distribution and Manufacturing Divisions

The steel distribution division gross margins were 17.1% and 20.8% for the three and nine months ended September 30, 2013, compared to 24.2% and 18.0% for the same comparable periods in 2012. Steel distribution margins include sublease rental income of $282,255 and $873,856 for the three and nine month periods ended September 30, 2013 compared to $266,321 and $655,866 for the same periods in 2012. Adjusting gross margins to exclude the sublease rental income would result in margins of 9.8% for the third quarter of 2013 compared to 19.5% for the same period in 2012. The decrease in margins is the result of the Company's inventory management program. Management has consciously determined to reduce selling prices on certain inventory to reduce inventory levels given current market demands. Gross margins are expected to remain lower in Q4 2013 as the division continues its inventory reduction program, however longer term, margins are anticipated to return to more traditional levels.

Steel Pipe Manufacturing Division Adjusted Gross Margins	For the three months ended September 30 2013	2012	Change $	%
Gross Margin ($) (1)	**100,214**	(90,123)	190,337	211.2%
As percentage of sales	**2.0%**	-2.2%		
Addback: Fixed overheads in production (2)	**472,638**	639,069	(166,431)	-26.0%
Amortization of production equipment	**272,899**	222,494	50,405	22.7%
Adjusted Gross Margin ($) (3)	**845,751**	771,440	74,311	9.6%
% of sales	**17.1%**	19.0%		

Steel Pipe Manufacturing Division Adjusted Gross Margins	For the nine months ended September 30 2013	2012	Change $	%
Gross Margin ($) (1)	**814,730**	(816,998)	1,631,728	199.7%
As percentage of sales	**5.9%**	-9.4%		
Addback: Fixed overheads in production (2)	**1,492,335**	1,639,937	(147,602)	-9.0%
Amortization of production equipment	**773,513**	716,415	57,098	8.0%
Adjusted Gross Margin ($) (3)	**3,080,578**	1,539,354	1,541,224	100.1%
As percentage of sales	**22.4%**	17.7%		

(1) In compliance with IFRS standards cost of sales include all overheads related to production regardless of whether or not the facility is operating at full capacity.
(2) Fixed overheads costs include production facility lease costs, utilities and indirect labour costs related to the steel manufacturing facility.
(3) Adjusted gross margins reflect the selling price less the cost of product and direct labour to manufacturer the product. (See page 37 for a further explanation of this non-IFRS measure).

The steel manufacturing division achieved gross margins of 2.0% and 5.9% for the three and nine month periods ended September 30, 2013 compared to -2.2% and -9.4% in the same comparable periods of 2012. Adjusted gross margin, which exclude fixed overheads and amortization of production equipment, was 22.4% for the nine months of 2013 compared to 17.7% for the same comparable period in 2012. As the result of increased production and improved efficiencies, the division has experienced improved margins over the past several quarters. During the nine month period ended September 30, 2013, the division produced 9,878 tons compared to 4,937 tons in 2012. The increase in production resulted in lower cost of production per ton in the three and nine months of 2013, which resulted in increased margins quarter over quarter. As production continues to become more consistent over the next several quarters, margins should continue to be consistent to that experienced during the nine months of 2013. 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.

Gross margins – outlook

For the fourth quarter of 2013, we are anticipating gross margins on fluid sales to be consistent to those experienced in the nine months of 2013. 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. Steel distribution margins are expected to be similar to those experienced in the third quarter of 2013, as the steel commodity market continues to work through excess inventories. The steel manufacturing division continues to target adjusted gross margins between 20% and 25% based on increased production, current raw material costs and estimated finished product sale prices.

Operating expenses

Salaries and employee benefits

Salaries and employee benefits	For the three months ended September 30 2013		2012		Change $	%
Salaries and benefits	**$**	**3,162,231**	$	2,274,602	$ 887,629	39.0%
% of sales		**6.1%**		6.2%		-0.1%

Salaries and employee benefits	For the nine months ended September 30 2013		2012		Change $	%
Salaries and benefits	**$**	**8,594,221**	$	6,755,130	$ 1,839,091	27.2%
% of sales		**6.6%**		5.6%		1.0%

Salaries and benefits have increased by $887,629 for the three months ended September 30, 2013 over the prior comparable quarter, while increasing by $1,839,091 or 27.2% for the nine months ended September 30, 2013 compared to the same period in 2012. Share-based payments increased by $95,554 and $579,826 respectively for the three and nine month periods ended September 30, 2013 from the prior comparable quarters as the Company issued new stock options to directors, executive and senior management of the Company in the third quarter of 2013 and mid-2012. Salaries include $68,661 of wages and benefits related to the Sun Coast acquisition during the third quarter of 2013. Overall salaries and benefits during the nine month period ended September 30, 2013 were higher compared to the same period in 2012 due to the hiring of a global procurement manager, sales staff as well as accounting staff in order to keep up with sales growth. In addition, sales commissions increased by $108,979 during nine months of 2013 as a result of fluids sales growth in the USA.

The Company employed 167 (119 Canada and 48 USA) employees at September 30, 2013 compared to 142 (110 Canada and 32 USA) for the same time period in 2012. The increase in employees includes the addition of 17 employees as a result of the Sun Coast acquisition.

The Company expects salaries and employee benefits to remain consistent for the fourth quarter of 2013 as the Company is adequately staffed given current infrastructure needs. As the Company continues with its growth plans, personnel requirements will be revisited as required.

Selling, general and administration

Selling, general and administration	For the three months ended September 30 2013 $		%*	2012 $		%*
Selling	**$**	**321,919**	**0.6%**	$	221,855	0.6%
Professional and consulting		**286,380**	**0.6%**		148,546	0.4%
General and administration		**603,198**	**1.2%**		556,909	1.5%
Rent, utilities and occupancy costs		**1,204,199**	**2.3%**		737,394	2.0%
Foreign exchange loss (gain)		**65,159**	**0.1%**		(442,409)	-1.2%
Total	**$**	**2,480,855**	**4.8%**	$	1,222,295	3.3%

* As a percentage of consolidated revenues

	For the nine months ended September 30			
	2013		2012	
Selling, general and administration	$	%*	$	%*
Selling	$ **871,173**	**0.7%**	$ 858,976	0.7%
Professional and consulting	**703,632**	**0.5%**	359,894	0.3%
General and administration	**1,755,975**	**1.4%**	1,674,496	1.4%
Rent, utilities and occupancy costs	**3,389,366**	**2.6%**	2,254,404	1.9%
Foreign exchange gain	**(74,519)**	**-0.1%**	(947,570)	-0.8%
Total	$ **6,645,627**	**5.1%**	$ 4,200,200	3.5%

* As a percentage of consolidated revenues

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

Selling expenses increased by $100,064 during the three months ended September 30, 2013 compared to the same period in 2012, while selling expenses were relatively consistent for the nine month period ended September 30, 2013 compared to the same period in 2012. The increase in selling expenses for three months ended September 30, 2013 mainly includes an increase of $38,956 in public company costs related to investor relation activities, an increase of $49,069 in advertising and promotional costs as well as a growth in auto expenses of $15,830. These increases were partially offset by a decrease in travel and accommodation costs. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses increased by $137,834 and $343,738 for the for the three and nine month periods ended September 30, 2013 compared to the same periods in 2012. Legal fees increased by $112,260 and $216,043 for the three and nine month periods due to costs relating to acquisitions that occurred in late 2012 as well as the acquisition of Sun Coast which took place in the third quarter of 2013. The increase in professional advisory fees of $34,384 during the third quarter was due to valuation work relating to the Sun Coast acquisition as well as tax planning and accounting advisory services. In addition, the Company increased its audit accrual by $74,155 during the nine months of 2013 to account for the annual audit. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses for the three and nine month periods ended September 30, 2013 were relatively consistent compared to the same prior period in 2012.

Warehouse rent, utilities and occupancy costs increased for the three and nine month periods ended September 30, 2013. The increase relates to infrastructure costs including warehouse rent as a result of continued geographic expansion in the USA. Some of the additional warehouses added throughout 2012 have small monthly rental charges which increased the occupancy expense year over year. The Company has subleased its Leduc, Alberta warehouse and yard and generated rental income of $282,255 and $873,856 for the three and nine month periods ended September 30, 2013, which is reported in sales revenue. Costs in this category are comprised mainly of rent, utilities, and warehouse expense for the Edmonton, Leduc, Camrose, Acheson and USA locations.

During the third quarter, the US dollar gained strength in relation to other currencies, and was higher than the Canadian dollar at September 30, 2013. The increase in the US dollar resulted in a foreign exchange loss for the three months ended September 30, 2013, as the increased US rate caused the Company to have an unfavorable position on its lending facility which is partially held in USD compared to a weaker US dollar during the same period in 2012. (See "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Amortization

Amortization	For the three months ended September 30 2013	2012	Change $	%
Property and equipment	$ **475,027**	$ 350,981	$ 124,046	35.3%
Intangible assets	**222,327**	67,070	155,257	231.5%
Total	$ **697,354**	$ 418,051	$ 279,303	66.8%

Amortization	For the nine months ended September 30 2013	2012	Change $	%
Property and equipment	$ **1,299,922**	$ 1,191,677	$ 108,245	9.1%
Intangible assets	**584,325**	300,576	283,749	94.4%
Total	$ **1,884,247**	$ 1,492,253	$ 391,994	26.3%

The amortization of property and equipment increased during the three and nine month periods ended September 30, 2013 as the result of steel manufacturing equipment being put into use and a full year of amortization being taken on the active equipment. Amortization of intangible assets has increased due to the intangible assets such as customer relationships, non-compete agreements that were acquired as a result of the acquisitions that occurred late in 2012 and in the third quarter of 2013.

Interest

Interest	For the three months ended September 30 2013	2012	Change $	%
Interest on short-term operating debt	$ **464,491**	$ 497,504	$ (33,013)	-6.6%
Interest on long-term debt	**300,805**	20,289	280,516	1382.6%
Interest on obligations under finance lease	**5,497**	10,042	(4,545)	-45.3%
Total	$ **770,793**	$ 527,835	$ 242,958	46.0%

Interest	For the nine months ended September 30 2013	2012	Change $	%
Interest on short-term operating debt	$ **1,461,863**	$ 1,651,393	$ (189,530)	-11.5%
Interest on long-term debt	**884,637**	56,173	828,464	1474.8%
Interest on obligations under finance lease	**18,045**	32,315	(14,270)	-44.2%
Total	$ **2,364,545**	$ 1,739,881	$ 624,664	35.9%

Interest on short-term operating debt decreased by $33,013 and $189,530 for the three and nine months ended September 30, 2013, respectively. The overall decrease in short term interest expense for the nine months of 2013 was the result of the subordinated debt acquired in November 2012 that was applied as a reduction of the Asset Based Lending ("ABL") Facility, which resulted in a lower outstanding balance in the ABL Facility. Interest on long-term debt increased for the three and nine months ended September 30, 2013 as the result of the subordinated debt agreement incurred in the fourth quarter of 2012.

On November 30, 2012, the Company received a $10,000,000 subordinated debenture from Fulcrum Partners Inc. ("Fulcrum"). The debenture bears interest at 11.5%, repayable monthly from December 2012 to December 2013 interest only, March 2014 to December 2017, quarterly installments of $300,000 plus interest.

Income taxes

The provision for income taxes for the three and nine months ended September 30, 2013 is a net current tax expense of $800,636 and $1,338,616 compared to $576,860 and $1,903,013 in the same period of 2012. The decrease in taxes in nine months of 2013 is a result of the decrease in pre-tax earnings and margins. The Company's effective tax rate is 44.12 % for the quarter ended September 30, 2013. The Company had a deferred tax expense of $50,558 and $134,201 for the three and nine months ended September 30, 2013.

Net earnings and adjusted EBITDAC

Net earnings and adjusted EBITDAC	For the three months ended September 30 2013	2012	Change $	%
Net earnings	**$ 1,077,982**	$ 1,438,579	$ (360,597)	-25.1%
% of sales	**2.1%**	3.9%		
Adjusted EBITDAC (1)	**$ 3,672,060**	$ 2,963,886	$ 708,174	23.9%
% of sales	**7.1%**	8.0%		

Net earnings and adjusted EDITDAC	For the nine months ended September 30 2013	2012	Change $	%
Net earnings	**$ 1,868,872**	$ 3,562,379	$ (1,693,507)	-47.5%
% of sales	**1.4%**	3.0%		
Adjusted EBITDAC (1)	**$ 8,544,940**	$ 8,445,973	$ 98,967	1.2%
% of sales	**6.6%**	7.0%		

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

The Company had net earnings for the quarter ended September 30, 2013 of $1,077,982 compared to net earnings of $1,438,579 in the prior year. Net earnings as a percentage of consolidated revenues for the period was 2.1% compared to 3.9% for the same quarter of the prior year. Net earnings decreased for the three and nine month periods ended September 30, 2013 mainly due to three significant non-cash related items being amortization increasing by $391,994 as more assets were put into use over the last year, a $579,826 increase in stock-based compensation and foreign exchange as the US dollar rose in comparison to the Canadian dollar, resulting in a $873,051 foreign exchange difference. In addition, the Company incurred $624,664 of additional interest expense related to a new subordinated debt facility acquired in late 2012.

Adjusted EBITDAC was $3,672,060 for the third quarter of 2013 compared to $2,963,886 in the same comparable prior period, an increase of $708,174. Adjusted EBITDAC increased for the nine month period ended September 30, 2013 mainly due to higher sales of $9,116,777 compared to the same period in 2012.

Basic and diluted earnings per share for the three and nine month period ended September 30, 2013 were $0.07 and $0.13 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, 2013 was 17,392,366 and 17,414,095 respectively.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2013 Q3	2013 Q2	2013 Q1	2012 Q4	Total TTM
Sales	$ 51,731	$ 28,243	$ 49,696	$ 39,515	$ 169,185
Gross margin ($)	8,767	4,605	8,684	4,304	26,360
Gross margin (%)	16.9%	16.3%	17.5%	10.9%	15.6%
EBITDAC (1)	3,399	230	4,142	2,105	9,876
Amortization - Production Equipment	273	253	248	72	846
Adjusted EBITDAC (1)	3,672	483	4,390	2,177	10,722
Net earnings (loss)	$ 1,078	$ (1,044)	$ 1,834	$ 1,330	$ 3,198
Basic earnings (loss) per share	$ 0.07	$ (0.05)	$ 0.11	$ 0.06	$ 0.19
Diluted earnings (loss) per share	$ 0.07	$ (0.05)	$ 0.11	$ 0.06	$ 0.19

(in thousands of Cdn $)	2012 Q3	2012 Q2	2012 Q1	2011 Q4	Total TTM
Sales	$ 36,916	$ 30,931	$ 52,706	$ 48,270	$ 168,823
Gross margin ($)	6,059	3,838	8,413	7,017	25,327
Gross margin (%)	16.4%	12.4%	16.0%	14.5%	15.0%
EBITDAC (1)	2,741	182	5,020	4,205	12,148
Amortization - Production Equipment	222	223	280	430	1,155
Adjusted EBITDAC (1)	2,963	405	5,300	4,635	13,303
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

(1) EBITDAC and Adjusted EBITDAC are non-IFRS measures which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. (See page 37 for a further explanation of these non-IFRS measures).

Prior to Q3 2013, quarterly revenue has seen a decrease over the past few quarters as drilling activity in the WCSB continued to decline largely due to the reduced natural gas drilling, which resulted in less demand for fluids products. EBITDAC, Adjusted EBITDAC and net earnings has followed a similar trend to revenue. The increase in Q3 revenue was mainly due to a backlog of drilling activity caused by extremely wet weather in Q2 2013 which delayed the start of the summer drilling program until July 2013. In addition, the fluids acquisitions completed by the Company during Q4 2012 and the infrastructure investment in the USA drilling fluids market has begun to have a significant impact on USA sales activity.

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

FINANCIAL CONDITION & LIQUIDITY

Summary Balance Sheet As at		September 30 2013		December 31 2012
Current assets	$	**124,309,246**	$	110,593,078
Property and equipment		**14,052,745**		13,006,408
Other assets		**10,767,459**		5,655,573
TOTAL ASSETS	$	**149,129,450**	$	129,255,059
Current liabilities	$	**85,440,758**	$	66,746,849
Non-current lliabilities		**10,116,135**		10,778,849
TOTAL LIABILITIES		**95,556,893**		77,525,698
Share capital		**24,253,773**		24,396,817
Non-controlling interest		**2,089,917**		2,412,225
Retained earnings and contributed surplus		**27,228,867**		24,920,319
TOTAL SHAREHOLDERS' EQUITY		**53,572,557**		51,729,361
TOTAL LIABILITIES AND EQUITY	$	**149,129,450**	$	129,255,059

Financial Ratios	September 30 2013	December 31 2012
Working capital ratio	**1.45**	1.66
Days sales in receivables	**65.3**	104.7
Inventory turns	**2.3**	2.1
Days purchases in payables	**49.7**	71.9

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, 2013, the Company had positive working capital of $38,868,488 compared to $43,846,229 at December 31, 2012. The Company's working capital ratio (defined as current assets divided by current liabilities) was 1.45 to 1 for the period ended September 30, 2013, compared to 1.66 to 1 for the year ended December 31, 2012.

As at September 30, 2013, the Company had drawn $55,952,172 net of transaction costs of $340,127 on its available credit facilities of $80,000,000, as compared to $44,398,833, net of transaction costs of $500,304, at December 31, 2012. On August 30, 2013 the Company revised the terms of the Asset Based Lending (ABL) Facility agreement to include certain capital assets as marginable assets in the calculation of the Company's eligible borrowing base. In addition, the Company's minimum adjusted tangible net worth covenant was replaced with a minimum fixed charge coverage ratio covenant. As at September 30, 2013, the Company was in compliance with its financial covenants.

The September 30, 2013 days sales in receivables are 65.3, lower than the ratio from December 31, 2012 of 104.7. 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 overall less drilling activity in the nine month period ended September 30, 2013 in Western Canada, the Company was able to collect many of its receivables. The decrease in days purchases in payables at September 30, 2013 compared to December 31, 2012 is mainly due to increased operating activity of the Company in the USA. The US companies usually pay their suppliers quicker than in Canada and as a result of the increased revenue in the US fluids distribution, and fluids blending & packaging divisions the days purchases in payables ratio decreased during the third quarter of 2013.

As at September 30, 2013, accounts receivable was $47,732,856, an increase of $10,138,155 or 27.0% from the December 31, 2012 balance of $37,594,701. The increase in accounts receivable is due to increased sales in third quarter of 2013. The increase was the result of a backlog of drilling activity caused by extremely wet weather in Q2 2013 which delayed the start of summer drilling programs until July 2013 as well as increased sales in the USA.

Inventory increased by $2,896,402 or 4.1% to $73,183,041 compared to the 2012 year-end balance of $70,286,639. Inventory turns increased from 2.1 at December 31, 2012 to 2.3 at September 30, 2013. A significant portion of the inventory increase relates to increased value of large diameter seamless pipe as costs to produce are added into inventory. Canadian fluid inventories have decreased by approximately $3.8 million over the past nine months, while the USA fluids division has increased inventory by approximately $2.6 million as demand and market share continues to increase. The steel manufacturing division has seen the biggest increase of inventory of approximately $8 million over the past nine months as the division has received more mother tubes to keep up with the increased production schedule. Inventory values are expected to decrease in the steel manufacturing division as a result of finished goods being sold. The steel manufacturing division has sufficient raw pipe tubes required for the forecasted production for the fourth quarter. Management is continuing its inventory management program and is reducing inventory levels in divisions based on current activity levels without impacting the service levels of our customers.

The Company's prepaid expenses and deposits have remained relatively consistent compared to the 2012 year-end balance. Prepaid expenses related to deposits and prepayments made on steel pipe purchases as well as deposits made on operating occupancy leases.

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 $20,180,000 under its existing ABL facility. The Company is able to meet the long-term payment obligations of its outstanding loans. The Company continues to assess its requirements for capital on an on-going basis. Based on current budgeted operating expenditures for the remainder of the 2013 year, the Company will have sufficient funds to meet its obligations.

Summary of Consolidated Statements of Cash Flows Period ended		**September 30 2013**		September 30 2012
Cash (used in) provided by operating activities	**$**	**(720,179)**	$	7,068,832
Cash provided by (used in) financing activities		**8,400,933**		(5,083,174)
Cash used in investing activities		**(7,680,754)**		(1,985,658)
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of year		**-**		-
Cash and cash equivalents, end of year	**$**	**-**	$	-

Cash flow (used in) provided by operating activities

Cash used in operating activities for the nine month period ended September 30, 2013 was $720,179 compared to cash provided of $7,068,832 for the same period in 2012. The Company's cash used in operating activities mainly relates to the increase of accounts receivable and inventory balances by approximately $12.8

million during the third quarter. This increase was partially offset by the decrease in accounts payable and prepaid expenses. Inventory levels have increased due to increased US fluid demand as well as raw material pipe for the steel manufacturing division. The increase in accounts receivable is due to increased sales in Q3 2013. Management is confident that there are no major concerns with the collection of the amounts outstanding at the end of the quarter. 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 (used in) financing activities

Cash provided by financing activities was $8,400,933 for the nine ended September 30, 2013, compared to cash used of $5,083,174 in the comparable 2012 period. The cash used/provided in financing activities is related to repayments on the operating line to fund period operations. The increase in cash provided by financing activities was because of the increased sales in Q3 2013. This resulted in having a higher purchasing activity during the third quarter, and as such more borrowing was required to pay vendors ahead of the collection of receivables on the increased sales. During the quarter the Company also repurchased common shares under its normal course issuer bid.

Cash flow used by investing activities

Cash used in investing activities amounted to $7,680,754 for the nine months ended September 30, 2013 compared to $1,985,658 during the same period in 2012. The increase is mainly due to the acquisition of Sun Coast which occurred in September 2013. The total consideration paid of $6,487,945USD consisted of cash payments with terms of $6,250,000USD on closing, and a promissory note payable with a fair value of $237,945USD bearing interest at 4% per annum, repayable in September 2014. In addition more capital asset additions were required in the steel manufacturing facility as the facility is now in operation.

Covenants

	September 30, 2013		December 31, 2012	
	As calculated	**Minimum required**	As calculated	Minimum required
		To exceed		
Fixed charge coverage ratio	**1.54**	1.1	-	-
		Not to exceed		Not to exceed
Eligible capital expenditures	**$ 1,164,027**	$ 4,262,700	$ 3,463,991	$ 3,630,600
		Not to exceed		Not to exceed
Funded term debt to EBITDA	**0.87**	1.5:1	0.91	1.5:1

On August 30, 2013 the Company revised the terms of the Asset Based Lending (ABL) Facility agreement and changed financial covenants by replacing the minimum adjusted tangible net worth covenant with a minimum fixed charge coverage ratio covenant. Effective August 30, 2013, the Company is required to comply with two financial covenants being a minimum fixed charge coverage ratio and a maximum annual eligible capital expenditures with the asset based lending agreement. In addition, there is an additional covenant with the subordinated debenture relating to funded term debt to EBITDA. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness.

The fixed charge coverage ratio is set at a minimum of 1.10 to 1 level and defined as the trailing twelve months of EBITDA, less non-funded capital expenditure, to the sum of cash interest paid, plus cash income taxes paid, plus the aggregate of all dividends, distributions and principal repayments, and any amortization in the borrowing base of any eligible real property and/or eligible machinery and equipment. EBITDA is net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including transaction and acquisition expenses) and extraordinary items and share based payments during any of its recently completed four fiscal quarters. Capital expenditures limit is set at a maximum of 120% of the consolidated budgeted yearly capital expenditures. The funded term debt to EBITDA covenant is set at a maximum of 1.50 to 1. Funded term debt is any term debt including, without limitation, the subordinated debt facility and any capital lease obligations. EBITDA is net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including transaction and acquisition expenses) and extraordinary items and share based payments during any of its recently completed four fiscal quarters.

The minimum covenants are noted in the above table. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a monthly basis. As at September 30, 2013, the Company was in compliance with all financial covenants.

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, 2013 was $320,171 and $1,159,208 respectively. The capital expenditures were funded from the Company's operating line of credit.

The future capital expenditures for the remainder of 2013 are expected to be approximately $500,000. Proposed future equipment upgrades may include bulk storage tanks and blending and packaging equipment for the USA drilling fluids distribution division, three storage tents for product as well as additional testing equipment for the steel manufacturing division. Capital expenditures typically are comprised of betterments and upgrades to existing assets, and additions incurred during the period. The Company ensures equipment is efficient and profitable or the equipment is replaced when the cost of maintenance and operating the equipment is not feasible

Off-balance sheet arrangements

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

Transactions with related parties

During the three and nine month periods ended September 30, 2013, the Company incurred office sharing costs of $15,000 and $45,000 (September 30, 2012 - $15,000 and $45,000) in the normal course of operations with BRC Advisors Inc., which a certain director and officer controls.

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.

The Petroleum Services Association of Canada (PSAC) has forecasted 2,908 wells to be drilled in Western Canada for the fourth quarter of 2013, a forecasted increase of 6.2% over the fourth quarter of 2012. PSAC also has forecasted 10,800 wells to be drilled in Canada for 2014, which is similar to the number of wells estimated in 2013.

The Canadian fluids division will continue to supply 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, aimed at production and stimulation fluids, for further penetration into the Canadian drilling fluids market place.

Bri-Chem's USA fluids division has continued to see sales and earnings growth over the past several quarters as a result of product and geographic expansion throughout the major resource plays in the USA. Management continues to build infrastructure and offer superior customer service. We feel that with the strategic network of warehouses through the USA, we are well positioned to continue to grow revenue and profits by servicing independent fluid engineering companies that operate in multiple regions. We are constantly examining additional strategic warehouse locations in the USA that will provide revenue and earnings growth as we establish Bri-Chem as the leading national independent wholesale supplier of drilling fluids for the USA drilling fluids market. In particular we are exploring the Texas marketplace which has the majority of rig activity, which would further solidify Bri-Chem as a dominant independent supplier of drilling fluids in the USA.

The Company's fluids blending and packaging division has grown throughout 2013 by providing value added blending services of proprietary products used in the cementing and stimulation applications of drilling. The Company has provided new products and is servicing existing customers that have entered into new geographic regions which has contributed to the revenue and earnings growth in the division. With the recently announced acquisition of Sun Coast in California, Bri-Chem will seek to establish a market presence in blending and packaging of cement and stimulation products in the USA. In addition, the division will look to diversify its product offering into regions throughout the USA using Bri-Chem's strategic warehouse network. Management remains focused on seeking out new product offerings, which we anticipate will result in new sales and earnings growth. Management believes that further opportunities exist to develop a liquid stimulation and specialty additives blending division to leverage additional business from existing clients that we currently service. 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 is continuing to monitor its inventory to ensure we have the proper sizes and quantities given the current steel market. The margin decrease experienced in the past few quarters will likely continue in the short term as the division continues to reduce certain inventory and replace it with higher demand product. The division remains optimistic that it will achieve more traditional margins over the medium to long term once inventory levels are in line with demand for pipe products.

The steel manufacturing division has experienced increased sales and profitability during 2013 as the result of increased production, and efficiencies that transpired throughout 2012. Production for the fourth quarter is expected to be similar to that of the third quarter, which would result in annual production of approximately 13,000 tons for 2013. In the short term, the division is focused on completing the production for a backlog of current sales orders. The division is securing new customers within Canada and USA steel market place as we continue to establish ourselves as the innovative high quality North American producer of large diameter seamless pipe. In addition the division is working with a number of master and major distributors to have our pipe accepted on pipeline companies approved manufacturer's lists. We are cautiously optimistic that demand levels will increase in 2014, however if volatile crude oil prices, increasing crude oil price differentials and distribution and pipeline constraints continue, deferral or further reduction of capital spending programs occur, this may have an adverse effect on the demand for seamless pipe in North America.

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

RISKS AND UNCERTAINTIES

The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A and Bri-Chem's other public disclosure documents, including the Annual Information Form for the Company for the year ended December 31, 2012. These risks and uncertainties are not the only ones facing Bri-Chem. Additional risks and uncertainties not currently known to the Company or that the Company currently considers remote or immaterial, may also impair the operations of the Company. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Company could be materially adversely affected.

Liquidity Risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The changes in the global financial markets and weak economic conditions, 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.

Regulations Affecting the Oil and Natural Gas Industry

The operations of the Company and its customers are subject to or impacted by a wide array of regulations in the jurisdictions in which they operate. As a result of changes in regulations and laws relating to the oil and natural gas industry, the Company's customers' operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with applicable regulations could cause customers to discontinue or limit their operations and may discourage companies from continuing activities. As a result, demand for the Company's products and services could be substantially affected by regulations adversely impacting the oil and natural gas industry.

Supply Risk

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

Oil and Natural Gas Prices

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

Commodity Price Risk

The cost and availability of 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 product costs increases to customers, however, to the extent we are not able to pass on the entire increase to our customers, our business, financial condition and cash flow may be materially affected.

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

Integration of Acquisitions

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

Entering New Business Lines

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

Government Trade Tariffs

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

Seasonal Weather

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

Product Liability Claims

Although the Company believes it offers superior products in the market place, the Company may have claims for damages resulting from misapplication of products or from product defects. The Company mitigates this risk by providing standard Material Safety Data Sheets information for fluids products and complete specifications for steel pipe sold. However, the defense of claims could prove costly, therefore increasing the

Company's expenses. If a claim would be successful or partially successful, it could result in monetary liabilities and future scrutiny from customers on products sold.

Ability to Achieve Profitability

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

Credit Risk

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

Inventory Risk

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

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

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

Income Tax Expense

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

Workplace Safety, Health and Wellness

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

Environmental Liability

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

Dependence on Key Personnel

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

Insurance risk

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

Fuel Prices

The Company incurs costs relating to fuel for its transportation purposes 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 condensed consolidated financial statements, in conformity with International Accounting Standard 34, "Interim Financial Reporting", management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Principal areas where uncertainty is inherent include the valuations of accounts receivable, the allowance for doubtful accounts, the sales return provision, inventory obsolescence, work in progress, net realizable value inventory write-downs and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of deferred tax assets, the impairment testing of goodwill and long-lived assets, valuations of accrued liabilities and deferred tax liabilities, the fair value of derivative financial instruments, and the fair value of options and warrants using the Black-Scholes Option Pricing Model. Management feels actual results will not be materially different from these estimates.

The most significant estimates made by management include:

Sales return provision

Accounts receivable is a significant asset at September 30, 2013. Included in this balance is a sales return provision for the fluids distribution division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision are 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 may enter 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 any 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.

Impairment testing of intangible assets and property and equipment

The Company is required to test for impairment of intangible assets and property and equipment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment. An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. Impairment losses are allocated first to goodwill, then to remaining assets. To determine the value-in-use, management estimates expected future cash flows from each cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management. Impairment loss is charged to the items in each cash-generating unit, first to goodwill, then to all other items on a pro-rata basis. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Income taxes

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

Business combinations

The Company uses valuation techniques in determining fair values of the various elements of a business combination based on future expected cash flows and a discount rate. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

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.

Consolidated Financial Statements

In January 2013, the Company adopted IFRS 10 "Consolidated Financial Statements". IFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Company controls the investee on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10, the Company re-assessed the control conclusion for its investees at January 1, 2013. The Company has made no changes as a result of this process in the current or comparative period.

Disclosure of Interests in Other Entities

In January 2013, the Company adopted IFRS 12 "Disclosure of Interests in Other Entities". IFRS 12 sets out disclosure requirements for the Company reporting under IFRS 10 to enable users of its financial statements to evaluate: a) the nature of, and risks associated with, its interests in other entities; and b) the effects of those interests on its financial position, financial performance and cash flows.
In accordance with the transitional provisions of IFRS 12, the Company re-assessed disclosure requirements and concluded that no material changes are needed in the current or comparative period.

Fair Value Measurement and disclosure requirements

In January 2013, the Company adopted IFRS 13 "Fair Value Measurements and Disclosure Requirements". IFRS 13 replaces the fair value measurement guidance contained in individual IFRS's with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRS.

IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Company has adopted IFRS 13 prospectively in its financial statements for the annual period beginning January 1, 2013. The Company has made no changes in the current or comparative period.

Amendment to Financial Instruments

There has been the amendment to IFRS 7 – Financial Instruments: Disclosure to enhance disclosure requirements related to offsetting of financial assets and financial liabilities. The Company re-assessed disclosure requirements and concluded that no material changes are needed in the current or comparative period.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective as at the date of authorization of these consolidated financial statements and determined that the following may have an impact on the Company:

Amendments to Other Standards

There has been the amendment to existing standard, IAS 32 - Financial Instruments: Presentation to clarify requirements for offsetting of financial assets and financial liabilities, and is effective for annual periods beginning on or after January 1, 2014.

SHARE DATA

As of September 30, 2013 the Company had 17,359,616 common shares issued and outstanding. As of September 30, 2013, the board of directors may grant options to purchase up to a maximum of 1,723,760 common shares. As of September 30, 2013, options to purchase 1,265,000 common shares were outstanding at an average price of $2.86 per common share.

Normal Course Issuer Bid

The Company has entered into a Normal Course Issuer Bid ("NCIB") with the Toronto Stock Exchange. Under the NCIB, the Company is permitted to acquire up to 1,103,327 of its common shares during the period December 17, 2012 to December 17, 2013. All common shares purchased through the bid will be cancelled. At September 30, 2013, 102,296 shares have been repurchased for cancellation under the NCIB for cash consideration of $159,067. The excess of the repurchase price over the carrying value has been charged to retained earnings.

NON-IFRS MEASURES

Certain supplementary information and financial measures referred to in the MD&A and explained below, namely Adjusted Gross Margin, EBITDAC, Adjusted EBITDAC, and Operating Expenses, are not recognized under IFRS.

Adjusted Gross Margin

In compliance with IFRS accounting standards, the Company's cost of sales must include all overheads related to production regardless of whether or not the facility is operating at full capacity. These overhead costs include production facility lease costs, utilities, indirect labour costs and amortization of production equipment related to the steel manufacturing facility. Adjusted gross margins reflect the product selling price less the cost of the product and direct labour to manufacture the product. Management believes that the adjusted gross margin is useful information as it provides a more accurate gross margin contribution in a more conventional format. The following is a reconciliation of adjusted gross margins to IFRS compliant gross margins for each of the periods presented in this MD&A.

Adjusted Gross Margins	For the three months ended September 30 2013	2012	Change $	%
Gross Margin ($) (1)	**100,214**	(90,123)	190,337	211.2%
As percentage of sales	**2.0%**	-2.2%		
Addback: Fixed overheads in production (2)	**472,638**	639,069	(166,431)	-26.0%
Amortization of production equipment	**272,899**	222,494	50,405	22.7%
Adjusted Gross Margin ($) (3)	**845,751**	771,440	74,311	9.6%
% of sales	**17.1%**	19.0%		

Adjusted Gross Margins	For the nine months ended September 30 2013	2012	Change $	%
Gross Margin ($) (1)	**814,730**	(816,998)	1,631,728	199.7%
As percentage of sales	**5.9%**	-9.4%		
Addback: Fixed overheads in production (2)	**1,492,335**	1,639,937	(147,602)	-9.0%
Amortization of production equipment	**773,513**	716,415	57,098	8.0%
Adjusted Gross Margin ($) (3)	**3,080,578**	1,539,354	1,541,224	100.1%
% of sales	**22.4%**	17.7%		

(1) In compliance with IFRS standards, cost of sales includes all overheads related to production regardless of whether or not the facility is operating at full capacity.
(2) Fixed overheads costs include production facility lease costs, utilities and indirect labour costs related to the steel manufacturing facility.
(3) Adjusted gross margins reflect the selling price less the cost of product and direct labour to manufacture the product.

EBITDAC and Adjusted EBITDAC

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

EBITDAC is defined as earnings before interest, taxes, depreciation, amortization, and share-based payments. Adjusted EBITDAC also includes the add back of amortization of the production equipment that is included in the IFRS compliant gross margins as described above in Adjusted Gross Margins. The following is a reconciliation of EBITDAC and Adjusted EBITDAC to net earnings for each of the periods presented in this MD&A.

EBITDAC and Adjusted EBITDAC	For the three months ended September 30 2013	2012
Net earnings	$ **1,077,982**	$ 1,438,579
Add:		
Interest	**770,793**	527,835
Income taxes	**851,194**	400,238
Amortization	**424,455**	195,557
Share-based payments (1)	**274,737**	179,183
EBITDAC	**3,399,161**	2,741,392
Amortization of production equipment (2)	**272,899**	222,494
Adjusted EBITDAC	$ **3,672,060**	$ 2,963,886

EBITDAC and Adjusted EBITDAC	For the nine months ended September 30 2013	2012
Net earnings	$ **1,868,872**	$ 3,562,379
Add:		
Interest	**2,364,545**	1,739,881
Income taxes	**1,472,817**	1,276,827
Amortization	**1,110,734**	775,838
Share-based payments (1)	**954,459**	374,633
EBITDAC	**7,771,427**	7,729,558
Amortization of production equipment (2)	**773,513**	716,415
Adjusted EBITDAC	$ **8,544,940**	$ 8,445,973

(1) Share-based payments includes stock options of $274,737 and $954,459 for the three and nine month periods ended September 30, 2013 (2012 - $179,183, and $374,633).

(2) Amortization includes amortization of production equipment which is included in cost of sales for financial statement purposes to conform with IFRS.

Operating Expenses

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, 2013 consolidated financial statements:

Operating expenses	For the three months ended September 30 2013	2012
Operating expenses	$ **5,368,349**	$ 3,317,714
Add:		
Interest	**770,793**	527,835
Amortization	**697,354**	418,051
Share-based payments	**274,737**	179,183
Total expenses	$ **7,111,233**	$ 4,442,783

Operating expenses		For the nine months ended September 30 2013		2012
Operating expenses	$	**14,285,389**	$	10,580,697
Add:				
Interest		**2,364,545**		1,739,881
Amortization		**1,884,247**		1,492,253
Share-based payments		**954,459**		374,633
Total expenses	$	**19,488,640**	$	14,187,464

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, 2013 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, 2013 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance.

On September 6, 2013, the Company acquired business and assets of Sun Coast Materials, LLC and began consolidating the operation into Bri-Chem Corp. Management excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as at September 30, 2013.

On December 31, 2012, the Company acquired all of the business assets of General Supply Company and began consolidating the operations into Bri-Chem Corp. Management excluded this business from its evaluation of the effectiveness of the Company's internal control over financial reporting as at September 30, 2013.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting that occurred as at September 30, 2013 that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.

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

Corporate Information

Officers and Directors

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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
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Auditors

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