BRI-CHEM

Right product. Right place. Right time.

Q4 MD&A Report

"For over 30 years we have proven our ability to combine strategic supplier relationships and expert logistics making us the premier supplier of drilling fluid chemicals and drilling fluid additives to the North American oil and gas industry."

North America's Largest Pure Play

Oil and Gas Drilling Fluids Distribution & Blending Company

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of March 30, 2014. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the 2014 fourth quarter and year ended December 31, 2014 and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2014 and 2013.

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

The Company sold its steel pipe manufacturing and steel pipe distribution businesses ("Discontinued Operations") effective July 15, 2014. Bri-Chem's business operations, financial and corresponding operating results will be concentrated entirely on its North American leading oil and gas drilling fluids distribution, blending & packaging businesses ("Continuing Operations").

The Company's Continuing Operations consolidated financial statements include the accounts of Bri-Chem Corp. and its subsidiaries as follows:

- Bri-Chem Supply Ltd.,
- Sodium Solutions Inc.,
- Solution Blend Service Ltd.,
- Bri-Corp USA, Inc., including its three subsidiaries Bri-Chem Supply Corp, LLC, Sun Coast Materials, LLC and Bri-Chem Logistics, LLC,

The Company's Discontinued Operations include the accounts of 1100266 Alberta Ltd. (formerly Bri-Steel Corporation), and 1564316 Alberta Ltd. (formerly 70% owned Bri-Steel Manufacturing Inc.).

All references in this report to financial information concerning the Company refer to such information in accordance with IFRS. 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, including the annual information form for the year ended December 31, 2014 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 including the following:

- adequacy of capital resources required to finance the Company's inventories and other operations;
- the expectations for Bri-Chem's industry in 2015;
- 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 and its ability to comply with covenants in the future;
- expected capital expenditures in 2015;
- the expected results from cost cutting measures implemented in Q1 2015;
- the expectations related to future gross margins of fluid sales;
- 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, and drilling fluids;
- competition for, among other things, capital and skilled personnel;
- incorrect assessments of the value of acquisitions;
- fluctuations in the market for oil and natural gas and related products and services;

- liabilities and risks, including environmental liabilities and risks inherent in 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;
- 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.

2014 FOURTH QUARTER AND OVERALL PERFORMANCE:

The discussion in this section is qualified in its entirety by the "Cautionary Statement 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 fourth quarter of 2014, Bri-Chem's consolidated revenues from its North American leading oil and gas drilling fluids distribution, blending & packaging businesses ("Continuing Operations") increased 12.0% to $50,291,385 compared to $44,899,246 from the prior period in 2013. This quarter-over-quarter revenue increase is primarily as a result of significant market share growth from Bri-Chem's USA drilling fluids distribution division which experienced record quarterly sales of $22,003,867. Bri-Chem's USA growth momentum continued to drive new records in 2014, with many new milestones being achieved.

For the year ended December 31, 2014, Bri-Chem's consolidated revenues were $184,707,721 compared to $150,039,754 for the comparable year of 2013, an increase of 23.1%. Earnings before interest, taxes, amortization and depreciation, share-based payments expense, and impairment charges ("EBITDA") were $16,832,102 or $0.70 per share for the year ended December 31, 2014, compared to $13,031,442 for the same period in 2013. Adjusted net earnings, net of a one-time impairment charge of goodwill and other intangible assets, for the year ended December 31, 2014 were $6,392,330 or $0.27 diluted earnings per share as compared to net earnings of $4,265,441 for the same period in 2013. As a result of the significant decline in commodity prices in the fourth quarter of 2014 and reduced capital budgets set by oil and gas companies, Bri-Chem tested certain of its assets for impairment. Based on the impairment tests performed, Bri-Chem recorded a write down of goodwill and other intangible asset in the amount of $8,567,921 for the twelve months ended December 31, 2014.

North American Drilling Fluids Distribution Divisions

Bri-Chem's Canadian drilling fluids distribution division generated sales of $20,641,847 and $81,798,365 for the three and twelve months ended December 31, 2014, compared to sales of $24,267,169 and $84,798,782 over the comparable periods in 2013. In Canada, drilling rig utilization averaged 47.4% for the fourth quarter, and 46.0% for the year ended December 31, 2014; an increase of 1.7% quarter over quarter and 4.4% year over year. The number of wells drilled in Western Canada for the three month and twelve month periods ended December 31, 2014 were 2,818 and 10,693, representing an increase of 4.3% quarter over quarter and 2.2% year over year. The slight decrease in Q4 2014 drilling fluid sales in Canada is primarily due to lower activity levels in late November and December due to the sharp decline in crude oil prices that negatively impacted purchasing demand from customers.

Bri-Chem's United States drilling fluids distribution division generated sales of $22,003,867 and $73,845,061 for the three and twelve month periods ended December 31, 2014, compared to revenues of $13,839,280 and $44,549,096 in the comparable periods of 2013, representing an increase of $8,164,587 or 59.0% quarter over quarter, while increasing 65.8% year over year. The USA fluids distribution division continued to realize sales growth throughout Q4 2014 as a result of increased industry activity, and product and geographic expansion throughout the major resource plays in the USA. The average number of active rigs running in the USA during the fourth quarter was 1,911, an increase of 8.8% quarter over quarter. The division has built a solid infrastructure with personnel and inventory to service the expanding needs of our customers. The states of Colorado, Pennsylvania, Oklahoma, Wyoming and Texas generated the majority of sales in the USA for the three months ended December 31, 2014.

North American Drilling Fluids Blending & Packing Divisions

Bri-Chem's Canadian drilling fluids blending and packaging division continued to grow as the Company generated sales of $6,008,881 and $20,762,919 for the three and twelve months ended December 31, 2014 compared to the comparable prior year period sales of $4,970,079 and $18,383,427 representing 20.9% increase quarter over quarter. The division increased its market share by utilizing newly expanded capacity to meet the increasing demand of our customers. On December 1, 2014, Bri-Chem acquired 100% of the issued and outstanding shares of Solution Blend Service Ltd. ("Solution Blend"), an Alberta based liquid blending facility for production and stimulation oilfield chemicals. Solution Blend, located in Calgary, AB, is leading specialty blending company for the stimulation and production chemical segment of the oilfield chemical industry. Solution Blend generated sales of $441,278 since the date of acquisition in Q4 2014.

Bri-Chem's USA fluids blending and packaging division, generated sales of $1,816,790 and $8,301,376 respectively for the fourth quarter of 2014 and twelve months ended December 31, 2014 compared to $1,822,718 for Q4 2013 and $2,308,449 for the year ended December 31, 2013.

Outlook Summary

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

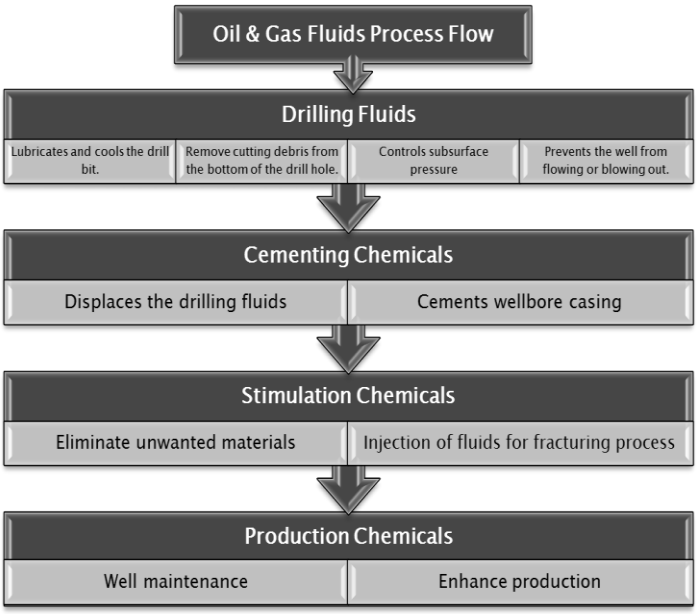
2015 is expected to be a challenging year for our industry as there are many uncertainties in today's market making forecasting difficult. It is projected that the industry slowdown will continue well into 2015 and it is not known at this time when it will begin to rebound. Our management team has experienced several business cycles and understands what is needed to effectively manage the business through an industry downturn.

Over the past several months, significantly lower commodity prices have resulted in a number of companies implementing capital budget cuts and cost reduction initiatives across North America which in turn will impact demand for Bri-Chem products and services during 2015. Further capital reductions are expected as Management anticipates that the decline in commodity prices and corresponding reduction in spending will continue to have a significant negative impact on drilling activity for the foreseeable future across all regions where Bri-Chem operates. In Canada, the typical seasonal downturn in activity due to spring breakup is anticipated, however, Management expects a prolonged spring break-up in Canada with little visibility regarding how many rigs will come back to work when the breakup ends.

Bri-Chem has been proactive in response to this reduction in business activity and has begun implementing measures to "Right-Size" its business and control costs. In Q1 2015, several cost savings initiatives were initiated, including the termination of approximately 25% of its overall staff, a companywide 5% wage rollback for all non-managerial staff employees and a 10% wage rollback for all directors, managerial, senior and executive employees, and the suspension of various nonessential employee benefits, business travel expense limitations, reduced marketing expenditures and significant reductions in capital expenditures. The combined savings of these initiatives is estimated to be approximately $3.2 million annually. These initiatives will be regularly reviewed throughout the year and will be re-evaluated based on existing business activity levels.

DESCRIPTION OF BUSINESS

Bri-Chem has established itself, through a combination of strategic acquisitions and organic growth, as a North American industry leader for the distribution and blending of oilfield drilling, completion, stimulation and production chemical fluids. We sell, blend, package and distribute a full range of drilling fluid products, from 33 strategically located warehouses throughout Canada and the United States. Bri-Chem has been operating in Canada since 1985 and as a result of the increasing market demand for oilfield chemicals, we expanded into the United States in 2011 and have successfully obtained significant market penetration. 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 Solution Blend Service Ltd. ("Solution Blend"), 100% interest in both 1100266 Alberta Ltd. ("Bri-Steel", previously named Bri-Steel Corporation), and 1564316 Alberta Ltd. ("Manufacturing", previously named Bri-Steel Manufacturing Inc. and formerly 70% owned). 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").

The Company divested its steel pipe manufacturing and steel pipe distribution businesses ("Discontinued Operations") effective July 15, 2014. Bri-Chem's business operations, financial and corresponding operating results are now presented and concentrated entirely on its North American leading oil and gas drilling fluids distribution, blending & packaging businesses as follows ("Continuing Operations"):

NORTH AMERICAN OILFIELD CHEMICAL DIVISIONS

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 Western Canadian Sedimentary Basin ("WCSB"). The drilling fluids division focuses on the oil & gas drilling stage, providing over 100 drilling fluid products and custom-blended products to major and independent oilfield service companies. Bri-Chem distributes its drilling fluid products from 16 strategically located warehouses throughout the WCSB. Drilling fluids are 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.

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.

Canadian Fluids Blending and Packaging Division

The WCSB oil and gas drilling and completion process also utilizes a significant amount of cementing, stimulation, fracturing and production chemical 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. Production chemicals are specialty blended products that help maximize well production and minimize well maintenance costs. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these fluid applications. Bri-Chem has dedicated facilities, located in Acheson, Camrose and Calgary, Alberta, with capacity to blend and package specialty additive fluids for customer specific products.

On December 1, 2014, Bri-Chem acquired 100% of the issued and outstanding shares of Solution Blend Service Ltd. ("Solution Blend"), an Alberta based liquid blending company for production and stimulation oilfield chemicals. The total consideration paid on closing consisted of i) $4,650,683 in cash, and (ii) the issuance of a promissory note with fair value of $445,175. Solution Blend, located in Calgary, AB, is leading specialty blending company for the stimulation and production chemical segment of the oilfield chemical industry. The company's strategic advantage is ensuring customer success by providing high quality specialty oilfield blended products, operating in safe and environmentally controlled facility, while maintaining compliance regulations, proficient warehouse management and delivery. Solution Blend's business has built a strong market position with many long term customers and Bri-Chem entered into employment agreements with key members of management which is expected to provide for a seamless integration. The acquisition of Solution Blend expands Bri-Chem into the liquid stimulation and production oilfield blending chemical segment. In addition, Bri-Chem, will explore expanding their operations into key regions within the USA network of warehouses.

USA Fluids Blending and Packaging Division

On September 6, 2013, the Company acquired assets and business operations of Sun Coast Materials LLC. ("Sun Coast"), a California based packager and specialty cement blender to oil well contractors operating in southern and central California. 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 to other regions in 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 various oilfield Chemicals.

Seasonality of Operations

Weather conditions can affect the sale of the Company's fluids, chemical, 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 "Cautionary Statement Regarding Forward-Looking Information" section presented at the beginning of the MD&A.

Bri-Chem will continue to focus on its North American business strategy of becoming more basic in drilling fluids by seeking to become more directly involved in the manufacturing and blending of drilling fluid products. The recent acquisition of Solution Blend, an Alberta based liquid blending facility for production and stimulation oilfield chemicals, is expected to position Bri-Chem to move into the liquid stimulation and production oilfield blending chemical segment, and build a strong market position with many long term customers. The Company will continue to evaluate other drilling fluid and blending segments, which will add support to Bri-Chem's focus on becoming the leading fully integrated oilfield chemical supplier in North America.

In the USA, Bri-Chem will continue establishing itself as the leading national independent wholesale distributor of drilling fluids for the unconventional resource plays in the USA oil and gas market. We recently started a new oil mud blending facility in Oklahoma to complement the existing blending facility we have located in Leetsdale, Pennsylvania. The 2013 acquisition of Sun Coast Materials, LLC, a California based packager and specialty cement blender to oil well contractors operating in southern and central California, further expanded Bri-Chem's product offerings into the USA market as well.

FINANCIAL SUMMARY

The following selected two year consolidated financial information has been derived from and should be read in conjunction with the Company's Financial Statements for the year ended December 31, 2014 and 2013.

Consolidated statements of operations	For the year ended December 31		Change	
	2014	2013 [4]	$	%
Sales	**$ 184,707,721**	$ 150,039,754	$ 34,667,967	23.1%
Gross margin	**31,749,878**	26,643,741	5,106,137	19.2%
	17.2%	17.8%		
Operating expenses [1]	**14,917,776**	13,612,299	1,305,477	9.6%
EBITDA [2]	**16,832,102**	13,031,442	3,800,660	29.2%
Depreciation and amortization	**2,167,490**	1,486,362	681,128	45.8%
Interest [5]	**3,241,958**	2,611,502	630,456	24.1%
Share-based payments	**752,202**	1,196,686	(444,484)	(37.1%)
Impairment charges [6]	**8,867,621**	1,207,427	7,660,194	100.0%
Earnings from continuing operations before income taxes	**1,802,831**	6,529,465	(4,726,634)	(72.4%)
Income tax expense - current	**2,629,501**	2,747,693	(118,192)	(4.30%)
Income tax recovery - deferred	**(1,937,656)**	(483,669)	(1,453,987)	300.6%
Earnings from continuing operations	**1,110,986**	4,265,441	(3,154,455)	(74.0%)
Loss from discontinued operations	**$ (12,412,413)**	$ (4,666,234)	$ (7,746,179)	166.0%
Net loss	**$ (11,301,427)**	$ (400,793)	$ (10,900,634)	2719.8%
Net earnings from continuing operations attributable to				
Shareholders of the Company	**$ 1,110,986**	$ 4,265,441	$ (3,154,455)	(74.0%)
NCI [3]	**$ -**	$ -	$ -	0.0%
Net loss from discontinued operations attributable to				
Shareholders of the Company	**$ (9,490,998)**	$ (4,155,960)	$ (5,335,038)	128.4%
Net loss attributable to NCI [3]	**$ (2,921,415)**	$ (510,274)	$ (2,411,141)	472.5%
Earnings (loss) per share from continuing and discontinued operations				
Basic from continuing operations	**$ 0.05**	$ 0.24	$ (0.19)	(79.2%)
Basic from discontinued operations	**$ (0.40)**	$ (0.24)	$ (0.16)	66.7%
Diluted from continuing operations	**$ 0.05**	$ 0.24	$ (0.19)	(79.2%)
Diluted from discontinued operations	**$ (0.40)**	$ (0.24)	$ (0.16)	66.7%
Adjusted basic from continuing operations [7]	**$ 0.27**	$ 0.24	$ 0.03	12.5%
Adjusted diluted from continuing operations [7]	**$ 0.27**	$ 0.24	$ 0.03	12.5%
EBITDA per share from continuing operations				
Basic	**$ 0.70**	$ 0.74	$ (0.04)	(5.3%)
Diluted	**$ 0.70**	$ 0.74	$ (0.04)	(5.3%)
Weighted average shares outstanding				
Basic	**24,013,533**	17,613,227		
Diluted	**24,026,765**	17,635,284		

(1) See page 45 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, impairment charges and share-based payments (See page 45 for a further explanation of this non-IFRS measure).
(3) NCI represents the 30% non-controlling interest's ("NCI") portion of the losses of 1564316 Alberta Ltd. for the year ended December 31, 2014. On December 31, 2014, the Company redeemed 30% interests in the subsidiary owned by the minority shareholder.
(4) The Company reclassified amounts in the Statement of Operations relating to discontinued operations to categorize results of discontinued operations consistently.
(5) Interest expense for the year ended December 31, 2014 includes amortization of capitalized deferred financing cost of $480,091 (December 31, 2013: $280,735).
(6) Impairment charges are related to bad debts, goodwill and other intangible assets (December 31, 2013 – bad debts)
(7) Excludes after tax effect of impairment of goodwill and other intangible assets (See page 45 for a further explanation of this non-IFRS measure).

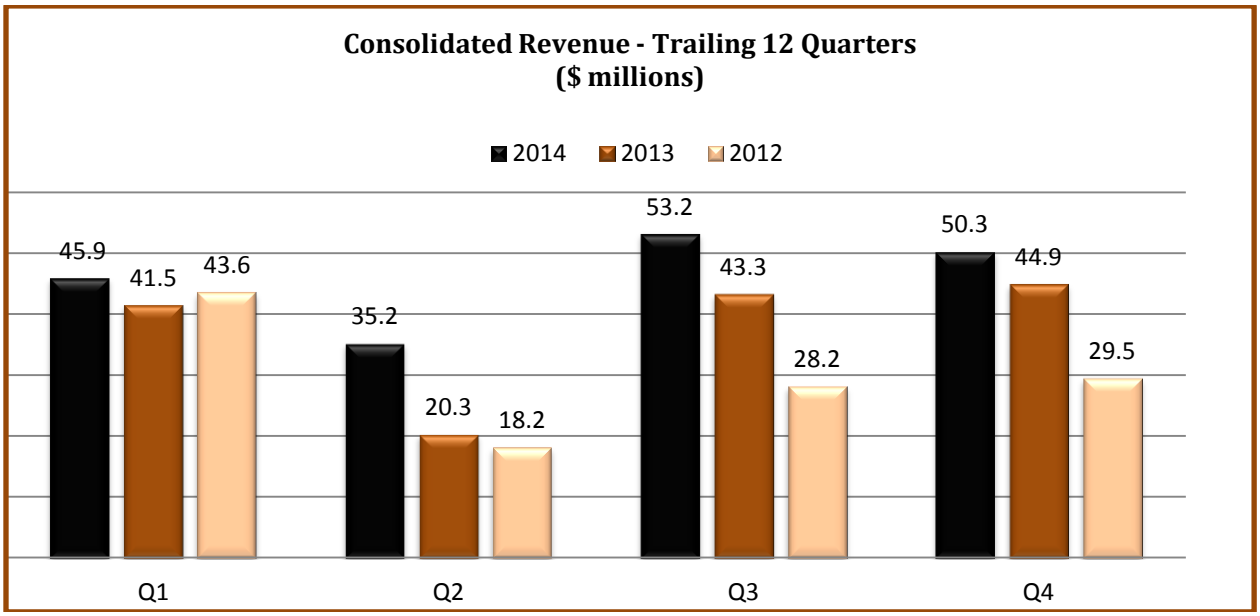
2014 YEAR END RESULTS AND DISCUSSION OF CONTINUING OPERATIONS

Sales

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

	For the year ended December 31					
	2014		2013		Change	
Sales by Segment	$	%	$	%	$	%
Fluids Distribution - Canada	**$ 81,798,365**	**44.3%**	$ 84,798,782	56.5%	$ (3,000,417)	(3.5%)
Fluids Distribution - USA	**73,845,061**	**40.0%**	44,549,096	29.7%	29,295,965	65.8%
Total Fluids Distribution	**155,643,426**	**84.3%**	129,347,878	86.2%	26,295,548	20.3%
Fluids Blending & Packaging - Canada (1) (2)	**20,762,919**	**11.2%**	18,383,427	12.3%	2,379,492	12.9%
Fluids Blending & Packaging - USA (3)	**8,301,376**	**4.5%**	2,308,449	1.5%	5,992,927	259.6%
Total Fluids Blending & Packaging	**29,064,295**	**15.7%**	20,691,876	13.8%	8,372,419	40.5%
Total	**$ 184,707,721**	**100.0%**	$ 150,039,754	100.0%	$ 34,667,967	23.1%

(1) The fluids blending and packaging division sells products to the drilling fluids distribution division, which in turn sells it to the end user. In 2014 the annual sales to the drilling fluids distribution division were an additional $9,620,148 (2013 - $9,949,184). This revenue has been eliminated upon consolidation. Includes sales of $441,278 resulting from the acquisition of Solution Blend effective December 1, 2014.
(2) On July 2013, the division started selling certain products directly to end users. 2013 sales were reclassified for presentation purposes.
(3) Includes 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 $155,643,426 for the year ended December 31, 2014 compared to sales of $129,347,878 in 2013, representing an increase of 20.3% year over year. The Canadian fluids distribution divisions' sales declined

by 3.5% for the year ended December 31, 2014, while the USA fluids distribution division experienced sales growth of 65.8% over the same comparable period in 2013.

Canadian Drilling Fluids Distribution Division

Bri-Chem's Canadian drilling fluids distribution division generated sales of $81,798,365 for the year ended December 31, 2014, compared to sales of $84,798,782 over the same comparable period in 2013. The decrease in sales of 3.5% during the year was due to the lower drilling activity in Q1 2014 and the decline in activity in late Q4 2014 due to customers utilizing and reducing their existing inventory in preparation of the expected drilling activity slowdown as a result of falling crude oil and natural gas prices. The number of wells drilled in 2014 in Western Canada was 10,693, compared to the 10,462 wells drilled in 2013, representing an increase of 2.2% year over year. Year to date rig utilization rates averaged 46.0% in 2014 compared to 41.6% in 2013, an increase of 4.4%. The modest increase largely has to do with the industry experiencing a more traditional dry spring break up that resulted in increased drilling activity and higher demand for fluids products.

The Alberta market experienced a decrease in sales of 4.4% for the year ended December 31, 2014, while the number of wells drilled decreased by 1.2% in the region. The decline in sales in the Alberta region was due to the less drilling activity experienced in Q1 2014 and the decline in activity in late Q4 2014 due to customers utilizing and reducing their existing inventory in preparation of the expected drilling activity slowdown as a result of falling crude oil and natural gas prices. The Saskatchewan market experienced 5.8% decline in revenue for the year ended December 31, 2014, while the number of wells drilled for the year ended December 31, 2014 increased by 5.1% compared to the same 2013 period. The decrease in sales, for the twelve months ended December 31, 2014, was due to wet weather conditions experienced in the third quarter of 2014, and the decrease in activity in late Q4 2014 as customers were utilizing their existing inventory in response to the expected soft drilling activity levels as a result of low energy commodity pricing environment. British Columbia has seen an increase in sales of 9.0% for the year ended December 31, 2014. This increase is due to higher rig activities, including natural gas drilling, in 2014. The British Columbia region experienced growth of 24.8% in the number of wells drilled during the 2014 year compared to same period in 2013, which resulted in obtaining more work by our independent drilling fluid engineering customers in this area.

Summary of the number wells drilled:

Area	Rig Count YTD 2014	Rig Count YTD 2013	Change	Change in %
Alberta	6,452	6,533	(81)	(1.2%)
British Columbia	705	565	140	24.8%
Saskatchewan	3,536	3,364	172	5.1%
Western Canada[1]	10,693	10,462	231	2.2%

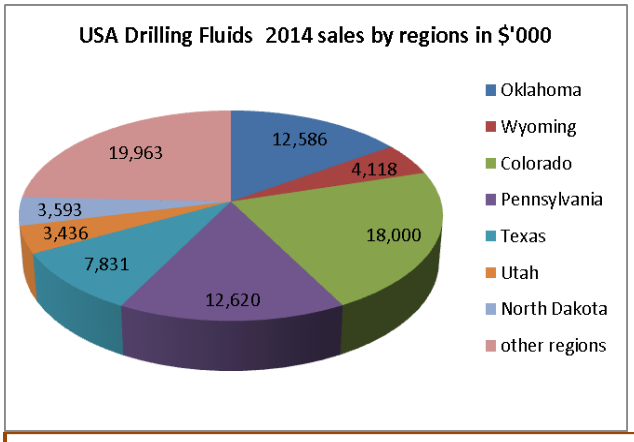
(1) Total Western Canada excludes Manitoba
(2) Source – PSAC

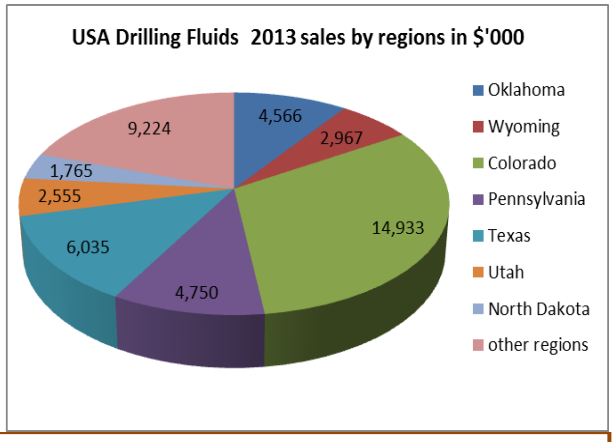
Summary of wells drilled in meters:

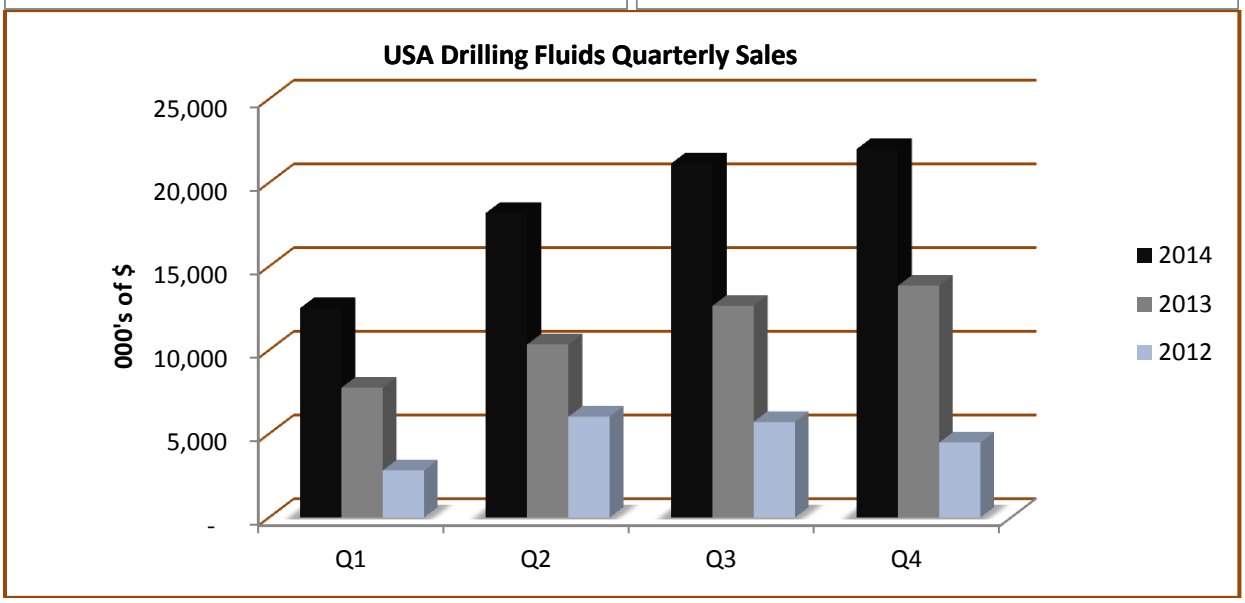
Area	Rig Count YTD 2014	Rig Count YTD 2013		Change in %
Alberta	15,268,776	13,713,297	1,555,479	11.3%
British Columbia	2,715,102	2,179,559	535,543	24.6%
Saskatchewan	6,034,587	5,535,489	499,098	9.0%
Western Canada[1]	24,018,465	21,428,345	2,590,120	12.1%

(1) Total Western Canada excludes Manitoba
(2) Source - PSAC

United States Drilling Fluids Distribution Division







Bri-Chem's United States drilling fluids distribution division generated sales of $73,845,061 for twelve months ended December 31, 2014, compared to revenues of $44,549,096 in the same comparable period of 2013, representing an increase of $29,295,965 or 65.8% year over year. The USA fluids distribution division has continued to see sales growth throughout 2014 as a result of an increased customer base, industry activity, range of product, and customer's business and geographic expansion throughout the major resource plays in the USA. The average number of operating rigs running during 2014 in the USA was 1,861, an increase of 5.7% year over year. The division has built solid infrastructure with personnel and inventory to service the expanding needs of our customers. Colorado, Pennsylvania, Oklahoma, Wyoming and Texas generated the majority of sales in the USA for the twelve months ended December 31, 2014.

North American Fluids Blending and Packaging Division

Canadian Fluids Blending and Packaging Division

For the year ended December 31 2014, sales were $20,762,919 compared to $18,383,427 in 2013 representing 12.9% increase year over year. This increase is due to increased industry activity and better weather conditions in 2014 and the division expanding its capacity and introducing new products and

receiving more blending and packaging orders from customers within Western Canada. In particular the regions of British Columbia and Saskatchewan continue to contribute to the majority of sales growth for the twelve months of 2014, as existing and new customers started using more blended products in these regions.

On December 1, 2014, Bri-Chem acquired 100% of the issued and outstanding shares of Solution Blend Service Ltd. ("Solution Blend"), an Alberta based liquid blending company for production and stimulation oilfield chemicals. Solution Blend, located in Calgary, AB, is leading specialty blending company for the stimulation and production chemical segment of the oilfield chemical industry. Solution Blend's business has built a strong market position with many long term customers and Bri-Chem entered into employment agreements with key members of management which is expected to provide for a seamless integration. The acquisition of Solution Blend expands Bri-Chem into the liquid stimulation and production oilfield blending chemical segment. Solution Blend generated sales of $441,278 since the date of acquisition in Q4 2014.

United States Fluids Blending and Packaging Division

On September 6, 2013, the Company acquired certain assets and business operations of Sun Coast Materials LLC., a California based packager and specialty cement blender to oil well contractors operating in southern and central California. The Sun Coast acquisition further expanded Bri-Chem's product offerings into the USA market and provides a solid growth platform to offer additional bulk blending opportunities for other regions that we currently service throughout the USA. Sales were $8,301,376 for the year ended December 31, 2014 compared to $2,308,449 for the same prior year period.

Gross margin

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

	For the year ended December 31					
	2014		2013		Change	
Gross Margin	$	% *	$	% *	$	%
Fluids Distribution - Canada	**$ 10,723,946**	**13.1%**	$ 12,339,118	14.6%	$(1,615,172)	(13.1%)
Fluids Distribution - USA	**13,998,481**	**19.0%**	9,809,217	22.0%	4,189,264	42.7%
Total Fluids Distribution	**24,722,427**	**15.9%**	22,148,335	17.1%	2,574,092	11.6%
Fluids Blending & Packaging - Canada**	**3,703,735**	**17.8%**	3,580,730	19.5%	123,005	3.4%
Fluids Blending & Packaging - USA	**3,323,716**	**40.0%**	914,676	39.6%	2,409,040	263.4%
Total Fluids Blending & Packaging	**7,027,451**	**24.2%**	4,495,406	21.7%	2,532,045	56.3%
Total	**$ 31,749,878**	**17.2%**	$ 26,643,741	17.8%	$ 5,106,137	19.2%

* As a percentage of divisiona; revenues

**2014 includes gross margin of $167,630 generated by Solution Blend since the acquisition date in Q4 2014.

Fluids Distribution and Blending & Packaging Divisions

The drilling fluids distribution division margins declined by 1.2% for the year ended December 31, 2014 compared to the same period in 2013. Margins on fluid sales vary based on product mix for different drilling programs. Canadian fluid distribution margins averaged 13.1% for the twelve months ended December 31, 2014, lower by 1.5% than the same comparable period of 2013. The decrease is due to the increased pricing pressure in the market challenged by the declined market prices for oil and gas, aggressive reduction of slow and obsolete inventory of $590,000 and a higher volume of lower margin commodity products being sold during 2014. The USA fluids distribution margins are traditionally higher than those of the Canadian operations, and were 19.0% for the year ended December 31, 2014; a decrease of 3.0% compared to the same period in 2013. The decrease is related to a larger volume of lower margin commodity products being sold

during 2014 such as barite, bentonite, and liquid invert products which typically yield lower margins. In addition the USA fluids distribution segment recognized an allowance of $100,000 for obsolete inventory in response to the severe decline in energy commodity prices experienced in Q4 2014.

Bri-Chem has dedicated facilities, located in Acheson, Camrose and Calgary, 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. December 31, 2014, the gross margin of Canadian fluids blending and packaging division average of 17.8% down 1.7% compared to the same prior year period. This decline in gross margin is directly attributable to CAD/USD foreign exchange fluctuation experienced in Q4 2014, as significant amount of products that were purchased from US suppliers were sold to corresponding customers in Canadian funds. Solution Blend, acquired on December 1 2014, contributed $167,630 to the Canadian fluids blending and packaging gross margin since the date of acquisition in Q4 2014. Sun Coast, the United States blending and packaging division, generated gross margins of 40.0% for the year ended December 31, 2014 which is consistent with the prior year and management's expectation.

Gross margins – outlook

For the first quarter of 2015 and beyond, we are anticipating gross margins on fluids sales to be under pressure due to lower crude oil and natural gas market prices resulting in reduce activity levels, reduction of inventory and an overall decline in fluid demand due to less rigs operating in North America. 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.

Operating expenses

Salaries and employee benefits

Salaries and employee benefits	For the year ended December 31 2014	2013	Change $	%
Salaries and benefits	**$ 11,429,170**	$ 9,949,248	$ 1,479,922	14.9%
% of sales	**6.2%**	6.6%		(6.7%)

Salaries and benefits have increased by $1,479,922 for the year ended December 31, 2014 compared to the prior year of 2013. Salaries and benefits as a percentage of sales for twelve months ended December 31, 2014 reduced to 6.2%, compared to 6.6% in the same 2013 period. Salaries for the year ended December 31, 2014 include $1,078,731 and $53,045 of wages and benefits related to the Sun Coast and Solution Blend acquisitions, respectively (2013: Sun Coast - $345,577, Solution Blend - $nil). Salaries and benefits during the year increased marginally with the hiring of additional staff for the USA fluids distribution division and the fluids blending and packaging division in Canada. In addition, sales commissions increased by $172,139 for the twelve month period ended December 31, 2014 as a result of sales growth in both these divisions. These increases were partially offset by the decline of $444,484 in share-based payments during the year ended December 31, 2014.

The Company employed 123 (50 Canada and 73 USA) employees at December 31, 2014 compared to 100 (46 Canada and 54 USA) at December 31, 2013. Several cost savings initiatives are being initiated for 2015, including the termination of approximately 25% of its overall staff, a companywide 5% wage rollback for all non-managerial staff employees and a 10% wage rollback for all directors, managerial, senior and executive

employees, and the suspension of various nonessential employee benefits. These cost cutting initiatives will be regularly reviewed throughout 2015 and will be re-evaluated based on existing business activity levels.

Selling, general and administration

	For the year ended December 31			
	2014		2013	
Selling, general and administration	$	%*	$	%*
Selling	**$ 1,044,019**	**0.6%**	$ 1,006,675	0.7%
Professional and consulting	**937,912**	**0.5%**	1,088,058	0.7%
General and administration	**1,740,788**	**0.9%**	1,076,779	0.7%
Rent, utilities and occupancy costs	**2,933,023**	**1.6%**	2,029,508	1.4%
Foreign exchange (gain) loss	**(2,414,934)**	**(1.3%)**	(341,283)	(0.2%)
Total	**$ 4,240,808**	**2.3%**	$ 4,859,737	3.2%

* As a percentage of consolidated revenues

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

Selling expenses were relatively consistent for the year ended December 31, 2014 compared to 2013. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses decreased by $150,146 during the twelve months ended December 31, 2014 compared to the same period in 2013. The decrease in professional and consulting expenses for the year ended December 31, 2014 includes a decrease of $123,139 in legal fees and a decrease of $45,268 in audit fee accruals. The decrease in legal fees relates to the reclassification of $300,000 of legal costs to the Discontinued Operations due to the sale of the steel pipe divisions in Q3 2014. These decreases for the year ended December 31, 2014 were partially offset by an increase of $18,261 in advisory fees. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses for the year ended December 31, 2014 increased by $664,009 compared to the prior year. This increase was due to higher safety costs of $161,868, increased office expenses of $247,950, increased insurance expense of $111,925, and higher bank charges by $23,757. The increase in safety costs relates to security expenses on the property the Company purchased for the USA fluids blending and packaging division in late 2013. The increase of insurance expense for the year ended December 31, 2014 was due to having higher inventory levels throughout 2014 in the USA fluids distribution division. All other expenses remained relatively consistent from the comparable prior year. General and administration expenses include bank charges, insurance, office, and safety expenses.

Warehouse rent, utilities and occupancy costs increased by $903,515 for the year ended December 31, 2014 compared to the prior year. Warehouse rent, utilities and occupancy cost for the twelve month period ended December 31, 2014 include $347,263 of costs related to the Sun Coast operations (2013: $97,364). The balance of the increase, during the year, relates to infrastructure costs including warehouse rent as a result of continued geographic expansion in the USA. During 2014, Bri-Chem had been operating 34 warehouses in total compared to 32 in 2013. In addition, utility expenses increased $108,119 for the year ended December 31, 2014 due to the overall increased operational activity in the USA in 2014. The costs in this category are comprised mainly of rent, utilities, and warehouse expenses for the Edmonton, Leduc, Camrose, Acheson and USA locations as well as liquid storage tank rentals.

During 2014, the Canadian dollar decreased its value in relation to the US dollar. This decrease in the Canadian dollar exchange rate caused the Company to have a favorable position on certain net advances denominated in USD, which resulted in having a foreign exchange gain of $2,414,934 for the year ended December 31, 2014.

Impairment Charges

As a result of the significant decline in commodity prices in the fourth quarter of 2014 and reduced capital budgets set by oil and gas producers, the Company recognized the goodwill impairment expense of $4,408,579 using the "value in use" approach with various assumptions. This goodwill impairment charge arose in the USA Fluids Blending and Packaging division, USA Fluids Distribution division and the Canadian Blending and Fluids Packaging division ("CGUs"). Based on management's estimates it was determined that the carrying values of these CGUs exceeded their fair values, and the negative difference between the estimated recoverable amounts of CGUs and their carrying values were greater than the goodwill values as of the test date. As a result, in addition to goodwill impairment loss, the Company recorded $4,159,342 impairment related to customer relationships, distribution agreement, supply agreement and non-compete agreements (2013: $nil).

Depreciation and amortization

Depreciation and amortization	For the year ended December 31 2014	2013	Change $	%
Intangible assets	**$ 1,259,653**	$ 870,637	$ 389,016	44.7%
Property and equipment	**907,837**	615,725	292,112	47.4%
Total	**$ 2,167,490**	$ 1,486,362	$ 681,128	45.8%

The depreciation of property and equipment increased during the year ended December 31, 2014 as a result of capital expenditures completed during 2014 and depreciation taken on certain assets, including the building purchased late 2013 for the USA blending and packaging division. Amortization of intangible assets has increased due to acquired intangible assets from the Sun Coast acquisition that occurred in the third quarter of 2013.

Interest

Interest	For the year ended Decmber 31 2014	2013	Change $	%
Interest on short-term operating debt	**$ 1,980,462**	$ 1,327,804	$ 652,658	49.2%
Interest on long-term debt	**1,257,952**	1,280,336	(22,384)	(1.75%)
Interest on obligations under finance lease	**3,544**	3,362	182	5.4%
Total interest expense	**$ 3,241,958**	$ 2,611,502	$ 630,456	24.1%
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	**$ 480,091**	$ 280,735	$ 199,356	71.0%
Cash interest expense[1]	**$ 2,761,867**	$ 2,330,767	$ 431,100	18.5%

(1) See page 45 for a further explanation of this non-IFRS measure.

Interest on short-term operating debt increased by $652,658 for the year ended December 31, 2014. The short term interest expense for the year of 2014 was higher than in the comparable year of 2013 as the Company maintained a higher credit facility balance over the twelve months ended December 31, 2014 due to the increased working capital needs on the operations in both Canada and the USA.

Interest on long-term debt for the year ended December 31, 2014 was lower as the Company started making principal repayments on the subordinated debt in Q1 2014. The Company repaid $1,200,000 during 2014.

Interest on obligation under finance lease for the twelve months ended December 31, 2014 were relatively consistent compared to the same period in 2013.

Income taxes

The provision for income taxes for the year ended December 31, 2014 is a net current tax expense of $2,629,501 compared to an expense of $2,747,693 in prior year. The decrease in current tax expense of $118,192 for the year ended December 31, 2014 is a result of the increased amortization and depreciation and interest expenses for current income tax purposes. The Company had a deferred tax recovery of $1,937,656 during the year ended December 31, 2014, which represent the increase of $1,453,987 compared to 2013. The increase in deferred tax recovery is due to impairment charges on goodwill and other intangible assets recognized in Q4 2014. The Company's effective income tax rate is 38.4% for the twelve months ended December 31, 2014 (2013 – 34.7%). The increase of effective income tax rate in 2014 by 3.7% is primarily due to the increased earnings in the USA subsidiaries in 2014.

Net earnings per share from continuing operations

Net earnings and EDITDA	For the year ended December 31 2014	2013	Change $	%
Net earnings	**$ 1,110,986**	$ 4,265,441	$ (3,154,455)	-74.0%
% of sales	**0.6%**	2.8%		
Adjusted net earnings (1)	**$ 6,392,330**	$ 4,265,441	$ 2,126,889	49.9%
% of sales	**3.5%**	2.8%		
EBITDA (2)	**$ 16,832,102**	$ 13,031,442	$ 3,800,660	29.2%
% of sales	**9.1%**	8.7%		

(1) Adjusted net earnings excludes the after tax effect of impairment on goodwill and other intangible assets (see page 45 for a further explanation of this non-IFRS measure).
(2) Represents adjusted earnings before interest, taxes, depreciation, amortization, share-based payments and impairment charges (see page 45 for a further explanation of this non-IFRS measure)

The Company had net earnings for the year ended December 31, 2014 of $1,110,986 compared to net earnings of $4,265,441 in the prior year. The 2014 net earnings as a percentage of revenues for the year was 0.6% compared to 2.8% from 2013. The net earnings decreased for the year ended December 31, 2014 due to impairment charges on goodwill and other intangible assets recognized in Q4 2014. The adjusted net earnings, net of after tax impairment charge of goodwill and other intangible assets, for the year ended December 31, 2014 was $6,392,330 or 3.5% as a percentage of revenues, which represents an increase of $2,126,889 compared to 2013. This increase is due to higher of EBITDA of $3,800,660 and less share based payment expenses of $444,484 for the year ended December 31, 2014. These positive variances were partially offset by the increased amortization and depreciation expenses of $681,128 and interest expenses of $630,456.

EBITDA was $16,832,102 for the year ended December 31, 2014 compared to $13,031,442 in the same comparable prior year period; an increase of $3,800,660 year over year. EBITDA, excluding the foreign exchange gain, was $14,417,168 for the year ended December 31, 2014, which is an increase of $1,727,009 or 13.6% for the same period in 2013.

Basic and diluted earnings per share for the year ended December 31, 2014 were $0.05. Basic and diluted adjusted earnings per share for the twelve months ended December 31, 2014 were $0.27. Both the earnings per share and adjusted earnings per share were based on the weighted average number of shares outstanding during the year ended December 31, 2014. The basic and diluted weighted average numbers of shares

outstanding for the year ended December 31, 2014 were 24,013,533 and 24,026,765 (December 31, 2013 – 17,613,227 and 17,635,284) respectively. The increase of 6.4 million shares issued was as a result of an equity financing completed on December 20, 2013.

Discontinued operations

As a result of a strategic review, announced late 2013, and the follow-up Q1 2014 announcement where the Company disclosed its intention to sell its steel pipe divisional assets and ongoing steel pipe business operations, the Company, effective July 15, 2014, completed the sale of its Steel Pipe Manufacturing division assets and Steel Pipe Distribution division assets and all ongoing business operations to a USA based steel company for total proceeds of $17,358,762. The net proceeds from the sale were used to reduce amounts outstanding under the Company's secured ABL credit facility.

The Company will not retain any steel pipe assets or conduct any further steel pipe business operations going forward. In addition, the sale of the Steel Pipe Manufacturing division and Steel Pipe Distribution division reduced the Company's exposure to exchange rate risks and is no longer subject to the government trade tariffs risk related to the imported steel pipe products. The Company has reclassified the associated assets and liabilities of these businesses to assets and liabilities held for sale and the operations are reflected as Discontinued Operations for all periods presented. During the year ended December 31, 2014 the Company recorded impairment and re-measurement expenses of $15,434,501 to reflect the net assets at their estimated selling prices, less costs to sell, which is recorded in expenses and loss recognized on the re-measurement of the disposal group. Loss from discontinued operations was $12,412,413 for the year ended December 31, 2014 (2013: $4,666,234).

The following table summarizes the loss from discontinued operations as of the dates indicated:

	(for the year ended)	
	December 31 2014	December 31 2013
Sales	**$ 15,225,573**	$ 29,907,255
Cost of sales	**12,871,498**	28,694,407
Expenses	**14,850,397**	7,678,150
Loss before tax of discontinued operations	**(12,496,322)**	(6,465,302)
Income tax recovery	**3,336,094**	1,799,068
After tax loss of discontinued operations before re-measurement	**(9,160,228)**	(4,666,234)
Pre tax loss recognized on the re-measurement of disposal group	**(4,336,245)**	—
Income tax recovery	**1,084,060**	—
After tax loss recognized on the re-measurement of assets of disposal group	**(3,252,185)**	—
Net loss for the period from discontinued operations	**$ (12,412,413)**	$ (4,666,234)

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2014 Q4	2014 Q3	2014 Q2	2013 Q1	Total TTM
Sales	$ 50,291	$ 53,283	$ 35,186	$ 45,947	$ 184,707
Gross margin ($)	8,564	9,663	6,055	7,468	31,750
Gross margin (%)	17.0%	18.1%	17.2%	16.3%	17.2%
EBITDA (1)	5,189	6,588	1,027	4,028	16,832
Net (loss) earnings from continuing operations (2) (3) (4)	$ (3,370)	$ 3,357	$ (597)	$ 1,721	1,111
Net earnings (loss) from discontinued operations (2) (3)	225	(368)	(2,580)	(9,689)	(12,412)
Basic (loss) earnings per share from continuing operations	$ (0.14)	$ 0.14	$ (0.02)	$ 0.07	$ 0.05
Diluted (loss) earnings per share from continuing operations	$ (0.14)	$ 0.14	$ (0.02)	$ 0.07	$ 0.05
Basic earnings (loss) per share from discontinued operations	$ 0.01	$ (0.02)	$ (0.11)	$ (0.28)	$ (0.40)
Diluted earnings (loss) per share from discontinued operations	$ 0.01	$ (0.02)	$ (0.11)	$ (0.28)	$ (0.40)

(in thousands of Cdn $)	2013 Q4	2013 Q3	2013 Q2	2012 Q1	Total TTM
Sales	$ 44,899	$ 43,324	$ 20,291	$ 41,526	$ 150,040
Gross margin ($)	7,642	8,075	3,820	7,107	26,644
Gross margin (%)	17.0%	18.6%	18.8%	17.1%	17.8%
EBITDA (1)	3,843	4,286	1,027	3,875	13,031
Net earnings (loss) from continuing operations (2)	$ 796	$ 1,940	$ (267)	$ 1,796	4,265
Net (loss) earnings from discontinued operations (2)	(3,065)	(862)	(777)	38	(4,666)
Basic earnings (loss) per share from continuing operations	$ 0.04	$ 0.11	$ (0.01)	$ 0.10	$ 0.24
Diluted earnings (loss) per share from continuing operations	$ 0.04	$ 0.11	$ (0.01)	$ 0.10	$ 0.24
Basic loss per share from discontinued operations	$ (0.16)	$ (0.04)	$ (0.04)	$ -	$ (0.24)
Diluted loss per share from discontinued operations	$ (0.16)	$ (0.04)	$ (0.04)	$ -	$ (0.24)

(1) EBITDA is non-IFRS measures which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. (See page 45 for a further explanation of these non-IFRS measures).
(2) In Q3 2014, the Company completed the sale of its Steel Pipe Manufacturing division assets and Steel Pipe Distribution division assets and all ongoing business operations. The Company reclassified the associated assets and liabilities of these businesses to assets and liabilities held for sale and the operations are reflected as discontinued operations for all periods presented. The Company recognized the impairment expenses of $15,434,501 for the year ended December 31, 2014 to reflect net assets of these steel pipe divisions at their estimated fair value, less costs to sell.
(3) In Q4, 2013 the Company recognized impairment charges related to the steel pipe distribution division inventory, bad debts and other items in the amount of $3,194,759, which is presented within discontinued operations.
(4) In Q4 2014 the Company recognized impairment charges on goodwill and other intangible assets in the amount of $8,567,921

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 during Q2 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.

FOURTH QUARTER RESULTS AND DISCUSSIONS

The following selected three-month period consolidated financial information has been derived from and should be read in conjunction with the Company's Financial Statements for Q4 and the year ended December 31, 2014.

Consolidated statements of operations	For the three months ended December 31		Change	
	2014	2013 [4]	$	%
Sales	**$ 50,291,385**	$ 44,899,246	$ 5,392,139	12.0%
Gross margin	**8,564,349**	7,641,996	922,353	12.1%
	17.0%	17.0%		
Operating expenses [1]	**3,375,201**	3,799,313	(424,112)	(11.2%)
EBITDA [2]	**5,189,148**	3,842,683	1,346,465	35.0%
Depreciation and amortization	**582,275**	515,505	66,770	13.0%
Interest [5]	**933,977**	807,622	126,355	15.6%
Share-based payments	**86,196**	242,227	(156,031)	(64.4%)
Impairment charges [6]	**8,571,553**	1,097,378	7,474,175	100.0%
(Loss) earnings from continuing operations before income taxes	**(4,984,853)**	1,179,951	(6,164,804)	(522.5%)
Income tax expense - current	**459,838**	1,002,280	(542,442)	(54.1%)
Income tax recovery - deferred	**(2,075,110)**	(617,870)	(1,457,240)	235.8%
(Loss) earnings from continuing operations	**(3,369,581)**	795,541	(4,165,122)	(523.6%)
Earnings (loss) from discontinued operations	**$ 224,841**	$ (3,065,207)	$ 3,290,048	(107.3%)
Net loss	**$ (3,144,740)**	$ (2,269,666)	$ (875,074)	38.6%
Net (loss) earnings from continuing operations attributable to				
Shareholders of the Company	**$ (3,369,581)**	$ 795,541	$ (4,165,122)	(523.6%)
NCI [3]	**$ -**	$ -	$ -	0.0%
Net earnings (loss) from discontinued operations attributable to				
Shareholders of the Company	**$ 236,912**	$ (2,900,308)	$ 3,137,220	(108.2%)
Net loss attributable to NCI [3]	**$ (12,071)**	$ (164,899)	$ 152,828	(92.7%)
(Loss) earnings per share from continuing and discontinued operations				
Basic from continuing operations	**$ (0.14)**	$ 0.04	$ (0.18)	(419.4%)
Basic from discontinued operations	**$ 0.01**	$ (0.16)	$ 0.17	(106.3%)
Diluted from continuing operations	**$ (0.14)**	$ 0.04	$ (0.18)	(450.0%)
Diluted from discontinued operations	**$ 0.01**	$ (0.16)	$ 0.17	(106.3%)
Adjusted basic from continuing operatioins [7]	**$ 0.08**	$ 0.04	$ 0.04	82.5%
Adjusted diluted from continuing operatioins [7]	**$ 0.08**	$ 0.04	$ 0.04	82.5%
EBITDA per share from continuing operations				
Basic	**$ 0.22**	$ 0.21	$ 0.00	2%
Diluted	**$ 0.22**	$ 0.21	$ (0.01)	(2.3%)
Weighted average shares outstanding				
Basic	**24,007,814**	18,149,957		
Diluted	**24,008,023**	18,169,986		

(1) See page 45 for a further explanation of this non-IFRS measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, impairment charges and share-based payments (See page 45 for a further explanation of this non-IFRS measure).
(3) NCI represents the 30% non-controlling interest's ("NCI") portion of the losses of 1564316 Alberta Ltd. for the year ended December 31, 2014. On December 31, 2014, the Company redeemed 30% interests in the subsidiary owned by the minority shareholder.
(4) The Company reclassified amounts in the Statement of Operations relating to discontinued operations to categorize results of discontinued operations consistently.
(5) Interest expense for the year ended December 31, 2014 includes amortization of capitalized deferred financing cost of $160,800 (December 31, 2013: $65,059).
(6) Impairment charges are related to bad debts, goodwill and other intangible assets (December 31, 2013 – bad debts)
(7) Excludes after tax effect of impairment of goodwill and other intangible assets (See page 45 for a further explanation of this non-IFRS measure).

Sales

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

	For the three months ended December 31					
	2014		2013		Change	
Sales by Segment	$	%	$	%	$	%
Fluids Distribution - Canada	**$ 20,461,847**	**40.7%**	$ 24,267,169	54.0%	$ (3,805,322)	(15.7%)
Fluids Distribution - USA	**22,003,867**	**43.8%**	13,839,280	30.8%	8,164,587	59.0%
Total Fluids Distribution	**42,465,714**	**84.4%**	38,106,449	84.9%	4,359,265	11.4%
Fluids Blending & Packaging - Canada (1)	**6,008,881**	**11.9%**	4,970,079	11.1%	1,038,802	20.9%
Fluids Blending & Packaging - USA (2)	**1,816,790**	**3.6%**	1,822,718	4.1%	(5,928)	(0.33%)
Total Fluids Blending & Packaging	**7,825,671**	**15.6%**	6,792,797	15.1%	1,032,874	15.2%
Total	**$ 50,291,385**	**100.0%**	$ 44,899,246	100.0%	$ 5,392,139	12.0%

(1) The fluids blending and packaging division sells products to the drilling fluids distribution division, which in turn sells it to the end user. In Q4 2014 the three month sales to the drilling fluids distribution division were an additional $2,877,717 (2013 - $2,608,227). This revenue has been eliminated upon consolidation. Includes sales of $441,278 resulting from the acquisition of Solution Blend effective December 1, 2014.
(2) Includes 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 $42,465,714 for the three months ended December 31, 2014 compared to sales of $38,106,449 in 2013, representing an increase of 11.4% quarter over quarter. The Canadian fluids distribution divisions' sales declined by 15.7% for the quarter ended December 31, 2014, while the USA fluids distribution division experienced sales growth of 59.0% over the same comparable period in 2013.

Canadian Drilling Fluids Distribution Division

Bri-Chem's Canadian drilling fluids distribution division generated revenues of $20,461,847 for the three months ended December 31, 2014, compared to sales of $24,267,169 over the same comparable period in 2013. The 15.7% decrease in sales during the fourth quarter was mainly due to customers utilizing and reducing their existing inventory in preparation of the expected drilling activity slowdown as a result of falling crude oil and natural gas prices. The number of wells drilled in Q4 2014 in Western Canada was 2,818, compared to the 2,701 wells drilled in Q4 2013, representing an increase of 4.3% quarter over quarter. In Canada, drilling rig utilization averaged 47.4% for the fourth quarter in 2014, an increase of 1.7% quarter over quarter.

The Alberta market sales reached $16,817,875 for the three month period ended December 31 2014, a decrease of 19.3% compared to the same period in 2013, while the number of wells drilled in this region increased in Q4 2014 by 9.0% compared to the same prior year quarter. The Saskatchewan region experienced a decrease in sales of 13.8% for the three months ended December 31, 2014, while the number of wells drilled in the Q4 2014 was less by 3.3%. The decline in sales for the Q4 2014 in both Alberta and Saskatchewan was mainly due to customers utilizing and reducing their existing inventory in preparation of the expected drilling activity slowdown as a result of falling crude oil and natural gas prices. British Columbia sales experienced an increase of 20.8% for the fourth quarter in 2014 compared to same period in 2013, generating $2,376,439 in sales from this region during the three months ended December 31, 2014 with a 6.5% increase in drilling activity in the region.

United States Drilling Fluids Distribution Division

The Company's USA drilling fluids distribution division generated revenues of $22,003,867 for the three months ended December 31, 2014 compared to $13,839,280 in 2013, representing a 59.0% increase. In the USA, the average number of active rigs running during the Q4 2014 was 1,911, an increase of 8.8% quarter over quarter. The increase in sales was due to continued market penetration, impact of geographic expansion, and selling products into the major shale plays within the oil and gas sector. In particular, the regions of Colorado, Pennsylvania, Oklahoma, Texas, North Dakota and Wyoming represented approximately 72%, of sales in the USA for the fourth quarter.

North American Fluids Blending and Packaging Division

Canadian Fluids Blending and Packaging Division

For the three months ended December 31, 2014, sales were $6,008,881 as compared to $4,970,079 representing a 20.9% increase quarter over quarter. The increase is the result of higher demand on bagged commodities and cementing additives demonstrated by customer expansion into regions within Western Canada, in particular British Columbia and Saskatchewan. In addition, Solution Blend generated $441,278 of new sales for the Canadian Blending and Packaging division since the closing of the acquisition on December 1, 2014.

United States Fluids Blending and Packaging Division

On September 6, 2013, the Company acquired certain assets and business operations of Sun Coast Materials LLC., a California based packager and specialty cement blender to oil well contractors operating in southern and central California. Sun Coast is expected to further expand Bri-Chem's product offerings into the USA market and provide a solid growth platform to offer additional bulk blending opportunities for other regions that we currently service throughout the USA. Sales were $1,816,790 for the three months ended December 31, 2014 compared to $1,822,718 for the same prior year period.

Gross margin

	For the three months ended December 31					
	2014		2013		Change	
Gross Margin	$	% *	$	% *	$	%
Fluids Distribution - Canada	**$ 2,553,738**	**12.5%**	$ 2,956,450	12.2%	$ (402,712)	(13.6%)
Fluids Distribution - USA	**4,185,556**	**19.0%**	2,847,661	20.6%	1,337,895	47.0%
Total Fluids Distribution	**6,739,294**	**15.9%**	5,804,111	15.2%	935,183	16.1%
Fluids Blending & Packaging - Canada**	**1,125,388**	**18.7%**	1,083,753	21.8%	41,635	3.8%
Fluids Blending & Packaging - USA	**699,667**	**38.5%**	754,132	41.4%	(54,465)	(7.22%)
Total Fluids Blending & Packaging	**1,825,055**	**23.3%**	1,837,885	27.1%	(12,830)	(0.70%)
Total	**$ 8,564,349**	**17.0%**	$ 7,641,996	17.0%	$ 922,353	12.1%

* As a percentage of divisiona; revenues

* *2014 includes gross margin of $167,630 generated by Solution Blend since the acquisition date in Q4 2014.

Fluids Distribution and Blending & Packaging Divisions

The drilling fluids distribution division margins were consistent for the three month period ended December 31, 2014 compared to the same period in 2013. Margins on fluid sales vary based on product mix and drilling formations. Canadian fluids distribution division margins averaged 12.5% for the three months ended December 31, 2014, and stayed consistent compared to the same prior year period.

The USA fluids distribution division gross margins were 19.0% for the fourth quarter of 2014. This is lower than gross margins in the same comparable period of 2013 by 1.6%. The decrease is related to more commodity products, such as barite, bentonite, and liquid invert products being sold during the fourth quarter of 2014, which typically yield lower margins. In addition the USA fluids distribution segment recognized an allowance of $100,000 for obsolete inventory in response to the substantial decline in energy commodity prices experienced in Q4 2014.

Canadian fluids blending and packaging division margins were 18.7% for the three months ended December 31, 2014, compared to 21.8% for the comparable prior year period. This decline in gross margin is directly attributable to CAD/USD foreign exchange fluctuation experienced in Q4 2014, as significant amounts of product that were purchased from US suppliers were sold to corresponding customers in Canadian funds. Sun Coast, the United States blending and packaging division generated gross margins of 38.5% for the Q4 2014 which represents a decrease of 2.9%. The decrease of the gross margin in Q4 2014 relates to the increase of labor costs due to the hiring of additional personnel in 2014.

Wages and Salaries

Salaries and employee benefits	For the three months ended December 31 2014	2013	Change $	%
Salaries and benefits	**$ 2,720,561**	$ 2,836,491	$ (115,930)	-4.1%
% of sales	**5.4%**	6.3%		(14.4%)

Wages and salaries decreased by $115,930 for the fourth quarter of 2014 compared to same period in 2013. The decrease in salaries and employee benefits for the three months ended December 31, 2014 is attributable to the decline in share based payments of $156,031. This decrease was partially offset by the increase of payroll costs due to the hiring of additional staff for the USA drilling fluids distribution division and the Canadian Fluids Blending and Packaging division to support sales growth in these business segments demonstrated in 2014.

Operating expenses

Selling, general and administration	For the three months ended December 31 2014 $	%*	2013 $	%*
Selling	**$ 292,367**	**0.6%**	$ 324,761	0.7%
Professional and consulting	**189,143**	**0.4%**	344,699	0.8%
General and administration	**480,048**	**1.0%**	324,235	0.7%
Rent, utilities and occupancy costs	**814,341**	**1.6%**	607,080	1.4%
Foreign exchange (gain) loss	**(1,035,063)**	**(2.1%)**	(395,726)	(0.9%)
Total	**$ 740,836**	**1.5%**	$ 1,205,049	2.7%

* As a percentage of consolidated revenues

Operating expenses for the three months ended December 31, 2014 decreased by $464,213 compared to the same period in 2013. Selling costs were relatively consistent while general and administration costs increased by $155,813 over the comparable prior period. This increase was due to higher safety costs of $35,878, increased office expenses of $85,890, and increased insurance expense of $26,692. The increase in safety costs relates to security expenses on the property the Company purchased for the USA fluids blending and packaging division in late 2013. The increase of insurance expense for the quarter ended December 31, 2014 was due to having a higher level of inventory throughout 2014 in the USA drilling fluids distribution division.

Professional fees decreased by $155,556 over the comparable prior year period. The decrease in professional and consulting expenses for the year ended December 31, 2014 includes a decrease of $179,776 in legal fees and a decrease of $96,844 in audit fees accruals. These decreases are attributable to the ABL audit fees and legal fees related to the acquisition that was completed in the third quarter of 2013. These decrease for the three months ended December 30, 2014 were partially offset by an increase of $121,062 in advisory fees which is related to the acquisition of Solution Blend in December 2014.

Warehouse rent, utilities and occupancy costs increased by $207,261 for the quarter ended December 31, 2014 compared to the same prior year quarter. This increase during Q4 2014 relates to infrastructure costs including warehouse rent as a result of continued geographic expansion in the USA. In addition, the utility expense increase of $20,734 and repair costs of $168,362 for the three months ended December 31, 2014 relates to the overall increased operational activity in the USA in 2014.

The Company recorded a foreign exchange gain of $1,035,063 for the fourth quarter of 2014 compared to a foreign exchange gain of $395,726 in the fourth quarter of 2013. This was largely a result of foreign exchange gains realized due to the difference in the Canadian and US dollar during the period.

Impairment Charges

As a result of the significant decline in commodity prices in the fourth quarter of 2014 and reduced capital budgets set by oil and gas producers, the Company recognized the goodwill impairment expense of $4,408,579 using the "value in use" approach with various assumptions. This goodwill impairment charge arose in the USA Fluids Blending and Packaging division, USA Fluids Distribution division and the Canadian Blending and Fluids Packaging division ("CGUs"). Based on management's estimates it was determined that the carrying values of these CGUs exceeded their fair values, and the negative difference between the estimated recoverable amounts of CGUs and their carrying values were greater than the goodwill values as of the test date. As a result, in addition to goodwill impairment loss, the Company recorded $4,159,342 impairment related to customer relationships, distribution agreement, supply agreement and non-compete agreements (2013: $nil).

Depreciation and amortization

Depreciation and amortization	For the three months ended December 31 2014	2013	Change $	%
Intangible assets	**$ 320,754**	$ 296,314	$ 24,440	8.2%
Property and equipment	**261,521**	219,191	42,330	19.3%
Total	**$ 582,275**	$ 515,505	$ 66,770	13.0%

Amortization of intangible assets for the three month period ended December 31, 2014 was consistent with the same comparable prior year period. Depreciation of property and equipment for the fourth quarter of 2014 increased by $42,330 compared to the same 2013 period due to acquisition more capital assets for the USA blending and packaging division.

Interest

Interest	For the three months ended Decmber 31 2014	2013	Change $	%
Interest on short-term operating debt	**$ 618,823**	$ 493,055	$ 125,768	25.5%
Interest on long-term debt	**314,199**	313,851	348	0.1%
Interest on obligations under finance lease	**955**	716	239	33.4%
Total interest expense	**$ 933,977**	$ 807,622	$ 126,355	15.6%
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	**$ 160,800**	$ 65,059	$ 95,741	147.2%
Cash interest expense[1]	**$ 773,177**	$ 742,563	$ 30,614	4.1%

(1) See page 45 for a further explanation of this non-IFRS measure.

Interest on short-term operating debt increased by $125,768 for the three months ended December 31, 2014. The short term interest expense for Q4 2014 was higher than in the comparable Q4 2013 as the Company maintained a higher credit facility balance over the quarter ended December 31, 2014 due to the increased working capital needs on the operations in both Canada and the USA.

Interest on long-term debt for the three months ended December 31, 2014 was consistent compared to Q4 2013. The Company made quarterly principal installment payments of $300,000 pursuant to the terms of the subordinate debt agreement with Fulcrum Capital Partners Inc. ("Fulcrum").

Interest on obligation under finance lease for the three months ended December 31, 2014 were relatively consistent compared to the same period in 2013.

Net (loss) earnings and (loss) earnings per share from continuing operations

Net (loss) earnings and EDITDA	For the three months ended December 31 2014	2013	Change $	%
Net (loss) earnings	**$ (3,369,581)**	$ 795,541	$ (4,165,122)	(523.6%)
% of sales	**-6.7%**	1.8%		
Adjusted net earnings [1]	**$ 1,911,763**	$ 795,541	$ 1,116,222	140%
% of sales	**1.0%**	0.5%		
EBITDA [2]	**$ 5,189,148**	$ 3,842,683	$ 1,346,465	35.0%
% of sales	**10.3%**	8.6%		

(1) Adjusted net earnings excludes the after tax effect of impairment on goodwill and other intangible assets (see page 45 for a further explanation of this non-IFRS measure).
(2) Represents adjusted earnings before interest, taxes, depreciation, amortization, share-based payments and impairment charges (see page 45 for a further explanation of this non-IFRS measure)

The Company had net losses for the three months ended December 31, 2014 of $3,369,581 compared to net earnings of $795,541 in the same period in 2013. The net losses as a percentage of revenues for the Q4 2014 was 6.7% compared to net earnings as a percentage of revenue of 1.8% from Q4 2013. The net losses for the three months ended December 31, 2014 are due to impairment charges on goodwill and other intangible assets recognized in December 2014. The adjusted net earnings, net of after tax impairment charge of goodwill and other intangible assets, for the three months ended December 31, 2014 was $1,911,763 or 1.0% as a percentage of revenues, which represents an increase of $1,116,222 compared to the same period in 2013. This increase is due to higher of EBITDA of $1,346,465 and less share based payment expenses of

$156,031 for the three month period ended December 31, 2014. These positive variances were partially offset by the increased amortization and depreciation expenses of $66,770 and interest expenses of $126,355. EBITDA was $5,189,148 for the three months ended December 31, 2014 compared to $3,842,683 in the same comparable prior year period; an increase of $1,346,465 quarter over quarter. EBITDA, excluding the foreign exchange gain, was $4,154,085 for the quarter ended December 31, 2014, which is an increase of $707,128 or 20.5% for the same period in 2013.

Basic and diluted losses per share for the three months ended December 31, 2014 were $0.14. Basic and diluted adjusted earnings per share for the three months ended December 31, 2014 were $0.08. Both the losses per share and adjusted earnings per share were based on the weighted average number of shares outstanding during the quarter ended December 31, 2014. The basic and diluted weighted average numbers of shares outstanding for the quarter ended December 31, 2014 were 24,0007,814 and 24,008,023 (December 31, 2013 – 18,149,957 and 18,169,986) respectively. The increase of 6.6 million shares issued was as a result of an equity financing completed on December 20, 2013.

FINANCIAL CONDITION & LIQUIDITY – CONTINUING OPERATIONS

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

The Company's primary liquidity and capital resource needs are to fund ongoing operations, capital expenditures, growth opportunities and potential future acquisitions. In addition, the Company must service its debt, including interest payments and finance working capital needs. The Company relies on its cash flow from operations, debt and equity financings and borrowings under the Company's ABL Facility for liquidity.

The Company's operating cash flow has historically been affected by the overall profitability of sales within the Company's segments, the Company's ability to invoice and collect from customers in a timely manner and the Company's ability to efficiently manage costs. The Company's cash flow from operations has historically been sufficient to meet the Company's working capital, capital expenditure and debt servicing requirements. As at December 31, 2014, the Company has liquidity of approximately $21,495,515 under its existing ABL Facility based on the Company's marginable asset base which is sufficient to meet its short term obligations.

As at December 31, 2014 the Company had positive working capital of $29,448,685 compared to $17,863,047 at December 31, 2013. The Company's current ratio (defined as current assets divided by current liabilities) was 1.39 to 1 as at December 31, 2014, compared to 1.23 to 1 as at December 31, 2013.

The following table summarizes the Company's sources and uses of funds for the year ended December 31, 2014 and 2013:

Summary of Consolidated Statements of Cash Flows Year ended		December 31 2014		December 31 2013
Continued operations				
Cash provided by operating activities	**$**	**4,536,137**	$	3,284,056
Cash (used in) provided by financing activities		**5,352,752**		4,555,308
Cash used in investing activities		**(10,264,930)**		(8,675,857)
Net cash provided by discontinued operations		**376,041**		836,493
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of the year		**-**		-
Cash and cash equivalents, end of the year	**$**	**-**	$	-

Operating activities

Cash provided by operating activities for the year ended December 31, 2014 was $4,536,137 compared to cash provided of $3,284,056 for the prior year 2013. The increase in Company's cash flow provided by operating activities mainly relates to the increased accounts receivable collection of $6.4 million for the year ended December 31, 2014. This increase in accounts receivable collection was partially offset by increase of $5.2 million in payment of accounts payable during 2014. 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.

Financing activities

Cash provided by financing activities was $5,352,752 for the year ended December 31, 2014, compared to cash provided of $4,555,308 in the comparable 2013 year. The cash provided by financing activities in 2014 relates to advances on the ABL Facility of $10.1 million. The increase in advances on the operating line was due to the increased sales in the USA drilling fluids distribution division and the Canadian blending and packaging divisions throughout 2014. This resulted in higher purchasing activity during that period, as more borrowing was required to pay vendors ahead of the collection of receivables on increased sales. Bri-Chem also used $4,650,683 of advances on its ABL Facility to finance the acquisition of Solution Blend, which was closed on December 1, 2014, and $215,238 to repurchase common shares under its normal course issuer bid. In addition, the Company made four quarterly installments of $300,000 each, under the terms of Fulcrum debt, and fully repaid the promissory notes payable of $260,312 in Q1 2014 and $261,460 in Q3 2014, which were related to the acquisition of General Supply Company and Sun Coast.

Investing activities

Cash used in investing activities amounted to $10,264,930 for the year ended December 31, 2014 compared to $8,675,857 in 2013. The increase is the result of cash used to finance the acquisition of Solution Blend completed on December 1, 2014, and adding more capital assets related to the USA fluids divisions in order to support the business growth. Forecasted capital expenditures for 2015 are approximately $857,000 and will be funded through existing operating facilities and finance leases where possible for specific equipment.

Credit Facilities

Effective August 12, 2011, the Company entered into a secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. and HSBC Bank Canada. The ABL Facility is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable. On November 14, 2013 the Company amended the terms of the ABL Facility to increase the borrowing base up to a maximum of $90,000,000, reducing interest rates and extending the maturity of the facility to August 12, 2016. At December 31, 2014 the ABL Facility bears interest either at prime rate (2013 - prime rate) or bankers' acceptance rate plus 1.50% (2013 -bankers' acceptance rate plus 1.50%) or LIBOR plus 1.50% (2013 -LIBOR plus 1.50%), a collateral management fee of $1,500 per month (2013 -$1,500 per month) and a standby fee of 0.25% (2013 -0.25%) on unused amounts of the ABL Facility.

As at December 31, 2014, the Company had drawn $51,873,895 net of unamortized transaction costs of $119,516, on its available credit facilities of $90,000,000, as compared to $53,495,254 at December 31, 2013. The Company is required to comply with two financial covenants under its ABL Facility being a minimum fixed charge coverage ratio and maximum annual eligible capital expenditures. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness.

The 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 expenditures, 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.

Effective November 30, 2012, the Company secured a subordinated debt facility with Fulrcum. The initial term of the sub debt facility is for five years and is secured by a second charge general security agreement coving all present and after acquired property and postponement of claim from related parties. The sub debt facility bears interest at 11.50%, with repayments of interest only for the first fifteen months of the agreement, then quarterly principal repayments of $300,000 plus interest. Total transaction costs relating to the subordinate debt facility amounted to $312,786.

The subordinated debt facility contains financial covenants that are consistent with the ABL Facility, in addition the Company must maintain a funded debt to EBITDA ratio 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. As at December 31, 2014, the Company was in compliance with its covenants.

Due to current economic conditions and prices, compliance of financial covenants is highly dependent on realized oil pricing in 2015. The Company is currently in compliance with all financial covenants, however, sustained low commodity prices could bring the Company close to the threshold of the earnings based covenant under the Company's loan facilities before the end of 2015. The Company is proactive in managing debt and expects to renegotiate the debt terms and related covenant requirements with the credit facility lenders to ensure continue compliance with revised covenants.

	December 31, 2014		December 31, 2013	
	As calculated	**Minimum required**	As calculated	Minimum required
		To exceed		To exceed
Fixed charge coverage ratio	**2.44**	1.10	1.16	1.10
		Not to exceed		Not to exceed
Eligible capital expenditures	**$ 2,585,291**	$ 5,806,980	$ 3,277,181	$ 4,262,700
		Not to exceed		Not to exceed
Funded term debt to EBITDA	**0.52**	1.5:1	0.98	1.5:1

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 December 31, 2014, the Company was in compliance with all financial covenants.

Cash Requirements for Capital Expenditures

Historically, the Company has financed its capital expenditures and acquisitions through its ABL Facility, subordinated debt and equity. The budgeted future capital expenditures for 2015 are approximately $857,000 (2014 - $5,596,745) which may include future equipment upgrades such bulk storage tanks and blending and packaging equipment for the USA drilling fluids distribution 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. However, if a sustained period of market and commodity price uncertainty and financial market volatility persists in 2015, the Company's activity levels, cash flows and access to credit may be negatively impacted, and the expenditure level would be reduced accordingly. Conversely, if future growth opportunities present themselves, the Corporation would look at expanding this planned capital expenditure amount.

Commitments under operating lease and liquidity analysis

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

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
December 31, 2014	$ 2,797,947	6,136,395	—	$ 8,934,342
December 31, 2013	$ 3,158,260	9,179,325	1,234,026	$ 13,571,611

The table below analyzes the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

Contractual obligations related to financial liabilities at December 31, 2014 are as follows:

	Bank credit facility	Accounts payable	Long-term debt	Promissory notes payable	Finance leases	Total
2015	$ 51,873,895	$ 22,076,983	$ 2,183,766	$ —	$ 27,063	$ 76,161,707
2016	—	—	2,054,057	263,125	21,265	2,338,447
2017	—	—	7,068,383	274,375	21,265	7,364,023
2018	—	—	5,465	—	10,247	15,712
2019	—	—	—	—	5,221	5,221
Thereafter	—	—	—	—	—	—
Total	$ 51,873,895	$ 22,076,983	$ 11,311,671	$ 537,500	$ 85,061	$ 85,885,110

Intangible assets

Intangible assets include acquired software used in administration, customer relationships, brand, supply agreements, distribution agreements and non-compete agreements that qualify for recognition as an intangible asset in a business combination. These intangible assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of intangible assets over their estimated useful lives of 2 to 7 years and is recognized in profit or loss for the period. Residual values and useful lives are reviewed at each reporting date. The following estimated useful lives are applied:

Customer relationships	2 to 7 years straight-line
Non-competition agreements	2 to 5 years straight-line
Computer software	4 to 7 years straight-line
Supply agreement	4 years straight line
Distribution agreement	4 years straight line
Brand	2 years straight line

Customer relationships represent existing contracts and the underlying customer relationships. Costs associated with maintaining computer software programs such as expenditures relating to patches and other minor updates as well as their installation are expensed as incurred. The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognized in profit or loss.

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 year ended December 31, 2014, the Company incurred office sharing costs of $60,000 (December 31, 2013 – $60,000) that were paid to a company over which a director has control.

OUTLOOK

The discussion in this section is qualified in its entirety by the "Cautionary Statement 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.

2015 is expected to be a challenging year for our industry as there are many uncertainties in today's market making forecasting difficult. It is projected that the industry slowdown will continue well into 2015 and it is not known at this time when it will begin to rebound. Our management team has experienced several business cycles and understands what is needed to effectively manage the business through an industry downturn.

Over the past several months, significantly lower commodity prices have resulted in a number of companies implementing capital budget cuts and cost reduction initiatives across North America which in turn will impact demand for Bri-Chem products and services during 2015. Further capital reductions are expected as Management anticipates that the decline in commodity prices and corresponding reduction in spending will continue to have a significant negative impact on drilling activity for the foreseeable future across all regions where Bri-Chem operates. In Canada, the typical seasonal downturn in activity due to spring breakup is anticipated, however, Management expects a prolonged spring breakup in Canada with little visibility regarding how many rigs will come back to work when the breakup ends.

Bri-Chem has been proactive in response to this reduction in business activity and has begun implementing measures to "Right-Size" its business and control costs. In Q1 2015, several cost savings initiatives were initiated, including the termination of approximately 25% of overall staff, a companywide wide 5% wage rollback for all non-managerial staff employees and a 10% wage rollback for all director, managerial, senior and executive employees, suspension of various nonessential employee benefits, business travel expense limitations, reduced marketing expenditures and significant reductions in capital expenditures. The

combined savings of these initiatives is estimated to be approximately $3.2 million annually. These initiatives will be regularly reviewed throughout the year and will be re-evaluated based on current business activity levels.

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, 2014. 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, can have a significant impact on the ability of the Company to obtain funding for future financial requirements.

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.

Market Price Volatility of Common Shares

The market price of the Company's common shares may be volatile. The volatility may affect the ability of shareholders to sell the common shares at an advantageous price. Market price fluctuations in the common shares may be due to the Company's operating results failing to meet the expectations of investors and stock market analysts in any quarter, downward revision in securities analysts' estimates, governmental regulatory actions, adverse change in market conditions or economic trends, acquisitions, business or asset dispositions and material announcements by the Company or its competitors, along with a variety of additional factors, including, but not limited to, those set forth in *"Cautionary Statement Regarding Forward-Looking Information"* herein. In addition, the stock markets, including TSX, may experience significant price and trading fluctuations. These fluctuations may result in volatility in the stock market prices that often has been unrelated or disproportionate to changes in operating performance. These market fluctuations may adversely affect the market prices of the Company's common shares.

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 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.

A substantial decline in the commodity price environment commenced in the fourth quarter of 2014, and since December 2014, crude oil prices have continued to weaken. The Company anticipates commodity prices may stay relatively low in 2015. This decline in crude oil prices has resulted in impairment to the carrying value of goodwill and other intangible assets. If crude oil and natural gas prices continue to decline significantly and remain at low levels for an extended period of time, the carrying value of other long term assets may be subject to further impairment charges, and future capital spending could be reduced.

Commodity Price Risk

The cost and availability of certain fluid products fluctuate due to a number of factors beyond our control, including global market conditions, foreign currency exchange rates, and demand for product, trade sanctions, tariffs, competition and price surcharges. Fluctuations in availability, cost 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.

Concentration risk

The top eight customers (2013: top seven customers) of the Company account for approximately 40.7% (2013: 39%) of revenue for the year ended December 31, 2014, of which no single customer accounting for more than approximately 10%. The Company does not usually enter into long term contracts with its customers and there can be no assurance that the current customers will continue their relationships with the Company. The loss of one or more major customers, any significant decrease in sales to a customer, or prices paid or any other changes to the terms of service with customers, could have a material adverse affect on the financial results, cash flows, and the overall financial condition of the Company.

Interest Rate Risk

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

Foreign Currency Risk

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

Integration of Acquisitions

The Company 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.

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. 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 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 at year end to help mitigate the risks in this area.

Workplace Safety, Health and Wellness

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

Environmental Liability

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

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

Dependence on Key Personnel

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

Insurance risk

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

Fuel Prices

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

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 annual consolidated financial statements, in conformity with International Financial Reporting Standards ("IFRS"), management is required to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the reporting date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and, consequently, the estimates used by management in the preparation

of the consolidated financial statements may change as future events unfold, additional experience is acquired or the environment in which the Company operates changes. The accounting policies and practices that involve the use of estimates that have significant impact on the Company's financial results include the allowance for doubtful accounts receivable, the sales return provision, inventory obsolescence, net realizable value inventory write-downs and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of deferred tax assets, the impairment testing of goodwill and long-lived assets, valuations of accrued liabilities and deferred tax liabilities, the fair value of derivative financial instruments, and stock based compensation. Management feels actual results will not be materially different from these estimates. The most significant estimates made by management include:

Impairment financial assets

All of the Company's financial assets are reviewed for indicators for impairment, in accordance with the accounting policy stated in the note 2 to the annual consolidated financial statements. At the end of each reporting period, management reviews the individual balances in accounts receivable and assesses their recoverability based on the aging of outstanding balances, historical bad debt experience, indicators of changes in customer credit worthiness, and changes in customer payment terms, to identify and determine the extent of impairment if any.

Sales return provision

Accounts receivable is the most significant financial asset at December 31, 2014. 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 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 and uses the most reliable evidence in determining the net realizable values of the inventories. This includes examining the value of inventory against aging of the inventory, 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.

Impairment testing of intangible assets and property and equipment

The Company is required to test for impairment of intangible assets with definite useful life and property and equipment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortization (goodwill) are tested annually for impairment. 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 relating to property and equipment, and intangible assets, excluding goodwill, 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, including intangible assets, based on future expected cash flows and a discount rate. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risks and weighted average cost of capital. If future events or results differ significantly from these estimates and assumptions, the Company could record impairment charges in the future.

Stock-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuing its stock options to employees and directors at the date of issue. Management uses estimates of the expected life, the risk-free rate, expected volatility, and expected forfeiture rate when calculating the value of the options issued. These estimates may vary from the actual expense incurred and are updated at each reporting period based on information available at that time. The Company values options issued to non-employees based on available evidence of the value the transaction represents to the Company based on services provided in exchanging for the option.

ACCOUNTING POLICIES

The following standards, that are applicable to the Company, have been adopted by the Company for the first time for the financial year beginning on or after January 1, 2014 and have no material impact on the Company:

Amendments to IAS 32 - Financial instruments: Presentation

In January 2014, the Company adopted amendments to IAS 32, which relate to the application guidance in IAS 32, and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The Company assessed the impact of the amendment on its consolidated financial statements. The Company has made no changes as a result of this process in the current or comparative period.

Amendment to IAS 36 - Impairment of assets

In January 2014, the Company adopted the amendment to IAS 36, which includes the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This amendment did not have an impact on the Company's financial statements.

International Financial Reporting Interpretation Committee ("IFRIC") 21 - Levies

In January 2014, the Company adopted IFRIC 21, which is an interpretation of IAS 37: "Provisions, Contingent Liabilities and Contingent Assets". IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligation event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This amendment did not have a material impact on the Company's financial statements.

Amendments to IFRS 2 – Share based payment

In July 2014, the Company adopted the amendment to IFRS 2, which clarifies the definition of "vesting condition" and defines "performance condition" and "service condition". This amendment did not have an impact on the Company's financial statements.

Amendments to IFRS 3 – Business combinations

In July 2014, the Company adopted the amendment to IFRS 3. This amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32 "Financial Instruments: Presentation". The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. This amendment did not have an impact on the Company's financial statements.

Amendments to IFRS 8 – Operating segments

In July 2014, the Company adopted the amendment to IFRS 8. This amendment requires disclosure of the judgements made by management in aggregating operating segments. It is also amended to require a reconciliation of segment assets to the entity`s assets when segment assets are reported. This amendment did not have an impact on the Company's financial statements.

Amendments to IFRS 13 – Fair value

In July 2014, the Company adopted the amendment to IFRS 13. This amendment clarifies the basis of conclusions that it did not intend to remove the ability to measure short term receivables and payables at invoice amounts where the effect of discounting is immaterial. This amendment did not have an impact on the Company's financial statements.

Amendments to IAS 24 – Related party disclosures

In July 2014, the Company adopted the amendment to IAS 24. This amendment requires including, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the management entity). Disclosure of the amounts charged to the reporting entity is required. This amendment did not have an impact on the Company's financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2014. The standards issued that are applicable to the Company are as follows:

IFRS 9 – Financial instruments

The complete version of IFRS 9 replaces most of the guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the impact of this standard on its consolidated financial statements.

IFRS 15 – Revenue from contracts with customers

IFRS 15 converged standard on revenue recognition. It replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity`s contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, with early adoption permitted and is to be applied retrospectively. The Company is assessing the impact of this standard on its consolidated financial statements.

Amendments to IAS 16 – Property Plant and Equipment and IAS 38 – Intangible assets

This method clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of the economic benefits embodied in the asset. This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied I an intangible asset. The amendments become effective on or after January 1, 2016. This amendment will not have an impact on the Company's financial statements.

Annual improvements 2014

These annual improvements amend standards from the 2012-2014 reporting cycle. It includes changes to:

- IFRS 5, Non-current assets held for sale and discontinued operations. The amendment clarifies that, when an assets (or disposal group) is reclassified from `held for sale` to `held for distribution`, or visa versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or a disposal group) which ceases to be held for distribution but is not reclassified as `held for sale`;

- IFRS 7, Financial instruments; Disclosures. There are two amendments: 1) Servicing contracts – if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters. 2) Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, `Disclosure – Offsetting financial assets and financial liabilities` is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective.;
- IAS 34, Interim financial reporting – the amendment clarifies what is meant by the reference in the standard to `information disclosed elsewhere in the interim financial report`. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

These improvements become effective on or after July 1, 2016 and will not have an impact on the Company's financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The carrying value of accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments. The fair value of promissory notes payable reflects the incremental cost of borrowing given current market risks and interest rates for the similar debt. The carrying value of the long-term debt approximates its fair value as interest rates have not significantly changed since this time.

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on accounts receivable are with customers in the oil and gas industry. Accounts receivable consist of a large number of customers spread across diverse geographical areas and ongoing credit evaluations are performed on the financial condition of accounts receivable. Revenue from the Company's largest two customers accounted for approximately 8.0%, and 7.3% respectively (December 31, 2013 – 10.0%, 7.0%) of total revenue during the year and 6.8%, and 10.6% respectively (December 31, 2013 – 13.0%, 12.0%) of total accounts receivable at year end.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date and presented in the statement of financial position.

The Company manages its credit risk through the credit assessment process and through an extensive credit monitoring and collections processes. The Company maintains an allowance for estimated credit losses on accounts receivable. The Company makes an assessment of past due accounts receivable for impairment and

collectability on an individual basis and considers the following factors: i) the age of the outstanding accounts receivable, ii) the payment history and loss experience, iii) debtor's financial conditions, and other economic information.

For the year ended December 31, 2013, the Company has recorded an allowance for doubtful accounts of $115,888 (December 31, 2013 - $197,571). The allowance is an estimate of the December 31, 2014 accounts receivable balances that are considered uncollectible.

Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. A significant decline in economic conditions within the industry would increase the risk that customers will experience financial difficulty and be unable to fulfill their obligations. The Company's exposure to credit risk arising from granting sales is limited to the carrying value of accounts receivable. The Company's revenues are normally invoiced with payment terms of 30 days. Despite the established payment terms, customers in the oil and gas industry typically pay amounts within 94 days of invoice date.

The aging of accounts receivable was as follows:

December 31, 2014	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 10,695,416	$ —	$ 10,695,416
31 to 60 days	17,519,733	—	17,519,733
61 to 90 days	13,038,618	—	13,038,618
91 to 120 days	3,544,142	—	3,544,142
Over 120 days	783,710	(115,888)	667,822
Total	$ 45,581,619	$ (115,888)	$ 45,465,731

The changes in allowance for doubtful accounts were as follows:

	December 31 2014	December 31 2013
Balance, beginning of year	**$ 197,571**	$ 95,549
Bad debts	**299,700**	2,019,987
Receivables written off	**(230,684)**	(1,917,965)
Transfer to assets held for sale	**(94,733)**	—
Recovery of bad debts	**(55,966)**	—
Balance, end of year	**$ 115,888**	$ 197,571

The Company held $nil (December 31, 2013 - $nil) of customer deposits for the purpose of mitigating the credit risk associated with certain accounts receivable.

Interest rate risk

Bank indebtedness, issued at variable rates, exposes the Company to cash flow interest rate risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. The interest on promissory notes and long-term debt are issued at fixed rates. Management analyzes the Company's interest rate exposure on a dynamic basis and is of the opinion that the Company's interest rate risk is not significant.

The contractual interest rate on the bank indebtedness at December 31, 2014 was Canadian bank prime interest rate (3.00%) (December 31, 2013 - Canadian bank prime interest rate (3.00%)). As at December 31, 2014, other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately $96,838 (December 31, 2012 - $100,435).

Currency risk

The Company is subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities and bank indebtedness denominated in foreign currencies. Therefore, there is a risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities. Although the majority of the Company's operations are in Canada, the Company has expanded its operations outside Canada, which increases its exposure to foreign currency risk. The Company's US subsidiaries are not exposed to foreign currency risk as all their monetary assets and monetary liabilities are denominated in their functional currency, which is the United States dollar.

The analysis of currency risk is as follows:

Balance, December 31, 2014	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Canadian dollar	$ 24,781,187	$ (21,259,318)	$ —	$ 3,521,869
US dollar	536,628	(24,735,689)	—	(24,199,061)
Total[1]	$ 25,317,815	$ (45,995,007)	$ —	$ 20,677,192

Balance, December 31, 2013	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Canadian dollar	$ 29,113,347	$ (27,236,970)	$ —	$ 1,876,377
US dollar	5,139,968	(33,229,517)	3,183,000	(24,906,549)
Total[1]	$ 34,253,315	$ (60,466,487)	$ 3,183,000	$ (23,030,172)

[1] the total does not include monetary assets and monetary liabilities of the US subsidiaries

At December 31, 2014, if the Canadian dollar had weakened/strengthened by 5% (December 31, 2013 - 5%) against the US Dollar with all other variables held constant, post-tax profit would have been $962,335 (December 31, 2013 - $351,005) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated monetary assets and liabilities.

Commodity risk

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

Derivative financial instruments

Foreign exchange derivatives entered into by the Company have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The Company does not have foreign exchange derivatives at December 31, 2014.

SHARE DATA

As at March 30, 2015, the Company had 23,676,056 common shares issued and outstanding. As of December 31, 2014, the board of directors may grant options to purchase up to a maximum of 2,387,613 common shares. As of December 31, 2014, options to purchase 1,485,000 common shares were outstanding at an average price of $2.4 per common share.

NON-IFRS MEASURES

Certain supplementary information and financial measures referred to in the MD&A and explained below, namely EBITDA, Operating Expenses, Operating EBITDA, and Cash Interest Expense and Adjusted Net Earnings and Adjusted Net Earnings per Share are not recognized under IFRS.

EBITDA

Management believes that, in addition to net earnings, EBITDA 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 EBITDA 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 EBITDA may differ from that of other entities and accordingly may not be comparable to measures used by other entities.

EBITDA is defined as earnings from continuing operations before interest, taxes, depreciation, amortization, impairment charges and share-based payments. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A.

EBITDA from continuing operations	For the three months ended December 31 2014	2013
Net (loss) earnings	**$ (3,369,581)**	$ 795,541
Add:		
Interest	**933,977**	807,622
Income taxes	**(1,615,272)**	384,410
Depreciation and amortization	**582,275**	515,505
Share-based payment	**86,196**	242,227
Impairment charges [1]	**8,571,553**	1,097,378
EBITDA	**$ 5,189,148**	**$ 3,842,683**

EBITDA from continuing operations	For the year ended December 31 2014	2013
Net earnings	**$ 1,110,986**	$ 4,265,441
Add:		
Interest	**3,241,958**	2,611,502
Income taxes	**691,845**	2,264,024
Depreciation and amortization	**2,167,490**	1,486,362
Share-based payment	**752,202**	1,196,686
Impairment charges [1]	**8,867,621**	1,207,427
EBITDA	**$ 16,832,102**	**$ 13,031,442**

(1) Impairment charges are related to inventory, bad debts and other items

Adjusted Net Earnings and Adjusted Net Earnings per Share

Adjusted net earnings and adjusted net earnings per share are measures which have been reported in order to assist in the comparison of historical net earnings to current results. The calculation of Adjusted Net Earnings normalizes the impact of non-recurring one time unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within next two years, and the related impact on net earnings and net earnings per share. The normalization of this net expense is the calculation of Adjusted Net Earnings and Adjusted Net Earnings per share is considered by management to be a more accurate representation of the net earnings from continuing operations.

Net (loss) earnings and EDITDA	For the three months ended December 31 2014	2013	For the year ended December 31 2014	2013
Net (loss) earnings	**$ (3,369,581)**	$ 795,541	**$ 1,110,986**	$ 4,265,441
Add/(deduct), net of corporate income taxes:				
Impairment charges on goodwill and other intangible assets	**5,281,344**	-	**5,281,344**	-
Adjusted net earnings	**$ 1,911,763**	$ 795,541	**$ 6,392,330**	$ 4,265,441
Weighted average number of shares				
Basic	**24,007,814**	18,149,957	**24,013,533**	17,613,327
Diluted	**24,008,023**	18,169,986	**24,026,765**	17,635,284
Adjusted net earnings, per share				
Basic	**$ 0.08**	0.04	**$ 0.27**	0.24
Diluted	**0.08**	0.04	**0.27**	0.24

Operating Expenses

Operating expenses is not a concept recognized under IFRS as it does not include interest, share based payments, depreciation 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 December 31, 2014 annual consolidated financial statements:

Operating expenses	For the three months ended December 31 2014	2013
Operating expenses	**$ 3,375,201**	$ 3,799,313
Add:		
Interest	**933,977**	807,622
Depreciation and amortization	**582,275**	515,505
Share-based payments	**86,196**	242,227
Impairment charge	**8,571,553**	1,097,378
Total expenses	$ 13,549,202	$ 6,462,045

Operating expenses	For the year ended December 31 2014	2013
Operating expenses	**$ 14,917,776**	$ 13,612,299
Add:		
Interest	**3,241,958**	2,611,502
Depreciation and amortization	**2,167,490**	1,486,362
Share-based payments	**752,202**	1,196,686
Impairment charge	**8,867,621**	1,207,427
Total expenses	$ 29,947,047	$ 20,114,276

Operating EBITDA

Management believes that, in addition to net earnings, Operating EBITDA is a useful supplemental measure that provides a measure of operating performance without reference to inter group corporate cost allocations, financing decisions, depreciation or income tax impacts, which are not controlled at the operating management level. Investors should be cautioned that Operating EBITDA 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 Operating EBITDA may differ from that of other entities and accordingly may not be comparable to measures used by other entities.

Operating EBITDA is defined as earnings before inter group corporate cost allocations, interest, taxes, depreciation, amortization, impairment charges and share-based payments. The following is a reconciliation of EBITDA, per annual consolidated financial statements for the year ended December 31, 2014, to Operating EBITDA for each of the periods presented in this MD&A.

	For the three months ended December 31, 2014					
	EBITDA		Corporate cost allocation		Operating EBITDA	
	$	% *	$	% *	$	%
Fluids Distribution - Canada	**$ 1,495,162**	**7.3%**	$ (544,390)	(2.7%)	$ 950,772	4.6%
Fluids Distribution - USA	**1,506,115**	**6.8%**	456,286	2.1%	1,962,401	8.9%
Total Fluids Distribution	**3,001,277**	**7.1%**	$ (88,104)	(0.2%)	2,913,173	6.9%
Fluids Blending & Packaging - Canada	**842,437**	**14.0%**	40,200	0.7%	882,637	14.7%
Fluids Blending & Packaging - USA	**285,111**	**15.7%**	47,904	2.6%	333,015	18.3%
Total Fluids Blending & Packaging	**1,127,548**	**14.4%**	88,104	1.1%	1,215,652	15.5%
Other **	**1,056,691**	**N/A**	-	N/A	1,056,691	N/A
Total	**$ 5,185,516**	**10.3%**	$ -	0.0%	$ 5,185,516	10.3%

* As a percentage of divisional revenues

* * Other includes corporate overhead costs

	For the year ended December 31, 2014					
	EBITDA		Corporate cost allocation		Operating EBITDA	
	$	% *	$	% *	$	%
Fluids Distribution - Canada	**$ 6,484,431**	**7.9%**	$(1,966,125)	(2.4%)	$ 4,518,306	5.5%
Fluids Distribution - USA	**4,173,136**	**5.7%**	1,613,709	2.2%	5,786,845	7.8%
Total Fluids Distribution	**10,657,567**	**6.8%**	(352,416)	(0.2%)	10,305,151	6.6%
Fluids Blending & Packaging - Canada	**2,334,062**	**11.2%**	160,800	0.8%	2,494,862	12.0%
Fluids Blending & Packaging - USA	**1,283,838**	**15.5%**	191,616	2.3%	1,475,454	17.8%
Total Fluids Blending & Packaging	**3,617,900**	**17.0%**	352,416	1.7%	3,970,316	18.7%
Other **	**2,256,935**	**N/A**	-	N/A	2,256,935	N/A
Total	**$ 16,532,402**	**9.0%**	$ -	0.0%	$16,532,402	9.0%

* As a percentage of divisional revenues
* * Other includes corporate overhead costs

	For the three months ended December, 2013					
	EBITDA		Corporate cost allocation		Operating EBITDA	
	$	% *	$	% *	$	%
Fluids Distribution - Canada	**$ 2,316,727**	**11.3%**	$ (1,381,302)	(6.8%)	$ 935,425	4.6%
Fluids Distribution - USA	**(580,319)**	**-2.6%**	1,381,302	6.3%	800,983	3.6%
Total Fluids Distribution	**1,736,408**	**4.1%**	-	0.0%	1,736,408	4.1%
Fluids Blending & Packaging - Canada	**564,424**	**9.4%**	-	0.0%	564,424	9.4%
Fluids Blending & Packaging - USA	**230,919**	**12.7%**	-	0.0%	230,919	12.7%
Total Fluids Blending & Packaging	**795,343**	**10.2%**	-	0.0%	795,343	10.2%
Other **	**213,555**	**N/A**	-	N/A	213,555	N/A
Total	**$ 2,745,306**	**5.5%**	$ -	0.0%	$ 2,745,306	5.5%

* As a percentage of divisional revenues
* * Other includes corporate overhead costs

	For the year ended December, 2013					
	EBITDA		Corporate cost allocation		Operating EBITDA	
	$	% *	$	% *	$	%
Fluids Distribution - Canada	**$ 7,214,793**	**8.4%**	$ (1,381,302)	(1.6%)	$ 5,833,491	6.8%
Fluids Distribution - USA	**2,517,193**	**5.7%**	1,381,302	3.1%	3,898,495	8.8%
Total Fluids Distribution	**9,731,986**	**7.5%**	-	0.0%	9,731,986	7.5%
Fluids Blending & Packaging - Canada	**2,298,540**	**13.2%**	-	0.0%	2,298,540	13.2%
Fluids Blending & Packaging - USA	**254,774**	**11.0%**	-	0.0%	254,774	11.0%
Total Fluids Blending & Packaging	**2,553,314**	**12.9%**	-	0.0%	2,553,314	12.9%
Other **	**(461,285)**	**N/A**	-	N/A	(461,285)	N/A
Total	**$ 11,824,015**	**7.9%**	$ -	0.0%	$11,824,015	7.9%

* As a percentage of divisional revenues
* * Other includes corporate overhead costs

Cash interest expense

Cash interest expense represents interest expense under IFRS adjusted to exclude non-cash interest expense related to the amortization of deferred financing costs on both the ABL Facility and Fulcrum debt. Management believes that this metric assists in determining the cash interest expense of the Company. Cash interest expense is calculated as follows:

Interest	For the three months ended Decmber 31 2014	2013	Change $	%
Interest on short-term operating debt	**$ 618,823**	$ 493,055	$ 125,768	25.5%
Interest on long-term debt	**314,199**	313,851	348	0.1%
Interest on obligations under finance lease	**955**	717	238	33.2%
Total interest expense	**$ 933,977**	$ 807,623	$ 126,354	15.6%
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	**$ 160,800**	$ 65,059	$ 95,741	147.2%
Cash interest expense[1]	**$ 773,177**	$ 742,564	$ 30,613	4.1%

Interest	For the year ended Decmber 31 2014	2013	Change $	%
Interest on short-term operating debt	**$ 1,980,462**	$ 1,327,804	$ 652,658	49.2%
Interest on long-term debt	**1,257,952**	1,280,336	(22,384)	(1.75%)
Interest on obligations under finance lease	**3,544**	3,362	182	5.4%
Total interest expense	**$ 3,241,958**	$ 2,611,502	$ 630,456	24.1%
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	**$ 480,091**	$ 280,735	$ 199,356	71.0%
Cash interest expense[1]	**$ 2,761,867**	$ 2,330,767	$ 431,100	18.5%

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 ("DC&P") 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 DC&P as of December 31, 2014 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 December 31, 2014 and, based on that evaluation, have concluded that the controls are effective in providing such reasonable assurance.

Limitation on Scope of Design

In accordance with section 3.3(1) (b) of National Instrument 52-109, which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days prior to the end of the fiscal period, the controls, policies and procedures of Solution Blend, which was acquired by the Company effective December 1, 2014, have been excluded from the control design

assessments discussed above. The scope limitation is based on the time required to document and assess the DC&P and ICFR of Sun Coast in a manner consistent with the Company's other operations. The Company's management is currently in the process of integrating Sun Coast into the existing controls and procedures of Bri-Chem Corp.

Sodium Solution constitutes 0.9% of total assets, 3.4% of net assets, 0.2% of net revenues, and $108,211 of net earnings before income taxes of the consolidated financial statement amounts as at and for the year ended December 31, 2014.

Changes in internal control over financial reporting

There were no changes in the Company's internal control over financial reporting that occurred in 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

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Director
Edmonton, Alberta

Jason Theiss, CA
CFO
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Trent Abraham
President, Fluids Division
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(1) Member of Audit Committee
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