Bri-Chem Corp.
Management's Discussion and Analysis

Fourth Quarter and Year Ended December 31, 2013

INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of March 31, 2014. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the 2013 fourth quarter and year ended December 31, 2013 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, 2013 and 2012.

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's consolidated financial statements include the accounts of Bri-Chem Corp. and it's subsidiaries: Bri-Chem Supply Ltd., Sodium Solutions Inc., Bri-Steel Corporation, Bri-Steel Manufacturing Inc. (70%) and Bri-Corp USA, Inc., including its three subsidiaries Bri-Chem Supply Corp, LLC, Sun Coast Materials, LLC and Bri-Chem Logistics, LLC. All references in this report to financial information concerning the Company refer to such information in accordance with IFRS.

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, 2013 is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION:

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

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

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

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

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

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

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

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

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

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

2013 Q4 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 2013, Bri-Chem's consolidated revenues increased 30% to $51,151,004 compared to $39,247,509 from the comparable period in 2012. Q4 sales growth continued to be driven by Bri-Chem's North American drilling fluids distribution and blending divisions which recorded combined sales of $38,106,449 for the three months ended December 31, 2013 compared to sales of $25,905,601 in 2012, representing an increase of 47% quarter over quarter.

For the year ended December 31 2013, Bri-Chem's consolidated annual revenues increased by 13.1% to $179,947,009 compared to $159,144,727 from the comparable period in 2012. The increase is primarily a result of organic sales growth from Bri-Chem's North American drilling fluids distribution and blending divisions which recorded combined sales of $150,039,754 for the year ended December 31, 2013 compared to sales of $119,459,171 in the comparable prior year, representing an increase of 26% year over year. Adjusted earnings before interest, taxes, amortization and share-based payments expense were $11,345,646 or $0.64 per share for the twelve month period ended December 31, 2013, compared to $11,937,169 or $0.69 per share for the same period in 2012. As of December 31, 2013, the Company's net book value per share was $2.11.

In November 2013, the Company announced that it was initiating a strategic review of its steel pipe division in view of the potential growth opportunities that exist in its drilling fluids division. The strategic review was to determine a viable plan going forward and to explore new strategic corporate alternatives. The Company recorded a non-cash impairment charge of $3,527,309 related to inventory, bad debts and other items. As a result of the year end adjustment, the Company incurred net earnings, not including non-controlling interests, of $109,481 with diluted earnings per share of $0.01 compared to net earnings of $5,365,835 or $0.31 diluted earnings per share for 2012.

The Company's North American oil and gas drilling fluids distribution and blending divisions recorded sales of $44,899,245 and $150,039,754 for the three and twelve months ended December 31, 2013, an increase of 53% and 26% respectively compared to the same periods in 2012. In Canada, drilling rig utilization averaged 45.7% for the fourth quarter, and 41.6% for the year ended December 31, 2013; an increase of 2.0% quarter over quarter and a decrease of 2.0% year over year. The Canadian drilling fluids distribution division generated sales of $24,267,169 and $85,710,585 for the three and twelve months ended December 31, 2013, compared to sales of $21,402,221 and $88,250,881 for the comparable periods in 2012. The increase in Q4 2013 fluids sales is due to overall higher drilling activity in the Western Canada and the return of increased demand in northern British Columbia.

The USA drilling fluids distribution division is growing at an extraordinary pace as a result of our extensive market outreach to new customers in numerous geographic regions throughout the USA. For the three and twelve month periods ended December 31, 2013, the division experienced sales of $13,839,280 and $44,549,096, an increase of 207% and 126% respectively over the same periods in 2012. With sixteen warehouses operating in all the major resource plays in the USA, the division will focus on continuing to grow its overall market share.

The Canadian fluids blending and packaging division continues to significantly expand as the Company generated sales of $4,970,079 and $17,471,624 compared to prior year sales of $3,554,229 and $11,505,357 representing a 40% and 52% increase respectively for the three and twelve months ended December 31, 2013. The division has realized increased sales as a result of gaining new customers by providing cementing

products into new geographic regions throughout North America and adding additional blending and storage capacity at its Acheson facility. In addition, the recent acquisition of Sun Coast Materials LLC, our USA fluids blending and packaging division, generated sales of $2,308,449 from September 6, 2013 to December 31, 2013.

The steel pipe distribution division recorded sales of $2,490,572 and $12,372,191 respectively for the three and twelve months ended December 31, 2013, compared to revenues of $3,692,082 and $24,907,625 for the same periods in 2012. Since the fourth quarter of 2012, the Canadian market has experienced excess steel pipe inventory as many distributors were anticipating a stronger demand for steel pipe product during the 2013 winter drilling season. In addition, sales in the second quarter of 2012 included a substantial one-time mill direct order of approximately $5.1 million. During Q4 2013, the Company has been diligent about managing its inventory by replacing slow moving stock with additional approved manufacturer's seamless pipe which has provided a better selection to a boarder range of customers.

The steel pipe manufacturing division recorded sales of $3,761,187 and $17,535,064 respectively for the three and twelve month periods ended December 31, 2013, a decrease of 38.3% and increase of 18.7% over the prior comparable periods. With many major pipeline projects being delayed, the division has not experienced a surge in demand for its large diameter seamless pipe. Despite the weaker demand, the division has been actively quoting and is diligently working with a number of major energy companies that would enlist Bri-Chem on their approved manufacturer's lists for large project quotes. The division is reviewing its production costs and its capacity model to establish a viable operating plan given the current large diameter steel pipe market demand.

During the fourth Quarter of 2013, Bri-Chem announced the closing of a $10 million equity financing to assist the Company's ongoing organic growth and potential acquisitions opportunities.

Outlook Summary

The Petroleum Services Association of Canada (PSAC) has forecasted 10,930 wells to be drilled in Western Canada for 2014, a forecasted decrease of 1.3% over 2013. PSAC also has forecasted 3,389 wells to be drilled in Canada for the first quarter of 2014, a decline of 9.9% compared to Q1 2013. Q1/14 in the USA has been negatively impacted by some adverse weather and field conditions, however, the average rig count year over year is expected to increase approximately 4%. Bri-Chem will continue to invest into its USA drilling fluid market expansion plan with the goal of obtaining new market share. As we continue to gain market share in the USA drilling fluids market, more product and acquisition opportunities become available. With the recent acquisition of Sun Coast, Bri-Chem has now established a platform for fluids blending and packaging in the USA market place and will look to grow its market presence by distributing its blending products and services into regions in the USA where we currently operate. Throughout 2014, we will examine a number of opportunities that will provide product expansion, while exploring alternatives to enable us to become basic in certain commodity chemicals. We are continuing our strategic review of the steel pipe divisions to determine a viable plan going forward, while closely monitoring North American steel pipe demand and examining cost control measures to decrease the costs of production at the steel manufacturing facility.

DESCRIPTION OF BUSINESS

Bri-Chem has established two primary segments of business through a combination of internal growth and acquisitions: Bri-Chem's Drilling Fluid Division is North America's largest independent wholesale supplier of drilling fluids for the oil and gas industry. We provide over 100 drilling fluid products, cementing, acidizing and stimulation additives from 31 strategically located warehouses throughout Canada and the United States; Bri-Chem's Steel Pipe Division distributes a broad range of seamless pipe and is the first company to introduce and construct a Thermal Pipe Expansion (TPE) facility in North America for manufacturing, testing and supply of large diameter seamless steel pipe for the energy industry. Additional information about Bri-Chem is available at www.sedar.com or at Bri-Chem's website at www.brichem.com.

The Company is headquartered in Edmonton, Alberta and owns a 100% interest in Bri-Chem Supply Ltd. ("Bri-Chem Supply"), 100% interest in Sodium Solutions Inc. ("Sodium"), 100% interest in Bri-Steel Corporation ("Bri-Steel"), and a 70% interest in Bri-Steel Manufacturing Inc. ("Manufacturing"). The Company also owns 100% interest in Bri-Corp USA Inc. ("Bri-Corp"), which has three 100% owned subsidiaries, Bri-Chem Supply Corp, LLC, ("Bri-Chem USA") Sun Coast Materials, LLC ("Sun Coast") and Bri-Chem Logistics, LLC ("Logistics"). Bri-Chem continues to concentrate on expanding its market presence with the focus being on the following two divisions:

OIL AND GAS FLUIDS DIVISION

Canadian Drilling Fluids 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"). Bri-Chem focuses on the oil & gas drilling stage, providing over 100 critical drilling fluid products and custom-blended products to major and independent oilfield service providers. Bri-Chem distributes its drilling fluid products from 16 strategically located warehouses throughout the WCSB. Drilling fluids 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. Drilling fluids cuts down on friction, lowering the heat of drilling, and reducing the risk of friction and pressure related complications such as borehole stability.

USA Drilling Fluids Distribution Division

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

On December 31, 2012, the Company acquired all of the outstanding common shares of General Supply Company ("General"), an Oklahoma based drilling fluid wholesale distribution business. The purchase price of $2,541,459 (USD$2,500,000) consisted of the issuance of 95,451 Bri-Chem common shares at a fair market value of $147,792. The common shares have resale restrictions attached to them that expire evenly over three years. Cash payment terms were $2,039,545 (USD$2,050,000) on closing, and a promissory note payable with a fair value of $248,731 (USD$250,000) bearing interest at 4% per annum, repayable in February 2014. The Company repaid this promissory note early March 2014. The acquisition of General and

their three key Oklahoma warehouse locations was an extremely complementary addition to our strategy of becoming a leading independent national supplier of drilling fluids in the United States.

Fluids Blending and Packaging Division

The WCSB oil and gas drilling process also uses cementing, stimulation, and fracturing fluids. Many of these products are a blended formulation utilizing specialty additives that Bri-Chem can supply in both packaged and truckload quantities. Cementing is performed when the cement slurry is deployed into the well via pumps, displacing the drilling fluids still located within the well, and replacing them with cement. Well stimulation involves introducing special blends of chemicals and acid to oil or gas producing formations in order to diminish or eliminate unwanted materials. The fracturing process injects fluids and sand at high pressure which creates small fractures in the rock that extend out from the well. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these critical fluid applications. Bri-Chem has dedicated facilities, located in Acheson and Camrose, Alberta, with capacity to blend and package specialty additive fluids for customer specific products. Bri-Chem is pursuing to diversify into the liquid fracturing and stimulation blending market for further customer penetration and industry diversification.

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

On September 6, 2013, the Company acquired assets and business operations of Sun Coast Materials Co. ("Sun Coast"), a California based packager and specialty cement blender to oil well contractors operating in southern and central California. The purchase price of 6,722,296 (USD$6,470,816) consisted of all cash payments with terms of $6,493,506 (USD$6,250,000) on closing, and a promissory note payable with a fair value of $229,420 (USD$220,816) bearing interest at 4% per annum, repayable in September 2014. The acquisition of Sun Coast and their transportation fleet further expands Bri-Chem's product offerings into the USA market and provides a solid growth platform to offer cementing products and blending services throughout the USA. Sun Coast's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers.

Training and Fluid Analysis

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

STEEL PIPE DIVISION

Steel Pipe Distribution Division

Bri-Steel is the Company's wholesale distributor for steel pipe ranging in sizes from quarter inch to thirty-six inch. Bri-Steel manages its steel product inventory through one pipe yard in Edmonton, Alberta, which is the Company's primary stock location for the distribution of its steel pipe products. On the strength of the Company's international vendor relationships, the division is able to source and provide access to a broad range of steel pipe products on a timely basis. Bri-Steel's base inventory of steel pipe is primarily used in the energy industry, however the Company does distribute steel pipe to non-oilfield related industries such as construction, industrial and mining.

Steel Pipe Manufacturing Division

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

Seasonality of Operations

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

Growth Strategy

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

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

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

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

FINANCIAL SUMMARY

The following selected 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, 2013 and 2012.

Consolidated statements of operations	For the year ended December 31		Change	
	2013	2012 (5)	$	%
Sales	$ 179,947,009	$ 159,144,727	$ 20,802,282	13.1%
Gross margin	27,856,589	25,084,936	2,771,653	11.0%
	15.5%	15.8%		
Operating expenses (1)	17,567,377	13,954,767	3,612,610	25.9%
EBITDAC (2)	10,289,212	11,130,169	(840,957)	-7.6%
Depreciation - production equipment	1,056,434	807,000	249,434	30.9%
Adjusted EBITDAC (3)	11,345,646	11,937,169	(591,523)	-5.0%
Depreciation and amortization	2,732,679	1,820,097	912,582	50.1%
Interest (6)	3,824,807	2,610,539	1,214,268	46.5%
Share-based payments	1,196,686	791,040	405,646	51.3%
Impairment charges (7)	3,527,309	231,441	3,295,868	100.0%
Earnings before income taxes	64,165	6,484,052	(6,419,887)	-99.0%
Income tax expense - current	1,871,445	2,397,373	(525,928)	-21.9%
Income tax recovery - deferred	(1,406,487)	(805,841)	(600,646)	-74.5%
Net (loss) earnings	$ (400,793)	$ 4,892,520	$ (5,293,313)	-108.2%
Net earnings attributable to shareholders of the Company	$ 109,481	$ 5,365,835	$ (5,256,354)	-98.0%
Net loss attributable to NCI (4)	$ (510,274)	$ (473,315)	$ (36,959)	7.8%
Earnings per share				
Basic	$ 0.01	$ 0.31	$ (0.30)	-96.8%
Diluted	$ 0.01	$ 0.31	$ (0.30)	-96.8%
Adjusted EBITDAC per share				
Basic	$ 0.64	$ 0.69		
Diluted	$ 0.64	$ 0.69		
Weighted average shares outstanding				
Basic	17,613,227	17,282,955		
Diluted	17,635,284	17,400,848		

(1) See page 48 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 48 for a further explanation of this non-IFRS measure).
(3) Adjusted EBITDAC does not include depreciation of production equipment which is included in cost of sales for financial statement purposes to conform with IFRS (See page 48 for a further explanation of this non-IFRS measure).
(4) Bri-Steel Manufacturing Inc. is a 70% owned subsidiary of Bri-Chem Corp. NCI represents the 30% non-controlling interest's ("NCI") portion of loss of the subsidiary for the year ended December 31, 2013.
(5) The Company reclassified amounts in the Statement of Operations relating to transaction costs of financial liabilities, sublease revenue and lease expense to categorize interest expense and net sublease income consistently. The 2012 comparatives have been reclassified as a result, and this reclassification did not impact the net earnings of the Company for the year ended December 31, 2012.
(6) Interest expense for the year ended December 31, 2013 includes amortization of capitalized deferred financing cost of $469,581 (December 31, 2012: $234,981).
(7) Impairment charges are related to inventory, bad debts and other items.

2013 YEAR END RESULTS AND DISCUSSION OF 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					
	2013		2012		Change	
Sales by Segment	$	%	$	%	$	%
Fluids Distribution - Canada	**$ 85,710,585**	**47.6%**	$ 88,250,881	55.5%	$ (2,540,296)	-2.9%
Fluids Distribution - USA	**44,549,096**	**24.8%**	19,702,933	12.4%	24,846,163	126.1%
Total Fluids Distribution	**130,259,681**	**72.4%**	107,953,814	68%	22,305,867	20.7%
Fluids Blending & Packaging - Canada (1) (2)	**17,471,624**	**9.7%**	11,505,357	7.2%	5,966,267	51.9%
Fluids Blending & Packaging - USA (3)	**2,308,449**	**1.3%**	-	0.0%	2,308,449	100.0%
Total Fluids Blending & Packaging	**19,780,073**	**11.0%**	11,505,357	7.2%	8,274,716	71.9%
Steel Distribution	**12,372,191**	**6.9%**	24,907,625	15.7%	(12,535,434)	-50.3%
Steel Manufacturing	**17,535,064**	**9.7%**	14,777,931	9.3%	2,757,133	18.7%
Total	**$ 179,947,009**	**100%**	$ 159,144,727	100%	$ 20,802,282	13.1%

(1) Fluids blending and packaging division sells products to the fluids distribution division, which in turn sells it to the end user. In 2013 the annual sales to the fluids distribution division were an additional $9,149,184 (2012 - $9,352,059). This revenue has been eliminated upon consolidation.
(2) On July 2013, the division started selling certain products directly to end users. 2012 sales was reclassified for presentation purposes.
(3) Include sales resulting from the acquisition of Sun Coast which was effective September 6, 2013.

North American Drilling Fluids Distribution Divisions

The Company's North American drilling fluids distribution divisions recorded combined sales of $130,259,681 for the year ended December 31, 2013 compared to sales of $107,953,814 in 2012, representing an increase of 20.7% year over year. The Canadian fluids distribution divisions' sales declined by 2.9% for the year ended December 31, 2013, while the USA fluids distribution division experienced a growth in revenue by 126.1% over the same comparable period in 2012.

Canadian Drilling Fluids Distribution Division

Bri-Chem's Canadian drilling fluids distribution division generated sales of $85,710,585 for the year ended December 31, 2013, compared to sales of $88,250,881 over the same comparable period in 2012. The slight decrease in sales was due to the decline in drilling activity during the first half of 2013 which was significantly impacted by the considerable rainfall and flooding that occurred during the second quarter in Alberta, which resulted in a slower start to the summer drilling programs. The second half of the year experienced a resurgence in activity as sales were up 27.5% in Q3/13 and 13.4% in Q4/13.

The Alberta market experienced a decrease in sales of 4.0% for 2013, while the number of wells drilled decreased by 2.5% in the region. The decrease in sales in the Alberta region was mainly due to a decrease in industry activity levels during the first half of 2013, and a 3.3% decrease in liquid invert sales in Alberta for the year ended December 31, 2013. The slower drilling activity for the first six months of 2013 was the result of extremely wet weather in Q2 2013 which delayed the start of the summer drilling programs. However, starting July 2013, Bri-Chem has been experiencing an increase in revenue due to higher business activities and growth in liquid invert sales. The amount of meters drilled in the Alberta region increased by 8.0% for

the last six months of 2013 compared to the same period in 2012, while the number of wells drilled in this region for the last two quarters of 2013 decreased by 5.9% compared to the same prior year quarters. Canadian drilling fluids distribution division achieved sales of $39,454,603 in the Alberta market for the last six months of 2013, representing a growth of 21.2% over the same comparable period in 2012. The liquid invert sales, in Alberta, increased by $2,347,559 or 23.1% for the last six months ended December 31, 2013 compared to the same period in 2012.

The Saskatchewan market experienced a decline in revenue of 3.9% for the year ended December 31, 2013. The decrease in sales in this region was mainly due to a decrease in industry activity levels during the last quarter of 2013. The number of wells drilled increased by 19.5% in the region for the last three months of 2013, while the amount of meters drilled in Saskatchewan declined by 56.8% for Q4 of 2013 compared to the same period in 2012. British Columbia has seen an increase in sales of 29.1% for the year ended December 31, 2013. This increase is mainly due to higher rig activities, including natural gas drilling, in 2013. The British Columbia region experienced growth of 18.0% in the number of wells drilled during the 2013 calendar year compared to same period in 2012, which resulted in obtaining more work by our independent drilling fluid engineering customers in this area in 2013 and a surge of new liquid invert sales from independent fluid engineering companies.

Summary of the number wells drilled:

Area	Rig Count in 2013	Rig Count in 2012	Change	Change in %
Alberta	6,601	6,770	169	-2.5%
British Columbia	563	477	86	18.0%
Saskatchewan	3,373	3,161	212	6.7%
Western Canada[1]	10,537	10,408	129	1.2%

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

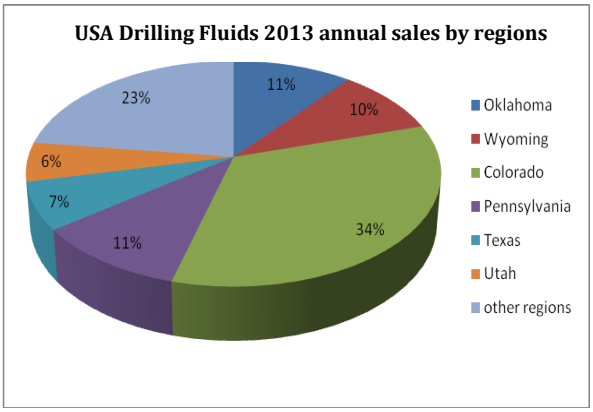
Summary of wells drilled in meters:

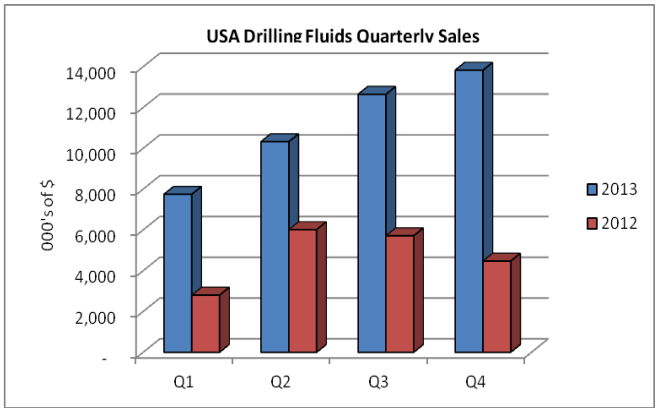
Area	Meters drilled in 2013	Meters drilled in 2012	Change	Change in %
Alberta	16,167,838	15,752,985	414,853	2.6%
British Columbia	2,185,130	1,805,355	379,775	21.0%%
Saskatchewan	5,629,497	5,165,260	464,237	9.0%
Western Canada[1]	23,982,465	22,723,600	1,258,865	5.5%

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

Bri-Chem blends, reconditions and stores a petroleum based liquid drilling fluid, known as liquid invert, which is used in deep, horizontal, high temperature drilling applications. Liquid invert sales were consistent year over year, however, sales increased 32.8% during the second half of 2013 compared to the same period in 2012 which was mainly due to increased drilling activity in Cardium, Montney and northern British Columbia where invert products are more frequently used. Any increase in overall drilling activity could result in additional work for independent fluid engineering companies which would increase demand for liquid invert sales and a rebound in natural gas prices could reactivate liquid invert drilling activity in the northern British Columbia region.

United States Drilling Fluids Distribution Division





Bri-Chem's United States fluids distribution division generated sales of $44,549,096 for the twelve months ended December 31, 2013, compared to revenues of $19,702,933 in 2012, representing an increase of $24,846,163 or 126.1%. Bri-Chem's expansion into new geographic regions has brought new customers and demand for drilling fluids as Bri-Chem is continues its market push to become the leading full service independent national wholesaler of drilling fluids. In particular, the regions of Colorado, Pennsylvania, Oklahoma, Texas and Wyoming generated the majority of sales in the USA for the year ended December 31, 2013. The USA does not experience the seasonality of that in the WCSB and therefore maintains a more consistent active rig count. As such, the Company remains focused on expanding its product offerings as well as expanding into new geographic regions in the USA to meet the increasing demand for drilling fluids from an independent wholesaler.

Fluids Blending and Packaging Division

Canadian Fluids Blending and Packaging Division

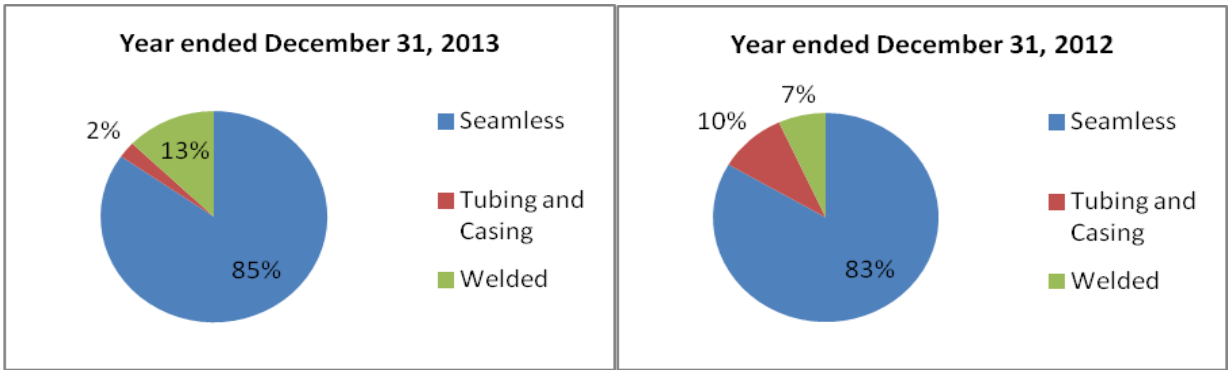
The Canadian fluids blending and packaging division continues to expand and as a result the division is obtaining more blending and packaging opportunities for drilling fluids, cementing and stimulation products. Many of these products are a blended formulation utilizing specialty additives that Bri-Chem can supply in both packaged and truckload quantities. For the year ended December 31, 2013, sales were $17,471,624 as compared to $11,505,357 representing a 51.9% increase year over year. This increase is the result of receiving more blending and packaging orders from customers within the Western Canada region, and the acquisition of Kemik Inc. in Q4 2012. With this acquisition the division has seen increased sales as a result of providing cementing products in additional geographic regions not previously offered by Kemik Inc. In particular the regions of British Columbia and Saskatchewan contributed the majority of revenue growth for the year ended December 31, 2013, as existing customers started using more blended products in these regions.

United States Fluids Blending and Packaging Division

On September 6, 2013, the Company acquired certain assets and business operations of Sun Coast Materials, a California based packager and specialty cement blender to oil well contractors operating in southern and central California, which is expected to further expand Bri-Chem's product offerings into the USA market and provide a solid growth platform to offer cementing products and blending services throughout the USA. Sun Coast's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers. Sales were $2,308,449 for nearly four months of operations since the acquisition date. In 2014, the division will focus on continuing to service its existing customers with superior customer service while exploring new product and geographic expansion opportunities.

Steel Pipe Division

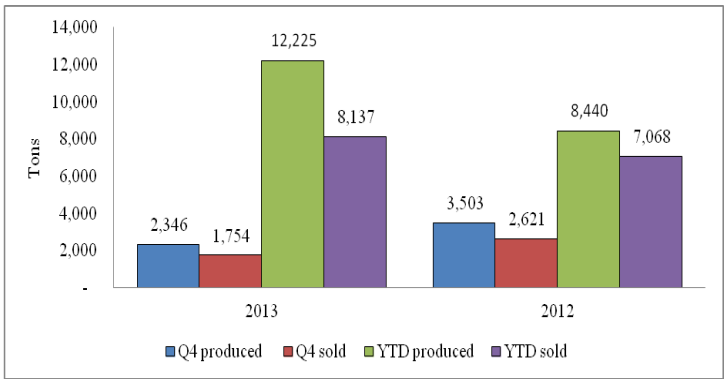
Steel Pipe Distribution Division



For the year ended December 31, 2013, the steel pipe distribution division generated revenues of $12,372,191, a decrease of $12,535,434 or 50.3% over the same comparable period in 2012. During the second quarter of 2012, the steel pipe distribution division recorded a $5.1 million seamless mill direct pipe order which was not expected to be repeated again in 2013. Since the fourth quarter of 2012, the Canadian steel pipe market has experienced excess steel pipe inventory as many distributors were anticipating a stronger demand for steel pipe product during the 2013 winter drilling season. In Q4 2013, the Company has been diligent about managing its inventory by replacing slow moving stock with additional approved manufacturer's seamless pipe which has provided a better selection to a boarder range of customers. Bri-Chem is conducting a strategic review of the steel distribution division to determine a viable plan going forward, while closely monitoring North American steel pipe demand and examining cost control measures to decrease overhead expenses.

Steel Pipe Manufacturing Division

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



The manufacturing division achieved sales of $17,535,064 for the twelve months ended December 31, 2013, representing an increase of 18.7% over the same comparable period in 2012. During the twelve months of 2013, the division produced 12,225 tons; an increase of 3,785 or 44.8% compared to 8,440 tons produced in the same period of 2012. The Company sold a total of 8,137 tons for the year ended December 31, 2013, compared to 7,068 tons for the same period in 2012. The increase in tons produced and tons sold is the result of our increased market presence in the large diameter seamless pipe market in North America. The Company expects production tonnage for 2014 to be approximately 10,000 to 13,000 tons based on current or slightly revised production schedules, however production could increase should demand levels for product increase.

In late November 2013, Bri-Chem initiated a strategic review of the steel pipe manufacturing division to determine a viable plan going forward and to examine cost control measures, decrease costs of production, reduce current inventory levels and explore new strategic corporate alternatives.

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					
	2013		2012		Change	
Gross Margin	**$**	**%***	**$**	**%***	**$**	**%**
Fluids Distribution - Canada	**$ 12,202,810**	**14.2%**	$ 13,379,927	15.2%	$ (1,177,117)	-8.8%
Fluids Distribution - USA	**9,809,217**	**22.0%**	4,078,035	20.7%	5,731,182	140.5%
Total Fluids Distribution	**22,012,027**	**16.9%**	17,457,962	16.2%	4,554,065	26%
Fluids Blending & Packaging - Canada	**3,717,038**	**21.3%**	2,419,088	21.0%	1,297,950	53.7%
Fluids Blending & Packaging - USA	**914,676**	**39.6%**	-	0.0%	914,676	100.0%
Total Fluids Blending & Packaging	**4,631,714**	**23.4%**	2,419,088	21.0%	2,212,626	91.5%
Steel Distribution	**676,544**	**5.5%**	4,819,981	19.4%	(4,143,437)	-86.0%
Steel Manufacturing	**536,304**	**3.1%**	387,905	2.6%	148,399	38.3%
Total	**$ 27,856,589**	**15.5%**	$ 25,084,936	15.8%	$ 2,771,653	11.0%

* As a percentage of divisional revenues

Fluids Distribution and Packaging Divisions

The drilling fluids distribution division margins were relatively consistent for the year ended December 31, 2013 compared to 2012. Margins on fluid sales vary based on product mix and drilling formations. Canadian fluid distribution margins averaged 14.2% for the year ended December 31, 2013, lower than gross margins in the same comparable period of 2012. The 1% decrease is mostly due to increased pricing pressure in the market and a higher volume of liquid invert sales experienced during the second half of 2013. Liquid invert sales made up approximately 28.0% of Canadian fluid distribution sales in 2013 fiscal year compared to 24.2% in the same period in 2012. The USA fluid distribution margins are traditionally higher than those of the Canadian operations, and climbed to 22.0% for the year ended December 31, 2013, an increase of 1.3% compared the same period in 2012. The increase in gross margins during the year is due to increased sales in all regions in the USA, with higher margin products being sold in the regions where Bri-Chem operates. In the short to medium term, margins are anticipated to remain consistent in the fluids distribution division, however, a change in product mix could impact margins.

Average gross margin as a percentage of fluid blending and packaging sales was 23.4% in 2013 as compared to 21.0% in 2012. Bri-Chem has dedicated facilities, located in Acheson and Camrose, Alberta, with capacity to blend and package specialty additive fluids for customer specific products. As a result, the fluids blending and packaging division tends to have higher margins for this value-added service. In the twelve months ended December 31, 2013, the gross margin of Canadian fluids blending and packaging division was consistent compared to the same prior year period. With the acquisition of Sun Coast in September 2013, the United States blending and packaging division generated gross margins of 39.6% for the four months subsequent to acquisition date.

Steel Distribution and Manufacturing Divisions

The steel distribution division gross margins were 5.5% for the year ended December 31, 2013, compared to 19.4% in 2012. Increased selling price competition caused by excess steel inventory in the market forced the steel distribution division to lower selling prices to continue staying competitive. The Company also incurred a tariff charge of $417,924 related to a steel piling pipe anti-dumping ruling made by Canadian Border Services Agency. The Company is disputing and intends to seek action to recover the charge. If this tariff was excluded, gross margins for the steel distribution division would have been $1,094,468 or 8.5%. Management has consciously determined to reduce selling prices on certain inventory to reduce inventory levels given current market demands. Gross margins are expected to remain lower in Q1 2014 as the division will continue its inventory reduction program, however, in the longer term, margins are anticipated to return to more traditional levels.

Steel Pipe Manufacturing Division	For the year ended December 31		Change	
Adjusted Gross Margins	2013	2012	$	%
Gross Margin ($) [1]	**536,304**	387,905	148,399	38.3%
As percentage of sales	**3.1%**	2.6%		
Addback: Fixed overheads in production [2]	**1,896,087**	2,168,175	(272,088)	-12.5%
Depreciation of production equipment	**1,056,434**	807,000	249,434	30.9%
Adjusted Gross Margin ($) [3]	**3,488,825**	3,363,080	125,745	3.7%
As percentage of sales	**19.9%**	22.8%		

(1) In compliance with IFRS standards cost of sales include all overheads related to production regardless of whether or not the facility is operating at full capacity.
(2) Fixed overhead costs include production facility lease costs, utilities and indirect labour related to the steel manufacturing facility.
(3) Adjusted gross margins reflect the selling price less the cost of product and direct labour to manufacturer the product. (See page 49 for a further explanation of this non-IFRS measure).

The steel manufacturing division achieved gross margin of 3.1% for the year ended December 31, 2013 compared to 2.6% in the same comparable period of 2012. Adjusted gross margin, which excludes fixed overheads and depreciation of production equipment, was 19.9% for the twelve months of 2013 compared to 22.8% for the same comparable period in 2012. The decrease in adjusted gross margin in 2013 was due to the decrease in production during the three month period ended December 31, 2013, which resulted in a higher cost of production. The division produced 2,346 tons during the fourth quarter of 2013, which is less by 1,157 tons compared to the same period in 2012. The decline in production of finished goods in Q4 2013 is a result of focusing on completing customer orders, rather than building inventory to lower the cost to produce. The average selling price in Q4 2013 was less by 4.2% compared to the same period in 2012 due to customer orders comprising smaller diameter and reduced wall thickness pipe which yields lower margins in the marketplace. As production continues to become more consistent over the next several quarters combined with estimated sales prices, margins of the steel pipe manufacturing division should continue to improve compared to those experienced during the year ended December 31, 2013. Margins have the potential to fluctuate depending on the size and grade of pipe being produced. More specialized sizes such as 30" are anticipated to yield higher margins than common sizes such as 16" standard A106 pipe. Management is focused on meeting the size requirements of its customers, while being competitively priced.

Gross margins – outlook

For the first quarter of 2014, we are anticipating gross margins on fluid sales to be consistent with those experienced in the fourth quarter of 2013. We are unable to predict the value of the Canadian dollar in relation to foreign currencies in the future; therefore, we are uncertain as to the potential impact on the Company's gross margin in relation to foreign purchases of product. The steel distribution division will remain focused on improving margins from 2013, by offering a new line of pipe products not previously distributed in 2014. The steel manufacturing division continues to target adjusted gross margins between

15% and 20% based on current production levels, current raw material costs, and estimated finished product sale prices.

Operating expenses

Salaries and employee benefits

Salaries and employee benefits	For the year ended December 31 2013	2012	Change $	%
Salaries and benefits	**$ 12,059,102**	$ 9,311,014	$ 2,748,088	29.5%
% of sales	**6.7%**	5.8%		0.8%

Salaries and benefits have increased by $2,748,088 for the twelve months ended December 31, 2013 compared to the same period in 2012. Share-based payments increased by $405,646 for the year ended December 31, 2013 from the prior comparable year as the Company issued new stock options to directors, executive and senior management of the Company in the third quarter of 2013 and mid-2012. Salaries include $345,577 of wages and benefits related to the Sun Coast acquisition during the four month period subsequent to the acquisition date, September 6, 2013. Overall salaries and benefits during the fiscal year of 2013 were higher compared to the same period in 2012 due to the hiring of a global procurement manager, warehouse supervisor, distribution manager, quality assurance technologist, sales staff as well as accounting staff in order to keep up with sales growth. As the result of the increase in personnel, benefits increased by $253,755. In addition, sales commissions increased by $347,706 during twelve months of 2013 as a result of fluids sales growth in the USA.

The Company employed 174 (120 Canada and 54 USA) employees at December 31, 2013 compared to 132 (112 Canada and 20 USA) at December 31, 2012.

The Company expects salaries and employee benefits to remain consistent in 2014 as all divisions are adequately staffed given current business activities. As the Company continues with its growth plans, personnel requirements will be revisited as required.

Selling, general and administration

Selling, general and administration	For the year ended December 31 2013 $	2013 %*	2012 $	2012 %*
Selling	**$ 1,228,441**	**0.7%**	$ 1,214,174	0.8%
Professional and consulting	**1,122,964**	**0.6%**	683,445	0.4%
General and administration	**1,338,533**	**0.7%**	1,589,167	1.0%
Rent, utilities and occupancy costs	**3,451,705**	**1.9%**	2,930,747	1.8%
Foreign exchange gain	**(436,682)**	**-0.2%**	(982,740)	-0.6%
Total	**$ 6,704,961**	**3.7%**	$ 5,434,793	3.4%

* 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, 2013 compared to 2012. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses increased by $439,519 for the year ended December 31, 2013 compared to the same period in 2012. Legal fees increased by $349,309 for the twelve months ended December 31, 2013 due to costs relating to acquisitions that occurred in late 2012 as well as the acquisition of Sun Coast which took place in the third quarter of 2013. The Company increased its audit accrual by approximately $80,000 during the twelve months of 2013 to account for the annual audit. Professional and consulting expenses relate to audit, legal and other advisory fees.

General and administration expenses for the year ended December 31, 2013 decreased by $250,634 compared to 2012. This decrease was due to a decline in insurance costs in the amount of $207,229 over the comparable year. This was due to having a lower level of inventory throughout 2013 in the Canadian fluids distribution division, and disposing of the highway transportation fleet late 2012. 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 cost expenses increased by $520,958 for the year ended December 31, 2013 compared to prior year. The increase relates to infrastructure costs including warehouse rent as a result of continued geographic expansion in the USA. Some of the additional warehouses added throughout 2013 have small additional monthly rental charges which increased the occupancy expense year over year. 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 2013, the Canadian dollar lost its strength in relation to the US dollar, and was lower than the US dollar at December 31, 2013. This decrease in the Canadian dollar exchange rate resulted in a decline of the foreign exchange gain by $546,058 for the year ended December 31, 2013 compared to prior year. The increased US rate caused the Company to have a favourable position on certain advances which are denominated in USD. In addition, these foreign exchange gains arose upon translation of the foreign denominated assets and liabilities held by the Company (see "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Impairment Charges

The impairment charges for 2013 relate to accounts receivable of $2,019,987 that have been deemed uncollectable over the next twelve months and an inventory net realizable value write down in steel distribution of $1,507,322. The recorded bad debt is the result of $1,565,143 of long term receivables that are in dispute as well as normal bad debts in the amount of $454,800 for uncollectible trade receivables. The Company is working towards resolution for $1,016,481 of the disputed receivables. The Company typically does not experience bad debts.

The Company also incurred a tariff charge of $417,924 related to a steel piling pipe anti-dumping ruling made by Canadian Border Services Agency which has been included in cost of sales for steel distribution. The Company intends to seek action to recover the charge from parties involved in the tariff.

Throughout the year, the Company examines the value of its inventory against current market conditions and determines if conditions exist that indicate the value of inventory may not be recoverable. When these conditions exist, the Company is required to adjust its inventory to reflect its net realizable. Net realizable value is an estimate of future selling prices less the costs to sell. If the net realizable value of inventory subsequently increases, the Company is required to reverse the write down. The steel distribution has several inventory items that are slower moving and are more difficult to sell with some inventory being held for more than two years, as a result of the excess slow moving inventory, management is forced to reduce selling prices in attempt to move the product resulting in an impairment of the current value of the inventory in stock. For 2013, the Company determined that a write down to net realizable value was necessary on steel distribution inventory of $1,507,322.

Depreciation and amortization

Depreciation and amortization	For the year ended December 31 2013	2012	Change $	%
Property and equipment	$ **1,846,355**	$ 1,426,925	$ 419,430	29.4%
Intangible assets	**886,324**	393,172	493,152	125.4%
Total	$ **2,732,679**	$ 1,820,097	$ 912,582	50.1%

The depreciation of property and equipment increased during the twelve month period ended December 31, 2013 as the result of steel manufacturing equipment being put into use and a full year of depreciation being taken on the active equipment. Amortization of intangible assets has increased due to intangible assets such as customer relationships, and non-compete agreements that were acquired as a result of the acquisitions that occurred late in 2012 and in the third quarter of 2013.

Interest

Interest	ended December 31 2013	2012	Change $	%
Interest on short-term operating debt	$ **2,520,082**	$ 2,476,769	$ 43,313	1.7%
Interest on long-term debt	**1,281,934**	92,808	1,189,126	1281.3%
Interest on obligations under finance lease	**22,791**	40,962	(18,171)	-44.4%
Total interest expense	$ **3,824,807**	$ 2,610,539	$ 1,214,268	46.5%
Deduct non-cash interest expense: Amortization of capitalized deferred financing costs	$ **469,581**	$ 234,981	$ 234,600	99.8%
Cash interest expense[1]	$ **3,355,226**	$ 2,375,558	$ 979,668	41.2%

(1) See page 48 for a further explanation of this non-IFRS measure.

Interest on short-term operating debt for the twelve months ended December 31, 2013 was consistent compared to the period in 2012, as the Company maintained a relatively consistent credit facility balance over the past two years.

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

Income taxes

The provision for income taxes for the year ended December 31, 2013 is a net current tax expense of $1,871,445 compared to $2,397,373 in 2012. The decrease in taxes is a result of the decrease in earnings in the fluids and steel distribution divisions as well as the impairment charges recorded in 2013. The Company's effective tax rate is 38.9% for the year ended December 31, 2013 (25% - December 31, 2012). The increase in effective tax rate for the year ended December 31, 2013 compared to the last year period is due to the increased operations in the USA in both fluids distribution and fluid blending and packaging divisions. The Company had a deferred tax recovery of $1,406,487 during the year, largely as a result of the tax effect on losses incurred in the steel pipe manufacturing division and impairment charges

Net (loss) earnings and (loss) earnings per share

Net (loss)/earnings and adjusted EDITDAC	For the year ended December 31 2013	2012	Change $	%
Net (loss)/earnings	**$ (400,793)**	$ 4,892,520	$ (5,293,313)	-108.2%
% of sales	**-0.2%**	3.1%		
Adjusted EBITDAC [1]	**$ 11,345,646**	$ 11,937,169	$ (591,523)	-5.0%
% of sales	**6.3%**	7.5%		

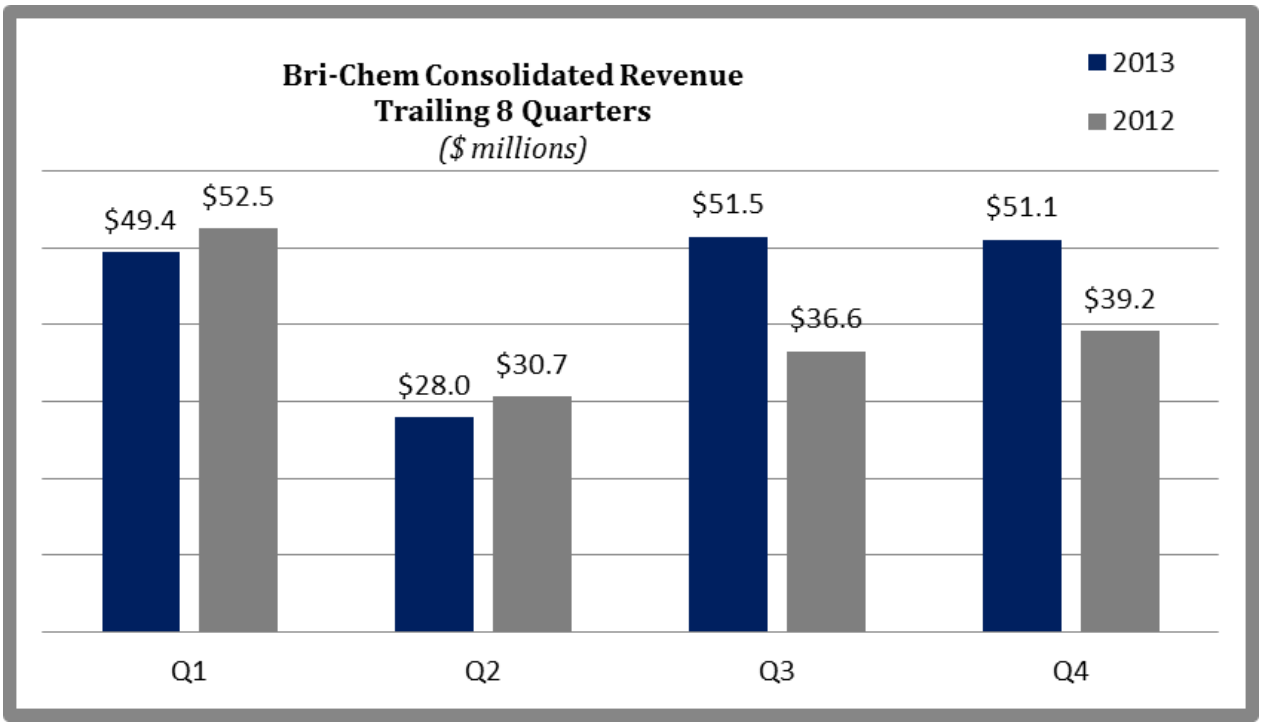
(1) Represents adjusted earnings before interest, taxes, depreciation, amortization, and share-based payments (see page 48 for a further explanation of this non-IFRS measure).

The Company had a consolidated net loss, including non-controlling interests, for the year ended December 31, 2013 of $400,793 compared to net earnings of $4,892,520 in the prior year and net earnings, not including non-controlling interests, of $109,481 compared to net earnings of $5,365,835 for 2012. The consolidated net loss as a percentage of consolidated revenues for the year was -0.2%, as compared to net earnings of 3.1% from the prior year. If the impairment charges were excluded for the year, the Company would of generated net earnings of $1,859,645. Net earnings decreased for the year ended December 31, 2013 mainly due to three significant non-cash related items: being depreciation and amortization that increased by $912,582 as more assets were put into use over the last year, an increased stock-based compensation of $405,646 and decreased foreign exchange gain of $546,058 as the US dollar rose in comparison to the Canadian dollar. In addition, the Company recorded impairment charges of $3,527,309 for 2013 that relate to accounts receivable of $2,019,987 that have been deemed uncollectable over the next twelve months and an inventory net realizable value write down in steel distribution of $1,507,322. The Company also incurred $1,189,126 of additional interest expenses related to a new subordinated debt facility acquired in late 2012.

Adjusted EBITDAC was $11,345,646 for the year ended December 31, 2013 compared to $11,937,169 in the same comparable prior period; a decrease of $591,523. Adjusted EBITDAC decreased for the twelve months ended December 31, 2013 mainly due to a lower foreign exchange gain by $546,058 compared to the same period in 2012.

Basic and diluted loss per share for the year ended December 31, 2013 were $0.01 and $0.01 respectively. The loss per share was based on the weighted average number of shares outstanding during the year. The basic and diluted weighted average numbers of shares outstanding for the year ended December 31, 2013 were 17,613,227 and 17,635,284 respectively.

SUMMARY OF QUARTERLY DATA



(in thousands of Cdn $)	2013 Q4	2013 Q3	2013 Q2	2013 Q1	Total TTM
Sales	$ 51,151	$ 51,448	$ 27,961	$ 49,387	$ 179,947
Gross margin ($)	6,673	8,485	4,323	8,375	27,856
Gross margin (%)	13.0%	16.5%	15.5%	17.0%	15.5%
EBITDAC [1]	1,779	3,690	465	4,355	10,289
Depreciation - Production Equipment	283	273	253	248	1,057
Adjusted EBITDAC [1]	2,062	3,963	718	4,603	11,346
Net earnings (loss)	$ (2,270)	$ 1,078	$ (1,044)	$ 1,835	$ (401)
Basic earnings (loss) per share	$ (0.12)	$ 0.07	$ (0.05)	$ 0.11	$ 0.01
Diluted earnings (loss) per share	$ (0.12)	$ 0.07	$ (0.05)	$ 0.11	$ 0.01

(in thousands of Cdn $)	2012 Q4	2012 Q3	2012 Q2	2012 Q1	Total TTM
Sales	$ 39,248	$ 36,650	$ 30,700	$ 52,547	$ 159,145
Gross margin ($)	6,961	5,950	3,764	8,410	25,085
Gross margin (%)	17.7%	16.2%	12.3%	16.0%	15.8%
EBITDAC (1)	3,149	2,857	83	5,041	11,130
Depreciation - Production Equipment	72	232	223	280	807
Adjusted EBITDAC (1)	3,221	3,089	306	5,321	11,937
Net earnings (loss)	$ 1,330	$ 1,439	$ (770)	$ 2,894	$ 4,893
Basic earnings (loss) per share	$ 0.06	$ 0.10	$ (0.03)	$ 0.18	$ 0.31
Diluted earnings (loss) per share	$ 0.06	$ 0.10	$ (0.03)	$ 0.18	$ 0.31

(1) EBITDAC and Adjusted EBITDAC are non-IFRS measures which the Company defines as earnings before interest, taxes, depreciation and amortization and share-based payments expense. (See page 48 for a further explanation of these non-IFRS measures).

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

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

FOURTH QUARTER RESULTS AND DISCUSSION

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, 2013.

Consolidated statements of operations	For the three months ended December 31		Change	
	2013	2012 (5)	$	%
Sales	$ 51,151,004	$ 39,247,509	$ 11,903,495	30.3%
Gross margin	6,673,629	6,961,070	(287,441)	-4.1%
	13.0%	17.7%		
Operating expenses (1)	4,894,947	3,812,045	1,082,902	28.4%
EBITDAC (2)	1,778,682	3,149,025	(1,370,343)	-43.5%
Depreciation - production equipment	282,921	71,571	211,350	295.3%
Adjusted EBITDAC (3)	2,061,603	3,220,596	(1,158,993)	-36.0%
Depreciation and amortization	848,431	327,844	520,587	158.8%
Interest (6)	1,053,710	709,229	344,481	48.6%
Share-based payments	242,228	416,408	(174,180)	-41.8%
Impairment charges (7)	3,194,759	122,267	3,072,492	100.0%
Earnings before income taxes	(3,277,525)	1,644,848	(4,922,373)	-299.3%
Income tax expense - current	389,007	494,360	(105,353)	-21.3%
Income tax expense (recovery) - deferred	(1,396,867)	(179,654)	(1,217,213)	-677.5%
Net (loss)/earnings	$ (2,269,665)	$ 1,330,142	$ (3,599,807)	-270.6%
Net earnings attributable to shareholders of the Company	$ (2,104,765)	$ 1,128,702	$ (3,233,467)	-286.5%
Net loss attributable to NCI (4)	$ (164,900)	$ 201,440	$ (366,340)	-181.9%
(Loss)/Earning per share				
Basic	$ (0.12)	$ 0.06	$ (0.18)	-293.3%
Diluted	$ (0.12)	$ 0.06	$ (0.18)	-308.2%
Adjusted EBITDAC per share				
Basic	$ 0.11	$ 0.19		
Diluted	$ 0.11	$ 0.18		
Weighted average shares outstanding				
Basic	18,149,957	17,366,461		
Diluted	18,169,986	17,418,815		

(1) See page 48 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 48 for a further explanation of this non-IFRS measure).
(3) Adjusted EBITDAC does not include depreciation of production equipment which is included in cost of sales for financial statement purposes to conform with IFRS (See page 49 for a further explanation of this non-IFRS measure).
(4) Bri-Steel Manufacturing Inc. is a 70% owned subsidiary of Bri-Chem Corp. NCI represents the 30% non-controlling interest's ("NCI") portion of loss of the subsidiary for the year ended December 31, 2013.
(5) The Company reclassified amounts in the Statement of Operations relating to transaction costs of financial liabilities, sublease revenue and lease expense to categorize interest expense and net sublease income consistently. The 2012 comparatives have been reclassified as a result, and this reclassification did not impact on the net earnings of the Company for the three months ended December 31, 2012.
(6) Interest expense for the year ended December 31, 2013 includes amortization of capitalized deferred financing cost of $142,444 (December 31, 2012: $106,209).
(7) Impairment charges are related to inventory and bad debts.

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					
	2013		2012		Change	
Sales by Segment	**$**	**%**	$	%	**$**	**%**
Fluids Distribution - Canada	**$ 24,267,169**	**47.4%**	$ 21,402,221	54.5%	$ 2,864,948	13.4%
Fluids Distribution - USA	**13,839,280**	**27.1%**	4,503,380	11.5%	9,335,900	207.3%
Total Fluids Distribution	**38,106,449**	**74.5%**	25,905,601	66%	12,200,848	47.1%
Fluids Blending & Packaging - Canada (1) (2)	**4,970,079**	**9.7%**	3,554,229	9.1%	1,415,850	39.8%
Fluids Blending & Packaging - USA (3)	**1,822,717**	**3.6%**	-	0.0%	1,822,717	100.0%
Total Fluids Blending & Packaging	**6,792,796**	**13.3%**	3,554,229	9.1%	3,238,567	91.1%
Steel Distribution	**2,490,572**	**4.9%**	3,692,082	9.4%	(1,201,510)	-32.5%
Steel Manufacturing	**3,761,187**	**7.4%**	6,095,597	15.5%	(2,334,410)	-38.3%
Total	**$ 51,151,004**	**100%**	$ 39,247,509	100%	$ 11,903,495	30.3%

(1) Fluids blending and packaging division sells products to the fluids distribution division, which in turn sells it to the end user. In Q4 2013 the three month sales to the distribution division were an additional $2,608,227 (2012 - $1,779,417). This revenue has been eliminated upon consolidation.
(2) On July 2013, the division started selling certain products directly to end users. 2012 sales was reclassified for presentation purposes
(3) Includes sales resulting from the acquisition of Sun Coast which was effective September 6, 2013.

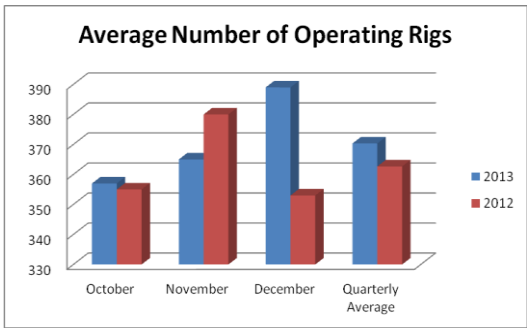
North American Drilling Fluids Distribution Divisions

The Company's North American drilling fluids distribution divisions recorded combined sales of $38,106,449 for the three months ended December 31, 2013 compared to sales of $25,905,601 in 2012, representing an increase of 47.1% quarter over quarter. The Canadian fluids distribution division achieved revenue growth by 13.4% for the three month period ended December 31, 2013, while the USA fluids distribution division grew by 207.3% over the same comparable period in 2012.

Canadian Drilling Fluids Distribution Division

The Canadian drilling fluids distribution division generated revenues of $24,267,169 for the three months ended December 31, 2013 compared to $21,402,221 in 2012, representing a growth of 13.4% quarter over quarter. The increase in Q4 2013 revenue was mainly due to increased rig activity. In Canada, drilling rig utilization averaged 45.7% for the fourth quarter in 2013, an increase of 2.0% quarter over quarter. The number of wells drilled in Q4 2013 was 1.8% higher over the same comparable period in 2012.

Alberta sales reached $20,828,621 for the three month period ended December 31 2013, an increase of 19.3% compared to the same period in 2012. The number of wells drilled in this region in Q4 2013 decreased by 9.0% compared to the same prior year quarter, while the amount of meters drilled in the Alberta region increased by 6.4% for Q4 2013 compared to Q4 2012. British Columbia sales experienced an increase of 31.3% for the fourth quarter in 2013 compared to same period in 2012, generating $1,967,727 in sales from this region during the three months ended December 31, 2013 with a 30.7% increase in drilling



activity in the region. The drilling fluids division had Saskatchewan sales of $1,470,821 a decrease of 39.2% over the comparable period last year. The decrease in revenue in the Saskatchewan market in Q4 2013 was a result of lower drilling activity. Despite a 19.5% increase in the number of wells drilled, our independent drilling fluid engineering customers did not obtain some of the work in these regions as major North American drilling fluid engineering companies acquired a higher percentage of the work and serviced those wells in the regions with their own inventories. Management expects Q1 2014 Canadian drilling fluid sales to increase over Q4 2013 as the winter drilling programs will drive increased demand for fluid products. The overall outlook for 2014 in the Western Canada is a slight decrease in rig activity to 10,930 rigs from 11,072 in 2013, representing a decrease of 1.3%.

United States Drilling Fluids Distribution Division

The Company's USA drilling fluids distribution division generated revenues of $13,839,280 for the three months ended December 31, 2013 compared to $4,503,380 in 2012, representing a 207.3% increase. 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 and Wyoming represented approximately 70%, of sales in the USA for the fourth quarter. Bri-Chem looks to further expand its market presence in the USA as a leading full service independent national wholesaler of drilling fluids, by continuing to provide a diverse product offering that is competitively priced and ensuring sufficient inventory quantities that will meet the needs of our customers.

Fluids Blending and Packaging Division

Canadian Fluids Blending and Packaging Division

For the three months ended December 31, 2013, sales were $4,970,079 as compared to $3,554,229 representing a 39.8% 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 the division has seen increased sales due to providing new products as a result of the Kemik Inc acquisition that occurred in mid Q4 2012.

United States Fluids Blending and Packaging Division

On September 6, 2013, the Company acquired certain assets and business operations of Sun Coast Materials, a California based packager and specialty cement blender to oil well contractors operating in southern and central California, which is expected to further expand Bri-Chem's product offerings into the USA market and provide a solid growth platform to offer cementing products and blending services throughout the USA. Sun Coast's business currently has no geographic overlap with Bri-Chem and they have built a strong market position with many long term customers. This division achieved sales of $1,822,717 for the three month period ended December 2013. During the first quarter of 2014, the division will focus on continuing to service its existing customers with superior customer service while exploring new product and geographic expansion opportunities.

Steel Pipe Division

Steel Pipe Distribution Division

For the three months ended December 31, 2013, the steel pipe distribution division generated revenues of $2,490,572, a decrease of 32.5% over the comparable quarter in 2012. The decrease was a result of lower industry demand for seamless pipe in Western Canada and market consolidation of customers and distributors. The demand for certain grades and sizes of steel pipe is expected to start to increase slowly over the next several months as the North American marketplace has worked through the majority of the excess

inventory on the ground from 2013. Increased drilling activity will be a key factor to drive future demand for steel pipe sales.

Steel Pipe Manufacturing Division

The steel pipe manufacturing division had sales of $3,761,187 in the quarter, a decrease of 38.3% over the comparable quarter in 2012. The decline in sales during Q4 2013 was due to lower demand in the market. The division was able to produce 2,346 tons during the fourth quarter, a decrease of 1,157 tons compared to the same period in 2012. The decline in production of finished goods in Q4 2013 is a result of focusing on completing customer orders, rather than building inventory to lower the cost of production.

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 three months ended December 31					
	2013		2012		Change	
Gross Margin	$	% *	$	% *	$	%
Fluids Distribution - Canada	**$ 2,956,451**	**12.2%**	$ 2,827,590	13.2%	$ 128,861	4.6%
Fluids Distribution - USA	**2,847,661**	**20.6%**	1,031,475	25.6%	1,816,186	176.1%
Total Fluids Distribution	**5,804,112**	**15.2%**	3,859,065	15.4%	1,945,047	50%
Fluids Blending & Packaging - Canada	**1,083,753**	**21.8%**	835,845	23.5%	247,908	29.7%
Fluids Blending & Packaging - USA	**754,132**	**41.4%**	-	0.0%	754,132	100.0%
Total Fluids Blending & Packaging	**1,837,885**	**27.1%**	835,845	23.5%	1,002,040	119.9%
Steel Distribution	**(689,942)**	**-27.7%**	1,061,257	28.7%	(1,751,199)	-165.0%
Steel Manufacturing	**(278,426)**	**-7.4%**	1,204,903	19.8%	(1,483,329)	123.1%
Total	**$ 6,673,629**	**14.3%**	**$ 6,961,070**	17.7%	**$ (287,441)**	-4.1%

* As a percentage of divisional revenues

Fluids Distribution and Packaging Divisions

The drilling fluids distribution division margins were consistent for the three month period ended December 31, 2013 compared to the same period in 2012. Margins on fluid sales vary based on product mix and drilling formations. Canadian fluids distribution division margins averaged 12.2% for the three months ended December 31, 2013, decreasing from 13.2% for the same comparable prior year period. Canadian fluids distribution division experienced a decrease in gross margins due to a higher volume of sales in invert products during the quarter, which are sold at lower margins. This division sold 23.5% more liquid invert quarter over quarter.

The USA fluids distribution division gross margins were 20.6% for the fourth quarter of 2013. This is lower than gross margins in the same comparable period of 2012. The decrease is related to more commodity products, such as barite, being sold during the fourth quarter of 2013. These products are traditionally sold at lower margins. In the short to medium term, margins are anticipated to remain consistent in the fluids distribution division, however a change in product mix could impact margins.

Canadian fluids blending and packaging division margins were 21.8% for the three months ended December 31, 2013, compared to 23.5% for the comparable prior year period. The decrease was due to higher volume sales of lower margin commodity chemical products. With the acquisition of Sun Coast in September 2013, the United States blending and packaging division generated gross margins of 41.4% for the Q4 2013.

Steel Distribution and Manufacturing Divisions

For the steel pipe distribution division margins were -27.7% for the three months ended December 31, 2013, compared to 28.7% for the same comparable period in 2012. The decrease in margins is a result of the Company's inventory management program. The Company also incurred a tariff charge of $417,924 related to a steel piling pipe anti-dumping ruling made by Canadian Border Services Agency. The Company is disputing and intends to seek action to recover the charge. If this tariff was excluded, gross margins for the steel distribution division would have been -$272,018 or -10.9%. Management has consciously determined to reduce selling prices on certain inventory to reduce inventory levels given current market demands. The average selling price in Q4 2013 was less by 4.2% compared to the same period in 2012 due to an intense competition in the market. Gross margins are expected to remain lower in Q1 2014 as the division continues its inventory reduction program, however in the long term, margins are anticipated to return to more traditional levels.

Steel Pipe Manufacturing Division	For the three months ended December 31		Change	
Adjusted Gross Margins	2013	2012	$	%
Gross Margin ($) [1]	**(278,426)**	1,204,903	(1,483,329)	123.1%
As percentage of sales	**-7.4%**	19.8%		
Addback: Fixed overheads in production [2]	**403,752**	528,239	(124,487)	-23.6%
Depreciation of production equipment	**282,921**	71,571	211,350	295.3%
Adjusted Gross Margin ($) [3]	**408,247**	1,804,713	(1,396,466)	-77.4%
As percentage of sales	**10.9%**	29.6%		

(1) In compliance with IFRS standards cost of sales include all overheads related to production.
(2) Fixed overhead costs include production facility lease costs, utilities and indirect labour related to the steel manufacturing facility.
(3) Adjusted gross margins reflect the selling price less the cost of product and direct labour to manufacturer the product. (See page 48 for a further explanation of this non-IFRS measure).

Adjusted gross margins were 10.9% for the three months ended December 31, 2013, when adjusting for fixed overheads and depreciation of production equipment as compared to 29.6% for the same comparable period in 2012. The decrease in adjusted gross margin in 2013 was due to the decrease in production during the three month period ended December 31, 2013, which resulted in a higher cost of production. The division produced 2,346 tons during the fourth quarter of 2013, which is less by 1,157 tons compared to the same period in 2012. The decline in production of finished goods in Q4 2013 is a result of focusing on completing customer orders, rather than building inventory to lower manufacturing costs. Sales comprised of smaller diameter products, which yielded lower margins. Margins have the potential to fluctuate depending on the size and grade of pipe being produced. Management is focused on meeting the size requirements of its customers, while being competitively priced.

Wages and Salaries

Wages and salaries increased by $826,981 for the fourth quarter of 2013 compared to same period in 2012. The increase includes $264,672 of wages related to the acquisition of Sun Coast. The USA fluids distribution division made up the remainder of the increase in staff as sales and operational staff increased in 2013 over 2012 as a result of escalating activity throughout the USA division.

Operating expenses

Operating expenses increased by $451,025 compared to the same period in 2012. Selling costs were consistent while general and administration costs increased by $104,490 over the comparable prior period, due to the increase in bank charges The increase in bank charges was partially offset by the decline in insurance coverage due to lower inventory levels and a slight reduction in premiums in 2013. Professional fees increased by $95,784 over the comparable prior period. The increase is due to ABL audit fees and legal fees related to the acquisition that was completed in late in the third quarter of 2013. The Company recorded a foreign exchange gain of $362,162 for the fourth quarter of 2013 compared to a foreign exchange gain of $35,170 in the fourth quarter of 2012. This was largely a result of foreign exchange gains realized due to the difference in the Canadian and US dollar during the period. Occupancy costs increased by $242,901 as the Company continued its expansion of warehouses in the US fluids distribution business resulting in more warehouses being leased during 2013.

Impairment Charges

The impairment charges for Q4 2013 relate to accounts receivable of $1,687,437 that have been deemed uncollectable over the next twelve months, and an inventory net realizable value write down in steel distribution of $1,507,322. The recorded bad debt is the result of long term receivables that are in dispute as well as normal bad debts in the amount of $122,250 for uncollectible trade receivables. The Company is working towards resolution for $1,016,481 of the disputed receivables. The Company typically does not experience bad debts.

Throughout the year, the Company examines the value of its inventory against current market conditions and determines if conditions exist that indicate the value of inventory may not be recoverable. When these conditions exist, the Company is required to adjust its inventory to reflect its net realizable. Net realizable value is an estimate of future selling prices less the costs to sell. If the net realizable value of inventory subsequently increases, the Company is required to reverse the write down. The steel distribution has several inventory items that are slower moving and are more difficult to sell with some inventory being held for more than two years, as a result of the excess slow moving inventory, management is forced to reduce selling prices in attempt to move the product resulting in an impairment of the current value of the inventory in stock. For 2013, the Company determined that a write down to net realizable value was necessary on steel distribution inventory of $1,507,322.

Depreciation and amortization

Depreciation and amortization expenses increased by $520,587 or 158.8% for Q4 2013 compared to the same period in 2012, as a result of equipment being put into use during 2013 and a full year of depreciation being taken on the active equipment. Amortization of intangible assets has increased due to intangible assets such as customer relationships, and non-compete agreements that were acquired as a result of the acquisitions that occurred late in 2012 and in the third quarter of 2013.

Interest

Interest	For the three months ended December 31 2013	2012	Change $	%
Interest on short-term operating debt	**$ 733,514**	$ 611,265	$ 122,249	20.0%
Interest on long-term debt	**315,450**	89,317	226,133	253.2%
Interest on obligations under finance lease	**4,746**	8,647	(3,901)	-45.1%
Total interest expense	**$ 1,053,710**	$ 709,229	$ 344,481	48.6%
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	**$ 142,444**	$ 106,209	$ 36,235	34.1%
Cash interest expense[1]	**$ 911,266**	$ 603,020	$ 308,246	51.1%

(1) See page 48 for a further explanation of this non-IFRS measure.

Interest on short-term operating debt increased to $733,514 for the three months ended December 31, 2013 from $611,265 in same comparable period of 2012. The increase was due to the increased borrowing on the Company's ABL Facility to finance revenue growth, capital expenditures and the Sun Coast acquisition.

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

The amortization of capitalized deferred financing costs for the Q4 2013 was consistent compared to the Q4 2012.

Net (loss) earnings and (loss) earnings per share

Consolidated net loss for the three months ended December 31, 2013, including non-controlling interests, were $2,269,665 or ($0.12) diluted per share, compared to net earnings of $1,330,142 or $0.06 diluted earnings per share over the comparative quarter in 2012 and net loss, not including non-controlling interests, of $2,104,765 compared to net earnings of $11,28,702 for 2012. Net loss for the three month period ended December 31, 2013 was due to the increase of depreciation and amortization, and interest expenses by $520,587 and $344,481, respectively. In addition, the Company recorded impairment charges of $3,194,759 that relate to accounts receivable of $1,687,437 that have been deemed uncollectible over the next twelve months as well as an inventory write down to net realizable value in the amount of $1,507,322. Adjusted EBITDAC was $2,061,603 for the three months ended December 31, 2013 compared to $3,220,596 in the same comparable prior period; a decrease of $1,158,993. Adjusted EBITDAC decreased for the three months ended December 31, 2013 due to a lower gross margin on product sales compared to the same period in 2012.

FINANCIAL CONDITION & LIQUIDITY

Summary Balance Sheet As at		December 31 2013		December 31 2012
Current assets	$	**125,644,692**	$	110,593,078
Property and equipment		**15,596,330**		12,923,394
Other assets		**11,970,638**		5,738,587
TOTAL ASSETS	$	**153,211,660**	$	129,255,059
Current liabilities	$	**83,713,484**	$	66,746,849
Non-current lliabilities		**9,320,310**		10,778,849
TOTAL LIABILITIES		**93,033,794**		77,525,698
Share capital		**33,647,907**		24,396,817
Non-controlling interest		**1,925,018**		2,412,225
Retained earnings and contributed surplus		**24,604,941**		24,920,319
TOTAL SHAREHOLDERS' EQUITY		**60,177,866**		51,729,361
TOTAL LIABILITIES AND EQUITY	$	**153,211,660**	$	129,255,059

Financial Ratios	December 31 2013	December 31 2012
Working capital ratio	**1.50**	1.66
Days sales in receivables	**95.3**	105.2
Inventory turns	**2.0**	2.2
Days purchases in payables	**64.0**	70.0

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.

As at December 31, 2013 the Company had positive working capital of $41,931,208 compared to $43,846,229 at December 31, 2012. The Company's current ratio (defined as current assets divided by current liabilities) was 1.50 to 1 for the year ended December 31, 2013, compared to 1.66 to 1 for the year ended 2012.

As at December 31, 2013, the Company had drawn $53,495,254 net of unamortized transaction costs of $429,444, on its available credit facilities of $90,000,000, as compared to $44,899,139 at December 31, 2012. On November 14, 2013 the Company amended the terms of the Asset-Based Lending Facility (the "ABL Facility") to increase the borrowing base up to maximum of $90,000,000 (December 31, 2012 - $80,000,000), The amendments reduced interest rates and extended the maturity of the facility to August 12, 2016. Under the revised terms, the ABL Facility bears interest either at prime rate (2012 – prime rate plus 0.25%) or the bankers' acceptance rate plus 1.50% (2012 - bankers' acceptance rate plus 1.75%) or LIBOR plus 1.50% (2012 – LIBOR plus 1.75%), a collateral management fee of $1,500 per month (2012 - $3,000 per month) and a stand-by fee of 0.25% (2012 – 0.25%) on unused amounts of the ABL Facility. The Company also changed financial covenants by replacing the minimum adjusted tangible net worth covenant with a minimum fixed charge coverage ratio covenant.
The December 31, 2013 days sales in receivables are 95.3, lower than the ratio from December 31, 2012 of 105.2. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference

in the calculation of the days sales in receivables. The US companies usually pay their suppliers quicker than in Canada and as a result of the increased revenue in the US fluids divisions, both the days in sales and the days purchases in payables ratios decreased during the last six months of 2013. The decrease in the days' purchases in payables at December 31, 2013 compared to December 31, 2012 is also a result of the Company's ABL Facility management by closely linking the inflow of cash receipts to the outflow of cash to vendors, and to the increased operating activity of the Company in the USA.

As at December 31, 2013, accounts receivable was $45,877,585 an increase of $8,282,884 or 22.0% from the December 31, 2012 balance of $37,594,701. The increase is the result of an overall growth in sales activity in both the Canadian and USA fluids divisions during the third and fourth quarters of 2013.

Inventory increased by $4,448,444 or 6.3% to $74,735,083 compared to the 2012 year end balance. Inventory turns stayed the same at December 31, 2013 compared to the prior year. A significant portion of the inventory increase relates to increased value of large diameter seamless pipe, as costs to produce are added into inventory. The USA fluid division increased inventory by $4,616,504 in order to keep up to the growing fluids demand from its customers. The steel manufacturing division has seen the biggest increase of inventory of $7,657,606 over the past twelve months as the division continues to produce more tons than its sells on a monthly basis. Management is evaluating the production schedule given current market demand and has implemented an inventory reduction program in order to reduce finish goods inventory over the short term. The steel manufacturing division has sufficient raw pipe tubes required for the forecasted production for the Q1 2014. These increases were partially offset by a decline of inventory in steel distribution and in the Canadian fluids distribution divisions for the amount of $4,199,309 and $2,188,370, respectively. Inventory decreased in these divisions as a result of the decline in revenues over the twelve month period ended December 31, 2013 in the steel distribution division, including impairment charge of $1,507,322, and more prudent inventory management in the Canadian fluids distribution division. Management is continuing its inventory management program and is reducing inventory levels in divisions based on current activity levels without impacting the service levels of our customers.

The Company's prepaid expenses and deposits have increased by $523,031 to $3,234,769 at December 31, 2013 as compared to the 2012 year end balance of $2,711,738. The increase was due to deposits being made on steel pipe purchases from international vendors that do not provide credit terms.
The Company's liquidity will depend upon operating cash flows, existing working capital, the unused credit facility and the ability to access debt and equity markets. The Company currently has sufficient liquidity of approximately $21,247,225 under its existing ABL facility. The Company is able to meet the long-term payment obligations of its outstanding loans. The Company continues to assess its requirements for capital on an on-going basis. Based on current budgeted operating expenditures for 2014, the Company will have sufficient funds to meet its obligations.

Summary of Consolidated Statements of Cash Flows **Period ended**		**December 31 2013**		December 31 2012
Cash (used in) provided by operating activities	**$**	**(2,591,959)**	$	3,256,224
Cash provided by financing activities		**12,249,330**		3,858,841
Cash used in investing activities		**(9,657,371)**		(7,115,065)
Net increase in cash and cash equivalents	**$**	**-**	$	-
Cash and cash equivalents, beginning of year		**-**		-
Cash and cash equivalents, end of year	**$**	**-**	$	-

Cash flow (used in) provided by operating activities

Cash used in operating activities for the twelve month period ended December 31, 2013 was $2,591,959 compared to cash provided of $3,256,224 for the same period in 2012. The Company's cash used in operating activities mainly relates to the increase of accounts receivable and inventory balances by approximately $14.0 million during 2013. This increase was partially offset by a decrease in accounts payable. Inventory levels have increased due to increased US fluid demand as well as inventory in the steel manufacturing division. The increase in accounts receivable is due to increased sales in the last six months of 2013. Management is confident that there are no major concerns with the collection of the amounts outstanding at the 2013 year end. The Company intends to continue to manage its inventory levels and spending in order to conserve its balance sheet strength and minimize any increase in debt levels.

Cash flow provided by financing activities

Cash provided by financing activities was $12,249,330 for the year ended December 31, 2013, compared to cash provided of $3,858,841 in the comparable 2012 period. The cash provided by financing activities in 2013 is related to advances on the operating line to fund period operations and proceeds from issuance of common shares for a total net amount of $9,416,366 under an equity financing arrangement which closed on December 20, 2013. The Company applied the net proceeds of the equity financing to reduce outstanding indebtedness under the Company's ABL Facility, thereby freeing up borrowing capacity that may be redrawn to fund the Company's ongoing growth opportunities and, more specifically, to continue to fund U.S expansion in its North American drilling fluids divisions, through both organic growth and potential acquisitions. The increase in advances on the operating line was due to the increased sales in the last six months of 2013. This resulted in a higher purchasing activity during that period, as more borrowing was required to pay vendors ahead of the collection of receivables on increased sales. During 2013 the Company also repurchased common shares under its normal course issuer bid.

Cash flow used by investing activities

Cash used in investing activities amounted to $9,657,371 for the year ended December 31, 2013 compared to $7,115,065 in 2012. This increase is mainly due to the acquisition of Sun Coast which occurred in September 2013. The total consideration paid of $6,722,926 (USD$6,470,816) consisted of cash payments with terms of $6,493,506 (USD$6,250,000) on closing, and a promissory note payable with a fair value of $229,420 (USD$220,816) bearing interest at 4% per annum, repayable in September 2014. On November 2013, the Company acquired capital assets for the amount of $1,373,051 (USD$1,359,860) in the USA, which will be used by the USA fluids blending & packaging division. In addition, more capital asset additions were required in the steel manufacturing facility as the facility is now in operation. Forecasted capital expenditures for 2014 are approximately $4,600,000 and will be funded through existing operating facilities and possible finance leases where possible for specific equipment.

Covenants

	December 31, 2013		December 31, 2012	
	As calculated	**Minimum required**	As calculated	Minimum required
		To exceed		
Fixed charge coverage ratio	**1.16**	1.10	-	-
		Not to exceed		Not to exceed
Eligible capital expenditures	**$ 3,277,181**	$ 4,262,700	$ 3,463,991	$ 3,630,600
		Not to exceed		Not to exceed
Funded term debt to EBITDA	**0.98**	1.5:1	0.91	1.5:1

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

The fixed charge coverage ratio is set at a minimum of 1.10 to 1 level and defined as the trailing twelve months of EBITDA, less non-funded capital 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. The funded term debt to EBITDA covenant is set at a maximum of 1.50 to 1. Funded term debt is any term debt including, without limitation, the subordinated debt facility and any capital lease obligations. EBITDA is net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including transaction and acquisition expenses) and extraordinary items and share based payments during any of its recently completed four fiscal quarters.
The minimum covenants are noted in the above table. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a monthly basis. As at December 31, 2013, the Company was in compliance with all financial covenants.

Commitments under operating lease and liquidity analysis

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

	Minimum lease payments due			
	Within one year	2 - 5 years	After 5 years	Total
December 31, 2013	$ 3,158,260	$ 9,179,325	$ 1,234,026	$ 13,571,611
December 31, 2012	3,349,602	10,728,056	1,220,368	15,298,026

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, 2013 are as follows:

	Bank Credit Facility	Accounts payable	Long-term debt *	Promissory notes payable *	Finance leases*	Total
2013	$ 53,924,698	$ 27,187,839	$ 2,306,716	$ 506,728	$ 151,203	$ 84,077,184
2014	-	-	2,174,716	-	113,881	2,288,597
2015	-	-	2,045,006	-	73,645	2,118,651
2016	-	-	7,059,332	-	8,229	7,067,561
2017	-	-	4,711	-	2,743	7,454
Thereafter	-	-	-	-	-	-
Total	$ 53,924,698	$ 27,187,839	$ 13,590,481	$ 506,728	$ 349,701	$ 95,559,447

* includes interest calculated to be paid

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.

Property and equipment

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 investment in property and equipment for the year ended December 31, 2013 was $3,138,328. The capital expenditures were funded from the Company's operating line of credit.

The budgeted future capital expenditures for 2014 are approximately $4,600,000. Proposed future equipment upgrades may include bulk storage tanks and blending and packaging equipment for the USA drilling fluids distribution division, three storage tents for product as well as additional testing equipment for the steel manufacturing division. Capital expenditures typically are comprised of betterments and upgrades to existing assets, and additions incurred during the period. The Company ensures equipment is efficient and profitable or the equipment is replaced when the cost of maintenance and operating the equipment is not feasible

Off-balance sheet arrangements

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

Transactions with related parties

During the year ended December 31, 2013, the Company incurred office sharing costs of $60,000 (December 31, 2012 – $60,000) that were paid to a company over which a director has control.

Post-reporting date events

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

OUTLOOK

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

The Petroleum Services Association of Canada (PSAC) has forecasted 10,930 wells to be drilled in Western Canada for 2014, a forecasted decrease of 1.3% over 2013. PSAC also has forecasted 3,389 wells to be drilled in Canada for the first quarter of 2014, a decrease of 9.9% over the first quarter of 2013. The strength of the first quarter is also dependent on the timing of spring break up in Western Canada. Looking beyond Q1, it is difficult to determine if demand for oilfield activity will increase as economic concerns and geopolitical situation are still impacting the stability of commodity prices.

The Canadian fluids distribution division is expected to remain steady as rig activity is not projected to increase in Q1/14 from the prior year. Bri-Chem will actively focus on seeking to acquire companies that formulate specialty drilling fluid products, aimed at production and stimulation fluids, for further penetration into the Canadian drilling fluids market place. Bri-Chem is well established in the Canadian fluids market place and will continue to supply its existing customers by focusing on service and ensuring that inventory levels are strategically managed to meet the demands of our customers.

Bri-Chem's USA fluids distribution division has continued to see sales and earnings growth throughout 2013 as a result of product and geographic expansion throughout the major resource plays in the USA. The division has built solid infrastructure with personnel and inventory to service the expanding needs of our customers. We feel that with the strategic network of warehouses throughout the USA, we are well positioned to continue to grow revenue and profits by servicing independent fluid engineering companies that operate in multiple regions. In 2014, the division will continue to strive for further penetration into the independent wholesale fluids market and will focus expansion efforts in the Texas marketplace, which has a large number of rigs operating. In addition, the division will seek out opportunities to expand its liquid mud plants into regions that consume high volumes of this product and explore alternatives to become basic in commodity chemicals.

The Company's fluids blending and packaging division has grown throughout 2013 by providing value added blending services of proprietary products used in the cementing and stimulation applications of drilling. The Company has provided new products and is servicing existing customers that have entered into new geographic regions which has contributed to the revenue and earnings growth in the division. With the acquisition of Sun Coast in California, Bri-Chem will focus to establish and expend a market presence in blending and packaging of cement and stimulation products in the USA. In addition, the division will look to

diversify its product offering into regions throughout the USA using Bri-Chem's strategic warehouse network. Management remains focused on seeking out new product offerings, which we anticipate will result in new sales and earnings growth. Management believes that further opportunities exist to develop a liquid stimulation and specialty additives blending division to leverage additional business from existing clients that we currently service.

Throughout 2013, the steel pipe distribution division has been conducting an inventory management program by replacing slow moving inventory with quicker moving items. This program resulted in the significant decline of inventory as of December 31, 2013 and it will be continued in 2014. During Q1/14, management will be conducting a strategic review of the steel pipe distribution division to determine viable strategic options going forward. In addition, the division will focus on distributing more approved manufactures' seamless steel pipe and will continue seeking to reduce overhead costs.

The steel pipe manufacturing division will be focused on lowering costs of production as well as continuing its inventory reduction program in order to minimize the manufacturing costs and maximize profitability. While conducting our strategic review of the steel manufacturing division, management will monitor the North American steel pipe market, seek to reduce production costs, and will be working with a number of master distributors to have our large diameter pipe mill enlisted on major energy companies approved manufacturer's lists.

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

RISKS AND UNCERTAINTIES

The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with; the detailed information appearing elsewhere in this MD&A and Bri-Chem's other public disclosure documents, including the Annual Information Form for the Company for the year ended December 31, 2013. 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 and steel pipe to the oil and gas industry. The primary catalysts to high expenditures and activity levels in the energy industry are oil and gas prices which, in turn, are influenced strongly by supply and demand expectations. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company. The Company attempts to mitigate this risk factor by assessing current drilling activity reports and future predictions from industry associations and reporting bodies when creating product demand forecasts.

Regulations Affecting the Oil and Natural Gas Industry

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

Supply Risk

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

Oil and Natural Gas Prices

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

Commodity Price Risk

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

Concentration risk

The top seven customers of the Company account for approximately 39% of revenue for the year ended December 31, 2013, 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 is expected to continue to grow through acquisitions. The Company may experience difficulties in integrating an acquired business into the existing operations, including but not limited to integrating administrative functions, financial reporting, operational and information systems, improvements in operational effectiveness, standardization of controls, policies and procedures and recognizing the synergistic opportunities of the combined entity. The success of the integration also depends on the ability to retain key employees of the acquired company.

Entering New Business Lines

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

Government Trade Tariffs

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

Seasonal Weather

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

Product Liability Claims

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

Ability to Achieve Profitability

There can be no assurance that the Company will be able to achieve profitability in future periods. The Company's future operating results will depend on a number of factors, including its ability to continue to successfully execute its corporate strategic plan. There can be no assurance that the Company will be

successful in achieving the objectives of its corporate strategic plan or that its corporate strategic plan will enable it to maintain or sustain profitability. Failure to successfully execute any material part of the Company's strategic plan could have a material adverse effect on its business, financial condition, results or operations and cash flows.

Credit Risk

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

Inventory Risk

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

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

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

Income Tax Expense

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

Workplace Safety, Health and Wellness

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

Environmental Liability

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

Dependence on Key Personnel

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

Insurance risk

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

Fuel Prices

The Company incurs costs relating to fuel for its transportation company and as such higher fuel prices could have a material adverse effect on the Company's operations, results of operations and financial position. The Company mitigates this risk by implementing fuel economy, asset utilization, routine repairs and maintenance 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, 2013. Included in this balance is a sales return provision for the fluids distribution division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a

provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision 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, 2013 and have no material impact on the Company:

Amendment to IAS 1 - Financial Statements Presentation

The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

Amendment to IFRS 7 - Financial Instruments: Disclosures

The amendment to IFRS 7 is to enhance disclosure requirements related to offsetting of financial assets and financial liabilities.

IFRS 10 - Consolidated Financial Statements

In January 2013, the Company adopted IFRS 10. This standard introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Company controls the investee on the basis of de facto circumstances. IFRS 10 provides additional guidance to assist in the determination of control where this is difficult to assess. In accordance with the transitional provisions of IFRS 10, the Company re-assessed the control conclusion for its investees at January 1, 2013. The Company has made no changes as a result of this process in the current or comparative period.

IFRS 12 - Disclosure of Interests in Other Entities

In January 2013, the Company adopted IFRS 12. This standard sets out disclosure requirements for the Company reporting under IFRS 10 to enable users of its financial statements to evaluate: a) the nature of, and risks associated with, its interests in other entities; and b) the effects of those interests on its financial position, financial performance and cash flows. The disclosure of interest in subsidiaries is described in the consolidated financial statements for the year ended December 31, 2013 in Note 2 "*Principles of Consolidation*".

IFRS 13 - Fair Value Measurements and Disclosure Requirements

In January 2013, the Company adopted IFRS 13. This standard replaces the fair value measurement guidance contained in individual IFRS's with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to

provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRS.

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

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

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, 2013. The standards issued that are applicable to the Company are as follows:

IFRS 9 - Financial Instruments

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

As part of the Limited Amendments to IFRS 9 project, the IASB tentatively decided at the July 2013 board meeting to defer the mandatory effective date of IFRS 9. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after January 1, 2015 but rather left open pending the finalization of the impairment and classification and measurement requirements. As a result of these decisions and the changes being proposed to IFRS 9, the transitional guidance will change. The Company is considering the implications of the standards, the impact on the Company and the timing of its adoption by the Company.

Amendment to IAS 32- Financial Instruments: Presentation

These amendments, effective January 1, 2014, 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 is currently assessing the impact of the amendment on its consolidated financial statements.

Amendment to IAS 36 - Impairment of assets

This amendment, effective January 1, 2014, addresses 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 is not expected to have a material impact on the Company's financial statements.

IFRIC 21- Levies

This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets', effective January 1, 2014, IAS 37 sets out criteria for the recognition of 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 obligating event). The interpretation clarifies that 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 is not expected to have any 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 10%, and 7% respectively (December 31, 2012 – 15%, 10%) of total revenue during the year and 13%, and 12% respectively (December 31, 2012 – 10%, 20%) 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 $197,571 (December 31, 2012 - $95,549). The allowance is an estimate of the December 31, 2013 accounts receivable balances that are considered uncollectible. At December 31, 2013 the Company had impaired two individually significant receivables of $1,016,481 and $548,662, which were written off.

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, 2013		Gross accounts receivable		Allowance for doubtful accounts		Net accounts receivable
Current	$	13,995,524	$	-	$	13,995,524
31 to 60 days		16,612,489		-		16,612,489
61 to 90 days		10,189,422		-		10,189,422
91 to 120 days		4,279,615		-		4,279,615
Over 120 days		998,106		(197,571)		800,535
Total	$	46,075,156	$	(197,571)	$	45,877,585

The changes in allowance for doubtful accounts were as follows:

		December 31 2013		December 31 2012
Balance, beginning of year	**$**	**95,549**	$	41,852
Bad debt expense		**2,019,943**		231,441
Receivables written off		**(1,917,921)**		(177,744)
Balance, end of year	**$**	**197,571**	$	95,549

The Company held $nil (December 31, 2011 - $52,859) 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, 2013 was Canadian bank prime interest rate (3.00%) (December 31, 2012 - Canadian bank prime interest rate plus 25 basis points (3.35%)). As at December 31, 2013, 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 $100,435 (December 31, 2012 - $87,631).

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:

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	$	34,253,315	$	(60,466,487)	$	3,183,000	$	(23,030,172)

December 31, 2012		Monetary financial assets		Monetary financial liabilities		Derivatives		Net position
Canadian Dollar	$	29,899,939	$	(26,906,594)	$	-	$	2,993,345
US dollar		4,401,791		(22,158,625)		-		(17,756,834)
Total	$	34,301,730	$	(49,065,219)	$	-	$	(14,763,489)

Commodity risk

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

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. On December 23, 2013, the Company entered into a structured foreign exchange agreement with a notional amount of US $1,000,000 at the exchange rate of USDCAD 1.0610, at each expiry dates in January 30, 2014, February 27, 2014 and March 30, 2014. This forward agreement has an embedded option to buy the notional amount at the strike rate (USDCAD 1.0610) if the future spot rate does not trade at or beyond USDCAD 1.0425 ("Barrier") at expiry dates. If the future spot rate reaches the Barrier at expiry dates, the Company has an obligation to buy US $2,000,000 at the strike rate of USDCAD 1.0610. The fair value of the foreign currency option recorded in accounts receivable on the statement of financial position at December 31, 2013 is $40,037 (December 31, 2012 - no foreign exchange derivatives). The fair value of the foreign currency derivative instrument was estimated using the Black-Scholes Option Pricing Model based on the inputs which are observable in the market and include spot USDCAD exchange rate, risk free interest rate and volatility.

SHARE DATA

As at March 31, 2014, the Company had 24,010,736 common shares issued and outstanding. As of December 31, 2013, the board of directors may grant options to purchase up to a maximum of 2,402,662 common shares. As of December 31, 2013, options to purchase 1,265,000 common shares were outstanding at an average price of $2.61 per common share.

NON-IFRS MEASURES

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

Adjusted Gross Margin

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

Steel Pipe Manufacturing Division	For the three months ended December 31		Change	
Adjusted Gross Margins	2013	2012	$	%
Gross Margin ($) [1]	**(278,426)**	1,204,903	(1,483,329)	123.1%
As percentage of sales	**-7.4%**	19.8%		
Addback: Fixed overheads in production [2]	**403,752**	528,239	(124,487)	-23.6%
Depreciation of production equipment	**282,921**	71,571	211,350	295.3%
Adjusted Gross Margin ($) [3]	**408,247**	1,804,713	(1,396,466)	-77.4%
As percentage of sales	**10.9%**	29.6%		

Steel Pipe Manufacturing Division	For the year ended December 31		Change	
Adjusted Gross Margins	2013	2012	$	%
Gross Margin ($) [1]	**536,304**	387,905	148,399	-38.3%
As percentage of sales	**3.1%**	2.6%		
Addback: Fixed overheads in production [2]	**1,896,087**	2,168,175	(272,088)	-12.5%
Depreciation of production equipment	**1,056,434**	807,000	249,434	30.9%
Adjusted Gross Margin ($) [3]	**3,488,825**	3,363,080	125,745	3.7%
As percentage of sales	**19.9%**	22.8%		

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

EBITDAC and Adjusted EBITDAC

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

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

EBITDAC and Adjusted EBITDAC	For the three months ended December 31 2013	2012
Net (loss) earnings	$ (2,269,665)	$ 1,330,142
Add:		
Interest	1,053,710	709,229
Income taxes	(1,007,860)	314,706
Depreciation and amortization	565,510	256,273
Share-based payment	242,228	416,408
Impairment charges (1)	3,194,759	122,267
EBITDAC	1,778,682	3,149,025
Depreciation of production equipment (2)	282,921	71,571
Adjusted EBITDAC	$ 2,061,603	$ 3,220,596

EBITDAC and Adjusted EBITDAC	For the year ended December 31 2013	2012
Net (loss) earnings	$ (400,793)	$ 4,892,520
Add:		
Interest	3,824,807	2,610,539
Income taxes	464,958	1,591,532
Depreciation and amortization	1,676,245	1,013,097
Share-based payment	1,196,686	791,040
Impairment charges (1)	3,527,309	231,441
EBITDAC	10,289,212	11,130,169
Depreciation of production equipment (2)	1,056,434	807,000
Adjusted EBITDAC	$ 11,345,646	$ 11,937,169

(1)Impairment charges are related to inventory, bad debts and other items
(2) Depreciation of production equipment is included in cost of sales for financial statement purposes to conform with IFRS.

Operating Expenses

Operating expenses is not a concept recognized under IFRS as it does not include interest and amortization expense related to operations. The following is a reconciliation of operating expenses as presented in this MD&A to total expenses as presented in the December 31, 2013 annual consolidated financial statements:

Operating expenses	For the three months ended December 31 2013	2012
Operating expenses	$ 4,894,947	$ 3,812,045
Add:		
Interest	1,053,710	709,229
Depreciation and amortization	848,431	327,844
Share-based payments	242,228	416,408
Impairment charges	3,194,759	122,267
Total expenses	$ 10,234,075	$ 5,387,793

Operating expenses	For the year ended December 31 2013	2012
Operating expenses	$ **17,567,377**	$ 13,954,767
Add:		
Interest	**3,824,807**	2,610,539
Depreciation and amortization	**2,732,679**	1,820,097
Share-based payments	**1,196,686**	791,040
Impairment charges	**3,527,309**	234,441
Total expenses	$ **28,848,858**	$ 19,410,884

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 December 31 2013	2012	Change $	%
Total interest expense	$ **1,053,710**	$ 709,229	$ 344,481	48.6%
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	**142,444**	106,209	36,235	34.1%
Cash interest expense	$ **911,266**	$ 603,020	$ 308,246	51.1%

Interest	For the year ended December 31 2013	2012	Change $	%
Total interest expense	$ **3,824,807**	$ 2,610,539	$ 1,214,268	46.5%
Deduct non-cash interest expense:				
Amortization of capitalized deferred financing costs	**469,581**	234,981	234,600	99.8%
Cash interest expense	$ **3,355,226**	$ 2,375,558	$ 979,668	41.2%

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

Internal controls over financial reporting

The CEO and CFO, together with management, are also responsible for establishing and maintaining internal controls over financial reporting ("ICFR") within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO, together with management, have evaluated the design and operating effectiveness of the Company's ICFR as of December 31, 2013 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 Sun Coast, which was acquired by the Company effective September 6, 2013, 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.

Sun Coast constitutes 5.1% of total assets, 0.3% of net assets, 1.3% of net revenues, and $52,645 of net earnings before income taxes of the consolidated financial statement amounts as at and for the year ended December 31, 2013.

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

Officers and Directors

Don Caron(2)
Chairman, President, CEO and Director
Edmonton, Alberta

Brian Campbell(1)
Director
Edmonton, Alberta

Jason Theiss, CA
CFO
Edmonton, Alberta

Trent Abraham
President, Fluids Division
Calgary, Alberta

Albert Sharp(1) (2)
Director
Spruce Grove, Alberta

Eric Sauze, CA(1) (2)
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Neil Rasmussen
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(1) Member of Audit Committee
(2) Member of Compensation Committee

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