





## To Our Shareholders:

We are pleased to report on the activity and results of Bri-Chem Corp. (“Bri-Chem” or “the Company”) for the year ended December 31, 2008. During the year, Bri-Chem’s revenue improved by 87% while net earnings increased 86.9% over last year. A complete copy of Bri-Chem’s report is available on the Internet at [www.sedar.com](http://www.sedar.com).

The 2008 results reflect Bri-Chem’s continued growth in market share over the last year as consolidated revenues were \$111,282,825 for the year ended December 31, 2008, an increase of 87%, when compared to \$59,518,665 from last year. Net earnings from operations for the year ended December 31, 2008 are \$4,486,788 or \$0.33 diluted earnings per share an increase of 86.9% when compared to earnings of \$2,400,520 or \$0.19 diluted earnings per share from last year. Earnings before interest, taxes, depreciation and amortization (EBITDA) are \$9,753,585, an increase of \$4,085,746 or 72.1% compared to last year.

During the three months ended December 31, 2008, EBITDA was \$2,953,760 compared to \$2,179,829 for the same period in 2007. Consolidated revenues were \$46,239,576 in the fourth quarter of 2008, compared to \$21,357,551, an increase of \$24,882,025 or 116.5%. Net earnings for the fourth quarter rose by 189.2% to \$1,234,886 or \$0.09 diluted earnings per share as compared to \$427,032 or \$0.03 diluted earnings per share.

The Company completed an acquisition during the year by acquiring all the issued and outstanding shares of Weifang Steel Canada Ltd. (“Weifang”), a master wholesale distributor of steel tubular, casing and other steel products to the resource and construction industries. The acquisition of Weifang, in August 2008, contributed \$27.9 million of sales for the four months since being acquired. The Weifang acquisition diversifies Bri-Chem’s product distribution and is anticipated to provide future revenue growth.

Bri-Chem’s 2008 operating performance remained strong, despite drilling activity, based on drilling operating days, being down 8.2% for the year ended December 31, 2008. Drilling rig utilization rates remained relatively consistent at 41% compared to 39% in 2007. The overall increase in financial performance is due to Bri-Chem’s strong customer relationships, strategic geographic locations, and a diversified product line through the acquisition of Weifang.

## Outlook

Despite the decline in oil and natural gas drilling activity and the current global and financial crisis, the Company remains well positioned to manage through this crisis due to its low operating costs and strong customer relationships. The Company will continue to focus on its outstanding level of customer service, while evaluating the opportunities of geographic and product expansion.

I would like to thank our employees for their continued commitment and dedication, and our shareholders for their support.

On behalf of the Board of Directors,  
(signed) “Don Caron”  
D.P. Caron, Chairman



This Management's Discussion and Analysis ("MD&A") was prepared as of April 29, 2009. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the year ended December 31, 2008 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, 2008.

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars unless otherwise indicated. All references in this report to financial information concerning the Company refer to such information in accordance with GAAP and all dollar amounts in this report are in Canadian dollars unless otherwise indicated. This report also makes reference to certain non-GAAP measures in assessing the Company's financial performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. The Company includes these non-GAAP measures as it believes they are used by investors to assess the performance of the Company, and is used by management to assist in assessing comparative performance of the Company.

Statements throughout this report that are not historical facts may be considered "forward looking statements." Such statements are based on current expectations that involve risks and uncertainties which could cause actual results to differ from those anticipated. Important factors that can cause anticipated outcomes to differ materially from actual outcomes include the impact of general economic conditions, industry conditions, competition from other industry participants, volatility of petroleum prices, the ability to attract and retain qualified personnel, changes in laws or regulations, currency fluctuations, continued ability to access capital from available facilities and environmental risks. References in this MD&A to "Bri-Chem", the "Company", "us", "we", and "our" mean Bri-Chem Corp.

Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## OVERVIEW OF BUSINESS

Bri-Chem is a leading Canadian based wholesale distributor of drilling fluids, steel products and services to the resource, industrial and construction industries in North America. The Company is headquartered in Acheson, Alberta located 20 kilometers west of Edmonton, Alberta. Bri-Chem owns a 100% interest in Bri-Chem Supply Ltd. ("Bri-Chem Supply"), 100% interest in Sodium Solutions Inc. ("Sodium") and 100% interest in Weifang Steel Canada Ltd. ("Weifang"). Bri-Chem continues to concentrate on expanding its market presence in the wholesale distribution market with the focus being on the following four divisions:

### OIL AND GAS FLUIDS DIVISION

#### *Western Canadian Sedimentary Basin (WCSB)*

Bri-Chem is one of Canada's largest wholesale distributors of drilling fluid supplies to the oil and gas industry in the WCSB. Bri-Chem sells over 150 different products in a wide variety of weights and clays, lost circulation materials, chemicals and oil mud products to mud engineering companies who sell directly to drilling firms engaged by the oil companies. Much of Bri-Chem's success is attributed to their comprehensive network of 17 strategically placed and fully stocked warehouses throughout Alberta, Saskatchewan and British Columbia as mud engineering companies and drilling companies prefer to use

one wholesaler for all of their projects. The drilling fluid supply business experiences some seasonality with the late spring generally being the slowest period, as customers in the natural resource sectors experience a slowdown in their activity. The peak season is in the late fall and winter when customers are not constrained by environmental forces to perform their activities.

#### *Chemical Supplies and Packaging*

The fluids market in the WCSB also includes completion fluids, cementing, acidizing and fracturing fluids. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these end use applications. Bri-Chem has the ability to mix and blend products to grow and adapt to the changing environment and needs of their clients. The distribution of chemical supplies and packaging is operated through Bri-Chem's blending and packaging facilities located in Camrose and Acheson, Alberta and its principal activity is to offer an extensive product line in both packaged and truckload quantities. Bri-Chem continues to target different industries including agriculture and construction for product and industry diversification.

#### *United States (US)*

The US market is significantly larger than the WCSB and more geographically dispersed. Bri-Chem has established a US based warehouse and distribution facility in Williston, ND and has undertaken a strategic move to take advantage of a vast opportunity available for an independent wholesale drilling fluids distributor to supply customers in the US. This expansion has been done in response to a number of requests from Bri-Chem's existing clients in Western Canada to accompany them in their endeavors south of the border.

### **INDUSTRIAL FLUIDS DIVISION**

Bri-Chem entered into a Western Canadian exclusive distribution agreement with Colloid Environmental Technologies Company (CETCO), an industrial fluids product manufacturing company based out of Illinois, USA. The agreement with CETCO has prompted Bri-Chem to pursue an operating division focused on technologically advanced industrial fluids. Performance Industrial Products ("Performance") as a division of Bri-Chem Supply Ltd. that distributes chemicals to the non-oilfield sector. Performance offers chemicals to a diverse number of markets including mining exploration, water well drilling, geothermal and geotechnical drilling, seismic and construction projects.

### **SPECIALTY FLUIDS DIVISION**

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

### **STEEL PRODUCTS DIVISION**

Bri-Chem has recently entered into the wholesale distribution market for steel pipe, fittings, flanges, tubular products and casing. Bri-Chem primarily services the resource and construction markets in Western Canada and Eastern United States. Bri-Chem sells various diameters of carbon steel welded pipe, carbon steel seamless pipe, stainless steel pipe, drill pipe, tubing and casing, sucker rods as well as fittings and flanges. Bri-Chem's superior vendor relationships have provided access to hard to find products and increased marketshare in a competitive industry.

Bri-Chem manages its steel product inventory through two warehouses. The Nisku, Alberta warehouse is the primary stock location for steel products in North America and also maintains a pipe yard in New Orleans, Louisiana which allows the Company to service major pipe distributors throughout the Southeastern USA. Bri-Chem's broad base of steel products are primarily used in the oil and gas industry; however, the Company does distribute steel products to non-oilfield related industries such as construction, industrial and mining.

### **Seasonality of Operations**

Weather conditions can affect the sale of the Company's fluid and chemical 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.

### **Business Acquisition**

On August 29, 2008, Bri-Chem acquired 100% the outstanding common shares of Weifang, a Western Canadian based master wholesale distributor of steel products to the resource, industrial and construction industries. The purchase price of Weifang was \$10.8 million. The acquisition of Weifang expands Bri-Chem's wholesale distribution products offered in the marketplace and provides synergies across the corporate operations. Prior to the acquisition by Bri-Chem, Weifang generated revenues of approximately \$36 million in the trailing twelve months. The operating results of Weifang for four months have been consolidated into Bri-Chem's financial statements following the close of the acquisition and therefore the fiscal 2007 comparative amounts do not include this acquisition.

### **Growth Strategy**

The Company will continue to focus on growth by expanding its market presence in the industrial wholesale distribution markets. 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.



**ANNUAL FINANCIAL SUMMARY**

<b>Consolidated statement of operations</b>				
	<b>December 31 2008</b>	<b>December 31 2007</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Sales	\$ 111,282,825	\$ 59,518,665	\$ 51,764,160	87.0%
Gross margin	<b>18,439,047</b>	10,868,463	7,570,584	69.7%
Gross margin %	<b>16.6%</b>	18.3%	-	-1.7%
Operating expenses <sup>(1)</sup>	<b>8,685,461</b>	5,200,623	3,484,838	67.0%
EBITDA <sup>(2)</sup>	<b>9,753,586</b>	5,667,840	4,085,746	72.1%
Depreciation and amortization	<b>1,351,590</b>	668,405	683,185	102.2%
Interest	<b>1,904,978</b>	1,554,058	350,920	22.6%
Earnings before income taxes	<b>6,497,018</b>	3,445,377	3,051,641	88.6%
Income taxes - current	<b>2,229,413</b>	835,231	1,394,182	166.9%
Income taxes - future <sup>(3)</sup>	<b>(219,183)</b>	209,626	(428,809)	-204.6%
Net earnings	\$ <b>4,486,788</b>	\$ 2,400,520	\$ 2,086,268	86.9%
<b>Earnings per share</b>				
Basic	\$ <b>0.33</b>	\$ 0.19	\$ 0.14	73.7%
Diluted	\$ <b>0.33</b>	\$ 0.19	\$ 0.14	73.7%
<b>Weighted average shares outstanding</b>				
Basic	<b>13,515,723</b>	12,541,319	n/a	n/a
Diluted	<b>13,515,723</b>	12,541,319	n/a	n/a

(1) See page 30 for a further explanation of this non-GAAP measure.

(2) Represents earnings before interest, taxes, depreciation and amortization (see page 30 for a further explanation of this non-GAAP measure).

(3) In fiscal 2007, the Company had approximately \$1,603,980 of non-capital loss carry forwards available to reduce taxable income in the future years. The benefits of these losses were fully utilized in 2007.

**RESULTS OF OPERATIONS**

**Sales**

Sales by segment For the year ended	December 31		December 31		Change	
	2008		2007		\$	%
Fluids	\$ 83,434,468	\$ 59,518,665	\$ 23,915,803	40.2%		
Steel	27,848,357	-	27,848,357	100.0%		
	<b>\$ 111,282,825</b>	<b>\$ 59,518,665</b>	<b>\$ 51,764,160</b>	<b>87.0%</b>		

*Fluids*

In 2008, industry drilling rig utilization rates averaged 41%, representing a 2% increase from the same period last year when drilling rig activity averaged 39%. The Company had a 40.2% increase in fluid sales in 2008 compared to 2007. The sales increase was due to competitively priced products in a volatile market along with a strengthened presence in the marketplace through the continued growth in the Northern BC and Southeastern Saskatchewan, where sales volumes have increased year over year.

For 2008, the Company has seen an increase in sales from the Alberta warehouses of approximately 38% while the decline in overall drilling activity for the Alberta market is approximately 14.6%. Saskatchewan had 3,974 wells drilled during 2008, which generated \$4,622,192 in sales for the Company from this region, while the Company had \$1,527,540 in revenues with 3,396 wells drilling for the same period in 2007. The Company expanded into Saskatchewan in July 2007 through an acquisition, prior to which the Company was not operating in this region. The drilling programs in Northern British Columbia, particularly the Fort Nelson and Fort St. John regions have seen a small decrease in drilling activity of 4% with 836 wells drilled in the area as compared to 871 wells drilled during the same period last year. Despite this decrease in drilling activity, the Company has seen an increase in sales of approximately 10.3% as the drilling formations in this region are more complex and at a greater depth and typically require more product. Revenues generated from the non-oilfield division were \$491,822 for the year ended December 31, 2008 compared to \$207,006 for the same period in 2007, while sales to United States amounted to \$2,155,935 compared to \$648,237 for the same period in 2007 as existing customers are performing work in the US.

*Steel Products*

The Company has recorded four months of sales activity from the acquisition of Weifang that was completed at the end of August 2008. For the year ended December 31, 2008, the steel products division generated revenues of \$27,848,357. The steel products division sells primarily to the oil and gas industry both in Canada and in the United States. The Company purchases steel products overseas and as a result, there was increased demand for foreign steel as the price of North American steel was high. Tubular goods experienced a high demand as there was a shortage of certain pipe products. Due to the increased demand and concern of availability, many customers bought excess product for winter drilling projects.

Sales in the United States amounted to \$8,962,506. The Company will continue its growth in the US market as the US market is significantly larger than the Canadian market and more geographically dispersed, which mitigates some of the seasonality that occurs in the Canadian market. Bri-Chem has an inventory yard in New Orleans, Louisiana to warehouse and distribute tubing and casing to customers in



the US. The Company has undertaken a strategic move to take advantage of a vast opportunity available as a steel wholesale distributor to supply customers in the US. This expansion has been done in response to a number of inquiries from existing and potential clients south of the border. Despite the anticipated decrease in drilling activity in 2009, the steel products division will be able to distribute steel products to the construction industry for the purposes of building infrastructure.

**Gross margin**

<b>For the year ended</b>	<b>December 31 2008</b>	December 31 2007	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Gross margin	\$ 18,439,047	\$ 10,868,463	\$ 7,570,584	69.7%
% of sales	16.6%	18.3%		-1.7%

Consolidated gross margin for the year ended December 31, 2008 was \$18,439,047, an increase of 69.7%. The gross margin as a percentage of sales decreased by 1.7% from the prior year largely due to the increase in costs of many fluid products during the year. The fluids division continued to incur product cost increases as a result of world market conditions. Those costs are partially passed on to customers typically through a 30 day notice of price increases, therefore causing a timing delay between the increased cost of product and the increased prices to customers. As a result of world market conditions, many customers put pressure on distributors to provide discounts or reduce selling prices. In addition, the fluids division had lower margins due to the sharp decrease in the Canadian dollar in the fourth quarter, as the Company purchases approximately 25% of its chemicals from the US, while sales are predominately in Western Canada. The steel division averaged gross margin of 15.1% for the year ended December 31, 2008. Margins traditionally have averaged between 15.5% to 17%. The steel division had slightly lower margins due to a number of trading orders which typically have lower margins and the sharp decrease in the Canadian dollar in the fourth quarter, although not as significant as the fluids division as the steel products division maintains 30% of its sales to US customers.

Given the current global economic crisis we anticipate our gross margin to be comparable to our 2008 fourth quarter gross margin. Steel commodity prices are at depressed amounts and are expected to stay there for the first half of 2009, which will result in the Company lowering prices to stay competitive with the market place. The costs of drilling fluids should stabilize leading to a more stable gross margin in 2009. We are unable to predict the value of the Canadian dollar in relation to foreign currencies in the future; therefore, we are uncertain as to the potential impact on the Company’s gross margin in relation to foreign purchases of product.

**Operating expenses**

**Salaries and employee benefits**

<b>For the year ended</b>	<b>December 31 2008</b>	December 31 2007	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Salaries and benefits	\$ 4,821,487	\$ 3,196,004	\$ 1,625,483	50.9%
% of sales	4.3%	5.4%		-1.1%



The dollar increase in salary and employee benefits for the year ended December 31, 2008 relates to twenty-two additional staff brought in from the Weifang acquisition as well as seven additional staff members brought in from a previous acquisition in July 2007. Weifang had salaries and benefits of \$743,946 during the four months since being acquired. In addition, the Company hired one new sales person, along with a purchasing manager and two accounting personnel. Executive compensation increased by \$79,353 to \$800,502 for the year ended December 31, 2008 compared to \$721,149 for the same period last year. In addition, the Company paid more in variable compensation to its sales staff as a result of increased sales activity and have accrued year end employee and management bonuses of \$467,500 compared to \$279,165 in 2007.

**Selling, general and administration**

For the year ended	December 31 2008	December 31 2007	Change	
	\$	\$	\$	%
Selling	\$ 621,216	\$ 524,517	\$ 96,699	18.4%
Professional and consulting	641,043	283,039	358,004	126.5%
General and administration	1,708,681	615,287	1,093,394	177.7%
Rent, utilities and occupancy costs	907,476	589,650	317,826	53.9%
	<b>\$ 3,878,416</b>	<b>\$ 2,012,493</b>	<b>\$ 1,865,923</b>	<b>92.7%</b>
<b>Selling, general and administrative expenses (as a % of sales)</b>				
Selling	0.6%	0.9%		
Professional and consulting	0.6%	0.5%		
General and administration	1.5%	1.0%		
Rent, utilities and occupancy costs	0.8%	1.0%		
	<b>3.5%</b>	<b>3.4%</b>		

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

Selling expenses increased for the year ended December 31, 2008 as customer relations and travel expenses for sales staff increased due to the addition of a new sales person as well as \$78,424 of selling costs incurred in Weifang. With the increased sales revenue in 2008, there was more time spent on the promotion of the Company to attract and retain customers in a competitive market. Effective in 2008, sales personnel are paid a vehicle allowance as part of their overall compensation package. In the prior year, the Company leased vehicles and incurred costs for operating those vehicles and these costs were recorded as selling expenses. Selling costs relate to customer relation costs, promotion and travel costs.

Professional and consulting expenses increased significantly from the prior year due to increased audit and consulting fees relating to public reporting matters along with placement fees for hiring of staff. Costs in this category comprise mainly of audit, legal, advisory and consulting fees.

General and administration expenses increased by 177.7% over 2007. During 2008, the global economy took a dramatic downturn which resulted in a weakened demand for the Canadian dollar. The decrease in the exchange rate resulted in a major cost of funding purchases in foreign currencies. The Company reported a foreign exchange loss of \$962,103 in 2008 compared to a \$18,568 gain in 2007. These foreign



exchange losses arose on the translation of the foreign denominated assets and liabilities held by the Company. With the addition of Weifang in August 2008, general and administrative expenses increased by \$176,691, which includes maintaining the Company's steel distribution location in Nisku. The Company had a recovery of bad debts of \$33,147, while other expenses remained consistent from the prior year. General and administration costs consist of licenses, office and computer expenses, and insurance and general bank charges.

Warehouse rent, utilities and occupancy cost expenses increased for the year ended December 31, 2008 due to \$269,681 of costs for the new distribution warehouse in Nisku as a result of the Weifang acquisition in August 2008. Liquid storage tank rentals increased as the Company has expanded its storage capacity for liquid invert to include Edson, Estevan and Grande Prairie. Costs in this category are comprised mainly of rent, utilities, warehouse expense for the Nisku, Camrose, Acheson and Estevan locations as well as liquid storage tank rentals.

### Amortization

For the year ended	December 31		Change	
	2008	2007	\$	%
Property and equipment	\$ 417,463	\$ 320,623	\$ 96,840	30.2%
Intangibles	934,127	347,782	586,345	168.6%
Total	\$ 1,351,590	\$ 668,405	\$ 683,185	102.2%

Amortization expense increased for the year ended December 31, 2008 when compared to last year. The increase relates to \$798,532 of capital additions over the year. In addition, \$738,249 of capital assets were acquired from the Weifang acquisition in August 2008. Amortization of intangibles increased related to the customer relationships, tradename, sales backlog and non-compete agreements due to the acquisition of Weifang in 2008 and Spirit Mountain in 2007.

### Interest

For the year ended	December 31		Change	
	2008	2007	\$	%
Interest on long-term debt	\$ 649,262	\$ 698,571	\$ (49,309)	-7.1%
Interest on short-term operating debt	1,251,203	855,487	395,716	46.3%
Interest on obligations under capital lease	4,513	-	4,513	100.0%
Total	\$ 1,904,978	\$ 1,554,058	\$ 350,920	22.6%

Interest on long-term debt decreased during the year ended December 31, 2008 when compared to last year as \$101,669 of the long-term debt principal balance has been repaid over the past year and the decrease in the prime rate. In addition, the Company repaid \$1,110,660 of promissory notes payable to former owners as part of the January 2007 reverse takeover of Gwelan Supply Ltd. Interest on short-term operating debt has increased for the year ended December 31, 2008 when compared to last year as the Company had a higher revolving line of credit balance due to increased activity levels, carrying more



fluid and steel product inventories, and the settlement of the Weifang acquisition, which was funded from the bank operating line.

As at December 31, 2008, long-term debt consisted of a \$2,200,000, 6% note payable plus accrued interest issued to shareholders of the Company as a result of the January 2007 reverse takeover of Gwelan Supply Ltd., promissory notes payable of \$3,000,000 plus accrued interest to the former owners of Weifang, a \$1,819,316 prime plus 0.85% demand loan outstanding with a Canadian chartered bank, and a \$3,000,000 subordinated loan bearing interest at prime plus 7% with a financial institution.

### Income taxes

The provision for income taxes for the year ended December 31, 2008 is \$2,229,413 compared to current tax expense of \$835,231 in the same periods last year. The increase in current taxes for 2008 resulted from increased earnings and because no income taxes were recorded in the first six months of 2007, as the Company had approximately \$1,603,980 of non-capital loss carry forwards available to offset taxable income. The benefits of these losses were fully utilized in fiscal 2007 and recognized as a reduction of current income tax expense. The Company's current income tax effective rate is 29.5% for the year ended December 31, 2008.

### Net earnings and earnings per share

<b>For the year ended</b>	<b>December 31 2008</b>	December 31 2007	<b>Change</b>	
	<b>\$</b>		<b>\$</b>	<b>%</b>
Net earnings	<b>\$ 4,486,788</b>	\$ 2,400,520	\$ 2,086,268	86.9%
% of sales	<b>4.0%</b>	4.0%		
EBITDA <sup>(1)</sup>	<b>\$ 9,753,585</b>	\$ 5,667,840	\$ 4,085,745	72.1%
% of sales	<b>8.8%</b>	9.5%		

(1) Represents earnings before interest, taxes, depreciation and amortization (see page 30 for a further explanation of this non-GAAP measure).

Net earnings from operations for the year ended December 31, 2008 increased by 86.9% to \$4,486,788 from \$2,400,520 for the same period last year. Net earnings, as a percentage of revenues, have been consistent year over year. EBITDA from operations increased by 72.1% during 2008 when compared to the same period last year. The increase in net earnings and EBITDA is due to the increased sales activity experienced in the year, without the same corresponding increases to operating overhead.

Earnings per share for the year ended December 31, 2008 were based on the weighted average number of shares outstanding during the period. The basic and diluted weighted average number of shares outstanding for the year ended December 31, 2008 was 13,515,723. During the second quarter, 283,000 agent options were exercised at a price of \$2.00 per share. During the third quarter, the Company issued 1,304,348 common shares at a price of \$2.30 per share as consideration for the purchase of Weifang. During the year ended December 31, 2008, the Company issued 30,000 stock options to the independent directors at a price of \$2.30 per share.

**SUMMARY OF QUARTERLY DATA**

(in thousands of Cdn \$)	2008				Total TTM
	Q4	Q3	Q2	Q1	
Sales	\$ 46,240	\$ 32,184	\$ 10,658	\$ 22,201	\$ 111,283
Gross margin (\$)	6,639	5,493	1,969	4,338	18,439
Gross margin (%)	14.4%	17.1%	18.5%	19.5%	16.6%
EBITDA <sup>(1)</sup>	2,954	3,521	702	2,576	9,753
<b>Net earnings</b>	\$ 1,235	\$ 1,883	\$ 104	\$ 1,265	\$ 4,487
Basic earnings per share	\$ 0.09	\$ 0.14	\$ 0.01	\$ 0.09	\$ 0.33
Diluted earnings per share	\$ 0.09	\$ 0.14	\$ 0.01	\$ 0.09	\$ 0.33
(in thousands of Cdn \$)	2007				Total TTM
	Q4	Q3	Q2	Q1	
Sales	\$ 21,358	\$ 18,889	\$ 6,136	\$ 13,136	\$ 59,519
Gross margin (\$)	3,915	3,281	1,269	2,403	10,868
Gross margin (%)	18.3%	17.4%	20.7%	18.3%	18.3%
EBITDA <sup>(1)</sup>	2,180	1,838	337	1,313	5,668
Net earnings (loss)	\$ 427	\$ 1,175	\$ (102)	\$ 901	\$ 2,401
Basic earnings (loss) per share	\$ 0.033	\$ 0.092	\$ (0.008)	\$ 0.074	\$ 0.191
Diluted earnings (loss) per share	\$ 0.033	\$ 0.092	\$ (0.008)	\$ 0.074	\$ 0.191

(1) EBITDA is a non-GAAP measure which the Company defines as earnings before interest, taxes, depreciation, amortization (See page 30 for a further explanation of this non-GAAP measure).

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**

<b>Consolidated Statement of Operations</b>					
<b>For the three months ended</b>	<b>December 31</b>		<b>Change</b>		
	<b>2008</b>	<b>2007</b>	<b>\$</b>	<b>%</b>	
Sales	\$ 46,239,576	\$ 21,357,551	24,882,025	116.5%	
Gross margin (\$)	6,639,745	3,915,448	2,724,297	69.6%	
Gross margin %	14.4%	18.3%		-4.0%	
Operating expenses <sup>(1)</sup>	3,685,984	1,735,618	1,950,366	112.4%	
EBITDA <sup>(2)</sup>	2,953,761	2,179,830	773,931	35.5%	
Depreciation and amortization	609,810	341,788	268,022	78.4%	
Interest	631,413	479,328	152,085	31.7%	
Earnings before income taxes	1,712,538	1,358,714	353,824	26.0%	
Income taxes - current <sup>(3)</sup>	696,835	722,056	(25,221)	-3.5%	
Income taxes - future <sup>(3)</sup>	(219,183)	209,626	(428,809)	204.6%	
Net earnings	\$ 1,234,886	\$ 427,032	807,854	189.2%	
<b>Earnings per share</b>					
Basic	\$ 0.09	\$ 0.04	n/a	n/a	
Diluted	\$ 0.09	\$ 0.04	n/a	n/a	
<b>Weighted average shares outstanding</b>					
Basic	14,514,186	12,926,838	n/a	n/a	
Diluted	14,514,186	12,926,838	n/a	n/a	

(1) See page 30 for a further explanation of this non-GAAP measure.

(2) Represents earnings before interest, taxes, depreciation and amortization (see page 30 for a further explanation of this non-GAAP measure).

(3) The Company had approximately \$1,603,980 of non-capital loss carry forwards available to reduce taxable income in the future years. The benefits of these losses have been fully utilized in the current year (see page 11 for a further explanation).

**Sales**
*Fluids division*

For the fourth quarter of 2008, sales continued to be strong, despite an overall decrease of 6.6% in the number of wells drilled in the quarter compared to the same period last year. During the fourth quarter of 2008, drilling utilization rates for the oil and gas sector averaged 45%, an increase of 7% when compared to same period last year, when rig utilization averaged 38%. Saskatchewan sales were \$1,314,901 in the fourth quarter with 1,065 wells drilled representing an increase in revenues of 35.9%. British Columbia

revenues experienced a sales decrease of 22% over the prior period, generating \$2,548,804 in revenue from this region during the quarter. Despite a 12.1% decrease in the number of wells drilled in Alberta in the fourth quarter of 2008 compared to 2007, the fluids division had Alberta sales of \$19,199,875 and increase of 13.4% over the comparable period last year. In addition, the division had sales to the United States of \$273,575 for the period. With a strong sales presence and diverse geographic representation, the Company was able to increase its sales volumes.

### *Steel products division*

For the three months ended December 31, 2008, the steel division had revenues of \$22,858,157. With the increase in drilling activity in the fourth quarter, the division experienced increased sales. Sales are expected to decline in the short to medium term as demand for steel drilling products will decrease as activities are declining in the first half of 2009. To mitigate some of the decrease in steel drilling sales, the Company will look at diversifying into other industries such as construction and industrial.

### **Gross margin**

Gross margin as a percentage of sales decreased by 3.9% to 14.4% during the quarter from 18.3% from the same period last year. The decrease in margins relates to changes in the product mix, whereby higher margin products may be sold at various times depending on type and activity of drilling. Due to the global economic downturn, the Company was receiving pressure from customers to reduce prices to be competitive in the industry. The Company continued to incur price increases in certain fluid and steel products that were not passed on to customers until late in the year. The Company had increased trading sales of steel products which have lower gross margins. In addition, the Company purchased all of its steel product and 25% of its fluid product in US dollars. The weakened Canadian dollar resulted in higher costs for products purchased from foreign vendors.

### **Operating expenses**

Operating expenses increased by \$1,950,366 or 112.4% compared to the same period in 2007. This was a result of 22 new employees and overhead from the Weifang acquisition, along with higher compensation costs relating to the increased sales activity. Weifang operating costs were \$1,027,670 for the three months ended December 31, 2008. As a percentage of sales, operating expenses for the three months ended December 31, 2008 was 8%. This is comparable to a percentage of 8.1% for the prior year three month period ended December 31, 2007.

### **Depreciation and amortization and interest**

Depreciation and amortization expense increased by \$268,022 or 78.4% compared to the same period in 2007, which was largely due to the capital and intangible additions arising from the Weifang acquisition. Interest expense increased by \$152,085 or 31.7% compared to the same period in 2007. The increase was due to interest on additional short term borrowing that funded inventory purchases and the acquisition of Weifang and interest on promissory notes payable resulting from this acquisition.

### **Net earnings**

Net earnings for the three months ended December 31, 2008 was \$1,234,887 or \$0.09 per share, a \$807,855 improvement over the comparative quarter in 2007. The Company's increased sales growth, along with the low operating overhead resulted in the increased earnings. Earnings per share were



calculated based on the weighted average number of shares outstanding during the three months ended December 31, 2008 and the comparative three month period ended December 31, 2007.

**FINANCIAL CONDITION & LIQUIDITY**

<b>Balance Sheet</b>	<b>December 31</b>	
<b>As at</b>	<b>2008</b>	<b>December 31 2007</b>
Current assets	\$ 88,089,363	\$ 46,161,272
Property and equipment	3,797,515	2,688,781
Other assets	9,074,821	3,068,236
<b>TOTAL ASSETS</b>	<b>\$ 100,961,699</b>	<b>\$ 51,918,289</b>
Current liabilities	\$ 66,756,163	\$ 26,378,736
Long-term liabilities	8,401,179	7,298,218
<b>TOTAL LIABILITIES</b>	<b>75,157,342</b>	<b>33,676,954</b>
Share capital	15,295,274	12,347,444
Retained earnings and contributed surplus	10,509,083	5,893,891
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>25,804,357</b>	<b>18,241,335</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 100,961,699</b>	<b>\$ 51,918,289</b>

<b>Financial Ratios</b>	<b>December 31 2008</b>	<b>December 31 2007</b>
Working capital ratio	1.32	1.75
Days sales in receivables	99.8	132.9
Inventory turns	2.7	2.5
Days purchases in payables	58.2	63.6

As at December 31, 2008, the Company had positive working capital of \$21,333,200 compared to \$19,782,536 at December 31, 2007. The Company's current ratio (defined as current assets divided by current liabilities) was 1.32 to 1 for the year ended December 31, 2008 compared to 1.75 to 1 at December 31, 2007. The decrease in the working capital ratio is the result of Company increasing its inventory to prepare for the winter drilling program and the use of the Company's operating line to fund the Weifang acquisition. In addition, the Company provided the steel products division additional working capital of approximately \$5,000,000 to assist in meeting demand for steel products. As at December 31, 2008, the Company had \$37,666,571 outstanding under its available credit facilities of \$40,000,000, with a Canadian chartered bank, as compared to \$12,050,168 at December 31, 2007. The Company also has \$2,000,000 available on a \$5,000,000 subordinated loan facility which can be drawn, subject to bank approvals, in increments of \$500,000.

The decrease in days sales in receivables from December 2007 is due to increased efforts to collect outstanding amounts and the significant increase in sales early in the year. 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 decrease in days purchases in payables is due to much of the steel products purchased require down payments prior to the receiving of products. Weifang customers typically pay in 76 days.

The Company's balance sheet, as at December 31, 2008 has total assets of \$100,961,699 as compared to total liabilities of \$75,157,342. Accounts receivable increased by \$18,290,060 (73.5%) from \$24,885,748 to \$43,175,808. The Company has receivables of \$15,763,684 related to the steel products division. Increased sales activity in all divisions resulted in the increased receivables at December 31, 2008. Inventory has increased by \$18,808,288 (89%) due to \$11,007,318 of steel tubing, casing, fittings and flanges, as well additional stock of fluid items that have been difficult to replenish due to increased global market demands. The Company's prepaid expenses and deposits have increased by \$4,829,743 as much of the steel products purchased require down payments to vendors prior to the shipment of material.

Payables and accruals were \$24,653,886 compared to \$11,967,882 at December 31, 2007, an increase of \$12,686,004 or 106%, which was a result of \$8,919,723 of payables from the steel products division and increased purchases of fluid products to ensure supply to customers as the global economic crisis is creating pressures on availability of certain products.

Management is satisfied that the Company currently has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. However, the Company continues to assess its requirements for capital on an on-going basis and due to the recent turmoil in the financial markets, which has impacted the availability of both credit and equity in the marketplace, the Company cannot ensure if additional capital to finance growth plans or to finance any future working capital needs will be readily available.

#### **Cash flow (used for) from operating activities**

Cash used for operating activities for the year ended December 31, 2008 was \$13,336,897 compared to cash received of \$6,182,744 for the same period in 2007. The Company's decrease in cash from operating activities relates to the purchase of inventory to prepare for the winter drilling program as well as purchasing additional steel inventory to better service customers and the funding of receivables during increased activity. Prepaid expenses increased by \$4,829,743 as steel product was prepaid in advance to ensure timely shipment and to secure product to meet the needs of customers. The prepayment of inventory was funded out of the Company's operating line of credit. We expect to see our cash from operations increase in the short to medium term, as the Company will commence collection on receivables from winter work, and will not be required to pay out as much in payables as the Company is well stocked with inventory. The Company is well stocked with inventory for our customers requests should activity levels rise. These increases may be offset by changes to the working capital balances resulting from potential increased sales activity.

The decrease in forecasted drilling activity will likely result in a decrease in the Company's near-term activity levels and the resulting cash flows. The Company intends to closely manage its inventory levels and spending in order to conserve its balance sheet strength and minimize any increase in debt levels.

**Cash flow from financing activities**

In 2008, cash from financing activities was \$19,169,310. The cash from financing activities was mainly due from advances on the operating line of credit to fund purchases of inventory and to fund receivables due to increased activity. In the third quarter of 2008, the Company acquired Weifang for \$10,768,906, which included a cash payment of \$4,948,206. In addition, the Company paid \$5,500,000 to close out Weifang's credit facility. These payments were paid out of the Company's current credit facility. On December 18, 2008, the Company established a new credit facility with a maximum limit of \$40,000,000 that would increase to \$45,000,000 effective January 1, 2009 to May 31, 2009, with a reduction to \$35,000,000 thereafter. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second quarter, which it will use to repay the \$10,000,000 bulge by May 31, 2009. With the downturn in drilling activity in 2009, the Company will not require as much inventory, therefore decreasing the amount of cash required to pay vendors. However, this decrease in bank indebtedness could be offset by an increase in market demand for fluids and steel. In addition, the Company will commence repayment of the \$3,000,000 subordinated debt facility in February 2009. The repayments will be funded through the collection of receivables and the current operating credit facility. The Company will also be required to pay \$1,000,000 plus interest in May 2009 and \$1,000,000 plus interest in October 2009 of promissory notes as part of the acquisitions made by the Company. These payments will be funded through the operating credit facility.

**Cash flow used for investing activities**

Cash used in investing activities amounted to \$5,832,413 in 2008, an increase of cash used of \$2,678,220 over 2007. Cash used in both years relate to purchases of property and equipment and the cash used to pay for acquisitions. The increase of cash used was due to the purchase of Weifang in August 2008.

**Business Acquisition****Acquisition of Weifang Steel Canada Ltd.**

On August 29, 2008, the Company acquired 100% of the outstanding common shares of Weifang Steel Canada Ltd. ("Weifang"), a private Alberta wholesale distributor and trader of steel tubular, casing and other steel products to the resource, industrial and construction industries for a total purchase price of \$10,768,906, including 1,304,348 common shares at a fair market value of \$2,260,000. Concurrent with the purchase of the shares, the Company also settled amounts to shareholders of \$2,478,906, which has been reflected in the purchase price.

This acquisition has been accounted for using the purchase method of accounting and the results of operations have been included in these consolidated financial statements from the date of acquisition. The cost of the purchase price has been allocated to the net identifiable assets based on their fair values at the date of acquisition as follows:



Current assets	\$	20,000,234
Property and equipment		738,249
Intangible assets		3,152,000
Goodwill		3,646,855
Bank indebtedness		(5,505,946)
Current liabilities		(10,011,917)
Obligations under capital lease		(370,014)
Future income taxes		(880,555)
	\$	<u>10,768,906</u>

The components of the total purchase price were as follows:

Cash	\$	4,948,906
Closing net income adjustment		450,000
Promissory notes		3,000,000
1,304,348 common shares		2,260,000
Transaction costs		110,000
	\$	<u>10,768,906</u>

The 1,304,348 common shares were issued as part of the purchase price at a price of \$2.30 which is representative of the fair value of the shares at the time of the acquisition. The common shares were then adjusted based on value of a put option of stock and sale restrictions. The transaction costs of the acquisition include legal and consulting fees related to the acquisition. The promissory notes payable bear interest at 6% per annum and have been recorded at fair value.

The purchase price allocated to intangible assets include: customer relationships (\$1,226,000), non-competition agreements (\$958,000), sales backlog (\$410,000), and tradename (\$558,000). Customer relationships, non-competition agreements and the tradename will be amortized over 5 years on a straight-line basis. The sales backlog will be amortized over 6 months on a straight-line basis. The goodwill acquired with Weifang is not deductible for income tax purposes.

The closing net earnings adjustment was paid on January 7, 2009.

### Commitments

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

2009	\$	659,810
2010		146,657
2011		93,472
2012		1,710
	\$	<u>901,649</u>



Contractual obligations related to financial liabilities at December 31, 2008 are as follows:

	<b>Bank credit facility</b>	<b>Accounts Payable and accrued liabilities</b>	<b>Long-term debt *</b>	<b>Promissory notes payable *</b>	<b>Capital leases*</b>	<b>Total</b>
2009	\$ 37,666,571	\$ 24,653,886	\$ 982,738	\$ 2,406,090	\$ 159,155	\$ 65,868,440
2010	-	-	2,505,401	2,462,027	181,008	5,148,436
2011	-	-	762,995	1,169,973	-	1,932,968
2012	-	-	900,000	-	-	900,000
Total	\$ 37,666,571	\$ 24,653,886	\$ 5,151,134	\$ 6,038,090	\$ 340,163	\$ 73,849,844

\* includes interest calculated to be paid

### Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the estimated fair value of the underlying net assets acquired at the date of acquisition. Goodwill is recorded at cost and is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value. Fair value is determined using the discounted, estimated future operating cash flows of the reporting unit.

When the fair value of the reporting unit exceeds the carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of impairment loss, if any. A reporting unit comprises business operations with similar economic characteristics and strategies, and is the level of reporting at which goodwill is tested for impairment. A reporting unit is either an operating segment or a level below and is the level at which information is available for management to make key decisions. For the purposes of goodwill impairment testing, the Company has three reporting units.

### Intangibles

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

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

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

Customer relationships	5 years straight-line
Sales backlog	6 months straight-line
Proprietary technology, technological expertise and proprietary blends	3 years straight-line
Tradename	5 years straight-line
Non-competition agreements	3 to 5 years straight-line

### **Property and equipment**

The Company's investment in property and equipment for the year was a new office trailer in Estevan, Saskatchewan, betterments to the packaging and blending facilities and machinery, additions to the lab facilities, two product storage tents as well as new computers and furniture. The capital expenditures were funded from the line of credit. Capital expenditures typically are comprised of betterments and upgrades to existing assets. 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. Future capital expenditures of approximately \$700,000 are being proposed to build an additional blending unit in Acheson and on machinery for the steel products division in Nisku. The Company plans to fund these capital expenditures from the credit line available and from financing arrangements for capital leases.

### **Off-balance sheet arrangements**

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

### **Transactions with related parties**

During the year ended December 31, 2008, the Company incurred selling, general and administration expenses in the normal course of operations with Western America Capital Group, an affiliated company which a certain director controls, as follows:

- a) Management advisory services of \$120,000 (December 31, 2007 – \$171,000) to Western America Capital Group, a Company which a director has significant influence.
- b) Accounting, administrative and corporate expenses of \$49,352 (December 31, 2007 – \$80,329) were paid to Western America Capital Group, a Company over which a director has significant influence.
- c) The Company paid director fees of \$37,000 (December 31, 2007 - \$22,875) to Don Caron, Eric Sauze and Albert Sharp, three of the Company's directors.

The Company expensed interest of \$159,774 (December 31, 2007 - \$200,521) on promissory notes payable issued in 2006 which are held by two of the Company's directors, officers and significant shareholders. In addition, the Company expensed \$61,151 (December 31, 2007 – nil) on promissory notes payable issued on the acquisition of Weifang, which are held by three of the former owners of Weifang.

*Derivatives and hedge accounting*

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempt from derivative treatment if they are treated as the Company's normal purchases and sales. All changes in fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Company has determined that the application of Section 3865 did not have any material impact on the consolidated financial statements or the opening balance sheet for the year ended December 31, 2007.

*Comprehensive income*

Comprehensive income is composed of the Company's net earnings and other comprehensive income. Other comprehensive income may include any unrealized gains and losses on available for sale securities, foreign currency translation gains and losses on the net investment in self-sustaining foreign operations, and changes in the fair market values of derivative instruments designated as cash flow hedges, all net of income taxes. As the Company did not have any elements of other comprehensive income, the adoption of Section 1530 did not have an impact on the consolidated financial statements for the year ended December 31, 2007 or 2008.

*Equity*

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to those of Section 1530 and recommend an enterprise present separately the following components of equity: retained earnings, accumulated other comprehensive income and the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves. As the Company did not have any elements of other comprehensive income, the adoption of Section 3251 did not have an impact on the consolidated financial statements or the opening balance sheet for the year ended December 31, 2007 or 2008.

**OUTLOOK**

With the recent decrease in oil and gas activity stemming from the global economic crisis it is expected that overall business activity levels for the Company will decrease in 2009. Our customers continue to assess the impact of this crisis on their business and how it may influence product purchases for the upcoming year. We will continue to monitor the economic environment in order to react quickly should market conditions change. Bri-Chem, however, has identified a number of growth opportunities through its recent acquisition of Weifang completed during the third quarter of 2008. Weifang is anticipated to provide both product and geographic diversification that will assist in mitigating the forecasted decrease in oil and gas drilling activity. With our strong market-share and loyal customer base, management believes it is well positioned to increase market penetration and establish the Company as a market leader in the wholesale distribution of fluids and steel products.

The current global economic and financial crisis has reduced liquidity in financial markets, restricted access to financing and caused pressures from customers to reduce selling prices. These conditions are expected to impact the performance of the economy going forward. It is uncertain what the short-term impact of this instability will have on industries and the Company. However with the Company having low operating costs, and strong market-share, we remain well positioned to manage through this crisis. Over the medium to longer term, the Company is confident that it can continue to strengthen its market

presence by offering a diverse product base, and continuing to focus on its outstanding level of customer service.

The downturn in oil and gas drilling activity is expected to continue for 2009 and is not expected to return to historical levels in the near term. The Company will rely on its customer base, wide product offerings and will continue to focus on prudently managing its operating costs. The Petroleum Services Association of Canada (PSAC) forecasts a 19% decrease in the number of wells drilled in 2009 from 2008. With the Company's strategically located warehouses and strong competitive position, the fluids divisions will continue to concentrate on sales to its core customer base while looking for further geographic and product diversifications.

Bri-Chem's industrial fluids division will continue to concentrate on key market niches to which the division services. Despite industry uncertainty over the short term, the industrial fluids division will continue to build solid customer relationships while expanding their market presence by offering competitively priced products to a diverse customer base. Strengthened vendor relationships will allow the division to meet the ever changing needs of customers in various industries.

The Company's steel products division is bracing for a short-term contraction due to shrinking global demand for steel commodity products. However, as demand for steel products recover, the Company has sufficient inventory levels and is in an excellent position to capture new market opportunities. The steel products division also intends to pursue new geographic and industry opportunities to increase its presence in the marketplace and lessen its exposure to the natural resource sector.

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

## **RISKS AND UNCERTAINTIES**

### *Liquidity risk*

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. Global financial markets and economic conditions have been disrupted and volatile. The debt and equity markets have been distressed. These factors, together with the reprising of credit risk and the current weak economic conditions have made, and will likely continue to make it difficult to obtain funding. In addition, the cost of obtaining money from the credit market has generally increased as many lenders have increased interest rates, enacted tighter lending standards, and are not refinancing existing debt at maturity on terms similar to current debt and, in some cases, ceased to provide funding. Due to these factors, the Company cannot be certain that funding will be available when needed and to the extent required, on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

### *Leverage and Restrictive Covenants*

The Company has credit facilities which contain a number of financial covenants that require the Company to meet certain financial ratios and financial condition tests. 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.

### *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 products 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.

### *Alberta Royalty Framework*

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. On October 25, 2007, the Government of Alberta unveiled a New Royalty Framework ("NRF") that introduced new royalties for conventional oil, natural gas and oil sands that are linked to price and production levels. The NRF is intended to be implemented effective January 1, 2009. The NRF established new commodity price and volume sensitive rates for the calculation and collection of royalties. These rates may have an impact on capital expenditures related to drilling exploration. The changes to the royalty regime may affect the exploration for, and the development of, oil and natural gas by entities operating in the Province of Alberta, which effects could negatively impact the business and cash flow of the Company.

### *Supply-Side Risks*

The Company distributes industrial products manufactured or supplied by a number of major suppliers. The Company does not have long-term contracts with any of its major suppliers. Although the Company believes that it has access to similar products from competing suppliers, any disruption in the Company's sources of supply, particularly of the most commonly sold items or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect upon the Company's results of operations and financial condition. Also, supply shortages occur at times as a result of unanticipated demand, production difficulties or delivery delays. In such cases, suppliers often allocate products among distributors. Future supply shortages may occur from time to time and may have a short-term material adverse effect on the Company's results of operations and financial condition.

### *Oil and Natural Gas Prices*

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

### *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.

### *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.

## **CRITICAL ACCOUNTING ESTIMATES**

In preparing the consolidated financial statements, in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates included in the consolidated financial statements are the valuations of accounts receivable, the sales return provision, inventory obsolescence, future income tax assets, and carrying value of goodwill, intangibles and accrued liabilities and future income tax liabilities. Management feels actual results are not materially different from these estimates.

**CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING POLICY***Financial instruments*

Effective January 1, 2008, the Company adopted two new Canadian Institute of Chartered Accountants (“CICA”) standards, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation” which replaced Section 3861 “Financial Instruments – Disclosure and Presentation”. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements of Section 3861. These new standards have resulted in enhanced disclosure in the consolidated financial statements.

Effective January 1, 2007, the Company adopted CICA Section 3855, “Financial Instruments – Recognition and Measurement”, which establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. All financial instruments and certain non-financial derivatives are initially measured at fair value. Subsequent measurement will depend on an instrument’s initial classification. Held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired and the effect is to reduce other comprehensive income and increase comprehensive income. Held-to-maturity investments, loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company classified the relevant financial assets and liabilities in accordance with the new provisions as follows:

Held for trading

Cash

Loans and receivables

Accounts receivable

Other financial liabilities

Bank indebtedness  
Accounts payable and accrued liabilities  
Long-term debt  
Promissory notes payable

The Company did not have any embedded derivatives or other non-financial contracts.

### *Inventory*

Effective January 1, 2008, the Company adopted CICA Section 3031 “Inventories”. This section relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. Under this section, inventory is to be measured at the lower of cost and net realizable value. Net realizable value approximates the estimated selling price less all estimated costs of completion and necessary costs to complete the sale. Costs shall be assigned using the first-in, first-out (FIFO) or weighted average cost method. The section has been applied retrospectively and had no impact on the current or previous operating results of the Company.

Inventory is measured at the lower of cost and net realizable value. Cost is determined using the first-in first-out method for direct purchase price of goods. Costs associated with freight transportation and handling fees are determined using a combination of actual rates and the weighted average cost method. The cost of inventory expensed in cost of sales for the year ended December 31, 2008 was \$88,829,709 (December 31, 2007 - \$47,383,531). Inventory balances are presented net of write down to net realizable value totaling \$48,787 (2007 - \$289,131).

### *Property and equipment*

Property and equipment are recorded at cost less accumulated amortization. Rates and bases of amortization applied to write-off the cost of property and equipment over their estimated useful lives are as follows:

Buildings	4 to 10% declining-balance
Motor vehicles	30% declining-balance
Manufacturing and other equipment	20 to 30% declining-balance
Office equipment	20% declining-balance
Computer hardware	30% declining-balance
Computer software	20 to 100% declining-balance
Pavement and landscaping	8% declining-balance
Leasehold improvements	1 to 5 years straight-line
Equipment under capital lease	10 years straight-line

### *Obligations under capital lease*

The Company accounts for leases as either operating or capital. Capital leases are those that substantially transfer the benefit and risks of ownership to the lessee. Assets acquired under capital lease are amortized over their estimated useful lives. Obligations under capital lease are measured at lower of the present value of future minimum lease payments and fair market value. Leases not meeting the criteria are treated as operating with lease payments recorded as an expense in the period paid or accrued.

### *General standards*

Effective January 1, 2008, the Company adopted paragraph .08(a) and .08(b) of CICA Section 1400 “General Standards of Financial Statements”. This section requires management to make an assessment of the Company’s ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern. The adoption of this Section did not have any impact on the Company’s financial statements.

*Capital disclosures*

Effective January 1, 2008, the Company adopted CICA handbook Section 1535, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s capital and how it is managed in order that a user of the financial statements may evaluate the entity’s objectives, policies and processes for managing capital. The adoption of this section did not have any impact on the Company’s financial position or results of operations and has resulted in enhanced disclosure in the financial statements.

*Future accounting pronouncements*

*Goodwill and intangibles*

In February 2008, the CICA issued new handbook Section 3064 – “Goodwill and Intangible Assets” that supersedes Section 3062 – “Goodwill and Other Intangible Assets” and 3450 – “Research and Development Costs”. This section provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs can be deferred only when relating to an item meeting the definition of an asset. The new accounting standard is effective for interim or annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

*International financial reporting standards*

During 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting purposes. The required transition date is for fiscal years beginning on or after January 1, 2011.

We commenced our IFRS conversion project during 2008 and established a formal project governance structure, including an IFRS Steering Committee, to monitor the progress and critical decisions in the transition to IFRS. This committee is comprised of members of finance management and is responsible for final approval of project recommendations and deliverables to the Audit Committee and the Board of Directors.

The project consists of three phases:

- **Preliminary planning and scoping** – This phase includes the establishment of a dedicated team to work on the IFRS transition, the development of a detailed work plan for the implementation and completion of a high level diagnostic. The high level diagnostic involved a review of the major differences between Canadian GAAP and IFRS and prioritized the IFRS requirements based on their financial reporting impact, business impact and complexity.
- **Detailed assessment and design** - This phase focuses on determining the specific impacts to the Company based on the application of IFRS requirements. This includes the design and development of detailed solutions and work plans by each key area to address implementation requirements. In addition, impact analysis will be performed on all areas of the business, including tax and information technology systems. Accounting policies will be finalized, first-time adoption exemptions will be considered, and a detailed implementation plan and timeline will be developed. This phase also includes the development of a training program.

- **Implementation** – This phase includes implementing the required changes necessary for IFRS compliance. The focus of this phase is the finalization of IFRS conversion impacts, approval and implementation of accounting and tax policies, implementation and testing of new processes, systems and controls, execution of customized training programs and preparation of opening IFRS balances.

The Company has commenced the first phase of the IFRS implementation and this phase has been completed for the first quarter of 2009. At this stage of the project, it is not possible to quantify the financial reporting differences between Canadian GAAP and IFRS

#### *Business combinations*

In December 2008, the CICA issued section 1582 “Business Combinations”, which will replace CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of the shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. This section will be effective January 1, 2011 with prospective application. Although the Company is considering the impact of the adoption of this pronouncement on its consolidated financial statements, the impact will be limited to any future acquisitions beginning in fiscal 2011.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company’s financial instruments consist of recorded amounts of cash, accounts receivable, as well as, bank indebtedness, accounts payable and accrued liabilities, promissory notes payable, long-term debt, and obligations under capital lease.

The carrying value of the financial instruments of the Company approximates their fair values. The estimated fair value 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 cash and cash equivalents, accounts receivable, 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 approximates the carrying value as the interest rate is similar to current market rate for similar debt, while the fair value of long term debt reflects the incremental cost of borrowing given current market interest rates.

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables:				
Accounts receivable	43,175,808	43,175,808	24,885,748	24,885,748
Other financial liabilities:				
Bank indebtedness	37,666,571	37,666,571	12,050,168	12,050,168
Accounts payable and accrued liabilities	24,653,886	24,653,886	11,967,882	11,967,882
Long-term debt *	4,599,267	4,308,838	4,688,970	4,688,970
Promissory notes payable *	5,342,490	5,342,490	3,700,515	3,700,515
Obligations under capital lease *	322,561	322,561	-	-

\* including current portion

#### *Credit risk*

Credit risk is the risk of a financial loss to the Company if a customer fails to meet its contractual obligations. The Company is exposed to credit risk through accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. Bri-Chem also closely monitors the amount and age of balances outstanding. The Company establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information. For the year ended December 31, 2008, the Company had recorded an allowance for doubtful accounts of \$3,435 (December 31, 2007 - \$64,265). The allowance is an estimate of the December 31, 2008 trade receivable balances that are considered uncollectible. Changes to the allowance during the year consisted of trade accounts receivable balances written off of \$31,877, and bad debt recovery of \$32,388.

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 91 days of invoice date.

#### *Interest rate risk*

Demand loans, obligations under capital lease and bank indebtedness are subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. It is management's opinion that interest rate risk is not significant.

The effective interest rate on the bank indebtedness of December 31, 2008 was Canadian bank prime interest rate plus 100 basis points (4.50%). The demand loan bears interest at bank prime plus 85 basis points. As at December 31, 2008, other variables unchanged, an increase or decrease of 50 basis points in the prime interest rate would cause an increase or decrease by approximately \$150,825 in net income.

*Foreign exchange risk*

The Company is subject to foreign currency risk due its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies. Accounts receivable in foreign currency was \$10,027,922 as at December 31, 2008 (December 31, 2007 - \$206,829) and accounts payable in foreign currency outstanding as at December 31, 2008 is \$12,974,583 (December 31, 2007 - \$1,066,885). The Company does not use significant derivative instruments to reduce its foreign currency risk. The Company realized a foreign exchange loss of \$962,103 (December 31, 2007 - \$28,147 gain) during the fiscal year that was included in selling, general and administration expenses. Based on the monetary assets and liabilities held in foreign currencies at December 31, 2008 a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately \$165,257.

*Commodity risk*

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

**SHARE DATA**

As at April 29, 2009, the Company had 14,504,186 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,400,000 common shares. As of December 31, 2008, options to purchase 1,353,000 common shares were outstanding at an average price of \$1.99 per common share. Warrants totaling 350,000 with an average exercise price of \$2.03 may be exercised into common shares prior to July 17, 2010. During the third quarter of 2008, the Company issued 30,000 options to independent directors of the Company at an exercise price of \$2.30 per common share.

**MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

The following measures included in this report do not have a standardized meaning under Canadian generally accepted accounting principles and, therefore, are unlikely to be comparable to similar measures presented by other companies:

EBITDA (Earnings before interest, taxes, depreciation and amortization) is not a concept recognized by generally accepted accounting principles, however is recognized in industry as an indirect measure for operating cash flow, a significant indicator of the success of any business. We believe that EBITDA is a useful measure of earnings, in addition to net earnings as it provides an indication of the financial results and earnings generated by our primary business activities prior to financing and tax considerations and before non-cash amortization expense. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A:



EBITDA	For the three months ended December 31	
	2008	2007
Net earnings	\$ 1,234,886	\$ 427,032
Add:		
Interest	631,412	479,328
Income taxes	477,652	931,682
Depreciation and amortization	609,810	341,788
<b>EBITDA</b>	<b>\$ 2,953,760</b>	<b>\$ 2,179,830</b>

EBITDA	For the twelve months ended December 31	
	2008	2007
Net earnings	\$ 4,486,787	\$ 2,400,520
Add:		
Interest	1,904,978	1,554,058
Income taxes	2,010,230	1,044,857
Depreciation and amortization	1,351,590	668,405
<b>EBITDA</b>	<b>\$ 9,753,585</b>	<b>\$ 5,667,840</b>

Operating expenses is not a concept recognized by generally accepted accounting principles 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, 2008 consolidated financial statements:

Operating expenses	For the three months ended December 31	
	2008	2007
Operating expenses	\$ 3,685,984	\$ 1,732,618
Add:		
Interest	631,413	479,328
Depreciation and amortization	609,810	341,788
<b>Total expenses</b>	<b>\$ 4,927,207</b>	<b>\$ 2,553,734</b>



Operating expenses	For the twelve months ended December 31	
	2008	2007
Operating expenses	\$ 8,685,461	\$ 5,200,623
Add:		
Interest	1,904,978	1,554,058
Depreciation and amortization	1,351,590	668,405
Total expenses	\$ 11,942,029	\$ 7,423,086

## Corporate Information

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### *Officers and Directors*

Don Caron  
Chairman and Director  
Edmonton, Alberta

Albert Sharp  
Director  
Spruce Grove, Alberta

Alan Campbell  
CEO and Director  
Edmonton, Alberta

Eric Sauze, CA  
Director  
Edmonton, Alberta

Brian Campbell  
COO and Director  
Edmonton, Alberta

Jason Theiss, CA  
CFO  
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Trading Symbol - BRY

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### *Transfer Agent*

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### *Share Capital*

Issued: 14,504,186

### *Web Site*

[www.brichem.com](http://www.brichem.com)