Bri-Chem Corp.

Management Discussion and Analysis

December 31, 2009

2009 OVERVIEW:

Fiscal 2009 Western Canadian oil and gas activity levels remained at dramatically lower utilization rates relative to the preceding year due to high natural gas storage levels, low natural gas prices and the effect of the global credit crisis. However, Bri-Chem ("Bri-Chem" or the "Company") remained focused on running its business efficiently through a combination of cost controls and reduced inventory purchases. Revenue, EBITDA and cash flow from operations were negatively impacted by lower customer demand, while net earnings were also impacted by non-cash charges related to impairment of intangible assets and inventory write downs. Despite this challenging environment, Bri-Chem managed to grow market share in its Fluid segment and improved its financial flexibility by reducing its net debt by 18.1% year over year.

The 2009 results reflect Bri-Chem's continued strength in the market place over the last year as consolidated revenues were $96,479,615 for the year ended December 31, 2009, a decrease of 13.3%, when compared to $111,282,825 from last year. Net loss from operations for the year ended December 31, 2009, including impairment charges of $6,884,132 for goodwill and intangible assets and a $3,080,560 inventory write down, is ($8,447,338) or ($0.58) diluted loss per share compared to earnings of $4,486,788 or $0.33 diluted earnings per share from last year. If the impairment charges and inventory write down net of taxes are excluded, the Company's net earnings were $138,191 or $0.01 diluted earnings per share compared to $0.33 diluted earnings per share in 2008. Earnings before interest, taxes, depreciation and amortization (EBITDA) was $633,608, a decrease of $9,378,112 or 93% compared to EBITDA of $10,011,720 from last year.

Net loss for the fourth quarter was ($1,876,804) or ($0.13) diluted loss per share as compared to $1,234,886 or $0.09 diluted earnings per share during the same period last year. The net loss resulted from a net realizable value inventory write down on steel products and drilling fluids of $2,738,292 and $147,259 respectively recorded in the fourth quarter. Without the net realizable value inventory write down, net earnings for the fourth quarter would have been $204,525 or $0.01 diluted earnings per share, a decrease of $1,030,361or 83% compared to the same period in 2008. During the three months ended December 31, 2009, EBITDA was ($1,921,394) compared to $3,006,518 for the same period in 2008. Consolidated revenues were $32,058,565 in the fourth quarter of 2009, compared to $46,239,576 for the same period in 2008, a decrease of $14,181,111 or 30.7%.

Net earnings of the Company declined as a result of weaker demand for fluid and steel products and the continued overstock of steel products in North America, resulting in lower selling prices. In 2009 drilling activity, based on drilling operating days, was down 50.3% for the year ended December 31, 2009 compared to fiscal 2008. Drilling rig utilization rates averaged 25.2% in 2009 compared to 41% in 2008.

Outlook Summary

Bri-Chem anticipates fiscal 2010 sales and earnings will recover as drilling activity levels are improving compared to those in fiscal 2009. The Company still faces a number of factors such as volatile commodity prices, excess inventory levels and an unsettled economic recovery which make fiscal 2010 demand for fluid and steel products difficult to predict,. The Company remains committed to its low overhead and scalable business model which is designed to take advantage of the recovery when activity returns to higher levels.

This Management's Discussion and Analysis ("MD&A") was prepared as of April 26, 2010. It is provided to assist readers in understanding Bri-Chem's financial performance for the year ended December 31, 2009 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, 2009.

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.

DESCRIPTION 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 Bri-Chem Steel Corporation ("Steel"). Bri-Chem continues to concentrate on expanding its market presence in the wholesale distribution market with the focus being on the following three 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 its 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, AB 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.

Specialty Fluids

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

United States (US)

Due to the economic recession, a number of Bri-Chem's fluid customers have moved out of the US due to decreased drilling activity. Bri-Chem has determined it is not feasible to maintain a distribution center given the decreased drilling activity and has moved out of Williston, ND. Any work arising in that area will be serviced out of the facility in Estevan, SK.

INDUSTRIAL FLUIDS DIVISION

Performance Industrial Products ("Performance") is a division of Bri-Chem Supply that distributes technologically advanced industrial fluids 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.

STEEL PRODUCTS DIVISION

Bri-Chem, through its steel products division, is a wholesale distributor for steel pipe, fittings, flanges, tubular products and casing. The division primarily services the resource, construction, mechanical and industrial 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, as well as fittings and flanges. The Company'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 one warehouse in Leduc, AB which is the primary stock location for steel products in North America and also maintains three pipe yards in New Orleans, LA, Chicago, IL, and Houston, TX which allows the Company to service major pipe distributors throughout the Eastern USA. Bri-Chem's broad base of steel products is 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 and 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 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

Consolidated statement of operations		**December 31 2009**	December 31 2008	**Change $**	**%**
Sales	**$**	**96,479,615**	$ 111,282,825	$ (14,803,210)	-13.3%
Gross margin before inventory provision		**13,306,905**	18,487,834	$ (5,180,929)	-28.0%
		13.8%	16.6%		
Net realizable value inventory writedown		**3,080,560**	48,787	3,031,773	
Gross margin [(1)]		**10,226,345**	18,439,047	(8,212,702)	-44.5%
Gross margin %		**10.6%**	16.6%	-	-6.0%
Operating expenses [(2)]		**9,592,737**	8,427,327	1,165,410	13.8%
EBITDA [(3)]		**633,608**	10,011,720	(9,378,112)	-93.7%
Depreciation and amortization		**1,527,227**	1,351,590	175,637	13.0%
Interest		**1,831,095**	1,904,978	(73,883)	-3.9%
Stock based compensation		**161,211**	258,134	(96,923)	-37.5%
Impairment charge [(4)]		**6,884,132**	-	6,884,132	100.0%
(Loss) earnings before income taxes		**(9,770,057)**	6,497,018	(16,267,075)	-250.4%
Income taxes (recovery) - current		**(564,629)**	2,229,413	(2,794,042)	-125.3%
Income taxes (recovery) - future		**(758,090)**	(219,183)	(538,907)	245.9%
Net (loss) earnings	**$**	**(8,447,338)**	$ 4,486,788	$ (12,934,126)	-288.3%
(Loss) earnings per share					
Basic [(4)]	**$**	**(0.58)**	$ 0.33	$ (0.91)	-275.8%
Diluted [(4)]	**$**	**(0.58)**	$ 0.33	$ (0.91)	-275.8%
Weighted average shares outstanding					
Basic		**14,485,860**	13,515,723	n/a	n/a
Diluted		**14,485,860**	13,515,723	n/a	n/a

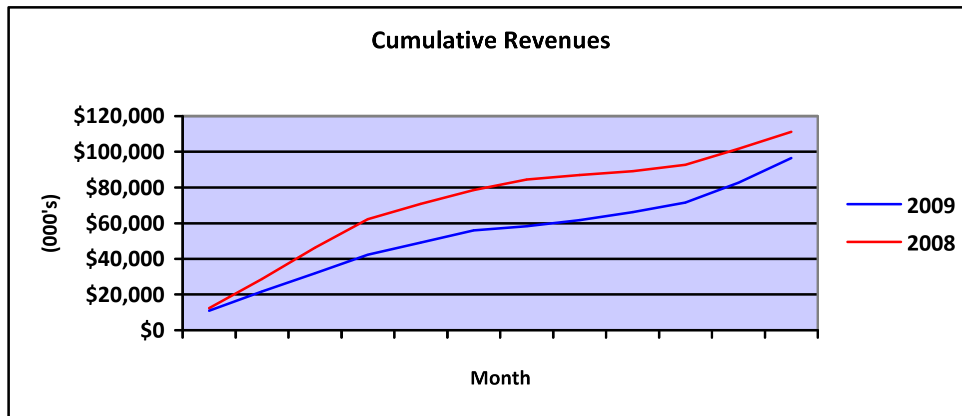
(1) Cost of sales includes an inventory net realizable value write down of $3,080,560. If the write-down of inventory were excluded from the results above, the December 31, 2009 gross margin would have been $13,306,905 or 13.8% as a percentage of sales.
(2) See page 35 for a further explanation of this non-GAAP measure.
(3) Represents earnings before interest, taxes, depreciation and amortization (see page 35 for a further explanation of this non-GAAP measure).
(4) If the impairment charge of goodwill and intangible assets and the net realizable value write down of steel inventory were excluded from the results above, 2009 year end net earnings would have been $204,524 and the basic and diluted earnings per share would have been $0.01.

RESULTS OF OPERATIONS

Sales

Sales by segment **For the year ended**		**December 31** **2009**		December 31 2008		**Change** **$**	**%**
Fluids	$	**62,051,728**	$	83,434,468	$	(21,382,740)	-25.6%
Steel [1]		**34,427,887**		27,848,357		6,579,530	23.6%
	$	**96,479,615**	$	111,282,825	$	(14,803,210)	-13.3%

(1) Steel sales for 2008 were four months as the steel division was acquired in August 2008.



Fluids

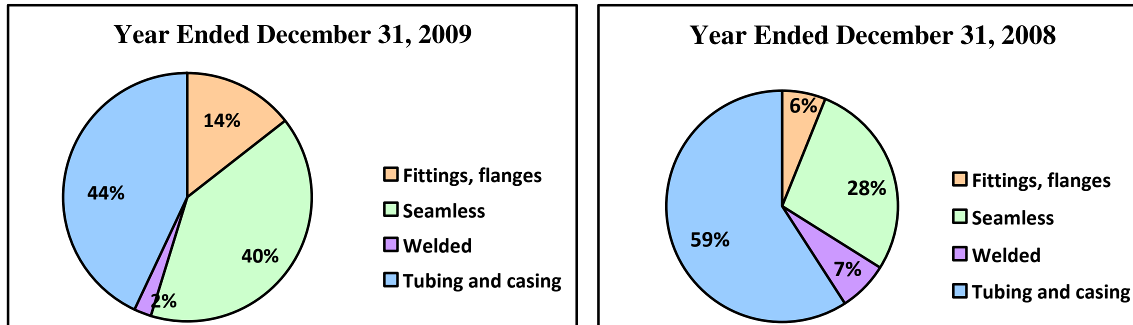
The fiscal 2009 25.6% sales decrease when compared to the prior year for this division was directly attributable to the decline in demand. Fiscal 2009 drilling rig utilization rates averaged 25.2%, representing a 16.2% decrease from the same period last year when activity averaged 41.4%. The Alberta and Saskatchewan markets largely contributed to the decrease in revenues as both markets experienced a 50% plus decline in the drilling activity in 2009.

Despite the reduced drilling activity, the fluids division has grown its market share in the WCSB. For 2009, the Company has seen a decrease in sales from the Alberta warehouses of 31.5% while the decline in overall drilling activity for the Alberta market was 49.6%. Saskatchewan had a decrease in wells drilled during 2009 to 1,736, which generated $4,529,695 in sales for the Company from this region, while the Company had $4,622,192 in revenues with 3,974 wells drilled for the same period in 2008. Overall drilling activity in the Saskatchewan market has decreased 56.3% year over year. The drilling programs in Northern British Columbia have seen a decrease in drilling activity of 31.6% with 572 wells drilled in the area as compared to 836 wells drilled during the same period last year. Despite this decrease in drilling activity, the Company has seen an increase in sales of approximately 8.9% in this region with increased market share over prior year.

Revenues generated from the industrial fluids division were $605,611 for the year ended December 31, 2009 compared to $491,822 for the same period in 2008. Sales to United States decreased to $963,941

compared to $2,155,935 for the same period in 2008. The decrease in US sales resulted from decreased US drilling activity in 2009.

Steel Products



For the year ended December 31, 2009, the steel products division generated revenues of $34,427,887 compared to $27,848,357 in the prior year, which only included four months' activity, due to the August 2008 acquisition date. The steel products division sells primarily to the oil and gas industry and therefore the decrease in drilling activity in North America during the year affected the division's sales as there was less demand for steel products. Volatile steel prices coupled with excess inventory in the market place have led the Company to lower selling prices for steel products to remain competitive. It is anticipated that steel prices will begin to rise by mid 2010. As inventory levels continue to decrease in North America, the demand for steel product is expected to increase.

Sales in the United States amounted to $7,396,397 compared to $8,962,505 for the four months of sales activity reporting in 2008. The US market is significantly larger than the Canadian market and more geographically dispersed, leading the Company to focus on growth in the US. Bri-Chem has three inventory yards in New Orleans, LA, Chicago, IL and Houston, TX to warehouse and distribute steel pipe to customers in the US. Similar to the Canadian market, the US has experienced decreased drilling activity and excess customer inventory levels during the year causing a significant decline in the demand for steel products. With market inventory levels diminishing, the demand for steel products will increase.

Gross margin

For the year ended	**December 31 2009**	December 31 2008	**Change $**	**%**
Gross margin (1)	**$ 10,226,345**	$ 18,439,047	$ (8,212,702)	-44.5%
% of sales	**10.6%**	16.6%		-6.0%

(1) Cost of sales includes an inventory net realizable value write down of $3,080,560. If the write down of inventory were excluded from the results above, the December 31, 2009 gross margin would have been $13,306,905 or 13.8% as a percentage of sales.

Consolidated gross margin for the year ended December 31, 2009 was $10,226,345, a decrease of 44.5% over the prior year. The gross margin as a percentage of sales decreased by 6% from the prior year, and was affected by the decrease in selling prices on steel and fluid products during the year. The largest factor affecting gross margin was the net realizable value inventory write down of $3,080,560. Without

these adjustments, gross margin would have been $13,306,905 down 27.8% over prior year, and 13.8% of sales which is a decrease of 2.8% over prior year.

The fluids division has seen a shift in customers requesting lower cost alternatives for drilling fluids in an attempt to control their costs, resulting in lower margins on fluid sales. Margins on fluid sales vary based on product mix and drilling formations. Deeper, non-conventional wells require more technologically advanced fluids that are typically higher priced, lower margined specialty products. Liquid drilling fluids (invert) have been developed to service deeper, high temperature and more environmentally sensitive drilling. These more efficient fluids have gross margins that are approximately 5% lower than traditional fluid margins. The demand for this type of liquid drilling fluid has increased, resulting in overall margins declining. In addition, Bri-Chem adjusted selling prices of many of its fluids to maintain and grow market share.

The North American inventory trend towards destocking of excess inventory on hand continued to the end of 2009 causing many companies to reduce selling prices to sell off inventory. The steel division lowered its selling prices on many products to move excess inventory on hand. This reduction in selling prices resulted in lower gross margins for the division in 2009. The steel division averaged gross margin of 2.0% for the year ended December 31, 2009, and 8.2% without the inventory write down, as compared to 15.1% for the prior year. Gross margins traditionally have averaged between 15% to 17%.

Inventory Write Downs

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 value. 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 continued decline in margins as a result of lower selling prices and excess inventory across North America has caused prices to remain low, such that the current value of the inventory in stock is considered impaired. For 2009, the Company determined that a write down to net realizable value was necessary on steel and fluids products of $2,913,292 and $167,268 respectively.

As the global economic recovery has commenced, we are cautiously anticipating gross margins will improve in the medium term, however may remain under pressure in the short term until inventories and selling prices return to more traditional levels. Steel commodity prices remain depressed, but recently have started showing signs of recovery. We expect prices to start to rise in mid 2010 and continue to increase to more traditional levels in the medium to long-term, resulting in improved margins. Steel margins will remain depressed for the near term until excess market inventory is consumed and customers commence the purchase of new product. As inventories reduce to more reasonable levels, gross margins will stabilize; however, it is difficult at this time to estimate when those reasonable levels may exist.

There have been cost reductions of certain drilling fluid products which the Company continues to pass through to customers. We are anticipating margins for fluid sales will be similar or slightly higher than 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

For the year ended		December 31 2009		December 31 2008		Change $	Change %
Salaries and benefits	$	**6,192,901**	$	4,821,487	$	1,371,414	28.4%
% of sales		**6.4%**		4.3%			2.1%

The increase in salaries and benefits over prior year is due to a full year of Bri-Chem Steel wages in 2009 of $2,427,346 compared to $743,946 reported for four months from acquisition date in August 2008. During 2009, the Company accrued a year end employee and management bonus of $234,715, in comparison to 2008 accrued bonuses of $467,500.

Selling, general and administration

For the year ended		December 31 2009		December 31 2008		Change $	Change %
Selling	$	**584,032**	$	621,216	$	(37,184)	-6.0%
Professional and consulting		**528,987**		641,043		(112,056)	-17.5%
General and administration		**1,280,396**		746,578		533,818	71.5%
Rent, utilities and occupancy costs		**2,149,795**		907,476		1,242,319	136.9%
Foreign exchange (gain) or loss		**(1,001,155)**		962,103		(1,963,258)	-204.1%
	$	**3,542,055**	$	3,878,416	$	(336,361)	-8.7%
Selling, general and administrative expenses (as a % of sales)							
Selling		0.6%		0.6%			
Professional and consulting		0.5%		0.6%			
General and administration		1.3%		0.7%			
Rent, utilities and occupancy costs		2.2%		0.8%			
Foreign exchange (gain) or loss		-1.0%		0.9%			
		3.6%		3.6%			

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

Selling expenses decreased for the year ended December 31, 2009 compared to the same period in 2008. The Company completed its conversion of vehicle expenses for sales staff in 2009, whereby sales associates are currently paid a vehicle allowance as part of their compensation compared to lease vehicles that the Company had in prior years, which were classified as selling costs. The Company has taken steps to control costs during the global economic crisis. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses included consulting fees relating to the Company's International Financial Reporting Standards conversion implementation along with audit, legal, and other advisory fees. Fees for audit and legal work have seen a decrease in 2009, as management has implemented efficiencies, particularly with internal controls, thereby reducing audit fees.

General and administration expenses increased by 71.5% over 2008. The increase over the prior year relates to additional insurance premiums on increased inventory and credit insurance of $196,961 as the result of the steel division acquisition in August 2008. In addition, the Company recorded bad debts of $316,171 in 2009 compared to a recovery of $33,147 in 2008. Additional general and administration costs consist of licenses, office and computer expenses, and general liability insurance and bank charges.

Warehouse rent, utilities and occupancy cost expenses increased significantly for the year ended December 31, 2009 due to $1,487,192 in operating cost of the steel distribution warehouse compared to $269,681 related to the steel division for four months in 2008. The steel division incurred increased lease expenses for its new 36,000 square foot facility in Leduc, Alberta during the second half of 2009. The relocation costs have been recorded as occupancy costs in the year. Liquid storage tank rentals increased as the Company has expanded its storage capacity for liquid invert to include Edson, Estevan, Grande Prairie, and Fort St. John. Costs in this category are comprised mainly of rent, utilities, and warehouse expense for the Leduc, Camrose, Acheson and Estevan locations as well as liquid storage tank rentals.

During 2009, the US dollar has weakened in relation to other currencies. The decrease in the US dollar resulted in a foreign exchange gain during the current year ended December 31, 2009, causing the Company to have a favourable position in purchases in foreign currencies. The Company reported a foreign exchange gain of $1,001,155 for the year, compared to a $962,103 loss in 2008. These foreign exchange gains arose on the translation of the foreign denominated assets and liabilities held by the Company (see "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Amortization

For the year ended		**December 31 2009**		December 31 2008		**Change $**	**%**
Property and equipment	**$**	**541,145**	$	396,617	$	144,528	36.4%
Intangibles		**986,082**		954,973		31,109	3.3%
Total	**$**	**1,527,227**	$	1,351,590	$	175,637	13.0%

The increased amortization expense relates to $679,688 of capital additions over the year, along with a full year of amortization has been recorded on the capital assets that were acquired from the Bri-Chem Steel acquisition in August 2008. Due to the adoption of the new Goodwill and Intangible Assets accounting standard, the net book value of $186,380 of computer software was reclassified from property and equipment to intangible assets. The reclassification was applied retroactively to 2008 resulting in a reclassification of the 2008 net book value of $187,612 from property and equipment to intangible assets. The net effect on amortization was a reclassification of $36,570 in 2009 and $20,846 in 2008 between amortization on property and equipment and amortization of intangibles assets.

During the third quarter of 2009, the Company performed its annual assessment of the fair value of its goodwill. In conjunction with this assessment, the Company also reviewed its intangible assets. Due to

the deterioration in overall economic conditions, reduced activity levels within the oil and gas industry and changes in the market, the Company concluded that the carrying values of its intangible assets were impaired and recorded an impairment charge of $2,155,832. The impairment charge for intangible assets comprises an impairment of customer relationships of $1,291,366, proprietary products of $16,667, non-compete agreements of $401,399, and trade names of $446,400.

Interest

For the year ended	**December 31 2009**	December 31 2008	**Change** $	%
Interest on short-term operating debt	**$ 1,164,301**	$ 1,251,203	$ (86,902)	-6.9%
Interest on long-term debt	**661,157**	649,262	11,895	1.8%
Interest on obligations under capital lease	**5,637**	4,513	1,124	24.9%
Total	**$ 1,831,095**	$ 1,904,978	$ (73,883)	-3.9%

Interest on long-term debt increased during the year ended December 31, 2009 when compared to last year due to an interest rate adjustment on the subordinated loan effective October 2009. The decreased purchasing activities as a result of the downturn in the economy resulted in the Company having a lower revolving line of credit balance during 2009 and therefore paying less in interest.

As at December 31, 2009, 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., a 6% promissory notes payable of $3,000,000 plus accrued interest to the former owners of Bri-Chem Steel Corporation, a $1,667,461 prime plus 1.75% demand loan outstanding with a Canadian chartered bank, and a $2,340,000 subordinated loan bearing interest at prime plus a fixed charge with a financial institution.

Income taxes

The provision for income taxes for the year ended December 31, 2009 is a recovery of $564,629 compared to current tax expense of $2,229,413 in the same period last year. The recovery of taxes in 2009 resulted from decreased earnings, the inventory write down and a reduction in the Company's effective tax rate to 29% in 2009. The Company had a future income tax recovery of $758,090 during the year, largely as a result of the tax effect on the impairment charge to intangible assets.

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

For the year ended	December 31 2009	December 31 2008	Change $	%
Net (loss) earnings [(1)]	**$ (8,447,338)**	$ 4,486,788	$ (12,934,126)	-288.3%
% of sales	**-8.8%**	4.0%		
EBITDA [(2)]	**$ 633,608**	$ 10,011,720	$ (9,378,112)	-93.7%
% of sales	**0.7%**	9.0%		

(1) Net loss in 2009 includes impairment charges of $6,884,132 of goodwill and intangible assets and a $3,080,560 net realizable value write down of inventory. If these adjustments, net of tax were excluded from the results above, the 2009 net earnings would have been $204,525 and the basic and diluted earnings per share would have been $0.01.

(2) Represents earnings before interest, taxes, depreciation and amortization (see page 35 for a further explanation of this non-GAAP measure).

The Company had a net loss from operations for the year ended December 31, 2009 of $8,447,338 compared to net earnings of $4,486,788 for the prior year. Net loss as a percentage of revenues for the year was (8.8%) as compared to net earnings as a percentage of revenues of 4.0% for the year ended December 31, 2008. Due to reduced drilling activity levels in the oil and gas industry, and continuing deterioration in overall economic conditions, the Company recorded an impairment charge of goodwill of $4,728,300 and intangibles of $2,155,832 and a corresponding non-cash impairment charge in income. In addition, the Company revalued its steel and fluids inventory down to net realizable value and recorded a write down of $3,080,560. If we exclude the impairment charges and inventory write down, net of tax, the Company would have generated net earnings of $204,525 or $0.01 diluted earnings per share.

EBITDA from operations decreased by 93.7% during 2009 when compared to the same period last year. The decrease in net earnings and EBITDA is due to the decrease in fluid sales activity as the result of lower drilling activity, decreased gross margin as the result of lower selling prices on steel and fluid products in order to remain competitive in the marketplace, and the sale of vendor consigned steel inventory near the vendors cost, resulting in minimal margins. When EBITDA is adjusted for the write down of inventory in the year, it is $3,714,168 as compared to $10,060,507 in 2008, a decrease of 63.1% over prior year.

Loss per share for the year ended December 31, 2009 was 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, 2009 was 14,485,860. During the year ended December 31, 2009, the Company issued 30,000 stock options to the independent directors at a price of $0.75 per share.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2009 Q4	2009 Q3	2009 Q2	2009 Q1	Total TTM
Sales	$ 32,058	$ 23,966	$ 10,118	$ 30,337	$ 96,479
Gross margin ($) [2]	893	2,647	1,869	4,817	10,226
Gross margin (%)	2.8%	11.0%	18.5%	15.9%	10.6%
Adjusted EBITDA [1]	964	531	(232)	2,451	3,714
Net (loss) earnings	$ (1,876)	$ (6,583)	$ (848)	$ 860	$ (8,447)
Basic (loss) earnings per share	$ (0.13)	$ (0.45)	$ (0.06)	$ 0.06	$ (0.58)
Diluted (loss) earnings per share	$ (0.13)	$ (0.45)	$ (0.06)	$ 0.06	$ (0.58)

(in thousands of Cdn $)	2008 Q4	2008 Q3	2008 Q2	2008 Q1	Total TTM
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%
Adjusted EBITDA [1]	3,055	3,559	755	2,691	10,060
Net earnings	$ 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

(1) EBITDA is a non-GAAP measure which the Company defines as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA further adjusts this non-GAAP measure for stock-based compensation expense and the inventory write down. (See page 35 for a further explanation of this non-GAAP measure).
(2) Cost of sales includes a net realizable value inventory write down of $2,885,551. If the write down of steel inventory were excluded from the results above, fourth quarter 2009 gross margins would have been $3,778,390 (a gross margin % of 11.8).

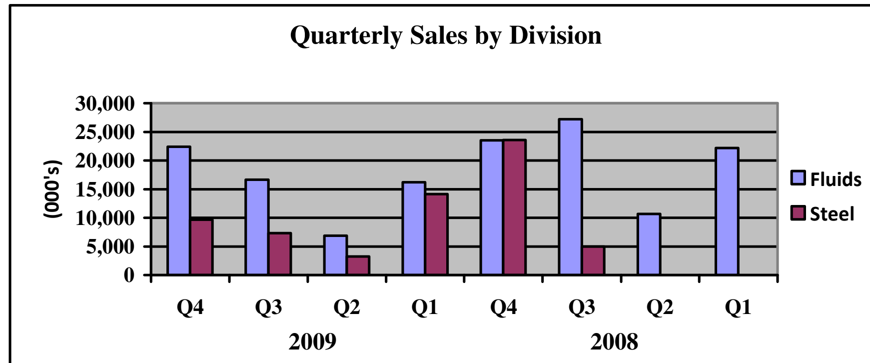
Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on 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

Consolidated Statement of Operations				
	December 31		Change	
For the three months ended	2009	2008	$	%
Sales	$ 32,058,565	$ 46,239,576	(14,181,011)	-30.7%
Gross margin before inventory provision	3,778,390	6,688,532	(2,910,142)	-43.5%
Gross margin %	11.8%	14.5%		
Net realizable value inventory write down	2,885,551	48,787	2,836,764	
Gross margin ($) [(1)]	892,839	6,639,745	(5,746,906)	-86.6%
Gross margin %	2.8%	14.4%		-11.6%
Operating expenses [(2)]	2,814,233	3,633,226	(818,993)	-22.5%
EBITDA [(3)]	(1,921,394)	3,006,519	(4,927,913)	-163.9%
Depreciation and amortization	235,506	609,810	(374,304)	-61.4%
Interest	408,313	631,413	(223,100)	-35.3%
Stock based compensation	32,275	52,758	(20,483)	-38.8%
(Loss) earnings before income taxes	(2,597,488)	1,712,538	(4,310,026)	-251.7%
Income taxes - current	(540,566)	696,835	(1,237,401)	-177.6%
Income taxes - future	(180,118)	(219,183)	39,065	17.8%
Net (loss) earnings	$ (1,876,804)	$ 1,234,886	(3,111,690)	-252.0%
Loss (earnings) per share				
Basic	$ (0.13)	$ 0.09	n/a	n/a
Diluted	$ (0.13)	$ 0.09	n/a	n/a
Weighted average shares outstanding				
Basic	14,381,786	14,514,186	n/a	n/a
Diluted	14,381,786	14,514,186	n/a	n/a

(1) Cost of sales includes a net realizable value inventory write down of $2,885,551. If the write down of steel inventory were excluded from the results above, fourth quarter 2009 gross margins would have been $3,778,390 (a gross margin % of 11.8%).
(2) See page 35 for a further explanation of this non-GAAP measure.
(3) Represents earnings before interest, taxes, depreciation and amortization (see page 35 for a further explanation of this non-GAAP measure).

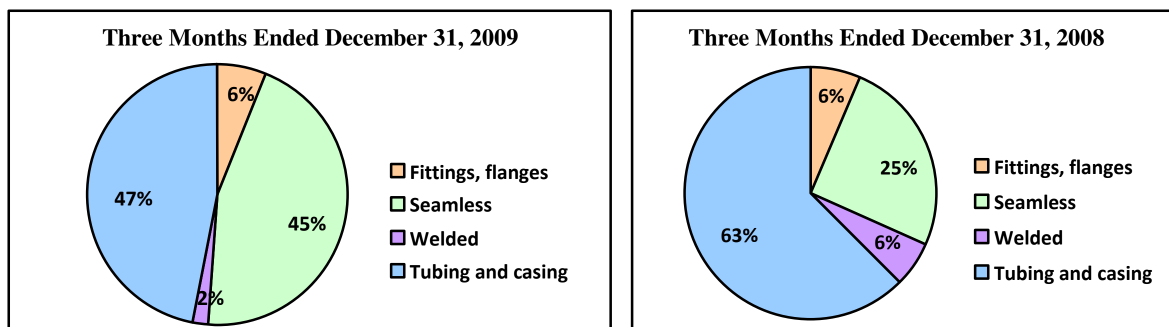
Sales



Fluids division

Fluid revenue was down $969,590 or 3.1% for the fourth quarter of 2009 compared to same period in 2008, despite an overall decrease of 45.7% in the number of wells drilled in the quarter compared to the same period last year. During the fourth quarter of 2009, drilling utilization rates for the oil and gas sector averaged 32%, a decrease of 13% when compared to same period last year, when rig utilization averaged 45%. Saskatchewan sales were $1,531,170 in the fourth quarter with 584 wells drilled, a 45% decrease in activity from the fourth quarter of 2008, while sales revenues increased by 16% over the fourth quarter of 2008. British Columbia revenues experienced a sales increase of 23% over the prior period, generating $3,129,006 in revenue from this region during the quarter even with a 45% decrease in drilling activity in the region. Notwithstanding a 46% decrease in the number of wells drilled in Alberta in the fourth quarter of 2009 compared to 2008, the fluids division had Alberta sales of $17,515,810 a decrease of 8% over the comparable period last year. In addition, the division had sales to the United States of $226,244 for the period. Sales for the fluids division are expected to increase as the winter drilling programs in the WCSB are in full swing early in fiscal 2010.

Steel products division



For the three months ended December 31, 2009, the steel division had revenues of $9,720,521 compared to $22,858,157 in the fourth quarter of 2008, a decrease of 59%. Sales in the United States for the quarter amounted to $2,550,976 compared to $7,817,880 for the same period in 2008. Sales are expected to remain low in the short to medium term as demand for steel drilling products will remain depressed as activities are stagnant in the first half of 2010. 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 11.6% to 2.8% during the quarter. The decrease in margins relates to decreased selling prices on steel products as the price of steel commodities decreased significantly over the last year. The most significant factor in this change is the net realizable value write down on inventory of $2,885,551 made at the end of the quarter. If adjusted for the inventory write down, gross margin would have been $3,778,390 or 11.8% as a percentage of sales. Reduced selling prices on fluid and steel products continued during the quarter in order to move excess inventory. Gross margins are expected to moderately improve in the short term as winter drilling activity is experiencing improvements over 2009, however margins could be impacted if selling prices remain depressed as the Company remains competitive to lower excess inventory. Over the medium to long-term, we anticipate demand for fluid and steel products will continue to grow and selling prices and margins will return to more traditional levels.

Operating expenses

Operating expenses decreased by $818,993 or 22.5% compared to the same period in 2008. Wages and benefits and occupancy costs experienced increases of $214,901 and $131,845 respectively in 2009 compared to 2008 while the Company recorded a foreign exchange gain of $52,308 compared to a foreign exchange loss of $630,852 in the fourth quarter of 2008. This was largely a result of foreign exchange gain realized due to the difference in the Canadian and US dollar. As a percentage of sales, operating expenses for the three months ended December 31, 2008 was 8.7%. This is comparable to a percentage of 8% for the prior year three month period ended December 31, 2008.

Depreciation and amortization and interest

Depreciation and amortization expense decreased by $374,304 or 61.4% compared to the same period in 2008, which was largely due to the impairment loss of intangible assets taken in the third quarter of fiscal 2009 (i.e. lower amortization going forward). Interest expense decreased by $223,100 or 35.3% compared to the same period in 2008. The decrease was due to the lower principal balances outstanding on the bank indebtedness and long term debt instruments as compared to the fourth quarter of 2008.

Net loss

Net loss for the three months ended December 31, 2009 was $1,876,804 or $0.13 per share, a $0.22 decrease over the comparative quarter in 2008. The Company's lower sales of steel products, combined with the inventory net realizable value write-down attributed to this loss. Loss/earnings per share were calculated based on the weighted average number of shares outstanding during the three months ended December 31, 2009 and the comparative three month period ended December 31, 2008.

FINANCIAL CONDITION & LIQUIDITY

Balance Sheet **As at**		**December 31** **2009**		December 31 2008
Current assets	**$**	**73,900,576**	$	88,089,363
Property and equipment		**3,676,600**		3,609,903
Other assets		**1,354,611**		9,262,433
TOTAL ASSETS	**$**	**78,931,787**	$	100,961,699
Current liabilities	**$**	**52,945,089**	$	66,756,163
Long-term liabilities		**8,609,978**		8,401,179
TOTAL LIABILITIES		**61,555,067**		75,157,342
Share capital		**15,156,254**		15,295,274
Retained earnings and contributed surplus		**2,220,466**		10,509,083
TOTAL SHAREHOLDERS' EQUITY		**17,376,720**		25,804,357
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**78,931,787**	$	100,961,699

Financial Ratios	**December 31** **2009**	December 31 2008
Working capital ratio	**1.40**	1.32
Days sales in receivables	**96.8**	99.8
Inventory turns	**2.3**	2.7
Days purchases in payables	**88.2**	58.2

As at December 31, 2009, the Company had positive working capital of $20,955,487 compared to $21,333,200 at December 31, 2008. The Company's current ratio (defined as current assets divided by current liabilities) was 1.40 to 1 for the year ended December 31, 2009, compared to 1.32 at the end of 2008.

As at December 31, 2009, the Company had $27,652,949 outstanding under its available credit facilities of $40,000,000, with a Canadian chartered bank, as compared to $37,666,571 at December 31, 2008. In July 2009, the Company renewed and amended its credit facility, which resulted in an increase to the line of credit to $40,000,000 with an additional $5,000,000 available from December 1, 2009 to April 30, 2010. Under this agreement, the Company's total debt to tangible net worth covenant will be adjusted to 2.75 to 1 on December 31, 2009 and 2.50 to 1 by June 30, 2010.

The December 31, 2009 decrease in days sales in receivables from December 2008 is due to decreased activity levels that occurred as a result of the economic downturn in 2009 whereby sales fell sharply by 30% in the fourth quarter. 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 increase in days' purchases in payables is due to the Company managing its cash flow and obtaining extended credit terms from some vendors as a result of the economic environment.

As at December 31, 2009, accounts receivable was $31,172,888, a $12,002,920 (27.8%) decrease from the fiscal 2008 balance of $43,175,808. The decrease is largely due to the reduced sales activity in the fourth quarter due to decreased drilling activity.

Inventory remained relatively the same when comparing 2009 year end balances to 2008. The steel division has vendor inventory held on consignment in its distribution locations that is being sold faster than the Company's inventory based on availability and specific product demand. Inventory turned 2.3 times in 2009 compared to 2.7 in 2008. We anticipate inventory levels will reduce in the short term as demand for drilling fluids and steel products will increase with the expected increase in drilling activity. In the medium to long-term, the Company will continue to manage its inventory diligently and will further reduce inventory to levels required to service existing demand.

The Company's prepaid expenses and deposits have decreased by $3,830,859 as much of the steel products purchased that required down payments to vendors prior to the shipment of material in the fourth quarter of 2008 were received. There has been minimal purchases during the last few months of 2009. This decrease in orders is due to the sharp decline in market demand for steel products. The Company is working with vendors to sell the excess inventory at competitive prices to bring down inventory levels to an amount that will service current market demands.

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 and capital resources 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.

Cash flow from (used for) operating activities

Cash from operating activities for the year ended December 31, 2009 was $11,599,117 compared to cash used of $13,336,897 for the same period in 2008. The Company's increase in cash from operating activities relates to less cash paid for the purchase of inventory as the Company had excess steel inventory levels due to the economic downturn. With a minimal forecasted increase in drilling activity, we will continue to reduce our inventory to more reasonable levels. Steel commodity prices remain depressed and are anticipated to remain low into mid 2010, leading to lower sales. Certain products in inventory will be required to be replaced as they are products commonly sold, resulting in an outflow of cash. We expect to see our cash from operations decrease in the first quarter of 2010, then will improve for the second quarter, 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 will have sufficient inventory levels to meet demand. 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 (used for) from financing activities

In 2009, cash used for financing activities was $10,958,187, compared to cash earned of $19,169,310 in 2008. The cash used for financing activities was mainly related to repayments on the operating line of credit from the collection of receivables and less purchases due to decreased demand. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second

and third quarters, which it will use to repay the operating line. With the downturn in drilling activity in 2009, the Company did 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 continues repayment of the subordinated debt facility which began in February 2009. The repayments have been funded through the collection of receivables and the current operating credit facility. The Company also paid interest on one of the promissory notes. Repayment of the $1,000,000 promissory note due in May 2009 and the $1,000,000 plus interest due in October 2009 have been postponed until the market returns to more favorable conditions at the request of the Company's lender. Interest will be repaid within the next 12 months funded out of operating cash flow. The principal payments will be funded through the operating line of credit provided funds are available, otherwise postponed until such time the Company has the available funds to pay the amounts due and not in violation of its financial covenants.

Cash flow used for investing activities

Cash used in investing activities amounted to $640,930 in 2009 compared to $5,832,413. The decrease is due to cash used in the prior year for the acquisition of Bri-Chem Steel. There were no acquisitions performed in the current year. Cash used in both years relates to purchases of property and equipment.

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. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a quarterly basis. As at December 31, 2009, the Company was in compliance with all financial covenants. The subordinated debenture lender has agreed to remove the minimum funded debt to normalized EBITDA ratio covenant for a period of one year beginning December 31, 2009 and ending January 1, 2011.

Commitments

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

2010	$ 1,090,366
2011	1,019,726
2012	954,990
2013	926,880
Thereafter	926,880
	$ 4,918,842

Contractual obligations related to financial liabilities at December 31, 2009 are as follows:

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Capital leases*	Total
2010	$ 27,652,949	$ 23,917,359	$ 936,000	$ 641,436	$ 195,653	$ 53,343,397
2011	-	-	2,235,416	2,434,401	7,848	4,677,665
2012	-	-	900,000	1,173,495	4,578	2,078,073
2013	-	-	-	1,163,424		1,163,424
2014	-	-	-	1,150,915		1,150,915
Total	$ 27,652,949	$ 23,917,359	$ 4,071,416	$ 6,563,671	$ 208,079	$ 62,413,474

* 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 as 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.

The Company conducted its annual goodwill impairment test in the third quarter of 2009 and determined that goodwill was impaired in its three reporting units. The impairment charge was due to reduced activity levels in the oil and gas industry, continuing deterioration in overall economic conditions and changes in the market causing our market capitalization to lower than our carrying value.

Based on our review, we recognized a $4,728,300 goodwill impairment loss for the year and it is reflected as a non-cash charge to income. The impairment loss is non-cash in nature and does not affect our liquidity or cash provided by operating activities and will not impact future Company operations.

The change in goodwill during the year is as follows:

Balance, December 31, 2008	$ 4,728,300
Impairment charge	(4,728,300)
Balance, December 31, 2009	$ -

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 processes, technological expertise and proprietary blends	3 years straight-line
Tradename	5 years straight-line
Non-competition agreements	3 to 5 years straight-line
Computer software	7 years straight-line

The Company reviewed its intangible assets in the third quarter of 2009 and determined that intangible assets were impaired in two of its three reporting units. The impairment charge was due to reduced activity levels in the oil and gas industry, continuing deterioration in overall economic conditions and changes in the market causing our market capitalization to be lower than our carrying value. The determination of impairment is based on an estimate of undiscounted cash flow, and the measurement of impairment loss is based on the amount that the carrying value exceeds the fair value. Based on our review, we recognized a $2,155,832 intangible asset impairment loss for the third quarter and it is reflected as a non-cash charge to income. The impairment of intangible assets was recognized in the fluids and steel operating segments in the amounts of $327,332 and $1,828,600 respectively. The impairment charge for intangible assets comprises an impairment of customer relationships ($1,291,366), proprietary products ($16,667), non-compete agreements ($401,399), and trade names ($446,400). The impairment loss is non-cash in nature and does not affect our liquidity or cash provided by operating activities and will not impact future Company operations.

The change of intangible assets during the year is as follows:

Balance, December 31, 2008	$ 4,347,676
Additions	35,338
Amortization	(986,082)
Impairment charge	(2,155,832)
Balance, December 31, 2009	$ 1,241,100

Property and equipment

The Company's investment in property and equipment for the year was $700,930 including additions through capital leases. 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 $220,000 are being proposed for 2010. The Company plans to fund these capital expenditures from the bank credit line.

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, 2009, 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 and officer has significant influence, as follows:

a) Management advisory services of $120,000 (December 31, 2008 – $120,000) to Western America Capital Group, a Company which a director and officer has significant influence.

b) Accounting, administrative and corporate expenses of $39,095 (December 31, 2008 – $49,352) were paid to Western America Capital Group, a Company over which a director and officer has significant influence.

c) The Company paid director fees of $57,250 (December 31, 2008 - $37,000) to three Company directors.

The Company expensed interest of $132,000 (December 31, 2008 - $159,774) on promissory notes payable issued in 2006 which are held by two of the Company's directors, and significant shareholders. In addition, the Company expensed $183,206 (December 31, 2008 – $61,151) on promissory notes payable issued on the acquisition of Bri-Chem Steel, which are held by three of the former owners of Bri-Chem Steel.

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. The Company has not entered into any material derivative instrument transactions during 2008 or 2009.

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, 2008 or 2009.

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, 2008 or 2009.

OUTLOOK

Oil and natural gas activity in 2009 was the lowest in over a decade. The price of oil and natural gas fell sharply in early 2009 affecting the demand for the Company's fluid and steel products. The Company's business model of low operating costs, and strong market-share supported the ability to manage through the economic and credit crisis. Activity levels are expected to increase modestly in 2010, however demand levels could be affected by volatile commodity prices and the global economic and credit recovery. Bri-Chem remains focused on superior customer service, managing inventory levels and controlling costs. As activity continues to improve over the long-term, Bri-Chem is well positioned to grow market presence and profitability through its diverse product offering, strategic distribution network and solid supplier relationships.

In late 2009, activity levels began to rebound in the WCSB from the lows early in the year and we have seen an increased demand in fluid products. The Petroleum Services Association of Canada (PSAC) forecasts a 6.5% increase in the number of wells drilled in 2010 from 2009. With the Company's business model, we are encouraged that the demand for our drilling fluids will increase as activity levels increase. The fluids division remains concentrated on maintaining and servicing its core customer base while continuing to look for further product diversification.

Bri-Chem's industrial fluids division will continue its market penetration by focusing its presence in key growth industries such as geothermal, seismic and water well drilling. The division's focus will be to examine new markets that are not currently being serviced and determine the viability of penetrating those markets. The industrial fluids market continues to experience the effects of decrease demand for fluids with activity levels not expected to increase until mid 2010. In the interim, the division will continue to build solid customer relationships and offer competitively priced products that will enable the division to position itself well when the market recovers. Vendor relationships remain sound and will enable the division to meet the ever changing needs of customers in various industries.

The demand for steel products remained weak in late 2009, as the industry continues to reduce excess inventory levels in the market place. The volatility of steel commodity prices experienced in 2009 led to lower selling prices and also affected demand for products. We are cautiously optimistic that demand for steel products will improve in the medium term, however inventory levels in North America along with buoyant steel commodity prices could have an effect on demand levels. We anticipate steel prices to increase in the medium term leading to improved profitability for the division, however sales and margins are expected to be remain low until mid 2010 as customers are cautiously purchasing product on an as needed basis. Destocking has also commenced in the US market which will result in purchasing of steel products to replace diminished inventory levels. With its three strategically located distribution facilities in the US, the steel division is well positioned to take advantage of the opportunities when demand returns to more traditional levels.

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 repricing 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.

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.

The Company has product returns and cancellations from time to time based on the demand for fluid and steel products and activity levels. These sales returns could have a material impact on the Company's financial results. The Company does record a provision for sales returns based on historical information and current market conditions.

Alberta Royalty Framework

On October 25, 2007, the Government of Alberta announced a new royalty framework which took effect on January 1, 2009. Under the new royalty framework, royalty rights of the Alberta Government have increased on conventional oil, natural gas and the oil sands. Subsequently, the Alberta Government has provided certain other incentives that partially offset the impact of the new royalty framework. It is unclear how oil and natural gas producers will react to the new royalty framework and the related incentives over the long-term, however near-term indicators suggest oil and natural gas producers have curtailed new investments and/or reduced activity levels in the Province of Alberta. This has adversely impacted the demand for Bri-Chem's products in the Province of Alberta. If this investment curtailment persists over the long-term, the demand for Bri-Chem's products in the Province of Alberta could be materially reduced, which could have a material adverse effect on Bri-Chem's ongoing operations, financial condition, results of operations and cash flows.

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 have a direct impact on the Company's business. Any significant reduction in industry forecasted levels of drilling activity in the WCSB and the United States may severely reduce activity levels for the Company and the resulting cash flows. Future changes in oil and natural gas prices could result in substantial increases or decreases in total revenues of the Company. Prolonged financial instability could result in oil and natural gas projects being deferred or cancelled thereby limiting new revenue streams to the Company.

Government Trade Tariffs

The Company imports steel products from China and other countries, which are often subject to trade sanctions. Trade sanctions are initiated either by steel mills or by governments in North America. In 2008 both the Canadian and United States governments imposed duties on certain types of Chinese pipe. In April 2009, these sanctions were reviewed in the United States and additional types of pipe were deemed applicable to these sanctions. The effect of these trade actions is to reduce imports of these products in North America. The trade actions in the United States and Canada have helped to stabilize the market prices for oil country tubular goods (OCTG) imports. The Company may be subject to future trade sanctions that could adversely affect the availability of imports due to the higher prices incurred, and is unable to predict the future actions of government agencies at any point in time.

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.

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.

Commodity Price Risk

The steel industry follows economic conditions in the world market as steel consumption is highly cyclical. It has historically been characterized by excess supply which leads to substantial price decreases during periods of global economic weakness. The Company has experienced a significant decline in steel

pricing starting in October 2008 when the global economic crisis began. The Company does not practice hedging in its steel division, and as such has the potential to be adversely affected by these commodity price fluctuations at any future point in time based on the timing of inventory purchases, customer demand, exchange rate changes, and other factors.

Management Team

The Company's future success depends, among other things, on the ability to hire and retain highly qualified employees at all levels. The Company competes with other potential employers for employees, and may not be successful in hiring and retaining the services of key employees. The loss of services, or inability to hire, key employees could hinder the business operations and growth. The Company believes that they maintain good relationships with management and their teams and structure compensation plans to ensure that competitive remuneration is offered. The Company remains confident that they can continue to retain and attract top talent to mitigate any potential impact on operating results.

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 allowance for doubtful accounts, the sales return provision, inventory obsolescence, the net realizable value inventory write-down, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of future income tax assets, the carrying value of goodwill, accrued liabilities and future income tax liabilities, and the fair value of options using the Black-Scholes option pricing model. Management feels actual results are not materially different from these estimates.

CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING POLICY

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the 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. As a result of application of this standard, the Company reclassified certain of its software costs from Property and Equipment to Intangible Assets. This standard has been applied retrospectively and affects presentation only.

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 the Chairman of the Audit Committee 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 completed the first phase of the IFRS implementation and is currently working through phases two and three. The following significant areas of impact have been identified and evaluated:

- IFRS 1 First Time Adoption – The Company is required to comply with the standards of IFRS 1, "First Time Adoption Under International Financial Reporting Standards" in the first reporting period after the changeover to IFRS. This standard details requirements for retroactive application and circumstances where exemptions are optional.

- Property and equipment – The Company may apply componentization to certain of its capital assets with reasonably identifiable and significantly different useful lives. Costs will be reported using book value at transition date. The Company is in the process of quantifying the transitional adjustment to IFRS and setting up a separate sub-ledger to meet the dual reporting requirements in 2010. Property and equipment can be recorded at cost or fair value at the date of transition. The Company has not elected to use the IFRS 1exemption to record all property and equipment at fair value, and will record using their carrying value at the date of transition.

- Intangible assets – Certain amounts previously capitalized for website development costs will be written off on transition date. Intangible assets can be recorded at cost or fair value at the date of transition. The Company has not elected to use IFRS 1 exemption to record its intangible assets at fair value, and will record using their carrying amount at the date of transition.

- Business combinations – The standard can be applied in one of three ways: i) retroactively to all past business combinations, ii) retroactively applied back to a specific date or iii) prospectively from the date of transition. The Company has elected to apply the standard retrospectively back to January 1, 2009 and is aligned with the Company's early adoption of CICA Section 1582, "Business Combinations". The impact of this standard will be limited to future business combinations performed.

- Impairment of assets – Under IFRS, impairment testing will be performed based on cash-generating units rather than by asset groups. The Company is currently in the process of identifying its cash-generating units for impairment testing on transition to IFRS.

The impact of IFRS adoption on the Company's consolidated financial statements is not reasonably quantifiable at this time. Reporting under IFRS is not expected to have a significant impact on the calculations of key performance indicators of the Company. Management will work with their lenders to ensure that all financial covenants are not materially affected by the conversion of reporting standards.

The discussion of IFRS adoption reflects expectations based on information available at the date of reporting, and changes in circumstances or facts up to the date of reporting under IFRS may cause changes to the selected accounting policies, exemptions, or project implementation plan.

The following summarizes progress to date of milestones in the Company's transition plan:

Milestone	Progress to date	Expected Completion
	Financial Reporting	
Selection of accounting policy choices	Assessment of IFRS to Canadian GAAP differences has been completed. Selection and documentation of major and minor policies underway.	Q1 2010 – Major Q2 2010 – Minor
Quantification of transitional impacts	Transitional impacts are being completed as each policy is selected.	Q2 2010
Draft note disclosures	Draft note disclosures are being created with each policy selected. Disclosures are to be compiled in financial statement format.	Q2 2010
Opening balance sheet preparation	Opening balance sheet will be compiled based on changes identified through policy selection.	Q2 2010
	Training	
Key finance and accounting staff training in IFRS	Key members are attending external training. IFRS standards are communicated through frequent IFRS steering committee meetings.	Continuous
Internal staff training	Training of additional accounting staff through communication and	Continuous

	presentation and is disseminated as required by area of involvement.	
Board, Audit Committee, and Senior Management training	Communication with the Board, Audit Committee and Senior Management with respect to IFRS changes and findings to date at each Board meeting or more frequently as required for decision making process.	Continuous
Information Technology and Internal Controls		
Identification of IT system impacts	Assessed at time of each policy selection. Secondary sub-ledgers to be set up where applicable for 2010 dual reporting requirements by May 2010.	Q2 2010
Identification of internal control and process changes	Assessed at time of each policy selection and ongoing as issues arise.	Continuous

Business combinations

Effective January 1, 2009, the Company early adopted CICA Section 1582, "Business Combinations" which replaces section 1581 of the same name. This section requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the statement of operations. The adoption of this standard had no impact on current accounting treatment of subsidiaries, but will have an impact when applied prospectively to any future business combinations.

Consolidated financial statements

Effective January 1, 2009, the Company early adopted CICA Section 1601, "Consolidated Financial Statements" which replaces section 1600 of the same name. This section establishes the requirements for the preparation of consolidated financial statements, in particular the standard requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

Fair value of financial instruments

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, 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 the long term debt approximates the carrying value as the interest is similar to current market rate for similar debt, while the fair value of promissory notes payable reflects the incremental cost of borrowing given current market risks and interest rates for the similar debt.

	2009		2008	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans and receivables:				
Accounts receivable	**31,172,888**	**31,172,888**	43,175,808	43,175,808
Other financial liabilities:				
Bank indebtedness	**27,652,949**	**27,652,949**	37,666,571	37,666,571
Accounts payable and accrued liabilities	**23,917,359**	**23,917,359**	24,653,886	24,653,886
Long-term debt *	**3,794,484**	**3,794,484**	4,599,267	4,308,838
Promissory notes payable *	**5,525,695**	**5,353,135**	5,342,490	5,342,490
Obligations under capital lease *	**188,201**	**188,201**	322,561	322,561

* including current portion

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 trade accounts receivable are with customers in the oil and gas industry. Revenue from the Company's largest three customers accounted for approximately 14%, 9% and 7% respectively (December 31, 2008 – 18%, 12%, 6%) of total revenue during the year and 19%, 13% and 11% respectively (December 31, 2008 – 19%, 9%, 8%) of total accounts receivable at year end.

The Company manages its credit risk through the credit application process and through an extensive collections process. The Company maintains an allowance for estimated credit losses on accounts receivable. The estimate is based on the best assessment of the collectability of the related receivable balances based, in part, on the age of the outstanding accounts receivable and on the Company's historical collection and loss experience and other economic information.

The aging of accounts receivable was as follows:

2009	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 10,620,233	$ -	$ 10,620,233
31 to 60 days	9,080,357	-	9,080,357
61 to 90 days	6,679,747	-	6,679,747
91 to 120 days	4,282,864	-	4,282,864
Over 120 days	679,178	169,491	509,687
Total	$ 31,342,379	$ 169,491	$ 31,172,888

The changes in allowance for doubtful accounts were as follows:

	2009	2008
Balance, beginning of year	$ 3,435	$ 64,265
Bad debt expense	316,171	3,435
Receivables written off	(119,468)	(31,877)
Recovery of receivables	(30,647)	(32,388)
Balance, end of year	$ 169,491	$ 3,435

The Company held $525,486 of customer deposits for the purpose of mitigating the credit risk associated with accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balance in the financial statements.

Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. A significant decline in economic conditions within the industry would increase the risk that customers will experience financial difficulty and be unable to fulfill their obligations. The Company's exposure to credit risk arising from granting sales is limited to the carrying value of accounts receivable. The Company's revenues are normally invoiced with payment terms of 30 days. Despite the established payment terms, customers in the oil and gas industry, typically pay amounts within 105 days of invoice date.

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 at December 31, 2009 was Canadian bank prime interest rate plus 100 basis points (3.25%). The demand loan bears interest at bank prime plus a fixed increment. As at December 31, 2009, 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 $56,593 (2008- $75,412).

Currency risk

The Company is subject to foreign currency risk due to its accounts receivable and accounts payable and accrued liabilities 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. Accounts receivable in foreign currency was $1,580,209 as at December 31, 2009 (December 31, 2008 - $10,027,922) and accounts payable in foreign currency outstanding as at December 31, 2009 is $8,281,171 (December 31, 2008 - $12,974,583). The Company does not currently use derivative instruments to reduce its foreign currency risk. The Company realized a foreign exchange gain of $1,001,153 (December 31, 2008 - $962,103 loss) during the fiscal year that was included in selling, general and administration expenses. Based on the monetary assets and liabilities held in the United States ("US") at December 31, 2009 a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $239,781 (December 31, 2008 – $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 26, 2010, the Company had 14,006,786 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, 2009, options to purchase 1,282,000 common shares were outstanding at an average price of $1.97 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 2009, the Company issued 30,000 options to independent directors of the Company at an exercise price of $0.75 per common share.

Normal Course Issuer Bid

On December 9, 2008, the Company entered into a Normal Course Issuer Bid ("NCIB") to repurchase, for cancellation, up to 815,000 of its outstanding common shares. For the year ended December 31, 2009, 132,400 shares were repurchased for cash consideration of $110,314 and have been cancelled.

On December 17, 2009, the Company renewed its NCIB, whereby the Company is permitted to repurchase, for cancellation, up to 807,000 of it outstanding common shares. The NCIB commenced on December 18, 2009 and will terminate on December 17, 2010, or earlier if the number of shares sought has been obtained. For the year ended December 31, 2009, no shares had been repurchased for cancellation under the renewed NCIB. At April 26, 2010, 375,000 shares had been repurchased for cash consideration of $307,150 and have been cancelled.

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 loss/earnings for each of the periods presented in this MD&A:

EBITDA				
	For the three months ended December 31			
		2009		2008
Net (loss) earnings	**$**	**(1,876,804)**	$	1,234,886
Add:				
Interest		**408,313**		631,412
Income taxes (recovery) expense		**(720,684)**		477,652
Depreciation and amortization		**235,506**		609,810
Stock-based compensation [(1)]		**32,275**		52,758
EBITDA		**(1,921,394)**		3,006,518
Add:				
Inventory write down		**2,885,551**		48,787
Adjusted EBITDA	**$**	**964,157**	$	3,055,305

(1) Stock-based compensation includes warrants of $7,799 (2008 - $1,975) and stock options of $24,476 (2008 - $48,059).

EBITDA				
		For the twelve months ended December 31		
		2009		2008
Net (loss) earnings	**$**	**(8,447,338)**	$	4,486,788
Add:				
Interest		**1,831,095**		1,904,978
Income taxes		**(1,322,719)**		2,010,230
Depreciation and amortization		**1,527,227**		1,351,590
Stock-based compensation (1)		**161,211**		258,134
Impairment charge		**6,884,132**		-
EBITDA	**$**	**633,608**	$	10,011,720
Add:				
Inventory write down		**3,080,560**		48,787
Adjusted EBITDA	**$**	**3,714,168**	$	10,060,507

(1) Stock-based compensation includes warrants of $31,196 (2008 - $7,900) and stock options of $130,015 (2008 - $250,234).

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, 2009 consolidated financial statements:

Operating expenses				
		For the three months ended December 31		
		2009		2008
Operating expenses	**$**	**2,814,233**	$	3,633,226
Add:				
Interest		**408,313**		631,413
Depreciation and amortization		**235,506**		609,810
Stock-based compensation		**32,275**		52,758
Total expenses	**$**	**3,490,327**	$	4,927,207

Operating expenses				
		For the twelve months ended December 31		
		2009		2008
Operating expenses	**$**	**9,592,737**	$	8,427,327
Add:				
Interest		**1,831,095**		1,904,978
Depreciation and amortization		**1,527,227**		1,351,590
Stock-based compensation		**161,211**		258,134
Impairment charge		**6,884,132**		-
Loss (gain) on sale of property & equipment		**(18,992)**		14,442
Total expenses	**$**	**19,977,410**	$	11,956,471

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Edmonton, Alberta

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