





## INTRODUCTION:

This Management's Discussion and Analysis ("MD&A") was prepared as of March 30, 2011. It is provided to assist readers in understanding Bri-Chem Corp.'s financial performance for the year ended December 31, 2010 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, 2010.

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars unless otherwise indicated. The Company's consolidated financial statements include the accounts of Bri-Chem Corp. and subsidiaries Bri-Chem Supply Ltd., Sodium Solutions Inc., Bri-Chem Steel Corporation, and Bri-Steel Manufacturing Inc. 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. These non-GAAP financial measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP. These measures are discussed in the "Measures Not In Accordance With Generally Accepted Accounting Principles" section of the report.

References in this MD&A to "Bri-Chem", the "Company", "us", "we", and "our" mean Bri-Chem Corp. and its subsidiaries, unless the context otherwise requires. Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com)

**CAUTION REGARDING FORWARD-LOOKING STATEMENTS:**

Statements throughout this document that are not historical facts may be considered "forward looking statements." Such statements are based on the Company's current expectations, estimates, projections and assumptions that were made in light of its experience and its perception of historical trends, current conditions, anticipated future developments, and other factors believed to be relevant. They 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.

Some of the forward-looking statements may be identified by words like "expects," "anticipates," "estimates," "plans," "intends," "believes," "projects," "indicates," "could," "focus," "vision," "goal," "outlook," "proposed," "target," "objective," "will" and similar expressions. These statements are not guarantees of future performance and involve a number of risks and uncertainties, some that are similar to other wholesale distributors of drilling fluids, steel products and services and some that are unique to the Company. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause future performance, conditions, actions or events to differ materially from the expectations, estimates, projections, assumptions or intentions expressed. Management believes that the expectations reflected in the forward-looking statements presented herein are reasonable as of the date presented, however no assurance can be given that these expectations prove to be correct, therefore the forward-looking statements presented herein should not be unduly relied upon.

Factors that could cause actual performance to differ materially include, but are not limited to, those risks, uncertainties and other factors described throughout this MD&A and: volatile competition (including price competition); economic growth and fluctuations (including the strength of economic recovery or recession); capital expenditure levels in 2011 and beyond; financing and debt requirements (including ability to carry out refinancing activities); future acquisitions and business integrations; future divestures; tax matters (including significant requirements for increases or decreases of cash tax payments); human resource developments; drilling technologies (including introductions of new products and obsolescence of old processes); process risks (including system conversions); uncertainties in weather (affecting duration of seasonal oilfield activities); health, safety, and environmental developments; legal matters; and business continuity events (including human-caused and natural threats). Many of these risk factors are discussed further in detail herein, specifically in the "Risks and Uncertainties" section, and in the Company's Annual Information Form on file with Canadian securities commissions at [www.sedar.com](http://www.sedar.com). Readers are also referred to the risk factors described in other documents filed with Canadian securities commissions periodically throughout the year.



## 2010 OVERVIEW:

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

Western Canadian oil and gas drilling rig utilization rates for fiscal 2010 increased a modest 15.7% over fiscal 2009, however, Bri-Chem's revenue rose by 58.1% and net earnings improved 182.2%, reaching a record high of \$0.50 earnings per share.

The 2010 results reflect Bri-Chem's continued operational strength and market leading presence in the Canadian wholesale drilling fluids market. Consolidated revenues were \$152,495,386 for the year ended December 31, 2010, an increase of 58.1% when compared to \$96,479,615 from the prior year. Net earnings in 2010 increased by 182.2% to \$6,940,146 or \$0.50 diluted earnings per share compared to a net loss of (\$8,447,338) or (\$0.58) diluted loss per share for 2009. Earnings before interest, taxes, amortization, and stock-based compensation ("EBITDAC") were \$12,629,694 or \$0.91 per share, an increase of \$11,996,086 compared to 2009.

Net earnings for the fourth quarter were \$2,122,396 or \$0.15 diluted earnings per share as compared to (\$1,876,804) or (\$0.13) diluted loss per share during the same period last year. The net loss in the fourth quarter of 2009 resulted from a net realizable value inventory write down on steel products and drilling fluids of \$2,738,292 and \$147,259 respectively. Without the net realizable value inventory write down, net earnings for the 2009 fourth quarter would have been \$204,525 or \$0.01 diluted earnings per share. During the three months ended December 31, 2010, EBITDAC was \$3,861,252 or \$0.27 per share and increase of \$5,782,646 compared to the same period in 2009. Consolidated revenues were \$47,852,225 in the fourth quarter of 2010, compared to \$32,058,565 for the same period in 2009, an increase of \$15,793,660 or 49.3%.

The fluids division recorded sales of \$38,874,270 and \$118,088,431, increases of 73.4% and 90.3% respectively for the three months and fiscal year ended December 31, 2010 compared to the same periods in 2009. Drilling rig utilization rates averaged 50.1% for the fourth quarter and 40.9% for the year ended December 31, 2010, an increase of 17.7% and 15.7% respectively from the same period last year when utilization rates averaged 32.4% and 25.2%. Drilling activity levels are continuing to improve as non-conventional drilling remains dominant in the WCSB leading to increased demand for fluid products. The fluids division is expecting to see a further increase in demand for its products during the winter drilling season in 2011 with the forecasted increase in drilling activity over 2010.

The steel division recorded sales of \$11,044,687 and \$34,406,955 respectively for the three months and fiscal year ended December 31, 2010, an increase of 13.6% and a decrease of (0.1%) respectively compared to the same periods in 2009. As drilling activity increases the demand for the Company's steel pipe product improves and the division continues to sell more new product at better margins compared to the prior year where sales were dominated by the elimination of older stock at lower margins.

### Outlook Summary

Bri-Chem anticipates fiscal 2011 sales and earnings will continue to improve as drilling activity levels are forecasted to moderately increase in fiscal 2011 as compared to those in fiscal 2010. Drilling activity in the first quarter of 2011 is expected to increase by 19% over the first quarter of 2010, which will lead to additional organic growth in both the drilling fluids and chemical blending divisions. The steel pipe division is positioned to improve profitability with improved margins anticipated for 2011. Demand for steel pipe products is increasing as markets are returning to more traditional demand levels and the Company is now replenishing inventories with more favourably costed products. In addition, Bri-Chem continues to evaluate integrated acquisition opportunities that will enhance profitability and provide geographic diversity.



## DESCRIPTION OF BUSINESS

Bri-Chem is a leading Canadian based wholesale distributor of drilling fluids, steel products and services to the oil and gas, 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"), 100% interest in Bri-Chem Steel Corporation ("Bri-Chem Steel") and a 70% interest in Bri-Steel Manufacturing Inc. ("Manufacturing"). Bri-Chem continues to concentrate on expanding its market presence in the wholesale distribution market with the focus being on the following two divisions:

### OIL AND GAS FLUIDS DIVISION

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

Bri-Chem is one of Canada's largest wholesale distributors of drilling fluid supplies to the oil and gas industry in the WCSB. Bri-Chem sells over 150 different products in a wide variety of weights and clays, lost circulation materials, chemicals and oil mud products to mud engineering companies who sell directly to drilling firms engaged by the oil companies. Much of Bri-Chem's success is attributed to their comprehensive network of 17 strategically placed and fully stocked warehouses throughout Alberta, Saskatchewan and British Columbia as mud engineering companies and drilling companies prefer to use one wholesaler for all of their projects. The drilling fluid supply business experiences some seasonality with the late spring generally being the slowest period, as customers in the natural resource sectors experience a slowdown in their activity. The peak season is in the late fall and winter when customers are not constrained by environmental forces to perform their activities.

#### *Chemical Supplies and Packaging*

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

#### *Specialty Fluids*

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

#### *Industrial Fluids*

Performance Industrial Products ("Performance") is a division of Bri-Chem Supply Ltd. 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, tubular products and casing. The division primarily services the oil and natural gas, 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, and tubing and casing. The Company's superior vendor relationships have provided access to hard to find products and increased market share in a competitive industry.



Bri-Chem manages its steel product inventory through one warehouse in Leduc, Alberta, which is the primary stock location for steel products in North America and also maintains two pipe yards in Chicago, Illinois, and Houston, Texas, which allows the Company to service major pipe distributors throughout the Eastern USA. Bri-Chem's broad base of steel products are primarily used in the oil and gas industry, however the Company does distribute steel products to non-oilfield related industries such as construction, industrial and mining.

Manufacturing is a new subsidiary in the steel products division in 2010. The subsidiary is 70% owned by Bri-Chem Corp, and 30% owned by Wuxi Huayou Special Steel Co., Ltd ("Wuxi"). Manufacturing will produce steel pipe ranging in outside diameter from 14" to 36" and will be manufactured from carbon steel tubes using a Thermal Pipe Expansion (TPE) process that heats the steel tubes while being pushed by a horizontal hydraulic press over a mandrel, thereby expanding the pipe. The Company has begun the process of setting up the mill, located in Edmonton, Alberta, and is currently in the commissioning phase, with light production projected to begin in late spring 2011.

### **Seasonality of Operations**

Weather conditions can affect the sale of the Company's fluid, 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 discussion in this section is qualified in its entirety by the "Caution Regarding Forward-Looking Information" section presented at the beginning of the MD&A.*

The Company will continue to focus on growth by expanding its market presence in the oil and gas, industrial wholesale distribution markets and niche manufacturing opportunities. The fluids division will concentrate on providing superior customer service with the right product mix in strategic locations to meet the changing needs of our customers. In addition, Bri-Chem will seek to establish new geographical markets and expand its blending and packaging opportunities into markets it currently services as well as diversify into new markets such as forestry and agriculture. The steel division will continue to develop a more comprehensive inventory management program that will place inventory in markets that allow for better turnover while being able to meet the delivery needs of its customers. The steel division will continue with the installation and commissioning of its new steel pipe manufacturing micro-mill opportunity and will examine new strategic partnerships with vendors and customers over the medium term.

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**

The following selected two-year consolidated financial information has been derived from and should be read in conjunction with the Company's Year End Report for the year ended December 31, 2010.

<b>Consolidated statements of operations</b>						
	<b>December 31</b>		<b>December 31</b>		<b>Change</b>	
	<b>2010</b>	<b>2009</b>	<b>\$</b>	<b>%</b>		
Sales	\$ 152,495,386	\$ 96,479,615	\$ 56,015,771	58.1%		
Gross margin before inventory provision	20,617,702	13,306,905	\$ 7,310,797	54.9%		
	13.5%	13.8%				
Net realizable value inventory (reversal) writedown	(1,617,577)	3,080,560	(4,698,137)	-152.5%		
Gross margin <sup>(1)</sup>	22,235,279	10,226,345	12,008,934	117.4%		
Gross margin %	14.6%	10.6%	-	4.0%		
Operating expenses <sup>(2)</sup>	9,605,586	9,592,737	12,849	0.1%		
EBITDAC <sup>(3)</sup>	12,629,693	633,608	11,996,085	1893.3%		
Depreciation and amortization	898,637	1,527,227	(628,590)	-41.2%		
Interest	1,759,580	1,831,095	(71,515)	-3.9%		
Stock based compensation	208,084	161,211	46,873	29.1%		
Impairment charge <sup>(4)</sup>	-	6,884,132	(6,884,132)	100.0%		
Earnings (loss) before income taxes	9,763,392	(9,770,057)	19,533,449	199.9%		
Income taxes (recovery) - current	3,158,628	(564,629)	3,723,257	659.4%		
Income taxes (recovery) - future	(335,382)	(758,090)	422,708	-55.8%		
Net earnings (loss)	\$ 6,940,146	\$ (8,447,338)	\$ 15,387,484	182.2%		
Net earnings (loss) attributable to parent	\$ 6,973,587	\$ (8,447,338)	\$ 15,420,925	182.6%		
Net loss attributable to NCI <sup>(5)</sup>	\$ (33,441)	\$ -	\$ (33,441)	100.0%		
<b>Earnings (loss) per share</b>						
Basic <sup>(4)</sup>	\$ 0.50	\$ (0.58)	\$ 1.08	186.2%		
Diluted <sup>(4)</sup>	\$ 0.50	\$ (0.58)	\$ 1.08	186.2%		
<b>EBITDAC per share</b>						
Basic	\$ 0.91	\$ 0.04				
Diluted	\$ 0.91	\$ 0.04				
<b>Weighted average shares outstanding</b>						
Basic	13,874,990	14,485,860	n/a	n/a		
Diluted	13,949,590	14,485,860	n/a	n/a		

(1) Cost of sales includes an inventory net realizable value recovery of \$1,617,577. If the recovery of previous net realizable inventory write-down was excluded from the results above, the December 31, 2010 gross margin would have been \$20,617,702 or 13.5% as a percentage of



## MANAGEMENT'S DISCUSSION & ANALYSIS – December 31, 2010

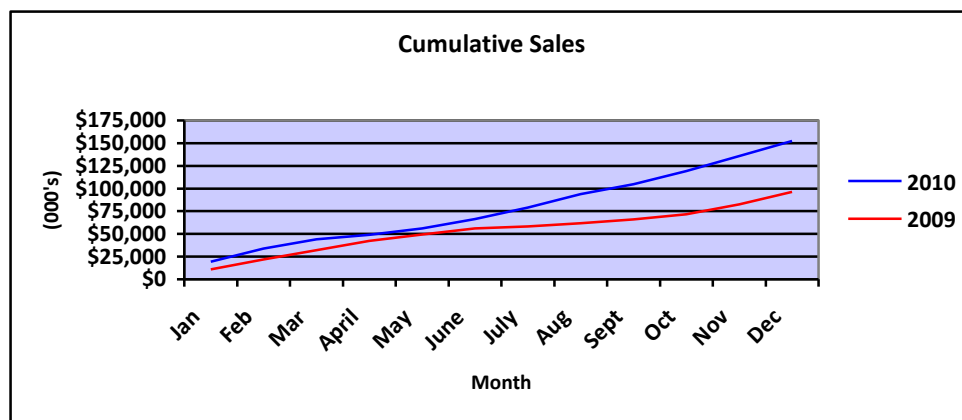
- sales. In the prior year if the write-down of inventory were excluded, the gross margin would have been \$13,306,905 or 13.8% as a percentage of sales.
- (2) See page 33 for a further explanation of this non-GAAP measure.
  - (3) Represents earnings before interest, taxes, depreciation, amortization, and stock-based compensation (see page 33 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.
  - (5) Bri-Steel Manufacturing Inc. a 70% owned subsidiary of Bri-Chem Corp., was incorporated on October 13, 2010. NCI represents the 30% non-controlling interest's portion of loss of the subsidiary for the 2010 year end.

### RESULTS OF OPERATIONS

#### Sales

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

Sales by segment For the year ended	December 31 2010	December 31 2009	Change	
			\$	%
Fluids	\$ 118,088,431	\$ 62,051,728	\$ 56,036,703	90.3%
Steel	34,406,955	34,427,887	(20,932)	-0.1%
	<b>\$ 152,495,386</b>	<b>\$ 96,479,615</b>	<b>\$ 56,015,771</b>	<b>58.1%</b>



#### Fluids

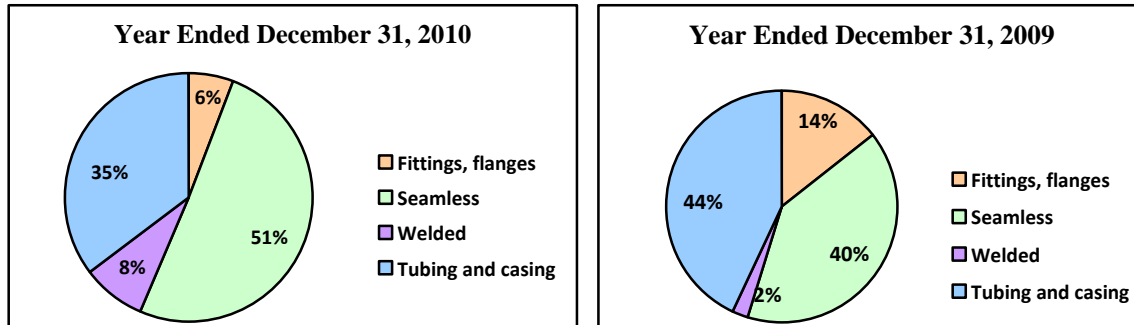
Fluids sales for 2010 increased by \$56,036,703 (90.3%) over sales in 2009. The significant increase is directly attributable to an increase in demand and an increase in market share. Fiscal 2010 drilling rig utilization rates averaged 41%, an increase of 15% compared to 26% utilization in 2009. Significant increases in the Alberta and Saskatchewan markets, of 37.6% and 58.8% respectively, contributed to this overall pickup in average utilization rates for the year. While drilling rig utilization rates have not yet returned to pre-2009 economic downturn levels, they continued to increase with each quarter of 2010. Forecasts for 2011 show that rig utilization rates are expected to experience a modest increase from 2010.

The Company continues to see its fluids division growing its market share in the WCSB. The Alberta warehouses experienced the most significant increase in sales of 107.4% over prior year, while Saskatchewan was close with an 86.1% increase, which is consistent with the increases in drilling activity as stated above. Wells drilled in Alberta totaled 8,214 which represents a 37.6% increase over 5,970 in 2009. Saskatchewan wells increased 1,020 to 2,756

in 2010, an increase of 58.8%. Wells drilled in British Columbia increased 13.8% to 654 over 2009 levels, while Company sales in the area increased 32.4%. The continuation of non-conventional drilling applications has led to the demand for more technological drilling fluids, which has resulted in continued increases to sales in this region.

Sales to United States remained consistent at \$916,138 compared to \$963,941 for the same period in 2009. The US market was not an area of focus for the Company in 2010.

*Steel Products*



For the year ended December 31, 2010, the steel products division generated revenues of \$34,406,955 compared to \$34,427,887 in the prior year. The steel products division sells primarily to the oil and gas industry. The Company has seen a slow recovery from the economic crisis as steel prices have begun to return to normal levels. The division has lowered selling prices for certain products to remain competitive in the current market. As the division depleted 2009 overstock inventory levels, management did not replenish steel inventory at the same level, due to the strict inventory management policy put in place in 2010. The division focused on clearing out overstocked product, which often had lower selling prices, in order to free up cash for future purchases.

The steel division has decided to discontinue sales of fitting and flanges in order to concentrate cash flows in more profitable and growing areas. All remaining fittings and flange inventory was sold by year end 2010 for a discount to the purchaser, which also negatively affected the margins for the division in the year.

Sales in the United States amounted to \$6,732,212, a decrease of 9.0% compared to \$7,396,397 in 2009. The US market is significantly larger than the Canadian market and more geographically disperse, thus the Company continues to search out opportunities. The market in the US has been slow to rebound from the prior levels of overstocked inventory. Bri-Chem has two inventory yards in Chicago, IL and Houston, TX to warehouse and distribute steel pipe to customers in the US. Management has made the decision to discontinue stocking inventory in the US and to concentrate efforts on the Canadian markets. The division will continue to serve US customers with mill direct orders, and will examine reinvesting inventory in the US at a later date as US market demand increases.



**Gross margin**

*The discussion in this section is qualified in its entirety by the “Caution Regarding Forward-Looking Information” section presented at the beginning of the MD&A.*

<b>For the year ended</b>	<b>December 31</b>		<b>December 31</b>		<b>Change</b>	
	<b>2010</b>		<b>2009</b>		<b>\$</b>	<b>%</b>
Gross margin <sup>(1)</sup>	\$	<b>22,235,279</b>	\$	10,226,345	\$ 12,008,934	117.4%
% of sales		<b>14.6%</b>		10.6%		4.0%

(1) Cost of sales includes an inventory net realizable value recovery of \$1,617,577 in 2010 (a write down of \$3,080,560 in 2009). If the write down of inventory were excluded from the results above, the December 31, 2010 gross margin would have been \$20,617,702 (\$13,306,905 in 2009).

Consolidated gross margin for the year ended December 31, 2010 was \$22,235,279, an increase of 117.4% over the prior year. The gross margin as a percentage of sales increased by 4% from 2009 and is returning to traditional levels. In 2009, the largest factor affecting gross margin was the net realizable value inventory write down of \$3,080,560. Without this adjustment, gross margin in 2009 would have been \$13,306,905 or 13.8%.

The fluids division margins have increased slightly over prior year. Average gross margin as a percentage of sales was 15.3% in 2010 as compared to 13.8% in 2009. 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 and are becoming more popular with customers. These more efficient fluids have gross margins that are approximately 5% lower than traditional fluid margins. In addition, in 2009 the Company took additional price reductions on some product to maintain competitiveness and move product during the time of reduced drilling activity. As drilling activity increased in 2010, these price reductions were no longer needed to remain competitive. The Company continues to monitor product mix with a goal of increasing overall margins.

For the steel products division, the North American inventory trend towards destocking of excess inventory on hand in 2009 continued into the first half of 2010, causing many companies to reduce selling prices to sell off high priced 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 2010. The steel division also sold off its fittings and flanges inventory at a discount as part of a management’s decision to discontinue stocking these products to focus on other pipe areas, such as seamless pipe.

There have been cost reductions of certain drilling fluid products, while increases in others, which the Company continues to pass through to customers. For 2011, we are anticipating margins for fluid sales will be similar or slightly higher than 2010. We are unable to predict the value of the Canadian dollar in relation to foreign currencies in the future; therefore, we are uncertain as to the potential impact on the Company’s gross margin in relation to foreign purchases of product. The steel products division will experience improved margins in 2011, as the Company has replaced its high costed inventory with new inventory that will yield traditional margins ranging from 15% to 17%.

*Reversals of Inventory Write Down*

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 or 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.



In 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. The continued decline in margins as a result of lower selling prices and excess inventory across North America caused prices to remain low, and the Company identified an impairment in the inventory value at that time.

During 2010, the economy has continued to recover and the Company experienced recoveries on some items previously estimated to have a lower net realizable value. As a result the inventory write downs taken in the prior year have been reversed at the time of sale. Reversals of \$1,617,577 on write downs of steel products have been recorded in 2010.

**Operating expenses**

**Salaries and employee benefits**

<b>For the year ended</b>	<b>December 31 2010</b>	December 31 2009	<b>Change</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
Salaries and benefits	<b>6,110,137</b>	6,192,901	(82,764)	-1.3%
% of sales	<b>4.0%</b>	6.4%		-2.4%

Salaries and benefits have remained relatively consistent over the prior year. The Company reduced three warehouse staff due to the subleasing of the Estevan Saskatchewan location, whereby an independent third party trucking company subleased the facility and is managing the fluids inventory similar to other warehouses. The Company eliminated its in-house IT position in the period in favor of a third party service provider. The Company also hired an additional manager in the steel division and an additional operator for the fluid blending operation. In addition, the Company hired an additional person in accounting and three temporary employees to assist over the winter busy months at the beginning of 2010. Offsetting the reduction in employees was the addition of two employees for the new pipe expansion mill in December 2010. The Company had 50 employees and 5 consultants on staff as at December 31, 2010, a reduction of four staff from 2009. During 2010, the Company accrued a year end employee and management bonus of \$411,095, in comparison to 2009 accrued bonuses of \$234,715.



**Selling, general and administration**

<b>For the year ended</b>	<b>December 31 2010</b>	December 31 2009	<b>Change</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
Selling	<b>\$ 684,961</b>	\$ 584,032	\$ 100,929	17.3%
Professional and consulting	<b>388,588</b>	528,987	(140,399)	-26.5%
General and administration	<b>1,052,222</b>	1,280,396	(228,174)	-17.8%
Rent, utilities and occupancy costs	<b>2,141,775</b>	2,149,795	(8,020)	-0.4%
Foreign exchange gain	<b>(646,365)</b>	(1,001,155)	354,790	-35.4%
	<b>\$ 3,621,181</b>	\$ 3,542,055	\$ 79,126	2.2%
<b>Selling, general and administrative expenses (as a % of sales)</b>				
Selling	0.4%	0.6%		
Professional and consulting	0.3%	0.5%		
General and administration	0.7%	1.3%		
Rent, utilities and occupancy costs	1.4%	2.2%		
Foreign exchange gain	-0.4%	-1.0%		
	2.4%	3.6%		

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

Selling expenses increased for the year ended December 31, 2010 compared to the same period in 2009. This includes an increase of \$28,047 in travel costs and \$57,869 increase in meals and entertainment, both related to increased sales force and investor relations activities. Selling costs relate to customer relations, promotion, and travel costs.

Professional and consulting expenses decreased over 2009 due to the consulting fees incurred in 2009 relating to the Company's International Financial Reporting Standards conversion implementation along with audit, legal, and other advisory fees. In 2010 the Company hired an employee to complete the IFRS conversion implementation. Fees for legal work have increased in 2010 due to tax planning, contract review and other general matters.

General and administration expenses decreased by 17.8% over prior year. Bad debt expense decreased by \$113,715 over prior year. This is due to several more customer accounts being deemed uncollectible in the prior year as compared to the current year. This is offset by increases incurred in standby fees, waste disposal costs, and computer maintenance. Standby fees increased \$56,356 due to the increased borrowing base and the large change in amounts borrowed throughout the year under the credit facility as a result of the increase in business experienced in 2010. Computer maintenance costs increased by \$74,178 due to termination of the IT position in-house and the hiring of a third party consultant firm to handle all IT issues for the Company. Minor cost increases also relate to the purchase of additional licenses and general maintenance of the server system.

Warehouse rent, utilities and occupancy cost expenses remained consistent over prior year. This is expected given the full year of operations in all locations, with no additional locations set up. The steel division incurred increased lease expenses for its new 36,000 square foot facility in Leduc, Alberta during the second half of 2009, which continued through 2010. Liquid storage tank rentals continued from 2009 as the Company has expanded its storage capacity for liquid invert to include Edson, Grande Prairie, and Fort St. John. The Company signed a new lease commencing in November, 2010 for the Manufacturing facility, located in Edmonton, Alberta. 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.



## MANAGEMENT'S DISCUSSION & ANALYSIS – December 31, 2010

During 2010, the US dollar continued to weaken in relation to other currencies. The decrease in the US dollar resulted in a foreign exchange gain during the current year ended December 31, 2010, causing the Company to have a favourable position in purchases in foreign currencies. The Company reported a foreign exchange gain of \$646,365 for the year, compared to \$1,001,155 in 2009. These foreign exchange gains arose on the translation of the foreign denominated assets and liabilities held by the Company, as well as the fair value of derivative financial instruments (see "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

### Amortization

For the year ended	December 31		Change	
	2010	2009	\$	%
Property and equipment	\$ 480,522	\$ 541,145	\$ (60,623)	-11.2%
Intangibles	418,115	986,082	(567,967)	-57.6%
Total	\$ 898,637	\$ 1,527,227	\$ (628,590)	-41.2%

The decreased amortization expense for intangibles relates to the write-down of intangible assets that occurred in August 2009. During the third quarter of 2009, the Company performed an assessment of the fair value of its intangible assets. Due to the deterioration in overall economic conditions at that time, 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 comprised an impairment of customer relationships of \$1,291,366, proprietary products of \$16,667, non-complete agreements of \$401,399, and trade names of \$446,400.

The decrease in property and equipment amortization is a result of small disposals and normal declining balance calculations.

### Interest

For the year ended	December 31		Change	
	2010	2009	\$	%
Interest on short-term operating debt	\$ 1,119,930	\$ 1,164,301	\$ (44,371)	-3.8%
Interest on long-term debt	633,635	661,157	(27,522)	-4.2%
Interest on obligations under capital lease	6,015	5,637	378	6.7%
Total	\$ 1,759,580	\$ 1,831,095	\$ (71,515)	-3.9%

Interest on short-term debt decreased by \$44,371 this year due to reductions in the revolving line of credit balance outstanding experienced in the first six months of the year. While it has increased to year end, the beginning of the year was much lower due to cash management strategies in place to cope with the market downturn in 2009. As borrowing has increased in the latter half of the year to aid increased sales and purchasing activity, overall interest on short-term debt for the year remains relatively consistent to prior year.

As at December 31, 2010, long-term debt consisted of a \$1,200,000, 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., 6% promissory notes payable of \$3,000,000 plus accrued interest to the former owners of Bri-Chem Steel Corporation, a \$1,520,658 prime plus 1.75% non-revolving loan outstanding with a Canadian chartered bank, and a \$1,620,000 subordinated loan bearing interest at prime plus a fixed charge with a financial institution. Interest on long-term debt decreased in 2010 due to the decreased principal balance on the sub-debt and the non-revolving loan outstanding in line with continuous repayments of these amounts.



**Income taxes**

The provision for income taxes for the year ended December 31, 2010 is a net current tax expense of \$3,158,628 compared to a recovery of \$546,629 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%. While the Company's effective tax rate decreased to 28% this year, the Company's earnings increased significantly leading to increased tax expense. The Company had a future income tax recovery of \$335,382 during the year, largely as a result of the tax effect on losses incurred in the steel division.

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

<b>For the year ended</b>	<b>December 31 2010</b>	December 31 2009	<b>Change</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
Net earnings (loss) <sup>(1)</sup>	<b>\$ 6,940,146</b>	\$ (8,447,338)	\$ 15,387,484	-182.2%
% of sales	<b>4.6%</b>	-8.8%		
EBITDAC <sup>(2)</sup>	<b>\$ 12,629,693</b>	\$ 633,608	\$ 11,996,085	1893.3%
% of sales	<b>8.3%</b>	0.7%		

(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.

Net earnings in 2010 include a reversal of net realizable inventory write downs of \$1,617,577. If this adjustment, net of tax was excluded from the results above, the 2010 net earnings would have been \$5,754,886.

(2) Represents earnings before interest, taxes, depreciation, amortization, and stock based compensation (see page 33 for a further explanation of this non-GAAP measure).

The Company had net earnings for the year ended December 31, 2010 of \$6,940,146 compared to a net loss of \$8,447,338 in the prior year. Net earnings as a percentage of revenues for the year was 4.6% as compared to (8.8%) for the year ended December 31, 2009. The increase is due to the significant uptake in drilling activity levels in the oil and gas industry that occurred in 2010, which coincided with the overall increase in economic conditions experienced in North America. The year ended December 31, 2009 included an impairment charge to goodwill of \$4,728,300 and to 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 in 2009 and recorded a write down of \$3,080,560 in 2009. This write down was reversed by \$1,617,577 in 2010.

The increase in EBITDAC is due to the increase in fluid sales activity in the year as a result of the drilling activity and increased gross margin as a result of the absence of further NRV write downs this year. When EBITDAC is adjusted for the reversal of prior inventory write-downs in the year, it is \$11,012,116 as compared to \$3,714,168 in 2009, an increase of 197.3% over prior year.

Basic and diluted earnings per share for the year ended December 31, 2010 was \$0.50. Earnings per share were based on the weighted average number of shares outstanding during the period. The basic and diluted weighted average number of shares outstanding for the year ended December 31, 2009 was 13,874,990 and 13,949,590, respectively. During the year ended December 31, 2010, the Company issued 30,000 stock options to the independent directors at a price of \$1.30 per share. Stock options were issued to consultants of 12,500 stock options at a price of \$2.00 and 12,500 stock options at a price of \$2.10.



**SUMMARY OF QUARTERLY DATA**

(in thousands of Cdn \$)	2010				Total TTM
	Q4	Q3	Q2	Q1	
Sales	\$ 47,852	\$ 38,485	\$ 22,194	\$ 43,965	\$ 152,496
Gross margin (\$)	6,977	5,720	3,310	6,229	22,236
Gross margin (%)	14.6%	14.9%	14.9%	14.2%	14.6%
Adjusted EBITDAC <sup>(1)</sup>	2,689	3,425	712	4,216	11,042
Net earnings	\$ 2,122	\$ 2,270	\$ 42	\$ 2,539	\$ 6,973
Basic earnings per share	\$ 0.155	\$ 0.165	\$ 0.003	\$ 0.179	\$ 0.50
Diluted earnings per share	\$ 0.155	\$ 0.165	\$ 0.003	\$ 0.179	\$ 0.50

(in thousands of Cdn \$)	2009				Total TTM
	Q4	Q3	Q2	Q1	
Sales	\$ 32,058	\$ 23,966	\$ 10,118	\$ 30,337	\$ 96,479
Gross margin (\$) <sup>(2)</sup>	893	2,647	1,869	4,817	10,226
Gross margin (%)	2.8%	11.0%	18.5%	15.9%	10.6%
Adjusted EBITDAC <sup>(1)</sup>	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)

(1) EBITDA is a non-GAAP measure which the Company defines as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDAC further adjusts this non-GAAP measure for stock-based compensation expense and the inventory write down. (See page 33 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 in Q4 2009. 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**

<b>Consolidated Statement of Operations</b>		<b>December 31</b>		<b>Change</b>	
<b>For the three months ended</b>	<b>2010</b>	<b>2009</b>	<b>\$</b>	<b>%</b>	
Sales	\$ 47,852,255	\$ 32,058,565	15,793,690	49.3%	
Gross margin before inventory provision	6,375,323	3,778,390	2,596,933	68.7%	
Gross margin %	13.3%	11.8%			
Net realizable value inventory (recovery) write down	(601,919)	2,885,551	(3,487,470)	-120.9%	
Gross margin (\$) <sup>(1)</sup>	6,977,242	892,839	6,084,403	681.5%	
Gross margin %	14.6%	2.8%		11.8%	
Operating expenses <sup>(2)</sup>	3,115,990	2,814,233	301,757	10.7%	
EBITDAC <sup>(3)</sup>	3,861,252	(1,921,394)	5,782,646	301.0%	
Depreciation and amortization	220,300	235,506	(15,206)	-6.5%	
Interest	546,340	408,313	138,027	33.8%	
Stock based compensation	25,998	32,275	(6,277)	-19.4%	
Earnings (loss) before income taxes	3,068,614	(2,597,488)	5,666,102	218.1%	
Income taxes (recovery) - current	1,003,345	(540,566)	1,543,911	285.6%	
Income taxes (recovery) - future	(57,127)	(180,118)	122,991	68.3%	
Net earnings (loss)	\$ 2,122,396	\$ (1,876,804)	3,999,200	213.1%	
Net earnings (loss) attributable to parent	\$ 2,155,837	\$ (1,876,804)	4,032,641	214.9%	
Net loss attributable to NCI <sup>(4)</sup>	\$ (33,441)	\$ -	(33,441)	100.0%	
<b>Earnings (loss) per share</b>					
Basic	\$ 0.15	\$ (0.13)	n/a	n/a	
Diluted	\$ 0.15	\$ (0.13)	n/a	n/a	
<b>Weighted average shares outstanding</b>					
Basic	13,699,408	14,381,786	n/a	n/a	
Diluted	14,142,128	14,381,786	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%).

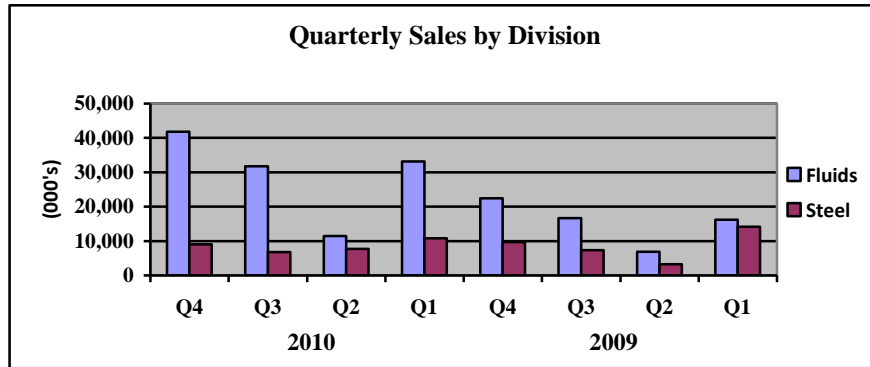
(2) See page 33 for a further explanation of this non-GAAP measure.

(3) Represents earnings before interest, taxes, depreciation and amortization and stock based compensation (see page 33 for a further explanation of this non-GAAP measure).

(4) Bri-Steel Manufacturing Inc., a 70% owned subsidiary of Bri-Chem Corp., was incorporated on October 13, 2010. NCI represents the 30% non-controlling interest's portion of loss of the subsidiary for the 2010 year end.

**Sales**

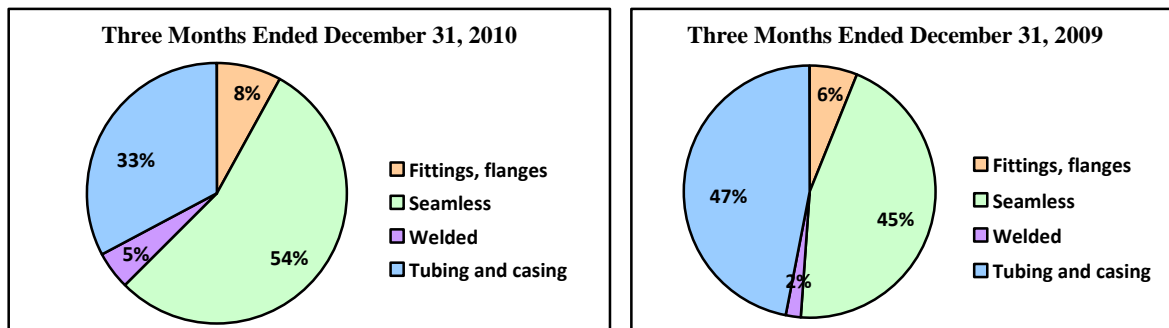
The discussion in this section is qualified in its entirety by the “Caution Regarding Forward-Looking Information” section presented at the beginning of the MD&A.



*Fluids division*

Fluid sales were up \$16,462,440 or 73.4% for the fourth quarter of 2010 compared to same period in 2009, while drilling rig utilization in the fourth quarter was only up 49.7% over Q4 2009. During the fourth quarter of 2010, drilling utilization rates for the oil and gas sector averaged 50.1%, an increase of 17.7% when compared to same period last year, when rig utilization averaged 32.4%. Alberta sales were \$33,157,006 in the fourth quarter with 2,852 wells drilled, a 48.8% increase in drilling activity from the fourth quarter of 2009, while sales revenues increased by 89.3% over the fourth quarter of 2009. British Columbia sales experienced an increase of 20.2% over the prior period, generating \$3,762,606 in sales from this region during the quarter even with a 31.1% increase in drilling activity in the region. The fluids division had Saskatchewan sales of \$1,722,121, an increase of 12.5% over the comparable period last year with a 56.2% increase in drilling activity. In addition, the division had sales to the United States of \$201,061 for the period. Strong sales for the fluids division are expected to continue with the predicted activity for the 2011 winter drilling season.

*Steel products division*



For the three months ended December 31, 2010, the steel division had sales of \$11,044,638 compared to \$9,720,521 in the fourth quarter of 2009, an increase of 13.6%. Sales in the United States for the quarter amounted to \$1,165,317 compared to \$2,550,976 for the same period in 2009. Sales have increased for the last quarter of 2010 as compared to the last quarter of 2009 due to the economic recovery and increase in drilling activities experienced.



### **Gross margin**

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

Gross margin as a percentage of sales increased by 11.8% to 14.6% during the quarter as compared to the comparable prior year quarter. The most significant factor in this change is the absence of a net realizable value write down on inventory, and the reversal of prior year amounts taken as a write down. If adjusted for the inventory write down reversal, gross margin would have been 13.3% as a percentage of sales, as compared to 11.8% in Q4 2009 if the net realizable inventory write down is adjusted out of the fourth quarter 2009 figures. Margins on product in the fluids division are reduced due to high volumes of low margin product such as invert which continue to increase in customer demand. Steel product margins have continued to increase to more normal levels. Over the medium to long-term, we anticipate the demand for fluid and steel products will continue to grow and selling prices and margins will continue increasing to more traditional levels.

### **Operating expenses**

Operating expenses increased by \$301,757 or 10.7% compared to the same period in 2009. Occupancy costs experienced increases of \$76,330 in 2010 compared to 2009 while the Company recorded a foreign exchange loss of \$314,043 compared to a foreign exchange gain of \$52,308 in the fourth quarter of 2009. This was largely a result of foreign exchange losses realized due to the difference in the Canadian and US dollar and unrealized forward contract fair value derivatives at December 31, 2010. As a percentage of sales, operating expenses for the three months ended December 31, 2010 was 6.5%. This is comparable to a percentage of 8.7% for the prior year three month period ended December 31, 2009.

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

Depreciation and amortization expense decreased by \$15,206 or 6.5% compared to the same period in 2009, which was largely due to normal declining balances of assets. Interest expense increased by \$138,027 or 33.8% compared to the same period in 2009. The increase was due to the higher principal balance outstanding on the bank indebtedness as compared to the fourth quarter of 2009.

### **Net earnings**

Net earnings for the three months ended December 31, 2010 was \$2,122,396 or \$0.15 per share, a \$0.28 increase over the comparative quarter in 2009. The Company's higher fluid product sales were the largest contributor to this increase. Earnings/loss per share were calculated based on the weighted average number of shares outstanding during the three months ended December 31, 2010 and the comparative three month period ended December 31, 2009.



**FINANCIAL CONDITION & LIQUIDITY**

<b>Summary Balance Sheet As at</b>	<b>December 31 2010</b>	<b>December 31 2009</b>
Current assets	\$ 94,204,322	\$ 73,900,576
Property and equipment	3,705,758	3,676,600
Other assets	1,148,359	1,354,611
<b>TOTAL ASSETS</b>	<b>\$ 99,058,439</b>	<b>\$ 78,931,787</b>
Current liabilities	\$ 70,641,218	\$ 52,945,089
Long-term liabilities	4,510,901	8,609,978
<b>TOTAL LIABILITIES</b>	<b>75,152,119</b>	<b>61,555,067</b>
Share capital	14,451,480	15,156,254
Non-controlling interest	(33,411)	-
Retained earnings and contributed surplus	9,488,251	2,220,466
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>23,906,320</b>	<b>17,376,720</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 99,058,439</b>	<b>\$ 78,931,787</b>

<b>Financial Ratios</b>	<b>December 31 2010</b>	<b>December 31 2009</b>
Working capital ratio	1.33	1.40
Days sales in receivables	93.3	96.8
Inventory turns	3.1	2.3
Days purchases in payables	67.4	88.2

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

As at December 31, 2010, the Company had positive working capital of \$23,563,104 compared to \$20,995,487 at December 31, 2009. The Company's current ratio (defined as current assets divided by current liabilities) was 1.33 to 1 for the year ended December 31, 2010, compared to 1.40 at the end of 2009.

As at December 31, 2010, the Company had \$39,552,948 outstanding under its available credit facilities of \$50,000,000, with a Canadian chartered bank, as compared to \$27,652,949 at December 31, 2009. In December 2010, the Company amended its credit facility, which resulted in an increase in the line of credit to \$50,000,000 from \$40,000,000 with a \$5,000,000 bulge under the previous facility.

The December 31, 2010 days sales in receivables is consistent with the ratio from December 2009. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference in the calculation of the days sales in receivables. The decrease in days' purchases in payables is due to the Company stocking up on fluids



**MANAGEMENT'S DISCUSSION & ANALYSIS – December 31, 2010**

inventory in the fourth quarter of 2010 to meet the demands of its customers, combined with tighter credit terms with some suppliers which the Company is in the process of working on extending.

As at December 31, 2010, accounts receivable was \$46,727,925, a \$15,555,037 (49.9%) increase from the fiscal 2009 balance of \$31,172,888. The increase is due to the significant increase in sales activity in the fourth quarter due to increased drilling activity.

Inventory increased by \$2,262,762 (5.7%) to \$42,441,797 compared to 2009 year end balance of \$40,179,035. Inventory in the steel division was greatly reduced, from \$15,033,485 held in 2009 down to \$7,996,815 at the end of 2010. This is a result of management initiatives to move older stock held, combined with cash management policies put in place during the economic downturn of 2009, which allowed the division to return inventory levels to more traditional levels for continued operations. Fluids inventories have increased over prior year given the significant increase in sales experienced. The Company is experiencing high demand for its products and began stocking up throughout the fourth quarter of 2010 in order to prepare for the forecasted continuation of this demand level from customers through the first quarter of 2011. This is in line with the Company's normal seasonality of sales experienced.

The Company's prepaid expenses and deposits have increased by \$3,886,105 to \$5,025,888 at December 31, 2010 as compared to prior year end. Many of the steel products purchased required down payments to vendors prior to the shipment of material in the fourth quarter. The deposits in 2009 were much lower for steel given the cash and inventory management processes that were put in place at that time. The Company continues to work with its vendors on the terms of these purchases to reduce the upfront cash deposits needed.

The Company has recorded a loss of \$33,441 for non-controlling interest in the year, related to the establishment of the Manufacturing subsidiary.

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. Based on current budgeted operating expenditures for the 2011 year, the Company will have sufficient funds to meet its obligations. The Company has traditionally relied upon the working capital and available operating line of credit to satisfy its capital requirements. As part of the Company's amended credit facility, the Company obtained a \$1,000,000 Evergreen Line of Credit for the purposes of funding capital expenditures in 2011. Additionally, the Company has completed a public equity financing in February 2011 to fund additional planned expenditures over and above the current operating budget requirements for 2011, including the repayment of debt obligations.

<b>Summary of Consolidated Statements of Cash Flows</b>	<b>December 31</b>	December 31
<b>Years ended</b>	<b>2010</b>	2009
Cash provided by operating activities	\$ (8,667,144)	\$ 11,599,117
Cash used by financing activities	9,124,251	(10,958,187)
Cash used by investing activities	(457,107)	(640,930)
Net increase in cash and cash equivalents	-	\$ -
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	\$ -	\$ -



### **Cash flow provided (used) by operating activities**

Cash used by operating activities for the year ended December 31, 2010 was \$8,667,144 compared to cash provided of \$11,599,117 for the same period in 2009. The Company's significant increase in cash used for operating activities relates to more cash paid for the purchase of inventory as the Company increased purchases, especially in Q4 2010 for increased customer demand. There are also significant receivables balances outstanding at December 31, 2010 as compared to the prior year given the significant increase in sales that occurred in 2010. We expect to see our cash from operations decrease in the first quarter of 2011, and 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 provided (used) by financing activities**

Cash provided by financing activities was \$9,124,251 for 2010, compared to cash used of \$10,958,187 in 2009. The cash provided by financing activities was mainly related to advances on the operating line to fund increased purchases to meet the increased demand in the year. 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. This trend is reversed in Q4 and Q1 when significant sales and purchases occur, while collections are often delayed until Q2. With the increased purchasing activity, increased borrowing was required to pay vendors ahead of the collection of receivables on the increased sales.

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 plus interest due in October 2010, and October 2011 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 and will be 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 by investing activities**

Cash used in investing activities amounted to \$457,107 in 2010 compared to \$640,930. The decrease is due to fewer property and equipment purchases in the year as compared to the prior year. The Company expects significant increases to the use of cash for investing activities in 2011 for the purchase of property and equipment related to the new Manufacturing subsidiary.

### **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, 2010, 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, 2010 and ending January 1, 2012.



**Commitments**

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

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

2011	\$ 1,691,511
2012	1,575,675
2013	1,575,675
2014	1,035,012
2015	926,880
	\$ 6,804,753

Contractual obligations related to financial liabilities at December 31, 2010 are as follows:

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Capital leases*	Total
2011	\$ 39,552,948	\$ 25,053,083	\$ 1,056,297	\$ 2,391,625	\$ 31,997	\$ 68,085,950
2012	-	-	2,305,404	1,994,082	31,997	4,331,483
2013	-	-	-	-	38,864	38,864
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
Total	\$ 39,552,948	\$ 25,053,083	\$ 3,361,701	\$ 4,385,707	\$ 102,858	\$ 72,456,297

\* includes interest calculated to be paid

**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 at the end of 2010 and determined that there were no any indicators of potential impairment.



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

Balance, December 31, 2009	\$ 1,241,100
Additions	34,456
Amortization	(418,115)
Balance, December 31, 2010	\$ 857,441

### Property and equipment

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

The Company's investment in property and equipment for the year was \$496,781 including additions through capital leases. The capital expenditures were funded from the Company's operating 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 \$3,917,900 are being proposed for 2011. This includes \$2,100,000 of thermal expansion manufacturing equipment to be purchased by the Chinese partner in Manufacturing in exchange for preferred shares of equal value in the subsidiary. Of the total remaining planned expenditures, \$1,608,400 is estimated in additional Manufacturing capital assets, including capital leases and leasehold improvements. The residual planned expenditures are for normal upgrades and additions planned in the Company's other subsidiaries. The Company plans to fund the remainder of these capital expenditures from the Company's operating credit line as well as capital leases and the Evergreen line of credit.

### 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, 2010, the Company incurred selling, general and administration expenses in the normal course of operations with BRC Advisors Inc. commencing March 2010, and Western America Capital Group, previously, affiliated companies which a certain director and officer has significant influence, as follows:

- Management advisory services of \$120,000 (December 31, 2009 – \$120,000) to a Company which a director and officer has significant influence.
- Accounting, administrative and corporate expenses of \$18,312 (December 31, 2009 – \$39,095) were paid to a Company over which a director and officer has significant influence.
- The Company paid director fees of \$63,500 (December 31, 2009 - \$39,750) to three Company directors.

The Company expensed interest of \$127,460 (December 31, 2009 - \$132,000) 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 \$180,000 (December 31, 2009 – \$183,206) 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

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure on certain committed and anticipated transactions. The Company does not designate its foreign exchange forward contracts as a hedge of underlying assets, liabilities, firm commitments or anticipated transactions in accordance with CICA Handbook Section 3865, *Hedges*, and accordingly does not use hedge accounting. As a result of this, foreign exchange forward contracts are recorded at fair value in receivables when the contracts are in a gain position and in accrued liabilities when the contracts are in a loss position. The difference between nominal value and fair value is recorded in foreign exchange expense in the period. The Company purchases foreign exchange forward contracts to mitigate the exposure to purchases and the related payable to suppliers denominated in U.S. dollars.

## OUTLOOK

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

We anticipate oil drilling activity to remain strong in 2011 and expect a reasonable increase in drilling activity during the winter drilling season which will continue to drive demand for our fluid and blending products. Oil prices have rebounded and appear to have stabilized which will lead to increased drilling activity thus positively affecting the demand for the Company's fluid and steel products. Bri-Chem remains focused on superior customer service, managing inventory levels and controlling costs. As activity levels surge, Bri-Chem is well positioned to grow market presence and profitability through its diverse product offering, strategic distribution network and solid client relationships.

The Petroleum Services Association of Canada (PSAC) has forecasted 12,750 wells to be drilled in Canada for 2011, a forecasted increase of 5% over 2010. In addition, PSAC has forecasted a 19% increase in number of wells drilled to 4,313 in the first quarter of 2011 compared to 3,610 the first quarter of 2010. With the projected increase for 2011, the fluids division is expected to experience increased sales and profitability as demand for fluids will be driven by the continued non-conventional, horizontal drilling applications occurring in the WCSB.

The Company's chemical blending operation is expected to experience new growth during the first half of 2011, as demand for blending proprietary customer products is expanding due to the increase in non-conventional drilling activity. Management will continue to focus on expanding blending opportunities in 2011 through blending and packaging of cementing, acidizing and fracturing chemical additives. In an effort to improve capacity, management is examining the consolidation of blending operations to allow division to expand its product offering and improve efficiencies while maintaining the ability to meet the increased demand for our blended products and services.

Excess North American steel inventory levels were reduced during 2010 and have returned to near normal levels. Demand for steel products is starting to improve and it is expected that demand will continue to improve throughout 2011. Margins should improve over the short to medium term to more traditional levels as commodity prices continue to rebound from the lows of 2009. Certain products may still remain depressed until products are replaced with higher margin inventories in the future. Management continues to focus on seamless pipe distribution and trading.

The recently announced steel manufacturing division has commenced installation of equipment in early 2011. In the short to medium term, management will concentrate on completion of the installation and commissioning of the micro-mill while commencing the marketing of the manufacturing plant to existing and new customers. Management is optimistic that the demand for large diameter seamless pipe in Canada will drive the division's sales and profitability; however installation, testing and production delays could affect the ability to meet industry demand.

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**

*The discussion in this section is qualified in its entirety by the “Caution Regarding Forward-Looking Information” section presented at the beginning of the MD&A.*

### *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. The changes in the global financial markets and weak economic conditions, such as those experienced in the past two years, can have a significant impact on the ability of the Company to obtain funding for future financial requirements.

In addition, the cost of obtaining money from the credit market has generally increased as many lenders have increased interest rates, enacted tighter lending standards, and are not refinancing existing debt at maturity on terms similar to current debt and, in some cases, ceased to provide funding. Due to these factors, the Company cannot be certain that funding will be available when needed and to the extent required, on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

### *Competition and Industry Conditions*

There is a strong correlation between drilling activity and demand for the Company's product. Industry demand for the Company's drilling products is further determined by activity levels that are focused on deep well drilling and applications common to the foothills region and northern Alberta and British Columbia, areas known for deeper drilling. Oil and gas activity in these geographic regions is normally strong during winter months or other times when climatic conditions are favorable.

The capital expenditure programs of oil and gas companies largely affect the products provided by the Company. The magnitude of capital expenditures determines the demand for the Company's drilling fluids and steel 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 attempts to mitigate this risk factor by assessing current drilling activity reports and future predictions from industry associations and reporting bodies when creating product demand forecasts.

### *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. On March 11, 2010, the Alberta Government has made amendments to the Alberta Royal framework. On May 27, 2010 further changes were made which were effective January 1, 2011. The updates are focused on deep basin gas drilling and improving the economics of unconventional gas plays, as well as horizontal oil and gas drilling. It is unclear how oil and natural gas producers will react to the new royalty framework and the related incentives, however over the long-term, indicators suggest oil and natural gas producers view the changes as a positive improvement to the economics of drilling programs for certain Alberta properties. Any future changes to the framework 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. The Company mitigates this risk by continually sourcing new suppliers of product as potential back-up sources. Sales and product procurement staff are always reviewing customer needs and analyzing trends in purchases to determine new or higher demand products based on the type of drilling occurring in any given area to ensure that these popular products are being placed in accessible warehouse locations to meet customers' needs.

### *Oil and Natural Gas Prices*

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

### *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. A significant decline in steel pricing in relation to global economic trends, such as that experienced in 2009, can lead to reductions in sales volume and sales price, with a potentially significant effect on the Company's margins. 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.

### *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 sanctions 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. To mitigate this risk, the Company continuously sources product from other countries and monitors trade sanction discussions to ensure that quality product of required sizes will continuously be available to customers and alternative measures can be in place prior to trade sanctions taking effect.



### *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.

### *Inventory Risk*

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

### *Income Tax Expense*

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

### *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 annual 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. Principal areas where uncertainty is inherent include the valuations of accounts receivable, the allowance for doubtful accounts, the sales return provision, inventory obsolescence, net realizable value inventory write-downs and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of future income tax assets, the impairment testing of goodwill and long-lived assets, valuations of accrued liabilities and future income tax liabilities, the fair value of derivative financial instruments, and the fair value of options and warrants using the Black-Scholes option pricing model. Management feels actual results will not be materially different from these estimates.

The most significant estimates and judgments used by management include:

### *Sales return provision*

Accounts receivable is the most significant asset at December 31, 2010. Included in this balance is a sales return provision for the fluids division. The division experiences product returns, as is common in the industry, for many reasons as customers buy bagged product for drilling sites and will return unused product upon drilling completion for a refund. Management closely monitors returns and estimates a provision based on sales each month. The provision factors in seasonality of operations, current market conditions, and past history to come to a current rate for the month. While management does not normally see significant variances from this provision, if unpredicted high or low returns are subsequently incurred there is the potential to affect accounts receivable and revenues over and above the estimated provision already recorded.

### *Inventory valuations*

Inventory is measured at the lower of cost and net realizable value. Net realizable value is an estimate of future selling prices less the costs to sell. Management reviews inventory periodically when factors indicate that a potential for impairment of the net realizable value exists. This includes examining the value of inventory against current market conditions, past sales history, and future sales trends predictions to determine the recoverable amount. When impairment is recorded, management tracks the future sales of these items and reverses any write-down where the net realizable value has subsequently increased.

### *Fair value of derivative financial instruments*

The Company enters into foreign exchange forward purchase contracts to help mitigate its foreign exchange risk in US dollars throughout the year. At each reporting period, management must estimate the fair market value of the contracts outstanding at that date and record an effect to unrealized foreign exchange at that date. Estimates of this value are based on the rate that would be applicable to enter into the same contract at that time, as compared to the rate originally entered into, with a potential gain or loss resulting. The actual value of the contract could differ significantly from estimates based on future foreign exchange rate changes.

*Income taxes*

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

**FUTURE ACCOUNTING PRONOUNCEMENTS**

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

*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.

At this time, the Company has prepared its draft opening transitional balance sheet and a draft of the first quarter 2011 financial statements for reporting under IFRS with 2010 comparatives. Management and the Audit Committee have received training on the new reporting requirements and the new composition of 2011 financial statements as prepared under IFRS. The Company has implemented its new IFRS accounting policies for the 2011 reporting period. Reporting under IFRS is not expected to have a significant impact on the calculations of key performance indicators of the Company. Management has been working with their lenders to ensure that all financial covenants are not materially affected by the conversion of reporting standards.

The Company has continuously reviewed its 2010 business activities throughout the year to determine any significant effects that IFRS may have on the reporting of these activities in 2011. Any significant differences in policy or reporting were taken under consideration in the decision making process for this year's activities.

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 IFRS standards that will be applicable at the date of changeover have been finalized, however, there continue to be new and revised standards and exposure drafts issued. The Company continues to evaluate the possible effects of these new standards and exposure drafts; however final impacts of these changes on the Company's financial reporting cannot be determined at this time.

*Expected accounting policy impacts*

The significant areas of impact on transition to IFRS include intangible assets, share-based payments, and impairment testing. The following discussion provides an overview of the changes in these areas and the expected impact to the Company.

*Intangible assets*

On transition to IFRS, the Company has elected not to use the IFRS 1 exemption to record its intangible assets at fair value. All assets will be recorded at the carrying amount at the date of transition.

On review of the standard, certain criteria are required to be met for capitalization of website development costs, including the ability to affect future cash flows. The Company's currently has approximately \$19,000 of capitalized website development costs remaining at the transition date, which do not meet all the criteria for capitalization under IFRS. These costs will be removed on transition, with the difference reducing opening retained earnings.

#### Share-based payments

Under IFRS, share-based payment calculations for the fair value of options outstanding must include a forfeiture rate. This rate is a management estimate of the expected number of options that will be forfeited rather than exercised over the grant life of the options. The Company expects to recognize a reduction in contributed surplus of approximately \$5,000 for adjustments made to stock-based compensation expense calculations to include forfeiture rates on the transition date. A corresponding increase to opening retained earnings will be recorded on the transition date.

#### Impairment testing

Impairments of assets are measured at the cash-generating unit under IFRS rather than on asset groups. Certain prior recorded impairments may also be reversed under IFRS. The Company has identified its cash-generating units and is in the process of performing the impairment tests as of the transition date based on these cash-generating units. It is not expected that there will be any asset impairments or write-ups of prior impairments to recognize on transition date.

#### Other IFRS 1 considerations

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. The standard details requirements for retroactive application and circumstances where exemptions are optional.

The Company has elected to use the optional exemption to apply the business combinations standard retrospectively to January 1, 2009. Impacts on the application of this standard will be limited to future business combinations performed.

### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

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

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

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The carrying value of accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments. The fair value of long term debt and obligations under capital lease 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.

#### *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 19%, 12% and 11% respectively of revenue for the year ended December 31, 2010 (14%, 9% and 7% for the twelve months ended December 31, 2009) and 26%, 16% and 12% respectively (December 31, 2009 – 19%, 13%, 11%) of total accounts receivable at year end.



**MANAGEMENT'S DISCUSSION & ANALYSIS – December 31, 2010**

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. The Company establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information.

For the year ended December 31, 2010, the Company has recorded an allowance for doubtful accounts of \$92,000 (December 31, 2009 - \$169,491). The allowance is an estimate of the December 31, 2010 trade receivable balances that are considered uncollectible. Changes to the allowance during the year ended December 31, 2010 consisted of trade accounts receivable balances written off of \$223,173, recoveries of previously written off amounts of \$56,774, and a bad debt expense of \$202,456.

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.

The aging of accounts receivable was as follows:

<b>2010</b>	<b>Gross accounts receivable</b>	<b>Allowance for doubtful accounts</b>	<b>Net accounts receivable</b>
Current	\$ 15,520,997	\$ -	\$ 15,520,997
31 to 60 days	13,587,845	-	13,587,845
61 to 90 days	12,708,104	-	12,708,104
91 to 120 days	4,199,489	-	4,199,489
Over 120 days	803,490	92,000	711,490
<b>Total</b>	<b>\$ 46,819,925</b>	<b>\$ 92,000</b>	<b>\$ 46,727,925</b>

The changes in allowance for doubtful accounts were as follows:

	<b>2010</b>	<b>2009</b>
Balance, beginning of year	\$ 169,491	\$ 3,435
Bad debt expense	202,456	316,171
Receivables written off	(223,173)	(119,468)
Recovery of receivables	(56,774)	(30,647)
<b>Balance, end of year</b>	<b>\$ 92,000</b>	<b>\$ 169,491</b>

The Company held \$294,638 (December 31, 2009 - \$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.

*Interest rate risk*

Long-term debt 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 balance at December 31, 2010 was Canadian bank prime interest rate plus 150 basis points (4.5%). The long term debt bears interest at bank prime plus a fixed increment. As at December 31, 2010, with 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 \$73,935 (December 31, 2009 - \$56,593).

#### *Currency risk*

The Company is subject to foreign currency risk due to its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies. Therefore, there is 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 operations outside Canada, which increases its exposure to foreign currency risk. Accounts receivable in foreign currency was \$2,799,698 as at December 31, 2010 (December 31, 2009 - \$1,580,209) and accounts payable in foreign currency outstanding as at December 31, 2010 is \$5,969,389 (December 31, 2009 - \$8,281,171).

For the year ended December 31, 2010, the Company realized a foreign exchange gain of \$646,635 (December 31, 2009 - \$1,001,153). Based on the monetary assets and liabilities held in the United States ("US") at December 31, 2010, a five percent increase or decrease in exchange rates would impact the Company's net earnings by approximately \$108,113 (December 31, 2009 - \$239,781). The Company uses forward foreign exchange contracts to reduce its currency risk. A derivative of \$169,790 (2009 - \$nil) loss has been accrued and expensed to foreign exchange on the US dollar purchase contracts held at December 31, 2010.

#### *Commodity risk*

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

### **SHARE DATA**

As at March 30, 2011, the Company had 15,785,886 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, 2010, options to purchase 1,288,000 common shares were outstanding at an average price of \$1.96 per common share. Warrants totaling 350,000 with an average exercise price of \$2.03 may be exercised into common shares. During the year, the Company issued 30,000 options to independent directors of the Company at an exercise price of \$1.30 per common share.

On July 2, 2010, the Company re-priced 335,000 stock options for non-executive company employees. The stock options, with exercise prices ranging from \$1.50 to \$2.10 per share with different expiry terms, were re-priced to an exercise price of \$1.12, subject to a four month resale restriction. One employee subsequently exercised 6,000 options in the year at a price of \$1.12 per common share.

On July 8, 2010, the Company received approval from the TSX Venture Exchange to extend the July 17, 2010 expiration date of 100,000 common share purchase warrants issued to the former owners of Spirit Mountain Holdings Inc. for an additional two years with the same terms and conditions.

On August 3, 2010, the Company granted a total of 25,000 options with 12,500 options exercisable at \$2.00 and 12,500 options exercisable at \$2.10 to a company engaged to provide investor relation activities. The options vest in stages over twelve (12) months with no more than one quarter of the options vesting in any three-month period and expire in 24 months.



*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, which terminated on December 17, 2010, to repurchase, for cancellation, up to 807,000 of its outstanding common shares. At December 31, 2010, 682,900 shares had been repurchased for cash consideration of \$584,929 and have been cancelled. The excess of the carrying amount over the repurchase price has been credited to contributed surplus.

*Equity Raise*

On January 19, 2011, the Company announced an equity financing of up to 2,000,000 common shares of the Company at a price of \$3.00 per share. The financing was completed February 22, 2011 with 2,000,000 common shares issued for gross proceeds of \$6,000,000. In consideration for services related to the offering, the Company has agreed to pay Macquarie Private Wealth Inc. ("the Agent"), a fee equal to 6% of the gross proceeds of the offering, totaling an aggregate commission of \$360,000, plus a corporate finance fee of \$30,000 plus tax. The Agent also received non-transferrable agent options equal to 7% of the number of shares sold under the offering. Upon closing of the offering, 140,000 non-transferrable agent options were issued to the Agent, entitling the Agent to purchase one Bri-Chem common share, at a price of \$3.00 per share, with an expiry date of August 22, 2012. The value of the options issued at February 22, 2011 was \$178,089, charged to share capital at that date.

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

Certain financial measures referred to in the MD&A and explained below, namely EBITDAC (earnings before interest, taxes, depreciation, amortization, and stock based compensation) and operating expenses, are not prescribed by Canadian generally accepted accounting principles (GAAP). These non-GAAP financial measures do not have a standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. The Company includes these non-GAAP financial measures for investors who may use the information to analyze operating performance. These non-GAAP financial measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP.

EBITDAC (Earnings before interest, taxes, depreciation and amortization and stock based compensation) 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. Management believes that EBITDAC is useful measure of earnings, in addition to net earnings as it provides an indication of the financial results and earnings generated by the Company's primary business activities prior to financing, tax considerations and before non-cash amortization expense. Adjusted EBITDAC includes an adjustment for the inventory write-down (reversal) which is not seen by management to be a normally recurring item. The following is a reconciliation of EBITDAC and Adjusted EBITDAC to net earnings for each of the periods presented in this MD&A.



EBITDAC	For the three months ended December 31	
	2010	2009
Net earnings (loss)	\$ 2,122,396	\$ (1,876,804)
Add:		
Interest	546,340	408,313
Income taxes (recovery)	946,218	(720,684)
Depreciation and amortization	220,300	235,506
Stock-based compensation <sup>(1)</sup>	25,998	32,275
EBITDAC	3,861,252	(1,921,394)
Add:		
Inventory write down (reversal)	(601,919)	2,885,551
Adjusted EBITDAC	\$ 3,259,333	\$ 964,157

(1) Stock-based compensation includes warrants of \$52,012 (2009 - \$7,799) and stock options of \$(26,015) (2009 - \$24,476).

EBITDAC	For the twelve months ended December 31	
	2010	2009
Net earnings (loss)	\$ 6,940,146	\$ (8,447,338)
Add:		
Interest	1,759,580	1,831,095
Income taxes (recovery)	2,823,246	(1,322,719)
Depreciation and amortization	898,637	1,527,227
Stock-based compensation <sup>(1)</sup>	208,084	161,211
Impairment charge	-	6,884,132
EBITDAC	\$ 12,629,693	\$ 633,608
Add:		
Inventory write down (reversal)	(1,617,577)	3,080,560
Adjusted EBITDAC	\$ 11,012,116	\$ 3,714,168

(1) Stock-based compensation includes warrants of \$82,351 (2009 - \$31,196) and stock options of \$125,733 (2009 - \$130,015).

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, 2010 consolidated financial statements:



Operating expenses	For the three months ended December 31	
	2010	2009
Operating expenses	\$ 3,115,990	\$ 2,814,233
Add:		
Interest	546,340	408,313
Depreciation and amortization	220,300	235,506
Stock-based compensation	25,998	32,275
<b>Total expenses</b>	<b>\$ 3,908,628</b>	<b>\$ 3,490,327</b>

Operating expenses	For the twelve months ended December 31	
	2010	2009
Operating expenses	\$ 9,605,586	\$ 9,592,737
Add:		
Interest	1,759,580	1,831,095
Depreciation and amortization	898,637	1,527,227
Stock-based compensation	208,084	161,211
Impairment charge	-	6,884,132
<b>Total expenses</b>	<b>\$ 12,471,887</b>	<b>\$ 19,996,402</b>

**Corporate Information**

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***Officers and Directors***

Don Caron  
CEO and Director  
Edmonton, Alberta

Albert Sharp  
Director  
Spruce Grove, Alberta

Alan Campbell  
Director  
Edmonton, Alberta

Eric Sauze, CA  
Director  
Edmonton, Alberta

Brian Campbell  
President, Bri-Chem Supply Ltd.  
President, Sodium Solutions Inc.  
Director  
Edmonton, Alberta

Jason Theiss, CA  
CFO  
Edmonton, Alberta

***Corporate Office***

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Neil Rasmussen  
President, Bri-Chem Steel Corp.  
President, Bri-Steel Manufacturing Inc.  
Edmonton, Alberta

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***Shares Listed***

TSX Venture Exchange  
Trading Symbol - BRY

***Bankers***

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***Transfer Agent***

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***Share Capital***

Issued: 15,785,886

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