Bri-Chem Corp.

Management Discussion and Analysis

December 31, 2007

To Our Shareholders:

We are pleased to report on the activity and results of Bri-Chem Corp. (the "Company") for the three months and year ended December 31, 2007. As a result of the reverse take-over by amalgamation with Gwelan Supply Ltd. effective January 1, 2007, the comparative financial figures reflect those of consolidated Gwelan Supply Ltd. operating as a private company and certain of the prior period's figures have been reclassified to conform to the presentation of the current period consolidated financial statements. A complete copy of the Company's report is available on the Internet at www.sedar.com.

Despite drilling activity, based on drilling operating days, being down 20% in 2007 compared to the same period of 2006 and drilling rig utilization rates declining to 39% from 65%, Bri-Chem's operating performance remained strong.

Net earnings from operations for the fiscal year ended December 31, 2007 are $2,400,520 or $0.19 diluted earnings per share and earnings before interest, taxes, depreciation and amortization are $5,667,840 compared to $3,065,922 for the five months period ended December 31, 2006 and $833,986 for the twelve month period ended July 31, 2006. Consolidated revenues were $59,518,665 for the twelve months ended December 31, 2007.

During the three months ended December 31, 2007, earnings before interest, taxes, depreciation and amortization is $2,179,830 compared to $949,999 for the same period in 2006. Consolidated revenues were $21,357,551 during the fourth quarter of 2007, as compared to $13,131,942 for the same period of last year, an increase of $8,225,609 or 62.6%. The Company revalued its future income taxes as part of its year end resulting in an income tax effective rate of 68.6% or $931,682 of current and future income taxes expense for the three month period. Pre-tax earnings for the three month period is $1,358,714 with net earnings of $427,032 or $0.03 diluted earnings per share. The Company would typically have an effective rate of approximately 32%. In addition, the fourth quarter current income tax expense reflects year end adjustments resulting from the application of tax treatment on various financial statement amounts.

The Company completed its first acquisition during the year by acquiring all the issued and outstanding shares of Millennium Technologies Ltd. ("Millennium"). This strategic acquisition allowed the Company to gain access to new geographic coverage including a recent warehouse expansion into Williston, North Dakota, USA. In addition, the Company launched a new operating division that distributes engineered chemicals to non-oilfield industries. Each of these new markets will assist in minimizing the seasonality of the core operations.

Outlook

Bri-Chem believes that the recent strengthening of natural gas prices from the depressed levels in 2007 provides some optimism that the mid to long-term fundamentals for natural gas prices and drilling activity are positive.

Despite the current uncertainty in the industry, the Company has demonstrated that it is well structured to manage the industry decline with its ability to control costs and its solid platform to seek growth opportunities through acquisitions in an effort to diversify and broaden the Company's chemical and drilling fluids market presence. Management believes that it is well positioned with its expanding geographic diversification and strong customer base to continue to grow sales and gain market share.

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

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

This Management's Discussion and Analysis ("MD&A") was prepared as of April 28, 2008. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the year ended December 31, 2007 and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the accompanying consolidated financial statements for the year ended December 31, 2007 and the notes contained therein.

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

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

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

OVERVIEW OF BUSINESS

On January 1, 2007 mBase Commerce Inc. amalgamated with Gwelan Supply Ltd., a Canadian oil and gas drilling fluids distribution company, resulting in the amalgamated company Bri-Chem Corp. This reverse take-over by way of amalgamation received TSX Venture Exchange ("TSXV") final acceptance by way of issuance of a TSXV Bulletin dated January 10, 2007. As of the commencement of trading on January 11, 2007, the Company now trades as Bri-Chem Corp. under the symbol "BRY".

Bri-Chem is a fluid supply specialist and industry leader in the wholesale distribution of drilling fluid chemicals and additives to the resource industry in North America. The Company was founded in 1985, and is headquartered in Acheson, Alberta located 20 km's west of Edmonton, Alberta. Bri-Chem owns 100% interest in Bri-Chem Supply Ltd. ("Bri-Chem Supply") and a 100% interest in Sodium Solutions Inc. ("Sodium"). Bri-Chem continues to concentrate on expanding its market presence in the chemical and fluids market with the focus being on the following three divisions:

OIL AND GAS FLUIDS DIVISION

Western Canadian Sedimentary Basin (WCSB)

Bri-Chem's core business activity is the wholesale distribution 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 19 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. The addressable size of these markets is significant and Bri-Chem continues to grow its business presence in each of these end use applications. Bri-Chem has the ability to mix and blend products to grow and adapt to the changing environment and needs of their clients. The distribution of chemical supplies and packaging is operated through Bri-Chem's blending and packaging facilities located in Camrose and Acheson, Alberta and its principal activity is to offer an extensive product line in both packaged and truckload quantities. Bri-Chem continues to target different industries including agriculture and construction for product and industry diversification.

United States (US)

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

INDUSTRIAL FLUIDS DIVISION

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

SPECIALTY FLUIDS DIVISION

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

Business Acquisition

On July 17, 2007, Bri-Chem completed its first acquisition by acquiring all the issued shares of Spirit Mountain Holdings Ltd. ("Spirit Mountain") and its wholly owned subsidiary, Millennium Technologies Ltd. ("Millennium"), a private Alberta wholesale chemical and fluid distributor to the oil and gas industry. The purchase price of Spirit Mountain and Millennium was $4.3 million. The acquisition of Millennium expands Bri-Chem's services to existing customers through new regional coverage in Saskatchewan and provides synergies across the combined operations. The operating results of Spirit Mountain and Millennium have been consolidated into Bri-Chem's financial statements following the closing of the acquisition.

Seasonality of Operations

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.

Growth Strategy

The Company will continue to focus on growth by expanding its market presence in the chemical and fluids distribution markets. Acquisitions may play a significant role in the Company's growth. Management recognizes that the key determinants to successfully building shareholder value from acquisitions are reaching agreement on an appropriate valuation and efficiently integrating corporate cultures. Acquisitions are intended to increase geographical, industry and seasonal diversification.

Comparative figures

Prior to the amalgamation on January 1, 2007, Gwelan Supply Ltd.'s year end was July 31. The comparative figures provided in this MD&A and in the consolidated financial statements include both the five month period ending December 31, 2006 and the prior financial year ending July 31, 2006. Gwelan Supply Ltd. was a private company and shareholders would bonus out a majority of the profits at year end. On July 31, 2006, $8,794,731 was declared as a bonus which represents a bonus for the 12 month period then ended. Comparative earnings per share are presented using the amount of shares that were exchanged for Gwelan Supply Ltd. effective January 1, 2007 upon amalgamation.

ANNUAL FINANCIAL SUMMARY

Consolidated Income Statement **For the period ended**	**December 31 2007 (12 months)**	December 31 2006 (5 months)	July 31 2006 (12 months)
Sales	**$ 59,518,665**	$ 24,131,135	$ 76,192,274
Gross Margin	**10,896,609**	4,682,519	12,558,861
Gross Margin %	**18.3%**	19.4%	16.5%
Operating expenses [1]	**5,228,769**	1,616,597	11,724,875
EBITDA [2]	**5,667,840**	3,065,922	833,986
Deprecation and amortization	**668,405**	94,520	219,177
Interest	**1,554,058**	327,620	590,243
Earnings before tax and non-controlling interest	**3,445,377**	2,643,782	24,566
Income taxes - current [3]	**835,231**	747,487	18,352
Income taxes - future [3]	**209,626**	(3,648)	(5,748)
Non-controlling interest	**-**	88,721	4,544
Net earnings	**$ 2,400,520**	$ 1,811,222	$ 7,418
Earnings per share			
Basic [4]	**$ 0.19**	$ 0.18	$ -
Diluted [4]	**$ 0.19**	$ 0.18	$ -
Weighted average shares outstanding			
Basic [4]	**12,541,319**	10,205,700	10,205,700
Diluted [4]	**12,541,319**	10,206,352	10,205,700

(1) See page 25 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation and amortization (see page 25 for a further explanation of this non-GAAP measure).
(3) The Company had approximately $1,603,980 of non-capital loss carry forwards available to reduce taxable income in the future years. The benefits of these losses have been fully utilized in the current year (see page 10 for a further explanation).
(4) As a result of the reverse take-over, the comparative financial figures reflect those of consolidated Gwelan Supply Ltd. when it was a private company. Comparative earnings per share are presented using the amount of shares that were exchanged for Gwelan Supply Ltd. effective January 1, 2007 upon amalgamation.

RESULTS OF OPERATIONS

Revenue

Consolidated revenues for the year ended December 31, 2007 were $59,518,665 compared to $24,131,135 for the five months ended December 31, 2006 and $76,192,274 for the twelve month period ended July 31, 2006. The decrease of 22% in revenue comparing a twelve month period reflects an overall slowdown in the drilling activity in the WCSB. Despite the lower activity levels in 2007, the Company managed to maintain a strong customer base and service levels that mitigated the decrease in sales volume. Furthermore, the acquisition of Millennium, in July 2007, provided additional revenue from new customers in geographic locations previously not serviced by the Company.

In 2007, industry drilling rig utilization rates averaged 38%, representing a 40% decline from the same period last year when drilling rig activity averaged 63%. Despite the decline in the drilling activity, the Company has seen sales activity remain strong, particular in quarters three and four, whereby our increased presence in the market, through additional warehouse locations has led to an increase in the volume of products sold.

Traditionally, the Company's busiest region for the first half of the drilling season has been the north eastern portion of British Columbia, or more directly the Fort Nelson and the Fort St. John areas. These areas have, in the past, produced a large portion of overall winter and spring sales. In fiscal 2007, the drilling programs were drastically cut in both Fort Nelson and Fort St. John. While the majority of the Company's sales growth in the comparable period related to increased activity in the northern British Columbia regions, the fiscal 2007 year, drilling activity was down 36% with only 875 wells drilled in the area as compared to 1,373 wells drilled during the same period last year.

The Company has seen a decline in revenues from the Alberta warehouses of approximately 12% while the decline in overall drilling activity for the Alberta market is approximately 20%. Revenues from the non-oilfield division are insignificant and are being reported in the revenues above.

Gross Margin

Consolidated gross profit was $10,896,609 in 2007. The gross margin percentage decreased by 1.1% from the five month period ended December 31, 2006 and increased by 1.8% from the year ended July 31, 2006. The change in margins relate to seasonal changes in product mix, whereby higher margin products sold may vary depending on the time of year. In addition, the Company's cost of inventory purchased in US dollars has had a significant impact as foreign exchange rates have improved resulting in a more favorable cost on foreign product purchased.

Operating Expenses

Salaries and employee benefits

For the period ended	December 31 2007 (12 months)	December 31 2006 (5 months)	July 31 2006 (12 months)
Expense amount	$ 3,196,004	$ 644,058	$ 10,154,431
% of sales	5.4%	2.7%	13.3%

The decrease in salary and employee benefits on a comparative basis to July 31, 2006 is largely related to a year-end declared bonus at July 31, 2006 for Gwelan Supply Ltd. while it was a private company. In December 2006, no bonuses were paid out to the executive officers. For the prior comparative fiscal year ended July 31, 2006, year end bonuses were declared for shareholders in the amount of $8,794,731 which represents the bonus for the 12 month period.

Gross salaries and benefits for the year ended December 31, 2007 was $3,196,004 compared to $644,058, an increase of $2,551,946 (396.2%) compared to the five month period ended December 31, 2006 and a decrease of $6,958,426 (68.5%) compared to the twelve month period ended July 31, 2006. Salaries and benefits before the year end declared bonus in July 31, 2006 was $1,359,700, which results in an increase of $1,826,304 for the comparative twelve month period ended December 31, 2007. Approximately $300,000 of this increase, for the year ended December 31, 2007, is directly related to two executive officers previously not drawing a comparable salary in the prior periods due to Gwelan Supply Ltd. operating as a private company with management salaries being paid on a discretionary basis. There was 7 additional staff brought on from the acquisition of Spirit Mountain as well as four personnel added to administration. In addition, for the year ended December 31, 2007, $417,170 of the salaries and benefits increase is related to the Company's stock based compensation plan for directors, officers and other employees of the Company.

Selling, General and Administration

For the year ended	December 31 2007 (12 months)	December 31 2006 (5 months)	July 31 2006 (12 months)
Selling	$ 524,517	$ 218,682	$ 597,300
Professional and consulting	283,039	585,513	239,862
General and adminstration	643,433	(46,222)	151,484
Rent, utilities and occupancy costs	589,650	243,961	581,798
	$ 2,040,639	$ 1,001,934	$ 1,570,444
Operating expenses (as a % of sales)			
Selling	0.88%	0.91%	0.78%
Professional and consulting	0.48%	2.43%	0.31%
General and administration	1.08%	-0.19%	0.20%
Rent, utilities and occupancy costs	0.99%	1.01%	0.76%

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

Selling expenses decreased compared to the twelve month period ended July 31, 2006. The decrease is due to reduced drilling activities, which resulted in fewer purchases of lab and equipment supplies. In addition, in 2007, the Company was able to reduce its rental costs for liquid storage tanks by 30%. Selling expenses for fiscal 2007 are consistent to the comparative pro-rated period ended December 31, 2006. In fiscal 2007, the Company's operating costs for sales staff increased as the number of sales personnel increased from two to six over the past twelve months. Selling costs relate to customer relation costs, travel costs and liquid storage tank rentals.

Professional and consulting expenses decreased compared to the five month period ending December 31, 2006. The December 2006 costs relate largely to corporate costs associated with the Company's reorganization and preparation of becoming a public company. The increase in professional and consulting expenses of 18% compared to the twelve month period ending July 31, 2006, was due to additional legal and audit services as a result of being public. Costs in this category comprise mainly accounting, legal, advisory and consulting fees.

General and administration expenses increased fiscal 2007 primarily due to an increase in insurance premiums. The credit balance for the comparative period ended December 31, 2006, included bad debt recoveries of $13,761, and net insurance premium refunds of $37,700. There were various public company costs of approximately $250,000 that were included in expenses and an increase in office costs as a result of having another office in Calgary from the acquisition of Millennium in 2007. General and administration costs consist of licenses, office expenses, and insurance and general bank charges.

Warehouse rent, utilities and occupancy costs expenses have maintained consistent compared to the prior periods. The Company added four new warehouses in Veteran, Swift Current, Estevan and Nisku, along with new office space in Calgary, as a result of the Millennium acquisition. The Company pays low rents in three of warehouse locations similar to other independently owned warehouses the Company stocks product in. The Company owns the Estevan warehouse through the acquisition of Millennium; therefore the Company only incurs the costs of maintaining the facility. Costs in this category comprise mainly of rent, utilities, and warehouse expense.

Amortization

For the year ended	**December 31 2007 (12 months)**	**December 31 2007 (5 months)**	**July 31 2006 (12 months)**
Property and equipment	$ 320,623	$ 94,520	$ 219,177
Intangible assets	347,782	-	-
	$ 668,405	$ 94,520	$ 219,177

Amortization expense increased for the year ended December 31, 2007 when compared to the five month period ended December 31, 2006 and the year ended July 31, 2006 as a result of no prior amortization of intangible assets related to the 30% minority interest acquired for Sodium Solutions Inc. on December 31, 2006.

In addition, there was amortization relating to customer relationships, and non-compete agreements from the acquisition of Millennium.

Interest

For the year ended	December 31 2007 (12 months)	December 31 2007 (5 months)	July 31 2006 (12 months)
Interest on long-term debt	$ 698,571	$ 32,258	$ 33,366
Interest on short-term operating debt	855,487	295,362	556,877
	$ 1,554,058	$ 327,620	$ 590,243

The fiscal 2007 interest expense increase reflects the new financings that were completed pursuant to the reorganization of the Company.

As at December 31, 2007, long-term debt consisted of a $3,200,000 6% note payable plus accrued interest issued to shareholders of the Company as a result of the purchase of Gwelan Supply Ltd., a $1,928,043 prime plus 0.85% demand loan outstanding with a Canadian chartered bank, a $3,000,000 subordinated loan bearing interest at prime plus 7% with a financial institution and a $300,000 promissory note payable plus accrued interest bearing interest at prime. Interest on short-term operating debt increased over the comparable periods last year due to the funding of the acquisition of Spirit Mountain.

Income Taxes

At December 31, 2006, the Company had approximately $1,603,980 of non-capital loss carry forwards available to reduce taxable income in future years. The benefits of these losses have been fully utilized in fiscal 2007 and recognized as a reduction of current income tax liabilities.

The reduction in the effective tax rate in the second quarter of 2007 to 30% from 34% for the same period last year resulted from the effects of substantively enacted changes in the Canadian Federal tax rates and the Alberta corporate tax rate in 2006 that are to be phased in over the next five years. The Federal tax rate reduction combined with the one time decrease in the Alberta corporate tax rate effective April 1, 2006 resulted in a statutory rate of 32.12% for 2007. This rate is scheduled to be reduced to 29% by the year 2010.

The Company's current income tax effective rate is 24.2% for the twelve months ended December 31, 2007. This rate is less than the standard effective tax rate of 30%, as current income tax liabilities were reduced by the benefit recognized from the non-capital losses applied in the current year. During the three months ended December 31, 2007, the Company revalued its future income taxes as part of its year end resulting in an income tax effective rate of 68.6% or $931,682 of current and future income tax expense for the three months period. In addition, the fourth quarter current income tax expense reflects year end adjustments resulting from the application of tax treatment on various financial statement amounts. The Company would typically have an effective rate of approximately 32% for the fourth quarter without the above adjustments.

Net Earnings and Earnings Per Share

For the year ended		December 31 2007 (12 months)		December 31 2006 (5 months)	July 31 2006 (12 months)
Net Earnings	$	2,400,520	$	1,811,222	7,418
% of revenue		4.0%		7.51%	0.00%

Net earnings for the year ended December 31, 2007 were up significantly relative to the comparative periods ending 2006. Year end bonuses of $8.8 million declared at July 31, 2006 for Gwelan Supply Ltd. while it was a private company accounts for the majority of the lower earnings in the July 31, 2006 comparative period. The Company had net earnings of 4.0% as a percentage of sales for fiscal 2007, compared to 7.51% for the period ended December 31, 2006, a decrease of 3.51%. The decline was due to the prior period only reporting operations for a five month period, not including the seasonal slowdown in late March through May, when the Company typically sees less activity and lower financial results from operations.

Earnings per share for the year ended December 31, 2007 were based on the weighted average number of shares outstanding during the year. The basic and diluted weighted average number of shares outstanding for the period ended December 31, 2007 was 12,541,319.

SUMMARY OF QUARTERLY DATA

In Thousands of Canadian dollars	FISCAL 2007						
		Q4		Q3		Q2	Q1
Sales	$	21,358	$	18,889	$	6,136	13,136
Gross Margin ($)		4,047		3,307		1,204	2,339
Gross Margin (%)		18.9%		17.5%		19.6%	17.8%
EBITDA (1)		2,180		1,838		337	1,313
Net earnings		427		1,175		(102)	901
Basic earnings per share		0.033		0.092		(0.008)	0.074
Diluted earnings per share		0.033		0.092		(0.008)	0.074
Weighted average shares outstanding							
Basic (2)		12,926,838		12,794,850		12,212,552	12,212,552
Diluted (2)		12,926,838		12,797,911		12,241,740	12,224,739

In Thousands of Canadian dollars	FISCAL 2006			
	Q4	**Q3**	**Q2**	**Q1**
Sales	$ 13,132	$ 17,097	$ 11,280	23,211
Gross Margin ($)	2,233	3,084	1,699	3,957
Gross Margin (%)	17.0%	18.0%	15.1%	17.0%
EBITDA [(1)]	950	1,737	(1,082)	987
Net earnings	203	1,168	(1,351)	723
Basic earnings per share	0.02	0.11	(0.13)	0.07
Diluted earnings per share	0.02	0.11	(0.13)	0.07
Weighted average shares outstanding				
Basic [(2)]	10,205,700	10,205,700	10,205,700	10,205,700
Diluted [(2)]	10,205,700	10,205,700	10,205,700	10,205,700

(1) Represents earnings before interest, taxes, depreciation, and amortization (see page 25 for a further explanation of this non-GAAP measure).
(2) As a result of the reverse take-over, the comparative financial figures reflect those of consolidated Gwelan Supply Ltd. when it was a private company. Comparative earnings per share are presented using the amount of shares that were exchanged for Gwelan Supply Ltd. effective January 1, 2007 upon amalgamation.

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.

Revenues increased in the third and fourth quarters of 2007 largely due to the acquisition of Millennium providing additional strategic warehouses to enable Bri-Chem the ability to extend its services to its customers. EBITDA also increased in the past two quarters resulting from increased sales activity and low operating overhead costs.

FOURTH QUARTER RESULTS AND DISCUSSION

Consolidated Income Statement						
	December 31				**Change**	
For the three months ended		**2007**		2006	**$**	**%**
Sales	$	21,357,551	$	13,131,942	8,225,609	62.6%
Gross Margin ($)		4,046,978		2,232,712	1,814,266	81.3%
Gross Margin %		18.9%		17.0%		1.9%
Operating expenses [1]		1,867,148		1,282,712	584,436	45.6%
EBITDA [2]		2,179,830		950,000	1,229,830	129.5%
Deprecation and amortization		341,788		56,714	285,074	502.7%
Interest		479,328		190,500	288,828	151.6%
Earnings before tax and non-controlling interest		1,358,714		702,786	655,928	93.3%
Income taxes - Current [3]		722,056		449,951	272,105	60.5%
Income taxes - Future [3]		209,626		(3,648)	213,274	5846.3%
Non-controlling interest		-		53,233	(53,233)	-100.0%
Net earnings	$	427,032	$	203,250	223,782	110.1%
Earnings per share						
Basic [4]	$	0.03	$	0.02	n/a	n/a
Diluted [4]	$	0.03	$	0.02	n/a	n/a
Weighted average shares outstanding						
Basic [4]		12,926,838		10,205,700	n/a	n/a
Diluted [4]		12,926,838		10,206,352	n/a	n/a

(1) See page 25 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation and amortization (see page 25 for a further explanation of this non-GAAP measure).
(3) The Company had approximately $1,603,980 of non-capital loss carry forwards available to reduce taxable income in the future years. The benefits of these losses have been fully utilized in the current year (see page 10 for a further explanation).
(4) As a result of the reverse take-over, the comparative financial figures reflect those of consolidated Gwelan Supply Ltd. when it was a private company. Comparative earnings per share are presented using the amount of shares that were exchanged for Gwelan Supply Ltd. effective January 1, 2007 upon amalgamation.

For the fourth quarter of 2007, sales continued to be strong, despite a continued decline in Western Canadian drilling activity. During the fourth quarter of 2007, drilling utilization rates for the oil and gas sector averaged 38.1%, a decrease of 33% when compared to same period last year, when rig utilization

averaged 56.6%. With a strong sales presence and diverse geographic representation, the Company was able to increase its sales volumes.

Gross margin as a percentage of sales increased by 1.9% to 18.9% from 17.0% during the quarter. The increase in margins relates to changes in the product mix, whereby higher margin products may be sold in various times depending on type and activity of drilling. In addition, the Company was able to take advantage of a stronger Canadian dollar for purchases of product from foreign vendors.

Operating expenses increased by $584,436 or 45.6% compared to the same period in 2006. This was a result of new employees and overheads from the Millennium acquisition, along with higher compensation costs relating to the increased sales activity. As a percentage of revenues, operating expenses for the three months ended December 31, 2007 was 8.7%. This is comparable to a percentage of 9.8% for the prior year three month period ended December 31, 2006.

Depreciation and amortization expense increased by $285,074 or 503% compared to the same period in 2006, which was largely due to the capital and intangible additions arising from the Millennium acquisition.

Interest expense increased by $288,828 or 152% compared to the same period in 2006. The increase was due to new long-term financing in the way of a demand loan, subordinated debenture, and interest on promissory notes payable resulting from the capital transactions.

Net earnings for the three months ended December 31, 2007 was $427,032 or $0.03 per share, a $223,782 improvement over the comparative quarter in 2006. The Company's increased revenue growth, along with the low operating overhead resulted in the increased earnings. Earnings per share were calculated based on the weighted average number of shares outstanding during the three months ended December 31, 2007. Earnings per share for the comparative period for Gwelan, for the three months ended December 31, 2006 were calculated using the amount of shares that were exchanged for Gwelan Supply Ltd. effective January 1, 2007 upon amalgamation.

FINANCIAL CONDITION & LIQUIDITY

Balance Sheet As at	December 31 2007	December 31 2006	July 31 2006
Current assets	$ 46,161,272	$ 50,099,461	$ 35,322,886
Property & equipment	2,688,781	2,157,061	1,846,931
Other assets	3,068,236	1,553,008	31,634
Total Assets	$ 51,918,289	$ 53,809,530	$ 37,201,451
Current liabilities	$ 26,378,736	$ 36,575,568	$ 26,886,899
Long-term liabilities	7,298,218	3,393,389	9,595,153
Total Liabilities	33,676,954	39,968,957	36,482,052
Share capital	12,347,444	11,188,722	600
Retained earnings & contributed surplus	5,893,891	2,651,851	718,799
Total Shareholders' Equity	18,241,335	13,840,573	719,399
Total Liabilities and Shareholders' Equity	$ 51,918,289	$ 53,809,530	$ 37,201,451

Financial Ratios	December 31 2007	December 31 2006	July 31 2006
Working capital ratio	1.75	1.37	1.31
Days sales in receivables	132.9	131.8	77.2
Inventory turns	2.5	1.2	5.5
Days purchases in payables	63.6	32.9	36.7

As at December 31, 2007, the Company had positive working capital of $19,782,536 compared to $13,523,893 at December 31, 2006, an increase of $6,258,643 or 46%. The Company's current ratio (defined as current assets divided by current liabilities) was 1.75 to 1 for the fiscal year 2007 compared to 1.37 to 1 at December 31, 2006. As at December 31, 2007, the Company had $12,050,168 outstanding under its available credit facilities of $25,000,000, with a Canadian chartered bank, as compared to $17,410,925 at December 31, 2006. The Company also has $2,000,000 available on its subordinate loan facility which can be drawn on at anytime in increments of $500,000. The increase in days sales in receivables and days purchases in payable from December 2006 is due to increased sales volumes in the fourth quarter. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference in the calculation of the days sales in receivables.

Despite the decline in oil and gas drilling activity, the Company's balance sheet, as at December 31, 2007, remains sound with total assets of $51,918,289 as compared to total liabilities of $33,676,954.

Accounts receivable increased by $3,935,586 (18.8%) from $20,950,162 to $24,885,748 as a result of increased sales activity during the fourth quarter of 2007. Inventory has increased by $3,194,062 (17.8%) due to increased number of warehouses, as a result of the Millennium acquisition, which are required to be stocked with product for the winter drilling program.

Payables and accruals were $11,967,882 compared to $6,927,364 at December 31, 2006, an increase of $5,040,518 or 72.8%, which was a result of purchasing product for the upcoming winter drilling program.

Cash provided from operating activities for the year ended December 31, 2007 increased to $6,182,744 from ($6,801,372) for the five months ended December 31, 2006. The Company's cash provided by operating activities has increased due to strong sales and growth. We expect our working capital to remain strong in 2008 and intend to use the working capital and credit facilities to support operations.

Business Acquisition

On July 17, 2007, the Company acquired all of the outstanding common shares of Spirit Mountain Holdings Inc. ("Spirit Mountain") and its wholly-owned subsidiary, Millennium Technologies Ltd. ("Millennium"), a private Alberta wholesale chemical and fluid distributor to the oil and gas industry for a total purchase price of $4,272,044, including 714,286 common shares at a fair market value of $1,215,000. Concurrent with the purchase of shares, the Company also settled amounts due from shareholders of $852,171 and amounts due to shareholders of $1,017,925. Bri-Chem Corp. transferred the shares of Spirit Mountain to Bri-Chem Supply Ltd. under Section 85 of the Income Tax Act of Canada. Both Spirit Mountain and its subsidiary, Millennium was then liquidated and dissolved into Bri-Chem Supply Ltd. on July 17, 2007.

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

Current assets	$	7,877,552
Property and equipment		400,976
Intangible assets		1,200,189
Goodwill		665,245
Bank indebtedness		(2,993,559)
Current liabilities		(2,512,948)
Future income taxes		(365,411)
	$	4,272,044
Consideration:		
Cash	$	2,640,000
Promissory note		300,000
714,286 common shares		1,215,000
100,000 share purchase warrants		46,344
Transaction costs		70,700
	$	4,272,044

The 714,286 common shares were issued as part of the purchase price at a price of $2.10 which is representative of the fair value of the shares at the time of the acquisition adjusted for the limited trading

activity of the shares. The common shares were then adjusted based on discount factors ranging from 10% to 27% to consider sale restrictions. The purchase price allocated to intangible assets includes customer relationships ($1,049,568) and non-competition agreements ($150,621) which will be amortized over 5 years straight line.

Commitments

The Company has committed to numerous operating lease arrangements for property and equipment. The minimum lease payments under the leases are as follows:

2008	$ 153,825
2009	107,038
2010	89,272
2011	46,260
2012	1,710
Thereafter	-
	$ 398,105

Goodwill

The increase in goodwill of $665,245 over December 31, 2006 was the result of the acquisition of Spirit Mountain and Millennium. The value of Millennium's employees and their warehouse locations is reflected in the goodwill.

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill arising from acquisitions is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value. Fair value is determined using the discounted, estimated future operating cash flows of the reporting unit. When the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

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 increased during the fiscal year ended December 31, 2007 as a result of the Company's purchase of Sprit Mountain and Millennium, with the majority of the value of consideration given to

customer relationships, which are being amortized over 5 years. Millennium has a strong customer base and is strategically located in Saskatchewan, where Bri-Chem did not previously have market presence.

Intangible assets with finite useful lives are amortized over their useful lives. The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Customer relationships	Straight-line –5 years
Proprietary technology, technological expertise and proprietary blends	Straight-line – 3 years
Non-compete agreements	Straight-line – 5 years

Property and equipment

The Company's December 31, 2007 investment in property and equipment was primarily due to the expansion of a blending facility in the Acheson, Alberta location. In addition $400,976 of assets were obtained through its acquisition of Spirit Mountain. Capital expenditures typically are comprised of improvements 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 $532,000 are being proposed to upgrade warehouse space in Acheson, Camrose and Estevan. The Company plans to fund these capital expenditures from the credit line available and from cash flow from operating activities.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

During the year ended December 31, 2007, the Company incurred selling, general and administration expenses in the normal course of operations with Western America Capital Group, an affiliated company, which a certain director controls as follows:

a) Management advisory services of $171,000 (2006 – nil) to a Company over which a director has significant influence.

b) Accounting, administrative and corporate expenses of $80,329 (2006 – nil) were paid to a Company over which a director has significant influence.

c) The Company paid directors fees of $22,875 (2006 – nil) to three of the Company's directors.

The Company paid directors fees of $22,875 (December 31, 2006 – nil; July 31, 2006 - nil) to three of the Company's directors.

The Company accrued interest of $200,521 on promissory notes payable issued in the prior year which is held by two of the Company's directors, officers and significant shareholders. The expense has been included in interest on long term debt and added to the balance of the promissory notes payable.

The Company's bonuses payable for the year ended July 31, 2006 of $8,794,730 were payable to certain employees and directors of the Company. These bonuses have been recorded in wage expense for the year ended July 31, 2006.

Financial instruments

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

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

<u>Held for trading</u>

Cash
Deposits
Funds held in trust

<u>Loans and receivables</u>

Accounts receivable

<u>Other financial liabilities</u>

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

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

Derivatives and hedge accounting

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

Comprehensive income

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

Equity

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

OUTLOOK

Bri-Chem believes that the recent strengthening of natural gas prices from the depressed levels in 2007 provides some optimism that the mid to long-term fundamentals for natural gas prices and drilling activity are positive, However, the uncertainty surrounding the proposed new royalty regime in Alberta may negatively affect capital spending which in turn may further affect 2008 drilling activity levels in the Western Canada Sedimentary Basin. The Petroleum Services Association of Canada estimates that 14,500 wells will be drilled during 2008, a decrease of 22% from 2007.

Despite the uncertainty, the Company has demonstrated that is well structured to manage the industry decline with its ability to control costs and its solid platform to seek growth opportunities through acquisitions in an effort to diversify and broaden the Company's chemical and drilling fluids market presence. Management believes that it is well positioned with its expanding geographic diversification and strong customer base to continue to grow sales and gain market share.

In Williston, ND. USA, Bri-Chem plans to continue to grow its operations through the start-up phase as we are encouraged by the level of drilling activity in the Bakken resource play in North Dakota and Saskatchewan. In addition, the acquisition of Millennium has added two warehouse locations in Saskatchewan along with an experienced management team which provides Bri-Chem an opportunity to further expand its product services into a lucrative niche market. The Company intends to pursue new opportunities to expand its operating presence within this new geographical market in an effort to improve seasonality of its financial and operating performance.

Bri-Chem's industrial fluids division in 2008 will be supported by the recently signed Western Canadian exclusive distribution agreement with Colloid Environmental Technologies Company ("CETCO"), an industrial fluids manufacturing company based out of Illinois, USA. The agreement with CETCO provides product exclusivity for the provinces of Alberta and Saskatchewan and offers the Company a significant advantage in technology driven fluids used in its ongoing projects for horizontal de-watering applications in the oil sands.

Management and the Board are constantly evaluating acquisition opportunities and have identified several that fit the corporate requirements as accretive and geographically favorable. With record oil prices and seemingly stable natural gas prices, it appears that the economic conditions needed for a renewed interest in drilling in Western Canada may be on the horizon.

RISKS AND UNCERTAINTIES

Competition and Industry Conditions

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

The capital expenditure programs of oil and gas companies largely affect the products provided by the Company. The magnitude of capital expenditures determines the demand for the Company's drilling fluids to the oil and gas industry.

The primary catalysts to high expenditures and activity levels in the energy industry are oil and gas prices which, in turn, are influenced strongly by supply and demand expectations. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company.

Alberta Royalty Rate Changes

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. On October 25, 2007 the Government of Alberta unveiled a new royalty regime that will introduce new royalties for conventional oil, natural gas and oil sands that are linked to price and production levels. The new royalty regime is expected to be implemented effective January 1, 2009

The implementation of the proposed changes to the royalty regime in Alberta is subject to certain risks and uncertainties. The significant changes to the royalty regime require new legislation, changes to existing legislation and regulation and development of proprietary software to support the calculation and collection of royalties.

Additionally, certain proposed changes contemplate further public and/or industry consultation. There may be modifications introduced to the proposed royalty structure prior to the implementation thereof. The changes to the royalty regime may effect the exploration for, and the development of, oil and natural gas by entities operating in the Province of Alberta, which effects could negatively impact the business and cash flow of the Company.

Supply-Side Risks

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

Oil and Natural Gas Prices

The revenue, cash flow and earnings of the Company are substantially dependent upon and affected by the level of activity associated with oil and natural gas exploration. Both short-term and long-term trends in oil and natural gas prices affect the level of such activity. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for and the supply of oil and natural gas.

Weather conditions, governmental regulation, levels of consumer demand, the availability of pipeline capacity and other factors beyond the Company's control may also affect the supply of and demand for oil and natural gas leading to future price volatility.

Seasonal Weather

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

Credit Risk

The Company's revenues are predominantly from products sold to large oil and gas fluid engineering companies which may result in significant exposure to one customer or on a combined basis to several individual customers. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. The Company's management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. Management believes that the Company is exposed to minimal credit risk since the majority of its business is conducted with companies that have a large market presence in the industry and or are large publicly held companies.

CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements prepared in accordance with Canadian GAAP, 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 certain accounts receivable, the allowance for doubtful accounts, the sales return provisions, obsolete inventories, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of future tax assets, the impairment testing of goodwill, the purchase price allocation for business acquisitions and amounts recorded as accrued liabilities and future tax liabilities. Management feels actual results are not materially different from these estimates.

CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING POLICY

Change in Accounting Policy

Effective January 1, 2007, the Company adopted CICA Handbook Section 1506 – Accounting Changes, which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant or reliable information.

Effective January 1, 2007, the Company adopted CICA Handbook Section 3855 – Financial Instruments – Recognition and Measurement; Section 2865 – Hedges; Section 1530 – Comprehensive Income; Section 3251 – Equity; and Section 3861 – Financial Instruments – Disclosure and Presentation. These new accounting standards provide requirements for the recognition, measurement, disclosure and presentation of financial instruments, the use of hedge accounting, and also establish standards for reporting and presenting comprehensive income.

In June 2007, the CICA issued Emerging Issues Committee Abstract No. 166 "Accounting Policy Choices for Transaction Costs", effective for annual or interim periods ending on or after September 30, 2007. The guidance provides additional clarification on accounting policy choices related to transaction costs under CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement". The accounting policy allows companies a choice of recognizing transaction costs in net income when incurred or adding transaction costs from an acquisition or issuance of a financial asset or liability to the financial instrument's carrying cost, depending on each financial instrument. The Company has chosen to add the transaction costs to the carrying amount of the related financial instrument.

Future Accounting Pronouncements

Effective January 1, 2008, the Company will be required to adopt two new Canadian Institute of Chartered Accountants ("CICA") standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace Section 3861 "Financial Instruments – Disclosure and Presentation".

The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements of Section 3861. The implementation of this standard will only enhance the current disclosure.

Effective January 1, 2008, the Company will be required to adopt CICA Section 3031 "Inventories". This section relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. Under this section, inventory is to be measured at lower of cost and net realizable value. Net realizable value approximates the estimated selling price less all estimated costs of completion and necessary costs to complete the sale. Cost shall be assigned using the first-in, first-out (FIFO) or weighted average cost method. The section also requires the reversal of previous write-downs of inventory if original circumstances are reversed. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

Effective January 1, 2008, the Company will be required to adopt paragraphs .08(a) to .08(c) of CICA Section 1400 "General Standards of Financial Statements". This section requires management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as going concern. The Company does not anticipate that going concern assumption will be required in the consolidation financial statements.

In November 2006, the CICA issued new handbook Section 1535, "Capital Disclosures", effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about an entity's capital and how it is managed in order that a user of the financial statements may evaluate the entity's objectives, policies and processes for managing capital. The implementation of this standard will only enhance the current disclosure.

In February 2008, the CICA issued new handbook Section 3064 – "Goodwill and Intangible Assets" that supersedes Section 3062 – "Goodwill and Other Intangible Assets" and 3450 – "Research and Development Costs. This section provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs can be deferred only when relating to an item meeting the definition of an asset. The new accounting standard is effective for interim or annual financial statements relating to fiscal years beginning on or after October 31, 2008. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that Canadian public enterprises will need to adopt International Financial Reporting Standards (IFRSs), effective for years beginning on or after January 1, 2011. The Company will evaluate the impact this new framework will have on its consolidated financial statements closer to adoption date.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash, deposits, funds held in trust, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, promissory notes payable and long-term 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 53% (December 31, 2006 - 57%; July 31, 2006 – 53%) of total revenue and 51% (December 31, 2006 – 67%; July 31, 2006 – 70%) of total accounts receivable.

Interest rate risk

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.

SHARE DATA

As at April 28, 2008, the Company had 12,926,838 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, 2007, options to purchase 1,353,000 common shares were outstanding at an average price of $1.99 per common share. Agent options totaling 283,000 included above are outstanding at an average exercise price of $2.00. Warrants totaling 350,000 with an exercise price of $2.03 may be exercised into common shares prior to July 17, 2010.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

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

EBITDA **For the year ended**		**December 31 2007 (12 months)**		**December 31 2006 (5 months)**		**July 31 2006 (12 months)**
Net Earnings before non-controlling interest	$	2,400,520	$	1,899,943	$	11,962
Add:						
Interest		1,554,058		327,620		590,243
Income taxes		1,044,857		743,839		12,604
Depreciation and amortization		668,405		94,520		219,177
EBITDA	$	5,667,840	$	3,065,922	$	833,986

EBITDA **For the three months ended**		**December 31 2007**		**December 31 2006**
Net Earnings before non-controlling interest	$	427,032	$	256,483
Add:				
Interest		479,328		190,500
Income taxes		931,682		446,303
Depreciation and amortization		341,788		56,714
EBITDA	$	2,179,830	$	950,000

Operating expenses as presented on pages 8 and 9 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, 2007 consolidated financial statements:

Operating Expenses **For the year ended**		**December 31 2007 (12 months)**		**December 31 2006 (5 months)**		**July 31 2006 (12 months)**
Operating Expenses	$	5,236,643	$	1,645,992	$	11,724,875
Add:						
Interest		1,554,058		327,620		590,243
Depreciation and amortization		668,405		94,520		219,177
Total Expenses	$	7,459,106	$	2,068,132	$	12,534,295

Operating Expenses **For the three months ended**		**December 31 2007**		**December 31 2006**
Operating Expenses	$	1,867,148	$	1,282,712
Add:				
Interest		479,328		190,500
Depreciation and amortization		341,788		56,714
Total Expenses	$	2,688,264	$	1,529,926

Corporate Information

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CEO and Director
Edmonton, Alberta

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COO and Director
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