Bri-Chem Corp.
Management Discussion and Analysis
Three Months Ended March 31, 2010

2010 FIRST QUARTER OVERVIEW:

The first quarter of 2010 saw a modest recovery of drilling activity in Western Canada as drilling rig utilization rates have improved from the depressed levels of 2009. As in the past, Bri-Chem has continued to remain committed to operating efficiently by servicing its customers, controlling costs and managing inventory levels. Notwithstanding only a modest recovery of industry activity in Q1, Bri-Chem achieved significant improvement in both revenue (44.9% increase) and net earnings (195.2% increase) over the comparable quarter in 2009.

The first quarter 2010 results demonstrate how quickly Bri-Chem's scalable operational structure can return to profitability as a result of its low operating overhead even with only a modest recovery of drilling activity. Consolidated revenues in Q1 were $43,964,826, a 44.9% increase over the prior period amount of $30,337,102. Earnings before interest, taxes, amortization, and stock-based compensation ("EBITDAC") was $4,216,279 or $0.30 per share, an increase of $1,773,240 or 72.6% compared to the same period last year. Net earnings increased 195.2% to $2,538,848 or $0.18 diluted earnings per share as compared to earnings of $859,983 or $0.06 diluted earnings per share from the same period last year.

The fluids division led the way in Q1 with a 104.4% sales increase due to increased Western Canadian drilling rig activity as global energy markets began to recover. Fiscal 2010 Q1 drilling rig utilization rates averaged 53.6%, representing a 16.5% increase from the same period last year, when drilling rig activity averaged only 37.1%. The Alberta and Saskatchewan markets largely contributed to the increase in revenues as both markets experienced an increase in activity.

The steel products division generated revenues of $10,842,754 as compared to $14,134,350, a 23.3% decrease for the comparable first quarter ended March 31, 2009. The steel products division sells primarily to the oil and gas industry and demand for oil country tubular goods ("OCTG") has seen improvement as drilling activity has improved over the past two quarters, however seamless and welded carbon steel pipe sales still remain depressed as the North American market continues to consume the over stocked inventories in North America. As these inventory levels continue to reduce and steel commodity prices rise, there will be increased demand for Bri-Chem's steel products.

Outlook

As the economy shows signs of improvement, Bri-Chem remains encouraged that drilling activity levels will continue to improve over 2009 levels and demand for its fluid and steel products will get stronger as the year goes on. Bri-Chem anticipates steel prices will increase in the medium term leading to improved sales, margins and overall profitability. Bri-Chem will continue to monitor the de-stocking of inventory, particularly in the US and believes its well stocked distribution locations in the US will allow Bri-Chem to focus on supplying steel products to regions in the US in a timely manner and at competitive prices. Management anticipates Q2 2010 will incur the typical seasonal slowdown due to decreased activity levels, but remain optimistic for the second half of 2010.

This Management's Discussion and Analysis ("MD&A") was prepared as of May 19, 2010. It is provided to assist readers in understanding Bri-Chem's financial performance for the three months ended March 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, 2009.

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

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

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

OVERVIEW OF BUSINESS

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

OIL AND GAS FLUIDS DIVISION

Western Canadian Sedimentary Basin (WCSB)

Bri-Chem is one of Canada's largest wholesale distributors of drilling fluid supplies to the oil and gas industry in the WCSB. Bri-Chem sells over 150 different products in a wide variety of weights and clays, lost circulation materials, chemicals and oil mud products to mud engineering companies who sell directly to drilling firms engaged by the oil companies. Much of Bri-Chem's success is attributed to 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 DIVISION

Performance Industrial Products ("Performance") is a division of Bri-Chem Supply that distributes technologically advanced industrial fluids to the non-oilfield sector. Performance offers chemicals to a diverse number of markets including mining exploration, water well drilling, geothermal and geotechnical drilling, seismic and construction projects.

STEEL PRODUCTS DIVISION

Bri-Chem, through its steel products division, is a wholesale distributor for steel pipe, fittings, flanges, tubular products and casing. The division primarily services the resource, construction, mechanical and industrial markets in Western Canada and Eastern United States. Bri-Chem sells various diameters of carbon steel welded pipe, carbon steel seamless pipe, stainless steel pipe, drill pipe, tubing and casing, as well as fittings and flanges. The Company's superior vendor relationships have provided access to hard to find products and increased marketshare in a competitive industry.

Bri-Chem manages its steel product inventory through one warehouse in Leduc, Alberta, which is the primary stock location for steel products in North America, and also maintains three pipe yards in New Orleans, Louisiana, 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.

Seasonality of Operations

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

Growth Strategy

The Company will continue to focus on growth by expanding its market presence in the industrial wholesale distribution markets. The fluids division will continue to concentrate on providing superior customer service and the right product mix in strategic locations to meet the changing needs of our customers. Bri-Chem will continue to seek out new blending and packaging opportunities in the markets it currently services as well as diversifying into new markets such as forestry and agriculture. The industrial fluids division will examine geographical diversification opportunities and continue improving its market presence in the industries it currently services. The steel division will focus on further inventory reductions in the near term and will investigate new geographic markets in the US to expand its ability to meet the delivery needs of its customers. In addition, over the medium term, the division will seek out new opportunities with vendors in other international regions.

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

FINANCIAL SUMMARY

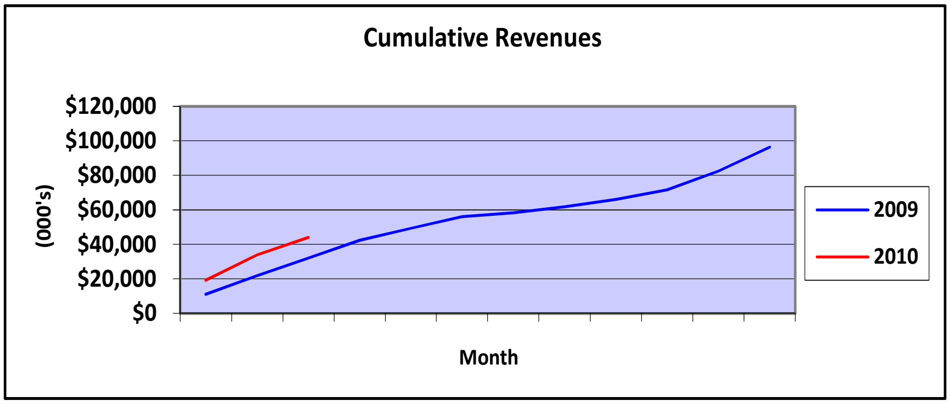
Consolidated statement of operations	For the three months ended March 31 2010	2009	Change $	%
Sales	**$ 43,964,826**	$ 30,337,102	$ 13,627,724	44.9%
Gross margin	**6,228,972**	4,816,917	1,412,055	29.3%
Gross margin %	**14.2%**	15.9%	-	-1.7%
Operating expenses (1)	**2,012,693**	2,373,878	(361,185)	-15.2%
EBITDAC (2)	**4,216,279**	2,443,039	1,773,240	72.6%
Depreciation and amortization	**225,717**	518,869	(293,152)	-56.5%
Interest	**413,982**	681,901	(267,919)	-39.3%
Stock based compensation	**46,949**	36,500	10,449	28.6%
Earnings before income taxes	**3,529,631**	1,205,769	2,323,862	192.7%
Income taxes	**990,783**	345,786	644,997	186.5%
Net earnings	**$ 2,538,848**	$ 859,983	$ 1,678,865	195.2%
Earnings per share				
Basic	**$ 0.18**	$ 0.06	$ 0.12	200.0%
Diluted	**$ 0.18**	$ 0.06	$ 0.12	200.0%
EDITDAC per share				
Basic	**$ 0.30**	$ 0.17	$ 0.13	76.1%
Diluted	**$ 0.30**	$ 0.17	$ 0.13	76.1%
Weighted average shares outstanding				
Basic	**14,220,258**	14,513,408	n/a	n/a
Diluted	**14,222,480**	14,513,408	n/a	n/a

(1) See page 27 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation, amortization and stock based compensation (see page 27 for a further explanation of this non-GAAP measure).

RESULTS OF OPERATIONS

Sales

Sales by segment	For the three months ended March 31 **2010**	2009	Change $	%
Fluids	**$ 33,122,072**	$ 16,202,752	$ 16,919,320	104.4%
Steel	**10,842,754**	14,134,350	(3,291,596)	-23.3%
	$ 43,964,826	$ 30,337,102	$ 13,627,724	44.9%



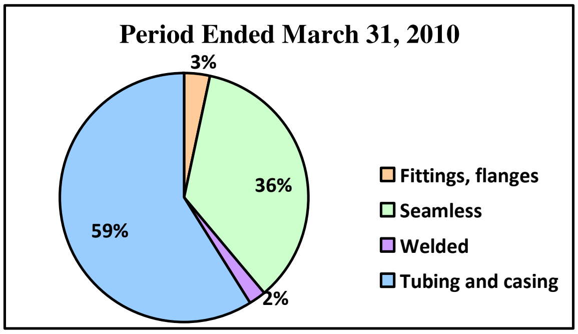
Fluids

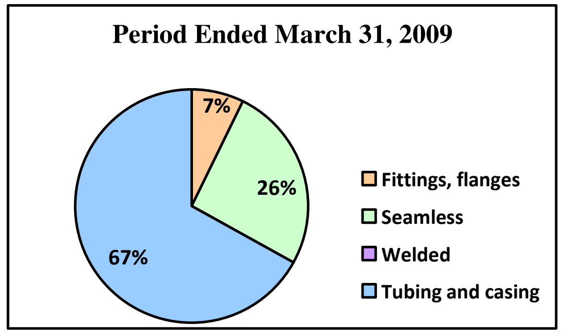
The fluids division's 104.4% sales increase is due to increased Western Canadian drilling rig activity as global energy markets began to recover. Fiscal 2010 Q1 drilling rig utilization rates averaged 53.6%, representing a 16.5% increase from the same period last year, when drilling rig activity averaged only 37.1%. The Alberta and Saskatchewan markets largely contributed to the increase in revenues as both markets experienced an increase in activity.

During the first three months of 2010, the Company has seen an increase in revenues from the Alberta warehouses of approximately 118.8% while the increase in overall drilling activity for the Alberta market is approximately 6.8%. Saskatchewan had an increase in revenues of 209% over the comparable period. Saskatchewan had 656 wells drilled during the three months ended March 31, 2010, which generated $1,776,581 in revenues for the Company from this region compared to $574,809 in the same period in 2009. Bri-Chem was able to increase its market share in the past year during the economic downturn and is now able to capitalize on this fact in both the Alberta and Saskatchewan regions.

Sales in the United States amounted to $315,632 compared to $219,666 for the same period in 2009. Bri-Chem does not currently stock any product in the US and services these customer demands through its Estevan, Saskatchewan location. If market demand increases in the future, management will evaluate the feasibility of further expansion into US locations.

Steel Products





During the three months ended March 31, 2010, the steel products division generated revenues of $10,842,754 as compared to $14,134,350 for the comparable quarter ended March 31, 2009. The steel products division sells primarily to the oil and gas industry. The demand for oil country tubular goods ("OCTG") has seen improvement as drilling activity has improved over the past two quarters, however seamless and welded carbon steel pipe sales still remain depressed as the North American market continues to consume the over stocked inventories in North America. The Company has lowered selling prices for steel products to remain competitive in the short run. Steel commodity prices have seen an increase in the first three months of 2010 and it is expected that this increase will lead to higher selling prices by mid 2010.

Sales in the United States amounted to $1,639,011 compared to $3,265,645 for the comparable period in 2009. The division will continue its growth in the US as this market is significantly larger than the Canadian market and more geographically dispersed, which mitigates some of the seasonality that occurs in the Canadian market.

Bri-Chem has inventory yards in New Orleans, Louisiana, Chicago, Illinois, and Houston, Texas to warehouse and distribute tubing and casing to customers in the US. The US has experienced a similar recovery in drilling activity in recent months, however the US continues to have excess inventory levels that have started to deplete in the first quarter of 2010. With the continued decline in market inventory levels, the demand for steel products increased in the first quarter of 2010 and the Company is optimistic that demand will continue to increase throughout the year.

Gross margin

	For the three months ended March 31		Change	
	2010	2009	$	%
Fluids	**$ 5,143,432**	$ 2,498,006	$ 2,645,426	105.9%
% of sales	**15.5%**	15.4%		0.1%
Steel	**1,085,540**	2,318,911	$ (1,233,371)	
% of sales	**11.7%**	16.4%		-4.7%
Total	**$ 6,228,972**	$ 4,816,917	$ 1,412,055	29.3%
% of sales	**14.2%**	15.9%		-1.7%

Consolidated gross margin for the three months ended March 31, 2010 was $6,228,972, an increase of 29.3% compared to the same period in 2009. The gross margin as a percentage of sales decreased by 1.7% for the three months ended March 31, 2010 compared to the same period in 2009. This decrease was caused by reduced selling prices on steel products due to excess inventories in the marketplace and management's decision to reduce prices to remain competitive given lower commodity prices of steel products.

The fluids division gross margins have remained consistent between the first quarter of 2010 (margins of 15.5%) and the comparative 2009 period (margins of 15.4%). The division continues to focus on supplying those products that are in high demand for customers, while remaining competitive in pricing of these products. Liquid invert continues to be in high demand as non-conventional wells continue to be drilled and have the need for more efficient, high temperature fluids. The demand for these fluids has the potential to increase slightly causing the Company's future gross margins to decrease, however any decrease could be offset by other fluids that produce higher margins.

The steel division has lowered its selling prices on many products to move excess inventory on hand, which has resulted in lower gross margins for the first three months of 2010. The North American inventory trend towards destocking of excess steel pipe inventory on hand has continued from the 2009 year end. The steel products division had a margin of 11.7% for the three months ended March 31, 2010, as compared to 16.4% in the prior year. The North American marketplace is showing small indications the destocking is slowing down resulting in increased customer demand for steel products. As steel commodity prices are anticipated to increase over the short to medium term, selling prices are expected to increase leading to improved margins by the third quarter.

Operating expenses

Salaries and employee benefits

	For the three months ended March 31		Change	
	2010	2009	$	%
Salaries and benefits	**$ 1,602,362**	$ 1,688,682	$ (86,320)	-5.1%
% of sales	**3.6%**	5.6%		-2.0%

The decrease in salary and employee benefits for the three months ended March 31, 2010 is a combination of factors. There were cost-management plans implemented that resulted in the reduction of three warehouse staff due to subleasing 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 three months ended March 31, 2009 includes a $45,000 accrual for the anticipated severance settlement on the termination of a former senior member of management. This decrease was offset marginally with an additional person hired in accounting and three additional temporary positions that assisted accounting and steel over the winter drilling season.

Selling, general and administration

	For the three months ended March 31		Change	
	2010	2009	$	%
Selling	**$ 116,492**	$ 128,669	$ (12,177)	-9.5%
Professional and consulting	**120,788**	173,431	(52,643)	-30.4%
General and administration	**279,811**	337,704	(57,893)	-17.1%
Rent, utilities and occupancy costs	**527,784**	377,649	150,135	39.8%
Foreign exchange (gain)	**(587,595)**	(295,756)	(291,839)	98.7%
	$ 457,280	$ 721,697	$ (264,417)	-36.6%
Selling, general and administrative expenses (as a % of sales)				
Selling	**0.26%**	0.42%		
Professional and consulting	**0.27%**	0.57%		
General and administration	**0.64%**	1.11%		
Rent, utilities and occupancy costs	**1.20%**	1.24%		
Foreign exchange (gain)	**-1.34%**	-0.97%		
	1.04%	2.38%		

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

Selling expenses decreased for the three months ended March 31, 2010 as customer relations and travel expenses for sales staff decreased due to continued cost monitoring by the Company. Selling costs relate to customer relation costs, promotion and travel costs.

Professional and consulting expenses decreased due to a decrease in fees for audit and legal work. The decrease was the result of additional legal fees of $15,647 that occurred in the first quarter of 2009 relating to general matters including lease agreements, termination benefits, and collection of a bad debt. In addition, the Company incurred consulting costs in 2009 related to the Company's International Financial Reporting Standards conversion implementation, whereby the Company hired an individual to assist in the completion of the conversion in 2010. Costs in this category are comprised of audit, legal, advisory and consulting fees.

General and administration expenses decreased by 17.1% or $57,893 over the same period in the prior year. The decrease was due to the continued cost controls put in place by management. The most significant decrease related to bank charges, which were $54,406 lower than the first quarter of 2009 due to reduced factoring of receivables in early 2009. General and administration costs consist of licenses, office and computer expenses, insurance and general bank charges.

Warehouse rent, utilities and occupancy cost expenses increased for the three months ended March 31, 2009 due to the increased operating costs of the steel distribution warehouse. The steel division incurred increased lease expenses for its 36,000 square foot facility in Leduc, Alberta beginning in the third quarter of 2009. Bri-Chem Steel represented $336,766 of costs in this category for fiscal 2010 Q1 with $201,609 for the comparable 2009 period. Costs in this category are comprised mainly of rent, utilities, warehouse expense for the Leduc, Camrose and Acheson locations as well as liquid storage tank rentals.

For the three months ended March 31, 2010, the US dollar has remained weak in relation to other currencies. This has resulted in continued foreign exchange gains for the period as compared to prior year as the Company is in a favorable position in purchases in foreign currencies. Foreign exchange gain for the period was $587,595, an increase of $376,130 over the comparable period in 2009. These foreign exchange gains arose on the translation of the foreign denominated assets and liabilities held by the Company (see "Currency Risk" under the section "Financial Instruments and Other Instruments" below).

Amortization

	For the three months ended March 31		Change	
	2010	2009	**$**	**%**
Property and equipment	**$ 121,057**	$ 125,637	$ (4,580)	-3.6%
Intangibles	**104,660**	393,232	(288,572)	-73.4%
Total	**$ 225,717**	$ 518,869	$ (293,152)	-56.5%

Amortization expense decreased during the three months ended March 31, 2010 when compared to the same period last year. During the third quarter of 2009, the Company performed its annual assessment of the fair value of its goodwill. In conjunction with this assessment, the Company also reviewed its intangible assets and found them to be impaired. Amortization of intangibles decreased for the period ended March 31, 2010 due to the write-off of the tradename, sales backlog and proprietary processes that were all deemed impaired as a result of this annual assessment.

Interest

	For the three months ended March 31 **2010**	2009	Change $	%
Interest on long-term debt	**$ 165,837**	$ 177,445	$ (11,608)	-6.5%
Interest on short-term operating debt	**247,122**	500,741	(253,619)	-50.6%
Interest on obligations under capital lease	**1,023**	3,715	(2,692)	-72.5%
Total	**$ 413,982**	$ 681,901	$ (267,919)	-39.3%

Interest on long-term debt decreased during the three month period ended March 31, 2010 when compared to the same period last year due to the decrease in the balance outstanding as the Company continues to make principal repayments. Interest on short-term operating debt has decreased for the three month period ended March 31, 2010 when compared to the same period last year as the Company had a lower revolving line of credit balance due to better cashflow and inventory purchase management.

As at March 31, 2010, long-term debt consisted of a $2,200,000, 6% note payable plus accrued interest issued to two directors and majority shareholders of the Company as a result of the January 2007 reverse takeover of Gwelan Supply Ltd., promissory notes payable of $3,000,000 plus accrued interest to the three former owners of Bri-Chem Steel, a $1,629,788 prime plus 1.75% demand loan outstanding with a Canadian chartered bank, and a $2,160,000 subordinated loan bearing interest at prime plus a fixed charge with a financial institution.

Income taxes

The provision for income taxes in the first quarter of 2010 is $990,783 compared to a tax expense of $345,786 in the same period last year. The increase in current taxes for the three months ended March 31, 2010 resulted from increased earnings. The Company's current income tax effective rate is 28% for the three months ended March 31, 2010.

Net earnings and earnings per share

	For the three months ended March 31 **2010**	2009	Change $	%
Net earnings	**$ 2,538,848**	$ 859,983	$ 1,678,865	195.2%
% of revenue	**5.8%**	2.8%		
EBITDAC (1)	**$ 4,216,279**	$ 2,443,039	$ 1,773,240	72.6%
% of revenue	**9.6%**	7.9%		

(1) Represents earnings before interest, taxes, depreciation, amortization and stock based compensation (see page 27 for a further explanation of this non-GAAP measure).

The increase in net earnings and EBITDAC is due to the increase in sales activity as demand increased from improved oil and gas drilling industry. This increase in sales combined with managed inventory and cost controls also attributed to the overall improvement year over year, however gross margins were less on steel product sales as steel commodity prices remain depressed.

Earnings per share for the three months ended March 31, 2010 were based on the weighted average number of shares outstanding during the period. The basic weighted average number of shares outstanding for the three months ended March 31, 2010 was 14,220,258 and the diluted weighted average number of shares outstanding was 14,222,480. During the first quarter, the Company repurchased 348,000 common shares under the Normal Course Issuer Bid.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2010 Q1	2009 Q4	2009 Q3	2009 Q2	Total TTM
Sales	$ 43,965	$ 32,058	$ 23,966	$ 10,118	$ 110,107
Gross margin ($) [2]	6,229	893	2,647	1,869	11,638
Gross margin (%)	14.2%	2.8%	11.0%	18.5%	10.6%
Adjusted EBITDAC [1]	4,216	964	531	(232)	5,479
Net earnings (loss) [3]	$ 2,539	$ (1,876)	$ (6,583)	$ (848)	$ (6,768)
Basic earnings (loss) per share	$ 0.18	$ (0.13)	$ (0.45)	$ (0.06)	$ (0.46)
Diluted earnings (loss) per share	$ 0.18	$ (0.13)	$ (0.45)	$ (0.06)	$ (0.46)
(in thousands of Cdn $)	**2009 Q1**	**2008 Q4**	**2008 Q3**	**2008 Q2**	**Total TTM**
Sales	$ 30,337	$ 46,240	$ 32,184	$ 10,658	$ 119,419
Gross margin ($)	4,817	6,639	5,493	1,969	18,918
Gross margin (%)	15.9%	14.4%	17.1%	18.5%	15.8%
Adjusted EBITDAC [1]	2,451	3,055	3,559	755	9,820
Net earnings	$ 860	$ 1,235	$ 1,883	$ 104	$ 4,082
Basic earnings per share	$ 0.06	$ 0.09	$ 0.14	$ 0.01	$ 0.30
Diluted earnings per share	$ 0.06	$ 0.09	$ 0.14	$ 0.01	$ 0.30

(1) EBITDAC 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 27 for a further explanation of this non-GAAP measure).
(2) Cost of sales includes net realizable value of 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%).
(3) Net earnings was negatively impacted in Q3 2009 by a non-cash goodwill and intangible write-down of $6,884,132. If this write down and the Q4 2009 $2,885,551 non-cash inventory write-down were excluded from the above results, as at March 31, 2010, the total TTM basic and diluted earnings per share would be $0.13 and $0.13 respectively.

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.

FINANCIAL CONDITION & LIQUIDITY

Balance Sheet **As at**		**March 31** **2010**		December 31 2009
Current assets	**$**	**81,193,897**	$	73,900,576
Property and equipment		**3,664,793**		3,676,600
Other assets		**1,269,953**		1,354,611
TOTAL ASSETS	**$**	**86,128,643**	$	78,931,787
Current liabilities	**$**	**58,130,072**	$	52,945,089
Long-term liabilities		**8,321,434**		8,609,978
TOTAL LIABILITIES		**66,451,506**		61,555,067
Share capital		**14,790,854**		15,156,254
Retained earnings and contributed surplus		**4,886,283**		2,220,466
TOTAL SHAREHOLDERS' EQUITY		**19,677,137**		17,376,720
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**86,128,643**	$	78,931,787

Financial Ratios	**March 31** **2010**	December 31 2009
Working capital ratio	**1.40**	1.40
Days sales in receivables	**114.6**	96.8
Inventory turns	**2.4**	2.3
Days purchases in payables	**84.2**	88.2

As at March 31, 2010, the Company had positive working capital of $23,063,825 compared to $20,955,487 at December 31, 2009. The Company's current ratio (defined as current assets divided by current liabilities) was consistent with prior period at 1.40 to 1 for the three months ended March 31, 2010.

As at March 31, 2010, the Company had $32,862,159 outstanding under its available credit facilities of $45,000,000, with a Canadian chartered bank, as compared to $27,652,949 at December 31, 2009. Under the current credit agreement, the line of credit will be reduced to $40,000,000 at April 30, 2010 as the Company has a temporary increase from December 1, 2009 to April 30, 2010 to finance added fall and winter drilling season activity.

The increase in days sales in receivables from December 2009 is due to increased receivables at period end from the increased sales experienced in fluids over prior period. The Company experienced an increase in sales for the quarter as a result of the increase in drilling activity as the oilfield industry continues to recover from the economic downturn. 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. There was a modest decrease in days' purchases in payables due to the Company continuing to manage its cashflow while paying vendors in a reasonable time. As collections were made from fourth quarter 2009 sales, cash was used to pay for purchases on product required to keep inventory levels that would meet the demand in the fiscal 2010 first quarter.

Accounts receivable increased by $10,405,739 or 33.4% from $31,172,888 to $41,578,627. The Company has receivables of $6,271,471 related to the steel products division. The Company collected many accounts from the fourth quarter sales while experiencing increased sales in the first quarter of 2010.

Inventory decreased by $2,829,971 (7%) due to efforts by management to reduce inventory to more reasonable levels while still maintaining the ability to meet market demands. The steel division sold consigned oil country tubular goods ("OCTG") more than its held inventory based on specific product demand. The Company's inventory turnover remained consistent at 2.4 turns compared to 2.3 turns at the end of 2009. Management anticipates inventory levels will increase marginally in the second quarter as the Company will have product returns on fluid inventory, which is normal due to spring break up. Over the medium to long term, the Company will continue to manage its inventory diligently and will further reduce inventory to levels required to service existing demand.

The Company's prepaid expenses and deposits have increased by $726,752 due to the timing of orders for product placed in the steel division that required deposits prior to shipment from the vendors. As demand for steel products increase, the Company will be required to secure product by making down payments on steel purchases resulting in an increase in prepaid expenses. The deposits will be funded out of operating cashflow and the Company's credit facility.

Payables and accruals were $23,259,258 compared to $23,917,359 at December 31, 2009, a decrease of $658,101 or 2.7%, which was a result of the Company using its collection of receivables to pay vendors for products purchased. The Company had $761,964 in customer deposits at March 31, 2010 for deposits paid by customers on steel product direct shipment orders that had not yet been shipped by the mills in China. Management is forecasting that payables will decrease over the short term as the Company uses its cash from the collection of receivables from winter sales to make payments on its payables. Over the medium term, payables will increase as the Company will look at purchasing inventory in both its fluids and steel divisions as demand levels increase.

Management is satisfied that the Company currently has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. 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 continues to assess its requirements for capital on an ongoing basis.

Cash flow (used for) from operating activities

Cash used for operating activities for the three months ended March 31, 2010 was $4,368,749 compared to $5,024,524 cash from operating activities for the three months ended March 31, 2009. The Company's decrease in cash from operating activities related to cash paid to steel manufacturers on consigned steel product sales and increased payments made on fluid purchases as a result of increased demand for fluid product. Steel commodity prices remained depressed for the quarter and are expected to slowly return to more traditional levels by mid 2010, leading to lower sales and lower margin in the short term. Cash from operations decreased from 2009 year end for certain product purchases required to replace commonly sold product. The seasonal nature of the WCSB affects receivables as collections increase in the second quarter as activity slows down through spring breakup. As receivables are collected in the second quarter, we expect cash from operations to increase. The Company intends to continue closely monitoring its inventory levels and spending to conserve its balance sheet strength and minimize any increase in debt level.

Cash flow from (used for) financing activities

For the three months ended March 31, 2010, cash from financing activities was $4,502,984 compared to cash used of $4,570,609 for the comparative period in 2009. The cash from financing activities was mainly due to advances on the operating line of credit to fund purchases of inventory. The first quarter of the year is typically a busy time for the Company as drilling rig activity ramps up and customers require additional product on hand to stock their sites. Due to the seasonal nature of the WCSB, the Company will collect a significant portion of its receivables during the second and third quarters of the year, which it will use to repay the operating line.

Through the collection of its accounts receivable, the Company continues to repay is subordinated debt facility. The repayment of the promissory notes payable remain postponed until such time the markets have stabilized and the Company obtains permission from its lenders. Interest payments will be made on the promissory notes in May 2010 and October 2010. Principal and interest payments will continue to be made on other debt obligations and will be funded through the Company's operating facility. Management anticipates the bank indebtedness balance will improve marginally for the next quarter as the Company collects money from receivables from the winter drilling activity. There will be an offset to the improvement on bank indebtedness as the Company will be using cash to purchase steel products for manufacturer direct sales orders.

The Company also paid interest owed on the promissory notes payable of $244,356 in the period. An additional cost of $285,380 was incurred for the three months ended March 31, 2010 for the repurchase of 348,000 common shares. This was completed under the renewed Normal Course Issuer Bid in effect from December 18, 2009 to December 17, 2010.

Cash flow used for investing activities

Cash used in investing activities amounted to $134,235 for the first quarter in 2010 compared to $453,915 for the same period last year. Cash used during the quarter related to the purchase of property and equipment as well as $20,000 of computer software recorded to intangible assets.

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 lenders on a quarterly basis. As at March 31, 2010, the Company was in compliance with all financial covenants. The subordinated debenture lender has agreed to remove the minimum funded debt to adjusted EBIDTA ratio covenant for a period of one year beginning December 31, 2009 and ending January 1, 2011.

Commitments

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

2011	$ 1,082,845
2012	996,960
2013	954,135
2014	926,880
2015	926,880
	$ 4,887,700

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

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Capital leases*	Total
2011	$ 32,862,159	$ 23,259,258	$ 936,000	$ 470,724	$ 146,386	$ 57,674,527
2012	-	-	2,913,425	2,312,000	7,848	5,233,273
2013	-	-	-	2,392,000	2,616	2,394,616
2014	-	-	-	1,060,000		1,060,000
2015	-	-	-	-		-
Total	$ 32,862,159	$ 23,259,258	$ 3,849,425	$ 6,234,724	$ 156,850	$ 66,362,416

* 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
Non-competition agreements	3 to 5 years straight-line
Computer software	7 years straight-line

Property and equipment

The Company's investment in property and equipment for the quarter was $134,235 for purchases of a new forklift and shop equipment, roof upgrades, and software upgrades. The capital expenditures were funded from the line of credit. Capital expenditures typically are comprised of betterments and upgrades to existing assets. The Company ensures equipment is efficient and profitable or the equipment is replaced when the cost of maintenance and operating the equipment is not feasible. Future capital expenditures of approximately $110,000 are being proposed.

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 three months ended March 31, 2010, the Company incurred selling, general and administration expenses in the normal course of operations with Western America Capital Group, an affiliated company which a certain director and officer has significant influence, as follows:

a) Management advisory services of $30,000 (March 31, 2009 – $30,000).

b) Accounting, administrative and corporate expenses of $9,156 (March 31, 2009 – $9,150).

The Company paid director fees of $10,500 (March 31, 2009 - $4,500) to three of the Company's independent directors

The Company expensed interest of $33,000, (March 31, 2009 - $33,000) 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 $44,384 (March 31, 2009 – $44,384) 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.

OUTLOOK

Oil and natural gas drilling activity had moderate signs of recovery in the first quarter of 2010. The price of oil continued to increase during the quarter increasing the demand for our products. However gas prices remain uncertain which may affect the demand for the Company's products in the short to medium term. Drilling activity levels are expected to soften in the second quarter as the result of spring break up, but levels are expected to be an improvement compared to activity in the second quarter of 2009. Over the medium to long term, activity levels are anticipated to increase modestly in 2010, however demand levels could be affected by volatile commodity prices and the sustainability of the economic recovery. Through its comprehensive network of geographically dispersed warehouses and superior customer relations and adequate levels of inventory, Bri-Chem is poised to grow revenues and profitability when the industry returns to more traditional drilling activity levels.

The Petroleum Services Association of Canada (PSAC) has increased their forecast to 11,250 wells to be drilled in Canada for 2010, a 36% increase over 2009. The second quarter is projected to have 968 wells drilled compared to 817 for the same period last year. The second half of 2010 is anticipated to have significant increases in wells drilled compared to 2009. With the projected increases in drilling activity, the fluid division is anticipating increased sales and profitability. With the Company's strategically located warehouses and strong competitive position, the fluids division anticipates it will continue to maintain its marketshare in core regions in the WCSB.

Bri-Chem's industrial fluids division remains focused on further penetration into key applications such as geothermal, seismic and water well drilling. The industrial fluids market remains depressed, but we are optimistic that market demand will improve in late 2010. The division will continue examining current and potential markets to gain a better understanding of what services and products customers will require when activity levels return to more traditional levels. The division is committed to further developing its customer relationships to ensure it is in a position to take advantage of the recovery when market demands for industrial fluids improve. Vendor relationships remain sound and will enable the division to meet the ever changing needs of customers in various industries.

The Company's steel products division has started to experience a slight increase in demand. The North American de-stocking that commenced in the fourth quarter of 2009 continued into 2010 and the steel division is estimating that the demand for steel products will return to traditional levels in late third quarter of 2010. Volatile steel commodity prices continue to force the steel division to be competitive on selling prices until such time that commodity prices return to more reasonable levels. This volatility may lead to lower margins in the short term; however, we anticipate steel prices will increase in the medium term leading to improved sales and margins and overall profitability. The Company will continue to monitor the de-stocking of inventory, particularly in the US and believes its well stocked distribution locations in the US will allow the Company to focus on supplying steel products to regions in the US in a timely matter at competitive prices.

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

RISKS AND UNCERTAINTIES

Liquidity risk

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

Competition and Industry Conditions

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

The capital expenditure programs of oil and gas companies largely affect the products provided by the Company. The magnitude of capital expenditures determines the demand for the Company's drilling fluids and steel products to the oil and gas industry. The primary catalysts to high expenditures and activity levels in the energy industry are oil and gas prices which, in turn, are influenced strongly by supply and demand expectations. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company.

Alberta Royalty Framework

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

Supply-Side Risks

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

Oil and Natural Gas Prices

The revenue, cash flow and earnings of the Company are substantially dependent upon and affected by the level of activity associated with oil and natural gas exploration. Both short-term and long-term trends in oil and natural gas prices affect the level of such activity. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for and the supply of oil and natural gas. Weather conditions, governmental regulation, levels of consumer demand, the availability of pipeline capacity and other factors beyond the Company's control may also affect the supply of and demand for oil and natural gas leading to future price volatility. The drilling industry is cyclical and the fluctuations in the level of oil and natural gas exploration and development activity 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.

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 Unites 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.

Seasonal Weather

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

Ability to Achieve Profitability

There can be no assurance that the Company will be able to achieve profitability in future periods. The Company's future operating results will depend on a number of factors, including its ability to continue to successfully execute its corporate strategic plan. There can be no assurance that the Company will be successful in achieving the objectives of its corporate strategic plan or that its corporate strategic plan will enable it to maintain or sustain profitability. Failure to successfully execute any material part of the Company's strategic plan could have a material adverse effect on its business, financial condition, results or operations and cash flows.

Credit Risk

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

Commodity Price Risk

The steel industry follows economic conditions in the world market as steel consumption is highly cyclical. It has historically been characterized by excess supply which leads to substantial price decreases during periods of global economic weakness. The Company has experienced a significant decline in steel pricing starting in October 2008 when the global economic crisis began. The Company does not practice hedging in its steel division, and as such has the potential to be adversely affected by these commodity price fluctuations at any future point in time based on the timing of inventory purchases, customer demand, exchange rate changes, and other factors.

Management Team

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

CRITICAL ACCOUNTING ESTIMATES

In preparing the interim consolidated financial statements, in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates included in the interim consolidated financial statements are the valuations of accounts receivable, the allowance for doubtful accounts, the sales return provision, inventory obsolescence, the net realizable value inventory write-down, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of future income tax assets, accrued liabilities and future income tax liabilities, and the fair value of options using the Black-Scholes option pricing model. Management feels actual results are not materially different from these estimates.

NEW ACCOUNTING POLICY

International financial reporting standards

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

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

The project consists of three phases:

- **Preliminary planning and scoping** – This phase includes the establishment of a dedicated team to work on the IFRS transition, the development of a detailed work plan for the implementation and completion of a high level diagnostic. The high level diagnostic involved a review of the major differences between Canadian GAAP and IFRS and prioritized the IFRS requirements based on their financial reporting impact, business impact and complexity.

- **Detailed assessment and design** - This phase focuses on determining the specific impacts to the Company based on the application of IFRS requirements. This includes the design and development of detailed solutions and work plans by each key area to address implementation requirements. In addition, impact analysis will be performed on all areas of the business, including tax and information technology systems. Accounting policies will be finalized, first-time adoption exemptions will be considered, and a detailed implementation plan and timeline will be developed. This phase also includes the development of a training program.

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

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

- IFRS 1 First Time Adoption – The Company is required to comply with the standards of IFRS 1, "First Time Adoption Under International Financial Reporting Standards" in the first reporting period after the changeover to IFRS. This standard details requirements for retroactive application and circumstances where exemptions are optional.
- Property and equipment – The Company will apply componentization to certain of its capital assets with reasonably identifiable and significantly different useful lives. Costs will be reported using book value at transition date. The Company is in the process of quantifying the transitional adjustment to IFRS and setting up a separate subledger to meet the dual reporting requirements in 2010. Property and equipment can be recorded at cost or fair value at the date of transition. The Company has not elected to use the IFRS 1exemption to record all property and equipment at fair value, and will record using their carrying value at the date of transition.
- Intangible assets – Certain amounts previously capitalized for website development costs will be written off on transition date. Intangible assets can be recorded at cost or fair value at the date of transition. The Company has not elected to use IFRS 1 exemption to record its intangible assets at fair value, and will record using their carrying amount at the date of transition.
- Business combinations – The standard can be applied in one of three ways: i) retroactively to all past business combinations, ii) retroactively applied back to a specific date or iii) prospectively from the date of transition. The Company has elected to apply the standard retrospectively back to January 1, 2009 and is aligned with the Company's early adoption of CICA Section 1582,

"Business Combinations". The impact of this standard will be limited to future business combinations performed.

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

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

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

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

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

	Management with respect to IFRS changes and findings to date at each Board meeting or more frequently as required for decision making process.	
Information Technology and Internal Controls		
Identification of IT system impacts	Assessed at time of each policy selection. Secondary subledgers to be set up where applicable for 2010 dual reporting requirements by May 2010.	Q2 2010
Identification of internal control and process changes	Assessed at time of each policy selection and ongoing as issues arise.	Continuous

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

The carrying value of the financial instruments of the Company approximates their fair values. The estimated fair value approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The carrying value of cash and cash equivalents, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments. The fair value of the long term debt approximates the carrying value as the interest is similar to current market rate for similar debt, while the fair value of promissory notes payable reflects the incremental cost of borrowing given current market risks and interest rates for the similar debt.

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%, 16% and 9% respectively of revenue for the three month period ended March 31, 2010 (14%, 9% and 7% for the twelve months ended December 31, 2009) and 24%, 21% and 10% respectively (December 31, 2009 – 19%, 13%, 11%) of total accounts receivable.

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 three months ended March 31, 2010, the Company has recorded an allowance for doubtful accounts of $34,290 (December 31, 2009 - $169,491). The allowance is an estimate of the March 31, 2010 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended March 31, 2010 consisted of trade accounts receivable balances written off of $160,282 and bad debt recovery of $37,726.

The aging of accounts receivable was as follows:

March 31, 2010	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 6,368,309	$ -	$ 6,368,309
31 to 60 days	14,395,622	-	14,395,622
61 to 90 days	16,650,125	-	16,650,125
91 to 120 days	3,480,587	-	3,480,587
Over 120 days	718,274	34,290	683,984
Total	$ 41,612,917	$ 34,290	$ 41,578,627

The changes in allowance for doubtful accounts were as follows:

	March 31 2010	December 31 2009
Balance, beginning of period	$ 169,491	$ 3,435
Bad debt expense	62,807	316,171
Receivables written off	(160,282)	(119,468)
Recovery of receivables	(37,726)	(30,647)
Balance, end of period	$ 34,290	$ 169,491

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

Interest rate risk

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

The effective interest rate on the bank indebtedness balance at March 31, 2010 was Canadian bank prime interest rate plus 100 basis points (3.25%). The long term debt bears interest at bank prime plus a fixed increment. As at March 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 $65,973 (March 31, 2009 - $67,713).

Currency risk

The Company is subject to foreign currency risk due to its accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies. Therefore, there is 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 continues to expand its operations outside Canada, which increases its exposure to foreign currency risk. Accounts receivable in foreign currency was $1,470,286 as at March 31, 2010 (December 31, 2009 - $1,580,209) and accounts payable in foreign currency outstanding as at March 31, 2010 is $10,020,062 (December 31, 2009 - $8,281,171).

The Company entered into two foreign exchange forward contracts in the quarter, both maturing in April 2010, with a contractual nominal value of US $2 million. At March 31, 2010, the fair values of the foreign exchange contracts include a $19,200 loss.

For the three months ended March 31, 2010, the Company realized a foreign exchange gain of $587,595 (March 31, 2008 - $211,465). Based on the monetary assets and liabilities held in the United States ("US") at March 31, 2010, a five percent increase or decrease in exchange rates would impact the Company's net earnings by approximately $297,781 (March 31, 2009 - $66,447).

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 May 19, 2010, the Company had 13,850,286 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,400,000 common shares. As of March 31, 2010, options to purchase 1,276,000 common shares were outstanding at an average price of $1.97 per common share. Warrants totaling 350,000 with an average exercise price of $2.03 may be exercised into common shares prior to July 17, 2010.

On December 17, 2009, the Company renewed its NCIB, whereby the Company is permitted to repurchase, for cancellation, up to 807,000 of it outstanding common shares. The NCIB commenced on December 18, 2009 and will terminate on December 17, 2010, or earlier if the number of shares sought has been obtained. The Corporation will purchase the shares in accordance with TSX Venture Exchange requirements with the Corporation paying the market price for the common shares at the time of acquisition. All purchased common shares will be cancelled. For the period ended March 31, 2010, 348,000 shares had been repurchased for cash consideration of $285,380. The Corporation has purchased a total of 531,500 common shares under the NCIB up to May 19, 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:

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 and tax considerations, non-cash amortization expense, and before non-cash transactions such as stock-based compensation. The following is a reconciliation of EBITDAC to net earnings for each of the periods presented in this MD&A:

EBITDAC		**(Unaudited) For the three months ended March 31 2010**		2009
Net earnings	**$**	**2,538,848**	$	859,983
Add:				
Interest		**413,982**		681,901
Income taxes		**990,783**		345,786
Depreciation and amortization		**225,717**		518,869
Stock-based compensation (1)		**46,949**		36,500
EBITDAC	**$**	**4,216,279**	$	2,443,039

(1) Stock-based compensation includes warrants of $10,113 (2009 - $7,799) and stock options of $46,949 (2009 - $36,500).

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 March 31, 2010 consolidated financial statements:

Operating expenses		**(Unaudited) For the three months ended March 31 2010**		2009
Operating expenses	**$**	**1,982,693**	$	2,373,878
Add:				
Interest		**413,982**		681,901
Depreciation and amortization		**255,717**		518,869
Stock-based compensation		**46,949**		36,500
Total expenses	**$**	**2,699,341**	$	3,611,148

Corporate Information

Officers and Directors

Don Caron
CEO and Director
Edmonton, Alberta

Alan Campbell
Director
Edmonton, Alberta

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

Albert Sharp
Director
Spruce Grove, Alberta

Eric Sauze, CA
Director
Edmonton, Alberta

Jason Theiss, CA
CFO
Edmonton, Alberta

Neil Rasmussen
President, Bri-Chem Steel Corporation
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