Bri-Chem Corp.

Management Discussion and Analysis

Three and Six Months Ended June 30, 2010

2010 SECOND QUARTER OVERVIEW:

The second quarter of 2010 saw a continued increase in drilling activity levels compared to the second quarter of 2009. As in the past, the oil and gas industry experiences lower drilling activity during the spring break up period, however, the second quarter of 2010 saw an 8.7% increase in drilling rig utilization rates compared to the second quarter of 2009. Despite the modest increase in drilling activity, Bri-Chem continued its strong improvement with a 119% increase in revenue over the comparable quarter in 2009.

Consolidated revenues were $22,193,633 for the second quarter of 2010 as compared to $10,118,467, an increase of 119.3% over the second quarter of 2009. Net earnings increased by 104.9% to $41,921 or $0.00 diluted earnings per share as compared to a loss of $(847,643) or $(0.06) diluted loss per share from the same period last year. Earnings before interest, taxes, amortization, and stock-based compensation ("EBITDAC") was $712,391 or $0.05 per share for the three months ended June 30, 2010, an increase of $964,251 or 382.9% compared to the same period last year.

Consolidated revenues for the six months ended June 30, 2010 were $66,158,459, an increase of 63.5% when compared to $40,455,569 from the same period in 2009. Net earnings from operations for the six months ended June 30, 2010 are $2,580,769 or $0.18 diluted earnings per share compared to $12,340 or $0.00 diluted earnings per share for the same period last year. EBITDAC was $4,938,783 or $0.36 per share, an increase of $2,739,805 or 124.6% compared to the same period last year.

The fluids division had sales of $14,484,918 and $47,606,990, increases of 110.9% and 106.4% respectively for the three and six months ended June 30, 2010 compared to the same periods in 2009. Drilling rig utilization rates averaged 19.4% for the second quarter and 36.5% for the first half of 2010, an increase of 8.7% and 12.6% respectively from the same period last year, when utilization rates averaged 10.7% and 23.9%. Alberta and Saskatchewan markets continue to be strong, while British Columbia continues to focus on the unconventional resource plays in the northern region of the province. With all Western Canadian regions increasing their drilling activity, the demand for fluids has provided significant sales increases for the first half of the year.

The steel division has produced sales of $7,708,715 and $18,551,470 for the three and six months ended June 30, 2010, an increase of 137.2% and 6.7% respectively over the comparable period in 2009. The steel products division sells primarily to the oil and gas industry and demand for carbon seamless pipe and tubing and casing continues to see improvement as drilling activity has improved over the past two quarters. North America inventories have been reduced to levels that have resulted in companies starting to conservatively purchase product again. As drilling activity levels continue to improve from depressed levels in 2009, demand for Bri-Chem's steel products will increase.

Outlook

Market indicators are forecasting a continued recovery from the low drilling activity levels of 2009. The drilling activity in the second half of 2010 is anticipated to improve by approximately 42% over the second half of 2009, which will drive the demand for Bri-Chem's fluid and steel products. Steel commodity prices have stabilized in recent months, which are expected to result in improved margins over the medium term. Management will continue with its inventory management initiative, which is to maintain reasonable levels of inventory while continuing to service customers with timely delivery of products. Management anticipates drilling activity in Q3 and Q4 2010 to continue to show improvement, which will lead to revenue, EBITDAC and earnings improvement for the remainder of fiscal 2010.

This Management's Discussion and Analysis ("MD&A") was prepared as of August 30, 2010. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the three and six months ended June 30, 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 a method to assist management in assessing comparative performance of the Company and management believes they are used by investors to assess the 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 oil and gas, industrial and construction industries in North America. The Company is headquartered in Acheson, Alberta located 20 kilometers west of Edmonton, Alberta. Bri-Chem owns a 100% interest in Bri-Chem Supply Ltd. ("Bri-Chem Supply"), 100% interest in Sodium Solutions Inc. ("Sodium") 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 two divisions:

OIL AND GAS FLUIDS DIVISION

Western Canadian Sedimentary Basin (WCSB)

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

Chemical Supplies and Packaging

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

Specialty Fluids

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

Industrial Fluids

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

STEEL PRODUCTS DIVISION

Bri-Chem, through its steel products division, is a wholesale distributor for steel pipe, fittings, flanges, tubular products and casing. The division primarily services the oil and natural gas, construction, mechanical and industrial markets in Western Canada and Eastern United States. Bri-Chem sells various diameters of carbon steel welded pipe, carbon steel seamless pipe, stainless steel pipe, 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 market share in a competitive industry.

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

Seasonality of Operations

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

Growth Strategy

The 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 diversify 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 a more comprehensive inventory management program that will place inventory in markets that allow for better turnover while being able to meet the delivery needs of its customers. The steel division will continue to examine new strategic partnerships with vendors and customers over the medium term.

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

FINANCIAL SUMMARY

Consolidated statement of operations	For the three months ended June 30 2010	2009	Change $	%
Sales	**$ 22,193,633**	$ 10,118,467	$ 12,075,166	119.3%
Gross margin	**3,309,516**	1,869,387	1,440,129	77.0%
Gross margin %	**14.9%**	18.5%	-	-3.6%
Operating expenses [1]	**2,597,125**	2,121,247	475,878	22.4%
EBITDAC [2]	**712,391**	(251,860)	964,251	382.9%
Depreciation and amortization	**227,871**	402,378	(174,507)	-43.4%
Interest	**399,468**	489,750	(90,282)	-18.4%
Stock-based compensation	**26,823**	44,523	(17,700)	-39.8%
Earnings (los) before income taxes	**58,229**	(1,188,511)	1,246,740	104.9%
Income taxes	**16,308**	(340,868)	357,176	104.8%
Net earnings (loss)	**$ 41,921**	$ (847,643)	$ 889,564	104.9%
Earnings (loss) per share				
Basic	**$ 0.00**	$ (0.06)	$ 0.06	100.0%
Diluted	**$ 0.00**	$ (0.06)	$ 0.06	100.0%
EBITDAC per share				
Basic	**$ 0.05**	$ (0.02)	$ 0.07	100.0%
Diluted	**$ 0.05**	$ (0.02)	$ 0.07	100.0%
Weighted average shares outstanding				
Basic	**13,868,105**	14,504,183	n/a	n/a
Diluted	**13,873,745**	14,504,183	n/a	n/a

(1) See page 32 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation, amortization and stock-based compensation (see page 32 for a further explanation of this non-GAAP measure).

Consolidated statement of operations	For the six months ended June 30 2010	2009	Change $	%
Sales	**$ 66,158,459**	$ 40,455,569	$ 25,702,890	63.5%
Gross margin	**9,538,488**	6,686,304	2,852,184	42.7%
Gross margin %	**14.4%**	16.5%	-	-2.1%
Operating expenses (1)	**4,599,705**	4,487,326	112,379	2.5%
EBITDAC (2)	**4,938,783**	2,198,978	2,739,805	124.6%
Depreciation and amortization	**453,589**	921,247	(467,658)	-50.8%
Interest	**813,450**	1,171,651	(358,201)	-30.6%
Stock-based compensation	**83,885**	88,822	(4,937)	-5.6%
Earnings before income taxes	**3,587,859**	17,258	3,570,601	20689.5%
Income taxes	**1,007,090**	4,918	1,002,172	20377.6%
Net earnings	**$ 2,580,769**	$ 12,340	$ 2,568,429	20813.8%
Earnings per share				
Basic	**$ 0.18**	$ 0.00	$ 0.18	100.0%
Diluted	**$ 0.18**	$ 0.00	$ 0.18	100.0%
EBITDAC per share				
Basic	**$ 0.35**	$ 0.15	$ 0.20	132.0%
Diluted	**$ 0.35**	$ 0.15	$ 0.20	132.0%
Weighted average shares outstanding				
Basic	**14,043,209**	14,508,798	n/a	n/a
Diluted	**14,047,227**	14,508,798	n/a	n/a

(1) See page 32 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation, amortization, and stock-based compensation (see page 32 for a further explanation of this non-GAAP measure).

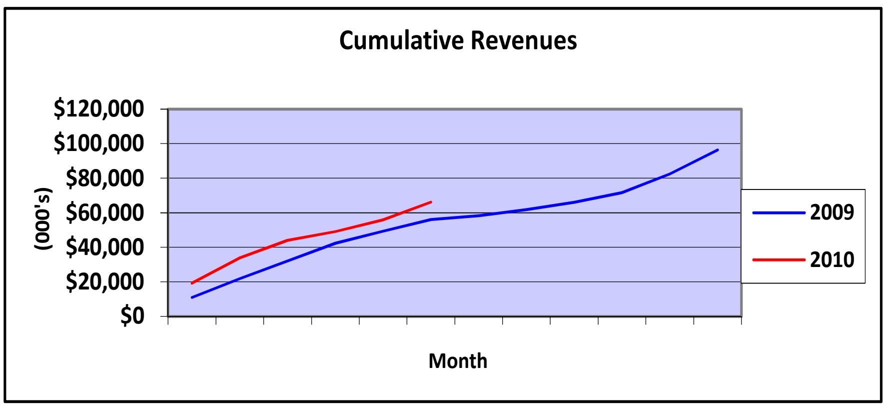
RESULTS OF OPERATIONS

Sales

Sales by segment

	For the three months ended June 30		Change	
	2010	2009	**$**	**%**
Fluids	**$ 14,484,918**	$ 6,867,958	$ 7,616,960	110.9%
Steel	**7,708,715**	3,250,509	4,458,206	137.2%
	$ 22,193,633	$ 10,118,467	$ 12,075,166	119.3%

	For the six months ended June 30		Change	
	2010	2009	**$**	**%**
Fluids	**$ 47,606,990**	$ 23,070,709	$ 24,536,281	106.4%
Steel	**18,551,469**	17,384,859	1,166,610	6.7%
	$ 66,158,459	$ 40,455,568	$ 25,702,891	63.5%



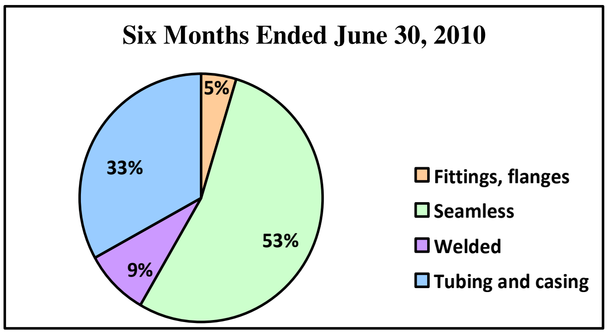
Fluids

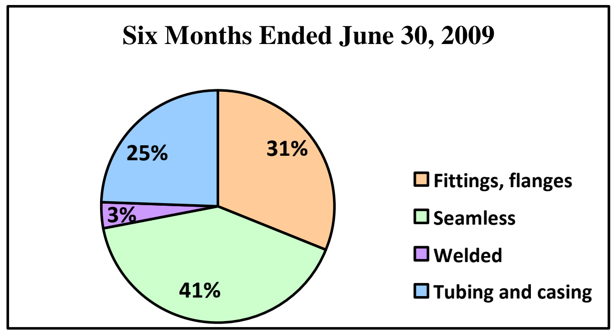
The fluids division experienced an increase in sales of 110.9% for the second quarter of 2010 compared to the same period in 2009, while sales increased for the six months ended June 30, 2010 by 106.4% over the same period six month period of 2009. This increase is due to the continued increase in drilling rig activity in Western Canada. Drilling rig utilization levels for the second quarter were 19.4%, an 8.7% increase over the prior comparable period. For the first six months of 2010, drilling rig utilization has increased by 12.6% over prior year to 36.5%. With oil and natural gas drilling activity rebounding from the decade low levels of 2009, all Western Canadian provinces are experiencing increased activity which has contributed to the increase in revenues during the first half of the year.

Revenues from Alberta locations increased 107.9% and 115.2% respectively over the three and six month periods ended June 30, 2010 while the number of wells drilled increased by 21.6% and 18.1% respectively compared to the same period last year. During the first half of 2010, revenues increased in Saskatchewan by 191.8% over the comparable prior year period. Saskatchewan had 1,043 wells drilled for the six months ended June 30, 2010, which generated $3,571,773 in revenues from this region compared to $1,224,015 in the same period in 2009. Overall, drilling rig activity in the Saskatchewan market increased by 67.4%. The Northern British Columbia well activity has remained consistent year over year, however Bri-Chem has managed to increase revenues in this region by 46.2% from the prior period in 2009. The continuation of non-conventional drilling applications has led to the demand for more technological drilling fluids, which has resulted in increased sales.

Sales in the United States amounted to $613,094 for the six months ended June 30, 2010 compared to $307,936 for the same period in 2009, an increase of 99.1%. Bri-Chem does not currently stock any fluid product in the US and services these customers through its Estevan, Saskatchewan location. If market demand continues to increase in the future, management will evaluate the feasibility of expanding into US locations.

Steel Products





(1) Tubing and casing sales have been normalized for $5,121,387 of returns in the first six months of 2009.

During the three months ended June 30, 2010, the steel products division generated revenues of $7,708,715, an increase of 137.2% over the prior year second quarter. This increase is mostly due to the unforeseen sales cancellations of $4,290,510 that occurred in the second quarter of 2009. Unusual late deliveries and postponement of drilling activity due to the economic downturn caused these sales cancellations late in the second quarter of 2009, resulting in net sales of $3,250,509 for the second quarter. Notwithstanding these cancellations in 2009, sales in 2010 for the year to date are similar to those from the first six months of 2009.

The steel products division sells primarily to the oil and gas industry. The Company has seen a slow recovery from the economic crisis as steel prices have begun to return to more normal levels, however prices still remain volatile. The division has lowered selling prices for steel products to remain competitive in the current market state. Prices are anticipated to continue with this volatile trend for the short term with a recovery to more reasonable prices late in the year.

Sales in the United States for the three and six months ended June 30, 2010 amounted to $1,586,875 and $3,225,886 respectively. This is compared to $310,323 and $3,795,634 for the comparable 2009 periods. The division will continue to search out opportunities in the US market as it is significantly larger than the Canadian market and more geographically dispersed, which mitigates some of the seasonality that occurs in the Canadian market. Management continues to evaluate new opportunities to expand sales locations in the US.

Bri-Chem has two inventory yards Chicago, Illinois and Houston, Texas to warehouse and distribute tubing, casing to customers in the US. The US continues to deplete its excess inventory levels as the economic recovery continues. The Company is optimistic that demand will increase in the later part of this year as the inventory levels return to more normal levels in the US.

Gross margin

	For the three months ended June 30			Change	
	2010	2009		**$**	**%**
Gross margin	**$ 3,309,516**	$ 1,869,387		$ 1,440,129	77.0%
% of sales	**14.9%**	18.5%			-3.6%

	For the six months ended June 30			Change	
	2010	2009		**$**	**%**
Gross margin	**$ 9,538,488**	$ 6,686,304		$ 2,852,184	42.7%
% of sales	**14.4%**	16.5%			-2.1%

The gross margin as a percentage of sales for the three and six months ended June 30, 2010 decreased by 3.6% and 2.1% respectively compared to the same periods in 2009. The Company has seen a decrease in consolidated gross margins over the past year as a result of reduced selling prices on steel products in an effort to remain competitive as the industry continues to work through excess inventory.

The fluids division gross margins have remained consistent at 16.3% between the first half of 2010 and the comparative 2009 period. The division continues to strive to meet customer demand of highly quality products at competitive prices. Liquid invert continues its dominant demand in non-conventional formations as this product has proven to be more efficient and cost effective. Given the projected drilling rig activity for the remainder of the year, management expects gross margins will be consistent for the remainder of 2010.

The steel division has lowered its selling prices to remain price competitive and move excess inventory on hand in the short term. The steel products division had gross margins of 9.1% and 9.6% respectively for the three and six months ended June 30, 210 compared to 17.5% and 16.8% respectively for the same comparative period in 2009. Steel commodity prices have rebounded from the historically low prices in 2009 and have stabilized. In addition, the destocking of inventory in the market is nearing completion and demand for product has started to increase. The division recorded a reversal of inventory previously written down in the amount of $694,191 and $864,861 respectively for the three and six month period ended June 30, 2010 as the net realizable value of certain inventory items have risen since the initial assessment in late 2009. In the short to medium term, management is forecasting an improvement in gross margins for the steel division, however certain products still remain price sensitive, which may negatively impact gross margins.

Operating expenses

Salaries and employee benefits

	For the three months ended June 30 2010	2009	Change $	%
Salaries and benefits	**$ 1,446,971**	$ 1,440,863	$ 6,108	0.4%
% of sales	**6.5%**	14.2%		-7.7%

	For the six months ended June 30 2010	2009	Change $	%
Salaries and benefits	**$ 3,049,333**	$ 3,129,545	$ (80,212)	-2.6%
% of sales	**4.6%**	7.7%		-3.1%

The minor decrease in salaries and benefits for the six months ended June 30, 2010 relates to a combination of factors. The Company reduced three warehouse staff due to the subleasing of the Estevan, Saskatchewan location, whereby an independent third party trucking company subleased the facility and is managing the fluids inventory similar to other warehouses. The Company also eliminated its in-house IT position in the period in favour of a third party service provider. The decrease for the six month period was marginally offset by the addition of one new accounting position and a new branch manager for the steel division, as well as the addition of three additional temporary positions that assisted accounting and steel over the winter drilling season.

Selling, general and administration

	For the three months ended June 30 2010	2009	Change $	%
Selling	**$ 184,282**	$ 139,480	$ 44,802	32.1%
Professional and consulting	**66,038**	169,031	(102,993)	-60.9%
General and administration	**259,472**	281,544	(22,072)	-7.8%
Rent, utilities and occupancy costs	**507,732**	435,997	71,735	16.5%
Foreign exchange loss/(gain)	**159,454**	(301,145)	460,599	-152.9%
	$ 1,176,978	$ 724,907	$ 452,071	62.4%
Selling, general and administrative expenses (as a % of sales)				
Selling	**0.8%**	1.4%		
Professional and consulting	**0.3%**	1.7%		
General and administration	**1.2%**	2.8%		
Rent, utilities and occupancy costs	**2.3%**	4.3%		
Foreign exchange loss/(gain)	**0.7%**	-3.0%		
	5.3%	7.2%		

	For the six months ended June 30 2010	2009	Change $	%
Selling	**$ 300,775**	$ 268,149	$ 32,626	12.2%
Professional and consulting	**186,826**	342,462	(155,636)	-45.4%
General and administration	**539,283**	619,248	(79,965)	-12.9%
Rent, utilities and occupancy costs	**1,035,515**	813,646	221,869	27.3%
Foreign exchange gain	**(428,142)**	(596,902)	168,760	-28.3%
	$ 1,634,257	$ 1,446,603	$ 187,654	13.0%

Selling, general and administrative expenses (as a % of sales)

	2010	2009
Selling	**0.5%**	0.7%
Professional and consulting	**0.3%**	0.8%
General and administration	**0.8%**	1.5%
Rent, utilities and occupancy costs	**1.6%**	2.0%
Foreign exchange gain	**-0.6%**	-1.5%
	2.5%	3.6%

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

Selling expenses increased for the three and six months ended June 30, 2010 due to increases in travel expenses and meals and entertainment incurred by sales staff. Selling costs relate to customer relations costs, investor relations costs, promotion, and travel costs.

Professional and consulting expenses decreased significantly in the three and six month period ended June 30, 2010 due to the consulting costs incurred in 2009 relating to the Company's International Financial Reporting Standards conversion implementation. The Company hired an individual to assist in the completion of the conversion in 2010. Additional legal fees were incurred last year related to general matters including lease agreements and termination agreements. Costs in this category are comprised of audit, legal, advisory and consulting fees.

General and administration expenses decreased over the same period in 2009. The most significant decrease was insurance costs, which decreased $103,501 over second quarter of 2009. This was due to the accounts receivable insurance fees and general liability insurance costs incurred for the steel division in 2009 that were not required this year due to changes in contract controls. This is offset by minor increases in office and computer maintenance expenses in the period. 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 and six months ended June 30, 2010 due to the increased costs of operating the steel distribution warehouse. The steel division moved into a new 36,000 square foot facility in Leduc, Alberta in the third quarter of 2009. For the three months ended June 30, 2010, Bri-Chem Steel represented $643,715 of costs for the six months ended June 30, 2010, as compared to $489,196 for the first six months of 2009. 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.

The foreign exchange gain for the year 2010 to date decreased by 28.3% over the same period in the prior year. The Company experienced a foreign exchange loss for the quarter of $159,454. The Company maintains its favorable position to purchase in foreign currencies with an overall foreign exchange gain for the six month period to June 30, 2010. The foreign exchange loss and gain 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 June 30 2010	2009	Change $	%
Property and equipment	**$ 123,486**	$ 145,812	$ (22,326)	-15.3%
Intangible assets	**104,385**	256,566	(152,181)	-59.3%
Total	**$ 227,871**	$ 402,378	$ (174,507)	-43.4%

	For the six months ended June 30 2010	2009	Change $	%
Property and equipment	**$ 244,544**	$ 271,449	$ (26,905)	-9.9%
Intangible assets	**209,045**	649,798	(440,753)	-67.8%
Total	**$ 453,589**	$ 921,247	$ (467,658)	-50.8%

Amortization expense decreased during the three and six months ended June 30, 2010 when compared to the same period last year. The decrease relates to the write-off of its tradename, sales backlog and proprietary process intangible assets as a result of the annual assessment for goodwill impairment performed in the third quarter of 2009. In conjunction with this assessment, the Company also reviewed its intangible assets and found them to be impaired. Amortization of intangibles has significantly decreased for the period and the year to date as a result of this large decrease in the intangibles balance.

Interest

	For the three months ended June 30 2010	2009	Change $	%
Interest on long-term debt	**$ 166,580**	$ 165,776	$ 804	0.5%
Interest on short-term operating debt	**230,950**	323,015	(92,065)	-28.5%
Interest on obligations under capital lease	**1,938**	959	979	102.1%
Total	**$ 399,468**	$ 489,750	$ (90,282)	-18.4%

	For the six months ended June 30		Change	
	2010	2009	**$**	**%**
Interest on long-term debt	**$ 332,417**	$ 343,221	$ (10,804)	-3.1%
Interest on short-term operating debt	**478,072**	823,756	(345,684)	-42.0%
Interest on obligations under capital lease	**2,961**	4,674	(1,713)	-36.6%
Total	**$ 813,450**	$ 1,171,651	$ (358,201)	-30.6%

Interest on short-term debt decreased during the three and six month period ended June 30, 2010 when compared to the same period last year due to the Company carrying a lower revolving line of credit balance. This is a result of better cash flows and improved inventory purchase management. Interest on long-term debt remains comparable to the second quarter of 2009 due to a comparable balance outstanding and continued principal repayments.

As at June 30, 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 former owners of Bri-Chem Steel, a $1,604,646 prime plus 1.75% demand loan outstanding with a Canadian chartered bank, and a $2,040,000 subordinated loan bearing interest at prime plus a fixed charge with a financial institution.

Income taxes

The provision for income taxes in the second quarter of 2010 is $16,308 compared to a recovery of $340,868 in the same period last year. The increase in current taxes for the three months ended June 30, 2010 resulted from increased earnings in the fluids division. The Company's current income tax effective rate is 28% for the six months ended June 30, 2010.

Net earnings (loss), EBITDAC and earnings per share

	For the three months ended June 30		Change	
	2010	2009	**$**	**%**
Net earnings (loss)	**$ 41,921**	$ (847,643)	$ 889,564	104.9%
% of revenue	**0.2%**	-8.4%		
EBITDAC [(1)]	**$ 712,391**	$ (251,860)	$ 964,251	382.9%
% of revenue	**3.2%**	-2.5%		

	For the six months ended June 30 2010	2009	Change $	%
Net earnings	**$ 2,580,769**	$ 12,340	$ 2,568,429	20813.8%
% of revenue	**3.9%**	0.0%		
EBITDAC (1)	**$ 4,938,783**	$ 2,198,978	$ 2,739,805	124.6%
% of revenue	**7.5%**	5.4%		

(1) Represents earnings before interest, taxes, depreciation, amortization and stock-based compensation (see page 32 for a further explanation of this non-GAAP measure).

Continued improvement in oil and natural gas drilling activity in the second quarter led to an increase in net earnings and EBITDAC when compared to the same period last year. Despite the depressed gross margins for the first half of the year, the increase in sales and cost control of expenses improved the net earnings and EBITDAC of the Company for the period.

The Company had net earnings for the three month period ended June 30, 2010 of $41,921 or $0.00 diluted earnings per share compared to a net loss of $847,643 or $(0.06) diluted per share for Q2 2009. Earnings per share for the six months ended June 30, 2010 are $0.18 compared to $0.00 for the comparable prior year period. The increase in earnings is the result of increased drilling activity leading to increased demand for the Company's products. In addition, the Company's scalable business model leads to improved earnings as an increase in revenues has proven not to require additional staff, allowing Bri-Chem to achieve higher earnings without additional overhead costs. Earnings per share for the three and six months ended June 30, 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 June 30, 2010 was 13,868,105 and the diluted weighted average number of shares outstanding was 13,873,745. During the first half of the year, the Company purchased 634,400 common shares under the Normal Course Issuer Bid.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)		2010 Q2		2010 Q1		2009 Q4		2009 Q3		Total TTM
Sales	$	22,194	$	43,965	$	32,058	$	23,966	$	122,183
Gross margin ($)(1)(2)		3,310		6,229		893		2,647		13,079
Gross margin (%)		14.9%		14.2%		2.8%		11.0%		10.7%
Adjusted EBITDAC (3)		712		4,216		964		531		6,423
Net earnings (loss)(4)	$	42	$	2,539	$	(1,876)	$	(6,583)	$	(5,878)
Basic earnings (loss) per share	$	-	$	0.18	$	(0.13)	$	(0.45)	$	(0.40)
Diluted earnings (loss) per share	$	-	$	0.18	$	(0.13)	$	(0.45)	$	(0.40)

(in thousands of Cdn $)		2009 Q2		2009 Q1		2008 Q4		2008 Q3		Total TTM
Sales	$	10,118	$	30,337	$	46,240	$	32,184	$	118,879
Gross margin ($)		1,869		4,817		6,639		5,493		18,818
Gross margin (%)		18.5%		15.9%		14.4%		17.1%		15.8%
Adjusted EBITDAC (3)		(232)		2,451		3,055		3,559		8,833
Net (loss) earnings	$	(848)	$	860	$	1,235	$	1,883	$	3,130
Basic (loss) earnings per share	$	(0.06)	$	0.06	$	0.09	$	0.14	$	0.23
Diluted (loss) earnings per share	$	(0.06)	$	0.06	$	0.09	$	0.14	$	0.23

(1) Cost of sales includes a net realizable value of inventory write up of $170,671 and $694,191 respectively in Q1 and Q2 of 2010. If the write ups were excluded from the results above, the Q1 and Q2 2010 gross margins would have been $6,058 (13.8%) and $2,616 (11.8%) respectively.

(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) EBITDAC is a non-GAAP measure which the Company defines as earnings before interest, taxes, depreciation and amortization, and stock-based compensation. Adjusted EBITDAC further adjusts this non-GAAP measure for the inventory write down. (See page 32 for a further explanation of this non-GAAP measure).

(4) Net earnings were 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 result, as at June 30, 2010, the total TTM basic and diluted earnings per share would be $0.27 and $0.27 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		June 30 2010		December 31 2009
Current assets	$	58,622,128	$	73,900,576
Property and equipment		3,570,036		3,676,600
Other assets		1,267,274		1,354,611
TOTAL ASSETS	$	63,459,438	$	78,931,787
Current liabilities	$	36,784,241	$	52,945,089
Long-term liabilities		7,171,853		8,609,978
TOTAL LIABILITIES		43,956,094		61,555,067
Share capital		14,490,134		15,156,254
Retained earnings and contributed surplus		5,013,210		2,220,466
TOTAL SHAREHOLDERS' EQUITY		19,503,344		17,376,720
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	63,459,438	$	78,931,787

Financial Ratios	June 30 2010	December 31 2009
Working capital ratio	1.59	1.40
Days sales in receivables	52.0	96.8
Inventory turns	2.5	2.3
Days purchases in payables	53.8	88.2

As at June 30, 2010, the Company had positive working capital of $21,837,887 compared to $20,955,487 at December 31, 2009. The Company's current ratio (defined as current assets divided by current liabilities) was 1.59 to 1 for the period ended June 30, 2010 compared to 1.40 to 1 at December 31, 2009. The increase in the working capital ratio is the net result of collection of accounts receivable from winter drilling activity whose cash inflow reduced trade payables and the bank operating line.

As at June 30, 2010, the Company had $19,592,030 outstanding under its available credit facilities of $40,000,000, with a Canadian chartered bank, as compared to $27,652,949 at December 31, 2009. Under the current credit agreement, which was amended June 30, 2010, the Company has a temporary increase available to $45,000,000 from September 1, 2010 to April 30, 2011 to finance the added fall and winter drilling season activity.

The decrease in days sales in receivables from December 2009 is due to collections of winter drilling sales. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference in the calculation of the days sales in receivables. The decrease in days purchases in payables is due to fewer purchases during the spring as the result of sufficient inventory levels as the result of lower demand of products during the spring months.

Accounts receivable decreased by $11,085,053 (35.6%) from fiscal 2009 balance of $31,172,888 to $20,087,835. The Company has receivables of $6,116,990 related to the steel products division. The Company collected many accounts from the winter drilling programs in the first quarter of 2010 while experiencing decreased sales in the second quarter of 2010 due to decreased drilling activity.

Inventory decreased by $3,456,067 (8.6%) creating inventory turnover of 2.5 for the period ended June 30, 2010 compared to 2.3 turns at the Company's year end. The decreased inventory is due to management's commitment to an improved inventory management program to maintain inventory at more reasonable levels while still maintaining the ability to meet market demands. Management anticipates inventory levels will increase over the short to medium terms as all divisions will continue to see an increased demand for products. The steel division has begun ordering larger amounts of inventory as demand continues to improve.

The Company's prepaid expenses and deposits have increased by $539,645 due to the timing of orders placed for steel product. These types of orders require deposits prior to shipment from the vendors. As demand for steel products continues to increase, the Company will be required to secure products by providing down payments on inventory ordered, therefore prepaid expenses are expected to increase in the short to medium term. These deposits are funded out of the operating cashflow and the Company's credit facility.

Payables and accruals decreased by $8,694,431 (37.1%) from the December 31, 2009 balance of $23,391,873 to $14,697,442. This decrease is a result of the Company using its collection of receivables to pay vendors for products purchased. The Company had $339,613 in customer deposits at June 30, 2010 compared to $525,486 at December 31, 2009 for deposits paid by customers on steel product direct shipment orders that had not yet been shipped by the mills overseas. Management is forecasting a moderate increase in payables over the short to medium term as the Company continues to experience increased demand for both fluid and steel products, resulting in increased purchasing to meet expected demand.

Management is satisfied that the Company currently has sufficient liquidity and capital resources to meet the current and long-term payment obligations of its outstanding loans. With the improvement in the Company's liquidity and financial covenants it has reclassified the $1,000,000 promissory note principal due in May 2009 that was previously postponed to current as management anticipates it will pay this within the next twelve months out of its existing operating facility and working capital. 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 on-going basis.

Cash flow (used for) from operating activities

Cash from operating activities was $13,767,403 for the three months ended June 30, 2010 compared to $6,050,520 for the same period in 2009 and decreased by $1,676,391 to $9,398,653 for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. The decrease for the six months ended June 30, 2010 is caused by the change in the non-cash operating items balances of inventory, accounts receivable, and accounts payable. Most significantly, the change in accounts payable from

January to June 2009 was much less at $3,067,159 compared to a change of $8,880,303 for the six month period ended June 20, 2010. Changes were affected by collections of receivables to offset payables and the timing of new inventory purchases made in 2009.

The Company's increase in cash from operating activities for the three months ended June 30, 2010 relates to less cash paid for inventory due to the Company's inventory management program. In addition that Company collected cash from accounts outstanding from the first quarter accounts receivable. With the expected steady demand for the Company's products, we will continue to manage inventory to meet demands of customers, while maintaining reasonable inventory levels. Steel commodity prices have rebounded and stabilized from the lows experienced in 2009, which will continue to drive sales growth in that segment. North American inventories have been depleted to levels whereby customers are beginning to cautiously purchase product again. As a result, we believe that the steel inventory will rise in the second half of the year as the demand for certain product increases. Inventory will need to be replaced and minimum levels of inventory will need to maintained to ensure that high demand products are readily available, resulting in an outflow of cash. The Company will prudently manage its inventory levels and cashflow to conserve its working capital position while continuing to reduce long-term debt levels.

Cash flow used for financing activities

For the three months ended June 30, 2010, cash used in financing activities was $13,738,673 compared to $5,975,909 for the same period in 2009, while cash used in financing activities decreased by $1,310,829 to $9,235,689 for the six months ended June 30, 2010 compared to 2009. The cash used in financing activities was mainly due to repayments on the operating line of credit from the collection of receivables. Due to the seasonal nature of the WCSB, the Company collected a significant portion of its receivables during the second quarter, which it used to repay the operating line. Management anticipates it will use more of its available operating line of credit in the third and fourth quarters of 2010 as demand for product will continue to increase, and certain purchase terms on steel products will require downpayment, thus affecting the outflow of cash. A substantial increase in the market demand for fluid and steel products can have a further adverse effect on the Company's bank indebtedness as additional cash will be required to pay for product.

The Company also continues to make monthly principal repayments on its subordinated debt facility, through its collection of accounts receivable. Principal and interest payments will continue to be made on debt obligations and will be funded through the Company's operating facility. Interest of $132,000 was paid on the promissory notes payable in the quarter. $1,000,000 of the promissory notes payable which had previously been postponed is projected to be paid within the next twelve months, using the Company's existing operating facility and working capital. All other principal payments remain postponed at this time. The next interest payment will be made in October 2010.

The Company also paid $232,424 for the quarter and $517,804 for the year to date to repurchase 286,400 and 634,400 common shares respectively 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 $28,730 for the second quarter in 2010 compared to $74,611 for the same period last year and cash used in investing activities amounted to $162,964, a decrease of $365,562 or 69.1% for the six months ended June 30, 2010 compared to 2009. Cash used during the first half of the year related to the purchase of property and equipment as well as the addition of $20,000 of computer software 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 June 30, 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. With the renewal of the Company's operating line of credit, there were no changes to the Company's financial covenants except for the Company's total debt to tangible net worth covenant which is to be reduced from 2.75 to 1 to 2.50 to 1 on June 30, 2011, previously June 30, 2010.

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	$ 1,077,367
2012	974,052
2013	953,423
2014	926,880
2015	926,880
	$ 4,858,602

Contractual obligations related to financial liabilities at June 30, 2010 are as follows:

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Capital leases*	Total
2011	$ 19,592,030	$ 14,697,442	$ 963,640	$ 1,470,724	$ 109,275	$ 36,833,111
2012	-	-	2,622,524	1,312,000	8,502	3,943,026
2013	-	-	-	2,392,000	-	2,392,000
2014	-	-	-	1,030,000	-	1,030,000
2015	-	-	-	-	-	-
Total	$ 19,592,030	$ 14,697,442	$ 3,586,164	$ 6,204,724	$ 117,777	$ 44,198,137

* includes interest calculated to be paid

Intangible assets

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 $28,730 for computer equipment, additions to one storage building, and a new blending tank. The capital expenditures were funded from the line of credit. Capital expenditures are typically comprised of betterments and upgrades to existing equipment. 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 $145,000 are being proposed for leasehold improvements and computer hardware and software. The Company plans to fund these capital expenditures from the bank credit line.

Off-balance sheet arrangements

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

Transactions with related parties

During the three and six months ended June 30, 2010, the Company incurred selling, general and administration expenses in the normal course of operations with Western America Capital Group and BRC Advisors Inc., affiliated companies which a certain director has significant influence, as follows:

a) Management advisory services of $30,000 and $60,000, respectively (June 30, 2009 – $30,000 and $60,000).

b) Accounting, administrative and corporate expenses of $9,156 and $18,312, respectively (June 30, 2009 – $11,645 and $20,795).

c) The Company paid director fees of $56,000 and $66,500 respectively (June 30, 2009 - $4,500 and $27,750) to three directors of the Company.

The Company expensed interest of $33,000 and $66,000, respectively (June 30, 2009 - $33,000 and $66,000) 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 $44,877 and $89,261, respectively (June 30, 2009 - $44,877 and $89,261) 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

The oil and natural gas industry has shown a modest recovery from the decade low activity experienced in 2009. The price of oil has seen continued improvement over the quarter resulting in an increased demand for our products. We anticipate oil prices will remain stable which will continue to drive demand for our products. With unstable natural gas prices, activity is continuing to focus on non-conventional shale plays in Northern British Columbia, where the Company has a strong market presence. Management is optimistic that our business should show steady improvement throughout the balance of 2010. We are mindful that the economy is still fragile and any change in commodity prices, weather conditions, environmental and government regulations could adversely affect the improvement in drilling activity. Bri-Chem is confident that as activity levels improve our revenues and profitability will show improvements from the prior year.

The Petroleum Services Association of Canada (PSAC) has forecasted 6,403 wells to be drilled in Canada for the remainder of 2010, a forecasted increase of 42% over 2009. Given the projected continual increase in drilling activity, the fluids division is expected to experience increased sales and profitability. Unconventional drilling will continue to drive the requirement for more efficient drilling fluids, such as invert. With two invert blending facilities along with an additional storage location, Bri-Chem will be able to continue to meet the growing demand for these products. With the Company's strategically located warehouses and strong competitive position, the fluids division anticipates it will continue to maintain its market share in core regions in the WCSB.

Bri-Chem's fluids blending operation has also seen increased volumes as the result of improved drilling activity levels. The Company's blending production for the first half of the year has surpassed all of fiscal 2009 and we anticipate our blending operations will remain near capacity for the remainder of the year.

In the first half of 2010, steel commodity prices have increased and appear to have stabilized. Although not back to the highs in late 2008, stable prices allow us to remain competitive in the market place. Certain products still remain price sensitive leading to lower margins on those product lines in the short to medium term. The industry continues to work off excess inventories, however, we have seen the demand for certain products increase as companies are cautiously purchasing steel products. In the short to medium term we anticipate demand for steel should improve as drilling activity increases. Margins will remain volatile in the short term as the industry re-establishes a stable pricing level. The Company will continue its inventory management initiative whereby it will examine geographic regions where demand and sales efforts are prominent. In particular, we will be de-stocking inventory in the US as we concentrate on the improved demand in the Canadian marketplace.

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. On March 11, 2010, the Alberta Government has made amendments to the Alberta Royal framework. On May 27, 2010 further changes were made which will be effective January 1, 2011. The updates are focused on deep basin gas drilling and improving the economics of unconventional gas plays, as well as horizontal oil and gas drilling. It is unclear how oil and natural gas producers will react to the new royalty framework and the related incentives, however over the long-term indicators suggest oil and natural gas producers view the changes as a positive improvement to the economics of drilling programs for certain Alberta properties. Any future changes to the framework could have a material adverse effect on Bri-Chem's ongoing operations, financial condition, results of operations and cash flows.

Supply-Side Risks

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

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 will not be materially different from these estimates.

CHANGE IN ACCOUNTING POLICY AND 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 has determined there are no material changes on componentization of property and equipment. Costs will be reported using book value at transition date. Bri-Chem will also review annual amortization and useful lives. 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 the assets 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.

At this time, Bri-Chem has not finalized the impact of IFRS to its financial statements. Bri-Chem expects to have the first draft of the IFRS Opening Balance Sheet and explanatory note prepared in the third quarter of 2010. In conjunction with the Opening Balance Sheet, Bri-Chem is expected to have a draft first quarter IFRS statement prepared. After completion of these milestones, Bri-Chem will be in a position to disclose the quantitative analysis of the impacts of the transition to IFRS. 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 Company is continually reviewing its 2010 business activities to date to determine any significant effects that IFRS may have on the reporting of these activities in 2011. Any significant differences in policy or reporting are taken under consideration in the decision making process for this year's activities.

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

The 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.	Completed
Quantification of transitional impacts	Transitional impacts identified and quantified.	Completed
Draft note disclosures	Draft note disclosures have been created with each policy selected. Disclosures are to be compiled in financial statement format.	Completed
Opening balance sheet preparation	Opening balance sheet compiled based on changes identified through policy selection.	Q3 2010
Template 2011 financial statements	Initial draft of Q1 2011 financial statements with full note disclosure.	Q3 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.	Continuous
Board, Audit Committee, and Senior Management training	Communication with the Board, Audit Committee and Senior Management with respect to IFRS changes and findings to date at each Board meeting or more frequently as required for decision making process.	Continuous
	Information Technology and Internal Controls	
Identification of IT system impacts	Assessed at time of each policy selection. No major changes noted to date, but assessment for efficiency of reporting continually ongoing throughout process.	Q3 2010
Identification of internal control and process changes	Assessed at time of each policy selection and ongoing as issues arise. No significant changes to financial reporting controls have been made at this time.	Continuous

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

The 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 accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments. The fair value of long term debt and obligations under capital lease approximates the carrying value as the interest is similar to current market rate for similar debt, while the fair value of promissory notes payable reflects the incremental cost of borrowing given current market risks and interest rates for the similar debt.

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. Revenue from the Company's largest three customers accounted for approximately 15%, 14% and 8% respectively of revenue for the three month period ended June 30, 2010 (14%, 9% and 7% for the twelve months ended December 31, 2009) and 22%, 17% and 13% 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 June 30, 2010, the Company has recorded an allowance for doubtful accounts of $nil (December 31, 2009 - $169,491). The allowance is an estimate of the June 30, 2010 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended June 30, 2010 consisted of trade accounts receivable balances written off of $81,939.

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

The aging of accounts receivable was as follows:

June 30, 2010	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 9,100,886	$ -	$ 9,100,886
31 to 60 days	5,588,753	-	5,588,753
61 to 90 days	2,096,598	-	2,096,598
91 to 120 days	2,533,353	-	2,533,353
Over 120 days	768,245	-	768,245
Total	$ 20,087,835	$ -	$ 20,087,835

The changes in allowance for doubtful accounts were as follows:

	June 30 2010	December 31 2009
Balance, beginning of period	$ 169,491	$ 3,435
Bad debt expense	110,456	316,171
Receivables written off	(242,221)	(119,468)
Recovery of receivables	(37,726)	(30,647)
Balance, end of period	$ -	$ 169,491

The Company held $339,613 (December 31, 2009 - $525,486) of customer deposits for the purpose of mitigating the credit risk associated with accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balance in the financial statements.

Interest rate risk

Long-term debt, 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 June 30, 2010 was Canadian bank prime interest rate plus 100 basis points (3.5%). The long term debt bears interest at bank prime plus a fixed increment. As at June 30, 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 $41,826 (June 30, 2009 - $52,265).

Currency risk

The Company is subject to foreign currency risk due to its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies. Therefore, there is risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities. Although the majority of the Company's operations are in Canada, the Company continues to expand its steel operations outside Canada, which increases its exposure to foreign currency risk. Accounts receivable in foreign currency was $654,112 as at June 30, 2010 (December 31, 2009 - $1,580,209) and accounts payable in foreign currency outstanding as at June 30, 2010 is $5,322,455 (December 31, 2009 - $8,281,171).

For the three months ended June 30, 2010, the Company realized a foreign exchange loss of $159,454 (June 30, 2009 - gain of $301,145). Based on the monetary assets and liabilities held in the United States ("US") at June 30, 2010, a five percent increase or decrease in exchange rates would impact the Company's net earnings by approximately $170,401 (June 30, 2009 - $166,081).

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 August 30, 2010, the Company had 13,709,986 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,400,000 common shares. As of June 30, 2010, options to purchase 1,270,000 common shares were outstanding at an average price of $1.96 per common share. Warrants totaling 350,000 with an average exercise price of $2.03 may be exercised into common shares prior to dates ranging between January 1 and July 16, 2012.

On July 2, 2010, the Company re-priced 335,000 stock options for non-executive company employees. The stock options, with exercise prices ranging from $1.50 to $2.10 per share with different expiry terms, have been re-priced to an exercise price of $1.12, subject to a four month resale restriction.

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

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

On December 17, 2009, the Company renewed its NCIB, whereby the Company is permitted to repurchase, for cancellation, up to 807,000 of its 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 Company will purchase the shares in accordance with the TSX Venture Exchange requirements with the Company paying the market price for the common shares at the time of acquisition. All purchased common shares will be cancelled. For the three month period ended June 30, 2010, 286,400 shares had been repurchased for cash consideration of $232,424. The Company has purchased a total of 671,800 common shares under the NCIB to August 30, 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, tax considerations and before non-cash amortization expense. 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 June 30 2010**		2009
Net (loss) earnings	**$**	**41,921**	$	(847,643)
Add:				
Interest		**399,468**		489,750
Depreciation and amortization		**227,871**		402,378
Income taxes		**16,308**		(340,868)
Stock-based compensation (1)		**26,823**		44,523
EBITDAC	**$**	**712,391**	$	(251,860)

(1) Total stock-based compensation includes warrants of $10,113 (2009 - $7,799) and stock options of $16,710 (2009 - $36,724).

EBITDAC		**(Unaudited) For the six months ended June 30 2010**		2009
Net earnings	**$**	**2,580,769**	$	12,340
Add:				
Interest		**813,450**		1,171,651
Depreciation and amortization		**453,589**		921,247
Income taxes		**1,007,090**		4,918
Stock-based compensation (1)		**83,885**		88,822
EBITDAC	**$**	**4,938,783**	$	2,198,978

(1) Total stock-based compensation includes warrants of $20,226 (2009 - $15,598) and stock options of $63,659 (2009 - $73,224).

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 June 30, 2010 consolidated financial statements:

Operating expenses		**(Unaudited) For the three months ended June 30 2010**		2009
Operating expenses	**$**	**2,597,125**	$	2,121,247
Add:				
Interest		**399,468**		489,750
Depreciation and amortization		**227,871**		402,378
Stock-based compensation		**26,823**		44,523
Total expenses	**$**	**3,251,287**	$	3,057,898

		(Unaudited) For the six months ended June 30 2010		2009
Operating expenses	**$**	**4,599,705**	$	4,487,326
Add:				
Interest		**813,450**		1,171,651
Depreciation and amortization		**453,589**		921,247
Stock-based compensation		**83,885**		88,822
Total expenses	**$**	**5,950,629**	$	6,669,046

Corporate Information

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Edmonton, Alberta

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President, Sodium Solutions Inc.
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