Bri-Chem Corp.
Management Discussion and Analysis
Three and Nine Months Ended September 30, 2009

To Our Shareholders:

We are reporting on the activity and results of Bri-Chem Corp. ("Bri-Chem") for the third quarter ended September 30, 2009. During the quarter, Bri-Chem's revenue declined 25.5% as compared to the same three month period last year, however, consolidated revenues for the nine months ended is down only1.0% overall as compared to the same period in 2008. A complete copy of Bri-Chem's report is available on the Internet at www.sedar.com.

Consolidated revenues were $23,965,481 for the third quarter of 2009, a decrease of 25.5% when compared to $32,184,454 from the same period last year. Net loss from operations, including an impairment charge for the three months ended September 30, 2009 is ($6,582,873) or ($0.45) diluted loss per share compared to earnings of $1,883,421 from the same period last year. The net loss resulted from an impairment charge of goodwill and intangible assets of $6,884,132 recognized in the quarter. If the impairment loss is excluded, a net loss of $267,713 or ($0.02) diluted loss per share would have resulted compared to $0.14 diluted earnings per share in 2008. Earnings before interest, taxes, depreciation and amortization (EBITDA) are $356,025, a decrease of $3,202,623, or 90% compared to the same period last year.

Net loss from operations after the impairment charge for the nine months ended September 30, 2009 is ($6,582,873) or ($0.45) diluted loss per share, a decrease of 300% when compared to net earnings of $3,251,902 during the same period last year. The net loss resulted from an impairment charge of goodwill and intangible assets of $6,884,132 recognized in the quarter. If the impairment loss is excluded, a net loss of $264,373 of ($0.02) diluted loss per share would have resulted for the nine month period compared to $0.25 diluted earnings per share in 2008. Earnings before interest, taxes, depreciation and amortization for the same period are $2,555,001, a decrease of $4,450,200 or 63.5% compared to the same period last year. Consolidated revenues were $64,421,050, a decrease of 1.0% when compared to $65,043,249 from the same period in 2008.

The decline in Company revenues and operating performance resulted from the decrease in oil and natural gas drilling activity and the overstock of steel products in North America. During the third quarter, drilling activity, based on drilling operating days, was down 63.9% and 52.2% respectively for the three and nine months ended September 30, 2009 compared to the same periods of 2008. Drilling rig utilization rates experienced a decline of 25.4% with average rig utilization of 20.6% for the three months ended September 30, 2009 compared to 46.0% for the same period of 2008. For the nine months ended September 30, 2009 average rig utilization was 22.8%, a decline of 17.5% compared to the same period in 2008.

Outlook

Bri-Chem anticipates sales will improve in the fourth quarter of 2009 from the third quarter, however will remain lower than Q4 of 2008. With reduced drilling activity levels forecasted in 2010, sales and earnings will remain lower than traditional levels for the near term. As drilling activity recovers to more normal levels, the Company is poised to take advantage of the recovery and strengthen revenues and earnings through its low operating overhead infrastructure, strong market share position and unique fluid and steel product offerings. Bri-Chem will remain dedicated to customer service and seek new organic opportunities while managing debt and inventory levels.

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

On behalf of the Board of Directors,
(Signed) "Don Caron"
D.P. Caron, Chairman

This Management's Discussion and Analysis ("MD&A") was prepared as of November 30, 2009. It is provided to assist readers in understanding Bri-Chem Corp.'s ("Bri-Chem" or the "Company") financial performance for the three and nine months ended September 30, 2009 and significant trends that may affect future performance of the Company. This MD&A should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2008.

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 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") formerly known as Weifang Steel Canada Ltd. Bri-Chem continues to concentrate on expanding its market presence in the wholesale distribution market with the focus being on the following four 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.

United States (US)

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

INDUSTRIAL FLUIDS DIVISION

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

SPECIALTY FLUIDS DIVISION

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

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

Growth Strategy

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

FINANCIAL SUMMARY

Consolidated statement of operations	For the three months ended September 30 2009	2008	Change $	%
Sales	**$ 23,965,481**	$ 32,184,454	$ (8,218,973)	-25.5%
Gross margin	**2,647,203**	5,492,614	(2,845,411)	-51.8%
Gross margin %	**11.0%**	17.1%	-	-6.0%
Operating expenses [1]	**2,291,178**	1,933,966	357,212	18.5%
EBITDA [2]	**356,025**	3,558,648	(3,202,623)	-90.0%
Depreciation and amortization	**370,474**	336,317	34,157	10.2%
Interest	**251,131**	422,556	(171,425)	-40.6%
Stock-based compensation	**40,114**	37,400	2,714	7.3%
Impairment charge	**6,884,132**	-	6,884,132	100.0%
(Loss) earnings before income taxes	**(7,189,826)**	2,762,375	(9,952,201)	-360.3%
Income taxes (recovery)	**(606,953)**	878,954	(1,485,907)	-169.1%
Net (loss) earnings	**$ (6,582,873)**	$ 1,883,421	$ (8,466,294)	-449.5%
(Loss) earnings per share				
Basic [3]	**$ (0.45)**	$ 0.14	$ (0.59)	-424.3%
Diluted [3]	**$ (0.45)**	$ 0.14	$ (0.59)	-424.3%
Weighted average shares outstanding				
Basic	**14,499,131**	13,663,524	n/a	n/a
Diluted	**14,499,131**	13,663,524	n/a	n/a

(1) See page 29 for a further explanation of this non-GAAP measure.

(2) Represents earnings before interest, taxes, depreciation and amortization and non-cash transactions (see page 29 for a further explanation of this non-GAAP measure).

(3) If the impairment charge of goodwill and intangible assets were excluded from the results above the third quarter net loss would have been $276,713 and the basic and diluted loss per share would have been ($0.02).

Consolidated statement of operations		**For the nine months ended September 30** **2009**		2008		**Change** **$**	%
Sales	**$**	**64,421,050**	$	65,043,249	$	(622,199)	-1.0%
Gross margin		**9,333,507**		11,799,302		(2,465,795)	-20.9%
Gross margin %		**14.5%**		18.1%		-	-3.6%
Operating expenses (1)		**6,778,506**		4,794,101		1,984,405	41.4%
EBITDA (2)		**2,555,001**		7,005,201		(4,450,200)	-63.5%
Depreciation and amortization		**1,291,721**		741,780		549,941	74.1%
Interest		**1,422,782**		1,273,565		149,217	11.7%
Stock-based compensation		**128,935**		205,376		(76,441)	-37.2%
Impairment charge		**6,884,132**		-		6,884,132	100.0%
(Loss) earnings before income taxes		**(7,172,569)**		4,784,480		(11,957,049)	-249.9%
Income taxes (recovery)		**(602,036)**		1,532,578		(2,134,614)	-139.3%
Net (loss) earnings	**$**	**(6,570,533)**	$	3,251,902	$	(9,822,435)	-302.1%
(Loss) earnings per share							
Basic (3)	**$**	**(0.45)**	$	0.25	$	(0.70)	-281.2%
Diluted (3)	**$**	**(0.45)**	$	0.25	$	(0.70)	-281.2%
Weighted average shares outstanding							
Basic		**14,505,523**		13,178,324		n/a	n/a
Diluted		**14,505,523**		13,178,324		n/a	n/a

(1) See page 29 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation and amortization and non-cash transactions (see page 29 for a further explanation of this non-GAAP measure).
(3) If the impairment charge of goodwill and intangible assets were excluded from the results above the third quarter net loss would have been $276,713 and the basic and diluted loss per share would have been ($0.02).

RESULTS OF OPERATIONS

Sales

Sales by segment

	For the three months ended September 30 **2009**	2008	Change $	%
Fluids	**$ 16,642,974**	$ 27,194,254	$ (10,551,280)	-38.8%
Steel [1]	**7,322,507**	4,990,200	2,332,307	46.7%
	$ 23,965,481	$ 32,184,454	$ (8,218,973)	-25.5%

	For the nine months ended September 30 **2009**	2008	Change $	%
Fluids	**$ 39,713,684**	$ 60,053,049	$ (20,339,365)	-33.9%
Steel [1]	**24,707,366**	4,990,200	19,717,166	395.1%
	$ 64,421,050	$ 65,043,249	$ (622,199)	-1.0%

(1) Steel sales for 2008 were for one month as the division was acquired on August 29, 2008.

Fluids

In the third quarter of 2009, industry drilling rig utilization rates averaged 20.6%, representing a 25.4% decrease from the same period last year when drilling rig activity averaged 46.0%. With the continued decrease in drilling activity in the third quarter, the Company has experienced a decline in the demand for drilling fluids resulting in a 38.8% decrease in revenues in the third quarter of 2009 compared to the same period in 2008. The Alberta and Saskatchewan markets largely contributed to the decrease in revenues as both markets experienced considerable slowdown in those regions.

During the third quarter of 2009, the Company has seen a decrease in revenues from the Alberta warehouses of approximately 40.7% while the decline in overall drilling activity for the Alberta market is approximately 51.2%. Saskatchewan had 1,152 wells drilled during the nine months ended September 30, 2009, which generated $2,998,525 in revenues for the Company from this region, a decrease in revenues of 9.3% compared to same period in 2008. Overall drilling activity in the Saskatchewan market decreased by 60.4% year over year. The drilling programs in Northern British Columbia have seen a decrease of 27.8% with 466 wells drilled in the region compared to 645 during the same period last year. Despite the decrease in drilling activity in this region, the Company experienced a 4.3% increase in revenue.

Revenues generated from the industrial fluids division were $580,081 for the nine months ended September 30, 2009 compared to $381,768 for the same period in 2008, while sales to United States amounted to $737,697 compared to $2,155,935 for the same period in 2008.

Steel Products

During the three months ended September 30, 2009, the steel products division generated revenues of $7,322,507. The steel products division sells primarily to the oil and gas industry and therefore the decrease in drilling activity in Western Canada during the third quarter affected the division's sales as there was less demand for steel products. Continued volatile steel prices coupled with excess inventory in the market place have led to the Company lowering selling prices of steel products to remain competitive. It is anticipated that steel prices will remain depressed for the short term with a recovery to more reasonable prices late in the year.

Sales in the United States for the three and nine months ended September 30, 2009 amounted to $1,353,650 and $4,845,961, respectively. The Company will continue its growth 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. Bri-Chem has three inventory yards in New Orleans, Louisiana, Chicago, Illinois and Houston, Texas to warehouse and distribute tubing, casing and steel products to customers in the US. Similar to the Canadian market, the United States has experienced decreased drilling activity and excess customer inventory levels during the year causing a significant decline in the demand for steel products. With demand for steel products at diminished levels, the steel division will concentrate on superior customer relationships and work diligently in the markets it services to offer competitively priced products. With the winter drilling activity commencing in the fourth quarter of 2009, demand for tubing and casing products are anticipated to increase, however they will remain significantly below traditional levels.

Gross margin

	For the three months ended September 30		Change	
	2009	2008	**$**	**%**
Gross margin	**$ 2,647,203**	$ 5,492,614	$ (2,845,411)	-51.8%
% of sales	**11.0%**	17.1%		-6.1%

	For the nine months ended September 30		Change	
	2009	2008	**$**	**%**
Gross margin	**$ 9,333,507**	$ 11,799,302	$ (2,465,795)	-20.9%
% of sales	**14.5%**	18.1%		-3.6%

The gross margin as a percentage of sales for the three and nine months ended September 30, 2009 decreased by 6.1% and 3.6%, respectively, compared to the same periods in 2008. The decrease in margins during the three and nine months ended September 30, 2009 was due to decreased selling prices on steel as the price of steel commodities decreased significantly over the last nine months.

As a result of the economic recession, many companies have on unanticipated excess inventory of steel products causing many distributers to lower selling prices to move high priced inventory. The fluids division had many customers requesting lower cost alternatives for drilling fluids in an attempt to control their costs, resulting in lower margins on fluid sales. Margins on fluid sales vary based on the seasonality of product mix whereby winter drilling activity requires more technologically advanced fluids which are higher margin products compared to spring and summer months.

Given the current global economic crisis, and in particular steel commodity prices, we anticipate our gross margin for future quarters to be comparable to the nine month gross margin. Steel commodity prices are at depressed amounts and are not expected to recover in the near term, which will result in the Company lowering prices to stay competitive with the market place. There have been cost reductions of certain drilling fluid products which the Company continued to pass through to customers. With the nearing of the winter drilling programs, rig activity is expected to increase resulting in increased demand for fluid products. Geographic location where drilling will be conducted will determine the quantity of fluid and product mix. The Company is anticipating margins from fluid sales to be similar or slightly higher than the prior 9 months.

Steel margins will remain depressed for the near to medium term until excess market inventory is consumed and customers commence the purchase of new product. Although there will be an increase in oil and natural gas activity, steel commodity prices remain depressed, causing margins to be lower as the steel division attempts to sell its higher cost inventories. As inventories are reduced to more reasonable levels, gross margins will stabilize; however, it is difficult at this time to estimate when those reasonable levels may exist. We are unable to predict the value of the Canadian dollar in relation to foreign currencies in the future; therefore, we are uncertain as to the potential impact on the Company's gross margin in relation to foreign purchases of product.

Operating expenses

Salaries and employee benefits

	For the three months ended Septemeber 30		Change	
	2009	2008	**$**	**%**
Salaries and benefits	**$ 1,398,370**	$ 1,163,963	$ 234,407	20.1%
% of sales	**5.8%**	3.6%		2.2%

	For the nine months ended Septemeber 30		Change	
	2009	2008	**$**	**%**
Salaries and benefits	**$ 4,454,692**	$ 2,774,465	$ 1,680,227	60.6%
% of sales	**6.9%**	4.3%		2.6%

The dollar increase in salary and employee benefits for the three and nine months ended September 30, 2009 relates to twenty additional staff brought in from the Bri-Chem Steel acquisition in August 2008. Bri-Chem Steel had salaries and benefits of $557,460 and $1,879,937 during the three and nine months ended September 30, 2009. The reduced sales caused an increase in expenses as a percentage of sales.

Selling, general and administration

	For the three months ended September 30 2009	2008	Change $	%
Selling	**$ 130,984**	$ 188,701	$ (57,717)	-30.6%
Professional and consulting	**57,912**	160,880	(102,968)	-64.0%
General and administration	**247,352**	107,932	139,420	129.2%
Rent, utilities and occupancy costs	**808,505**	205,826	602,679	292.8%
Stock based compensation	**7,799**	10,471	(2,672)	-25.5%
Foreign exchange (gain)/loss	**(351,945)**	106,664	(458,609)	-430.0%
	$ 900,607	$ 780,474	$ 120,133	15.4%
Selling, general and administrative expenses (as a % of sales)				
Selling	**0.5%**	0.6%		
Professional and consulting	**0.2%**	0.5%		
General and administration	**1.0%**	0.3%		
Rent, utilities and occupancy costs	**3.4%**	0.6%		
Stock based compensation	**0.0%**	0.0%		
Foreign exchange (gain)/loss	**-1.5%**	0.3%		
	3.8%	2.4%		

	For the nine months ended September 30 2009	2008	Change $	%
Selling	**$ 383,535**	$ 443,683	$ (60,148)	-13.6%
Professional and consulting	**400,374**	382,790	17,584	4.6%
General and administration	**866,600**	349,569	517,031	147.9%
Rent, utilities and occupancy costs	**1,622,151**	511,676	1,110,475	217.0%
Stock based compensation	**23,397**	5,926	17,471	294.8%
Foreign exchange (gain)/loss	**(948,847)**	331,917	(1,280,764)	-385.9%
	$ 2,347,210	$ 2,025,561	$ 321,649	15.9%
Selling, general and administrative expenses (as a % of sales)				
Selling	**0.6%**	0.7%		
Professional and consulting	**0.6%**	0.6%		
General and administration	**1.3%**	0.5%		
Rent, utilities and occupancy costs	**2.5%**	0.8%		
Stock based compensation	**0.0%**	0.0%		
Foreign exchange (gain)/loss	**-1.5%**	0.5%		
	3.6%	3.1%		

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

Selling expenses decreased for the three and nine months ended September 30, 2009 compared to the same periods in 2008. The Company has taken steps to control costs during the current global economic crisis. Selling costs relate to customer relation costs, promotion and travel costs.

During the period, professional and consulting expenses included consulting fees relating to the Company's International Financial Reporting Standards conversion implementation along with audit and other advisory fees.

General and administration expenses increased significantly over the same prior period due to the addition of Bri-Chem Steel. General and administration expenses relating to Bri-Chem Steel were $79,187 and $374,804 for the three and nine months ended September 30, 2009. In addition, the Company had an increase of $211,949 in insurance costs due to insuring more inventories as a result of the Bri-Chem Steel acquisition. Given the current global economic conditions, the Company recorded $76,744 in bad debts for the nine months ended September 30, 2009 compared to a recovery of bad debts of $54,877 for the same period in 2008. General and administration costs consist of licenses, office and computer expenses, insurance and general bank charges.

Warehouse rent, utilities and occupancy expenses increased for the three and nine months ended September 30, 2009 due to $1,121,558 of costs of operating the steel distribution warehouse. During the third quarter, the steel division incurred lease expense for its new 36,000 square foot facility in Leduc, Alberta. The relocation costs have been recorded as occupancy costs during the prior quarter. Liquid storage tank rentals increased as the Company has expanded its storage capacity for liquid invert to include Edson, Estevan, Grande Prairie and Fort St. John. Costs in this category are comprised mainly of rent, utilities, warehouse expense for the Leduc, Camrose, Acheson and Estevan locations as well as liquid storage tank rentals.

With the global economic recession, the US dollar has weakened in relation to other currencies. The decrease in the US dollar resulted in a foreign exchange gain during the nine months ended September 30, 2009, causing the Company to have a favourable position in purchases in foreign currencies. The Company reported a foreign exchange gain of $948,847 for the nine months ended September 30, 2009 compared to a $331,917 loss for the same comparative period in 2008. These foreign exchange gains arose on the translation of the foreign denominated assets and liabilities held by the Company.

Amortization

	For the three months ended September 30		Change	
	2009	2008	**$**	**%**
Property and equipment	**$ 167,263**	$ 99,977	$ 67,286	67.3%
Intangibles	**203,211**	236,340	(33,129)	-14.0%
Total	**$ 370,474**	$ 336,317	$ 34,157	10.2%

	For the nine months ended September 30 2009	2008	Change $	%
Property and equipment	$ **438,712**	$ 271,830	$ 166,882	61.4%
Intangibles	**853,009**	469,950	383,059	81.5%
Total	$ **1,291,721**	$ 741,780	$ 549,941	74.1%

The increase in amortization expense relates to $918,925 of capital additions over the past year, including $738,248 of fixed assets from the acquisition of Bri-Chem Steel in August 2008. In addition, amortization of intangibles increased related to the customer relationships, tradename, sales backlog and non-compete agreements due to the acquisition of Bri-Chem Steel in 2008. During the third quarter of 2009, the Company performed its annual assessment of the fair value of its goodwill. In conjunction with this assessment, the Company also reviewed its intangible assets. Due to the deterioration in overall economic conditions, reduced activity levels within the oil and gas industry and changes in the market, the Company concluded that the carrying value of its intangible assets were impaired and recorded an impairment charge of $2,115,832. The impairment charge for intangible assets comprises an impairment of customer relationships ($1,291,366), proprietary products ($16,667), non-compete agreements ($401,399) and trade names ($446,400).

Interest

	For the three months ended September 30 2009	2008	Change $	%
Interest on long-term debt	$ **156,856**	$ 177,436	$ (20,580)	-11.6%
Interest on short-term operating debt	**90,898**	243,895	(152,997)	-62.7%
Interest on obligations under capital lease	**3,377**	1,225	2,152	175.7%
Total	$ **251,131**	$ 422,556	$ (171,425)	-40.6%

	For the nine months ended September 30 2009	2008	Change $	%
Interest on long-term debt	$ **500,077**	$ 475,983	$ 24,094	5.1%
Interest on short-term operating debt	**914,654**	796,357	118,297	14.9%
Interest on obligations under capital lease	**8,051**	1,225	6,826	557.2%
Total	$ **1,422,782**	$ 1,273,565	$ 149,217	11.7%

Interest on long-term debt decreased during the three month period ended September 30, 2009 when compared to the same period last year due to the decrease in the prime interest rate and the continued repayment of the sub-debt. Interest on short-term operating debt has also decreased for the three month period ended September 30, 2009 when compared to the same period last year as the Company had a lower revolving line of credit balance due to decreased purchasing activities as the Company had more inventories carried over from the previous periods as a result of the downturn in the economy.

As at September 30, 2009, long-term debt consisted of a $2,200,000, 6% note payable plus accrued interest issued to shareholders of the Company as a result of the January 2007 reverse takeover of Gwelan Supply Ltd., promissory notes payable of $3,000,000 plus accrued interest to the former owners of Bri-Chem Steel, a $1,537,439 prime plus 0.85% demand loan outstanding with a Canadian chartered bank, and a $2,580,000 subordinated loan bearing interest at prime plus 7% with a financial institution.

Income taxes

The provision for income taxes in the third quarter of 2009 is a recovery of $606,953 compared to current tax expense of $878,954 in the same period last year. The recovery in taxes for the three months ended September 30, 2009 resulted from decreased earnings and a reduction in the Company's effective tax rate for 2009. In addition, the Company had a future income tax recovery of $577,972 during the third quarter as a result of the impairment charge of intangible assets. The Company's current income tax effective rate is 29.0% for the three months ended September 30, 2009.

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

	For the three months ended September 30 2009	2008	Change $	%
Net (loss) earnings [(1)]	**$ (6,582,873)**	$ 1,883,421	$ (8,466,294)	-449.5%
% of revenue	**-27.5%**	5.9%		
EBITDA [(2)]	**$ 356,025**	$ 3,558,648	$ (3,202,623)	-90.0%
% of revenue	**1.5%**	11.1%		

	For the nine months ended September 30 2009	2008	Change $	%
Net earnings [(1)]	**$ (6,570,533)**	$ 3,251,902	$ (9,822,435)	-302.1%
% of revenue	**-10.2%**	5.0%		
EBITDA [(2)]	**$ 2,555,001**	$ 7,005,201	$ (4,450,200)	-63.5%
% of revenue	**4.0%**	10.8%		

(1) Net loss includes impairment charge of $6,884,132 of goodwill and intangible assets. If the impairment charge of goodwill and intangible assets were excluded from the results above the third quarter net loss would have been $267,713 and the basic and diluted loss per share would have been ($0.02).
(2) Represents earnings before interest, taxes, depreciation and amortization (see page 29 for a further explanation of this non-GAAP measure).

The Company had a net loss from operations for the three months ended September 30, 2009 of $6,582,873 compared to net earnings of $1,883,421 for the same period last year. Net loss, as a percentage of revenues, for the third quarter of 2009 was (27.5%) compared to net earnings as a percentage of revenues of 5.9% for the three months ended September 30, 2008. During the third quarter of 2009, the Company conducted its annual goodwill impairment test and reviewed its intangibles. Due to reduced drilling activity levels in the oil and gas industry, and continuing deterioration in overall economic conditions, the Company recorded an impairment charge of goodwill of $4,728,300 and intangible assets of $2,115,832 and a corresponding non-cash impairment charge in income. If we exclude the impairment charge, we would of generated a net loss of $267,713 or ($0.02) diluted loss per share for the three months compared to $0.14 for the same period in 2008. (see Goodwill and Intangibles). EBITDA from operations decreased by 90.0% in the third quarter of 2009 when compared to the same quarter last year. The decrease in net earnings and EBITDA is due to the decrease in fluid sales as the result of lower drilling activity and decreased gross margin as the result of lower selling prices on steel and fluid products in order to remain competitive in the marketplace and the sale of vendor consigned steel inventory near the vendors cost, resulting in minimal margins.

Loss per share for the three and nine months ended September 30, 2009 was based on the weighted average number of shares outstanding during the period. The basic and diluted weighted average number of shares outstanding for the three months ended September 30, 2009 was 14,499,131. During the nine months ending September 30, 2009, the Company purchased 43,400 common shares under the Normal Course Issuer Bid (see Share Data and Normal Course Issuer Bid).

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)	2009 Q3	2009 Q2	2008 Q1	2008 Q4	Total TTM
Sales	$ 23,966	$ 10,118	$ 30,337	$ 46,240	$ 110,661
Gross margin ($)	2,647	1,869	4,817	6,639	15,972
Gross margin (%)	11.0%	18.5%	15.9%	14.4%	14.4%
EBITDA (1)	356	(250)	2,451	3,007	5,564
Net (loss) earnings (2)	$ (6,583)	$ (848)	$ 860	$ 1,235	$ (5,336)
Basic (loss) earnings per share	$ (0.45)	$ (0.06)	$ 0.06	$ 0.09	$ (0.36)
Diluted (loss) earnings per share	$ (0.45)	$ (0.06)	$ 0.06	$ 0.09	$ (0.36)
(in thousands of Cdn $)	**2008 Q3**	**2008 Q2**	**2008 Q1**	**2007 Q4**	**Total TTM**
Sales	$ 32,184	$ 10,658	$ 22,201	$ 21,358	$ 86,401
Gross margin ($)	5,493	1,969	4,338	3,915	15,715
Gross margin (%)	17.1%	18.5%	19.5%	18.3%	18.2%
EBITDA (1)	3,559	755	2,691	2,303	9,308
Net earnings	$ 1,883	$ 104	$ 1,265	$ 427	$ 3,679
Basic earnings per share	$ 0.14	$ 0.01	$ 0.10	$ 0.03	$ 0.28
Diluted earnings per share	$ 0.14	$ 0.01	$ 0.10	$ 0.03	$ 0.28

(1) EBITDA is a non-GAAP measure which the Company defines as earnings before interest, taxes, depreciation, amortization (See page 29 for a further explanation of this non-GAAP measure).

(2) Net loss during Q3 of 2009 includes a $6,884,132 impairment charge of goodwill and intangible assets. If the impairment charge of goodwill and intangibles were excluded from the results above, the third quarter net loss would have been $267,713 and the basic and diluted loss per share would have been ($0.02).

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		**September 30 2009**		December 31 2008
Current assets	**$**	**66,384,361**	$	88,089,363
Property and equipment		**3,895,892**		3,797,515
Other assets		**1,337,680**		9,074,821
TOTAL ASSETS	**$**	**71,617,933**	$	100,961,699
Current liabilities	**$**	**45,137,227**	$	66,756,163
Long-term liabilities		**7,175,527**		8,401,179
TOTAL LIABILITIES		**52,312,754**		75,157,342
Share capital		**15,249,704**		15,295,274
Retained earnings and contributed surplus		**4,055,475**		10,509,083
TOTAL SHAREHOLDERS' EQUITY		**19,305,179**		25,804,357
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**71,617,933**	$	100,961,699

Financial Ratios	**September 30 2009 (1)**	December 31 2008
Working capital ratio	**1.53**	1.32
Days sales in receivables	**92.1**	99.8
Inventory turns	**2.2**	2.7
Days purchases in payables	**80.8**	58.2

(1) Current liabilities exclude $1,800,000 of the subordinated debenture, which has been considered long-term for covenant calculation purposes.

As at September 30, 2009, the Company had positive working capital of $21,247,134 compared to $21,333,200 at December 31, 2008. As the result of non-compliance of one of the Company's financial covenants, the subordinated debenture of $2,580,000 was reclassified to current portion of long-term debt. The lender has granted a waiver not to demand repayment of its subordinate debenture and the Company up to and including September 30, 2009 and is negotiating amendments to the subordinate debenture and related financial covenants with the lender. Without the subordinate debenture reclassification, the Company would have a working capital of $23,047,134 at September 30, 2009. The increase in the working capital ratio is the net result of increased inventory levels (due to the dramatic slowdown in the resource industry) and collection of receivables whose cash inflow reduced trade payables and the bank operating line. As at September 30, 2009, the Company had $26,593,015 outstanding under its available credit facilities of $40,000,000, with a Canadian chartered bank, as compared to $37,666,571 at December 31, 2008. At July 27, 2009, the Company renewed and amended its credit facility, which resulted in an increase to the line of credit to $40,000,000 with an additional $5,000,000 from December 1, 2009 to April 30, 2010. Under this agreement, the Company's total debt to tangible net worth covenant will be adjusted to 2.75 to 1 on December 31, 2009 and 2.50 to 1 by September 30, 2010.

The decrease in days sales in receivables from December 2008 is due to improved collections on sales along with lower sales levels allowing the Company to work diligently with customers on collections during this economic recession. Due to the seasonal nature of the oil and gas industry in Western Canada, the Company collects many of its receivables during the spring and summer months and has significant receivable balances in the fall and winter when the drilling programs typically are at their busiest. This results in a significant timing difference in the calculation of the days sales in receivables. The increase in days purchases in payables is due to the Company managing its cashflow and obtaining extended credit terms from some vendors as a result of the economic environment.

Accounts receivable decreased by $20,944,548 (48.5%) from fiscal 2008 balance of $43,175,808 to $22,231,260. The Company collected many accounts from the winter drilling programs in the first quarter of 2009 while experiencing decreased sales in the third quarter of 2009 due to decreased drilling activity.

Inventory increased by $3,283,113 (8.2%) from fiscal 2008 creating inventory turnover of 2.2 for the nine months ended September 30, 2009 compared to 2.7 turns at the Company's year end. Inventory levels have decreased from second quarter highs as all divisions are concentrating on reducing excess inventory levels. The year over year increase inventory is due to the following reasons:

- The current economic climate caused the steel division to experience an unusual level of cancelled steel orders for which inventory could not be returned to vendors. The cancelled orders resulted in additional inventory of approximately $4,000,000. These inventories are being reduced as customers are starting to work through their excess inventory levels.
- The steel division has vendor inventory held as consignment in its distribution locations that is being sold sooner than the Company's inventory based on availability and specific product demand.

The Company's prepaid expenses and deposits have decreased by $4,043,567 as much of the steel products that required prepayment in the fourth quarter of 2008 was received as inventory during the first quarter and there have been minimal purchases during the 2009 third quarter. Due to the sharp decline in market demand for steel products and given current inventory levels, the Company is working with vendors to sell the excess inventory at competitive prices and is managing inventory cautiously until current levels are brought down to an amount that will service current market demands.

Payables and accruals were $15,283,521 compared to $24,653,886 at December 31, 2008, a decrease of $9,370,365 or 38.0%, which was a result of the Company using its collection of receivables to pay vendors for products purchased. In addition, the excess inventory has reduced product purchases.

The Company's liquidity will depend upon operating cash flows, existing working capital, the unused credit facility and the ability to access debt and equity markets. The Company currently has sufficient liquidity and capital resources to meet the long-term payment obligations of its outstanding loans. The Company continues to assess its requirements for capital on an on-going basis. Due to the financial market turmoil negatively impacting both credit and equity markets, the Company cannot ensure if additional working capital and growth capital will be readily available.

Cash flow (used for) from operating activities

Cash from operating activities increased by $6,991,870 to $1,131,845 for the three months ended September 30, 2009 compared to the same period in 2008 and increased by $16,267,616 to $12,206,888 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The Company's increase in cash from operating activities relates to less cash paid for inventory as the Company had excess inventory levels due to the economic downturn. With the continued forecasted decrease in drilling activity, we will continue to reduce our inventory levels to more reasonable levels. Steel commodity prices remain depressed and are anticipated to remain low for the remainder of 2009 and early 2010, leading to lower sales similar to those in the fourth quarter. Overall, the Company has lower sales in Q3 2009 compared to 2008, which will lead to reduced collection of receivables, thus short term cash from operations may decrease. Certain products in inventory will be required to be replaced as they are products commonly sold, resulting in an outflow of cash. The Company intends to closely manage its inventory levels and spending in order to conserve its balance sheet strength and minimize any increase in debt levels.

Cash flow from (for) financing activities

For the three months ended September 30, 2009, cash used in financing activities was $1,102,208 compared to cash earned of $11,010,967 for the same period in 2008, while cash used in financing activities increased by $21,147,783 to $11,648,725 for the nine months ended September 30, 2009 compared to 2008. 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 and third quarters, which it used to repay the operating line. With the downturn in drilling activity in 2009, the Company will not require as much inventory, therefore decreasing the amount of cash required to pay vendors. A sudden increase in the market demand for fluid and steel products can have an adverse effect on the Company's bank indebtedness as additional cash will be required to pay for product.

In addition, the Company continues the repayment of the subordinated debt facility since February 2009. The repayments have been funded through the collection of receivables and the current operating credit facility. The Company also paid interest on one of the promissory notes. Repayment of the $1,000,000 promissory note due in May 2009 and the $1,000,000 plus interest due in October 2009 have been postponed until the market returns to more favorable conditions. These payments will be funded through the operating credit facility provided funds are available, otherwise they will be postponed until such time the Company has the available funds to pay the amounts due and will not be in violation of its credit facility covenants.

Cash flow used for investing activities

Cash used in investing activities amounted to $29,637 for the third quarter in 2009 compared to $5,150,942 for the same period last year and cash used in investing activities amounted to $558,163, a decrease of $4,880,167 for the nine months ended September 30, 2009 compared to 2008. Cash used during the year related to the purchase of a blender, a liquid invert mixer, a loader for steel products and numerous computer equipment and furniture and fixtures. The Company is not expecting any major capital expenditures for the remainder of the year.

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 it covenants on an ongoing basis and reports on its compliance to its lender on a quarterly basis.

As at September 30, 2009, the Company was not in compliance with a financial covenant applicable to the HSBC Capital subordinated debt that requires the Company maintain a funded debt to EBITDA ratio of not greater than 3.5 to 1. Due to the reduced drilling activity levels in the oil and gas industry, reduced selling prices on steel products and overall economic conditions EBITDA has decreased thus causing the breach. For the quarter ended September 30, 2009, HSBC Capital has granted a waiver not to demand repayment of its subordinate debenture up to and including September 30, 2009 and the Company is negotiating amendments to the subordinate debenture and related financial covenants with HSBC Capital.

Commitments

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

2010	$ 1,097,535
2011	1,044,051
2012	955,845
2013	926,880
2014	926,880
	$ 4,951,191

Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the estimated fair value of the underlying net assets acquired at the date of acquisition. Goodwill is recorded at cost and is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value.

When the fair value of the reporting unit exceeds the carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of impairment loss, if any. A reporting unit comprises business operations with similar economic characteristics and strategies, and is the level of reporting at which goodwill is tested for impairment. A reporting unit is either an operating segment or a level below and is the level at which information is available for management to make key decisions. For the purposes of goodwill impairment testing, the Company has three reporting units.

The Company conducted its annual goodwill impairment test in the third quarter of 2009 and determined that goodwill was impaired in its three reporting units. The impairment assessment was conducted due to reduced activity levels in the oil and gas industry, continuing deterioration in overall economic conditions and changes in the market causing our market capitalization to be lower than our carrying value. Based on our review, we recognized a $4,728,300 goodwill impairment loss for the third quarter and it is reflected as a non-cash charge to income. The impairment loss is non-cash in nature and does not affect our liquidity or cash provided by operating activities and will not impact future Company operations.

The change in goodwill during the nine months ended is as follows:

Balance, December 31, 2008	$ 4,728,300
Impairment charge	(4,728,300)
Balance, September 30, 2009	$ -

Intangibles

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at fair value. The assigned values of a group of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill are allocated to the individual assets acquired based on fair value.

Intangible assets with finite useful lives are amortized over their useful lives. Intangible assets with indefinite useful lives are reviewed for impairment annually. The Company has no intangible assets with indefinite lives.

The amortization methods and estimated useful lives of the intangible assets, which are reviewed annually, are as follows:

Customer relationships	5 years straight-line
Sales backlog	6 months straight-line
Proprietary technology, technological expertise and proprietary blends	3 years straight-line
Tradename	5 years straight-line
Non-competition agreements	3 to 5 years straight-line

The Company reviewed its intangible assets in third quarter of 2009 and determined that intangible assets were impaired in two of its three reporting units. The impairment assessment was conducted due to reduced activity levels in the oil and gas industry, continuing deterioration in overall economic conditions and changes in the market causing our market capitalization to be lower than our carrying value. The determination of impairment is based on an estimate of undiscounted cash flow, and the measurement of impairment loss is based on the amount that the carrying value exceeds the fair value. Based on our review, we recognized a $2,115,832 intangible asset impairment loss for the third quarter and it is reflected as a non-cash charge to income. The impairment charge for intangible assets comprises an impairment of customer relationships ($1,291,366), proprietary products ($16,667), non-compete agreements ($401,399) and trade names ($446,400). The impairment loss is non-cash in nature and does not affect our liquidity or cash provided by operating activities and will not impact future Company operations.

The change of intangible assets during the nine months ended is as follows:

Balance, December 31, 2008	$ 4,160,064
Amortization	$ (853,009)
Impairment charge	(2,155,832)
Balance, September 30, 2009	$ 1,151,223

The impairment losses for goodwill and intangible assets are estimates at the date of filing as the goodwill and intangible asset fair value calculations have not been finalized.

Property and equipment

The Company's investment in property and equipment for the quarter was costs to complete the new fluids blender in Acheson as well as new computers and furniture. 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 $40,000 are being proposed for a storage tent in Leduc. 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 nine months ended September 30, 2009, the Company incurred selling, general and administration expenses in the normal course of operations with Western America Capital Group, an affiliated company which a certain director controls, as follows:

a) Management advisory services of $30,000 and $90,000, respectively (September 30, 2008 – $30,000 and $90,000).

b) Accounting, administrative and corporate expenses of $9,150 and $29,945, respectively (September 30, 2008 – $9,150 and $40,202).

c) The Company paid total director fees of $27,750 and $32,250 respectively (September 30, 2008 - $32,000 and $34,000) to three directors of the Company.

The Company expensed interest of $33,000 and $99,000, respectively (September 30, 2008 - $33,000 and $126,774) on promissory notes payable issued in 2006 which are held by two of the Company's directors and significant shareholders. The $1,000,000 promissory note principal payment that was to be made in May 2009 and the $1,000,000 promissory note principal payment that was to be made in October 2009 has been postponed. In addition, the Company expensed $45,370 and $134,631, respectively (September 30, 2008 – $15,781) 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 activity is down significantly from the prior year and trends are expected to continue for the remainder of 2009 and into 2010. The projected lower activity levels will continue to impact the demand for fluid and steel products, however, Bri-Chem continues to remain focused on maintaining strong customer relationships, managing inventory levels and controlling costs. Over the medium to longer term, the Company is well positioned to manage through this weak economic environment given its solid customer relationships, diverse geographic product offering, and low operating overhead.

While the price of oil has improved from the lows early in the year natural gas prices still remain weak, which has resulted in lower drilling activity and less demand for drilling fluids. Despite the increase in drilling activity during the third quarter of 2009, oil and gas well completions are at the lowest levels since 1992. The Petroleum Services Association of Canada (PSAC) has forecasted 2,246 wells to be drilled in Western Canada for the fourth quarter of 2009, a decrease of 53.4% over same period last year. Due to our strong customer base and market presence, we are optimistic that we will continue to experience less of a decline in the demand for our drilling fluids than the overall decrease in industry activity. The Company will continue to monitor and adjust to the economic environment in which it operates.

Bri-Chem's industrial fluids division is enduring the same weakened demand for its products. Many of the capital projects that were expected to commence in Q3 have been postponed for an undetermined period. New geographic opportunities domestically that previously existed have become more difficult to find. However, the industrial fluids division is continuing to penetrate into new markets by seeking out products specific to industry needs. We will continue to concentrate on technologically advanced fluids with the emphasis on geothermal and water well drilling in late 2009 and early 2010. Sales are expected to increase in the fourth quarter of 2009 and first quarter of 2010, but are anticipated to be behind those in 2008.

The price sensitivity on steel commodities continues to exist causing the market to remain competitive on selling prices. The steel products market continues to struggle with excess inventories in the market, affecting the overall demand for products. For the remainder of 2009 and into 2010, sales and gross margins are expected to be lower than traditional levels and margins. The US market remains challenging due to the continued decline in drilling activity, however excess inventory levels appear to be reducing to reasonable levels which will result in purchasing of steel products to replace diminished inventory levels. The steel division is geographically diversified in the Eastern and Southern US, which has increased the division's market presence enabling it to take advantage when buying commences.

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

Competition and industry conditions

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

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

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

Alberta Royalty Framework

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. On October 25, 2007, the Government of Alberta unveiled a New Royalty Framework ("NRF") that introduced new royalties for conventional oil, natural gas and oil sands that are linked to price and production levels. The NRF was implemented effective January 1, 2009. The NRF established new commodity price and volume sensitive rates for the calculation and collection of royalties. These rates may have an impact on capital expenditures related to drilling exploration. The changes to the royalty regime may affect the exploration for, and the development of, oil and natural gas by entities operating in the Province of Alberta, which effects could negatively impact the business and cash flow of the Company.

Supply-Side Risks

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

Oil and Natural Gas Prices

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

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 third 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 of 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.

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 consolidated financial statements are the valuations of accounts receivable, the sales return provision, inventory obsolescence, future income tax assets, and carrying value of goodwill, intangibles, accrued liabilities and future income tax liabilities. Management feels actual results will not be materially different from these estimates.

CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING POLICY

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new handbook Section 3064 – "Goodwill and Intangible Assets" that supersedes Section 3062 – "Goodwill and Other Intangible Assets" and 3450 – "Research and Development Costs". This section provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs can be deferred only when relating to an item meeting the definition of an asset. The new accounting standard is effective for interim or annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard did not have a material impact on its consolidated interim financial statements.

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.

During the first quarter of 2009, the Company completed the first phase of the IFRS implementation. The Company has developed an IFRS committee consisting of the Chair of the Audit Committee, Chief Financial Officer and the Corporate Controller. The Company has also started the detailed assessment of key accounting policy differences between Canadian GAAP and IFRS, as well as determining policy choices and elections allowed under IFRS. The significant areas that may impact the Company include impairment of assets, property, plant and equipment, income taxes, contingencies, stock-based compensation, foreign exchange translation and initial first time adoption of IFRS. The Company is currently in the process of finalizing its accounting policies under IFRS and evaluating information system requirements. In addition, the Company is in development of processes to derive the Company's 2010 opening balance sheet and building 2010 IFRS compliant financial information for comparative purposes.

Business combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations" which will replace section 1581 of the same name and will be applicable to the Company beginning on or after January 1, 2011. This section requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations.

Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements" which will replace section 1600 of the same name and will be applicable to the Company beginning on January 1, 2011. This section establishes the requirements for the preparation of consolidated financial statements, in particular the standard requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. The Company does not expect an impact on the financial statements as a result of the implementation of this section.

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

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 10%, 9% and 8% respectively of revenue for the three month period ended September 30, 2009 (18%, 12% and 6% for the twelve months ended December 31, 2008) and 11%, 12% and 11% respectively (December 31, 2008 – 19%, 9%, 8%) 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 September 30, 2009, the Company has recorded an allowance for doubtful accounts of $78,139 (December 31, 2008 - $3,435).

The allowance is an estimate of the September 30, 2009 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended September 30, 2009 consisted of bad debt expense of $78,139.

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:

September 30, 2009		Gross accounts receivable		Allowance for doubtful accounts		Net accounts receivable
Current	$	10,111,334	$	-	$	10,111,334
31 to 60 days		5,285,006		-		5,285,006
61 to 90 days		4,321,716		-		4,321,716
91 to 120 days		1,767,691		-		1,767,691
Over 120 days		823,652		78,139		745,513
Total	$	22,309,399	$	78,139	$	22,231,260

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 September 30, 2009 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 September 30, 2009, 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 $55,194 (September 30, 2008 - $55,655).

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 $2,605,868 as at September 30, 2009 (December 31, 2008 - $10,027,922) and accounts payable in foreign currency outstanding as at September 30, 2009 is $6,092,478 (December 31, 2008 - $12,974,583).

The Company does not currently use derivative instruments to reduce its foreign currency risk. For the three months ended September 30, 2009, the Company realized a foreign exchange gain of $351,945 (September 30, 2008 loss of $106,664). Based on the monetary assets and liabilities held in the United States ("US") at September 30, 2009, a five percent increase or decrease in exchange rates would impact the Company's net earnings by approximately $127,099 (September 30, 2008 - $108,000).

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 AND NORMAL COURSE ISSUER BID

As at November 30, 2009, the Company had 14,389,786 common shares issued and outstanding. The board of directors may grant options to purchase up to 1,400,000 common shares. As of September 30, 2009, options to purchase 1,292,000 common shares were outstanding at an average price of $1.99 per common share. Warrants totaling 350,000 with an average exercise price of $2.03 may be exercised into common shares prior to July 17, 2010. During the third quarter of 2009, the Company issued 30,000 options to independent directors of the Company at an exercise price of $0.75 per common share.

On December 9, 2008, the Corporation obtained approval from the TSX Venture Exchange to purchase up to 815,000 of the Corporation's common shares by way of a normal course issuer bid ("NCIB"). The NCIB commenced on December 10, 2008 and will terminate on December 9, 2009 or earlier if the number of shares sought in the NCIB 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. The Corporation has purchased a total of 124,400 common shares under the NCIB up to November 30, 2009.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

EBITDA (Earnings before interest, taxes, depreciation and amortization and non-cash transactions) 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 EBITDA 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, non-cash amortization expense and before non-cash transactions such as stock-based compensation. The following is a reconciliation of EBITDA to net earnings for each of the periods presented in this MD&A:

EBITDA		**(Unaudited) For the three months ended September 30 2009**		2008
Net (loss) earnings	**$**	**(6,582,873)**	$	1,883,421
Add:				
Interest		**251,131**		422,556
Depreciation and amortization		**370,474**		336,317
Income taxes (recovery)		**(606,953)**		878,954
Stock-based compensation (1)		**40,114**		37,400
Impairment charge		**6,884,132**		-
EBITDA	**$**	**356,025**	$	3,558,648

(1) Stock-based compensation includes warrants of $7,799, (20098 - $-10,471) and stock options of $32,315 (2008 - $47,871).

EBITDA		**(Unaudited) For the nine months ended September 30 2009**		2008
Net (loss) earnings	**$**	**(6,570,533)**	$	3,251,902
Add:				
Interest		**1,422,782**		1,273,565
Depreciation and amortization		**1,291,721**		741,780
Income taxes (recovery)		**(602,036)**		1,532,578
Stock-based compensation (1)		**128,935**		205,376
Impairment charge		**6,884,132**		-
EBITDA	**$**	**2,555,001**	$	7,005,201

(1) Stock-based compensation includes warrants of $23,397 (2008 - $5,925) and stock options of $105,538 (2008 - $199,451).

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 September 30, 2009 consolidated financial statements:

Operating expenses		**(Unaudited) For the three months ended September 30 2009**		2008
Operating expenses	**$**	**2,291,178**	$	1,933,966
Add:				
Interest		**251,131**		422,556
Depreciation and amortization		**370,474**		336,317
Stock-based compensation (1)		**40,114**		37,400
Impairment charge		**6,884,132**		-
Total expenses	**$**	**9,837,029**	$	2,730,239

(1) Stock-based compensation includes warrants of $7,799, (20098 - $-10,471) and stock options of $32,315 (2008 - $47,871).

		(Unaudited) For the nine months ended September 30 2009		2008
Operating expenses	**$**	**6,778,506**	$	4,794,101
Add:				
Interest		**1,422,782**		1,273,565
Depreciation and amortization		**1,291,721**		741,780
Stock-based compensation (1)		**128,935**		205,376
Impairment charge		**6,884,132**		-
Total expenses	**$**	**16,506,076**	$	7,014,822

(1) Stock-based compensation includes warrants of $23,397 (2008 - $5,925) and stock options of $105,538 (2008 - $199,451).

Corporate Information

Officers and Directors

Don Caron
Chairman, CEO and Director
Edmonton, Alberta

Alan Campbell
Director
Edmonton, Alberta

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