Bri-Chem Corp.

Management Discussion and Analysis

Three and Nine Months Ended September 30, 2010

2010 THIRD QUARTER OVERVIEW:

Bri-Chem has continued to gain market share with a substantial increase in customer demand. The oil and gas drilling activity in the third quarter of 2010 experienced a 20% increase in drilling rig utilization rates compared to the third quarter of 2009 while Bri-Chem's revenues rose by 60% and net earnings were up over 135%.

Consolidated revenues were $38,484,673 for the third quarter of 2010 as compared to $23,965,481 for the third quarter of 2009, an increase of 60.6%. Net earnings increased by 134.4% to $2,263,699 or $0.16 diluted earnings per share as compared to a loss of ($6,582,873) or ($0.45) diluted loss per share from the same period last year. Earnings before interest, taxes, amortization, and stock-based compensation ("EBITDAC") was $3,827,251 or $0.28 per share for the three months ended September 30, 2010, an increase of $3,473,636 or 976% compared to the same period last year.

Consolidated revenues for the nine months ended September 30, 2010 were $104,643,132, an increase of 62.4% when compared to $64,421,050 from the same period in 2009. Net earnings for the nine months ended September 30, 2010 are $4,844,468 or $0.35 diluted earnings per share compared to a loss of ($6,570,533) or ($0.45) diluted loss per share for the same period last year. EBITDAC was $8,768,445 or $0.63 per share, an increase of $6,213,443 or 243.2% compared to the same period last year.

The fluids division had sales of $31,707,155 and $79,314,144, increases of 90.5% and 99.7% respectively for the three and nine months ended September 30, 2010 compared to the same periods in 2009. Drilling rig utilization rates averaged 40.5% for the third quarter and 37.9 % for the nine months ended September 30, 2010, an increase of 19.9% and 15.0% respectively from the same period last year, when utilization rates averaged 20.6% and 22.8%. As non-conventional drilling continues to increase and drilling activity improves from the lows of 2009, the fluids division is expected to experience increased demand for its products, particularly as the winter drilling season is approaching.

The steel division has produced sales of $6,777,518 and $24,707,366 for the three and nine months ended September 30, 2010, a decrease of 7.4% and an increase of 2.5% 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. Demand for certain steel pipe products has started to increase, however the market is still operating cautiously as there still remains some uncertainty in steel commodity prices. As drilling activity levels continue to improve from depressed levels in 2009, demand for Bri-Chem's steel products is expected to increase.

Outlook

The drilling activity in the fourth quarter of 2010 is anticipated to improve by approximately 29% over the fourth quarter of 2009, which will continue to drive demand for Bri-Chem's drilling fluid products. The demand for steel pipe products is improving as steel commodity prices continue to stabilize over the medium term. The steel pipe market is nearing completion of its 2009 inventory destocking process and companies are now seeking to replenish inventory levels with new product purchases. Management anticipates drilling activity in Q4 of 2010 and Q1 of 2011 to marginally improve over what we experienced over the third quarter of 2010, which should 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 November 2, 2010. 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, 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. In addition, the steel division will examine the opportunities of steel pipe manufacturing of certain diameters and grades.

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 2010	2009	Change $	%
Sales	**$ 38,484,673**	$ 23,965,481	$ 14,519,192	60.6%
Gross margin	**5,719,549**	2,647,203	3,072,346	116.1%
Gross margin %	**14.9%**	11.0%	-	3.8%
Operating expenses (1)	**1,889,888**	2,291,178	(401,290)	-17.5%
EBITDAC (2)	**3,829,661**	356,025	3,473,636	975.7%
Depreciation and amortization	**198,031**	370,474	(172,443)	-46.5%
Interest	**399,790**	251,131	148,659	59.2%
Stock-based compensation	**98,203**	40,114	58,089	144.8%
Impairment charge	**-**	6,884,132	(6,884,132)	-100.0%
Earnings (loss) before income taxes	**3,133,637**	(7,189,826)	10,323,463	143.6%
Income taxes (recovery)	**869,938**	(606,953)	1,476,891	243.3%
Net earnings (loss)	**$ 2,263,699**	$ (6,582,873)	$ 8,846,572	134.4%
Earnings (loss) per share				
Basic	**$ 0.16**	$ (0.45)	$ 0.61	135.2%
Diluted	**$ 0.16**	$ (0.45)	$ 0.61	135.0%
EBITDAC per share				
Basic	**$ 0.28**	$ 0.02	$ 0.26	1057.2%
Diluted	**$ 0.28**	$ 0.02	$ 0.26	1050.0%
Weighted average shares outstanding				
Basic	**13,719,622**	14,499,131	n/a	n/a
Diluted	**13,806,836**	14,499,131	n/a	n/a

(1) See page 31 for a further explanation of this non-GAAP measure.
(2) Represents earnings before interest, taxes, depreciation, amortization and stock-based compensation (see page 31 for a further explanation of this non-GAAP measure).
(3) If the impairment charge of goodwill and intangible assets were excluded from the Q3 2009 results above the third quarter 2009 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**		**Change**	
	2010	2009	**$**	%
Sales	**$ 104,643,132**	$ 64,421,050	$ 40,222,082	62.4%
Gross margin	**15,258,037**	9,333,507	5,924,530	63.5%
Gross margin %	**14.6%**	14.5%		0.1%
Operating expenses (1)	**6,489,593**	6,778,506	(288,913)	-4.3%
EBITDAC (2)	**8,768,444**	2,555,001	6,213,443	243.2%
Depreciation and amortization	**654,030**	1,291,721	(637,691)	-49.4%
Interest	**1,213,241**	1,422,782	(209,541)	-14.7%
Stock-based compensation	**182,087**	128,935	53,152	41.2%
Impairment charge	**-**	6,884,132	(6,884,132)	-100.0%
Earnings (loss) before income taxes	**6,719,086**	(7,172,569)	13,891,655	-193.7%
Income taxes (recovery)	**1,877,028**	(602,036)	2,479,064	-411.8%
Net earnings (loss)	**$ 4,842,058**	$ (6,570,533)	$ 11,412,591	-173.7%
Earnings (loss) per share				
Basic	**$ 0.35**	$ (0.45)	$ 0.80	176.7%
Diluted	**$ 0.35**	$ (0.45)	$ 0.80	176.7%
EBITDAC per share				
Basic	**$ 0.63**	$ 0.18	$ 0.45	257.3%
Diluted	**$ 0.63**	$ 0.18	$ 0.45	257.2%
Weighted average shares outstanding				
Basic	**13,934,162**	14,505,523	n/a	n/a
Diluted	**13,937,572**	14,505,523	n/a	n/a

(1) See page 31 for a further explanation of this non-GAAP measure.

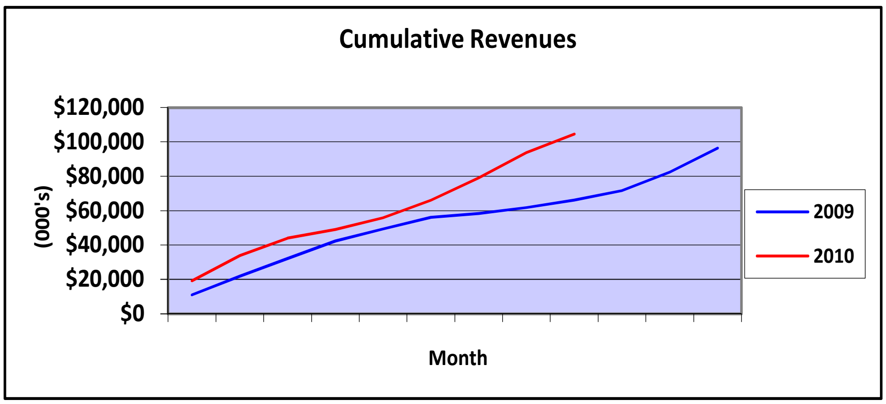
(2) Represents earnings before interest, taxes, depreciation, amortization, and stock-based compensation (see page 31 for a further explanation of this non-GAAP measure).

(3) If the impairment charge of goodwill and intangible assets were excluded from the Q3 2009 results above the third quarter 2009 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				Change		
		2010		2009		**$**	**%**
Fluids	**$**	**31,707,155**	$	16,642,974	$	15,064,181	90.5%
Steel		**6,777,518**		7,322,507		(544,989)	-7.4%
	$	**38,484,673**	$	23,965,481	$	14,519,192	60.6%
	For the nine months ended September 30				Change		
		2010		2009		**$**	**%**
Fluids	**$**	**79,314,144**	$	39,713,684	$	39,600,460	99.7%
Steel		**25,328,988**		24,707,366		621,622	2.5%
	$	**104,643,132**	$	64,421,050	$	40,222,082	62.4%



Fluids

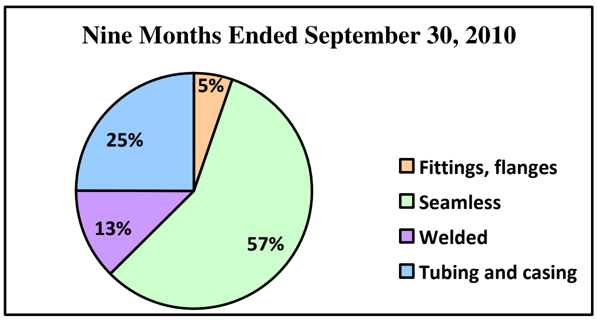
The fluids division experienced an increase in sales of 90.5% for the third quarter of 2010 compared to the same period in 2009, while sales increased for the nine months ended September 30, 2010 by 99.7% over the same nine month period of 2009. This increase is due to the continued increase in drilling rig activity in Western Canada. Drilling rig utilization levels for the third quarter were 40.5%, a 19.9% increase over the prior comparable period. For the nine months of 2010, drilling rig utilization has increased by 15.0% over prior year to 37.9%. As the increased trend of non-conventional, complex drilling activity continues, the fluids division has experienced an increase in revenues for the nine months ended September 30, 2010.

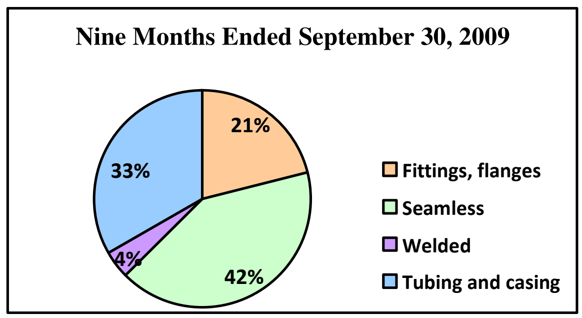
Revenues from Alberta locations increased 103.8% and 115.0% respectively over the three and nine month periods ended September 30, 2010 while the number of wells drilled increased by 58.8% and 35.0% respectively compared to the same period last year. For the nine months ended September 30, 2010, revenues increased in Saskatchewan by 123.7% over the comparable period. Saskatchewan had

1,853 wells drilled for the nine months ended September 30, 2010, which generated $6,709,015 in revenues from this region compared to $2,998,525 in the same period in 2009. Overall, drilling rig activity in the Saskatchewan market increased by 60.9%. The Northern British Columbia well activity has remained consistent year over year, however Bri-Chem has managed to increase revenues in this region by 37.2% 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 in this region.

Sales in the United States remained consistent at $715,077 for the nine months ended September 30, 2010 compared to $737,697 for the same period in 2009. 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 nine months of 2009.

During the three months ended September 30, 2010, the steel products division generated revenues of $6,777,518, a decrease of 7.4% over the prior year third quarter. This decrease is due to limited amounts of manufacturer direct orders. In addition, management had excess inventory in 2009, which they were able to sell due to the availability of product. As inventory levels were depleted, management did not replenish steel inventory at the same level, as management implemented a strict inventory management policy in 2010. Customers have been very cautious in purchasing steel products in 2010 as a result of the economic downturn in 2009. Despite the sales decrease in the third quarter, year to date sales in 2010 are similar compared to those for the nine 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 normal levels; however, prices still remain volatile. The division has lowered selling prices for certain steel products to remain competitive in the current market. 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 nine months ended September 30, 2010 amounted to $668,433 and $3,894,319 respectively. This is compared to $1,353,650 and $4,845,961 for the comparable 2009 periods. The division will continue to search out opportunities in the US market, on a manufacturer direct basis, 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 two inventory pipe yards in Chicago, Illinois and Houston, Texas to warehouse and distribute tubing, casing and steel pipe to customers in the US. As part of management's inventory strategy, the division will continue to service US customers with mill direct orders and will discontinue stocking inventory in the US, as it concentrates its efforts in current Canadian markets. As the US market demand increases, the Company will examine reinvesting inventory in the US at a later date.

Gross margin

	For the three months ended September 30		Change	
	2010	2009	**$**	**%**
Gross margin	**$ 5,719,549**	$ 2,647,203	$ 3,072,346	116.1%
% of sales	**14.9%**	11.0%		3.9%

	For the nine months ended September 30		Change	
	2010	2009	**$**	**%**
Gross margin	**$ 15,258,037**	$ 9,333,507	$ 5,924,530	63.5%
% of sales	**14.6%**	14.5%		0.1%

The gross margin as a percentage of sales for the three and nine months ended September 30, 2010 increased by 3.9% and 0.1% respectively compared to the same periods in 2009. The Company has seen an increase in consolidated gross margins over the past year as a result of improved steel commodity prices and higher margin fluid products being used as a result of the increase in more complex drilling applications.

The fluids division gross margins have increased by 1.9% to 16.4% for the nine months ended September 30, 2010 compared to the same period in 2009. The division continues to strive to meet customer demand of high 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 competitive landscape of the steel market has continued to put downward pressure on prices of certain product stocked by the Company. The steel products division had gross margins of 7.0% and 8.9% respectively for the three and nine months ended September 30, 2010 compared to 5.0% and 13.3% respectively for the same comparative period in 2009. Steel margins for the three months ended increased by 2.0% over 2009 as commodity prices have rebounded from the historically low prices in 2009 and have partially stabilized. For the nine months ended September 30, 2010, the steel division has sold certain steel products at low margins in order to replace the inventory with more favorably priced product from suppliers. As a result, gross margins have decreased by 4.4% during 2010 from 13.3% down to 8.9%. The division has destocked inventory over the past eighteen months and was able to commence purchasing inventory in small quantities in the third quarter of 2010. In the short to medium term, management is forecasting an improvement in gross margins for the new steel pipe that is being purchased and sold, however certain products still remain price sensitive, which may negatively impact gross margins.

Operating expenses

Salaries and employee benefits

	For the three months ended September 30 2010	2009	Change $	%
Salaries and benefits	**$ 1,417,621**	$ 1,398,370	$ 19,251	1.4%
% of sales	**3.7%**	5.8%		-2.1%

	For the nine months ended September 30 2010	2009	Change $	%
Salaries and benefits	**$ 4,403,295**	$ 4,454,692	$ (51,397)	-1.2%
% of sales	**4.2%**	6.9%		-2.7%

Salaries and benefits have remained consistent for the three months ended September 30, 2010. The Company hired an additional manager in the steel division and hired an additional operator for the fluid blending operation in the period. The change for the nine months ended September 30, 2010 is 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.

Selling, general and administration

	For the three months ended September 30 2010	2009	Change $	%
Selling	**$ 200,148**	$ 130,984	$ 69,164	52.8%
Professional and consulting	**131,167**	57,912	73,255	126.5%
General and administration	**181,045**	255,151	(74,106)	-29.0%
Rent, utilities and occupancy costs	**502,285**	808,505	(306,220)	-37.9%
Foreign exchange gain	**(532,267)**	(351,945)	(180,322)	51.2%
	$ 482,378	$ 900,607	$ (418,229)	-46.4%
Selling, general and administrative expenses (as a % of sales)				
Selling	**0.5%**	0.5%		
Professional and consulting	**0.3%**	0.2%		
General and administration	**0.5%**	1.0%		
Rent, utilities and occupancy costs	**1.3%**	3.4%		
Foreign exchange gain	**-1.4%**	-1.5%		
	1.3%	3.6%		

	For the nine months ended September 30		Change	
	2010	2009	$	%
Selling	$ **500,923**	$ 383,535	$ 117,388	30.6%
Professional and consulting	**317,993**	400,374	(82,381)	-20.6%
General and administration	**720,327**	889,997	(169,670)	-19.1%
Rent, utilities and occupancy costs	**1,537,801**	1,622,151	(84,350)	-5.2%
Foreign exchange gain	**(960,408)**	(948,847)	(11,561)	1.2%
	$ **2,116,636**	$ 2,347,210	$ (230,574)	-9.8%
Selling, general and administrative expenses (as a % of sales)				
Selling	**0.5%**	0.6%		
Professional and consulting	**0.3%**	0.6%		
General and administration	**0.7%**	1.3%		
Rent, utilities and occupancy costs	**1.5%**	2.5%		
Foreign exchange gain	**-0.9%**	-1.5%		
	3.2%	3.6%		

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

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

Professional and consulting expenses increased for the three month period ended September 30, 2010 due to the engagement of an independent investor relation firm. The overall decrease in expenses over the nine month period relates to consulting costs incurred in 2009 relating to the Company's International Financial Reporting Standards conversion implementation. The Company hired an individual in-house 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 largest contributors to this change were the bad debt recovery of $38,172 compared to an expense in the prior year and the decrease in insurance costs by $15,625. 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 decreased for the three and nine months ended September 30, 2010 due to the costs of operating two steel division warehouse locations in 2009 during the transfer period. This included $148,071 of costs related to the previous location and $53,394 of costs directly related to the move of locations. The steel division moved into a new 36,000 square foot facility in Leduc, Alberta in the third quarter 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 increased by 51.2% for the three months ended and 1.2% for the nine months ended over the same periods in the prior year. The Company maintains its favorable position to purchase in foreign currencies with an overall foreign exchange gain for the nine month period to September 30, 2010. The foreign exchange 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 September 30		Change	
	2010	2009	**$**	**%**
Property and equipment	**$ 93,577**	$ 167,263	$ (73,686)	-44.1%
Intangible assets	**104,454**	203,211	(98,757)	-48.6%
Total	**$ 198,031**	$ 370,474	$ (172,443)	-46.5%

	For the nine months ended September 30		Change	
	2010	2009	**$**	**%**
Property and equipment	**$ 338,121**	$ 438,712	$ (100,591)	-22.9%
Intangible assets	**313,499**	853,009	(539,510)	-63.2%
Total	**$ 651,620**	$ 1,291,721	$ (640,101)	-49.6%

Amortization expense decreased during the three and nine months ended September 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 September 30		Change	
	2010	2009	**$**	**%**
Interest on long-term debt	**$ 156,929**	$ 156,856	$ 73	0.0%
Interest on short-term operating debt	**241,039**	90,898	150,141	165.2%
Interest on obligations under capital lease	**1,822**	3,377	(1,555)	-46.0%
Total	**$ 399,790**	$ 251,131	$ 148,659	59.2%

	For the nine months ended September 30		Change	
	2010	2009	**$**	**%**
Interest on long-term debt	**$ 489,347**	$ 500,077	$ (10,730)	-2.1%
Interest on short-term operating debt	**719,111**	914,654	(195,543)	-21.4%
Interest on obligations under capital lease	**4,783**	8,051	(3,268)	-40.6%
Total	**$ 1,213,241**	$ 1,422,782	$ (209,541)	-14.7%

Interest on short-term debt increased during the three month period ended September 30, 2010 when compared to the same period last year due to the Company carrying a higher revolving line of credit balance. This is a result of increased operations and increased inventory purchasing to ramp up for the winter drilling season. The decrease for the nine month period ended September 30, 2010 is due to more strategic cashflow management and inventory purchasing practices in the first six months of the year, which resulted in lower average carrying amounts than the prior comparable period. Interest on long-term debt remains comparable to three and nine month periods ended September 30, 2010 due to comparable balances outstanding and continued principal repayments.

As at September 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 $1,568,135 prime plus 1.75% demand loan outstanding with a Canadian chartered bank, and a $1,860,000 subordinated loan bearing interest at prime plus a fixed charge with a financial institution.

Income taxes

The provision for income taxes in the third quarter of 2010 is $869,938 compared to a recovery of $606,953 in the same period last year. The increase in current taxes for the three months ended September 30, 2010 resulted from increased earnings in the fluids division. The Company’s current income tax effective rate is 28% for the nine months ended September 30, 2010.

Net earnings (loss), EBITDAC and earnings per share

	For the three months ended September 30 2010	2009	Change $	%
Net earnings (loss) (1)	**$ 2,263,699**	$ (6,582,873)	$ 8,846,572	134.4%
% of revenue	**5.9%**	-27.5%		
EBITDAC (2)	**$ 3,829,661**	$ 356,025	$ 3,473,636	-975.7%
% of revenue	**10.0%**	1.5%		

	For the nine months ended September 30 2010	2009	Change $	%
Net earnings (loss) (1)	**$ 4,844,468**	$ (6,570,533)	$ 11,415,001	-173.7%
% of revenue	**4.6%**	-10.2%		
EBITDAC (2)	**$ 8,768,444**	$ 2,555,001	$ 6,213,443	243.2%
% of revenue	**8.4%**	0.4%		

(1) Net loss for the third quarter of 2009 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, amortization and stock-based compensation (see page 31 for a further explanation of this non-GAAP measure).

The year over year increase in oil and natural gas drilling activity during 2010 has contributed to increased demand for the Company's fluid and steel pipe products, resulting in increased net earnings and EBITDAC when compared to the same period last year. Gross margins have remained consistent for the nine months ended September 30, 2010; the increase in sales and cost control of operating expenses improved the net earnings and EBITDAC of the Company for the period.

The Company had net earnings for the three month period ended September 30, 2010 of $2,263,699 or $0.16 diluted earnings per share compared to a net loss of $6,582,873 or $(0.45) diluted per share for Q3 2009. Earnings per share for the nine months ended September 30, 2010 are $0.35 compared to ($0.45) 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. The Company did not experience a significant write-down of intangible assets this year as it did in the prior year. Earnings per share for the three and nine months ended September 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 September 30, 2010 was 13,719,622 and the diluted weighted average number of shares outstanding was 13,806,836. During the nine months ended September 30, 2010, the Company purchased 682,900 common shares under the Normal Course Issuer Bid.

SUMMARY OF QUARTERLY DATA

(in thousands of Cdn $)		2010 Q3		2010 Q2		2010 Q1		2009 Q4		Total TTM
Sales	$	38,485	$	22,194	$	43,965	$	32,058	$	136,702
Gross margin ($)(1)(2)		5,720		3,310		6,229		893		16,152
Gross margin (%)		14.9%		14.9%		14.2%		2.8%		11.8%
Adjusted EBITDAC (3)		3,829		712		4,216		964		9,721
Net earnings (loss)(4)	$	2,263	$	42	$	2,539	$	(1,876)	$	2,968
Basic earnings (loss) per share	$	0.16	$	-	$	0.18	$	(0.13)	$	0.21
Diluted earnings (loss) per share	$	0.16	$	-	$	0.18	$	(0.13)	$	0.21

(in thousands of Cdn $)		2009 Q3		2009 Q2		2009 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%
Adjusted EBITDAC (3)		531		(232)		2,451		3,055		5,805
Net (loss) earnings	$	(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)

(1) Cost of sales includes a net realizable value of inventory write up of $170,671, $694,191 and $150,796 respectively in Q1, Q2 and Q3 of 2010. If the write ups were excluded from the results above, the Q1, Q2 and Q3 2010 gross margins would have been $6,058 (13.8%), $2,616 (11.8%), and $5,569 (14.5%) 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 31 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 September 30, 2010, the total TTM basic and diluted earnings per share would be $0.27 and $0.27 respectively.

FINANCIAL CONDITION & LIQUIDITY

Balance Sheet As at		**September 30 2010**		December 31 2009
Current assets	**$**	**84,295,760**	$	73,900,576
Property and equipment		**3,527,782**		3,676,600
Other assets		**1,303,500**		1,354,611
TOTAL ASSETS	**$**	**89,127,042**	$	78,931,787
Current liabilities	**$**	**60,388,740**	$	52,945,089
Long-term liabilities		**6,950,294**		8,609,978
TOTAL LIABILITIES		**67,339,034**		61,555,067
Share capital		**14,439,209**		15,156,254
Retained earnings and contributed surplus		**7,348,799**		2,220,466
TOTAL SHAREHOLDERS' EQUITY		**21,788,008**		17,376,720
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**89,127,042**	$	78,931,787

Financial Ratios	**September 30 2010**	December 31 2009
Working capital ratio	**1.40**	1.40
Days sales in receivables	**80.4**	96.8
Inventory turns	**2.8**	2.3
Days purchases in payables	**62.8**	88.2

As at September 30, 2010, the Company had positive working capital of $23,907,020 compared to $20,955,487 at December 31, 2009. The Company's current ratio (defined as current assets divided by current liabilities) was 1.40 to 1 for the period ended September 30, 2010, which is consistent with 1.40 to 1 at December 31, 2009.

As at September 30, 2010, the Company had $30,179,995 outstanding under its available credit facilities of $45,000,000 with a Canadian chartered bank, as compared to $27,652,949 at December 31, 2009. Under the current credit agreement, 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 improved collections of 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 as the Company had sufficient inventory levels and inventories were not replaced as quickly in the period since December 31, 2009. In addition, steel inventory that was purchased was paid in advance as is common with international purchases.

Accounts receivable increased by $6,808,298 (21.8%) from the fiscal 2009 balance of $31,172,888 to $37,981,186. The Company has receivables of $5,034,768 related to the steel products division. The Company experienced an increase in fluid sales in the quarter as drilling programs begin to ramp up for the winter season, which has translated to an increased accounts receivable balance at the end of September, 2010.

Inventory increased by $3,588,350 (8.9%) creating inventory turnover of 2.8 for the period ended September 30, 2010 compared to 2.3 turns at the Company's year end. The increased 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 inventory as demand continues to improve. Management will continue to monitor inventory levels and will keep steel inventory levels moderate due to volatility of steel commodity prices.

The Company's prepaid expenses and deposits have increased by $1,379,979 due to the timing of orders placed for steel product. These types of orders require deposits and payments up front 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 orders, 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 increased by $2,853,353 (12.2%) from the December 31, 2009 balance of $23,391,873 to $26,245,226. This increase is a result of the increasing inventory purchases to meet future customer demand for product. The Company had $118,343 in customer deposits at September 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. At September 30, 2010, $1,000,000 of promissory note principal due in May 2009 that was previously postponed remains classified as 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 used for operating activities was $10,285,703 for the three months ended September 30, 2010 compared to cash inflows of $1,131,845 from operating activities for the same period in 2009. Cash from operating activities decreased by $13,092,747 to $885,869 used for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The decrease for the nine months is caused by the change in the non-cash operating items balances of inventory, accounts receivable, and accounts payable. The Company's increase in cash used for operating activities relates to increased purchases of inventory to meet current and expected customer demands for the ramp up to the winter drilling season. Bank indebtedness has risen as a result of lower collections of accounts in the second quarter of the year given that sales are traditionally slow in that quarter due to the spring breakup period. With the continued 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. We believe that the steel inventory will rise slightly for the last quarter of the year as the demand for certain product increases. Inventory will need to be replaced as demand increases, 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 from (used for) financing activities

For the three months ended September 30, 2010, cash from financing activities was $10,356,040 compared to cash used of $1,102,208 for the same period in 2009, while cash from financing activities increased to $1,119,174 for the nine months ended September 30, 2010 compared to cash used of $11,648,725 in 2009. The cash from financing activities was mainly due to advances on the operating line of credit for the purchases of inventory. In the third quarter collections are generally significantly lower as sales activity starts to increase as drilling activity continues to improve into the winter drilling season. This quarter was also affected by increased purchases of steel product which have purchasing terms that require down payments. 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, funded 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. $1,000,000 of the promissory notes payable 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 December 2010.

The Company also paid $67,125 for the quarter and $584,929 for the year to date to repurchase 48,500 and 682,900 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 $70,337 for the third quarter in 2010 compared to $29,637 for the same period last year and cash used in investing activities amounted to $233,305, a decrease of $324,858 or 58.2% for the nine months ended September 30, 2010 compared to 2009. Cash used during the nine months ended related to the purchase of property and equipment as well as the addition of $23,753 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 September 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.

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	$ 1,079,652
2012	929,445
2013	926,880
2014	926,880
2015	926,880
	$ 4,789,737

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

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Capital leases*	Total
2011	$ 30,179,997	$ 26,245,226	$ 1,056,297	$ 1,182,759	$ 83,905	$ 58,748,184
2012	-	-	2,341,858	1,312,000	5,886	3,659,744
2013	-	-	-	2,392,000	-	2,392,000
2014	-	-	-	1,030,000	-	1,030,000
2015	-	-	-	-	-	-
Total	$ 30,179,997	$ 26,245,226	$ 3,398,155	$ 5,916,759	$ 89,791	$ 65,829,928

* 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 $98,509 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 nine months ended September 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 $90,000, respectively (September 30, 2009 – $30,000 and $90,000).

b) Accounting, administrative and corporate expenses of $9,156 and $27,468 respectively (September 30, 2009 – $9,150 and $29,945).

c) The Company paid director fees of $nil and $66,500 respectively (September 30, 2009 - $27,750 and $32,250) to three directors of the Company.

The Company expensed interest of $33,000 and $99,000, respectively (September 30, 2009 - $33,000 and $99,000) 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 $45,370 and $134,631, respectively (September 30, 2009 - $45,370 and $134,631) 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

Drilling activity levels have improved in the third quarter from their lows in second quarter during spring break-up. The increase in drilling activity has resulted in an increased demand for our products. With the continued non-conventional, more complex drilling formations, the demand for the Company's fluids will remain dominant in regions where that drilling takes place. We anticipate oil drilling activity will continue to remain strong for the winter drilling season, which will drive solid fluid revenues for the remainder of 2010. We are cautious regarding the economic recovery and any change in commodity prices, weather conditions, environmental and government regulations could adversely affect the improvement in drilling activity.

The Petroleum Services Association of Canada (PSAC) has forecasted 3,369 wells to be drilled in Canada for the fourth quarter of 2010, a forecasted increase of 32% over 2009. Given the projected increase in drilling activity, the fluids division is expected to experience continued increase in sales and profitability similar to that of the third quarter. Unconventional drilling will continue to drive the requirement for more efficient drilling fluids, and with the Company's strategically located warehouses and strong customer relationships, the fluids division anticipates it will continue to maintain its market share in core regions in the WCSB during the winter drilling season.

Bri-Chem's fluid blending operation continues to experience strong growth as production continues to be driven from increased demand for cementing and acidizing additives. In addition, the blending operation continues to expand its blending capacity by having multiple production shifts to meet the increased demand for blended products. We are anticipating production at near full capacity for the remainder of the year.

Steel commodity prices have remained consistent during the quarter which assisted selling prices on certain pipe products to return to traditional levels. Certain products remain price sensitive leading to lower margins on those product lines in the short to medium term. The Company has commenced purchasing new inventories as we have worked at reducing our high levels from the previous year; however we are purchasing cautiously as demand for product still remains volatile. In the short to medium term we anticipate demand for steel should improve marginally as drilling activity increases, and customers gain confidence in commodity prices. Margins will remain volatile in the short term as the Company continues to deplete itself of certain lower margin inventories that will be replaced with higher margin inventories in the future. 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 will continue to focus on tubing and casing and seamless pipe products.

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 and write-ups, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of future income tax assets, accrued liabilities and future income tax liabilities, and the fair value of options and warrants using the Black-Scholes option pricing model. Management feels actual results will not be materially different from these estimates.

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 included 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 focused 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.

At this time, the Company has prepared its draft opening transitional balance sheet and a first draft of the first quarter 2011 financial statements for reporting under IFRS. Management and the Audit Committee have received training on the new reporting requirements and the new composition of 2011 financial statements as prepared under IFRS. The Company will continue with its transition project to year end by preparing the quarterly reporting comparatives under IFRS and customizing additional training sessions as required for key staff involved. 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.

Expected accounting policy impacts

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

Intangible assets

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

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

Share-based payments

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

Impairment testing

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

Other IFRS 1 considerations

The Company is required to comply with the standards of IFRS 1, "First Time Adoption Under International Financial Reporting Standards" in the first reporting period after the changeover to IFRS. The standard details requirements for retroactive application and circumstances where exemptions are optional.

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. Revenue from the Company's largest three customers accounted for approximately 21%, 16% and 13% respectively of revenue for the three month period ended September 30, 2010 (14%, 9% and 7% for the twelve months ended December 31, 2009) and 26%, 20% and 14% 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 September 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 September 30, 2010 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended September 30, 2010 consisted of trade accounts receivable balances written off of $19,048, which was also subsequently recovered within the period.

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, 2010		**Gross accounts receivable**		**Allowance for doubtful accounts**		**Net accounts receivable**
Current	$	10,047,188	$	-	$	10,047,188
31 to 60 days		13,187,992		-		13,187,992
61 to 90 days		11,077,104		-		11,077,104
91 to 120 days		2,900,245		-		2,900,245
Over 120 days		768,657		-		768,657
Total	$	37,981,186	$	-	$	37,981,186

The changes in allowance for doubtful accounts were as follows:

		September 30 2010		December 31 2009
Balance, beginning of period	$	-	$	3,435
Bad debt expense		-		316,171
Receivables written off		(19,048)		(119,468)
Recovery of receivables		19,048		(30,647)
Balance, end of period	$	-	$	169,491

The Company held $118,343 (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 September 30, 2010 was Canadian bank prime interest rate plus 100 basis points (4.0%). The long term debt bears interest at bank prime plus a fixed increment. As at September 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 $60,495 (September 30, 2009 - $55,194).

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 $1,390,316 as at September 30, 2010 (December 31, 2009 - $1,580,209) and accounts payable in foreign currency outstanding as at September 30, 2010 is $7,321,929 (December 31, 2009 - $8,281,171).

For the three months ended September 30, 2010, the Company realized a foreign exchange gain of $532,267 (September 30, 2009 - $351,945). Based on the monetary assets and liabilities held in the United States ("US") at September 30, 2010, a five percent increase or decrease in exchange rates would impact the Company's net earnings by approximately $209,271 (September 30, 2009 - $127,099).

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 November 2, 2010, the Company had 13,698,886 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, 2010, options to purchase 1,319,000 common shares were outstanding at an average price of $1.74 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, were 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 September 30, 2010, 48,500 shares had been repurchased for cash consideration of $67,125. The Company has purchased a total of 682,900 common shares under the NCIB to November 2, 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 September 30**		
		2010		2009
Net earnings (loss)	**$**	**2,263,699**	$	(6,582,873)
Add:				
Interest		**399,790**		251,131
Depreciation and amortization		**198,031**		370,474
Income taxes (recovery)		**869,938**		(606,953)
Stock-based compensation (1)		**98,203**		40,114
Impairment charge		**-**		6,884,132
EBITDAC	**$**	**3,829,661**	$	356,025

(1) Total stock-based compensation includes warrants of $10,113 (2009 - $7,799) and stock options of $88,090 (2009 - $32,315).

EBITDAC		**(Unaudited) For the nine months ended September 30 2010**		2009
Net earnings (loss)	**$**	**4,844,468**	$	(6,570,533)
Add:				
Interest		**1,213,241**		1,422,782
Depreciation and amortization		**651,621**		1,291,721
Income taxes (recovery)		**1,877,028**		(602,036)
Stock-based compensation [1]		**182,087**		128,935
Impairment charge		**-**		6,884,132
EBITDAC	**$**	**8,768,445**	$	2,555,001

(1) Total stock-based compensation includes warrants of $30,338 (2009 - $23,397) and stock options of $151,749 (2009 - $105,538).

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, 2010 consolidated financial statements:

Operating expenses		(Unaudited) For the three months ended September 30 **2010**		2009
Operating expenses	**$**	**1,889,888**	$	2,291,178
Add:				
Interest		**399,790**		251,131
Depreciation and amortization		**198,031**		370,474
Stock-based compensation		**98,203**		40,114
Impairment charge		**-**		6,884,132
Total expenses	**$**	**2,585,912**	$	9,837,029

		(Unaudited) For the nine months ended September 30 **2010**		2009
Operating expenses	**$**	**6,489,592**	$	6,778,506
Add:				
Interest		**1,213,241**		1,422,782
Depreciation and amortization		**651,621**		1,291,721
Stock-based compensation		**182,087**		128,935
Impairment charge		**-**		6,884,132
Total expenses	**$**	**8,536,541**	$	16,506,076

Corporate Information

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

Issued: 13,698,886