



Bri-Chem Corp.
Second Quarter Interim Report
June 30, 2010

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Bri-Chem Corp.

Interim Consolidated Balance Sheets

	June 30 2010 (unaudited)	December 31 2009 (audited)
Assets		
Current		
Accounts receivable	\$ 20,087,835	\$ 31,172,888
Inventory	36,722,968	40,179,035
Prepaid expenses and deposits	1,679,428	1,139,783
Income taxes receivable	104,470	1,381,443
Future income tax assets	27,427	27,427
	58,622,128	73,900,576
Property and equipment	3,570,036	3,676,600
Intangible assets	1,052,057	1,241,100
Future income tax assets	215,217	113,511
	\$ 63,459,438	\$ 78,931,787
Liabilities		
Current		
Bank indebtedness (Note 4)	\$ 19,592,030	\$ 27,652,949
Accounts payable and accrued liabilities	14,697,442	23,391,873
Customer deposits	339,613	525,486
Current portion of promissory notes payable (Note 5)	1,104,389	325,696
Current portion of long-term debt	943,584	872,045
Current portion of obligations under capital lease	107,183	177,040
	36,784,241	52,945,089
Promissory notes payable (Note 5)	4,200,000	5,200,000
Long-term debt	2,533,341	2,922,439
Obligations under capital lease	8,174	11,161
Future income tax liabilities	430,338	476,378
	43,956,094	61,555,067
Shareholders' Equity		
Share capital (Note 6)	14,490,134	15,156,254
Contributed surplus (Note 7)	1,226,150	1,014,175
Retained earnings	3,787,060	1,206,291
	19,503,344	17,376,720
	\$ 63,459,438	\$ 78,931,787

Commitments (Note 11)
Subsequent events (Note 15)

On behalf of the Board

(signed) "Don Caron"
Don Caron, Director

(signed) "Eric Sauze"
Eric Sauze, Director

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Interim Consolidated Statements of Operations,
Comprehensive Income (Loss) and Retained Earnings
(Unaudited)

	June 30		June 30	
	(3 months ended)		(6 months ended)	
	2010	2009	2010	2009
Sales	\$ 22,193,633	\$ 10,118,467	\$ 66,158,459	\$ 40,455,569
Cost of sales (Note 9)	<u>18,884,117</u>	8,249,080	<u>56,619,971</u>	33,769,265
Gross margin	<u>3,309,516</u>	1,869,387	<u>9,538,488</u>	6,686,304
Gross margin (%)	<u>14.9%</u>	18.5%	<u>14.4%</u>	16.5%
Expenses				
Salaries and benefits	1,446,970	1,440,863	3,049,332	3,129,545
Selling, general and administration (Note 10)	1,017,524	1,026,052	2,062,399	2,043,504
Interest on short-term operating debt	230,950	323,015	478,072	823,756
Interest on long-term debt (Note 10)	166,580	165,776	332,417	343,221
Foreign exchange loss (gain)	159,454	(301,145)	(428,141)	(596,901)
Amortization on property and equipment	123,486	145,812	244,544	271,449
Amortization on intangible assets	104,385	256,566	209,045	649,798
Interest on capital lease obligations	1,938	959	2,961	4,674
	<u>3,251,287</u>	3,057,898	<u>5,950,629</u>	6,669,046
Earnings (loss) before income taxes	<u>58,229</u>	(1,188,511)	<u>3,587,859</u>	17,258
Income taxes (recovery)	<u>16,308</u>	(340,868)	<u>1,007,090</u>	4,918
Net earnings (loss) and comprehensive income (loss)	<u>\$ 41,921</u>	\$ (847,643)	<u>\$ 2,580,769</u>	\$ 12,340
Earnings (loss) per share				
Basic	\$ 0.00	\$ (0.06)	\$ 0.18	\$ 0.00
Weighted average number of shares	13,868,105	14,504,183	14,043,209	14,508,798
Diluted	\$ 0.00	\$ (0.06)	\$ 0.18	\$ 0.11
Weighted average number of shares	13,873,745	14,504,183	14,047,227	14,508,798
Retained earnings, beginning of period	\$ 3,745,139	\$ 10,513,612	\$ 1,206,291	\$ 9,653,629
Net earnings (loss) and comprehensive income (loss)	<u>41,921</u>	(847,643)	<u>2,580,769</u>	12,340
Retained earnings, end of period	<u>\$ 3,787,060</u>	\$ 9,665,969	<u>\$ 3,787,060</u>	\$ 9,665,969

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Interim Consolidated Statements of Cash Flows
(Unaudited)

	June 30 (3 months ended)		June 30 (6 months ended)	
	2010	2009	2010	2009
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings (loss)	\$ 41,921	\$ (847,643)	\$ 2,580,769	\$ 12,340
Non-cash items:				
Amortization on intangible assets	104,385	256,566	209,045	649,798
Amortization on property and equipment	123,486	145,812	244,544	271,449
Amortization of debt related transaction costs	22,628	13,580	45,256	27,160
Future income tax recovery	(129,330)	-	(147,748)	-
Stock-based compensation	16,710	36,724	63,659	73,224
Loss on sale of property and equipment	-	4,577	4,982	4,577
	<u>179,800</u>	<u>(390,384)</u>	<u>3,000,507</u>	<u>1,038,548</u>
Net change in non-cash operating working capital	<u>13,587,603</u>	<u>6,440,904</u>	<u>6,398,146</u>	<u>10,036,496</u>
	<u>13,767,403</u>	<u>6,050,520</u>	<u>9,398,653</u>	<u>11,075,044</u>
Financing activities				
Advances on promissory notes payables	77,666	77,877	155,049	155,261
Net repayments of operating line	(13,270,129)	(5,738,696)	(8,060,919)	(10,185,940)
Repurchase of common shares (Note 6)	(232,424)	-	(517,804)	(7,700)
Repayment of promissory notes payable	(132,000)	(132,211)	(376,356)	(132,211)
Repayment of long-term debt	(145,142)	(146,381)	(362,815)	(303,356)
Repayment of capital lease obligations	(36,644)	(36,498)	(72,844)	(72,572)
	<u>(13,738,673)</u>	<u>(5,975,909)</u>	<u>(9,235,689)</u>	<u>(10,546,518)</u>
Investing activities				
Purchase of property and equipment	(28,730)	(102,611)	(157,464)	(556,526)
Proceeds on disposal of property and equipment	-	28,000	14,500	28,000
Purchase of intangible assets	-	-	(20,000)	-
	<u>(28,730)</u>	<u>(74,611)</u>	<u>(162,964)</u>	<u>(528,526)</u>
Net increase in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	\$ -	\$ -	\$ -	\$ -
Non-cash transactions:				
Interest paid	\$ 439,988	\$ 609,187	\$ 1,020,943	\$ 1,213,704
Income taxes paid	398,768	70,601	398,768	456,117

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(Unaudited)
June 30, 2010

1. Basis of presentation

Bri-Chem Corp.'s ("the Company") shares are publicly traded on the TSX Venture Exchange under the symbol BRY. The Company is a wholesale distributor of industrial drilling fluids, steel products and services to the energy, construction and industrial sectors.

These unaudited interim consolidated financial statements, in all material respects, follow the same accounting policies and method of application as the annual audited consolidated financial statements of the preceding fiscal year, except as outlined in Note 2.

These interim consolidated financial statements do not contain all disclosures required by Canadian generally accepted accounting principles ("GAAP") for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recent annual financial statements of the Company.

2. New accounting policies

Financial instruments

The Company categorizes its fair value measurements according to a three level hierarchy which prioritizes the inputs used in the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the overall fair value measurement. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Derivative financial instruments

Derivative financial instruments are utilized by the Company in the management of its foreign currency exposure on certain committed and anticipated transactions. The Company does not designate its foreign exchange forward contracts as a hedge of underlying assets, liabilities, firm commitments or anticipated transactions in accordance with CICA Handbook Section 3865, *Hedges*, and accordingly does not use hedge accounting. As a result of this, the foreign exchange forward contracts are recorded on the consolidated balance sheet at fair value in receivables when the contracts are in a gain position and in accrued liabilities when the contracts are in a loss position. The difference between nominal value and fair value is recorded in selling, general and administrative expense in the period. The Company purchases foreign exchange forward contracts to mitigate the exposure to purchases and the related payable to suppliers denominated in U.S. dollars.

Bri-Chem Corp.
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3. Seasonality of operations

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern Western Canadian Sedimentary Basin ("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.

4. Bank indebtedness

Effective June 30, 2010, the Company renewed and amended its credit facility, which resulted in an increase in the bulge of \$45,000,000 from \$40,000,000 for the period of September 1 through April 30 each year (previously December 1 through April 30). The credit facility includes a sub-limit of \$10,000,000 on a US demand overdraft. It has also been amended to include \$1,000,000 (previously \$100,000) on a bank guarantee and a \$10,000,000 (previously \$250,000) import line. The bank operating line of credit bears interest ranging from prime plus 0.75% to prime plus 1.50% per annum and is due on demand. The US demand overdraft bears interest ranging from US base rate plus 0.75% to US base rate plus 1.50% per annum and is due on demand. In addition, the HSBC term loan was renewed at an interest rate of prime plus 1.75% and matures on June 30, 2012 (previously June 30, 2011). The HSBC demand loan to fund foreign forward exchange contracts was also increased from \$3,125,000 to \$3,795,000. At June 30, 2010 the prime rate was 2.50% and the US base rate was 3.25%.

The collateral security lodged by the Company to support all debt held with HSBC Bank Canada is a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and its subsidiaries, a floating charge over all of the Company and its subsidiaries' present and after acquired real property, a demand collateral land mortgage and assignment of rents in the amount of \$2,000,000 from the Company creating a first fixed and specific mortgage charge over all of the lands and premises, \$5,000,000 guarantee of HSBC Capital Canada Inc., assignment of all risk insurance on the Company's real and personal property and guarantees of related parties. There were no changes to the Company's debt covenants except for the Company's total debt to tangible net worth covenant is to be reduced from 2.75 to 1 to 2.50 to 1 on June 30, 2011 (previously June 30, 2010).

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5. Promissory notes payable

	June 30	December 31
	2010	2009
Promissory notes payable, bearing interest at 6% per annum, repayable in installments as follows: \$1,000,000 plus interest on October 29, 2009, \$1,000,000 plus interest on October 29, 2010, and \$1,000,000 plus interest on October 29, 2011, secured by a general security agreement covering all the assets of the Company.	\$ 3,089,260	\$ 3,244,356
Promissory note payable, bearing interest at 6% per annum, repayable in installments as follows: \$11,000,000 plus interest on completion of the amalgamation, \$1,000,000 plus interest on May 19, 2008, \$1,000,000 plus interest on May 20, 2009, and \$1,200,000 plus interest on May 20, 2010, secured by a general security agreement covering all the assets of the Company.	2,215,129	2,281,340
	5,304,389	5,525,696
Less: current portion	1,104,389	325,696
	\$ 4,200,000	\$ 5,200,000

The \$1,000,000 promissory note principal payment due May 2009, previously postponed at the request of the Company's lender, has been reclassified to current as at June 30, 2010 and payment of this amount is expected within the year. The \$1,000,000 promissory note principal payment due in October 2009, previously postponed at the request of the Company's lender, remains postponed at June 30, 2010. The principal installments scheduled for 2010 will not be paid within the year and therefore remain classified as long-term. The interest on the promissory notes will be paid within the next year and has been recorded as a current liability.

Expected principal repayments over the next five years are as follows:

2010	\$ 1,000,000
2011	1,200,000
2012	1,000,000
2013	1,000,000
2014	1,000,000
	\$ 5,200,000

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6. Share capital

Authorized

Unlimited number of voting common shares
Unlimited number of preferred shares, issuable in series

Issued and outstanding common shares	Number	Amount
Balance, December 31, 2009	14,381,786	\$ 15,156,254
Shares repurchased and cancelled	(634,400)	(666,120)
Balance, June 30, 2010	13,747,386	\$ 14,490,134

On December 17, 2009, the Company renewed its Normal Course Issuer Bid (“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. At June 30, 2010, 766,800 shares had been repurchased for cancellation under the renewed NCIB for cash consideration of \$628,118. The excess of the carrying amount over the repurchase price has been credited to contributed surplus.

Options to employees and directors

	Number of options	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, December 31, 2009	1,286,000	\$ 1.97	2.17
Forfeitures	(16,000)	2.10	2.55
Outstanding, June 30, 2010	1,270,000	\$ 1.96	1.72
Options exercisable, June 30, 2010	1,166,665	\$ 2.00	1.63

During the six month period ended June 30, 2010, 16,000 options were forfeited under the Plan at a total fair value of \$7,327.

7. Contributed surplus

	June 30 2010	December 31 2009
Balance, beginning of period	\$ 1,014,175	\$ 855,454
Repurchase of common shares	148,316	28,707
Fair value of stock options granted to employees and directors	63,659	130,014
Balance, end of period	\$ 1,226,150	\$ 1,014,175

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8. Stock based compensation

Compensation expense arising from the options granted in the period is recognized over the vesting period. Stock-based employee compensation expense of \$16,710 was recognized during the three month period ended June 30, 2010 (June 30, 2009 – \$36,724) and totalled \$63,659 for the six month period ended June 30, 2010 (June 30, 2009 - \$73,224). The expense was recorded in salaries and employee benefits expense with a corresponding increase to contributed surplus.

9. Inventory write-up

Under CICA Handbook Section 3031, the Company is permitted to adjust inventory up to lower of net realizable value or original cost on previously written down inventory. The reversal of any write down of inventory arising from an increase in net realizable value shall be recognized as a reduction in cost of sales in the period in which the reversal occurred. During the three and six month periods ended June 30, 2010, the Company reversed previously recorded inventory provisions in the amount of \$694,191 and \$864,861 respectively (June 30, 2009 - \$nil and \$nil). Due to continued volatile commodity prices on steel, the Company did not adjust all inventories previously written down.

10. Related party transactions

The related party transactions are conducted on the terms and conditions agreed to by the related parties and are recorded at their exchange amounts. Interest on the promissory notes payable is recorded at the exchange amount.

During the three month and six month period, the Company incurred selling, general and administration expenses in the normal course of operations with an affiliated company, which a certain director and officer has significant influence, as follows:

- a) Management and other advisory services of \$30,000 and \$60,000 respectively (June 30, 2009 – \$30,000 and \$60,000).
- b) Accounting, administrative and corporate expenses of \$9,156 and \$18,312 (June 30, 2009 – \$11,645 and \$20,795).

The Company expensed interest of \$33,000 and \$66,000 respectively (June 30, 2009 - \$33,000 and \$66,000) on promissory notes payable issued in 2006 which are held by two of the Company's directors, officers and significant shareholders. In addition, the Company expensed \$44,877 and \$89,261 (June 30, 2009 - \$44,877 and \$89,261) on promissory notes payable issued on the fiscal 2008 acquisition of Bri-Chem Steel Corporation ("Bri-Chem Steel"), which are held by three of the former owners of Bri-Chem Steel. These expenses have been included in interest on long term debt and added to the balance of the promissory notes payable.

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Notes to the Interim Consolidated Financial Statements
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11. Commitments

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

2011	\$ 1,077,367
2012	974,052
2013	953,423
2014	926,880
2015	926,880
	<hr/>
	\$ 4,858,602

12. Capital risk management

Management's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on the Company's debt and credit facilities and to preserve financial flexibility in order to benefit from potential opportunities that may arise. The Company includes bank indebtedness, long-term debt, promissory notes payable, obligations under capital lease and shareholders' equity in the definition of capital. The Company uses a combination of debt and equity financings to help it achieve its objectives. The percentage levels of each capital component may change as the entity attempts to take advantage of prevailing market conditions.

The Company is not subjected to capital requirements imposed by a regulator.

For the three and six months ended June 30, 2010, the Company was in compliance with all financial debt covenants. The Company monitors these requirements on a monthly basis. Changes in certain key ratios are as follows:

	June 30	December 31
	2010	2009
Current ratio	1.59	1.40
Debt service ratio	1.65	1.35
Total debt to tangible net worth	1.59	2.11

Current ratio is defined as current assets divided by current liabilities.

Debt service ratio is defined as the ratio of adjusted EBITDA less cash income taxes and unfunded capital expenditures for the trailing four quarters divided by the principal, interest and other fixed obligations, including EBITDA bonuses and any payments owed under promissory notes payable for the same trailing four quarters. Normalized Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is EBITDA plus non-cash items and is a measure that does not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures by other companies.

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12. Capital risk management (cont'd)

Total debt to tangible net worth ratio is defined as the ratio of total liabilities of the Company less postponement of long term portion of the promissory notes payable and long term portion of subordinated debt divided by total equity of the Company less intangible assets and goodwill plus any postponement of promissory notes payable and long term portion of subordinated debt.

13. Financial 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, long-term debt and obligations under capital lease.

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 three largest customers accounted for approximately 15%, 14% and 8% respectively of revenue for the three month period ended June 30, 2010 (14%, 9% and 7% for the twelve months ended December 31, 2009) and 22%, 17% and 13% respectively (December 31, 2009 – 19%, 13%, 11%) of total accounts receivable.

The Company manages its credit risk through the credit application process and through an extensive collections process. The Company maintains an allowance for estimated credit losses on accounts receivable. The estimate is based on the best assessment of the collectability of the related receivable balances based, in part, on the age of the outstanding accounts receivable and on the Company's historical collection and loss experience and other economic information. For the three months ended June 30, 2010, the Company has recorded an allowance for doubtful accounts of \$nil (December 31, 2009 - \$169,491). The allowance is an estimate of the June 30, 2010 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended June 30, 2010 consisted of trade accounts receivable balances written off of \$81,939.

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

Bri-Chem Corp.
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13. Financial instruments (cont'd)

The aging of accounts receivable was as follows:

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

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

Interest rate risk

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

The effective interest rate on the bank indebtedness balance at June 30, 2010 was Canadian bank prime interest rate plus 100 basis points (3.5%). The long-term debt bears interest at bank prime plus a fixed increment. As at June 30, 2010, with other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately \$41,826 (June 30, 2009 - \$52,265).

Currency risk

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

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

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13. Financial instruments (cont'd)

Currency risk (cont'd)

The Company entered into two foreign exchange forward contracts in the six months ended June 30, 2010, both which matured in April 2010, with a contractual nominal value of US \$2 million. At June 30, 2010, the fair value of the foreign exchange contracts includes a \$19,000 loss recorded in selling, general and administration expenses.

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 re-pricing of credit risk and the current weak economic conditions have made, and will likely continue to make it difficult to obtain financing. 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 financing will be available when needed and to the extent required, on acceptable terms.

If financing 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.

Commodity risk

Commodity risk arises from the effect the fluctuations of future commodity prices of steel and certain chemicals 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.

Fair value of financial instruments

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 forward contracts, 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 approximate the carrying values as the interest rates are similar to the 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 similar debt.

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13. Financial instruments (cont'd)

Fair value of financial instruments (cont'd)

June 30, 2010	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Other financial liabilities:				
Long-term debt*	\$ 3,476,925	\$ -	\$ 3,476,925	\$ -
Promissory notes payable*	5,304,389	-	5,179,374	-
Obligations under capital lease*	115,357	-	115,357	-

* including current portion

December 31, 2009	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Other financial liabilities:				
Long-term debt*	\$ 3,794,484	\$ -	\$ 3,794,484	\$ -
Promissory notes payable*	5,525,696	-	5,353,135	-
Obligations under capital lease*	188,201	-	188,201	-

* including current portion

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

14. Segmented information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief decision makers in allocating resources and assessing performance. The Company operates in two business segments based on type of products sold. The fluids segment includes the sale of fluids and chemical additives to the resource and industrial markets. The steel product segment includes the sale of tubular steel products to the resource, industrial and construction industries.

Accounting policies for each of these business segments are the same as those disclosed in the Company's annual consolidated financial statements. General and administrative expenses directly related to the operating segments are included as operating expenses for those segments. There are no significant inter-segment revenues.

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14. Segmented information (cont'd)

Selected financial information by reportable segment is disclosed as follows:

Three months ended				
June 30, 2010	Fluids	Steel	Corporate	Consolidated
Sales	\$ 14,484,918	\$ 7,708,715	\$ -	\$ 22,193,633
Segment earnings (loss) from operations	1,099,897	(365,195)	(49,135)	685,567
Amortization	203,900	17,062	6,909	227,871
Interest expense (income)	406,793	145,609	(152,934)	399,468
Earnings (loss) before income taxes	489,204	(527,866)	96,890	58,229
Income taxes (recovery)	170,990	(154,188)	(494)	16,308
Segment profit (loss)	\$ 318,216	\$ (373,678)	\$ 97,384	\$ 41,921
Intangible assets	\$ 737,320	\$ 314,737	\$ -	\$ 1,052,057
Total assets	45,546,682	16,917,175	995,581	63,459,438
Capital expenditures (excluding business acquisitions)	28,730	-	-	28,730
Three months ended				
June 30, 2009	Fluids	Steel	Corporate	Consolidated
Sales	\$ 6,867,958	\$ 3,250,509	\$ -	\$ 10,118,467
Segment earnings (loss) from operations	321,989	(290,161)	(328,211)	(296,383)
Amortization	49,302	343,631	9,445	402,378
Interest expense (income)	360,938	227,767	(98,955)	489,750
Loss before income taxes	(88,251)	(861,559)	(238,701)	(1,188,511)
Income taxes (recovery)	(110,099)	(165,348)	(65,421)	(340,868)
Segment (loss) profit	\$ 21,848	\$ (696,211)	\$ (173,280)	\$ (847,643)
Intangible assets	\$ 1,225,265	\$ 2,285,000	\$ -	\$ 3,510,265
Goodwill	1,081,445	3,646,855	-	4,728,300
Total assets	40,028,758	37,312,325	1,260,052	78,601,135
Capital expenditures (excluding business acquisitions)	7,514	95,097	-	102,611

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14. Segmented information (cont'd)

Six months ended				
June 30, 2010	Fluids	Steel	Corporate	Consolidated
Sales	\$ 47,606,990	\$ 18,551,469	\$ -	\$ 66,158,459
Segment earnings (loss) from operations	4,972,988	(9,455)	(108,635)	4,854,898
Amortization	361,451	78,320	13,818	453,589
Interest expense (income)	799,914	275,462	(261,926)	813,450
Earnings (loss) before income taxes	3,811,623	(363,237)	139,473	3,587,859
Income taxes (recovery)	1,122,505	(101,706)	(13,709)	1,007,090
Segment profit (loss)	\$ 2,689,118	\$ (261,531)	\$ 153,182	\$ 2,580,769
Intangible assets	\$ 737,320	\$ 314,737	\$ -	\$ 1,052,057
Total assets	45,546,682	16,917,175	995,581	63,459,438
Capital expenditures (excluding business acquisitions)	114,333	43,131	-	157,464
Six months ended				
June 30, 2009	Fluids	Steel	Corporate	Consolidated
Sales	\$ 23,070,709	\$ 17,384,859	\$ -	\$ 40,455,568
Segment earnings (loss) from operations	1,645,644	1,264,751	(800,239)	2,110,156
Amortization	402,665	499,691	18,891	921,247
Interest expense (income)	1,596,361	916,158	(1,340,868)	1,171,651
(Loss) earnings before income taxes	(353,382)	(151,098)	521,738	17,258
Income taxes (recovery)	(221,648)	75,333	151,233	4,918
Segment (loss) profit	\$ (131,734)	\$ (226,431)	\$ 370,505	\$ 12,340
Intangible assets	\$ 1,225,265	\$ 2,285,000	\$ -	\$ 3,510,265
Goodwill	1,081,445	3,646,855	-	4,728,300
Total assets	40,028,758	37,312,325	1,260,052	78,601,135
Capital expenditures (excluding business acquisitions)	197,532	358,994	-	556,526

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14. Segmented information (cont'd)

For the three months ended June 30	2010	2009
Sales		
Canada and International	\$ 20,309,296	\$ 9,808,144
United States	1,884,337	310,323
	\$ 22,193,633	\$ 10,118,467
Sales		
Canada and International	\$ 62,319,480	\$ 36,659,935
United States	3,838,979	3,795,634
	\$ 66,158,459	\$ 40,455,569

Total assets, property and equipment, and intangibles related to United States operations were not significant and therefore have been included in Canada operations.

15. Subsequent events

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

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

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