Bri-Chem Corp.
Second Quarter Interim Report
June 30, 2011
(unaudited)

Contents

Bri-Chem Corp.
Consolidated Statements of Operations
(Expressed in Canadian dollars)
(unaudited)

	June 30 (three months ended) 2011	June 30 (three months ended) 2010 (Note 20)	June 30 (six months ended) 2011	June 30 (six months ended) 2010 (Note 20)
Sales	**$ 25,770,316**	$ 22,193,633	**$ 76,417,804**	$ 66,158,459
Cost of sales	**21,276,572**	18,962,442	**64,248,950**	56,575,969
Gross margin	**4,493,744**	3,231,191	**12,168,854**	9,582,490
Gross margin (%)	**17.4%**	14.6%	**15.9%**	14.5%
Expenses				
Salaries and benefits	**1,645,832**	1,446,970	**3,304,459**	3,049,332
Selling, general and administration	**1,474,536**	1,020,727	**3,110,599**	2,068,805
Foreign exchange (gain) loss	**(46,028)**	159,454	**(51,418)**	(428,141)
Interest on short-term operating debt	**458,456**	230,950	**909,858**	478,072
Interest on long-term debt	**103,782**	166,580	**250,744**	332,417
Amortization on property and equipment	**152,842**	122,395	**262,917**	242,651
Amortization on intangible assets	**99,587**	81,573	**184,928**	163,420
Interest on obligations under finance lease	**10,442**	1,938	**12,465**	2,961
	3,899,449	3,230,587	**7,984,552**	5,909,517
Earnings before income taxes	**594,295**	604	**4,184,302**	3,672,973
Income tax expense (recovery)				
Current	**265,991**	145,638	**1,334,985**	1,154,837
Deferred	**(108,453)**	(129,330)	**(219,896)**	(147,746)
	157,538	16,308	**1,115,089**	1,007,091
Net earnings (loss)	**$ 436,757**	$ (15,704)	**$ 3,069,213**	$ 2,665,882
Earnings (loss) attributable to:				
Shareholders of the Company	**$ 527,098**	$ (15,704)	**$ 3,242,775**	$ 2,665,882
Non-controlling interest (Note 15)	**(90,341)**	-	**(173,562)**	-
	$ 436,757	$ (15,704)	**$ 3,069,213**	$ 2,665,882
Earnings per share (Note 16)				
Basic	**$ 0.03**	$ -	**$ 0.21**	$ 0.19
Diluted	**$ 0.03**	$ -	**$ 0.20**	$ 0.19

Bri-Chem Corp.
Consolidated Statements of Comprehensive Income (Loss)
(Expressed in Canadian dollars)
(unaudited)

	June 30 (three months ended)		June 30 (six months ended)	
	2011	2010	**2011**	2010
		(Note 20)		(Note 20)
Net earnings (loss)	**$ 436,757**	$ (15,704)	**$3,069,213**	$ 2,665,882
Other comprehensive loss, net of tax				
Foreign currency translation adjustment	**(18,404)**	-	**(18,404)**	-
Comprehensive income (loss)	**$ 418,353**	$ (15,704)	**$3,050,809**	$ 2,665,882
Comprehensive income (loss) attributable to:				
Shareholders of the Company	**$ 508,694**	$ (15,704)	**$3,224,371**	$ 2,665,882
Non-controlling interest (Note 15)	**(90,341)**	-	**(173,562)**	-
	$ 418,353	$ (15,704)	**$3,050,809**	$ 2,665,882

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Consolidated Balance Sheets
(Expressed in Canadian dollars)
(unaudited)

		June 30 2011		December 31 2010
Assets				(Note 20)
Current				
Accounts receivable	**$**	**28,934,072**	$	46,727,925
Inventories		**45,857,857**		42,414,115
Prepaid expenses and deposits		**2,106,626**		5,025,888
Income taxes receivable		**173,759**		-
		77,072,314		94,167,928
Non-current				
Property and equipment		**6,643,657**		3,684,771
Intangible assets (Note 7)		**1,235,837**		614,109
Goodwill (Note 8)		**539,755**		-
Deferred tax assets		**620,671**		299,631
Other long-term receivables		**2,657**		-
	$	**86,114,891**	$	98,766,439
Liabilities				
Current				
Bank indebtedness	**$**	**31,584,029**	$	39,552,948
Accounts payable and accrued liabilities		**14,300,777**		25,053,083
Customer deposits		**74,752**		294,638
Current portion of promissory notes payable (Note 9)		**29,918**		2,391,625
Current portion of long-term debt		**1,482,708**		866,913
Current portion of obligations under finance lease (Note 10)		**176,639**		26,722
Income taxes payable		**-**		2,455,289
		47,648,823		70,641,218
Non-current				
Promissory notes payable (Note 9)		**2,337,577**		1,994,082
Long-term debt		**1,209,734**		2,151,281
Obligations under finance lease (Note 10)		**605,475**		65,849
Other long-term liabilities		**27,350**		-
Deferred tax liabilities		**480,286**		236,955
		52,309,245		75,089,385
Equity				
Share capital (Note 12)		**21,763,037**		14,451,480
Contributed surplus		**987,464**		1,079,488
Warrants (Note 13)		**88,200**		229,950
Non-controlling interest (Note 15)		**(206,973)**		(33,411)
Retained earnings		**11,192,322**		7,949,547
Accumulated other comprehensive (loss)		**(18,404)**		-
		33,805,646		23,677,054
	$	**86,114,891**	$	98,766,439

Post-reporting date events (Note 21)

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)
(unaudited)

	Share capital	Contributed surplus	Warrants	Accumulated other compensive loss	Retained earnings	Total attributed to: The Company	Total attributed to: Non-controlling interest	Total equity
Balance at January 1, 2011	$ 14,451,480	$ 1,079,488	$ 229,950	$ -	$ 7,949,547	$ 23,710,465	$ (33,411)	**$ 23,677,054**
Issue of share capital under share-based payment	693,109	(207,329)	-	-	-	485,780	-	**485,780**
Issue of share capital under warrants	641,750	-	(141,750)	-	-	500,000	-	**500,000**
Employee share-based payment options	-	18,289	-	-	-	18,289	-	**18,289**
Consultant share-based payment options	-	97,016	-	-	-	97,016	-	**97,016**
Issue of share capital under financing, net of tax	5,488,447	-	-	-	-	5,488,447	-	**5,488,447**
Issue of share capital for acquisition (Note 6)	488,251	-	-	-	-	488,251	-	**488,251**
Net earnings	-	-	-	-	3,242,775	3,242,775	(173,562)	**3,069,213**
Other comprehensive loss	-	-	-	(18,404)	-	(18,404)	-	**(18,404)**
Balance at June 30, 2011	$ 21,763,037	$ 987,464	$ 88,200	$ (18,404)	$ 11,192,322	$ 34,012,619	$ (206,973)	**$ 33,805,646**

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)
(unaudited)

						Total attributed to:		
	Share capital	Contributed surplus	Warrants	Retained earnings		The Company	Non-controlling interest	Total equity
Balance at January 1, 2010	$ 15,156,254	$ 826,124	$ 188,050	$ 820,377		$ 16,990,805	$ -	**$ 16,990,805**
Repurchase of share capital under Normal Course Issuer Bid	(666,120)	148,316	-	-		(517,804)	-	**(517,804)**
Employee share-based payment options	-	63,660	-	-	-	63,660	-	**63,660**
Net earnings	-	-	-	2,665,882	-	2,665,882	-	**2,665,882**
Balance at June 30, 2010	$ 14,490,134	$ 1,038,100	$ 188,050	$ 3,486,259		$ 19,202,543	$ -	**$ 19,202,543**

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(unaudited)

For the six months ended		June 30 2011		June 30 2010
				(Note 20)
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings	**$**	**3,069,213**	$	2,665,883
Non-cash items:				
Amortization on property and equipment		**262,917**		242,651
Amortization on intangible assets		**184,928**		163,420
Amortization of debt related transaction costs		**34,838**		45,256
Future income tax recovery		**(219,896)**		(147,746)
Stock-based compensation		**18,789**		63,659
Loss on sale of property and equipment		**-**		4,982
		3,350,789		3,038,105
Change in non-cash working capital		**4,559,688**		6,354,142
		7,910,477		9,392,247
Financing activities				
Advances on promissory notes payable		**106,229**		155,049
Repayments of operating line		**(8,195,485)**		(8,060,919)
Repayment of promissory notes payable		**(2,462,020)**		(376,356)
Repayment of long-term debt		**(360,590)**		(362,815)
Proceeds on issuance of shares (Note 12)		**6,433,047**		-
Repayment of obligations under finance lease		**(100,713)**		(72,844)
Repurchase of common shares		**-**		(517,804)
		(4,579,532)		(9,235,689)
Investing activities				
Purchase of property and equipment		**(2,355,364)**		(151,058)
Purchase of intangible assets		**(6,981)**		(20,000)
Proceeds on disposal of property and equipment		**-**		14,500
Cash paid on acquisition (Note 6)		**(968,600)**		-
		(3,330,945)		(156,558)
Net increase in cash and cash equivalents		**-**		-
Cash and cash equivalents, beginning of period		**-**		-
Cash and cash equivalents, end of period	**$**	**-**	$	-

Supplemental cash flow information:				
Interest paid	**$**	**1,256,501**	$	1,020,943
Income taxes paid	**$**	**1,345,382**	$	398,768

1. Nature of operations

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 and steel products and services to the energy, construction and industrial sectors.

2. Basis of presentation

The Company is required to present the annual audited Consolidated Financial Statements for the year ended December 31, 2011 under International Financial Reporting Standards ("IFRS"). In conjunction with this, these interim Consolidated Financial Statements present the Company's financial results of operations and financial position under IFRS as at and for the three months and six months ended June 30, 2011, including 2010 comparative periods. They have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These interim Consolidated Financial Statements do not include all the necessary annual disclosures in accordance with IFRS. The exemptions applied by the Company and the effects of transition to IFRS on the comparative statements presented herein are reconciled in Note 20.

3. New accounting policies

These interim financial statements have been prepared in accordance with the accounting policies adopted in the Company's interim financial statements for the three months ended March 31, 2011, except the following:

Foreign currency translation

For the accounts of foreign operations with the US dollar as the functional currency, assets and liabilities are translated into Canadian dollars, which is the presentation currency at period end exchange rates, while revenues and expenses are translated using average rates over the period, which approximate the rate on the transaction date. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive loss as a separate component of shareholder's equity. As at June 30, 2011, accumulated other comprehensive loss is comprised solely of foreign currency translation adjustments.

Decommissioning liabilities

Decommissioning liabilities include present obligations where the Company will be required to retire tangible long-lived assets from its Steel Manufacturing segment. The decommissioning liabilities are measured at the present value of the expenditure expected to be incurred. The associated asset decommissioning cost is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and the related asset decommissioning cost.

3. New accounting policies (cont'd)

Impairment testing of goodwill

Upon acquisition, goodwill is allocated to the applicable cash-generating unit ("CGU") or aggregated cash-generating units that are expected to benefit from the business combination's synergies. Goodwill is assessed for impairment annually or more frequently if there are indications that impairment may have occurred. Goodwill impairment is tested at the GGU level. To assess impairment, the recoverable amount of the CGU to which the goodwill relates is compared to the carrying amount of that CGU. The recoverable amounts are determined based on the greater of its fair value less costs to sell or value in use. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued operation of the CGU. If the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in net earnings. An impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU. Goodwill impairments are not reversed.

4. Changes in accounting policies

Inventory costing

Effective January 1, 2011, the Company converted its cost measurement method for the steel distribution segment from a first-in first-out method to a weighted average cost method. This method is more consistent with industry practices and will provide a more accurate representation of the cost of materials sold at any given point in time by reducing the effects of commodity price risk.

The change in inventory costing method was applied retrospectively to increase (decrease) the following line items below and further disclosed in Note 20 and in the March 31, 2011 interim consolidated financial statements.

	Opening balance January 1, 2010	Three months ended June 30, 2010	Six months ended June 30, 2010	Year ended December 31, 2010
Opening retained earnings	$ (115,960)	$ 6,367	$ (115,960)	$ (115,960)
Cost of sales	-	78,325	(44,002)	(88,279)
Inventory	(115,960)	(71,958)	(71,958)	(27,682)

Recent pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

The Company will be required to adopt the first phase of IFRS 9 – Financial Instruments as of January 1, 2013. The new standard was issued as part of the IASB plan to replace IAS 39 – Financial Instruments with a more robust set of standards for the reporting of financial instruments used by the Company. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

5. 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 Basis ("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.

6. Business combination

On April 8, 2011, the Company incorporated Bri-Corp USA, Inc ("Bri-Corp") in the state of Delaware, USA for the purpose of holding the Company's US operations. Effective June 1, 2011, Bri-Corp acquired all of the outstanding ownership interests in each of Stryker Ltd., a Colorado limited liability fluid wholesale distribution business, and Stryker Transportation Ltd., a Colorado limited liability transportation and long-haul business. The acquisition was completed to enhance the Company's presence in the US fluids market.

The ownership interests were acquired for a total purchase price of $1,906,735, including 171,429 common shares at a fair market value of $488,251.

Upon acquisition, Stryker Ltd. was renamed Bri-Chem Supply Corp.

This acquisition has been accounted for using the acquisition method of accounting and the results of operations have been included in these interim consolidated financial statements from the date of acquisition. The cost of the purchase price has been allocated to the net identifiable assets based on their estimated fair values at the date of the acquisition as follows:

Current assets	$	1,748,956
Property and equipment		519,131
Other assets		89,940
Intangible assets		803,066
Goodwill		542,048
Bank indebtedness		(227,527)
Current liabilities		(849,097)
Obligations under capital lease		(438,709)
Deferred tax liability		(281,073)
	$	**1,906,735**

The components of the purchase price were as follows:

Cash	$	968,600
Promissory note		339,010
171,249 common shares of the Company		488,251
Closing working capital adjustment payable		110,874
	$	**1,906,735**

6. Business combination (cont'd)

The interim purchase price allocation is based on management's best estimate and is subject to change as new information becomes available. The purchase price allocation has not been finalized at the reporting date.

The 171,249 common shares were issued as part of the purchase price at a price of $2.85 with an estimated fair value of $488,251. The fair value of the common shares is based on the share price on the date of issue and were then adjusted based on discount factors ranging from 10% to 25% to consider sale restrictions. The transaction costs of the acquisition include legal and consulting fees related to the acquisition and are expensed in the period incurred and included in selling, general and administration expenses. The promissory notes payable bears interest at 6% per annum, and is repayable in June 2012.

The purchase price allocated to intangible assets includes customer relationships ($586,100) and the non-competition agreement ($216,966). The intangible assets will be amortized over 5 years on a straight line basis. The goodwill recognized primarily represents future growth expectations, expected future profitability, the existing workforce, and expected cost synergies with the Company. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

The acquired companies incurred net income of $81,897 for the one month of operations included at June 30, 2011. Based on unaudited financial information available to management, if the companies had been acquired at January 1, 2011, revenue for the three and six months ended June 30, 2011 for the Company would have been $27,134,260 and $79,692,498 respectively. Net earnings would have been $446,644 and $3,148,801 for the three and six months ended June 30, 2011 had the acquisition been completed January 1, 2011.

7. Intangible assets

Intangible assets having finite lives consist of the following:

June 30, 2011

		Cost		Accumulated Amortization		Net Book Value
Customer relationships	**$**	**2,510,085**	**$**	**1,687,635**	**$**	**822,450**
Non-compete agreements		**589,605**		**344,970**		**244,635**
Computer software		**284,094**		**115,342**		**168,752**
	$	**3,383,784**	**$**	**2,147,947**	**$**	**1,235,837**

December 31, 2010

		Cost		Accumulated Amortization		Net Book Value
Customer relationships	$	1,923,985	$	1,545,108	$	378,877
Non-compete agreements		372,639		326,140		46,499
Computer software		280,504		91,771		188,733
	$	2,577,128	$	1,963,019	$	614,109

Changes in intangible asset balances in the period can be reconciled as follows:

		Customer relationships		Non-compete agreements		Computer software		Total
Cost								
Balance, January 1, 2010	$	1,923,985	$	372,639	$	243,796	$	2,540,420
Additions		-		-		36,708		36,708
Balance, December 31, 2010	$	1,923,985	$	372,639	$	280,504	$	2,577,128
Additions		-		-		3,590		3,590
Acquisitions through business combination		586,100		216,966		-		803,066
Balance, June 30, 2011	$	2,510,085	$	589,605	$	284,094	$	3,383,784
Accumulated amortization								
Balance, January 1, 2010	$	1,280,455	$	296,032	$	57,416	$	1,633,903
Amortization expense		264,653		30,108		34,355		329,116
Balance, December 31, 2010	$	1,545,108	$	326,140	$	91,771	$	1,963,019
Amortization expense		142,527		18,830		23,571		184,928
Balance, June 30, 2011	$	1,687,635	$	344,970	$	115,342	$	2,147,947

8. Goodwill

		June 30 2011		December 31 2010
Balance, beginning of period	$	-	$	-
Acquisitions through business combination (Note 6)		542,048		
Foreign exchange on translation		(2,293)		-
Balance, end of period	$	539,755	$	-

9. Promissory notes payable

		June 30 2011		December 31 2010
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.	$	2,029,918	$	3,180,000
Promissory note payable, bearing interest at 6% per annum, repayable as $350,000 US dollars plus interest on June 1, 2012, unsecured.		337,577		-
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.		-		1,205,707
		2,367,495		4,385,707
Less: current portion		29,918		2,391,625
	$	2,337,577	$	1,994,082

The $1,000,000 promissory note principal payment due in October 2010 and the $1,000,000 promissory note principal payment due in October 2011 have been postponed at the request of the Company's lender (see note 21 - post-reporting date events). The interest accrued on these amounts outstanding will be paid within the next year and has been classified as a current liability.

During the quarter, the Company issued $337,577 in promissory notes payable. The notes payable are unsecured, bear interest at 6% per annum and are repayable on June 1, 2012.

The $1,000,000 promissory note principal due in May 2010 was paid out May 18, 2011, including accrued interest.

10. Obligations under finance lease

The Company's future minimum finance lease payments are as follows:

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
June 30, 2011				
Lease payments	$ 213,743	$ 684,681	$ 16,861	$ 915,285
Finance charges	37,104	95,576	491	133,171
Net present value	$ 176,639	$ 589,105	$ 16,370	$ 782,114
December 31, 2010				
Lease payments	$ 31,997	$ 70,981	$ -	$ 102,978
Finance charges	5,275	5,132	-	10,407
Net present value	$ 26,722	$ 65,849	$ -	$ 92,571

The Company enters into financing lease arrangements for certain of its operating equipment. The average term of the finance lease entered into is 4.3 years. Finance lease liabilities are secured by the related assets held under finance leases. The fair value of the finance lease liabilities is approximately equal to their carrying amount.

11. Obligations under operating lease

11.1 The Company as Lessee

The Company's future minimum operating lease payments are as follows:

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
June 30, 2011	$ 1,995,919	5,795,933	1,853,760	$ 9,645,612
December 31, 2010	$ 1,694,932	5,114,953	2,317,200	$ 9,127,085

The Company leases a number of warehouse locations and office equipment under operating leases. Lease payments recognized as an expense during the period amounted to $547,063 (June 30, 2010 - $346,340). This amount consists of minimum lease payments.

The Company's operating lease agreements do not contain any contingent rent clauses, renewal or purchase options, or restrictions regarding further leasing or additional debt.

11.2 The Company as Lessor

The Company has leased property owned with a term of 2 years expiring December 31, 2011. In the period, the Company sub-leased additional property with a term of 8 years expiring June 30, 2019. The lessee does not have an option to purchase the property at the expiry of the lease term.

11. Obligations under operating lease (cont'd)

Non-cancellable operating lease income is as follows:

	Minimum lease income receivable					
		Within one year	Two to five years	After five years		Total
June 30, 2011	$	488,446	2,107,622	538,366	$	3,134,434
December 31, 2010	$	12,000	-	-	$	12,000

12. Share capital

Authorized

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

Issued and outstanding	**Number**		**Amount**
Common Shares			
Balance, January 1, 2010	**14,381,786**	**$**	**15,156,254**
Shares issued under stock options	**6,000**		**12,270**
Share repurchased and cancelled	**(682,900)**		**(717,044)**
Balance, December 31, 2010	**13,704,886**	**$**	**14,451,480**
Issuance of shares upon exercise of options	**289,312**		**693,109**
Issuance of shares upon exercise of warrants	**250,000**		**641,750**
Issuance of shares under finanacing, net of tax and share issue costs	**2,000,000**		**5,488,447**
Issuance of shares for acquisition (Note 6)	**171,429**		**488,251**
Balance, June 30, 2011	**16,415,627**	**$**	**21,763,037**

a) On August 29, 2008, the Company issued 1,304,348 shares with a fair value of $2,260,000 for the purchase of shares of Bri-Chem Steel Corporation. The following resale restrictions exist on the following shares:

434,782 common shares with resale restrictions expiring August 30, 2011

b) On February 23, 2011, the Company issued 2,000,000 common shares for gross proceeds of $6,000,000 under an equity financing arrangement. In consideration for services related to the offering, the Company paid Macquarie Private Wealth Inc. ("the Agent") a fee equal to 6% of the gross proceeds of the offering, totalling an aggregate commission of $360,000, plus a corporate finance fee of $30,000 plus tax. The Agent also received non-transferrable agent options equal to 7% of the number of shares sold under the offering. Upon closing of the offering, 140,000 non-transferable agent options were issued to the Agent at a fair value of $105,000, entitling the agent to purchase one Bri-Chem common share, at a price of $3.00 per share, with an expiry date of August 22, 2012.

12. Share capital (cont'd)

c) On May 31, 2011, the Company issued 171,429 shares with a fair value of $488,251 for the purchase of the outstanding ownership interests of Stryker Ltd. and Stryker Transportation Ltd. The following resale restrictions exist on the following shares:

57,143 common shares with resale restrictions expiring May 31, 2012
57,143 common shares with resale restrictions expiring May 31, 2013
57,143 common shares with resale restrictions expiring May 31, 2014

13. Share-based payments

13.1 Share-based payment plan

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, consultants and employees of the Company and its affiliates. The expiry date and price payable upon the exercise of any option granted are fixed by the Board of Directors at the time of grant, subject to regulatory requirements. Options granted under the plan are vested under such times as determined by the Board of Directors, subject to regulatory requirements. On April 28, 2011 the directors of the Corporation approved amendments to the current plan including an increase in the fixed number of common shares reserved for issuance under the plan by 178,559. As at June 30, 2011, the Plan permits the authorization to grant stock options up to a maximum of 1,578,559 common shares of the Company. All share-based employee remuneration will be settled in equity.

A summary of transactions during the period is outlined below.

13.2 Options to employees and directors

June 30, 2011	Number of options		Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2011	1,288,000	$	1.74	3.15
Exercised	(278,000)		1.72	0.84
Outstanding, June 30, 2011	1,010,000	$	1.92	1.45
Options exercisable, June 30, 2011	1,010,000	$	1.92	1.45

13. Share-based payments (cont'd)

13.2 Options to employees and directors (cont'd)

December 31, 2010	Number of options		Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2010	1,286,000	$	1.97	4.00
Granted	30,000		1.30	4.65
Exercised	(6,000)		1.12	1.00
Forfeited	(22,000)		1.83	4.00
Outstanding, December 31, 2010	1,288,000	$	1.96	3.15
Options exercisable, December 31, 2010	1,240,000	$	1.96	3.00

During the three and six month periods ended June 30, 2011, $7,314 and $18,289 respectively (June 30, 2010 - $26,823 and $83,885) was expensed in relation to the stock option plan to employees and directors.

13.3 Options to consultants

June 30, 2011	Number of options		Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2011	25,000	$	2.05	1.59
Granted	140,000		3.00	1.34
Exercised	(11,312)		3.00	1.23
Outstanding, June 30, 2011	153,688	$	2.85	1.39
Options exercisable, June 30, 2011	153,688	$	2.85	1.39

The fair value of the consultant options granted during the six month period were estimated to be $105,000, based on the value of services provided in return for the options issued. The options have an expected life of one and a half years and no forfeitures are expected to occur.

December 31, 2010	Number of options		Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2010	-	$	-	-
Granted	25,000		2.05	2.00
Outstanding, December 31, 2010	25,000	$	2.05	1.59
Options exercisable, December 31, 2010	8,330	$	2.05	1.59

13. Share-based payments (cont'd)

13.4 Warrants

a) As part of the consideration given for the acquisition of Spirit Mountain Holdings Ltd., the Company issued 100,000 share purchase warrants with a fair value of $46,344. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of $2.10 per common share, as negotiated between the parties to the transaction from July 17, 2007, expiring July 17, 2010.

In July 2010, the Company extended the 100,000 share purchase warrants for an additional two years. The warrants were extended at an exercise price of $2.10 per common share with an incremental increase in the fair value of the warrants as a result of the extension of $41,900.

b) Pursuant to the terms of the loan agreement with HSBC Capital, the Company issued 250,000 share purchase warrants with a fair value of $141,706 to the lender. Each share purchase warrant entitles the lender to purchase one common share of the Company at a price of $2.00 per common share from January 30, 2007, expiring January 30, 2010. In December 2009, the Company extended the 250,000 share purchase warrants for an additional two years. The warrants were extended at an exercise price of $2.00 with an immaterial change in the fair value of the warrants as a result of the extension. The warrants were exercised on June 2, 2011.

The following is a summary of the warrant activities during the period:

	Number of warrants	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2010	350,000	$ 2.03	2.56
Outstanding, December 31, 2010	350,000	2.03	1.21
Exercised	(250,000)	2.00	1.00
Outstanding, June 30, 2011	100,000	$ 2.10	0.97
Exercisable, June 30, 2011	100,000	$ 2.10	0.97

14. Segment reporting

The measurement policies the Company uses for segment reporting are the same as those used in its financial statements. General and administrative expenses directly related to the segments are included as operating expenses for those segments. There are no significant inter-segment revenues in the period.

The Company has four reportable segments: Fluids, Steel Distribution, Steel Manufacturing and Other. The Fluids segment includes one month of operations of Bri-Chem Supply Corp. (Note 6). The Other segment includes one month of operations of Stryker Transportation Ltd (Note 6) and all remaining costs not directly attributable to a reportable operating segment.

Selected financial information by reportable segment is disclosed as follows:

14. Segment reporting (cont'd)

(three months ended) June 30, 2011	**Fluids**	**Steel Distribution**	**Steel Manufacturing**	**Other**	**Consolidated**
Revenues from external customers	$ 18,239,169	$ 7,393,207	$ -	$ 137,940	**$ 25,770,316**
Cost of sales	15,109,344	6,094,911	-	72,317	**21,276,572**
Segment earnings (loss) from operations	1,516,190	344,748	(373,882)	(67,652)	**1,419,404**
Amortization	159,170	38,170	25,345	29,744	**252,429**
Interest expense (income)	1,162,916	(142,622)	7,846	(455,460)	**572,680**
Income tax expense (recovery)	46,186	112,992	(84,217)	82,577	**157,538**
Segment profit (loss)	$ 147,918	$ 336,208	$ (322,856)	$ 275,487	**$ 436,757**
Segment assets	$ 60,939,796	$ 18,537,928	$ 4,215,091	$ 2,422,076	**$ 86,114,891**
Capital expenditures	$ 110,765	$ 90,500	$ 880,512	$ -	**$ 1,081,777**

(three months ended) June 30, 2010	**Fluids**	**Steel Distribution**	**Other**	**Consolidated**
Revenues from external customers	$ 14,484,918	$ 7,708,715	$ -	**$ 22,193,633**
Cost of sales	11,874,902	7,087,540	-	**18,962,442**
Segment earnings (loss) from operations	1,096,695	(443,520)	(49,135)	**604,040**
Amortization	179,997	17,062	6,909	**203,968**
Interest expense (income)	406,793	145,609	(152,934)	**399,468**
Income taxes (recovery)	170,990	(154,188)	(494)	**16,308**
Segment profit (loss)	$ 338,915	$ (452,003)	$ 97,384	**$ (15,704)**
Segment assets	$ 45,234,193	$ 16,845,217	$ 995,581	**$ 63,074,991**
Capital expenditures	$ 28,730	$ -	$ -	**$ 28,730**

The Steel Manufacturing segment did not exist at June 30, 2010 thus no comparatives are provided at that date. There are no significant inter-segment revenues for the periods ended June 30, 2011 or June 30, 2010.

14. Segment reporting (cont'd)

(six months ended) June 30, 2011	Fluids	Steel Distribution	Steel Manufacturing	Other	Consolidated
Revenues from external customers	$ 61,576,005	$ 14,703,859	$ -	$ 137,940	**$ 76,417,804**
Cost of sales	51,672,251	12,504,382	-	72,317	**64,248,950**
Segment earnings (loss) from operations	6,681,314	282,342	(746,252)	(412,190)	**5,805,214**
Amortization	309,209	74,375	30,652	33,609	**447,845**
Interest expense (income)	2,257,050	(212,955)	10,225	(881,253)	**1,173,067**
Income tax expense (recovery)	1,114,770	111,544	(208,589)	97,364	**1,115,089**
Segment profit (loss)	$ 3,000,285	$ 309,378	$ (578,540)	$ 338,090	**$ 3,069,213**
Segment assets	$ 60,939,796	$ 18,537,928	$ 4,215,091	$ 2,422,076	**$ 86,114,891**
Capital expenditures	$ 146,979	$ 120,925	$ 2,074,060	$ 13,400	**$ 2,355,364**

(six months ended) June 30, 2010	Fluids	Steel Distribution	Other	Consolidated
Revenues from external customers	$ 47,606,990	$ 18,551,469	$ -	**$ 66,158,459**
Cost of sales	39,853,541	16,722,428	-	**56,575,969**
Segment earnings (loss) from operations	4,966,582	34,547	(108,635)	**4,892,494**
Amortization	313,933	78,320	13,818	**406,071**
Interest expense (income)	799,914	275,462	(261,926)	**813,450**
Income taxes (recovery)	1,122,506	(101,706)	(13,709)	**1,007,091**
Segment profit (loss)	$ 2,730,229	$ (217,529)	$ 153,182	**$ 2,665,882**
Segment assets	$ 45,234,193	$ 16,845,217	$ 995,581	**$ 63,074,991**
Capital expenditures	$ 107,927	$ 43,131	$ -	**$ 151,058**

The Steel Manufacturing segment did not exist at June 30, 2010, thus no comparatives are provided at that date. There are no significant inter-segment revenues for the periods ended June 30, 2011 or June 30, 2010.

14. Segment reporting (cont'd)

The Company's operations are conducted in the following geographic locations:

(three months ended)		**June 30 2011**		June 30 2010
Revenue				
Canada and International	**$**	**24,071,173**	$	20,309,296
United States		**1,699,143**		1,884,337
	$	**25,770,316**	$	22,193,633
Non-current assets				
Canada and International	**$**	**6,183,140**	$	63,074,991
United States		**2,579,554**		-
	$	**8,762,694**	$	63,074,991

(six months ended)		**June 30 2011**		June 30 2010
Revenue				
Canada and International	**$**	**73,751,341**	$	62,319,480
United States		**2,666,463**		3,838,979
	$	**76,417,804**	$	66,158,459
Non-current assets				
Canada and International	**$**	**6,183,140**	$	63,074,991
United States		**2,579,554**		-
	$	**8,762,694**	$	63,074,991

Revenues from external customers in Canada, as well as other markets, have been identified on the basis of the customer's geographical location.

15. Non-controlling interest

On October 13, 2010, the Company acquired 70 common shares of Bri-Steel Manufacturing Inc. ("Manufacturing") upon incorporation for $1 per share. The jointly established new operating company is a result of an agreement ratified with Wuxi Huayou Special Steel Co., Ltd, ("Wuxi") of the People's Republic of China, and will provide value-added manufacturing of large diameter seamless steel pipe located in Edmonton, Alberta, Canada. Manufacturing is 70% owned by the Company, which did not arise as a result of a business combination, and 30% owned by Wuxi, who acquired their 30 common shares on October 13, 2010. Non-controlling interests have been recorded for Wuxi's share of Manufacturing's net operations for the period.

15. Non-controlling interest (cont'd)

(three months ended)		**June 30, 2011**		June 30, 2010
Balance, April 1, 2011	**$**	**(116,632)**	$	-
Net loss and comprehensive loss		**(90,341)**		-
Balance, June 30, 2011	**$**	**(206,973)**	$	-

(six months ended)		**June 30, 2011**		June 30, 2010
Balance, January 1, 2011	**$**	**(33,411)**	$	-
Net loss and comprehensive loss		**(173,562)**		-
Balance, June 30, 2011	**$**	**(206,973)**	$	-

16. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the parent company as the numerator, i.e. no adjustments to profit were necessary in 2011 or 2010.

(three months ended)		**June 30 2011**		June 30 2010
Net earnings (loss)	**$**	**527,098**	$	(15,704)
Basic weighted average number of ordinary shares		**15,983,693**		13,868,105
Dilutive options issued and outstanding		**758,192**		1,149
Diluted weighted average number of ordinary shares		**16,741,885**		13,869,254
Basic earnings per share	**$**	**0.03**	$	0.00
Diluted earnings per share	**$**	**0.03**	$	0.00

(six months ended)		**June 30 2011**		June 30 2010
Net earnings	**$**	**3,242,775**	$	2,665,882
Basic weighted average number of ordinary shares		**15,270,861**		14,043,209
Dilutive options issued and outstanding		**764,667**		-
Diluted weighted average number of ordinary shares		**16,035,528**		14,043,209
Basic earnings per share	**$**	**0.21**	$	0.19
Diluted earnings per share	**$**	**0.20**	$	0.19

16. Earnings per share (cont'd)

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

(three months ended)	June 30 2011	June 30 2010
Options issued and outstanding	-	1,240,000
Warrants issued and outstanding	-	350,000

(six months ended)	June 30 2011	June 30 2010
Options issued and outstanding	-	1,270,000
Warrants issued and outstanding	-	350,000

17. Financial instruments

17.1 Categories of financial instruments

The carrying amounts presented in the balance sheet relate to the following categories of asset and liabilities:

	June 30 2011	December 31 2010
Financial Assets		
Loans and receivables		
Accounts receivable	$ 28,934,072	$ 46,727,925
Financial Liabilities		
Other financial liabilities		
Long-term debt	$ 2,692,442	$ 3,018,194
Promissory notes payable	2,367,495	4,385,707
Bank indebtedness	31,584,029	39,552,948
Accounts payable and accrued liabilities (1)	14,300,777	25,053,083
	$ 50,944,743	$ 72,009,932

(1) December 31, 2010 includes derivative on foreign exchange forward contract of $169,790

17. Financial instruments (cont'd)

17.2 Financial risk management objectives

The Company is exposed to various risks in relation to financial instruments. These risks include currency risk, credit risk, interest rate risk, and liquidity risk. The Company's risk management function is performed by management, with input from the board of directors. The Company seeks to minimize the effects of the identified risks by focusing on actively securing short to medium-term cash flows and minimizing exposures to capital markets. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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 accounts receivable are with customers in the oil and gas industry. Accounts receivable consist of a large number of customers spread across diverse geographical areas and ongoing credit evaluations are performed on the financial condition of accounts receivable. Revenue from the Company's largest two customers accounted for approximately 18% and 18% respectively (June 30, 2010 – 15% and 22%) of total revenue during the period and 16% and 16% respectively (June 30, 2010 – 22% and 30%) of total accounts receivable at period end, and are reported in the Company's fluids segment.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date as follows:

	June 30 2011	December 31 2010
Trade and other receivables	$ 28,934,072	$ 46,727,925

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.

The aging of accounts receivable was as follows:

June 30, 2011	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 13,682,490	$ -	$ 13,682,490
31 to 60 days	5,989,637	-	5,989,637
61 to 90 days	3,273,421	-	3,273,421
91 to 120 days	4,759,063		4,759,063
Over 120 days	1,232,640	(3,179)	1,229,461
Total	$ 28,937,251	$ (3,179)	$ 28,934,072

17. Financial instruments (cont'd)

Credit risk (cont'd)

December 31, 2010	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 15,520,997	$ -	$ 15,520,997
31 to 60 days	13,587,845	-	13,587,845
61 to 90 days	12,708,104	-	12,708,104
91 to 120 days	4,199,489	-	4,199,489
Over 120 days	803,490	(92,000)	711,490
Total	$ 46,819,925	$ (92,000)	$ 46,727,925

The Company held $74,752 (December 31, 2010 - $294,638) 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.

The credit risk for derivative financial instruments is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

Interest rate risk

Long-term debt, obligations under finance 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. The interest on promissory notes is at a fixed rate. It is management's opinion that interest rate risk is not significant.

The effective interest rate on the bank indebtedness at June 30, 2011 was Canadian bank prime interest rate plus 100 basis points (4.00%). The long-term debt bears interest at bank prime plus a fixed increment. As at June 30, 2011, 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 $63,144 (June 30, 2010 – $41,826).

Currency risk

The Company is subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities and promissory note denominated in foreign currencies. Therefore, there is a 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 has expanded its operations outside Canada, which increases its exposure to foreign currency risk. The Company mitigates currency risk through purchases of fixed-rate forward exchange contracts to offset future payable in foreign currencies.

17. Financial instruments (cont'd)

Accounts receivable in foreign currency was $1,586,271 as at June 30, 2011 (June 30, 2010 - $654,112), accounts payable in foreign currency outstanding as at June 30, 2011 is $457,363 (June 30, 2010 - $5,322,455) and promissory note in foreign currency outstanding as at June 30, 2011 is $337,577 (June 2010 - $nil). The Company realized a foreign exchange gain of $46,028 (June 30, 2010 – loss of $159,454) during the three month period ended June 30, 2011. Based on the monetary assets and liabilities held in the United States ("US") at June 30, 2011, a 5% increase in exchange rates would impact the Company's net earnings negatively by approximately $38,109 (June 30, 2010 – $170,401).

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 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.

Contractual obligations related to financial liabilities at June 30, 2011 are as follows:

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Finance leases*	Total
2011	$ 31,584,029	$ 14,300,777	$ 1,466,468	$ 102,285	$ 213,743	$ 47,667,302
2012	-	-	1,297,355	2,345,954	204,340	3,847,649
2013	-	-	-	-	198,329	198,329
2014	-	-	-	-	158,953	158,953
2015	-	-	-	-	123,059	123,059
Thereafter	-	-	-	-	16,861	16,861
Total	$ 31,584,029	$ 14,300,777	$ 2,763,823	$ 2,448,239	$ 915,285	$ 52,012,153

* includes interest calculated to be paid

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

17. Financial instruments (cont'd)

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Finance leases*	Total
2011	$ 39,552,948	$ 25,053,083	$ 1,056,297	$ 2,391,625	$ 31,997	$ 68,085,950
2012	-	-	2,305,404	1,994,082	31,997	4,331,483
2013	-	-	-	-	38,864	38,864
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
Total	$ 39,552,948	$ 25,053,083	$ 3,361,701	$ 4,385,707	$ 102,858	$ 72,456,297

* includes interest calculated to be paid

Derivative financial instruments

The carrying amount for the Company's derivative financial instrument, measured at fair value, is as follows:

	June 30 2011	December 31 2010
Forward contracts	$ -	$ 169,790

The derivative is measured at fair value. A foreign exchange loss of $114,926 (June 30, 2010 - $nil) was realized on settlement of these forward contracts in the six months ended June 30, 2011 and was included in foreign exchange expense.

17.3 Fair value of financial instruments

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 non 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 carrying amount of the Company's long-term debt approximates the fair value as its interest rates are similar to the current market rate for similar debt. The promissory notes payable have a fair value of $3,556,584 (December 31, 2010 - $4,287,750). The fair value of the forward exchange contracts using Level 2 fair value measurements is $nil (December 31, 2010 - $169,790).

18. Related party transactions

The related party transactions are conducted on the terms and conditions agreed to by the related parties.

18.1 Transactions with related entities

During the three and six month periods ended June 30, 2011, the Company incurred selling, general and administration expenses in the normal course of operations with affiliated companies, which certain directors have significant influence, and are as follows:

18. Related party transactions *(cont'd)*

a) Management and other advisory services of $nil and $nil respectively (June 30, 2010 – $30,000 and $60,000) were paid to a company over which a director has significant influence.

b) Accounting, administrative and corporate expenses of $15,000 and $30,000 respectively (June 30, 2010 – $9,156 and $18,312) were paid to a company over which a director has significant influence.

18.2 Other related party transactions

The Company expensed interest of $9,666 and $27,419 (June 30, 2010 - $33,000 and $66,000) on promissory notes payable issued in the prior year which were held by two of the Company's directors, senior management and significant shareholders. This entire amount was paid out May 18, 2011 along with the outstanding balance. The Company also expensed interest of $29,918 and $77,220 (June 30, 2010 - $44,877 and $89,261) on promissory notes payable issued on the acquisition of Bri-Chem Steel which are held by three of the former owners of Bri-Chem Steel. The expense has been included in interest on long term debt and added to the balance of the promissory note payable. In addition, the Company expensed interest of $1,726 and $1,726 (June 30, 2010 - $nil and $nil) on promissory notes payable issued on the acquisition of Stryker which is held by the former owner of Stryker. The expense has been included in interest on long term debt and added to the balance of the promissory note payable.

19. Capital management policies and procedures

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 preserve financial flexibility in order to benefit from potential opportunities that may arise.

The Company includes the following in the definition of capital:

	June 30 2011	December 31 2010
Bank indebtedness	$ 31,584,029	$ 39,552,948
Long-term debt	2,692,442	3,018,194
Promissory notes payable	2,367,495	4,385,707
Obligations under capital lease	782,114	92,571
Shareholders' equity	33,805,646	23,677,054
Total Capital	$ 71,231,726	$ 70,726,474

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 subject to capital requirements imposed by a regulator.

The bank indebtedness and long-term debt require the Company to maintain certain financial covenants. The Company monitors these requirements on a monthly basis. Certain key ratios are as follows:

19. Capital management policies and procedures (cont'd)

	June 30 2011	December 31 2010
Current ratio	**1.62**	1.33
Debt service ratio	**1.26**	2.78
Total debt to tangible net worth	**1.45**	2.80

As at June 30, 2011 and December 31, 2010, the Company was in compliance with all financial convenants.

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

Debt service ratio is defined as the ratio of normalized 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") plus non-cash items 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.

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.

20. First time adoption of IFRS

As disclosed in Note 2, these consolidated statements are prepared in accordance with IAS 34 "Interim Financial Reporting" in conjunction with the Company's annual consolidated financial statements to be issued under IFRS as at and for the year ended December 31, 2011. The Company previously prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP. The date of transition from previous GAAP to IFRS standards was January 1, 2010.

The financial statements presented for the periods ended June 30, 2010 and December 31, 2010 for comparative purposes have been prepared under IFRS standards. The Company has applied IFRS 1 – First time adoption of International Financial Reporting Standards in preparing these IFRS consolidated financial statements. The effects of the transition on equity, total comprehensive income, and reported cash flows are presented in this section.

20. First time adoption of IFRS (cont'd)

20.1 Equity reconciliation

	June 30, 2010			
	Previous GAAP	**Effect of transition to IFRS**	**Effect of accounting policy change**	**IFRS**
Assets				
Current				
Accounts receivable	$ 20,087,835	$ -	$ -	$ 20,087,835
Inventories	36,722,968	-	(71,958)	36,651,010
Prepaid expenses and deposits	1,679,428	-	-	1,679,428
Income taxes receivable	104,470	-	-	104,470
Current assets	58,594,701	-	(71,958)	58,522,743
Non-current				
Property and equipment	3,570,036	(23,531)	-	3,546,505
Intangible assets	1,052,057	(288,958)	-	763,099
Deferred tax assets	242,644	-	-	242,644
Non-current assets	4,864,737	(312,489)	-	4,552,248
Total assets	$ 63,459,438	$ (312,489)	$ (71,958)	$ 63,074,991
Liabilities				
Current				
Bank indebtedness	$ 19,592,030	$ -	$ -	$ 19,592,030
Accounts payable and accrued liabilities	14,697,442	-	-	14,697,442
Customer deposits	339,613	-	-	339,613
Promissory notes payable	1,104,389	-	-	1,104,389
Long-term debt	943,584	-	-	943,584
Obligations under finance lease	107,183	-	-	107,183
Current liabilities	36,784,241	-	-	36,784,241
Non-current				
Promissory notes payable	4,200,000	-	-	4,200,000
Long-term debt	2,533,341	-	-	2,533,341
Obligations under finance lease	8,174	-	-	8,174
Deferred tax liabilities	430,338	(83,646)	-	346,692
Non-current liabilities	7,171,853	(83,646)	-	7,088,207
Total liabilities	$ 43,956,094	$ (83,646)	$ -	$ 43,872,448

20. First time adoption of IFRS (cont'd)

20.1 Equity reconciliation (cont'd)

	June 30, 2010							
		Previous GAAP		**Effect of transition to IFRS**		**Effect of accounting policy change**		**IFRS**
Equity								
Share capital	$	14,490,134	$	-	$	-	$	14,490,134
Contributed surplus		1,038,100		-		-		1,038,100
Warrants		188,050		-		-		188,050
Retained earnings		3,787,060		(228,843)		(71,958)		3,486,259
Total Equity	$	19,503,344	$	(228,843)	$	(71,958)	$	19,202,543
Total Liabilities and Equity	$	63,459,438	$	(312,489)	$	(71,958)	$	63,074,991

20. First time adoption of IFRS (cont'd)

20.2 Total comprehensive income reconciliation

Total comprehensive income for the three month period ended June 30, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Previous GAAP	Effect of transition to IFRS	Effect of accounting policy adjustment	IFRS
Sales	$ 22,193,633	$ -	$ -	$ 22,193,633
Cost of sales	18,884,117	-	78,325	18,962,442
Gross margin	**3,309,516**	-	(78,325)	**3,231,191**
Expenses				
Salaries and benefits	1,446,970	-	-	1,446,970
Selling, general and administration	1,017,524	3,203	-	1,020,727
Foreign exchange loss	159,454		-	159,454
Interest on short-term operating debt	230,950	-	-	230,950
Interest on long-term debt	166,580	-	-	166,580
Amortization on property and equipment	123,486	(1,091)	-	122,395
Amortization on intangible assets	104,385	(22,812)	-	81,573
Interest on obligations under finance lease	1,938	-	-	1,938
	3,251,287	(20,700)	-	**3,230,587**
Earnings before income taxes	**58,229**	20,700	(78,325)	**604**
Income tax expense	16,308	-	-	16,308
Net earnings (loss) and comprehensive income (loss)	**$ 41,921**	$ 20,700	$ (78,325)	**$ (15,704)**

Total basic and diluted EPS for the three months ended June 30, 2010 are $0.00 and $0.00 respectively under IFRS and remain unchanged from previous GAAP.

20. First time adoption of IFRS (cont'd)

20.2 Total comprehensive income reconciliation (cont'd)

Total comprehensive income for the six month period ended June 30, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Previous GAAP	Effect of transition to IFRS	Effect of accounting policy adjustment	IFRS
Sales	$ 66,158,459	$ -	$ -	$ 66,158,459
Cost of sales	56,619,971	-	(44,002)	56,575,969
Gross margin	**9,538,488**	-	44,002	**9,582,490**
Expenses				
Salaries and benefits	3,049,332	-	-	3,049,332
Selling, general and administration	2,062,399	6,406	-	2,068,805
Foreign exchange (gain)	(428,141)		-	(428,141)
Interest on short-term operating debt	478,072	-	-	478,072
Interest on long-term debt	332,417	-	-	332,417
Amortization on property and equipment	244,544	(1,893)	-	242,651
Amortization on intangible assets	209,045	(45,625)	-	163,420
Interest on obligations under finance lease	2,961	-	-	2,961
	5,950,629	(41,112)	-	**5,909,517**
Earnings before income taxes	**3,587,859**	41,112	44,002	**3,672,973**
Income tax expense	1,007,091	-	-	1,007,091
Net earnings and comprehensive income	**$ 2,580,768**	$ 41,112	$ 44,002	**$ 2,665,882**

Total basic and diluted EPS for the six months ended June 30, 2010 are $0.19 and $0.19 respectively under IFRS and have increased by $0.01 and $0.01 respectively from previous GAAP.

20. First time adoption of IFRS (cont'd)

20.3 Notes to the reconciliations

Property and equipment

The decrease in property and equipment as at January 1, 2010, June 30, 2010 and December 31, 2010 is a result of the derecognition of website development costs capitalized under previous GAAP. IFRS does not permit the recognition of website development costs when the site created does not provide directly traceable future earnings potential to the Company. This resulted in costs of $25,935 and accumulated amortization of $6,916 being removed from the balance sheet on transition date. Additional website costs of $3,203 and $6,406 were removed from the balance sheet and expensed for the three and six month period ended June 30, 2010. Related amortization expense of $1,091 and $1,893 for the three and six month period ended June 30, 2010 was also reversed.

Intangible assets

The decrease in intangible assets as at January 1, 2010 is a result of the impairment test performed on the intangible assets in the Steel cash generating unit ("CGU"). The Company determined that $334,583 of remaining non-competition agreements intangible assets were impaired and were written off on transition to IFRS. June 30, 2010 and December 31, 2010 balances were then adjusted for the accumulated depreciation expense recorded in relation to these intangible assets in each period, reducing amortization expense by $22,812 and $45,625 for the three and six month period ended June 30, 2010.

20. First time adoption of IFRS (cont'd)

20.4 Statement of cash flows presentation

The following adjustments were made to the statement of cash flows:

For the three months ended June 30, 2010	Previous GAAP	Effect of transition to IFRS	Effect of accounting policy change	IFRS
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings	$ 41,921	$ 20,700	$ (78,325)	$ (15,704)
Non-cash items:				
Amortization on property and equipment	123,486	(1,091)	-	122,395
Amortization on intangible assets	104,385	(22,812)	-	81,573
Amortization of debt related transaction costs	22,628	-	-	22,628
Future income tax recovery	(129,330)	-	-	(129,330)
Stock-based compensation	16,710	-	-	16,710
Loss on sale of property and equipment	-	-	-	-
	179,800	(3,203)	(78,325)	98,272
Change in non-cash working capital	13,587,603	-	78,325	13,665,928
	13,767,403	(3,203)	-	13,764,200
Financing activities				
Advances on promissory notes payable	77,666	-	-	77,666
Repayments of operating line	(13,270,129)	-	-	(13,270,129)
Repayment of promissory notes payable	(132,000)	-	-	(132,000)
Repayment of long-term debt	(145,142)	-	-	(145,142)
Repayment of obligations under finance lease	(36,644)	-	-	(36,644)
Repurchase of common shares	(232,424)	-	-	(232,424)
	(13,738,673)	-	-	(13,738,673)
Investing activities				
Purchase of property and equipment	(28,730)	3,203	-	(25,527)
Purchase of intangible assets	-	-	-	-
Proceeds on disposal of property and equipment	-	-	-	-
	(28,730)	3,203	-	(25,527)
Net increase in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	$ -	$ -	$ -	$ -

20. First time adoption of IFRS (cont'd)

20.4 Statement of cash flows presentation (cont'd)

The following adjustments were made to the statement of cash flows:

For the six months ended June 30, 2010	Previous GAAP	Effect of transition to IFRS	Effect of accounting policy change	IFRS
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings	$ 2,580,769	$ 41,112	$ 44,002	$ 2,665,883
Non-cash items:				
Amortization on property and equipment	244,544	(1,893)	-	242,651
Amortization on intangible assets	209,045	(45,625)	-	163,420
Amortization of debt related transaction costs	45,256	-	-	45,256
Future income tax recovery	(147,746)	-	-	(147,746)
Stock-based compensation	63,659	-	-	63,659
Loss on sale of property and equipment	4,982	-	-	4,982
	3,000,509	(6,406)	44,002	3,038,105
Change in non-cash working capital	6,398,144	-	(44,002)	6,354,142
	9,398,653	(6,406)	-	9,392,247
Financing activities				
Advances on promissory notes payable	155,049	-	-	155,049
Repayments of operating line	(8,060,919)	-	-	(8,060,919)
Repayment of promissory notes payable	(376,356)	-	-	(376,356)
Repayment of long-term debt	(362,815)	-	-	(362,815)
Repurchase of common shares	(517,804)	-	-	(517,804)
Repayment of obligations under finance lease	(72,844)	-	-	(72,844)
	(9,235,689)	-	-	(9,235,689)
Investing activities				
Purchase of property and equipment	(157,464)	6,406	-	(151,058)
Purchase of intangible assets	(20,000)	-	-	(20,000)
Proceeds on disposal of property and equipment	14,500	-	-	14,500
	(162,964)	6,406	-	(156,558)
Net increase in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	$ -	$ -	$ -	$ -

21. Post-reporting date events

a) On July 1, 2011, a fire destroyed an estimated $3.8 million of the Company's fluids inventory held at a third party warehouse location. The Company is currently working with its insurance provider on determining the replacement value covered under its coverage plan, and has received $2 million towards this amount as of the date of authorization of the interim consolidated financial statements.

b) On July 4, 2011, the Company received approval to graduate from the TSX Venture Exchange to the Toronto Stock Exchange. Bri-Chem's common shares began trading on the TSX under the symbol "BRY". The shares were de-listed from and cease traded on the TSX Venture Exchange on this date.

c) On August 12, 2011, the Company issued 350,000 stock options at a price of $2.94 to two executive officers, three independent directors and employees of Bri-Chem. The options are granted in accordance with Bri-Chem's stock option plan and have terms that expire ten years from the grant date. The options had a grant date fair value of $999,762.

c) Effective August 12, 2011, the Company entered into a new secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. and HSBC Bank Canada. The ABL Facility has a term of three years and is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable to a maximum of $80,000,000.

The initial term of the ABL Facility is for three years and the initial advance repaid the outstanding amounts in full to its former credit facility lender HSBC totalling $36,060,524 CDN and $1,718,883 USD. This included amounts of $1,200,986 CDN to settle the outstanding balance on the HSBC Capital subordinated debenture, $1,437,863 CDN to settle outstanding amounts on the HSBC committed non-revolving loan, and $33,421,675 CDN and $1,718,883USD to settle the outstanding bank indebtedness balance. In addition, the Company also repaid $1,000,000 plus interest on the previously postponed promissory notes that were due on October 2010 and the remaining promissory notes will now be classified as current liabilities subsequent to the new financing.

The ABL Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The ABL Facility bears interest at the Company's discretion at prime plus 0.25% or LIBOR plus 1.75% or bankers' acceptance rate plus 1.75%, and a standby fee of 0.25% on unused amounts of the ABL Facility. Significant financial covenants of the ABL Facility include a minimum tangible net worth and a maximum on annual capital expenditures.

No adjusting events have occurred between the reporting date and the date of authorization.

22. Authorization of financial statements

The consolidated financial statements for the period ended June 30, 2011 (including comparatives) were approved by the board of directors on August 12, 2011.

(signed) Don Caron	*(signed) Eric Sauze*
Don Caron, Director	Eric Sauze, Director