



Bri-Chem Corp.
Third Quarter Interim Report
September 30, 2011
(unaudited)

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

	September 30 (three months ended)		September 30 (nine months ended)	
	2011	2010 (Note 19)	2011	2010 (Note 19)
Sales	\$ 61,135,841	\$ 38,484,673	\$ 137,553,645	\$ 104,643,132
Cost of sales	50,755,121	32,705,149	115,004,071	89,281,118
Gross margin	10,380,720	5,779,524	22,549,574	15,362,014
Gross margin (%)	17.0%	15.0%	16.4%	14.7%
Expenses				
Salaries and benefits	1,972,090	1,505,713	5,276,549	4,555,044
Selling, general and administration	1,908,212	1,014,645	5,018,814	3,083,451
Interest on short-term operating debt	427,780	241,039	1,337,638	719,111
Amortization on property and equipment	255,983	92,306	518,900	334,957
Foreign exchange loss (gain)	215,931	(532,267)	164,513	(960,408)
Amortization on intangible assets	125,606	81,642	310,534	245,062
Interest on long-term debt	43,870	156,929	294,614	489,347
Interest on obligations under finance lease	14,320	1,822	26,785	4,783
	4,963,792	2,561,829	12,948,347	8,471,347
Earnings before income taxes (recovery)	5,416,928	3,217,695	9,601,227	6,890,667
Income tax expense (recovery)				
Current	1,603,767	1,034,491	2,938,752	2,189,328
Deferred	(148,606)	(164,554)	(368,502)	(312,300)
	1,455,161	869,937	2,570,250	1,877,028
Net earnings	\$ 3,961,767	\$ 2,347,758	\$ 7,030,977	\$ 5,013,639
Earnings (loss) attributable to:				
Shareholders of the Company	\$ 4,086,845	\$ 2,347,758	\$ 7,329,617	\$ 5,013,639
Non-controlling interest (Note 14)	(125,078)	-	(298,640)	-
	\$ 3,961,767	\$ 2,347,758	\$ 7,030,977	\$ 5,013,639
Earnings per share (Note 15)				
Basic	\$ 0.25	\$ 0.17	\$ 0.47	\$ 0.36
Diluted	\$ 0.24	\$ 0.17	\$ 0.45	\$ 0.36

See accompanying notes to the interim consolidated financial statements.

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

	September 30 (three months ended)		September 30 (nine months ended)	
	2011	2010	2011	2010
Net earnings	\$ 3,961,767	\$ 2,347,758	\$ 7,030,977	\$ 5,013,639
		(Note 19)		(Note 19)
Other comprehensive income, net of tax				
Foreign currency translation adjustment	41,504	-	23,100	-
Comprehensive income	\$ 4,003,271	\$ 2,347,758	\$ 7,054,077	\$ 5,013,639
Comprehensive income (loss) attributable to:				
Shareholders of the Company	\$ 4,128,349	\$ 2,347,758	\$ 7,352,717	\$ 5,013,639
Non-controlling interest (Note 14)	(125,078)	-	(298,640)	-
	\$ 4,003,271	\$ 2,347,758	\$ 7,054,077	\$ 5,013,639

See accompanying notes to the interim consolidated financial statements.

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

	September 30 2011	December 31 2010
Assets		(Note 19)
Current		
Accounts receivable	\$ 63,962,263	\$ 46,727,925
Inventories	44,949,092	42,414,115
Prepaid expenses and deposits	1,695,793	5,025,888
	<u>110,607,148</u>	94,167,928
Non-current		
Property and equipment	9,355,023	3,684,771
Intangible assets	1,175,643	614,109
Goodwill	582,332	-
Deferred tax assets	750,338	299,631
Other long-term receivables	10,629	-
	<u>\$ 122,481,113</u>	\$ 98,766,439
Liabilities		
Current		
Bank indebtedness (Note 7)	\$ 45,391,435	\$ 39,552,948
Accounts payable and accrued liabilities	35,933,046	25,053,083
Customer deposits	51,139	294,638
Current portion of promissory notes payable (Note 8)	1,389,357	2,391,625
Current portion of long-term debt (Note 7)	-	866,913
Current portion of obligations under finance lease (Note 9)	176,193	26,722
Income taxes payable	538,342	2,455,289
	<u>83,479,512</u>	70,641,218
Non-current		
Promissory notes payable (Note 8)	-	1,994,082
Long-term debt (Note 7)	-	2,151,281
Obligations under finance lease (Note 9)	598,252	65,849
Other long-term liabilities	27,350	-
Deferred tax liabilities	483,426	236,955
	<u>84,588,540</u>	75,089,385
Equity		
Share capital (Note 11)	21,783,487	14,451,480
Contributed surplus	1,050,673	1,079,488
Warrants (Note 12)	88,200	229,950
Non-controlling interest (Note 14)	(332,051)	(33,411)
Retained earnings	15,279,164	7,949,547
Accumulated other comprehensive income	23,100	-
	<u>37,892,573</u>	23,677,054
	<u>\$ 122,481,113</u>	\$ 98,766,439

Post-reporting date event (Note 20)
Obligations under operating lease (Note 10)

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

	Share capital	Contributed surplus	Warrants	Accumulated other compensative income	Retained earnings	Total attributed to:		Total equity
						The Company	Non-controlling interest	
Balance at January 1, 2011	\$ 14,451,480	\$ 1,079,488	\$ 229,950	\$ -	\$ 7,949,547	\$ 23,710,465	\$ (33,411)	\$ 23,677,054
Issuance of shares upon exercise of options	713,559	(217,079)	-	-	-	496,480	-	496,480
Issuance of shares upon exercise of warrants	641,750	-	(141,750)	-	-	500,000	-	500,000
Employee share-based payment options	-	91,248	-	-	-	91,248	-	91,248
Consultant share-based payment options	-	97,016	-	-	-	97,016	-	97,016
Issuance of shares under financing, net of tax and share issue costs	5,488,447	-	-	-	-	5,488,447	-	5,488,447
Issuance of shares for acquisition (Note 6)	488,251	-	-	-	-	488,251	-	488,251
Net earnings (loss)	-	-	-	-	7,329,617	7,329,617	(298,640)	7,030,977
Other comprehensive income	-	-	-	23,100	-	23,100	-	23,100
Balance at September 30, 2011	\$ 21,783,487	\$ 1,050,673	\$ 88,200	\$ 23,100	\$ 15,279,164	\$ 38,224,624	\$ (332,051)	\$ 37,892,573

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	Retained earnings	Total attributed to: 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	(717,045)	132,097	-	-	(584,948)	-	(584,948)
Employee share-based payment options	-	151,769	-	-	151,769	-	151,769
Net earnings	-	-	-	5,013,639	5,013,639	-	5,013,639
Balance at September 30, 2010	\$ 14,439,209	\$ 1,109,990	\$ 188,050	\$ 5,834,016	\$ 21,571,265	\$ -	\$21,571,265

See accompanying notes to the interim consolidated financial statements.

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

For the nine months ended	September 30 2011	September 30 2010
		(Note 19)
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net earnings	\$ 7,030,977	\$ 5,013,639
Non-cash items:		
Amortization on property and equipment	518,900	334,957
Amortization on intangible assets	310,534	245,062
Amortization of debt related transaction costs	176,950	67,884
Deferred tax recovery	(368,502)	(312,300)
Share-based payments	145,978	151,749
Gain on sale of property and equipment	(1,632)	(6,468)
	<u>7,813,205</u>	<u>5,494,523</u>
Change in non-cash working capital	<u>(8,993,450)</u>	<u>(6,386,797)</u>
	<u>(1,180,245)</u>	<u>(892,274)</u>
Financing activities		
Advances on promissory notes payable	143,841	233,419
Advances of operating line	5,551,818	2,525,869
Repayment of promissory notes payable	(3,507,061)	(376,356)
Repayment of long-term debt	(3,154,700)	(579,325)
Proceeds on issuance of shares (Note 11)	6,339,247	-
Repayment of obligations under finance lease	(146,288)	(99,504)
Repurchase of common shares (Note 11)	-	(584,929)
	<u>5,226,857</u>	<u>1,119,174</u>
Investing activities		
Purchase of property and equipment	(3,072,663)	(249,569)
Purchase of intangible assets	(6,981)	(23,753)
Proceeds on disposal of property and equipment	1,632	46,422
Cash paid on acquisition (Note 6)	(968,600)	-
	<u>(4,046,612)</u>	<u>(226,900)</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	<u>\$ -</u>	<u>\$ -</u>
Supplemental cash flow information:		
Interest paid	\$ 1,749,907	\$ 1,375,416
Income taxes paid	\$ 2,393,168	\$ 521,897

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

September 30, 2011

(unaudited)

1. Nature of operations

Bri-Chem Corp.'s ("the Company") shares are publicly traded on the Toronto Stock 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, as well as a manufacturer of expanded seamless steel pipe products. The Company has operations in Canada and the United States.

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 results of operations and financial position under IFRS as at and for the three months and nine months ended September 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 and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010 presented under Canadian generally accepted accounting principles ("CDN GAAP") and in conjunction with the IFRS transition disclosures in Note 19 to these interim financial statements.

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 income as a separate component of shareholder's equity. As at September 30, 2011, accumulated other comprehensive income 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.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
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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 CGU 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 practice 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 19 and in the March 31, 2011 interim consolidated financial statements.

	Opening balance January 1, 2010	Three months ended September 30, 2010	Nine months ended September 30, 2010	Year ended December 31, 2010
Opening retained earnings	\$ (115,960)	\$ (71,959)	\$ (115,961)	\$ (115,960)
Cost of sales	-	(59,975)	(103,977)	(88,279)
Inventory	(115,960)	(11,984)	(11,984)	(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.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

September 30, 2011

(unaudited)

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 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.

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, LLC.

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 finance 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

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.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

September 30, 2011

(unaudited)

6. Business combination (cont'd)

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 losses of \$96,974 and \$15,077 for the three and four months of operations included at September 30, 2011 respectively. Based on unaudited financial information available to management, if the companies had been acquired at January 1, 2011, revenue for the nine months ended September 30, 2011 for the Company would have been \$140,828,339. Net earnings would have been \$7,110,565 for the nine months ended September 30, 2011 had the acquisition been completed January 1, 2011.

7. Bank indebtedness

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 \$1,718,883 USD 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.

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.

As at September 30, 2011, \$45,391,435 (September 30, 2010 - \$nil) was drawn on the ABL Facility, net of deferred transaction costs. The Company incurred a total of \$728,000 of transaction costs directly related to the ABL Facility, which will be amortized into net earnings over the term of the loan.

Significant financial covenants of the ABL Facility include a minimum tangible net worth and a maximum on annual capital expenditures. As at September 30, 2011, the Company was in compliance with its covenants.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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8. Promissory notes payable

	September 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.	\$ 1,015,123	\$ 3,180,000
Promissory note payable, bearing interest at 6% per annum, repayable as \$350,000 USD plus interest on June 1, 2012, unsecured.	374,234	-
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
	<u>1,389,357</u>	<u>4,385,707</u>
Less: current portion	<u>1,389,357</u>	<u>2,391,625</u>
	<u>\$ -</u>	<u>\$ 1,994,082</u>

The \$1,000,000 promissory note principal payment due in October 2011 has been classified as current, including accrued interest, and is expected to be paid at maturity.

The \$374,234 promissory note payable due June 1, 2012 is expected to be paid within one year and has been classified as a current liability, including accrued interest.

The \$1,000,000 promissory note principal due in October 2010 was paid out August 16, 2011, including accrued interest.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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9. 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
September 30, 2011				
Lease payments	\$ 223,055	\$ 660,785	\$ 12,827	\$ 896,667
Finance charges	46,862	75,087	273	122,222
Net present value	\$ 176,193	\$ 585,698	\$ 12,554	\$ 774,445
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.

10. Obligations under operating lease

10.1 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
September 30, 2011	\$ 2,055,813	\$ 5,830,192	\$ 1,853,760	\$ 9,739,765
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 \$610,273 (September 30, 2010 - \$353,615). 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.

10.2 The Company as Lessor

The Company has leased property owned for a term of 2 years expiring December 31, 2011. The Company also has 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.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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(unaudited)

10. Obligations under operating lease (cont'd)

Non-cancellable operating lease income is as follows:

	Minimum lease income receivable			Total
	Within one year	Two to five years	After five years	
September 30, 2011	\$ 369,334	\$ 1,592,177	\$ 1,615,097	\$ 3,576,608
December 31, 2010	12,000	-	-	12,000

11. Share capital

Authorized

Unlimited number of voting common shares

Unlimited number of preferred shares, issued in series

Issued and outstanding	<u>Number</u>	<u>Amount</u>
Common Shares		
Balance, January 1, 2010	14,381,786	\$ 15,156,254
Issuance of shares upon exercise of 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	299,312	713,559
Issuance of shares upon exercise of warrants	250,000	641,750
Issuance of shares under financing, 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, September 30, 2011	16,425,627	\$ 21,783,487

- a) 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.
- b) On May 31, 2011, the Company issued 171,429 shares with a fair value of \$488,251 for the purchase of the outstanding ownership interest 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

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12. Share-based payments

12.1 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 September 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.

12.2 Options to employees and directors

	Number of options	Weighed average exercise price	Weighted average contractual live (years)
Outstanding, January 1, 2011	1,288,000	\$ 1.96	3.15
Issued	350,000	2.94	9.86
Exercised	(288,000)	1.58	0.82
Outstanding, September 30, 2011	1,350,000	\$ 2.09	2.94
Options exercisable, September 30, 2011	1,149,688	\$ 1.55	0.50

The fair value of the employees and directors options granted is estimated on the date of grant using the Black-Scholes Option Pricing Model based on the following weighted average assumptions respectively:

Expected life	10 years
Risk-free rate	2.56%
Expected volatility	149.08%
Expected dividend yield	0.00%

During the nine month period ended September 30, 2011, 350,000 options were granted (September 30, 2010 – 55,000) under the Plan at a total fair value of \$999,762 (September 30, 2010 - \$12,920).

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12. Share-based payments (cont'd)

12.2 Options to employees and directors (cont'd)

	Number of options	Weighted average exercise price	Weighted average contractual live (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 nine month periods ended September 30, 2011, \$68,016 and \$91,248 respectively (September 30, 2010 -\$88,090 and \$151,749) was expensed in relation to the share-based payment plan to employees and directors.

12.3 Options to consultants

	Number of options	Weighted average exercise price	Weighted average contractual live (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, September 30, 2011	153,688	\$ 2.85	1.14
Options exercisable, September 30, 2011	153,688	\$ 2.85	1.14

The fair value of the consultant options granted during the nine 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.

	Number of options	Weighted average exercise price	Weighted average contractual live (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

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12. Share-based payments (cont'd)

12.4 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 previous 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, September 30, 2011	100,000	\$ 2.10	0.79
Exercisable, September 30, 2011	100,000	\$ 2.10	0.79

13. 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 three and four months of operations respectively of Bri-Chem Supply Corp, LLC (Note 6). The Other segment includes three and four months of operations respectively 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:

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13. Segment reporting (cont'd)

(three months ended) September 30, 2011	Fluids	Steel Distribution	Steel Manufacturing	Other	Consolidated
Revenues from external customers	\$ 53,532,344	\$ 7,113,018	\$ 182,225	\$ 308,254	\$ 61,135,841
Cost of sales	44,647,607	5,745,653	109,061	252,800	50,755,121
Segment earnings (loss) from operations	6,534,534	823,173	(459,086)	(614,134)	6,284,487
Amortization	227,137	41,005	93,593	19,854	381,589
Interest expense (income)	1,209,077	(302,465)	14,572	(435,214)	485,970
Income tax expense (recovery)	1,395,001	287,428	(198,927)	(28,341)	1,455,161
Segment profit (loss)	\$ 3,703,319	\$ 797,205	\$ (368,324)	\$ (170,433)	\$ 3,961,767
Segment assets	\$ 94,849,820	\$ 18,233,781	\$ 7,846,641	\$ 1,550,871	\$ 122,481,113
Capital expenditures	\$ 99,502	\$ 8,264	\$ 609,503	\$ -	\$ 717,269

(three months ended) September 30, 2010	Fluids	Steel Distribution	Other	Consolidated
Revenues from external customers	\$ 31,707,155	\$ 6,777,518	\$ -	\$ 38,484,673
Cost of sales	26,458,473	6,246,676	-	32,705,149
Segment earnings (loss) from operations	4,208,821	(239,271)	(178,117)	3,791,433
Amortization	131,105	39,875	2,968	173,948
Interest expense (income)	444,765	149,914	(194,889)	399,790
Income taxes (recovery)	1,023,906	(136,930)	(17,039)	869,937
Segment profit (loss)	\$ 2,609,045	\$ (292,130)	\$ 30,843	\$ 2,347,758
Segment assets	\$ 69,436,737	\$ 18,803,366	\$ 586,550	\$ 88,826,653
Capital expenditures	\$ 96,023	\$ 2,488	\$ -	\$ 98,511

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

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13. Segment reporting (cont'd)

(nine months ended) September 30, 2011	Fluids	Steel Distribution	Steel Manufacturing	Other	Consolidated
Revenues from external customers	\$ 115,108,414	\$ 21,816,811	\$ 182,225	\$ 446,195	\$137,553,645
Cost of sales	96,319,858	18,250,035	109,061	325,117	115,004,071
Segment earnings (loss) from operations	13,215,844	1,105,515	(1,205,338)	(1,026,324)	12,089,697
Amortization	536,347	115,380	124,245	53,462	829,434
Interest expense (income)	3,466,127	(515,420)	24,797	(1,316,468)	1,659,036
Income tax expense (recovery)	2,509,771	398,972	(407,516)	69,023	2,570,250
Segment profit (loss)	\$ 6,703,599	\$ 1,106,583	\$ (946,864)	\$ 167,659	\$ 7,030,977
Segment assets	\$ 95,479,820	\$ 18,233,781	\$ 7,846,641	\$ 1,550,871	\$123,111,113
Capital expenditures	\$ 246,481	\$ 129,189	\$ 2,683,563	\$ 13,400	\$ 3,072,633

(nine months ended) September 30, 2010	Fluids	Steel Distribution	Other	Consolidated
Revenues from external customers	\$ 79,314,144	\$ 25,328,988	\$ -	\$ 104,643,132
Cost of sales	66,312,014	22,969,104	-	89,281,118
Segment earnings (loss) from operations	9,181,809	(308,701)	(286,751)	8,586,357
Amortization	445,037	118,195	16,786	580,018
Interest expense (income)	1,244,680	425,376	(456,815)	1,213,241
Income taxes (recovery)	2,146,411	(238,636)	(30,747)	1,877,028
Segment profit (loss)	\$ 5,345,681	\$ (613,636)	\$ 184,025	\$ 4,916,070
Segment assets	\$ 69,436,737	\$ 18,803,366	\$ 586,550	\$ 88,826,653
Capital expenditures	\$ 206,438	\$ 43,131	\$ -	\$ 249,569

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

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Notes to the Interim Consolidated Financial Statements

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13. Segment reporting (cont'd)

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

	September 30		September 30	
(three months ended)	2011		2010	
Revenue				
Canada and International	\$	58,201,702	\$	37,714,257
United States		2,934,139		770,416
	\$	61,135,841	\$	38,484,673

Non-current assets

Canada and International	\$	9,909,126	\$	4,570,304
United States		1,964,839		-
	\$	11,873,965	\$	4,570,304

	September 30		September 30	
(nine months ended)	2011		2010	
Revenue				
Canada and International	\$	131,953,043	\$	100,033,736
United States		5,600,602		4,609,396
	\$	137,553,645	\$	104,643,132

Non-current assets

Canada and International	\$	9,909,126	\$	4,570,304
United States		1,964,839		-
	\$	11,873,965	\$	4,570,304

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

14. 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.

Bri-Chem Corp.**Notes to the Interim Consolidated Financial Statements**

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14. Non-controlling interest (cont'd)

(three months ended)	September 30, 2011	September 30, 2010
Balance, July 1, 2011	\$ (206,973)	\$ -
Net loss and comprehensive loss	(125,078)	-
Balance, September 30, 2011	\$ (332,051)	\$ -

(nine months ended)	September 30, 2011	September 30, 2010
Balance, January 1, 2011	\$ (33,411)	\$ -
Net loss and comprehensive loss	(298,640)	-
Balance, September 30, 2011	\$ (332,051)	\$ -

15. 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)	September 30 2011	September 30 2010
Net earnings attributable to the Shareholders of the Company	\$ 4,086,845	\$ 2,347,758
Basic weighted average number of ordinary shares	16,421,279	13,719,622
Dilutive options issued and outstanding	495,585	87,214
Diluted weighted average number of ordinary shares	16,916,864	13,806,836
Basic earnings per share	\$ 0.25	\$ 0.17
Diluted earnings per share	\$ 0.24	\$ 0.17

(nine months ended)	September 30 2011	September 30 2010
Net earnings attributable to the Shareholders of the Company	\$ 7,329,617	\$ 5,013,639
Basic weighted average number of ordinary shares	15,658,547	13,934,162
Dilutive options issued and outstanding	665,750	3,410
Diluted weighted average number of ordinary shares	16,324,297	13,937,572
Basic earnings per share	\$ 0.47	\$ 0.36
Diluted earnings per share	\$ 0.45	\$ 0.36

Bri-Chem Corp.

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15. 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)	September 30 2011	September 30 2010
Options issued and outstanding	478,688	940,000
Warrants issued and outstanding	-	350,000

(nine months ended)	September 30 2011	September 30 2010
Options issued and outstanding	478,688	940,000
Warrants issued and outstanding	-	350,000

16. Financial instruments

16.1 Categories of financial instruments

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

	September 30 2011	December 31 2010
Financial Assets		
Loans and receivables		
Accounts receivable	\$ 63,962,263	\$ 46,727,925
Financial Liabilities		
Other financial liabilities		
Long-term debt	\$ -	\$ 3,018,194
Promissory notes payable	1,389,357	4,385,707
Bank indebtedness	45,391,435	39,552,948
Accounts payable and accrued liabilities ⁽¹⁾	35,933,046	25,053,083
	\$ 82,713,838	\$ 72,009,932

(1) Includes derivative on foreign exchange forward contract of \$nil (December 31, 2010 - \$169,790).

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16. Financial instruments (cont'd)

16.2 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 two largest customers accounted for approximately 25% and 21% respectively (September 30, 2010 – 21% and 28%) of total revenue during the period and 29% and 24% respectively (September 30, 2010 – 34% and 26%) of total accounts receivable at period end. These customers are within 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:

	September 30 2011	December 31 2010
Trade and other receivables	\$ 63,962,263	\$ 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:

September 30, 2011	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	\$ 22,436,054	\$ -	\$ 22,436,054
31 to 60 days	18,768,744	-	18,768,744
61 to 90 days	15,247,748	-	15,247,748
91 to 120 days	4,805,956	-	4,805,956
Over 120 days	2,703,761	-	2,703,761
Total	\$ 63,962,263	\$ -	\$ 63,962,263

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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16. Financial instruments (cont'd)

Credit risk (cont'd)

	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
December 31, 2010			
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 \$51,139 (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

Bank indebtedness is 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 September 30, 2011 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at September 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 \$84,670 (September 30, 2010 - \$60,495).

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 payables in foreign currencies.

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16. Financial instruments (cont'd)

Currency risk (cont'd)

Accounts receivable in foreign currency was \$2,269,778 as at September 30, 2011 (September 30, 2010 - \$1,390,316), accounts payable in foreign currency outstanding as at September 30, 2011 is \$3,850,556 (September 30, 2010 - \$7,321,929), and a promissory note in foreign currency outstanding at \$374,234 (September 30, 2010 - \$nil). The Company realized a foreign exchange loss of \$215,931 (September 30, 2010 - gain of \$532,267) during the three month period ended September 30, 2011. Based on the monetary assets and liabilities held in the United States ("US") at September 30, 2011, a 5% increase in exchange rates would impact the Company's net earnings by approximately \$50,468 (September 30, 2010 - \$209,271).

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 September 30, 2011 are as follows:

	Bank credit facility	Accounts payable	Promissory notes payable *	Finance leases*	Total
2011	\$ 45,391,435	\$ 35,933,046	\$ 1,030,205	\$ 223,055	\$ 82,577,741
2012	-	-	375,977	216,678	592,655
2013	-	-	-	189,178	189,178
2014	-	-	-	148,391	148,391
2015	-	-	-	106,539	106,539
Thereafter	-	-	-	12,826	12,826
Total	\$ 45,391,435	\$ 35,933,046	\$ 1,406,182	\$ 896,667	\$ 83,627,330

* includes interest calculated to be paid

On September 21, 2011 the Company entered into a three year purchase commitment with a vendor of a fluids division product normally purchased and distributed by the Company. The agreement sets minimum purchase volumes per month and provides the Company access to additional volumes on a preferred basis if the terms are met.

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16. Financial instruments (cont'd)

Liquidity risk (cont'd)

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

	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:

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

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

16.3 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 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 bank indebtedness approximates the fair value as its interest rate is similar to the current market rate for similar debt. The promissory notes payable have a fair value of \$1,416,555 (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).

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17. Related party transactions

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

17.1 Transactions with related entities

During the three and nine month periods ended September 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:

- a) Management and other advisory services of \$nil and \$nil respectively (September 30, 2010 – \$30,000 and \$90,000) were paid to a company over which a director has significant influence.
- b) Accounting, administrative and corporate expenses of \$15,000 and \$45,000 respectively (September 30, 2010 – \$9,156 and \$27,468) were paid to a company over which a director has significant influence.

17.2 Other related party transactions

The Company expensed interest of \$nil and \$27,419 (September 30, 2010 - \$33,000 and \$99,000) 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 \$32,115 and \$109,335 (September 30, 2010 - \$45,370 and \$134,631) on promissory notes payable issued on the acquisition of Bri-Chem Steel which are held by three of the former owners of Bri-Chem Steel. 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 \$5,205 and \$6,931 (September 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.

18. 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:

	September 30 2011	December 31 2010
Bank indebtedness	\$ 45,391,435	\$ 39,552,948
Long-term debt	-	3,018,194
Promissory notes payable	1,389,357	4,385,707
Obligations under finance lease	774,445	92,571
Shareholders' equity	37,892,573	23,677,054
Total capital	\$ 85,447,810	\$ 70,726,474

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

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 requires the Company to maintain certain financial covenants. The Company reports these requirements on a monthly basis. As at September 30, 2011 and December 31, 2010, the Company was in compliance with all financial covenants. Key financial covenants as at September 30, 2011 are defined as follows:

Adjusted tangible net worth is set at a minimum and defined as total assets, less intangibles and goodwill, divided by total liabilities.

Capital expenditures limit is set at a maximum of 120% of the budgeted yearly expenditures, calculated based on a trailing-twelve month term.

19. 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 September 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.

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

19.1 Equity reconciliation

	September 30, 2010			
	Previous GAAP	Effect of transition to IFRS	Effect of accounting policy change	IFRS
		(Note 19.3)	(Note 4)	
Assets				
Current				
Accounts receivable	\$ 37,981,186	\$ -	\$ -	\$ 37,981,186
Inventories	43,767,385	-	(11,984)	43,755,401
Prepaid expenses and deposits	2,519,762	-	-	2,519,762
Income taxes receivable	-	-	-	-
Current assets	84,268,333	-	(11,984)	84,256,349
Non-current				
Property and equipment	3,527,782	(22,259)	-	3,505,523
Intangible assets	951,353	(266,146)	-	685,207
Deferred tax assets	379,574	-	-	379,574
Total assets	\$ 89,127,042	\$ (288,405)	\$ (11,984)	\$ 88,826,653
Liabilities				
Current				
Bank indebtedness	\$ 30,179,995	\$ -	\$ -	\$ 30,179,995
Accounts payable and accrued liabilities	26,245,226	-	-	26,245,226
Income taxes payable	1,638,257	-	-	1,638,257
Customer deposits	118,343	-	-	118,343
Promissory notes payable	1,182,759	-	-	1,182,759
Long-term debt	941,185	-	-	941,185
Obligations under finance lease	82,975	-	-	82,975
Current liabilities	60,388,740	-	-	60,388,740
Non-current				
Promissory notes payable	4,200,000	-	-	4,200,000
Long-term debt	2,341,858	-	-	2,341,858
Obligations under finance lease	5,722	-	-	5,722
Deferred tax liabilities	402,714	(83,646)	-	319,068
Total liabilities	\$ 67,339,034	\$ (83,646)	\$ -	\$ 67,255,388

Bri-Chem Corp.
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19. First time adoption of IFRS (cont'd)

19.1 Equity reconciliation (cont'd)

	September 30, 2010			
	Previous GAAP	Effect of transition to IFRS	Effect of accounting policy change	IFRS
		(Note 19.3)	(Note 4)	
Equity				
Share capital	\$ 14,439,209	\$ -	\$ -	\$ 14,439,209
Contributed surplus	1,109,990	-	-	1,109,990
Warrants	188,050	-	-	188,050
Retained earnings	6,050,759	(204,759)	(11,984)	5,834,016
Total Equity	\$ 21,788,008	\$ (204,759)	\$ (11,984)	\$ 21,571,265
Total Liabilities and Equity	\$ 89,127,042	\$ (288,405)	\$ (11,984)	\$ 88,826,653

The total effect on retained earnings is further analyzed as follows:

	January 1, 2010	September 30, 2010
Write-off of website costs, net of amortization	19,018	22,259
Write-off of non-compete intangibles, net of amortization	334,583	266,146
Adjustment to deferred tax liabilities	(83,646)	(83,646)
Effect on transition to IFRS	\$ 269,955	\$ 204,759

Bri-Chem Corp.

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

19.2 Total comprehensive income reconciliation

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

	Previous GAAP	Effect of transition to IFRS (Note 19.3)	Effect of accounting policy adjustment (Note 4)	IFRS
Sales	\$ 38,484,673	\$ -	\$ -	\$ 38,484,673
Cost of sales	32,765,124	-	(59,975)	32,705,149
Gross margin	5,719,549	-	59,975	5,779,524
Expenses				
Salaries and benefits	1,505,713	-	-	1,505,713
Selling, general and administration	1,014,645	-	-	1,014,645
Foreign exchange gain	(532,267)	-	-	(532,267)
Interest on short-term operating debt	241,039	-	-	241,039
Interest on long-term debt	156,929	-	-	156,929
Amortization on property and equipment	93,577	(1,271)	-	92,306
Amortization on intangible assets	104,454	(22,812)	-	81,642
Interest on obligations under finance lease	1,822	-	-	1,822
	2,585,912	(24,083)	-	2,561,829
Earnings before income taxes	3,133,637	24,083	59,975	3,217,695
Income tax expense	869,937	-	-	869,937
Net earnings and comprehensive income	\$ 2,263,700	\$ 24,083	\$ 59,975	\$ 2,347,758
Earnings attributable to:				
Shareholders of the Company	\$ 2,263,700	\$ 24,083	\$ 59,975	\$ 2,347,758
Non-controlling interest	\$ -	\$ -	\$ -	\$ -

Total basic and diluted EPS for the three months ended September 30, 2010 are \$0.17 and \$0.17 respectively under IFRS and have increased by \$0.01 and \$0.01 respectively from previous GAAP.

Bri-Chem Corp.

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

19.2 Total comprehensive income reconciliation (cont'd)

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

	Previous GAAP	Effect of transition to IFRS (Note 19.3)	Effect of accounting policy adjustment (Note 4)	IFRS
Sales	\$ 104,643,132	\$ -	\$ -	\$ 104,643,132
Cost of sales	89,385,095	-	(103,977)	89,281,118
Gross margin	15,258,037	-	103,977	15,362,014
Expenses				
Salaries and benefits	4,555,044	-	-	4,555,044
Selling, general and administration	3,077,046	6,405	-	3,083,451
Foreign exchange gain	(960,408)	-	-	(960,408)
Interest on short-term operating debt	719,111	-	-	719,111
Interest on long-term debt	489,347	-	-	489,347
Amortization on property and equipment	338,121	(3,164)	-	334,957
Amortization on intangible assets	313,499	(68,437)	-	245,062
Interest on obligations under finance lease	4,783	-	-	4,783
	8,536,543	(65,196)	-	8,471,347
Earnings before income taxes	6,721,494	65,196	103,977	6,890,667
Income tax expense	1,877,028	-	-	1,877,028
Net earnings and comprehensive income	\$ 4,844,466	\$ 65,196	\$ 103,977	\$ 5,013,639
Earnings attributable to:				
Shareholders of the Company	\$ 4,844,466	\$ 65,196	\$ 103,977	\$ 5,013,639
Non-controlling interest	\$ -	\$ -	\$ -	\$ -

Total basic and diluted EPS for the nine months ended September 30, 2010 are \$0.36 and \$0.36 respectively under IFRS and have increased by \$0.01 and \$0.01 respectively from previous GAAP.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
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19. First time adoption of IFRS (cont'd)

19.3 Notes to the reconciliations

Property and equipment

The decrease in property and equipment as at January 1, 2010, September 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 \$nil and \$6,405 were removed from the balance sheet and expensed for the three and nine month period ended September 30, 2010. Related amortization expense of \$1,271 and \$3,164 for the three and nine month period ended September 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. The related impact to deferred income taxes was to remove \$83,646 of liability from the balance sheet on transition. September 30, 2010 and December 31, 2010 balances were then adjusted for the accumulated amortization expense recorded in relation to these intangible assets in each period, reducing amortization expense by \$22,812 and \$68,437 for the three and nine month period ended September 30, 2010.

Share-based payments

At December 31, 2010, the Company recorded an additional \$1,065 of expense related to consultant options issued in the period. Previously, these options were valued based using the Black Scholes Option Pricing Model, but under IFRS the Company was required to value these options based on the fair value of the services provided in exchange for the option issue.

Bri-Chem Corp.**Notes to the Interim Consolidated Financial Statements**

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

19.4 Statement of cash flows presentation

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

For the three months ended September 30, 2010	Previous GAAP	Effect of transition to IFRS	Effect of accountin g policy change	IFRS
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings	\$ 2,263,699	\$ 24,083	\$ 59,975	\$ 2,347,757
Non-cash items:				
Amortization on property and equipment	93,577	(1,271)	-	92,306
Amortization on intangible assets	104,454	(22,812)	-	81,642
Amortization of debt related transaction costs	22,628	-	-	22,628
Deferred tax recovery	(164,554)	-	-	(164,554)
Share-based payments	88,090	-	-	88,090
Gain on sale of property and equipment	(11,453)	-	-	(11,453)
	2,396,441	-	59,975	2,456,416
Change in non-cash working capital	(12,682,144)	-	(59,975)	(12,742,119)
	(10,285,703)	-	-	(10,285,703)
Financing activities				
Advances on promissory notes payable	78,370	-	-	78,370
Advances of operating line	10,587,965	-	-	10,587,965
Repayment of promissory notes payable	-	-	-	-
Repayment of long-term debt	(216,510)	-	-	(216,510)
Repurchase of common shares	(67,125)	-	-	(67,125)
Repayment of obligations under finance lease	(26,660)	-	-	(26,660)
	10,356,040	-	-	10,356,040
Investing activities				
Purchase of property and equipment	(98,509)	-	-	(98,509)
Purchase of intangible assets	(3,750)	-	-	(3,750)
Proceeds on disposal of property and equipment	31,922	-	-	31,922
	(70,337)	-	-	(70,337)
Net increase in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	\$ -	\$ -	\$ -	\$ -

Bri-Chem Corp.**Notes to the Interim Consolidated Financial Statements**

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

19.4 Statement of cash flows presentation (cont'd)

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

For the nine months ended September 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	\$ 4,844,466	\$ 65,196	\$ 103,977	\$ 5,013,639
Non-cash items:				
Amortization on property and equipment	338,121	(3,164)	-	334,957
Amortization on intangible assets	313,499	(68,437)	-	245,062
Amortization of debt related transaction costs	67,884	-	-	67,884
Deferred tax recovery	(312,300)	-	-	(312,300)
Share-based payment	151,749	-	-	151,749
Gain on sale of property and equipment	(6,468)	-	-	(6,468)
	<u>5,396,951</u>	<u>(6,405)</u>	<u>103,977</u>	<u>5,494,523</u>
Change in non-cash working capital	<u>(6,282,820)</u>	<u>-</u>	<u>(103,977)</u>	<u>(6,386,797)</u>
	<u>(885,869)</u>	<u>(6,405)</u>	<u>-</u>	<u>(892,274)</u>
Financing activities				
Advances on promissory notes payable	233,419	-	-	233,419
Advances of operating line	2,525,869	-	-	2,525,869
Repayment of promissory notes payable	(376,356)	-	-	(376,356)
Repayment of long-term debt	(579,325)	-	-	(579,325)
Repayment of obligations under finance lease	(99,504)	-	-	(99,504)
Repurchase of common shares	(584,929)	-	-	(584,929)
	<u>1,119,174</u>	<u>-</u>	<u>-</u>	<u>1,119,174</u>
Investing activities				
Purchase of property and equipment	(255,974)	6,405	-	(249,569)
Purchase of intangible assets	(23,753)	-	-	(23,753)
Proceeds on disposal of property and equipment	46,422	-	-	46,422
	<u>(233,305)</u>	<u>6,405</u>	<u>-</u>	<u>(226,900)</u>
Net increase in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	\$ -	\$ -	\$ -	\$ -

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20. Post-reporting date event

a) The outstanding \$1,000,000 promissory note payable, plus accrued interest of \$24,329, was paid out on October 28, 2011 to the three former owners of Bri-Chem Steel Corporation.

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

21. Authorization of financial statements

The consolidated financial statements for the period ended September 30, 2011 (including comparatives) were approved by the Board of Directors on November 10, 2011.

(signed) Don Caron
Don Caron, Director

(signed) Eric Sauze
Eric Sauze, Director