



Bri-Chem Corp.
Second Quarter Interim Report
June 30, 2012
(unaudited)

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

	June 30 (three months ended)		June 30 (six months ended)	
	2012	2011	2012	2011
Sales	\$ 30,931,414	\$ 25,770,316	\$ 83,497,862	\$ 76,417,804
Cost of sales	26,128,584	21,276,572	69,513,930	64,248,950
Gross margin	4,802,830	4,493,744	13,983,932	12,168,854
Expenses				
Salaries and benefits	2,406,094	1,645,832	4,767,568	3,304,459
Selling, general and administration	2,350,897	1,474,536	4,434,892	3,110,599
Foreign exchange gain	(38,085)	(46,028)	(505,162)	(51,418)
Interest on short-term operating debt	459,889	458,456	1,174,997	909,858
Interest on long-term debt	9,821	103,782	14,776	250,744
Amortization on property and equipment	398,516	152,842	840,697	262,917
Amortization on intangible assets	117,047	99,587	233,506	184,928
Interest on obligations under finance lease	6,263	10,442	22,273	12,465
Total expenses	5,710,442	3,899,449	10,983,547	7,984,552
(Loss) earnings before income taxes (recovery)	(907,612)	594,295	3,000,385	4,184,302
Income tax expense (recovery)				
Current	154,998	265,991	1,326,153	1,334,985
Deferred	(292,803)	(108,453)	(449,564)	(219,896)
Total Income tax (recovery) expense	(137,805)	157,538	876,589	1,115,089
Net (loss) earnings	\$ (769,807)	\$ 436,757	\$ 2,123,796	\$ 3,069,213
(Loss) earnings attributable to:				
Shareholders of the Company	\$ (506,285)	\$ 527,098	\$ 2,555,192	\$ 3,242,775
Non-controlling interest (Note 9)	(263,522)	(90,341)	(431,396)	(173,562)
	\$ (769,807)	\$ 436,757	\$ 2,123,796	\$ 3,069,213
(Loss) earnings per share (Note 10)				
Basic	\$ (0.03)	\$ 0.03	\$ 0.15	\$ 0.21
Diluted	\$ (0.03)	\$ 0.03	\$ 0.15	\$ 0.20

See accompanying notes to the interim consolidated financial statements.

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

	June 30		June 30	
	(three months ended)		(six months ended)	
	2012	2011	2012	2011
Net (loss) earnings	\$ (769,807)	\$ 436,757	\$ 2,123,796	\$ 3,069,213
Other comprehensive loss, net of tax				
Foreign currency translation adjustment	(666,657)	(18,404)	(678,077)	(18,404)
Comprehensive (loss) income	\$ (1,436,464)	\$ 418,353	\$ 1,445,719	\$ 3,050,809
Comprehensive (loss) income attributable to:				
Shareholders of the Company	\$ (1,172,942)	\$ 508,694	\$ 1,877,115	\$ 3,224,371
Non-controlling interest (Note 9)	(263,522)	(90,341)	(431,396)	(173,562)
	\$ (1,436,464)	\$ 418,353	\$ 1,445,719	\$ 3,050,809

See accompanying notes to the interim consolidated financial statements.

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

	June 30	December 31
	2012	2011
Assets		
Current		
Accounts receivable	\$ 31,656,121	\$ 56,860,660
Inventories	69,399,818	54,179,238
Prepaid expenses and deposits	4,187,953	1,981,023
	<u>105,243,892</u>	<u>113,020,921</u>
Non-current		
Property and equipment	10,244,219	9,808,587
Intangible assets	841,473	1,073,959
Goodwill	532,807	548,466
Deferred tax assets	1,627,652	1,131,987
Other long-term receivables	99,393	86,424
	<u>\$ 118,589,436</u>	<u>\$ 125,670,344</u>
Liabilities		
Current		
Bank indebtedness	\$ 45,616,412	\$ 48,910,877
Accounts payable and accrued liabilities	25,439,063	30,137,391
Customer deposits	52,859	52,859
Current portion of promissory notes payable	-	368,466
Current portion of obligations under finance lease (Note 5)	206,773	177,578
Income taxes payable	351,892	934,049
	<u>71,666,999</u>	<u>80,581,220</u>
Non-current		
Obligations under finance lease (Note 5)	499,454	559,868
Other long-term liabilities	146,264	116,150
Deferred tax liabilities	463,962	463,625
	<u>72,776,679</u>	<u>81,720,863</u>
Equity		
Share capital (Note 7)	26,143,554	25,862,877
Contributed surplus	765,314	613,004
Warrants (Note 8)	72,767	88,200
Non-controlling interest (Note 9)	(1,100,180)	(668,784)
Retained earnings	20,602,382	18,047,187
Accumulated other comprehensive (loss) income	(671,080)	6,997
	<u>45,812,757</u>	<u>43,949,481</u>
	<u>\$ 118,589,436</u>	<u>\$ 125,670,344</u>

Obligations under operating lease (Note 6)

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

	Share capital	Contributed surplus	Warrants	Accumulated other compensative loss	Retained earnings	Total attributed to:		
						The Company	Non-controlling interest	Total equity
Balance at January 1, 2012	\$ 25,862,877	\$ 613,004	\$ 88,200	\$ 6,997	\$ 18,047,187	\$ 44,618,265	\$ (668,784)	\$ 43,949,481
Issuance of shares upon exercise of options	195,244	(29,755)	-	-	-	165,489	-	165,489
Issuance of shares upon exercise of warrants	85,433	-	(15,433)	-	-	70,000	-	70,000
Employee share-based payment options	-	195,451	-	-	-	195,451	-	195,451
Consultant share-based payment options	-	(13,386)	-	-	-	(13,386)	-	(13,386)
Net earnings	-	-	-	-	2,555,195	2,555,195	(431,396)	2,123,799
Other comprehensive loss	-	-	-	(678,077)	-	(678,077)	-	(678,077)
Balance at June 30, 2012	\$ 26,143,554	\$ 765,314	\$ 72,767	\$ (671,080)	\$ 20,602,382	\$ 46,912,937	\$ (1,100,180)	\$ 45,812,757

See accompanying notes to the interim consolidated financial statements.

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

	Share capital	Contributed surplus	Warrants	Accumulated other compensative loss	Retained earnings	Total attributed to:		
						The Company	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
Issuance of shares upon exercise of options	693,109	(207,329)	-	-	-	485,780	-	485,780
Issuance of shares upon exercise of 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	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.
Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(unaudited)

For the six months ended	June 30 2012	June 30 2011
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net earnings	\$ 2,123,796	\$ 3,069,213
Non-cash items:		
Amortization on property and equipment	840,697	262,917
Amortization on intangible assets	233,506	184,928
Amortization of debt related transaction costs	-	34,838
Deferred tax recovery	(449,564)	(219,896)
Share based compensation	195,451	18,789
Gain on sale of property and equipment	(73,911)	-
	<u>2,869,975</u>	<u>3,350,789</u>
Change in non-cash working capital	<u>1,804,489</u>	<u>4,559,688</u>
	<u>4,674,464</u>	<u>7,910,477</u>
Financing activities		
Advances on promissory notes payable	-	106,229
Repayments of operating line	(3,294,465)	(8,195,485)
Repayment of promissory notes payable	(368,466)	(2,462,020)
Repayment of long-term debt	-	(360,590)
Proceeds on issuance of shares	222,103	6,433,047
Repayment of obligations under finance lease	(31,219)	(100,713)
	<u>(3,472,047)</u>	<u>(4,579,532)</u>
Investing activities		
Purchase of property and equipment	(1,225,242)	(2,355,364)
Purchase of intangible assets	(59,909)	(6,981)
Proceeds on disposal of property and equipment	82,734	-
Cash paid on acquisition	-	(968,600)
	<u>(1,202,417)</u>	<u>(3,330,945)</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	\$ 1,211,068	\$ 1,256,501
Income taxes paid	\$ 752,706	\$ 1,345,382

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

June 30, 2012

(unaudited)

1. Nature of operations

Bri-Chem Corp.'s ("the Company") shares are publicly traded on the Toronto Stock Exchange under the symbol BRY. Since 1985, Bri-Chem has established two primary segments of business through a combination of internal growth and acquisitions: Bri-Chem's Drilling Fluid Division is North America's largest independent wholesale supplier of drilling fluids for the oil and gas industry. The Company provides critical drilling fluid products, cementing, acidizing and stimulation additives from multiple strategically located warehouses throughout Canada and the United States; Bri-Chem's Steel Pipe Division is a wholesale distributor of carbon steel pipe and a manufacturer of large diameter seamless steel pipe for the energy industry.

2. Basis of presentation

The unaudited interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They do not contain all necessary annual disclosures in accordance with IFRS.

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

3. New accounting policies

These interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's consolidated financial statements for the year ended December 31, 2011.

4. 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.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

June 30, 2012

(unaudited)

5. 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, 2012				
Lease payments	\$ 242,755	\$ 546,642	\$ -	\$ 789,397
Finance charges	35,982	47,188	-	83,170
Net present value	\$ 206,773	\$ 499,454	\$ -	\$ 706,227
December 31, 2011				
Lease payments	\$ 225,806	\$ 620,825	\$ 7,112	\$ 853,743
Finance charges	48,228	67,974	95	116,297
Net present value	\$ 177,578	\$ 552,851	\$ 7,017	\$ 737,446

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.

6. Obligations under operating lease

6.1 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, 2012	\$ 3,388,208	11,497,160	2,170,404	\$ 17,055,772
December 31, 2011	\$ 2,871,777	8,743,273	2,108,538	\$ 13,723,588

The Company leases a number of warehouse locations and office equipment under operating leases. Lease payments recognized as an expense during the six months amounted to \$726,177 (June 30, 2011 - \$547,063). This amount consists of minimum lease payments.

The Company has sub-leased property with a term of eight years expiring June 30, 2019. Additionally the Company has sub-leased property with a term of five years expiring October 31, 2016. Sublease revenues of \$230,547 (June 30, 2011 - \$nil) were received in the period and recorded in sales on the statement of operations.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

June 30, 2012

(unaudited)

6. Obligations under operating lease (cont'd)

6.2 The Company as Lessor

The Company has leased property owned with a term of 1 year expiring December 31, 2012. In addition, the Company has sub-leased additional property with a term of 8 years expiring June 30, 2019 and subleased property with a term of 5 years expiring October 16, 2016. The lessee does not have an option to purchase the property at the expiry of the lease term.

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, 2012	\$ 671,070	3,681,830	1,345,914	\$ 5,698,814
December 31, 2011	\$ 12,000	-	-	\$ 12,000

7. 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, 2011	13,704,886	\$ 14,451,480
Issuance of shares upon exercise of options	1,054,312	2,657,282
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	171,429	488,251
Balance, December 31, 2011	17,180,627	\$ 23,727,210
Issuance of shares upon exercise of options	56,968	195,245
Issuance of shares upon exercise of warrants	33,333	85,433
Balance, June 30, 2012	17,270,928	\$ 24,007,888
Preferred shares in subsidiary		
Balance, January 1, 2011	-	\$ -
Issuance of Series 1 non-voting preferred shares	2,100,000	2,135,666
Balance December 31, 2011 and June 30, 2012	2,100,000	\$ 2,135,666
Share capital balance, June 30, 2012	19,370,928	\$ 26,143,554

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

June 30, 2012

(unaudited)

7. Share capital (cont'd)

- 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 resale restrictions exist on the following shares:

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

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

- c) On December 31, 2011 a subsidiary of the Company issued 2,100,000 Preferred, Series 1 non-puttable shares with a fair value of \$2,135,667 to its 30% non-controlling interest partner in exchange for equipment and technical knowledge contributed to the subsidiary. Upon redemption of these shares by the subsidiary, the Company has an option to repurchase the outstanding common shares of the subsidiary, to which no value has been attached at June 30, 2012.

8. Share-based payments

8.1 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 May 14, 2012, the directors of the Company approved a new stock plan. Under the new plan, the maximum number of common shares issuable pursuant to the new Plan together with all other share-based compensation arrangements of the Company is a rolling maximum equal to 10 percent of the total outstanding common shares on a non-dilutive basis. Upon exercise, cancellation or expiration of any options, the common shares subject to such options shall be available for other options to be granted from time to time. As at June 30, 2012, the Plan permits the authorization to grant up to a maximum of 1,723,760 shares of the Company. All share-based employee remuneration will be settled in equity.

A summary of transactions during the period is outlined below.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

June 30, 2012

(unaudited)

8. Share-based payments (cont'd)

8.2 Options to employees and directors

June 30, 2012	Number of options	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2012	595,000	\$ 1.50	3.08
Exercised	(10,000)	1.12	0.50
Expired	(10,000)	1.12	-
Outstanding, June 30, 2012	575,000	\$ 1.50	2.83
Options exercisable, June 30, 2012	235,000	\$ 1.50	2.80

December 31, 2011	Number of options	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2011	1,288,000	\$ 1.96	3.15
Issued	350,000	2.94	9.61
Exercised	(1,043,000)	1.81	0.26
Outstanding, December 31, 2011	595,000	\$ 2.35	7.94
Options exercisable, December 31, 2011	245,000	\$ 1.50	3.08

During the three and six month period ended June 30, 2012, \$97,716 and \$195,451 respectively (June 30, 2011- \$7,314 and \$18,789) was expensed in relation to the share-based payment plan to employees and directors.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
June 30, 2012
(unaudited)

8. Share-based payments (cont'd)

8.3 Options to consultants

June 30, 2012	Number of options	Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2012	153,688	\$ 2.85	1.69
Exercised	(46,968)	3.00	1.44
Outstanding, June 30, 2012	106,720	\$ 2.78	1.44
Options exercisable, June 30, 2012	106,720	\$ 2.78	0.13

December 31, 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, December 31, 2011	153,688	\$ 2.85	1.58
Options exercisable, December 31, 2011	153,688	\$ 2.85	1.69

8.4 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.

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

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

June 30, 2012

(unaudited)

8. Share-based payments (cont'd)

8.4 Warrants (cont'd)

	Number of warrants	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2011	350,000	\$ 2.03	1.21
Exercised	(250,000)	2.00	1.00
Outstanding, December 31, 2011	100,000	2.03	0.79
Exercised	(33,333)	2.10	0.54
Outstanding, June 30, 2012	66,667	\$ 2.10	0.04

9. 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.

	June 30 2012	December 31 2011
Balance, beginning of period	\$ (668,784)	\$ (33,411)
Net loss and comprehensive loss	(431,396)	(635,373)
Balance, end of period	\$ (1,100,180)	\$ (668,784)

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

June 30, 2012

(unaudited)

10. (Loss) 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 2012 or 2011.

	June 30	June 30
(three months ended)	2012	2011
Net (loss) earnings attributable to the Shareholders of the Company	\$ (506,285)	\$ 527,098
Basic weighted average number of ordinary shares	17,238,420	15,983,693
Dilutive options issued and outstanding	176,476	758,192
Diluted weighted average number of ordinary shares	17,414,896	16,741,885
Basic (loss) earnings per share	\$ (0.03)	\$ 0.03
Diluted (loss) earnings per share	\$ (0.03)	\$ 0.03

	June 30	June 30
(six months ended)	2012	2011
Net earnings attributable to the Shareholders of the Company	\$ 2,555,195	\$ 3,242,775
Basic weighted average number of ordinary shares	17,216,026	15,270,861
Dilutive options issued and outstanding	198,805	764,667
Diluted weighted average number of ordinary shares	17,414,831	16,035,528
Basic earnings per share	\$ 0.15	\$ 0.21
Diluted earnings per share	\$ 0.15	\$ 0.20

11. 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 significant intersegment revenues between the Steel Manufacturing and the Steel Distribution segments.

The Company has four reportable segments: Fluids, Steel Distribution, Steel Manufacturing and Other. The Other segment represents insignificant segments and all remaining costs not directly attributable to a reportable operating segment, such as corporate overhead.

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

June 30, 2012

(unaudited)

11. Segment reporting (cont'd)

Selected financial information by reportable segment is disclosed as follows:

(three months ended) June 30, 2012	Fluids	Steel Distribution	Steel Manufacturing	Other	Consolidated
Revenues from external customers	\$ 17,975,932	\$ 10,110,382	\$ 2,582,669	\$ 262,431	\$ 30,931,414
Cost of sales	15,260,462	8,336,474	2,392,167	139,481	26,128,584
Segment earnings (loss) from operations	414,286	852,638	(621,535)	(561,466)	83,923
Amortization	125,620	43,778	223,120	123,045	515,563
Interest expense (income)	1,810,397	449,565	116,143	466,689	2,842,794
Income taxes (recovery)	(342,467)	112,795	(292,803)	384,670	(137,805)
Segment profit (loss)	\$ (1,179,264)	\$ 246,500	\$ (667,995)	\$ (1,535,870)	\$ (3,136,628)
Segment assets	\$ 79,424,677	\$ 23,145,322	\$ 15,200,160	\$ 819,277	\$ 118,589,436
Capital expenditures	\$ 358,847	\$ 33,489	\$ 101,078	\$ 668	\$ 494,082

(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 taxes (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

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

June 30, 2012

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11. Segment reporting (cont'd)

(six months ended)			Steel			
June 30, 2012	Fluids	Distribution	Manufacturing	Other	Consolidated	
Revenues from external customers	\$ 61,401,842	\$ 17,086,494	\$ 4,616,916	\$ 392,610	\$ 83,497,862	
Cost of sales	51,233,355	14,257,838	3,802,221	220,516	69,513,930	
Segment earnings (loss) from operations	5,823,092	1,003,744	(645,025)	(895,176)	5,286,635	
Amortization	267,061	84,598	513,298	209,246	1,074,203	
Interest expense	1,822,103	449,793	122,366	1,184,605	3,578,867	
Income taxes (recovery)	1,021,745	141,363	(470,219)	183,700	876,589	
Segment profit (loss)	\$ 2,712,183	\$ 327,990	\$ (810,470)	\$ (2,472,727)	\$ (243,025)	
Segment assets	\$ 79,424,677	\$ 23,145,322	\$ 15,200,160	\$ 819,277	\$ 118,589,436	
Capital expenditures	\$ 929,382	\$ 89,389	\$ 205,803	\$ 668	\$ 1,225,242	

(six months ended)			Steel			
June 30, 2011	Fluids	Distribution	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	

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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11. Segment reporting (cont'd)

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

	June 30		June 30	
(three months ended)	2012		2011	
Revenue				
Canada and International	\$	21,148,669	\$	24,071,173
United States		9,782,745		1,699,143
	\$	30,931,414	\$	25,770,316

Non-current assets

Canada and International	\$	10,702,075	\$	6,183,140
United States		2,643,469		2,579,554
	\$	13,345,544	\$	8,762,694

	June 30		June 30	
(six months ended)	2012		2011	
Revenue				
Canada and International	\$	66,599,564	\$	73,751,341
United States		16,898,298		2,666,463
	\$	83,497,862	\$	76,417,804

Non-current assets

Canada and International	\$	10,702,075	\$	6,183,140
United States		2,643,469		2,579,554
	\$	13,345,544	\$	8,762,694

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

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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12. Financial instruments

12.1 Categories of financial instruments

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

	June 30	December 31
	2012	2011
Financial Assets		
Loans and receivables		
Accounts receivable	\$ 31,656,121	\$ 56,860,660
Financial Liabilities		
Promissory notes payable	\$ -	\$ 368,466
Bank indebtedness	45,616,412	48,910,877
Accounts payable and accrued liabilities	25,439,063	30,137,391
	\$ 71,055,475	\$ 79,416,734

12.2 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 16% and 9% respectively (June 30, 2011 – 18% and 18%) of total revenue during the period and 6% and 3% respectively (June 30, 2011 – 16% and 16%) of total accounts receivable at period end. These customers are within the Company's fluid and steel distribution segments.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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12. Financial instruments (cont'd)

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	December 31
	2012	2011
Trade and other receivables	\$ 31,656,121	\$ 56,860,660

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, 2012	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	\$ 21,204,273	\$ -	\$ 21,204,273
31 to 60 days	7,068,236	-	7,068,236
61 to 90 days	1,863,145	-	1,863,145
91 to 120 days	923,730	-	923,730
Over 120 days	701,886	(105,149)	596,737
Total	\$ 31,761,270	\$ (105,149)	\$ 31,656,121

December 31, 2011	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	\$ 13,286,194	\$ -	\$ 13,286,194
31 to 60 days	14,518,194	-	14,518,194
61 to 90 days	15,473,208	-	15,473,208
91 to 120 days	11,901,369	-	11,901,369
Over 120 days	1,723,547	(41,852)	1,681,695
Total	\$ 56,902,512	\$ (41,852)	\$ 56,860,660

The Company held \$52,859 (December 31, 2011 - \$52,859) 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.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

June 30, 2012

(unaudited)

12. Financial instruments (cont'd)

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 quarterly interest rate on the bank indebtedness at June 30, 2012 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at June 30, 2012, 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 \$89,113 (June 30, 2011 – \$63,144).

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.

Accounts receivable in foreign currency was USD \$6,798,935 as at June 30, 2012 (June 30, 2011 – USD - \$1,586,271), accounts payable in foreign currency outstanding as at June 30, 2012 is USD \$1,476,112 (June 30, 2011 – USD \$457,363), and a promissory note in foreign currency outstanding as at June 30, 2012 is USD \$nil (June 30, 2011 - \$337,577). The Company realized a foreign exchange gain of \$38,085 (June 30, 2011 – gain of \$46,028) during the three month period ended June 30, 2012. Based on the monetary assets and liabilities held in the United States ("US") at June 30, 2012, a 5% increase in exchange rates would impact the Company's net earnings by a gain of approximately \$288,348 (June 30, 2011 – \$38,109).

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.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
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12. Financial instruments (cont'd)

Contractual obligations related to financial liabilities at June 30, 2012 are as follows:

	Bank credit facility	Accounts payable	Promissory notes payable *	Finance leases*	Total
2012	\$ 45,616,412	\$ 25,439,063	\$ -	\$ 242,755	\$ 71,298,230
2013	-	-	-	226,925	226,925
2014	-	-	-	186,907	186,907
2015	-	-	-	131,139	131,139
2016	-	-	-	19,481	19,481
Thereafter	-	-	-	-	-
Total	\$ 45,616,412	\$ 25,439,063	\$ -	\$ 807,207	\$ 71,862,682

* includes interest calculated to be paid

Contractual obligations related to financial liabilities at December 31, 2011 are as follows:

	Bank credit facility	Accounts payable	Promissory notes payable *	Finance leases*	Total
2012	\$ 48,910,877	\$ 30,137,391	\$ 371,000	\$ 225,806	\$ 79,645,074
2013	-	-	-	222,424	222,424
2014	-	-	-	177,560	177,560
2015	-	-	-	132,473	132,473
2016	-	-	-	86,751	86,751
Thereafter	-	-	-	7,112	7,112
Total	\$ 48,910,877	\$ 30,137,391	\$ 371,000	\$ 852,126	\$ 80,271,394

* includes interest calculated to be paid

12.3 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.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
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13. Related party transactions

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

13.1 Transactions with related entities

During the three and six month periods ended June 30, 2012, the Company incurred office sharing costs of \$15,000 and \$30,000 respectively (June 30, 2011 - \$15,000 and \$30,000) in the normal course of operations with BRC Advisors Inc., a company which a certain director and officer has significant influence over.

13.2 Other related party transactions

The Company expensed interest of \$3,510 and \$8,687 (June 30, 2011 - \$1,726 and \$1,726) on the promissory note 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. The promissory note was paid in full on June 1, 2012.

14. 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	December 31
	2012	2011
Bank indebtedness	\$ 45,616,412	\$ 48,910,877
Promissory notes payable	-	368,466
Obligations under finance lease	706,227	737,446
Shareholders' equity	45,812,757	43,949,481
Total capital	\$ 92,135,396	\$ 93,966,270

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 monitors these requirements on a monthly basis. As at June 30, 2012 and December 31, 2011, the Company was in compliance with all financial covenants. Changes in certain key ratios and covenants are as follows:

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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

	June 30 2012	June 30 2012	December 31 2011	December 31 2011
	As calculated	Minimum required	As calculated	Minimum required
Adjusted tangible net worth	\$ 43,724,787	To exceed \$27,105,000	40,320,958	To exceed \$27,105,000
Eligible capital expenditures	1,242,235	Not to exceed \$1,500,000	4,204,589	Not to exceed \$1,500,000

Adjusted tangible net worth is set at a minimum and defined, on a consolidated basis, as total assets, less intangibles and goodwill, excluding deferred tax assets less total liabilities, excluding deferred tax liabilities.

Capital expenditures limit is set at a maximum of 120% of the consolidated budgeted yearly expenditures.

15. Comparative figures

Certain comparative figures have been reclassified to comply with the presentation adopted in the current period.

16. Authorization of financial statements

The consolidated financial statements for the period ended June 30, 2012 (including comparatives) were approved by the Board of Directors on August 14, 2012.

(signed) "Don Caron"
Don Caron, Director

(signed) "Eric Sauze"
Eric Sauze, Director