



Bri-Chem Corp.
Third Quarter Interim Report
September 30, 2012
(unaudited)

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

	September 30 (three months ended)		September 30 (nine months ended)	
	2012	2011	2012	2011
Sales	\$ 36,915,533	\$ 61,135,841	\$ 120,413,395	\$ 137,553,645
Cost of sales	29,820,413	50,755,121	99,334,342	115,004,071
Gross margin	7,095,120	10,380,720	21,079,053	22,549,574
Expenses				
Salaries and benefits	2,520,736	1,972,090	7,288,302	5,276,549
Selling, general and administration	2,232,090	1,908,212	6,666,981	5,018,814
Interest on short-term operating debt	497,504	427,780	1,651,393	1,337,638
Amortization on property and equipment	350,981	255,983	1,191,677	518,900
Foreign exchange (gain) loss	(442,409)	215,931	(947,570)	164,513
Amortization on intangible assets	67,070	125,606	300,576	310,534
Interest on long-term debt	20,289	43,870	56,173	294,614
Interest on obligations under finance lease	10,042	14,320	32,315	26,785
	5,256,303	4,963,792	16,239,847	12,948,347
Earnings before income taxes	1,838,817	5,416,928	4,839,206	9,601,227
Income tax expense				
Current	576,860	1,603,767	1,903,013	2,938,752
Deferred (recovery)	(176,622)	(148,606)	(626,186)	(368,502)
	400,238	1,455,161	1,276,827	2,570,250
Net earnings	\$ 1,438,579	\$ 3,961,767	\$ 3,562,379	\$ 7,030,977
Earnings attributable to:				
Shareholders of the Company	\$ 1,681,937	\$ 4,086,845	\$ 4,237,134	\$ 7,329,617
Non-controlling interest (Note 8)	(243,358)	(125,078)	(674,755)	(298,640)
	\$ 1,438,579	\$ 3,961,767	\$ 3,562,379	\$ 7,030,977
Earnings per share (Note 9)				
Basic	\$ 0.10	\$ 0.25	\$ 0.25	\$ 0.47
Diluted	\$ 0.10	\$ 0.24	\$ 0.24	\$ 0.45

See accompanying notes to the interim consolidated financial statements.

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

	September 30 (three months ended)		September 30 (nine months ended)	
	2012	2011	2012	2011
Net earnings	\$ 1,438,579	\$ 3,961,767	\$ 3,562,379	\$ 7,030,977
Other comprehensive income, net of tax				
Foreign currency translation adjustment	917,444	41,504	239,367	23,100
Comprehensive income	\$ 2,356,023	\$ 4,003,271	\$ 3,801,746	\$ 7,054,077
Comprehensive income attributable to:				
Shareholders of the Company	\$ 2,599,381	\$ 4,128,349	\$ 4,476,501	\$ 7,352,717
Non-controlling interest (Note 8)	(243,358)	(125,078)	(674,755)	(298,640)
	\$ 2,356,023	\$ 4,003,271	\$ 3,801,746	\$ 7,054,077

See accompanying notes to the interim consolidated financial statements.

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

	September 30	December 31
	2012	2011
Assets		
Current		
Accounts receivable	\$ 31,789,001	\$ 56,860,660
Inventories	70,551,542	54,179,238
Prepaid expenses and deposits	7,932,007	1,981,023
	<u>110,272,550</u>	113,020,921
Non-current		
Property and equipment	10,647,442	9,808,587
Intangible assets	773,986	1,073,959
Goodwill	532,807	548,466
Deferred tax assets	1,835,816	1,131,987
Other long-term receivables	113,494	86,424
	<u>113,897,585</u>	125,670,344
	\$ 124,176,095	\$ 125,670,344
Liabilities		
Current		
Bank indebtedness	\$ 44,305,746	\$ 48,910,877
Accounts payable and accrued liabilities	28,413,040	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 4)	200,813	177,578
Income taxes payable	576,705	934,049
	<u>73,549,163</u>	80,581,220
Non-current		
Obligations under finance lease (Note 4)	441,602	559,868
Other long-term liabilities	161,480	116,150
Deferred tax liabilities	453,619	463,625
	<u>1,056,699</u>	1,139,643
	74,605,864	81,720,863
Equity		
Share capital (Note 6)	24,249,025	23,727,210
Contributed surplus	938,943	613,004
Warrants (Note 7)	-	88,200
Non-controlling interest (Note 8)	1,851,577	1,466,882
Retained earnings	22,284,322	18,047,188
Accumulated other comprehensive income	246,364	6,997
	<u>49,570,231</u>	43,949,481
	\$ 124,176,095	\$ 125,670,344

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 comprehensive income	Retained earnings	Total attributed to:		
						The Company	Non-controlling interest	Total equity
Balance at January 1, 2012	\$ 23,727,210	\$ 613,004	\$ 88,200	\$ 6,997	\$ 18,047,188	\$ 42,482,599	\$ 1,466,882	\$ 43,949,481
Issuance of shares upon exercise of options	323,015	(64,708)	-	-	-	258,307	-	258,307
Issuance of shares upon exercise of warrants	198,800	-	(58,800)	-	-	140,000	-	140,000
Expiration of warrants	-	29,400	(29,400)	-	-	-	-	-
Employee share-based payment options	-	374,633	-	-	-	374,633	-	374,633
Consultant share-based payment options	-	(13,386)	-	-	-	(13,386)	-	(13,386)
Increase in partner investment	-	-	-	-	-	-	1,059,450	1,059,450
Net earnings	-	-	-	-	4,237,134	4,237,134	(674,755)	3,562,379
Other comprehensive income	-	-	-	239,367	-	239,367	-	239,367
Balance at September 30, 2012	\$ 24,249,025	\$ 938,943	\$ -	\$ 246,364	\$ 22,284,322	\$ 47,718,654	\$ 1,851,577	\$ 49,570,231

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 income	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	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	488,251	-	-	-	-	488,251	-	488,251
Net earnings	-	-	-	-	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.
Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(unaudited)

For the nine months ended	September 30 2012	September 30 2011
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net earnings	\$ 3,562,379	\$ 7,030,977
Adjustments:		
Amortization	1,492,253	1,006,384
Foreign exchange (gain) loss related to outstanding debt	(1,339,810)	232,132
Interest paid on debt and finance lease	1,739,881	1,749,907
Deferred tax recovery	(626,186)	(368,502)
Share-based payments	374,633	145,978
Gain on sale of property and equipment	(7,967)	(1,632)
	<u>5,195,183</u>	<u>9,795,244</u>
Change in non-cash working capital	2,055,049	(8,993,450)
	<u>7,250,232</u>	<u>801,794</u>
Financing activities		
(Repayments) advances on promissory notes payable	(368,466)	143,841
(Repayments) advances of operating line	(3,265,321)	5,319,686
Interest paid on debt and finance lease	(1,739,881)	(1,749,907)
Repayment of promissory notes payable	-	(3,507,061)
Repayment of long-term debt	-	(3,154,700)
Proceeds on issuance of shares (Note 6)	385,525	6,339,247
Repayment of obligations under finance lease	(95,031)	(146,288)
	<u>(5,083,174)</u>	<u>3,244,818</u>
Investing activities		
Purchase of property and equipment	(2,175,005)	(3,072,663)
Purchase of intangible assets	(144,244)	(6,981)
Proceeds on disposal of property and equipment	152,191	1,632
Cash paid on acquisition (Note 6)	-	(968,600)
	<u>(2,167,058)</u>	<u>(4,046,612)</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 related to operating activities:		
Income taxes paid	\$ 2,260,357	\$ 2,393,168
Non-cash financing activities		
Partner inventory contribution (Note 8)	\$ 1,059,450	\$ -

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

September 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. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011.

3. Seasonality of operations

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern Western Canadian Sedimentary Basin ("WCSB") are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

4. 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, 2012				
Lease payments	\$ 233,976	\$ 479,467	\$ -	\$ 713,443
Less: Finance charges	33,163	37,865	-	71,028
Net present value	\$ 200,813	\$ 441,602	\$ -	\$ 642,415
December 31, 2011				
Lease payments	\$ 225,806	\$ 620,825	\$ 7,112	\$ 853,743
Less: Finance charges	48,228	67,974	95	116,297
Net present value	\$ 177,578	\$ 552,851	\$ 7,017	\$ 737,446

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

September 30, 2012

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4. Obligations under finance lease (cont'd)

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.

5. Obligations under operating lease

5.1 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, 2012	\$ 3,384,843	\$ 11,081,006	\$ 1,938,684	\$ 16,404,533
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 period amounted to \$726,813 (September 30, 2011 - \$610,273). This amount consists of minimum lease payments.

5.2 The Company as Lessor

The Company has leased property owned with a term of one year expiring December 31, 2012. In addition, the Company has sub-leased additional property with a term of eight years expiring June 30, 2019 and subleased property with a term of five years expiring October 16, 2016. Sublease revenues of \$230,547 (September 30, 2011 - \$nil) were received in the period and recorded in sales on the statement of operations. 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
September 30, 2012	\$ 668,070	\$ 3,681,830	\$ 1,345,914	\$ 5,695,814
December 31, 2011	12,000	-	-	12,000

Bri-Chem Corp.
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6. 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, 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	119,167	323,015
Issuance of shares upon exercise of warrants	66,667	198,800
Balance, September 30, 2012	17,366,461	\$ 24,249,025

- 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 these shares:
- 57,143 common shares with resale restrictions expiring May 31, 2013
 - 57,143 common shares with resale restrictions expiring May 31, 2014

Bri-Chem Corp.
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7. Share-based payments

7.1 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 September 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.

7.2 Options to employees and directors

	Number of options	Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2012	595,000	\$ 1.50	3.08
Issued	695,000	2.77	9.87
Exercised	(47,200)	2.23	0.50
Expired	(127,800)	2.31	-
Outstanding, September 30, 2012	1,115,000	\$ 2.73	6.12
Options exercisable, September 30, 2012	206,666	\$ 2.36	2.74

	Number of options	Weighed 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

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
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7. Share-based payments (cont'd)

7.2 Options to employees and directors (cont'd)

During the three and nine month period ended September 30, 2012, \$113,363 and \$308,814 respectively (September 30, 2011- \$7,314 and \$18,789) was expensed in relation to the share-based payment plan to employees and directors.

7.3 Options to consultants

	Number of options	Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2012	153,688	\$ 2.85	1.69
Exercised	(71,968)	3.00	0.29
Expired	(81,720)	2.68	-
Outstanding, September 30, 2012	-	-	-
Options exercisable, September 30, 2012	-	-	-

	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

7.4 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. These warrants expired on July 17, 2012.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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7. Share-based payments (cont'd)

7.4 Warrants (cont'd)

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, 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	(66,667)	2.10	0.20
Expired	(33,333)	2.10	-
Outstanding, September 30, 2012	-	-	-

8. 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.

On December 31, 2011 a subsidiary of the Company issued 2,100,000 Preferred, Series 1 non-puttable shares with a fair value of \$2,135,666 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 September 30, 2012.

During the quarter, the increase of partner investment of \$1,059,450 includes raw materials inventory contributed by Wuxi to reflect the partner's proportionate share of the investment in the Company's subsidiary.

	September 30 2012	December 31 2011
Balance, beginning of period	\$ 1,466,882	\$ (33,411)
Inventory investment by partner	1,059,450	-
Issuance of preferred shares	-	2,135,666
Net loss and comprehensive loss	(674,755)	(635,373)
Balance, end of period	\$ 1,851,577	\$ 1,466,882

The Company has adjusted non-controlling interest to reflect the preferred shares issued to Wuxi. The preferred shares were previously reflected in share capital as preferred shares.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

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(unaudited)

9. 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.

	September 30	September 30
(three months ended)	2012	2011
Net earnings attributable to the Shareholders of the Company	\$ 1,681,937	\$ 4,086,845
Basic weighted average number of ordinary shares	17,331,854	16,421,279
Dilutive options issued and outstanding	<u>70,023</u>	495,585
Diluted weighted average number of ordinary shares	<u>17,401,877</u>	16,916,864
Basic earnings per share	\$ 0.10	\$ 0.25
Diluted earnings per share	<u>\$ 0.10</u>	<u>\$ 0.24</u>

	September 30	September 30
(nine months ended)	2012	2011
Net earnings attributable to the Shareholders of the Company	\$ 4,237,134	\$ 7,329,617
Basic weighted average number of ordinary shares	17,254,916	15,658,547
Dilutive options issued and outstanding	<u>147,787</u>	665,750
Diluted weighted average number of ordinary shares	<u>17,402,703</u>	16,324,297
Basic earnings per share	\$ 0.25	\$ 0.47
Diluted earnings per share	<u>\$ 0.24</u>	<u>\$ 0.45</u>

10. 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.

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**

September 30, 2012

(unaudited)

10. Segment reporting (cont'd)

(three months ended) September 30, 2012	Fluids	Steel Distribution	Steel Manufacturing	Other	Consolidated
Revenues from external customers	\$ 27,914,492	\$ 4,645,226	\$ 4,065,418	\$ 290,397	\$ 36,915,533
Cost of sales	22,867,118	3,522,955	3,178,811	251,529	29,820,413
Segment earnings (loss) from operations	3,053,918	187,768	(141,529)	(315,454)	2,784,703
Amortization	293,187	44,207	51,765	28,892	418,051
Interest expense	(10,402)	35	9,860	528,342	527,835
Income tax expense (recovery)	438,739	22,055	(17,474)	(43,082)	400,238
Segment profit (loss)	\$ 2,332,394	\$ 121,471	\$ (185,680)	\$ (829,606)	\$ 1,438,579
Segment assets	\$ 81,583,875	\$ 16,486,885	\$ 24,502,003	\$ 1,603,332	\$ 124,176,095
Capital expenditures	\$ 275,916	\$ 50,048	\$ 613,521	\$ 4,250	\$ 943,735

(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

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

September 30, 2012

(unaudited)

10. Segment reporting (cont'd)

(nine months ended)			Steel	Steel		
September 30, 2012	Fluids	Distribution	Manufacturing	Other	Consolidated	
Revenues from external customers	\$ 89,316,333	\$ 21,731,720	\$ 8,682,335	\$ 683,007	\$ 120,413,395	
Cost of sales	74,100,472	17,780,793	6,981,032	472,045	99,334,342	
Segment earnings (loss) from operations	8,877,013	1,191,512	(786,554)	(1,210,631)	8,071,340	
Amortization	560,246	128,805	745,627	57,575	1,492,253	
Interest expense	4,962	308	21,664	1,712,947	1,739,881	
Income tax expense (recovery)	1,404,279	188,488	(124,427)	(191,513)	1,276,827	
Segment profit (loss)	\$ 6,907,526	\$ 873,911	\$ (1,429,418)	\$ (2,789,640)	\$ 3,562,379	
Segment assets	\$ 81,583,875	\$ 16,486,885	\$ 24,502,003	\$ 1,603,332	\$ 124,176,095	
Capital expenditures	\$ 1,211,326	\$ 139,437	\$ 819,324	\$ 4,918	\$ 2,175,005	

(nine months ended)			Steel	Steel		
September 30, 2011	Fluids	Distribution	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	

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

September 30, 2012

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10. Segment reporting (cont'd)

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

	September 30		September 30
(three months ended)	2012		2011
Revenue			
Canada and International	\$	30,849,136	\$ 58,201,702
United States		6,066,397	2,934,139
	\$	36,915,533	\$ 61,135,841
Non-current assets			
Canada and International	\$	11,594,515	\$ 9,909,126
United States		2,309,030	1,964,839
	\$	13,903,545	\$ 11,873,965

	September 30		September 30
(nine months ended)	2012		2011
Revenue			
Canada and International	\$	97,448,700	\$ 131,953,043
United States		22,964,695	5,600,602
	\$	120,413,395	\$ 137,553,645
Non-current assets			
Canada and International	\$	11,594,515	\$ 9,909,126
United States		2,309,030	1,964,839
	\$	13,903,545	\$ 11,873,965

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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11. Financial instruments

11.1 Categories of financial instruments

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

	September 30	December 31
	2012	2011
Financial Assets		
Loans and receivables		
Accounts receivable	\$ 31,789,001	\$ 56,860,660
Financial Liabilities		
Promissory notes payable	\$ -	\$ 368,466
Bank indebtedness	44,305,746	48,910,877
Accounts payable and accrued liabilities	28,413,040	30,137,391
	\$ 72,718,786	\$ 79,416,734

11.2 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 13% and 10% respectively (September 30, 2011 – 21% and 28%) of total revenue during the period and 16% and 12% respectively (September 30, 2011 – 29% and 24%) 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	December 31
	2012	2011
Trade and other receivables	\$ 31,789,001	\$ 56,860,660

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

September 30, 2012

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11. Financial instruments (cont'd)

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:

	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
September 30, 2012			
Current	\$ 11,923,547	\$ -	\$ 11,923,547
31 to 60 days	10,954,714	-	10,954,714
61 to 90 days	5,798,238	-	5,798,238
91 to 120 days	2,043,547	-	2,043,547
Over 120 days	1,204,260	(135,305)	1,068,955
Total	\$ 31,924,306	\$ (135,305)	\$ 31,789,001

	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
December 31, 2011			
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.

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

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

September 30, 2012

(unaudited)

11. Financial instruments (cont'd)

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, 2012 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at September 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 \$88,353 (September 30, 2011 – \$84,670).

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\$7,112,032 as at September 30, 2012 (September 30, 2011 - USD\$2,269,778), accounts payable in foreign currency outstanding as at September 30, 2012 is USD\$2,068,621 (September 30, 2011 - USD\$3,850,556), and a promissory note in foreign currency outstanding at \$nil (September 30, 2011 - USD\$374,234). Bank indebtedness in a foreign currency was USD\$25,000,000 (September 30, 2011 – USD\$nil). The Company realized a foreign exchange gain of \$442,409 (September 30, 2011 – loss of \$215,931) during the three month period ended September 30, 2012. Based on the monetary assets and liabilities held in the United States ("US") at September 30, 2012, a 5% increase in exchange rates would impact the Company's net earnings by approximately \$320,376 (September 30, 2011 – \$50,468).

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. Global financial markets and economic conditions have been disrupted and volatile. The debt and equity markets have been distressed. These factors, together with the re-pricing of credit risk and the current weak economic conditions have made, and will likely continue to make it difficult to obtain financing. In addition, the cost of obtaining money from the credit market has generally increased as many lenders have increased interest rates, enacted tighter lending standards, and are not refinancing existing debt at maturity on terms similar to current debt and, in some cases, ceased to provide funding. Due to these factors, the Company cannot be certain that financing will be available when needed and to the extent required, on acceptable terms. If financing is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

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

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

	Bank credit facility	Accounts payable	Promissory notes payable *	Finance leases*	Total
2012	\$ 44,305,746	\$ 28,413,040	\$ -	\$ 242,755	\$ 72,961,541
2013	-	-	-	226,925	226,925
2014	-	-	-	186,907	186,907
2015	-	-	-	131,139	131,139
2016	-	-	-	19,481	19,481
Thereafter	-	-	-	-	-
Total	\$ 44,305,746	\$ 28,413,040	\$ -	\$ 807,207	\$ 73,525,993

* 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

11.3 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 no 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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12. Related party transactions

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

12.1 Transactions with related entities

During the three and nine month periods ended September 30, 2012, the Company incurred office sharing costs of \$15,000 and \$45,000 respectively (September 30, 2011 - \$15,000 and \$45,000) in the normal course of operations with BRC Advisors Inc., a company which a certain director and officer has significant influence over.

12.2 Other related party transactions

The Company expensed interest of \$nil and \$8,687 for the three and nine months ended (September 30, 2011 - \$3,510 and \$8,687) 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.

13. 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	December 31
	2012	2011
Bank indebtedness	\$ 44,305,746	\$ 48,910,877
Promissory notes payable	-	368,466
Obligations under finance lease	642,415	737,446
Shareholders' equity	49,570,231	43,949,481
Total capital	\$ 94,518,392	\$ 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 September 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

September 30, 2012

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

	September 30, 2012		December 31, 2011	
	As calculated	Minimum required	As calculated	Minimum required
Adjusted tangible net worth	\$ 46,881,241	To exceed \$27,105,000	\$ 40,320,958	To exceed \$27,105,000
Eligible capital expenditures	\$ 2,110,582	Not to exceed \$3,272,516	\$ 4,204,589	Not to exceed \$4,300,000

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.

14. Authorization of financial statements

The consolidated financial statements for the period ended September 30, 2012 (including comparatives) were approved by the Board of Directors on November 9, 2012.

(signed) "Don Caron"

Don Caron, Director

(signed) "Eric Sauze"

Eric Sauze, Director