BRI-CHEM

Right product. Right place. Right time.

First Quarter 2015 Interim Condensed Report (unaudited)

TABLE OF CONTENTS

Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited interim financial statements of Bri-Chem Corp. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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Interim Condensed Consolidated Statements of Operations
(Canadian dollars)
(unaudited)

	Note	(three months ended) March 31 2015	March 31 2014
			(Note 2)
Sales		**$ 26,209,726**	$ 45,947,219
Cost of sales		**22,326,606**	38,478,985
Gross margin		**3,883,120**	7,468,234
Expenses			
Salaries and benefits		**2,759,734**	2,702,490
Selling, general and administration		**1,424,852**	1,456,322
Interest on short-term operating debt		**560,328**	429,752
Interest on long-term debt		**300,107**	315,659
Amortization on intangible assets		**100,041**	314,095
Depreciation on property and equipment		**302,618**	194,571
Interest on obligations under finance lease		**1,058**	886
Restructuring costs		**691,667**	-
Foreign exchange gain		**(2,543,844)**	(402,384)
		3,596,561	5,011,391
Earnings before income taxes		**286,559**	2,456,843
Income tax (recovery) expense			
Current		**(710,659)**	692,751
Deferred		**624,323**	42,891
		(86,336)	735,642
Net earnings from continuing operations		**372,895**	1,721,201
Discontinued operations			
Net loss from discontinued operations		**-**	(9,688,843)
Net earnings (loss)		**$ 372,895**	$ (7,967,642)
Earnings from continuing operations attributable to:			
Shareholders of the Company		**372,895**	1,721,201
Loss from discontinued operations attributable to:			
Shareholders of the Company		**-**	(6,805,730)
Net earnings (loss) attributable to:			
Shareholders of the Company		**372,895**	(5,084,529)
Non-controlling interest		**-**	(2,883,113)
		372,895	(7,967,642)
Earnings (loss) per share from continuing and discontinued operations	**6**		
Basic from continuing operations		**$ 0.02**	$ 0.07
Basic from discontinued operations		**-**	(0.28)
From net earnings (loss)		**0.02**	(0.21)
Diluted from continuing operations		**0.02**	0.07
Diluted from discontinued operations		**-**	(0.28)
From net earnings (loss)		**$ 0.02**	$ (0.21)

The accompanying notes are an integral part of the interim condensed consolidated financial statements

Interim Condensed Consolidated Statements of Comprehensive Income
(Canadian dollars)
(unaudited)

	(three months ended)	
	March 31 2015	March 31 2014
Net earnings (loss)	**$ 372,895**	$ (7,967,642)
Other comprehensive loss, net of tax of $nil (2014-$nil)		
Foreign currency translation adjustment	**(3,185,624)**	(979,468)
Total comprehensive loss	**$ (2,812,729)**	$ (8,947,110)
Comprehensive loss attributable to:		
Shareholders of the Company	**$ (2,812,729)**	$ (6,063,997)
Non-controlling interest	**-**	(2,883,113)
Total comprehensive loss	**$ (2,812,729)**	$ (8,947,110)

The accompanying notes are an integral part of the interim condensed consolidated financial statements

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Interim Condensed Consolidated Statements of Financial Position

(Canadian dollars)
(unaudited)

	March 31 2015	December 31 2014
Assets		
Current		
Accounts receivable	**$ 26,787,407**	$ 45,465,731
Inventories	**54,374,930**	57,294,436
Prepaid expenses and deposits	**1,470,085**	1,845,288
Income taxes receivable	**1,285,452**	622,582
	83,917,874	105,228,037
Non-current		
Property and equipment	**14,547,563**	13,468,196
Intangible assets	**1,893,870**	1,991,611
Goodwill	**1,910,108**	1,910,108
Deferred tax assets	**7,838,853**	9,034,744
Other long-term assets	**152,901**	145,890
	$ 110,261,169	$ 131,778,586
Liabilities		
Current		
Bank indebtedness	**$ 43,302,725**	$ 51,873,895
Accounts payable and accrued liabilities	**13,129,015**	22,076,983
Current portion of promissory notes payable	**239,848**	—
Current portion of long-term debt	**1,264,058**	1,257,983
Current portion of obligations under finance lease	**23,533**	23,533
Deferred revenue	**—**	53,554
Income taxes payable	**216,591**	493,404
	58,175,770	75,779,352
Non-current		
Long-term debt	**7,140,468**	7,416,586
Obligations under finance lease	**52,228**	53,810
Promissory notes payable	**223,828**	449,800
Deferred tax liabilities	**122,546**	692,810
Other long-term liabilities	**209,047**	213,784
	65,923,887	84,606,142
Equity		
Share capital	**33,281,844**	33,474,669
Contributed surplus	**3,435,455**	3,265,063
Warrants	**209,226**	209,226
Retained earnings	**14,518,990**	14,146,095
Accumulated other comprehensive loss	**(7,108,233)**	(3,922,609)
	44,337,282	47,172,444
	$ 110,261,169	$ 131,778,586

The accompanying notes are an integral part of the interim consolidated financial statements

Interim Condensed Consolidated Statements of Changes in Equity

(Canadian dollars)
(unaudited)

	Share capital	Contributed surplus	Warrants	Accumulated other comprehensive loss	Retained earnings	The Company	Non-controlling interest	Total equity
Balance at January 1, 2015	$ 33,474,669	$ 3,265,063	$ 209,226	$ (3,922,609)	$ 14,146,095	$ 47,172,444	$ —	**$ 47,172,444**
Repurchase of share under Normal Course Issuer Bid	(192,825)	—	—	—	—	(192,825)	—	**(192,825)**
Employee share-based payment options	—	170,392	—	—	—	170,392	—	**170,392**
Total comprehensive loss	—	—	—	(3,185,624)	372,895	(2,812,729)	—	**(2,812,729)**
Balance at March 31, 2015	$ 33,281,844	$ 3,435,455	$ 209,226	$ (7,108,233)	$ 14,518,990	$ 44,337,282	$ —	**$ 44,337,282**

	Share capital	Contributed surplus	Warrants	Accumulated other comprehensive income (loss)	Retained earnings	The Company	Non-controlling interest	Total equity
Balance at January 1, 2014	$ 33,647,907	$ 2,532,361	$ 209,226	$ (1,659,150)	$ 23,522,504	$ 58,252,848	$ 1,925,018	$ 60,177,866
Employee share-based payment options	—	242,213	—	—	—	242,213	—	242,213
Total comprehensive income	—	—	—	(979,468)	(5,084,529)	(6,063,997)	(2,883,113)	(8,947,110)
Balance at March 31, 2014	$ 33,647,907	$ 2,774,574	$ 209,226	$ (2,638,618)	$ 18,437,975	$ 52,431,064	$ (958,095)	$ 51,472,969

The accompanying notes are an integral part of the interim condensed consolidated financial statements

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Interim Condensed Consolidated Statements of Cash Flows

(Canadian dollars)
(unaudited)

For the three months ended	March 31, 2015	March 31, 2014
Operating activities		
Net earnings from continuing operations	**$ 372,895**	$ 1,721,201
Adjustments for:		
Depreciation on property and equipment	**302,618**	194,571
Amortization on intangible assets	**100,041**	314,094
Amortization of debt related transaction costs	**64,971**	101,478
Deferred tax expense	**624,323**	42,891
Share-based payments	**170,392**	242,213
Foreign exchange loss on debt	**1,665,218**	909,013
Unrealized foreign exchange gain	**(4,511,202)**	(1,258,682)
Interest on debt and finance leases	**787,870**	644,900
Other gain	**(6,677)**	(8,880)
Cash from operating activities before change in non-cash working capital	**(429,551)**	2,902,799
Change in non-cash working capital	**15,581,224**	(5,829,706)
Cash provided by operating activities from continuing operations	**15,151,673**	(2,926,907)
Cash used in operating activities in discontinued operations	**—**	(985,044)
Total cash provided by (used in) operating activities	**15,151,673**	(3,911,951)
Financing activities		
Interest paid on debt and finance leases	**(792,232)**	(631,684)
Repayments on promissory notes payable	**—**	(260,312)
(Repayments) advances on operating line	**(13,187,435)**	4,043,322
Repayment of long-term debt	**(315,345)**	(312,897)
Repurchases of shares	**(192,825)**	—
Repayments of obligations under finance lease	**(6,381)**	(1,532)
Cash (used in) provided by financing activities in continuing operations	**(14,494,218)**	2,836,897
Cash (used in) provided by financing activities in discontinued operations	**—**	1,327,489
Total cash (used in) provided by financing activities	**(14,494,218)**	4,164,386
Investing activities		
Purchase of property and equipment	**(622,017)**	(163,595)
Purchase of intangible assets	**(35,438)**	—
Cash used in investing activities in continuing operations	**(657,455)**	(163,595)
Cash used in investing activities in discontinued operations	**—**	(88,840)
Total cash used in investing activities	**(657,455)**	(252,435)
Net increase in cash and cash equivalents	**—**	—
Cash and cash equivalents, beginning of the period	**—**	—
Cash and cash equivalents, end of the period	**$ —**	$ —

The accompanying notes are an integral part of the interim consolidated financial statements

1. Nature of operations

Bri-Chem Corp.'s ("the Company" or "Bri-Chem") shares are publicly traded on the Toronto Stock Exchange under the symbol BRY. Since 1985, Bri-Chem is North America's largest independent wholesale supplier of drilling fluids for the oil and gas industry. The Company provides drilling fluid products, cementing, acidizing and stimulation additives from multiple strategically located warehouses throughout Canada and the United States. Bri-Chem Corp., the Company's parent, is incorporated and located in Canada. Its registered and primary place of business is 2125 - 64 Avenue, Edmonton, Alberta, T6P 1Z4.

2. Basis of presentation

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They do not contain all the necessary annual disclosures in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014.

These unaudited interim condensed consolidated financial statements, in all material respects, follow the same accounting policies and method of application as the annual consolidated financial statements of the preceding fiscal year, except as noted in Note 3.

The Company reclassified amounts in the Statement of Operations in connection with sales of assets and business operations of its Steel Pipe Manufacturing and Steel Pipe Distribution operating segments. The Company reclassified operations associated with assets and liabilities of these segments as discontinued operations for all periods presented.

The unaudited interim condensed consolidated financial statements for the quarter ended March 31, 2015 were authorized for issue by the Board of Directors on May 12, 2015.

3. Accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's annual financial statements for the year ended December 31, 2014.

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.

(Canadian dollars)

5. Share capital

Issued and outstanding		
Common shares	**Number**	**Amount**
Balance, January 1, 2014	**24,010,736**	**$ 33,647,907**
Issuance of shares upon exercise of options	**30,000**	**42,000**
Shares repurchased and cancelled	**(164,610)**	**(215,238)**
Balance, December 31, 2014	**23,876,126**	**$ 33,474,669**
Shares repurchased and cancelled	**(200,070)**	**(192,825)**
Share capital balance, March 31, 2015	**23,676,056**	**$ 33,281,844**

6. Earnings (loss) per share

Both the basic and diluted earnings (loss) per share have been calculated using the profit attributable to shareholders of the Company as the numerator.

(three months ended)	**March 31, 2015**	March 31, 2014
Net earnings from continuing operations attributable to the shareholders of the Company	**$ 372,895**	$ 1,721,201
Net loss from discontinued operations attributable to the shareholders of the Company	**—**	(6,805,730)
Total net earnings (loss) attributable to the shareholders of the Company	**372,895**	(5,084,529)
Basic weighted average number of ordinary shares	**23,720,762**	24,010,736
Dilutive options issued and outstanding	**—**	21,789
Diluted weighted average number of ordinary shares	**23,720,762**	24,032,525
Basic earnings from continuing operations per share	**$ 0.02**	$ 0.07
Diluted earnings from continuing operations per share	**0.02**	0.07
Basic loss from discontinued operations per share	**—**	(0.28)
Diluted loss from discontinued operations per share	**—**	(0.28)
Basic earnings (loss) per share	**0.02**	(0.21)
Diluted earnings (loss) per share	**$ 0.02**	$ (0.21)

7. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Chief Executive Officer and Chief Financial Officer who make strategic decisions.

The chief operating decision-makers consider the business from both a geographic and a product perspective. Geographically, management considers the performance in Canada and the USA. From a product perspective, management separately considers the fluids distribution, and fluids blending & packaging in these geographies.

The chief operating decision-makers assess the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes from net earnings the effects of interest, taxes, amortization and depreciation, and the effect of equity-settled share based payments. Corporate overhead costs, interest income and expenditure, excluding interest expense on finance leases, are not allocated to segments, as these types of activity are driven by the central treasury function, which manages the cash position of the Company.

The amounts provided to the chief operating decision-makers with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The Company has five reportable segments: Fluids Distribution Canada, Fluids Distribution USA, Fluids Blending & Packaging Canada, Fluids Blending & Packaging USA, and Other. The Other segment represents insignificant segments and all remaining costs not directly attributable to an operating segment, such as corporate overhead. Steel Pipe Distribution and Steel Pipe Manufacturing segments have been presented as discontinued operations following the sale of the Steel Pipe division in Canada. The transaction was closed on July 15, 2014. As a result of the sale transaction the Steel Pipe division ceased being a reportable segment of the Company. This transaction in addition to other changes in presentation, have resulted in comparative information being reclassified.

Revenues between Fluids Blending & Packaging Canada and Fluids Distribution Canada are recorded on the same basis as an equivalent arm's length transaction. Revenue between the remaining divisions are recognized at cost. The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the consolidated statement of operations.

For the three months ended March 31, 2015 (Canadian dollars) (Unaudited)

7. Segment reporting *(cont'd)*

Selected financial information by reportable segment is disclosed as follows:

For 3 months ended March 31, 2015	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	$ 9,117,982	$ 11,488,538	$ 20,606,520	$ 5,477,876	$ 1,471,209	$ 6,949,085	$ -	$ 27,555,605
Revenues from internal customers	150,413	201,268	351,681	982,456	11,742	994,198	-	1,345,879
Revenues from external customers	8,967,569	11,287,270	20,254,839	4,495,420	1,459,467	5,954,887	-	26,209,726
Cost of sales	8,428,938	9,516,332	17,945,270	3,521,396	859,940	4,381,336	-	22,326,606
EBITDA	(667,528)	(729,969)	(1,397,497)	140,429	178,701	319,130	2,799,470	1,721,103
Amortization and depreciation	23,364	137,098	160,462	32,460	83,539	115,999	126,198	402,659
Interest	416	5,083	5,499	2,315	349	2,664	853,330	861,493
Share based compensation	-	-	-	-	-	-	170,392	170,392
Income tax expense	(178,094)	(563,819)	(741,913)	22,967	8,287	31,254	624,323	(86,336)
Segment profit (loss)	$ (513,214)	$ (308,331)	$ (821,545)	$ 82,687	$ 86,526	$ 169,213	$ 1,025,227	$ 372,895
Segment assets	$ 37,351,732	$ 43,849,475	$ 81,201,207	$ 9,673,423	$ 3,700,853	$ 13,374,276	$ 15,685,686	$ 110,261,169
Capital expenditures	$ -	$ 614,142	$ 614,142	$ 7,875	$ -	$ 7,875	$ -	$ 622,017

* Other includes corporate overhead costs.

For the three months ended March 31, 2015 (Canadian dollars) (Unaudited)

7. Segment reporting *(cont'd)*

For 3 months ended March 31, 2014	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Blending & Packaging Canada	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	$ 26,450,562	$ 12,994,367	$ 39,444,929	$ 8,209,711	$ 1,644,945	$ 9,854,656	$ -	$ 49,299,585
Revenues from internal customers	155,781	493,311	649,092	2,700,073	3,201	2,703,274	-	3,352,366
Revenues from external customers	26,294,781	12,501,056	38,795,837	5,509,638	1,641,744	7,151,382	-	45,947,219
Cost of sales	22,898,307	10,063,676	32,961,983	4,536,947	980,055	5,517,002	-	38,478,985
EBITDA	2,166,058	371,581	2,537,639	660,578	107,905	768,483	647,897	3,954,019
Amortization and depreciation	37,456	178,931	216,387	138,329	147,489	285,818	6,461	508,666
Interest	526	3,034	3,560	-	-	-	742,737	746,297
Share based compensation	-	-	-	-	-	-	242,213	242,213
Income tax expense (recovery)	499,053	(58,563)	440,490	150,615	(69,116)	81,499	213,653	735,642
Segment profit (loss)	$ 1,629,023	$ 248,179	$ 1,877,202	$ 371,634	$ 29,532	$ 401,166	$ (557,167)	$ 1,721,201
Segment assets	$ 58,956,216	$ 32,477,990	$ 91,434,206	$ 12,533,358	$ 8,178,924	$ 20,712,282	$ 3,059,095	$ 115,205,583
Capital expenditures	$ 12,053	$ 102,902	$ 114,955	$ 5,104	$ -	$ 5,104	$ 62,385	$ 182,444

(Canadian dollars)

7. Segment reporting *(cont'd)*

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

for the 3 months ended		**March 31, 2015**		March 31, 2014
Revenue				
Canada and International	**$**	**13,462,990**	$	31,804,419
United States		**12,746,736**		14,142,800
	$	**26,209,726**	$	45,947,219
Non-current assets				
Canada and International	**$**	**9,458,564**	$	12,620,247
United States		**9,045,878**		8,718,796
	$	**18,504,442**	$	21,339,043

8. Related party transactions

During the three months ended March 31, 2015, the Company incurred office sharing costs of $15,000 (March 31, 2014 – $15,000), that were paid to a company over which a director has control. These office sharing costs were made on terms equivalent to those that prevail in arm's length transactions.

9. 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.

(Canadian dollars)

9. Capital management policies and procedures *(cont'd)*

The Company includes the following in the definition of capital:

	March 31 2015	December 31 2014
Bank indebtedness	**$ 43,302,725**	$ 51,873,895
Long-term debt	**8,404,526**	8,674,569
Promissory notes payable	**463,676**	449,800
Obligations under finance lease	**75,761**	77,343
Equity	**44,337,282**	47,172,444
Total capital	**$ 96,583,970**	$ 108,248,051

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. Changes in certain key ratios and covenants are as follows:

	March 31 2015	**Minimum required**	December 31 2014	Minimum required
Fixed charge coverage ratio	**2.90**	**To exceed 1.1**	2.44	To exceed 1.1
Eligible capital expenditures	**$ 667,729**	**Not to exceed $960,000**	$ 2,585,291	Not to exceed $5,806,980
Funded term debt to EBITDA	**0.59**	**Not to exceed 1.5:1**	0.52	Not to exceed 1.5:1

The minimum covenants are noted in the above table. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lender on a monthly basis. As at March 31, 2015, the Company was in compliance with all financial covenants.

Due to current economic conditions and prices, compliance of financial covenants is highly dependent on realized oil pricing in 2015. The Company is currently in compliance with all financial covenants, however, sustained low commodity prices could bring the Company close to the threshold of the earnings based covenant under the Company's loan facilities before the end of 2015. The Company is proactive in managing debt and expects to renegotiate the debt terms and related covenant requirements with the credit facility lenders to ensure continue compliance with revised covenants.

Effective August 30, 2013, the Company is required to comply with two financial covenants being minimum fixed charge coverage ratio and a maximum annual eligible capital expenditures with the asset based lending agreement.

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

In addition, there is an additional covenant with the subordinated debenture relating to funded term debt to EBITDA. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness.

The fixed charge coverage ratio under the subordinated debenture is set at a minimum of 1.10 to 1 level and defined as the trailing twelve months of EBITDA, less non-funded capital expenditures, to the sum of cash interest paid, plus cash income taxes paid, plus the aggregate of all dividends, distributions and principal repayments, and any amortization in the borrowing base of any eligible real property and/or eligible machinery and equipment. EBITDA is net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including transaction and acquisition expenses) and extraordinary items and share based payments during any of its recently completed four fiscal quarters. Capital expenditures limit is set at a maximum of 120% of the consolidated budgeted yearly capital expenditures. The funded term debt to EBITDA covenant is set at a maximum of 1.50 to 1. Funded term debt is any term debt including, without limitation, the subordinated debt facility and any finance lease obligations. EBITDA is net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including transaction and acquisition expenses) and extraordinary items and share based payments during any of its recently completed four fiscal quarters.

(signed) "Don Caron"
Don Caron, Director

(signed) "Eric Sauze"
Eric Sauze, Director