



Bri-Chem Corp.
First Quarter Interim Report
March 31, 2008

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Bri-Chem Corp.
Interim Consolidated Balance Sheets

	March 31	December 31
	2008	2007
	(unaudited)	(audited)
Assets		
Current		
Accounts receivable	\$ 24,289,106	\$ 24,885,748
Inventory	24,352,937	21,134,625
Prepaid expenses and deposits	230,755	140,899
	<u>48,872,798</u>	<u>46,161,272</u>
Property and equipment	2,754,045	2,688,781
Intangible assets	1,824,799	1,942,190
Goodwill	1,081,445	1,081,445
Future income taxes	44,601	44,601
	<u>\$ 54,577,688</u>	<u>\$ 51,918,289</u>
Liabilities		
Current		
Bank indebtedness (Note 4)	\$ 15,386,039	\$ 12,050,168
Accounts payable and accrued liabilities	10,127,249	11,967,882
Income taxes payable	536,536	792,657
Current portion of promissory notes payable	1,552,688	1,500,515
Current portion of long-term debt	92,898	67,514
	<u>27,695,410</u>	<u>26,378,736</u>
Promissory notes payable	2,200,000	2,200,000
Long-term debt	4,592,295	4,621,456
Future income taxes	476,762	476,762
	<u>34,964,467</u>	<u>33,676,954</u>
Shareholders' Equity		
Share capital (Note 5)	12,347,444	12,347,444
Contributed surplus (Note 6)	834,161	727,050
Retained earnings	6,431,616	5,166,841
	<u>19,613,221</u>	<u>18,241,335</u>
	<u>\$ 54,577,688</u>	<u>\$ 51,918,289</u>

Commitments (Note 9)

On behalf of the Board

(signed) "Don Caron"
 Don Caron, Director

(signed) "Alan Campbell"
 Alan Campbell, Director

Bri-Chem Corp.
Interim Consolidated Statements of Operations,
Comprehensive Income and Retained Earnings
(Unaudited)

For the three month period ended March 31	2008		2007	
Sales	\$	22,200,532	\$	13,136,256
Cost of sales		18,123,731		10,797,659
Gross margin		4,076,801		2,338,597
Expenses				
Salaries and benefits		940,214		522,553
Selling, general and administration		560,472		503,047
Interest on short-term operating debt		351,790		174,396
Interest on long-term debt		124,106		149,920
Amortization on intangible assets		117,391		29,337
Amortization on property and equipment		97,626		58,839
		2,191,599		1,438,092
Earnings before income taxes		1,885,202		900,505
Income taxes (Note 7)		620,427		-
Net earnings and comprehensive income	\$	1,264,775	\$	900,505
Earnings per share				
Basic	\$	0.10	\$	0.07
Weighted average number of shares		12,926,838		12,212,552
Diluted	\$	0.10	\$	0.07
Weighted average number of shares		12,926,838		12,224,739
Retained earnings, beginning of period	\$	5,166,841	\$	2,530,021
Deficiency in net assets acquired		-		(52,942)
Net earnings and comprehensive income		1,264,775		900,505
Retained earnings, end of period	\$	6,431,616	\$	3,377,584

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Interim Consolidated Statements of Cash Flows
(Unaudited)

For the three month period ended March 31	2008	2007
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net earnings and comprehensive income	\$ 1,264,775	\$ 900,505
Non-cash items:		
Amortization on property and equipment	97,626	58,839
Amortization on intangible assets	117,391	29,337
Amortization of debt related transaction costs	4,517	(23,223)
Stock-based compensation	107,111	87,578
Loss on sale of property and equipment	346	100
	<u>1,591,766</u>	<u>1,053,136</u>
Change in non-cash working capital	<u>(4,808,279)</u>	<u>2,621,197</u>
	<u>(3,216,513)</u>	<u>3,674,333</u>
Financing activities		
Advances on promissory notes payables	52,173	48,000
Proceeds on issuance of long-term debt	-	5,000,000
Advances (repayments) of operating line	3,335,871	(8,131,907)
Repayment of promissory notes payable	-	(11,000,000)
Repayment of long-term debt	(8,295)	(567,305)
	<u>3,379,749</u>	<u>(14,651,212)</u>
Investing activities		
Purchase of property and equipment	(170,736)	(151,051)
Proceeds on disposal of property and equipment	7,500	-
	<u>(163,236)</u>	<u>(151,051)</u>
Net decrease in cash	-	(11,127,930)
Cash and cash equivalents, beginning of period	-	11,127,930
Cash and cash equivalents, end of period	\$ -	\$ -
Cash and cash equivalents consists of:		
Cash	\$ -	\$ 127,930
Funds held in trust	-	11,000,000
	<u>\$ -</u>	<u>\$ 11,127,930</u>

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(Unaudited)
March 31, 2008

1. Basis of Presentation

Bri-Chem Corp.'s ("the Company") shares are publicly traded on the TSX Venture Exchange under the symbol BRY. The Company is a wholesale/distribution, blending and packager of drilling fluids and supplies to the natural resource and industrial sectors.

These unaudited interim consolidated financial statements, in all material respects, follow the same accounting policies and method of application as the annual audited financial statements of the preceding fiscal year, except as described in Note 2.

These interim consolidated financial statements do not contain all disclosures required by Canadian generally accepted accounting principles ("GAAP") for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recent annual financial statements of the Company.

2. Changes in significant accounting policies

Effective January 1, 2008, the Company adopted two new Canadian Institute of Chartered Accountants ("CICA") standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements of Section 3861. These new standards have been applied prospectively without restatement of prior periods.

Effective January 1, 2008, the Company adopted CICA Section 3031 "Inventories". This section relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. Under this section, inventory is to be measured at lower of cost and net realizable value. Net realizable value approximates the estimated selling price less all estimated costs of completion and necessary costs to complete the sale. Cost shall be assigned using the first-in, first-out (FIFO) or weighted average cost method. The section also requires the reversal of previous write-downs of inventory if original circumstances are reversed. This section has been applied retrospectively and had no impact on the current or previous operating results of the Company.

Inventory is measured at the lower of cost and net realizable value. Cost is determined using the first-in first-out method for direct purchase price of goods. Costs associated with freight transportation and handling fees are determined using the weighted average cost method. Net realizable value represents the estimated selling price for inventories less estimated selling costs. The cost of inventory expensed in cost of sales for the three months ended March 31, 2008 was \$16,579,171 (March 31, 2007 - \$9,466,635).

Effective January 1, 2008, the Company adopted paragraphs .08(a) to .08(c) of CICA Section 1400 "General Standards of Financial Statements". This section requires management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as going concern.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(Unaudited)
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2. Change in significant accounting policies (cont'd)

Effective October 1, 2007, the Company adopted CICA handbook Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed in order that a user of the financial statements may evaluate the entity's objectives, policies and processes for managing capital.

Future Accounting Pronouncements

In February 2008, the CICA issued new handbook Section 3064 – "Goodwill and Intangible Assets" that supersedes Section 3062 – "Goodwill and Other Intangible Assets" and 3450 – "Research and Development Costs". This section provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs can be deferred only when relating to an item meeting the definition of an asset. The new accounting standard is effective for interim or annual financial statements relating to fiscal years beginning on or after October 31, 2008. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that Canadian public enterprises will need to adopt International Financial Reporting Standards (IFRSs), effective for years beginning on or after January 1, 2011. The Company is currently evaluating the impact this new framework will have on its consolidated financial statements.

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. Bank indebtedness

The Company has a credit facility to a maximum of \$25,000,000 which includes a sub-limit of \$10,000,000 on a US demand overdraft, \$100,000 on a bank guarantee and \$250,000 on an import line. The bank operating line of credit bears interest at prime plus 0.3%. The US demand overdraft bears interest at US base rate plus 0.3%, per annum and are due on demand. At March 31, 2008, the prime rate was 5.25% and the US base rate was 5.25%. The collateral security lodged by the Company to support all debt held with HSBC Bank Canada is a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and its subsidiaries, a floating charge over all of the Company and its subsidiaries' present and after acquired real property, a demand collateral land mortgage and assignment of rents in the amount of \$2,000,000 from the Company creating a first fixed and specific mortgage charge over all of the lands and premises, \$5,000,000 guarantee of HSBC Capital Canada Inc., assignment of all risk insurance on the Company's real and personal property and guarantees of related parties.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
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5. Share capital

	Outstanding	Exercisable
Common shares	12,926,838	N/A
Employee and compensation options	1,343,000	366,300
Warrants	350,000	350,000

Options to employees and directors

	Number of options	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, December 31, 2007	1,353,000	\$ 1.99	3.63
Granted	-	-	-
Exercised	-	-	-
Expired/cancelled	(10,000)	2.00	4.00
Outstanding, March 31, 2008	1,343,000	\$ 1.99	3.63
Options exercisable, March 31, 2008	366,300	\$ 2.00	4.00

During the three month period ended March 31, 2008, no options were granted. A total of 1,343,000 net of cancelled options have been issued under the Plan at a total fair value of \$865,680.

6. Stock based compensation

Compensation expense arising from the options granted in the period is recognized over the vesting period. Stock-based employee compensation expense of \$107,111 (March 31, 2007 – \$87,578) was recorded in salaries and employee benefits with a corresponding increase to contributed surplus.

7. Income taxes

During fiscal 2007, the Company had approximately \$1,603,980 of non-capital loss carry forward available to reduce taxable income in the future years. The benefits of these losses were fully utilized during fiscal 2007 as a reduction to current income tax expense.

8. Related party transactions

During the period, the Company incurred selling, general and administration expenses in the normal course of operations with affiliated companies, which certain directors control and are as follows:

- a) Management and other advisory services of \$30,000 (March 31, 2007 – \$105,000) were paid to a Company over which a director has significant influence.
- b) Accounting, administrative and corporate expenses of \$15,000 (March 31, 2007 – \$27,000) were paid to a Company over which a director has significant influence.

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8. Related party transactions (cont'd)

The Company accrued interest of \$52,173 (March 31, 2007 - \$48,000) on promissory notes payable issued in 2006 which are held by two of the Company's directors, officers and significant shareholders. The expense has been included in interest on long term debt and added to the balance of the promissory note payable.

9. Commitments

The Company has committed to numerous operating lease arrangements for property and equipment. The minimum lease payments under the leases are as follows:

2008	\$	138,096
2009		97,131
2010		78,390
2011		29,775
2012		855
		<hr/>
	\$	344,247
		<hr/>

10. Capital risk management

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 bank indebtedness, long-term debt, promissory notes payable and shareholders' equity in the definition of capital. 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 subjected to capital requirements imposed by a regulator.

During the three months ended March 31, 2008, the Company was in compliance with its externally imposed capital requirements. The Company monitors these requirements on a monthly basis. Changes in certain key ratios are as follows:

	March 31	December 31
	2008	2007
Current ratio	1.76	1.75
Debt service ratio	3.13	2.68
Total debt to tangible net worth	1.36	1.39
Funded debt to EBITDA	2.84	3.00

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10. Capital risk management (cont'd)

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

Debt service ratio is defined as the ratio of EBITDA less cash income taxes and unfunded capital expenditures divided by the 12 month forward looking principle, interest and other fixed obligations, including EBITDA bonuses and any payments owed under promissory notes payable. Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is a measure that does not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures by other companies.

Total debt to tangible net worth ratio is defined as the ratio of total liabilities of the Company less postponement of long term portion of the promissory notes payable and long term portion of subordinated debt divided by total equity of the Company less intangible assets and goodwill plus any postponement of promissory notes payable and long term portion of subordinated debt.

Funded debt to EBITDA ratio is defined as the ratio of all interest-bearing debt, excluding promissory notes payable divided by the trailing twelve month EBITDA.

11. Financial instruments

The Company's financial instruments consist of recorded amounts of cash, deposits, funds held in trust, accounts receivable, as well as, bank indebtedness, accounts payable and accrued liabilities, promissory notes payable, and long-term debt.

The Company has classified cash and deposits as held for trading measured at fair value with any gains and losses identified during periodical evaluations recorded in net income. The carrying value of these financial assets approximates their fair value due to their short period to maturity.

Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.

Bank indebtedness, accounts payable and accrued liabilities, long term debt and promissory notes payable are classified as other financial liabilities and are measured at amortized cost. The carrying value of accounts payable and accrued liabilities approximates fair value due to the relatively short period to maturity. The carrying value of long term debt and promissory notes payable approximates its fair value as the interest rate on certain long term debt is variable and interest rates on the promissory notes are comparable to rates of similar debt.

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Notes to the Interim Consolidated Financial Statements
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11. Financial instruments (cont'd)

Credit risk

Credit risk is the risk of a financial loss to the Company if a customer fails to meet its contractual obligations. The Company is exposed to credit risk through its cash and accounts receivable. The Company mitigates its credit risk by assessing the credit worthiness of its customers on an ongoing basis. Bri-Chem also closely monitors the amount and age of balances outstanding. The Company establishes a provision for bad debts based on specific customers' credit risk, historical trends, and other economic information. For the three months ended March 31, 2008, the Company had recorded an allowance for doubtful accounts of \$57,856 (December 31, 2007 - \$64,265). The allowance is an estimate of the March 31, 2008 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended March 31, 2008 consisted of trade accounts receivable balances written off of \$6,408, and bad debt expense of \$nil.

Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. This results in a concentration of credit risk from customers in this industry. A significant decline in economic conditions within the industry would increase the risk that customers will experience financial difficulty and be unable to fulfill their obligations. The Company's exposure to credit risk arising from granting sales is limited to the carrying value of accounts receivable. The Company's revenues are normally invoiced with payment terms of 30 days. Despite the established payment terms, customers in the oil and gas industry, typically pay amounts within 75 days of invoice date.

Interest rate risk

Demand loans and bank indebtedness are subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. It is management's opinion that interest rate risk is not significant.

The effective interest rate on the bank indebtedness balance at March 31, 2008 was Canadian bank prime interest rate plus 30 basis points (5.55%). The demand loan bears interest at bank prime plus 85 basis points. As at March 31, 2008, with other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would have a minimal impact on net income. There would be no effect on other comprehensive income.

Liquidity risk

The Company's exposure to liquidity risk is dependent on the collections of accounts receivable and the ability to raise funds to meet purchase commitments and financial obligations and to sustain operations. The Company controls its liquidity risk by managing its working capital, cash flows and the availability of borrowing facilities.

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Notes to the Interim Consolidated Financial Statements
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11. Financial instruments (cont'd)

Foreign exchange risk

The Company is subject to foreign currency risk due its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies. Therefore, there is 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 continues to expand its operations outside Canada, which increases its exposure to foreign currency risk. Accounts receivable in foreign currency was \$447,144 as at March 31, 2008 (December 31, 2007 - \$63,034) and accounts payable in foreign currency outstanding as at March 31, 2008 is \$2,617,450 (December 31, 2007 - \$2,241,237). The Company does not currently use derivative instruments to reduce its foreign currency risk. For the three months ended March 31, 2008, the Company realized a foreign exchange loss of \$139,892 (March 31, 2007 - \$63,906). Based on the monetary assets and liabilities held in the US at March 31, 2008, a five percent increase or decrease in exchange rates would impact the Company's annual foreign exchange gain (loss) by approximately \$ 7,000.

12. Comparative figures

Certain of the prior period's figures have been reclassified to conform to the current period presentation. The comparative figures for March 31, 2007 were not audited or reviewed by an independent auditor.