



**Bri-Chem Corp.**  
**First Quarter Interim Report**  
March 31, 2009

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## Bri-Chem Corp.

### Interim Consolidated Balance Sheets

	March 31 2009 (unaudited)	December 31 2008 (audited)
<b>Assets</b>		
Current		
Accounts receivable	\$ 27,619,075	\$ 43,175,808
Inventory	47,788,949	39,942,913
Prepaid expenses and deposits	628,149	4,970,642
	76,036,173	88,089,363
Property and equipment	4,125,793	3,797,515
Intangible assets	3,766,831	4,160,064
Goodwill	4,728,300	4,728,300
Future income taxes	186,457	186,457
	\$ 88,843,554	\$ 100,961,699
<b>Liabilities</b>		
Current		
Bank indebtedness (Note 4)	\$ 33,219,327	\$ 37,666,571
Accounts payable and accrued liabilities	16,567,467	24,653,886
Income taxes payable	1,034,257	1,292,580
Current portion of promissory notes payable	2,219,874	2,142,490
Current portion of long-term debt	878,667	853,769
Current portion of obligations under capital lease	146,867	146,867
	54,066,459	66,756,163
Promissory notes payable	3,200,000	3,200,000
Long-term debt	3,577,205	3,745,498
Obligations under capital lease	139,620	175,694
Future income taxes	1,167,130	1,279,987
	62,150,414	75,157,342
<b>Shareholders' Equity</b>		
Share capital (Note 5)	15,284,774	15,295,274
Contributed surplus (Note 6)	894,754	855,454
Retained earnings	10,513,612	9,653,629
	26,693,140	25,804,357
	\$ 88,843,554	\$ 100,961,699

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 months ended March 31	2009	2008
<b>Sales</b>	\$ 30,337,102	\$ 22,200,532
Cost of sales	<u>25,520,185</u>	<u>17,862,899</u>
Gross margin	<u>4,816,917</u>	<u>4,337,633</u>
Gross margin (%)	15.9%	19.5%
<b>Expenses</b>		
Salaries and benefits	1,688,682	940,214
Selling, general and administration	721,696	821,304
Interest on short-term operating debt	500,741	351,790
Amortization on intangible assets	393,232	117,391
Interest on long-term debt	177,445	124,106
Amortization on property and equipment	125,637	97,626
Interest on obligations under capital lease	3,715	-
	<u>3,611,148</u>	<u>2,452,431</u>
Earnings before income taxes	<u>1,205,769</u>	<u>1,885,202</u>
Income taxes	<u>345,786</u>	<u>620,427</u>
Net earnings and comprehensive income	<u>\$ 859,983</u>	<u>\$ 1,264,775</u>
Earnings per share		
Basic	\$ 0.06	\$ 0.10
Weighted average number of shares	14,513,408	12,926,838
Diluted	\$ 0.06	\$ 0.10
Weighted average number of shares	<u>14,513,408</u>	<u>12,926,838</u>
Retained earnings, beginning of period	\$ 9,653,629	\$ 5,166,841
Net earnings and comprehensive income	<u>859,983</u>	<u>1,264,775</u>
Retained earnings, end of period	<u>\$ 10,513,612</u>	<u>\$ 6,431,616</u>

See accompanying notes to the interim consolidated financial statements.

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

For the three months ended March 31	2009	2008
Increase (decrease) in cash and cash equivalents		
<b>Operating activities</b>		
Net earnings	\$ 859,983	\$ 1,264,775
Non-cash items:		
Amortization on intangible assets	393,232	117,391
Amortization on property and equipment	125,637	97,626
Amortization of debt related transaction costs	13,580	4,517
Stock-based compensation	36,500	107,111
Loss on sale of property and equipment	-	346
	<u>1,428,932</u>	<u>1,591,766</u>
Net change in non-cash operating working capital	<u>3,595,592</u>	<u>(4,808,279)</u>
	<u>5,024,524</u>	<u>(3,216,513)</u>
<b>Financing activities</b>		
Advances on promissory notes payables	77,384	52,173
Net (repayments) advances of operating line	(4,447,244)	3,335,871
Repurchase of common shares (Note 5)	(7,700)	-
Repayment of long-term debt	(156,975)	(8,295)
Repayment of capital lease obligations	(36,074)	-
	<u>(4,570,609)</u>	<u>3,379,749</u>
<b>Investing activities</b>		
Purchase of property and equipment	(453,915)	(170,736)
Proceeds on disposal of property and equipment	-	7,500
	<u>(453,915)</u>	<u>(163,236)</u>
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	\$ -	\$ -
<b>Supplemental cash flow information</b>		
Interest paid	\$ 604,517	\$ 423,723
Income taxes paid	385,516	876,549

See accompanying notes to the interim consolidated financial statements.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**(Unaudited)**  
March 31, 2009

**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 distributor of industrial drilling fluid supplies and steel products to the energy, construction 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 consolidated 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**

*Goodwill and intangible assets*

Effective January 1, 2009, the Company adopted the 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 1, 2008. The adoption of this standard did not have a material impact on its consolidated interim 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**

Effective January 1, 2009 to May 31, 2009, the Company negotiated a temporary \$10,000,000 bulge on its credit facility to \$45,000,000. After this timeframe, the credit facility reduces to \$35,000,000.

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

Authorized

Unlimited number of voting common shares

Unlimited number of preferred shares, issuable in series

<b>Issued and outstanding common shares</b>	<b><u>Number</u></b>	<b><u>Amount</u></b>
Balance, December 31, 2008	14,514,186	\$ 15,295,274
Shares repurchased and cancelled	<u>(10,000)</u>	<u>(10,500)</u>
Balance, March 31, 2009	<b>14,504,186</b>	<b>\$ 15,284,774</b>

On December 9, 2008, the Company announced its intentions to make a normal course issuer bid to purchase and subsequently cancel certain of its outstanding common shares. During the period, the Company repurchased 10,000 common shares for total cash consideration of \$10,500.

The number of common shares to be purchased during the period of the normal course issuer bid from December 10, 2008 to December 9, 2009 will not exceed 815,000 common shares, or approximately 10% of the public float outstanding upon the proposal date. The Company reserves the right to terminate the bid. All common shares repurchased by the Company pursuant to the bid will be cancelled.

**Options to employees and directors**

	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Weighted average contractual life (years)</b>
Outstanding, December 31, 2008	<b>1,353,000</b>	\$ 1.99	3.63
Granted	-	-	-
Exercised	-	-	-
Forfeitures	<b>(81,000)</b>	2.00	4.00
Outstanding, March 31, 2009	<b>1,272,000</b>	\$ 1.99	3.63
Options exercisable, March 31, 2009	<b>732,930</b>	\$ 2.00	4.00

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

	<b>March 31</b>	December 31
	<b>2009</b>	2008
Balance, December 31, 2008	\$ 855,454	\$ 727,050
Agent options exercised	-	(121,830)
Repurchase of common shares	<b>2,800</b>	-
Fair value of stock options granted to employees and directors	<b>36,500</b>	250,234
Balance, March 31, 2009	<b>\$ 894,754</b>	\$ 855,454

**7. 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 \$36,500 was recognized during the three month period ended March 31, 2009 (March 31, 2008 – \$107,111). The expense was recorded in salaries and employee benefits expense with a corresponding increase to contributed surplus.

**8. Related party transactions**

The related party transactions, except for advances on promissory notes payable, are incurred during the normal course of operations and are recorded at their exchange amounts, which is the amount of consideration established and agreed to by the related parties. Interest on promissory notes payable is recorded at the exchange amount.

During the three month period, the Company incurred selling, general and administration expenses in the normal course of operations with an affiliated company, which a certain director controls, as follows:

- a) Management and other advisory services of \$30,000 (March 31, 2008 – \$30,000).
- b) Accounting, administrative and corporate expenses of \$9,150 (March 31, 2008 – \$15,000).

The Company expensed interest of \$33,000 (March 31, 2008 - \$52,173) on promissory notes payable issued in 2006 which are held by two of the Company's directors, officers and significant shareholders. In addition, the Company expensed \$44,384 (March 31, 2008 – nil) on promissory notes payable issued on the fiscal 2008 acquisition of Weifang Steel Canada Ltd. ("Weifang"), which are held by three of the former owners of Weifang. These expenses have been included in interest on long term debt and added to the balance of the promissory notes payable.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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 March 31, 2009

**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:

2010	\$	500,309
2011		136,966
2012		70,498
2013		855
2014		-
		\$ 708,628

**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, obligations under capital lease 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, 2009, the Company was in compliance with its externally imposed capital requirements which are debt covenants. The Company monitors these requirements on a monthly basis. Changes in certain key ratios are as follows:

	March 31	December 31
	2009	2008
Current ratio	1.41	1.32
Debt service ratio	2.57	3.65
Total debt to tangible net worth	2.36	2.93
Funded debt to EBITDA	3.23	3.35

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

## **Bri-Chem Corp.**

### **Notes to the Interim Consolidated Financial Statements**

**(Unaudited)**

March 31, 2009

#### **10. Capital risk management (cont'd)**

Debt service ratio is defined as the ratio of adjusted EBITDA less cash income taxes and unfunded capital expenditures divided by the 12 month forward looking principal, interest and other fixed obligations, including EBITDA bonuses and any payments owed under promissory notes payable. Adjusted 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 adjusted EBITDA ratio is defined as the ratio of all interest-bearing debt, excluding promissory notes payable divided by the trailing twelve month adjusted EBITDA, which includes the trailing twelve month EBITDA from Weifang.

#### **11. Financial instruments**

The Company's financial instruments consist of accounts receivable, as well as, bank indebtedness, accounts payable and accrued liabilities, promissory notes payable, obligations under capital lease and long-term debt.

##### *Credit risk*

Credit risk arises from the possibility that the entities to which the Company provides products may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. Revenue from the Company's three largest customers accounted for approximately 16%, 10 and 8% respectively of revenue for the three month period ended March 31, 2009 (18%, 12% and 6% for the twelve months ended December 31, 2008) and 20%, 4% and nil respectively (December 31, 2008 - 19%, 9%, 8%) of total accounts receivable.

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. For the three months ended March 31, 2009, the Company has recorded an allowance for doubtful accounts of \$32,000 (December 31, 2008 - \$3,435). The allowance is an estimate of the March 31, 2009 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended March 31, 2009 consisted of trade accounts receivable balances written off of \$1,807 and bad debt recovery of \$1,511.

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

Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas 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 105 days of invoice date.

The aging of accounts receivable was as follows:

<b>March 31, 2009</b>	<b>Gross accounts receivable</b>	<b>Allowance for doubtful accounts</b>	<b>Net accounts receivable</b>
Current	\$ 4,562,368	\$ -	\$ 4,562,368
31 to 60 days	9,161,945	-	9,161,945
61 to 90 days	9,002,723	-	9,002,723
91 to 120 days	4,091,729	-	4,091,729
Over 120 days	832,310	32,000	800,310
<b>Total</b>	<b>\$ 27,651,075</b>	<b>\$ 32,000</b>	<b>\$ 27,619,075</b>

*Interest rate risk*

Demand loans, obligations under capital lease 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, 2009 was Canadian bank prime interest rate plus 100 basis points (3.50%). The long term debt bears interest at bank prime plus a fixed increment. As at March 31, 2009, with 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 \$67,713 (March 31, 2008 - \$34,495).

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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March 31, 2009

**11. Financial instruments (cont'd)**

*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 reprising 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.

*Currency risk*

The Company is subject to foreign currency risk due to 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 \$5,540,712 as at March 31, 2009 (December 31, 2008 - \$10,027,922) and accounts payable in foreign currency outstanding as at March 31, 2009 is \$3,993,475 (December 31, 2008 - \$12,974,583). The Company does not currently use derivative instruments to reduce its foreign currency risk. For the three months ended March 31, 2009, the Company realized a foreign exchange gain of \$211,465 (March 31, 2008 loss of \$260,832). Based on the monetary assets and liabilities held in the United States ("US") at March 31, 2009, a five percent increase or decrease in exchange rates would impact the Company's net earnings by approximately \$66,447 (March 31, 2008 - \$69,933).

*Commodity risk*

Commodity risk arises from the effect that fluctuations of future commodity prices of steel and certain chemical and may have on the fair value or future cash flows of financial assets and liabilities. The Company does not use derivatives to reduce its commodity risk.

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

*Fair value of financial instruments*

The carrying value of the financial instruments of the Company approximates their fair values. The estimated fair value 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 cash and cash equivalents, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments. The fair value of promissory notes payable approximates the carrying value as the interest rate is similar to current market rate for similar debt, while the fair value of long term debt reflects the incremental cost of borrowing given current market interest rates.

	<b>March 31, 2009</b>		December 31, 2008	
	<b>Carrying Amount</b>	<b>Fair Value</b>	Carrying Amount	Fair Value
Loans and receivables; Accounts receivable	<b>27,619,075</b>	<b>27,619,075</b>	43,175,808	43,175,808
Other financial liabilities:				
Bank indebtedness	<b>33,219,327</b>	<b>33,219,327</b>	37,666,571	37,666,571
Accounts payable and accrued liabilities	<b>16,567,466</b>	<b>16,567,466</b>	24,653,886	24,653,886
Long-term debt*	<b>4,455,872</b>	<b>4,201,695</b>	4,599,267	4,308,838
Promissory notes payable*	<b>5,419,874</b>	<b>5,419,874</b>	5,342,490	5,342,490
Obligations under capital lease*	<b>286,487</b>	<b>286,487</b>	322,561	322,561

\* including current portion

**12. Segmented information**

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief decision makers in allocating resources and assessing performance. The Company operates in two business segments based on type of products sold. The fluids segment includes the sale of fluids and chemical additives to the resource and industrial markets. The steel product segment includes the sale of tubular steel products to the resource, industrial and construction industries.

Accounting policies for each of these business segments are the same as those disclosed in the Company's annual consolidated financial statements. General and administrative expenses directly related to the operating segments are included as operating expenses for those segments. There are no significant inter-segment revenues.

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

Selected financial information by reportable segment is disclosed as follows:

<b>Three months ended</b>				
<b>March 31, 2009</b>	<b>Fluids</b>	<b>Steel</b>	<b>Corporate</b>	<b>Consolidated</b>
Sales	\$ 16,202,752	\$ 14,134,350	\$ -	\$ <b>30,337,102</b>
Segment earnings (loss) from operations	1,323,655	1,554,912	(472,028)	<b>2,406,539</b>
Amortization	353,363	156,060	9,446	<b>518,869</b>
Interest expense (income)	1,235,423	688,391	(1,241,913)	<b>681,901</b>
Earnings (loss) before income taxes	(265,131)	710,461	760,439	<b>1,205,769</b>
Income taxes (recovery)	(111,549)	240,681	216,654	<b>345,786</b>
Segment profit (loss)	\$ (153,582)	\$ 469,780	\$ 543,785	\$ <b>859,983</b>
Intangible assets	\$ 1,344,730	\$ 2,422,101	\$ -	\$ <b>3,766,831</b>
Goodwill	1,081,445	3,646,855	-	<b>4,728,300</b>
Total assets	53,947,742	34,822,227	73,585	<b>88,843,554</b>
Capital expenditures (excluding business acquisitions)	190,018	263,897	-	<b>453,915</b>

No comparative information was provided for 2008, as the Company had only one reportable operating segment prior to the acquisition of Weifang. The Company's operations are conducted in the following geographic locations:

For the three months ended March 31	<b>2009</b>	<b>2008</b>
<b>Sales</b>		
Canada and International	\$ <b>26,851,791</b>	\$ 21,663,242
United States	<b>3,485,311</b>	537,290
	\$ <b>30,337,102</b>	\$ 22,200,532

Total assets, property and equipment, intangibles and goodwill related to United States operations were not significant and therefore have been included in Canada operations.

**13. Comparative figures**

Certain of the prior period's figures have been reclassified to conform to the current period presentation.