



Bri-Chem Corp.
Second Quarter Interim Report
June 30, 2008

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Bri-Chem Corp.
Interim Consolidated Balance Sheets

	June 30	December 31
	2008	2007
	(unaudited)	(audited)
Assets		
Current		
Accounts receivable	\$ 14,506,909	\$ 24,885,748
Inventory	24,253,522	21,134,625
Prepaid expenses and deposits	192,553	140,899
	<u>38,952,984</u>	46,161,272
Property and equipment	2,803,970	2,688,781
Intangible assets	1,708,580	1,942,190
Goodwill	1,081,445	1,081,445
Future income taxes	44,601	44,601
	<u>\$ 44,591,580</u>	\$ 51,918,289
Liabilities		
Current		
Bank indebtedness (Note 4)	\$ 11,036,357	\$ 12,050,168
Accounts payable and accrued liabilities	5,289,005	11,967,882
Income taxes payable	249,469	792,657
Current portion of promissory notes payable	1,331,708	1,500,515
Current portion of long-term debt	113,519	67,514
	<u>18,020,058</u>	26,378,736
Promissory notes payable	1,200,000	2,200,000
Long-term debt	4,567,364	4,621,456
Future income taxes	476,762	476,762
	<u>24,264,184</u>	33,676,954
Shareholders' Equity		
Share capital (Note 5)	13,035,274	12,347,444
Contributed surplus (Note 6)	756,800	727,050
Retained earnings	6,535,322	5,166,841
	<u>20,327,396</u>	18,241,335
	<u>\$ 44,591,580</u>	\$ 51,918,289

Commitments (Note 9)

On behalf of the Board

“Don Caron”

 Don Caron, Director

“Alan Campbell”

 Alan Campbell, Director

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

	June 30 (3 months)		June 30 (6 months)	
	2008	2007	2008	2007
Sales	\$ 10,658,262	\$ 6,135,841	\$ 32,858,795	\$ 19,272,097
Cost of sales	8,653,628	4,972,982	26,777,360	15,881,008
Gross margin	2,004,634	1,162,859	6,081,435	3,391,089
Expenses				
Salaries and benefits	821,868	485,292	1,762,082	1,007,845
Selling, general and administration	480,304	340,848	1,040,776	733,528
Interest on short-term operating debt	200,672	146,182	552,462	321,024
Interest on long-term debt	174,441	203,451	298,547	352,925
Amortization on intangible assets	116,219	59,213	233,610	118,052
Amortization on property and equipment	74,227	29,664	171,853	59,001
	1,867,731	1,264,650	4,059,330	2,592,375
Earnings (loss) before income taxes	136,903	(101,791)	2,022,105	798,714
Income taxes (Note 7)	33,197	-	653,624	-
Net earnings (loss) and comprehensive income (loss)	\$ 103,706	\$ (101,791)	\$ 1,368,481	\$ 798,714
Earnings (loss) per share				
Basic	\$ 0.01	\$ (0.01)	\$ 0.11	\$ 0.07
Weighted average number of shares	12,939,278	12,212,552	12,933,058	12,212,552
Diluted	\$ 0.01	\$ (0.01)	\$ 0.11	\$ 0.07
Weighted average number of shares	12,939,278	12,241,740	12,933,058	12,241,740
Retained earnings, beginning of period	\$ 6,431,616	\$ 3,377,584	\$ 5,166,841	\$ 2,530,021
Deficiency in net assets acquired	-	-	-	(52,942)
Net earnings (loss) and comprehensive income (loss)	103,706	(101,791)	1,368,481	798,714
Retained earnings, end of period	\$ 6,535,322	\$ 3,275,793	\$ 6,535,322	\$ 3,275,793

See accompanying notes to the interim consolidated financial statements.

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

	June 30 (3 months)		June 30 (6 months)	
	2008	2007	2008	2007
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings (loss) and comprehensive income (loss)	\$ 103,706	\$ (101,791)	\$ 1,368,481	\$ 798,714
Non-cash items:				
Amortization on intangible assets	116,219	59,213	233,610	118,052
Amortization on property and equipment	74,227	29,664	171,853	59,001
Amortization of debt related transaction costs	4,517	16,425	9,034	(6,798)
Stock-based compensation	44,469	188,326	151,580	275,904
(Gain) loss on sale of property and equipment	-	(6,875)	346	(6,775)
	<u>343,138</u>	<u>184,962</u>	<u>1,934,904</u>	<u>1,238,098</u>
Net change in non-cash operating working capital	<u>5,360,503</u>	<u>5,403,853</u>	<u>552,224</u>	<u>8,025,050</u>
	<u>5,703,641</u>	<u>5,588,815</u>	<u>2,487,128</u>	<u>9,263,148</u>
Financing activities				
Advances on promissory notes payables	49,454	48,000	101,627	96,000
Proceeds on issuance of long-term debt	-	-	-	5,000,000
Net repayments of operating line	(4,349,682)	(5,466,719)	(1,013,811)	(13,598,626)
Transactions costs on credit facility	-	(105,000)	-	(105,000)
Repayment of promissory notes payable	(1,270,434)	-	(1,270,434)	(11,000,000)
Repayment of long-term debt	(8,828)	(18,997)	(17,123)	(586,302)
	<u>(5,579,490)</u>	<u>(5,542,716)</u>	<u>(2,199,741)</u>	<u>(20,193,928)</u>
Investing activities				
Purchase of property and equipment	(124,151)	(114,922)	(294,887)	(265,973)
Proceeds on disposal of property and equipment	-	68,823	7,500	68,823
	<u>(124,151)</u>	<u>(46,099)</u>	<u>(287,387)</u>	<u>(197,150)</u>
Net decrease in cash and cash equivalents	-	-	-	(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>\$ -</u>	<u>\$ -</u>	<u>\$ 11,127,930</u>
Non-cash transactions:				
Receivable on issuance of share capital	\$ 566,000	\$ -	\$ 566,000	\$ -
Fair value of options exercised	121,830	-	121,830	-
Issuance of common shares	(687,830)	-	(687,830)	-

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(Unaudited)
June 30, 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 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 June 30, 2008 was \$8,271,822 (June 30, 2007 - \$4,188,671) and totaled \$24,850,993 for the six months ended June 30, 2008 (June 30, 2007 - \$13,655,306.)

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. The adoption of this Section did not have any impact on the Company's financial statements.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(Unaudited)
June 30, 2008

2. Change in significant accounting policies (cont'd)

Effective January 1, 2008, 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. The adoption of this section did not have any impact on the Company's financial position or results of operations.

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 June 30, 2008, the prime rate was 4.75% and the US base rate was 5%. 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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June 30, 2008

5. Share capital

Authorized

Unlimited number of voting common shares
Unlimited number of preferred shares, issued in series

Issued and outstanding common shares	<u>Number</u>	<u>Amount</u>
Balance, December 31, 2007	12,926,838	\$ 12,347,444
Issuance of shares upon exercise of options	283,000	687,830
Balance, June 30, 2008	13,209,838	\$ 13,035,274

a) On June 26, 2008, 283,000 agent options were exercised at a price of \$2.00 per option.

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, June 30, 2008	1,343,000	\$ 1.99	3.63
Options exercisable, June 30, 2008	366,300	\$ 2.00	4.00

During the three and six month period ended June 30, 2008, no options were granted. A total of 1,343,000 options, 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 \$44,469 was recognized during the three month period ended June 30, 2008 (June 30, 2007 – \$188,326) and totaled \$151,580 for the six month period ended June 30, 2008 (June 30, 2007 - \$275,904). The expense was recorded in salaries and employee benefits expense 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 forwards 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.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
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June 30, 2008

8. Related party transactions

During the three month and six month periods, 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 and \$60,000, respectively (June 30, 2007 – \$30,000 and \$60,000).
- b) Accounting, administrative and corporate expenses of \$16,052 and \$31,052, respectively (June 30, 2007 – \$9,000 and \$18,000).

The Company expensed interest of \$45,774 and \$93,774, respectively, (June 30, 2007 - \$48,000 and \$96,000) 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 notes 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	\$	149,576
2009		119,764
2010		99,315
2011		13,820
2012		143
		<hr/>
	\$	382,618

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 and six months ended June 30, 2008, 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:

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(Unaudited)
June 30, 2008

10. Capital risk management (cont'd)

	June 30	December 31
	2008	2007
Current ratio	2.16	1.75
Debt service ratio	3.25	2.68
Total debt to tangible net worth	0.97	1.39
Funded debt to EBITDA	2.28	3.00

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 principal, 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 deposits, accounts receivable, as well as, bank indebtedness, accounts payable and accrued liabilities, promissory notes payable and long-term debt.

The Company has classified 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 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 using the effective interest rate method. 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 long term debt is variable and interest rates on the promissory notes are comparable to rates of similar debt.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(Unaudited)
June 30, 2008

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 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 June 30, 2008, the Company had recorded an allowance for doubtful accounts of \$48,070 (December 31, 2007 - \$64,265). The allowance is an estimate of the June 30, 2008 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended June 30, 2008 consisted of trade accounts receivable balances written off of \$4,698, and bad debt recovery of \$5,088.

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.

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 June 30, 2008 was Canadian bank prime interest rate plus 30 basis points (5.05%). The demand loan bears interest at bank prime plus 85 basis points. As at June 30, 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.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(Unaudited)
June 30, 2008

11. Financial instruments (cont'd)

Foreign exchange 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 \$502,866 as at June 30, 2008 (December 31, 2007 - \$63,034) and accounts payable in foreign currency outstanding as at June 30, 2008 is \$965,014 (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 June 30, 2008, the Company realized a foreign exchange loss of \$85,361 (June 30, 2007 - \$65,488) and for the six months ended June 30, 2008 realized a foreign exchange loss of \$225,256 (June 30, 2007 - \$129,394). Based on the monetary assets and liabilities held in the United States ("US") at June 30, 2008, a five percent increase or decrease in exchange rates would have a minimal impact to the Company's net income.

12. Comparative figures

Certain of the prior period's figures have been reclassified to conform to the current period presentation. The comparative figures for June 30, 2007 were not audited or reviewed by an independent auditor.

13. Subsequent events

On July 18, 2008, the Company entered into a letter of intent to acquire Weifang Steel Canada Ltd., a Western Canadian based wholesale distributor of steel products to the oil and gas and construction industries for the total purchase price of \$11,224,000 consisting of cash payable of \$5,224,000 on closing, \$3,000,000 in cash payable in \$1,000,000 increments plus interest 60 days after the first, second and third anniversary of the closing date and \$3,000,000 by way of issuance of 1,304,348 common shares at a price of \$2.30 per share, which is the price negotiated between the parties involved in the transaction.