



Bri-Chem Corp.
Third Quarter Interim Report
September 30, 2008

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Bri-Chem Corp.

Interim Consolidated Balance Sheets

	Septemeber 30 2008 (unaudited)	December 31 2007 (audited)
Assets		
Current		
Accounts receivable	\$ 43,020,647	\$ 24,885,748
Inventory	32,602,107	21,134,625
Prepaid expenses and deposits	2,530,031	140,899
	78,152,785	46,161,272
Property and equipment	3,534,277	2,688,781
Intangible assets	4,798,240	1,942,190
Goodwill	4,515,834	1,081,445
Future income taxes	44,601	44,601
	\$ 91,045,737	\$ 51,918,289
Liabilities		
Current		
Bank indebtedness (Note 4)	\$ 27,877,715	\$ 12,050,168
Accounts payable and accrued liabilities	25,354,120	11,967,882
Income taxes payable	1,193,047	792,657
Current portion of promissory notes payable	1,064,121	1,500,515
Current portion of long-term debt	124,564	67,514
Current portion of obligations under capital lease	139,983	-
	55,753,550	26,378,736
Promissory notes payable (Note 6)	4,200,000	2,200,000
Long-term debt	4,512,720	4,621,456
Obligations under capital lease (Note 7)	218,236	-
Future income taxes	1,652,543	476,762
	66,337,049	33,676,954
Shareholders' Equity		
Share capital (Note 8)	15,485,274	12,347,444
Contributed surplus (Note 9)	804,671	727,050
Retained earnings	8,418,743	5,166,841
	24,708,688	18,241,335
	\$ 91,045,737	\$ 51,918,289

Commitments (Note 13)

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)

	September 30 (3 months)		September 30 (9 months)	
	2008	2007	2008	2007
Sales	\$ 32,184,454	\$ 18,889,017	\$ 65,043,249	\$ 38,161,114
Cost of sales	26,798,504	15,581,714	53,575,864	31,311,483
Gross margin	<u>5,385,950</u>	<u>3,307,303</u>	<u>11,467,385</u>	<u>6,849,631</u>
Expenses				
Salaries and benefits	1,211,834	880,911	2,973,916	1,888,756
Selling, general and administration	652,868	588,098	1,693,644	1,472,865
Interest on short-term operating debt	243,895	203,264	796,357	524,288
Interest on long-term debt	177,436	197,517	475,983	550,442
Interest on obligations under capital lease	1,225	-	1,225	-
Amortization on intangible assets	236,340	74,805	469,950	133,805
Amortization on property and equipment	99,977	74,759	271,830	192,812
	<u>2,623,575</u>	<u>2,019,354</u>	<u>6,682,905</u>	<u>4,762,968</u>
Earnings before income taxes	<u>2,762,375</u>	<u>1,287,949</u>	<u>4,784,480</u>	<u>2,086,663</u>
Income taxes (Note 11)	<u>878,954</u>	<u>113,175</u>	<u>1,532,578</u>	<u>113,175</u>
Net earnings and comprehensive income	<u>\$ 1,883,421</u>	<u>\$ 1,174,774</u>	<u>\$ 3,251,902</u>	<u>\$ 1,973,488</u>
Earnings per share				
Basic	\$ 0.14	\$ 0.09	\$ 0.25	\$ 0.16
Weighted average number of shares	13,663,524	12,794,850	13,178,324	12,409,506
Diluted	\$ 0.14	\$ 0.09	\$ 0.25	\$ 0.16
Weighted average number of shares	13,663,524	12,797,911	13,178,324	12,409,506
Retained earnings, beginning of period	\$ 6,535,322	\$ 3,275,794	\$ 5,166,841	\$ 2,530,021
Deficiency in net assets acquired	-	-	-	(52,941)
Net earnings and comprehensive income	<u>1,883,421</u>	<u>1,174,774</u>	<u>3,251,902</u>	<u>1,973,488</u>
Retained earnings, end of period	<u>\$ 8,418,743</u>	<u>\$ 4,450,568</u>	<u>\$ 8,418,743</u>	<u>\$ 4,450,568</u>

See accompanying notes to the interim consolidated financial statements.

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

	September 30 (3 months)		September 30 (9 months)	
	2008	2007	2008	2007
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings	\$ 1,883,421	\$ 1,174,774	\$ 3,251,902	\$ 1,973,488
Non-cash items:				
Amortization on intangible assets	236,340	74,805	469,950	133,805
Amortization on property and equipment	99,977	74,759	271,830	192,812
Amortization of debt related transaction costs	1,464	-	10,498	-
Stock-based compensation	47,871	168,389	199,451	444,293
(Gain) loss on sale of property and equipment	-	(900)	346	(7,675)
	<u>2,269,073</u>	<u>1,491,827</u>	<u>4,203,977</u>	<u>2,736,723</u>
Net change in non-cash operating working capital	<u>(8,129,098)</u>	<u>(2,633,973)</u>	<u>(8,264,705)</u>	<u>5,391,076</u>
	<u>(5,860,025)</u>	<u>(1,142,146)</u>	<u>(4,060,728)</u>	<u>8,127,799</u>
Financing activities				
Advances on promissory notes payables	51,899	48,000	153,526	144,000
Proceeds on issuance of long-term debt	-	-	-	5,000,000
Net advances (repayments) of operating line	11,335,412	3,869,095	10,321,601	(9,729,531)
Transactions costs on credit facility	-	-	-	(105,000)
Proceeds on issuance of share capital	-	-	687,830	-
Repayment of promissory notes payable	(319,486)	-	(1,589,920)	(11,000,000)
Repayment of long-term debt	(45,063)	(29,005)	(62,184)	(622,104)
Repayment of capital lease obligations	(11,795)	-	(11,795)	-
	<u>11,010,967</u>	<u>3,888,090</u>	<u>9,499,058</u>	<u>(16,312,635)</u>
Investing activities				
Purchase of property and equipment	(92,036)	(42,744)	(386,924)	(308,717)
Proceeds on disposal of property and equipment	-	7,500	7,500	76,323
Cash paid on acquisition (Note 5)	(5,058,906)	(2,710,700)	(5,058,906)	(2,710,700)
	<u>(5,150,942)</u>	<u>(2,745,944)</u>	<u>(5,438,330)</u>	<u>(2,943,094)</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>
Supplemental cash flow information				
Interest paid	\$ 271,571	\$ 280,519	\$ 1,151,823	\$ 730,689
Income taxes paid	\$ 212,562	\$ 3,070	\$ 1,323,108	\$ 749,043

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(Unaudited)
September 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 distributor of industrial drilling fluid supplies and steel products to the oil and gas, 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 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

Financial instruments

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.

Principles of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company, and its 100% wholly-owned subsidiaries, Bri-Chem Supply Ltd., Sodium Solutions Inc. and Weifang Steel Canada Ltd. All inter-company transactions and balances have been appropriately eliminated.

Inventory

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.

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

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 September 30, 2008 was \$25,137,598 (September 30, 2007 - \$15,199,193) and totaled \$49,763,338 for the nine months ended September 30, 2008 (September 30, 2007 - \$30,294,950).

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Rates and bases of amortization applied to write-off the cost of property and equipment over their estimated lives are as follows:

Buildings	4 to 10% declining balance
Motor vehicles	30% declining balance
Manufacturing and lab equipment	10 to 30% declining balance
Office equipment	10 to 20% declining balance
Computer hardware	30% declining balance
Computer software	20 to 100% declining balance
Pavement and landscaping	8% declining balance
Leasehold improvements	1 to 5 years straight line

The change in amortization rates from year end are the result of the acquisition of Weifang Steel Canada Ltd. during the third quarter and new accounting software was purchased during the year with an estimated life of 20%.

Obligations under capital lease

The Company accounts for leases as either operating or capital. Capital leases are those that substantially transfer the benefit and risks of ownership to the lessee. Assets acquired under capital lease are amortized over their estimated useful lives. Obligations under capital lease are measured at lower of the present value of future minimum lease payments and fair market value. Leases not meeting the capital criteria are treated as operating and are recorded as an expense in the period paid or accrued. For the purposes of financial instruments, the Company classified the obligations under capital leases as other financial liabilities which have been measured at amortized cost using the effective interest method.

General Standards

Effective January 1, 2008, the Company adopted paragraphs .08(a) and .08(b) 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
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2. Changes in significant accounting policies (cont'd)

Capital disclosures

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 and has resulted in enhanced disclosure in the financial statements.

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 1, 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 year ends 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.

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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 September 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.

5. Acquisition

Effective August 29, 2008, the Company acquired all of the outstanding common shares of Weifang Steel Canada Ltd. ("Weifang"), a private Alberta wholesale distributor and trader of steel tubular, casing and other steel products to the resource, industrial and construction industries for a total purchase price of \$10,508,906, including 1,304,348 common shares at a fair market value of \$2,450,000. Concurrent with the purchase of shares, the Company also settled amounts to shareholders of \$2,478,906, which has been reflected in the purchase price.

This acquisition has been accounted for using the purchase method of accounting and the results of operations have been included in these interim consolidated financial statements from the date of acquisition. The cost of the purchase price has been allocated to the net identifiable assets based on their estimated fair values at the date of the acquisition as follows:

Current assets	\$	20,595,028
Property and equipment		738,248
Intangible assets		3,326,000
Goodwill		3,434,389
Bank indebtedness		(5,505,946)
Current liabilities		(10,533,017)
Obligations under capital lease		(370,014)
Future income taxes		(1,175,782)
	\$	10,508,906

The components of the purchase price were as follows:

Cash	\$	4,948,906
Promissory note		3,000,000
1,304,348 common shares		2,450,000
Transaction costs		110,000
	\$	10,508,906

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

The 1,304,348 common shares were issued as part of the purchase price at a price of \$2.30 which is representative of the fair value of the shares at the time of acquisition. The common shares were then adjusted based on discount factors ranging from 10% to 25% to consider sale restrictions (see Note 8). The transaction costs of the acquisition include legal and consulting fees related to the acquisition. The promissory notes payable bear interest at 6% per annum and have been recorded at fair value.

The purchase price allocated to intangible assets include: customer relationships (\$1,380,000), non-competition agreements (\$998,000), sales backlog (\$390,000), and tradename (\$558,000). Customer relationships, non-competition agreements and the tradename will be amortized over 5 years on a straight line basis. The sales backlog will be amortized over 6 months on a straight line basis. The goodwill acquired with Weifang is not deductible for income tax purposes.

Future contingent consideration of \$450,000 may be required to be paid if Weifang's trailing closing net income at August 29, 2008 equals or exceeds \$2,400,000. As at September 30, 2008, no additional consideration was set up as the closing net income adjustment was not yet finalized.

The interim purchase price allocation is based on management's best estimate and is subject to change as new information becomes available. The purchase price allocation has not been finalized as the Company's consultants are reviewing the allocation information.

6. Promissory notes payable

During the quarter, the Company issued \$3,000,000 in promissory notes payable. The notes payable are unsecured, bear interest at 6% per annum and are repayable as follows: \$1,000,000 plus interest on October 28, 2009, \$1,000,000 plus interest on October 28, 2010 and \$1,000,000 plus interest on October 28, 2011.

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7. Obligations under capital lease

	September 30	December 31
	2008	2007
Scotiabank capital lease bearing interest at bankers acceptance plus 2%, repayable in blended monthly installment of \$3,702, maturing November 16, 2010, secured by specific equipment with a net book value of \$151,655 (net of accumulated amortization of \$1,548).	\$ 119,071	-
John Deere capital lease bearing interest at 0.90% per annum, repayable in blended monthly installments of \$5,218, maturing August 22, 2010, secured by specific equipment with a net book value of \$163,770 (net of accumulated amortization of \$1,545).	113,809	-
Scotiabank capital lease bearing interest at bankers acceptance plus 2%, repayable in blended monthly installments of \$3,233, maturing November 15, 2010, secured by specific equipment with a net book value of \$129,768 (net of accumulated amortization of \$1,352).	104,009	-
Doosan Global Finance bearing interest at 4.60% per annum, repayable in blended monthly installments of \$1,110, maturing June 18, 2010, secured by specific equipment with a net book value of \$24,650 (net of accumulated amortization of \$213).	21,330	-
	358,219	-
Less: current portion	139,983	-
	\$ 218,236	-

Future minimum lease payments required over the next five years for all obligations under capital lease are as follows:

2008	\$ 159,155
2009	149,497
2010	83,452
2011	-
2012	-
	392,104
Less: interest	(33,885)
	\$ 358,219

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

Authorized

Unlimited number of voting common shares

Unlimited number of preferred shares, issuable 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
Issuance of shares upon acquisition of Weifang (Note 5)	1,304,348	2,450,000
Balance, September 30, 2008	14,514,186	\$ 15,485,274

- a) On June 26, 2008, 283,000 agent options were exercised at a price of \$2.00 per option.
- b) On August 29, 2008, the Company issued 1,304,348 shares with a fair value of \$2,450,000 for the purchase of shares of Weifang (see Note 5). The following resale restrictions exist on the following shares:

434,783 common shares with resale restrictions expiring August 30, 2009
434,783 common shares with resale restrictions expiring August 30, 2010
434,782 common shares with resale restrictions expiring August 30, 2011

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	30,000	2.25	4.00
Exercised	-	-	-
Forfeitures	(20,000)	2.00	4.00
Outstanding, September 30, 2008	1,363,000	\$ 1.99	3.63
Options exercisable, September 30, 2008	366,300	\$ 2.00	4.00

During the three month period ended September 30, 2008, 30,000 options were granted under the Plan at a fair value of \$29,700. A total of 1,363,000 options, net of forfeitures have been issued under the Plan at a total fair value of \$888,780.

Bri-Chem Corp.
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8. Share capital (cont'd)

Options to employees and directors (cont'd)

The fair value of the director options granted during the three months ended September 30, 2008 is estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

Expected life	4 years
Risk-free rate	3.46%
Expected volatility	52.08%
Expected dividend yield	0.00%

9. Contributed surplus

	September 30	December 31
	2008	2007
Balance, December 31, 2007	\$ 727,050	\$ 121,830
Agent options exercised	(121,830)	-
Fair value of stock options granted to employees and directors	199,451	417,170
Fair value of warrants granted to agents	-	141,706
Fair value of warrants granted on acquisition of Spirit Mountain	-	46,344
Balance, September 30, 2008	\$ 804,671	\$ 727,050

10. 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 \$47,871 was recognized during the three month period ended September 30, 2008 (September 30, 2007 – \$168,389) and totaled \$199,451 for the nine month period ended September 30, 2008 (September 30, 2007 - \$444,293). The expense was recorded in salaries and employee benefits expense with a corresponding increase to contributed surplus.

11. 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 previously unrecognized benefits of these losses were fully utilized during fiscal 2007 as a reduction to current income tax expense.

12. 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.

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Notes to the Interim Consolidated Financial Statements
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12. Related party transactions (cont'd)

During the three month and nine 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 \$90,000, respectively (September 30, 2007 – \$45,000 and \$105,000.)
- b) Accounting, administrative and corporate expenses of \$9,150 and \$40,202, respectively (September 30, 2007 – \$9,000 and \$27,000.)

The Company expensed interest of \$33,000 and \$126,774, respectively, (September 30, 2007 - \$51,852 and \$147,852) 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 \$15,781 (September 30, 2007 – nil) on promissory notes payable issued on the acquisition of 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.

13. Commitments

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

2009	\$ 797,233
2010	145,183
2011	118,006
2012	2,565
2013	-
	<hr/>
	\$ 1,062,987

14. 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.

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14. Capital risk management (cont'd)

During the three months and nine months ended September 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:

	September 30	December 31
	2008	2007
Current ratio	1.40	1.75
Debt service ratio	5.63	2.68
Total debt to tangible net worth	2.59	1.39
Funded debt to EBITDA	2.78	3.00

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

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.

15. 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, obligations under capital lease 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.

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15. Financial instruments (cont'd)

Bank indebtedness, accounts payable and accrued liabilities, obligations under capital lease, 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.

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 September 30, 2008, the Company had recorded an allowance for doubtful accounts of nil (December 31, 2007 - \$64,265). The allowance is an estimate of the September 30, 2008 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended September 30, 2008 consisted of trade accounts receivable balances written off of \$20,770, and bad debt recovery of \$29,409.

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, 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 September 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 September 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.

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15. 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 \$9,500,665 as at September 30, 2008 (December 31, 2007 - \$63,034) and accounts payable in foreign currency outstanding as at September 30, 2008 is \$7,035,798 (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 September 30, 2008, the Company realized a foreign exchange loss of \$106,664 (September 30, 2007 gain of \$26,012) and for the nine months ended September 30, 2008 realized a foreign exchange loss of \$331,917 (September 30, 2007 - \$103,382). Based on the monetary assets and liabilities held in the United States ("US") at September 30, 2008, a five percent increase or decrease in exchange rates would impact the Company's net income by approximately \$108,000.

16. 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, except for those explained in note 2 in these interim 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.

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16. Segmented information (cont'd)

Selected financial information by reportable segment is disclosed as follows:

Three months ended September 30, 2008	Fluids	Steel	Consolidated
Revenue	\$ 27,194,254	\$ 4,990,200	\$ 32,184,454
Amortization	316,314	20,003	336,317
Interest expense	337,754	84,802	422,556
Income taxes	685,305	193,649	878,954
Segment profit	\$ 1,438,561	\$ 453,643	\$ 1,892,204
Intangible assets acquired	\$ 1,942,190	\$ 2,856,050	\$ 4,798,240
Goodwill acquired	1,081,445	3,434,389	4,515,834
Total assets	66,101,542	24,944,195	91,045,737
Capital expenditures (excluding business acquisitions)	77,515	14,521	92,036
Nine months ended September 30, 2008	Fluids	Steel	Consolidated
Revenue	\$ 60,053,049	\$ 4,990,200	\$ 65,043,249
Amortization expense	721,777	20,003	741,780
Interest expense	1,188,763	84,802	1,273,565
Income taxes	1,338,929	193,649	1,532,578
Segment profit	\$ 2,807,036	\$ 453,649	\$ 3,260,685
Intangible assets acquired	\$ 1,942,190	\$ 2,856,050	\$ 4,798,240
Goodwill acquired	1,081,445	3,434,389	4,515,834
Total assets	66,101,542	24,944,195	91,045,737
Capital expenditures (excluding business acquisitions)	372,403	14,521	386,924

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16. Segmented information (cont'd)

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

	September 30 (3 months)		September 30 (9 months)	
	2008	2007	2008	2007
Revenue				
Canada and International	\$ 27,094,736	\$ 18,637,524	\$ 59,170,543	\$ 37,637,663
United States	5,089,718	251,493	5,872,706	523,451
	\$ 32,184,454	\$ 18,889,017	\$ 65,043,249	\$ 38,161,114

Total assets, property and equipment, intangibles and goodwill related to United States operations were not significant and therefore have been included in Canada operations. No comparative information was provided for 2007, as the Company had only one reportable operating segment.

17. Comparative figures

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

18. Subsequent events

In October 2008, the Company renewed and amended its credit facility, which resulted in an increased line of credit to a maximum limit of \$35,000,000 which includes a sub-limit of \$10,000,000 on a US demand overdraft, \$100,000 on a bank guarantee and a \$250,000 import line. The bank operating line of credit bears interest ranging from prime to prime plus 2.0% and are due on demand. The US demand overdraft bears interest ranging from US base rate to US base rate plus 2.0%, per annum and are due on demand. At September 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. There were no changes to the Company's debt covenants and at the signing of the amended credit facility, the Company was in compliance with all of their debt covenants.