



**Bri-Chem Corp.**  
**Third Quarter Interim Report**  
September 30, 2009

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# Bri-Chem Corp.

## Interim Consolidated Balance Sheets

	September 30 2009 (unaudited)	December 31 2008 (audited)
<b>Assets</b>		
Current		
Accounts receivable	\$ 22,231,260	\$ 43,175,808
Inventory	43,226,026	39,942,913
Prepaid expenses and deposits	927,075	4,970,642
	66,384,361	88,089,363
Property and equipment	3,895,892	3,797,515
Intangible assets (Note 5)	1,151,223	4,160,064
Goodwill (Note 5)	-	4,728,300
Future income taxes	186,457	186,457
	\$ 71,617,933	\$ 100,961,699
<b>Liabilities</b>		
Current		
Bank indebtedness (Note 6)	\$ 26,593,015	\$ 37,666,571
Accounts payable and accrued liabilities	15,283,521	24,653,886
Income taxes payable	138,635	1,292,580
Current portion of promissory notes payable (Note 7)	243,910	2,142,490
Current portion of long-term debt (Note 8)	2,742,879	853,769
Current portion of obligations under capital lease	135,267	146,867
	45,137,227	66,756,163
Promissory notes payable (Note 7)	5,200,000	3,200,000
Long-term debt (Note 8)	1,374,561	3,745,498
Obligations under capital lease	88,697	175,694
Future income taxes	512,269	1,279,987
	52,312,754	75,157,342
<b>Shareholders' Equity</b>		
Share capital (Note 9)	15,249,704	15,295,274
Contributed surplus (Note 10)	972,379	855,454
Retained earnings	3,083,096	9,653,629
	19,305,179	25,804,357
	\$ 71,617,933	\$ 100,961,699

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 (Loss) Income and Retained Earnings**  
(Unaudited)

	September 30 (3 months)		September 30 (9 months)	
	2009	2008	2009	2008
<b>Sales</b>	\$ 23,965,481	\$ 32,184,454	\$ 64,421,050	\$ 65,043,249
Cost of sales	<u>21,318,278</u>	26,691,840	<u>55,087,543</u>	53,243,947
Gross margin	<u>2,647,203</u>	5,492,614	<u>9,333,507</u>	11,799,302
Gross margin (%)	11.0%	17.1%	14.5%	18.1%
<b>Expenses</b>				
Salaries and benefits	1,430,685	1,211,834	4,560,231	2,973,916
Selling, general and administration	900,607	759,532	2,347,210	2,025,561
Amortization on intangible assets	203,211	236,340	853,009	469,950
Amortization on property and equipment	167,263	99,977	438,712	271,830
Interest on long-term debt	156,856	177,436	500,077	475,983
Interest on short-term operating debt	90,898	243,895	914,654	796,357
Interest on capital lease obligations	3,377	1,225	8,051	1,225
Impairment charge (Note 5)	6,884,132	-	6,884,132	-
	<u>9,837,029</u>	2,730,239	<u>16,506,076</u>	7,014,822
(Loss) earnings before income taxes	<u>(7,189,826)</u>	2,762,375	<u>(7,172,569)</u>	4,784,480
Income taxes (recovery)				
Current	(28,981)	878,954	(24,064)	1,532,578
Future	<u>(577,972)</u>	-	<u>(577,972)</u>	-
	<u>(606,953)</u>	878,954	<u>(602,036)</u>	1,532,578
Net (loss) earnings and comprehensive (loss) income	<u>\$ (6,582,873)</u>	\$ 1,883,421	<u>\$ (6,570,533)</u>	\$ 3,251,902
(Loss) earnings per share				
Basic	\$ (0.45)	\$ 0.14	\$ (0.45)	\$ 0.25
Weighted average number of shares	14,499,131	13,663,524	14,505,523	13,178,324
Diluted	\$ (0.45)	\$ 0.14	\$ (0.45)	\$ 0.25
Weighted average number of shares	14,499,131	13,663,524	14,505,523	13,178,324
Retained earnings, beginning of period	\$ 9,665,969	\$ 6,535,322	\$ 9,653,629	\$ 5,166,841
Net (loss) earnings and comprehensive (loss) income	<u>(6,582,873)</u>	1,883,421	<u>(6,570,533)</u>	3,251,902
Retained earnings, end of period	<u>\$ 3,083,096</u>	\$ 8,418,743	<u>\$ 3,083,096</u>	\$ 8,418,743

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)	
	2009	2008	2009	2008
Increase (decrease) in cash and cash equivalents				
<b>Operating activities</b>				
Net (loss) earnings	\$ (6,582,873)	\$ 1,883,421	\$ (6,570,533)	\$ 3,251,902
Non-cash items:				
Amortization on intangible assets	203,211	236,340	853,009	469,950
Amortization on property and equipment	167,263	99,977	438,712	271,830
Amortization of debt related transaction costs	13,580	1,464	40,740	10,498
Future income tax (recovery)	(577,972)	-	(577,972)	-
Impairment charge (Note 5)	6,884,132	-	6,884,132	-
Stock based compensation	32,315	47,871	105,539	199,451
Loss on sale of property and equipment	16,498	-	21,074	346
	<b>156,154</b>	<b>2,269,073</b>	<b>1,194,701</b>	<b>4,203,977</b>
Net change in non-cash operating working capital	<b>975,691</b>	<b>(8,129,098)</b>	<b>11,012,187</b>	<b>(8,264,705)</b>
	<b>1,131,845</b>	<b>(5,860,025)</b>	<b>12,206,888</b>	<b>(4,060,728)</b>
<b>Financing activities</b>				
Advances on promissory notes payables	78,370	51,899	233,631	153,526
Net advances (repayments) of operating line	(887,616)	11,335,412	(11,073,556)	10,321,601
Repurchase of common shares (Note 9)	(26,484)	-	(34,184)	-
Proceeds on issuance of share capital	-	-	-	687,830
Repayment of promissory notes payable	-	(319,486)	(132,211)	(1,589,920)
Repayment of long-term debt	(219,211)	(45,063)	(522,566)	(62,184)
Repayment of capital lease obligations	(47,267)	(11,795)	(119,839)	(11,795)
	<b>(1,102,208)</b>	<b>11,010,967</b>	<b>(11,648,725)</b>	<b>9,499,058</b>
<b>Investing activities</b>				
Purchase of property and equipment	(61,637)	(92,036)	(618,163)	(386,924)
Proceeds on disposal of property and equipment	32,000	-	60,000	7,500
Cash paid on acquisition	-	(5,058,906)	-	(5,058,906)
	<b>(29,637)</b>	<b>(5,150,942)</b>	<b>(558,163)</b>	<b>(5,438,330)</b>
Net decrease in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	\$ -	\$ -	\$ -	\$ -
Non-cash transactions:				
Fair value of options exercised	-	121,830	-	121,830
Interest paid	175,464	271,571	1,389,168	1,151,823
Income taxes paid	352,088	212,562	808,205	1,323,108

See accompanying notes to the interim consolidated financial statements.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**(Unaudited)**  
September 30, 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 the Company's consolidated interim financial statements.

**3. Future accounting pronouncements**

*Business combinations*

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations" which will replace section 1581 of the same name and will be applicable to the Company beginning on or after January 1, 2011. This section requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations.

*Consolidated financial statements*

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements" which will replace section 1600 of the same name and will be applicable to the Company beginning on January 1, 2011. This section establishes the requirements for the preparation of consolidated financial statements, in particular the standard requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. The Company does not expect an impact on the financial statements as a result of the implementation of this section.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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**4. Seasonality of operations**

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern Western Canadian Sedimentary Basin ("WCSB") are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

**5. Goodwill and intangible assets**

The Company performed its annual assessment of the fair value of its goodwill and intangible assets. Due to the deterioration in overall economic conditions, reduced activity levels within the oil and gas industry and changes in the market, the Company concluded that the carrying value of goodwill and intangible assets were impaired and recorded an impairment charge of \$6,884,132 which was allocated to goodwill and intangible assets in the amounts of \$4,728,300 and \$2,155,832 respectively. This also decreased the related future income tax liability for the difference between tax and book amortization of the intangible assets by \$527,495 during the third quarter. The goodwill impairment was allocated to the fluids and steel operating segments in the amounts of \$1,145,622 and \$2,193,600 respectively. The impairment losses for goodwill and intangible assets are estimates at the date of filing as the goodwill and intangible asset fair value calculations have not been finalized. The impairment of intangible assets were recognized in the fluids and steel operating segments in the amounts of \$327,232 and \$1,828,600 respectively. The impairment charge for intangible assets comprises an impairment of customer relationships (\$1,291,366), proprietary products (\$16,667), non-compete agreements (\$401,399) and trade names (\$446,400).

The change in goodwill during the nine months ended is as follows:

Balance, December 31, 2008	\$ 4,728,300
Impairment charge	<u>(4,728,300)</u>
Balance, September 30, 2009	<u>\$ -</u>

The change of intangible assets during the nine months ended is as follows:

Balance, December 31, 2008	\$ 4,160,064
Amortization	\$ (853,009)
Impairment charge	<u>(2,155,832)</u>
Balance, September 30, 2009	<u>\$ 1,151,223</u>

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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**6. Bank indebtedness**

Effective July 27, 2009, the Company renewed and amended its credit facility, which resulted in an increased line of credit from \$35,000,000 to a maximum limit of \$40,000,000, with an increase to \$45,000,000 from December 1, 2009 to April 30, 2010. The credit facility 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 plus 0.75% to prime plus 1.50% per annum and is due on demand. The US demand overdraft bears interest ranging from US base rate plus 0.75% to US base rate plus 1.50% per annum and is due on demand. In addition, the HSBC term loan was renewed at an interest rate of prime plus 1.75% and matures on June 30, 2011. At September 30, 2009 the prime rate was 2.25% and the US base rate was 3.25%. 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. There were no changes to the Company's debt covenants except for the Company total debt to tangible net worth covenant that is to be reduced from 3 to 1 to 2.75 to 1 on December 31, 2009 and to 2.5 to 1 on June 30, 2010.

**7. Promissory notes payable**

The \$1,000,000 promissory note principal due in May 2009 and the \$1,000,000 promissory note principal due in October 2009 have been postponed and therefore the principal has been reclassified to long-term as it is expected that these will not be paid within the next year. The interest on the promissory notes will be paid within the next year and has been recorded as a current liability.

**8. Long-term debt**

The HSBC Capital subordinated debenture contains financial covenants including, but not limited to, a minimum funded debt to EBITDA ratio among others that are calculated on a quarterly basis. As at September 30, 2009, the Company was not in compliance of this ratio and as a result has reclassified its subordinated debenture to current portion of long-term debt. HSBC Capital has granted a waiver not to demand repayment of its subordinate debenture up to and including September 30, 2009 and the Company is negotiating amendments to the subordinate debenture and related financial covenants with HSBC Capital.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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**9. 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	(43,400)	(45,570)
<b>Balance, September 30, 2009</b>	<b>14,470,786</b>	<b>\$ 15,249,704</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. For the nine months ended September 30, 2009, the Company repurchased 43,400 common shares for total cash consideration of \$34,184.

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	<b>30,000</b>	0.75	4.00
Exercised	-	-	-
Forfeitures	<b>(91,000)</b>	2.01	4.00
Outstanding, September 30, 2009	<b>1,292,000</b>	\$ 1.99	3.63
Options exercisable, September 30, 2009	<b>845,760</b>	\$ 1.92	4.00

The fair value of the employee and directors options granted 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	2.52%
Expected volatility	147.35%
Expected dividend yield	0.00%

During the year, 30,000 options were granted with 91,000 options forfeited under the Plan at a total fair value of \$19,500.

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

	<b>2009</b>	2008
Balance, beginning of period	\$ 855,454	\$ 727,050
Agent options exercised	-	(121,830)
Repurchase of common shares	<b>11,386</b>	-
Fair value of stock options granted to employees and directors	<b>105,539</b>	250,234
Balance, end of period	<b>\$ 972,379</b>	\$ 855,454

**11. 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 \$32,315 was recognized during the three month period ended September 30, 2009 (September 30, 2008 – \$47,871) and totalled \$105,539 for the nine month period ended September 30, 2009 (September 30, 2008 - \$199,451). The expense was recorded in salaries and employee benefits expense with a corresponding increase to contributed surplus.

**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.

During the three month and nine 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 and \$90,000, respectively (September 30, 2008 – \$30,000 and \$90,000).
- b) Accounting, administrative and corporate expenses of \$9,150 and \$29,945, respectively (September 30, 2008 – \$9,150 and \$40,202).

The Company expensed interest of \$33,000 and \$99,000, respectively (September 30, 2008 - \$33,000 and \$126,774) on promissory notes payable issued in 2006 which are held by two of the Company's directors, officers and significant shareholders. The \$1,000,000 promissory note principal payment that was to be made in May 2009 and the \$1,000,000 promissory note principal payment that was to be made October 2009 has been postponed. In addition, the Company expensed \$45,370 and \$134,631 (September 30, 2008 – \$15,781) on promissory notes payable issued on the fiscal 2008 acquisition of Bri-Chem Steel Corporation ("Bri-Chem Steel"), which are held by three of the former owners of Bri-Chem Steel. 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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**13. 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	\$ 1,097,535
2011	1,044,051
2012	955,845
2013	926,880
2014	926,880
	\$ 4,951,191

**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.

The bank indebtedness and long-term debt require the Company to maintain certain financial covenants. The Company monitors these requirements on a monthly basis. Changes in certain key ratios are as follows:

	<b>September 30</b>	December 31
	<b>2009 <sup>(1)</sup></b>	2008
Current ratio	<b>1.53</b>	1.32
Debt service ratio	<b>1.64</b>	3.65
Total debt to tangible net worth	<b>1.82</b>	2.93
Funded debt to normalized EBITDA	<b>5.05</b>	3.35

(1) Current liabilities exclude \$1,800,000 of the subordinated debenture, which has been considered long-term for covenant calculation purposes.

For the three months ended September 30, 2009, the Company's funded debt to normalized EBITDA exceeded the maximum covenant ratio of 3.50 to 1.00. HSBC Capital has granted a waiver not to demand repayment of its subordinate debenture up to and including September 30, 2009 and the Company is negotiating amendments to the subordinate debenture and related financial covenants with HSBC Capital. As at September 30, 2009, the Company was in compliance with all other financial covenants.

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

## **Bri-Chem Corp.**

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

**(Unaudited)**

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

Debt service ratio is defined as the ratio of normalized EBITDA less cash income taxes and unfunded capital expenditures for the trailing four quarters divided by the principal, interest and other fixed obligations, including EBITDA bonuses and any payments owed under promissory notes payable for the same trailing four quarters. Normalized Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is EBITDA plus non-cash items and 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 normalized EBITDA ratio is defined as the ratio of all interest-bearing debt, excluding promissory notes payable divided by the trailing twelve month normalized EBITDA, which includes the trailing twelve month EBITDA from Bri-Chem Steel.

#### **15. 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 10%, 9% and 8% respectively of revenue for the three month period ended September 30, 2009 (18%, 12% and 6% for the twelve months ended December 31, 2008) and 11%, 12% and 11% 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 September 30, 2009, the Company has recorded an allowance for doubtful accounts of \$78,139 (December 31, 2008 - \$3,435). The allowance is an estimate of the September 30, 2009 trade receivable balances that are considered uncollectible. Changes to the allowance during the three months ended September 30, 2009 consisted of bad debt expense of \$78,139.

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

Concentrations of credit risk on trade accounts receivable are with customers in the oil and gas industry. A further 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>September 30, 2009</b>	<b>Gross accounts receivable</b>	<b>Allowance for doubtful accounts</b>	<b>Net accounts receivable</b>
Current	\$ 10,111,334	\$ -	\$ 10,111,334
31 to 60 days	5,285,006	-	5,285,006
61 to 90 days	4,321,716	-	4,321,716
91 to 120 days	1,767,691	-	1,767,691
Over 120 days	823,652	78,139	745,513
<b>Total</b>	<b>\$ 22,309,399</b>	<b>\$ 78,139</b>	<b>\$ 22,231,260</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 September 30, 2009 was Canadian bank prime interest rate plus 100 basis points (3.25%). The long term debt bears interest at bank prime plus a fixed increment. As at September 30, 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 \$55,194 (September 30, 2008 - \$55,655).

*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 has expanded its operations outside Canada, which increases its exposure to foreign currency risk. Accounts receivable in foreign currency was \$2,605,868 as September 30, 2009 (December 31, 2008 - \$10,027,922) and accounts payable in foreign currency outstanding as at September 30, 2009 is \$6,092,478 (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 September 30, 2009, the Company realized a foreign exchange gain of \$351,945 (September 30, 2008 loss of \$106,664). Based on the monetary assets and liabilities held in the United States ("US") at September 30, 2009, a five percent increase or decrease in exchange rates would impact the Company's net earnings by approximately \$ 127,099 (September 30, 2008 - \$108,000).

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**15. 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 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.

*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>September 30, 2009</b>		December 31, 2008	
	<b>Carrying Amount</b>	<b>Fair Value</b>	Carrying Amount	Fair Value
Loans and receivables;				
Accounts receivable	<b>22,231,260</b>	<b>22,231,260</b>	43,175,808	43,175,808
Other financial liabilities:				
Bank indebtedness	<b>26,593,015</b>	<b>26,593,015</b>	37,666,571	37,666,571
Accounts payable and accrued liabilities	<b>15,283,521</b>	<b>15,283,521</b>	24,653,886	24,653,886
Long-term debt*	<b>4,117,440</b>	<b>3,911,477</b>	4,599,267	4,308,838
Promissory notes payable*	<b>5,443,910</b>	<b>5,443,910</b>	5,342,490	5,342,490
Obligations under capital lease*	<b>223,964</b>	<b>223,964</b>	322,561	322,561

\* including current portion

**Bri-Chem Corp.**  
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**15. Financial instruments (cont'd)**

*Commodity risk*

Commodity risk arises from the effect the fluctuations of future commodity prices of steel and certain chemicals 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.

**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. 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.

Selected financial information by reportable segment is disclosed as follows:

<b>Three months ended September 30, 2009</b>	<b>Fluids</b>	<b>Steel</b>	<b>Corporate</b>	<b>Consolidated</b>
Sales	\$ 16,642,974	\$ 7,322,507	\$ -	\$ <b>23,965,481</b>
Segment earnings (loss) from operations	1,444,273	(867,152)	(261,210)	<b>315,911</b>
Amortization	199,443	168,331	2,700	<b>370,474</b>
Interest expense (income)	351,014	6,842	(106,725)	<b>251,131</b>
Impairment charge	1,408,677	5,475,455	-	<b>6,884,132</b>
(Loss) before income taxes	(514,861)	(6,517,780)	(157,185)	<b>(7,189,826)</b>
Income taxes (recovery)	127,036	(686,519)	(47,470)	<b>(606,953)</b>
Segment loss	\$ (641,897)	\$ (5,831,261)	\$ (109,715)	<b>\$ (6,582,873)</b>
Intangible assets	\$ 793,827	\$ 357,396	\$ -	\$ <b>1,151,223</b>
Goodwill	-	-	-	-
Total assets	44,010,132	26,816,285	791,516	<b>71,617,933</b>
Capital expenditures (excluding business acquisitions)	22,137	39,500	-	<b>61,637</b>

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**16. Segmented information (cont'd)**

<b>Three months ended</b>				
<b>September 30, 2008</b>	<b>Fluids</b>	<b>Steel</b>	<b>Corporate</b>	<b>Consolidated</b>
Sales	\$ 27,194,254	\$ 4,990,200	\$ -	\$ 32,184,454
Segment earnings from operations	3,018,675	743,314	- 240,741	3,521,248
Amortization	305,380	20,003	10,934	336,317
Interest expense	926,968	84,802	(589,214)	422,556
Earnings before income taxes	1,786,327	638,509	337,539	2,762,375
Income taxes	577,212	193,649	108,093	878,954
Segment profit	\$ 1,209,115	\$ 444,860	\$ 229,446	\$ 1,883,421
Intangible assets acquired	\$ 1,942,190	\$ 2,856,050	\$ -	\$ 4,798,240
Goodwill	1,081,445	3,434,389	-	4,515,834
Total assets	65,373,272	24,944,195	728,270	91,045,737
Capital expenditures (excluding business acquisitions)	77,515	14,521	-	92,036

<b>Nine months ended</b>				
<b>September 30, 2009</b>	<b>Fluids</b>	<b>Steel</b>	<b>Corporate</b>	<b>Consolidated</b>
Sales	\$ 39,713,684	\$ 24,707,366	\$ -	\$ <b>64,421,050</b>
Segment earnings (loss) from operations	3,089,916	397,599	(1,061,449)	<b>2,426,066</b>
Amortization	602,108	668,022	21,591	<b>1,291,721</b>
Interest expense (income)	1,947,375	923,000	(1,447,593)	<b>1,422,782</b>
Impairment charge	1,408,677	5,475,455	-	<b>6,884,132</b>
(Loss) earnings before income taxes	(868,244)	(6,668,878)	364,553	<b>(7,172,569)</b>
Income taxes (recovery)	(94,613)	(611,186)	103,763	<b>(602,036)</b>
Segment (loss) profit	\$ (773,631)	\$ (6,057,692)	\$ 260,790	\$ <b>(6,570,533)</b>
Intangible assets	\$ 793,827	\$ 357,396	\$ -	\$ <b>1,151,223</b>
Goodwill	-	-	-	-
Total assets	44,010,132	26,816,285	791,516	<b>71,617,933</b>
Capital expenditures (excluding business acquisitions)	219,669	398,494	-	<b>618,163</b>

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**Notes to the Interim Consolidated Financial Statements**  
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**16. Segmented information (cont'd)**

<b>Nine months ended</b>				
<b>September 30, 2008</b>	<b>Fluids</b>	<b>Steel</b>	<b>Corporate</b>	<b>Consolidated</b>
Sales	\$ 60,053,049	\$ 4,990,200	\$ -	\$ 65,043,249
Segment earnings from operations	6,681,647	743,314	(625,136)	6,799,825
Amortization expense	568,259	133,937	39,584	741,780
Interest expense	3,038,428	84,802	(1,849,665)	1,273,565
Earnings (loss) before income taxes	3,074,960	524,575	1,184,945	4,784,480
Income taxes	965,107	193,649	373,822	1,532,578
Segment profit	\$ 2,109,853	\$ 330,926	\$ 811,123	\$ 3,251,902
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	65,373,272	24,944,195	728,270	91,045,737
Capital expenditures (excluding business acquisitions)	372,403	14,521		386,924

<b>For the three months ended September 30</b>		<b>2009</b>		<b>2008</b>
<b>Sales</b>				
Canada and International	\$	<b>22,177,457</b>	\$	27,094,736
United States		<b>1,788,024</b>		5,089,718
	\$	<b>23,965,481</b>	\$	32,184,454

<b>For the nine months ended September 30</b>		<b>2009</b>		<b>2008</b>
<b>Sales</b>				
Canada and International	\$	<b>58,837,392</b>	\$	59,170,543
United States		<b>5,583,658</b>		5,872,706
	\$	<b>64,421,050</b>	\$	65,043,249

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

**17. Comparative figures**

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