



Bri-Chem Corp.
First Quarter Interim Report
March 31, 2007

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Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Bri-Chem Corp. (the “Company”) have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

Bri-Chem Corp.
Consolidated Balance Sheet

	March 31 2007 (unaudited)	December 31 2006 (audited)
Assets		
Current		
Cash	\$ -	\$ 127,930
Funds held in trust	-	11,000,000
Receivables	15,571,764	20,950,162
Inventory	18,657,061	17,940,563
Prepays and deposits	51,694	80,806
Current portion of note receivable	<u>18,333</u>	-
	34,298,852	50,099,461
Note receivable	36,667	-
Deferred costs	200,650	-
Property and equipment	2,249,273	2,157,061
Intangibles	1,060,446	1,089,783
Goodwill	416,200	416,200
Future income taxes	<u>47,025</u>	<u>47,025</u>
	\$ 38,309,113	\$ 53,809,530
<hr/>		
Liabilities		
Current		
Bank indebtedness (Note 3)	\$ 9,279,018	\$ 17,410,925
Payables and accruals	5,025,371	6,927,364
Income taxes payable	699,925	683,178
Current portion of promissory note	-	11,000,000
Current portion of long-term debt	<u>81,528</u>	<u>554,101</u>
	15,085,842	36,575,568
Note payable	3,248,000	3,200,000
Long-term debt	4,905,268	-
Future income taxes	<u>193,389</u>	<u>193,389</u>
	23,432,499	39,968,957
Shareholders' Equity		
Share capital (Note 5)	11,188,722	11,188,722
Contributed surplus (Note 5)	310,308	121,830
Retained earnings	<u>3,377,584</u>	<u>2,530,021</u>
	14,876,614	13,840,573
	\$ 38,309,113	\$ 53,809,530

On behalf of the Board

“Don Caron” _____ Director

“Alan Campbell” _____ Director

Bri-Chem Corp.
Consolidated Statements of Earnings and Retained Earnings
(unaudited)
Three Months Ended March 31

2007

2006

(Note 8)

Sales	\$ 13,136,256	\$ 23,210,755
Cost of sales	<u>10,797,659</u>	<u>19,254,188</u>
Gross margin (\$)	<u>2,338,597</u>	<u>3,956,567</u>
Gross margin (%)	17.8%	17.0%
Expenses		
Amortization	88,176	54,792
Interest	324,316	207,678
Salaries and employee benefits	522,553	2,549,500
Selling, general and administration	<u>503,047</u>	<u>420,075</u>
	1,438,092	3,232,045
Earnings before income taxes and non-controlling interest share of earnings	<u>900,505</u>	<u>724,522</u>
Income taxes (Note 6)	-	-
Earnings before non-controlling interest share of earnings	900,505	724,522
Non-controlling interest share of earnings	-	<u>1,137</u>
Net earnings	<u>\$ 900,505</u>	<u>\$ 723,385</u>
<hr/>		
Earnings per share – basic	<u>\$ 0.074</u>	<u>\$ 0.071</u>
Weighted average number of shares	<u>12,212,552</u>	<u>10,205,700</u>
Earnings per share – diluted	<u>\$ 0.074</u>	<u>\$ 0.071</u>
Weighted average number of shares	<u>12,224,739</u>	<u>10,205,700</u>
<hr/>		
Retained earnings, beginning of period	\$ 2,530,021	\$ 1,786,178
Deficiency in net assets acquired (Note 4)	(52,942)	-
Net earnings	<u>900,505</u>	<u>723,385</u>
Retained earnings, end of period	<u>\$ 3,377,584</u>	<u>\$ 2,509,563</u>

Bri-Chem Corp.
Consolidated Statement of Cash Flows
(unaudited)
Three Months Ended March 31

2007 2006

(Note 8)

Increase (decrease) in cash and cash equivalents

Operating		
Net earnings	\$ 900,505	\$ 723,385
Non-cash items:		
Amortization	88,176	54,792
Costs associated with financing	(23,223)	-
Non-controlling interest	-	1,137
Stock-based compensation (Note 7)	87,578	
Loss on sale of assets	<u>100</u>	<u>-</u>
	1,053,136	779,314
Change in non-cash operating		
Working capital [net of effects of business		
acquisition (Note 4)]	<u>2,621,197</u>	<u>(224,935)</u>
	<u>3,674,333</u>	<u>554,379</u>
Financing		
Advances to directors	-	(171,281)
Advances on note payable	48,000	-
Proceeds on issuance of long-term debt	5,000,000	-
Repayment of operating line	(8,131,907)	(328,787)
Repayment of note payable	(11,000,000)	-
Repayment of long-term debt	<u>(567,305)</u>	<u>(6,100)</u>
	<u>(14,651,212)</u>	<u>(506,168)</u>
Investing		
Purchase of property and equipment	<u>(151,051)</u>	<u>(59,193)</u>
Net decrease in cash and cash equivalents	(11,127,930)	(10,982)
Cash		
Beginning of period	<u>11,127,930</u>	<u>133,821</u>
End of period	<u>\$ -</u>	<u>\$ 122,839</u>

See accompanying notes to the consolidated financial statements.

Bri-Chem Corp.
Notes to the Consolidated Financial Statements
March 31, 2007

1. Summary of significant accounting policies

Basis of presentation and periods presented

On January 1, 2007 mBase Commerce Inc. amalgamated with Gwelan Supply Ltd., a Canadian oil and gas drilling fluid chemicals and additives distribution company, resulting in the amalgamated company Bri-Chem Corp. (the "Company"). The consolidated financial statements give effect to the acquisition by the Company of all the issued and outstanding securities of Gwelan Supply Ltd. (see Note 4). The acquisition has been accounted for as a reverse takeover and, as a result, the consolidated financial statements have been prepared as a continuation of Gwelan Supply Ltd. and its subsidiaries. These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company, and its wholly owned subsidiaries Bri-Chem Supply Ltd. and Sodium Solutions Inc.

As a result the operations reflected in these financial statements are the following:

- Consolidated operations of the Company from January 1, 2007 to March 31, 2007 (current figures);
- Consolidated audited Balance Sheet of Gwelan Supply Ltd. as at December 31, 2006 (comparative figures);
- Consolidated operations of Gwelan Supply Ltd. from January 1, 2006 to March 31, 2006 (comparative figures); and
- Consolidated statement of Cash Flows of Gwelan Supply Ltd. from January 1, 2006 to March 31, 2006 (comparative figures).

These interim financial statements, in all material respects, follow the same accounting policies and method of application as the December 31, 2006 annual audited consolidated financial statements for Gwelan Supply Ltd.

These interim financial statements do not contain all disclosures required by Canadian Generally Accepted Accounting Principles for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recent annual financial statements of Gwelan Supply Ltd. and mBase Commerce Inc.

2. Change in accounting policy and new accounting policy

Effective January 1, 2007, the Company adopted the new provisions prescribed by the AcSB, "Financial Instruments – Recognition and Measurement", "Hedges", and "Comprehensive Income". Under the new standards, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities must be classified as held-for-trading and other. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and financial liabilities not classified as held-for-trading will be measured at amortized cost. Available-for-sale financial assets will be measured at fair value with changes in fair value recognized in other comprehensive income (OCI). All derivative financial instruments will be reported on the balance sheet at fair value with changes in fair value recognized in net income unless the derivative is part of a hedging relationship that qualifies as a fair value hedge, cash flow hedge or hedge of a net investment in a self-sustaining foreign operation.

Bri-Chem Corp.
Notes to the Consolidated Financial Statements
March 31, 2007

2. Change in accounting policy and new accounting policy (cont'd)

In a fair value hedging relationship, the hedging item is recorded at fair value with the related gain or loss recognized in net income. The carrying value of the hedged item is adjusted by the gain or loss on the hedged item attributable to the hedged risk with the related gain or loss recognized in net income. As a result, the change in the carrying value of the hedged item, to the extent that the hedging relationship is effective, offsets the changes in the fair value of the hedging item. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging item is recognized in OCI and the ineffective portion is recognized in net income. The amounts recognized in accumulated OCI will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In a hedge of a net investment in a self-sustaining foreign operation, the effective portion of the gain or loss on the hedging item is recognized in OCI and the ineffective portion is recognized in net income. The Company is required to present OCI and its components as well as the components of accumulated OCI in its consolidated financial statements. Major components of OCI include changes in fair value of financial assets classified as available-for-sale, exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations, and the changes in fair value of effective cash flow hedging items. The application of these new standards did not have a significant effect on the Company's financial position, earnings or cash flows. As of March 31, 2007, the Company had no comprehensive income or accumulated comprehensive income.

Effective January 1, 2007, the Company commenced recording deferred costs associated with the acquisition of new debt instruments and amortized them on a straight line basis over the life of the debt. Other deferred costs are deferred and amortized over the related assets' useful lives.

3. Bank indebtedness

Advances under the credit facilities are as follows:

	March 31	December 31
	<u>2007</u>	<u>2006</u>
Bri-Chem Corp.:		
Bank operating line of credit	\$ 9,279,018	\$ 17,410,925

Effective January 30, 2007, the Company established a new credit facility 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 and US overdraft bear interest at prime plus 0.3% respectively per annum. Both are due on demand. The collateral security lodged by the Company to support the indebtedness is a general assignment of book debts, general security agreement creating a first security interest covering all real property and guarantees by related parties.

Bri-Chem Corp.
Notes to the Consolidated Financial Statements
March 31, 2007

4. Acquisition

Pursuant to an amalgamation agreement dated October 27, 2006 as amended and restated on December 19, 2006, effective January 1, 2007 the Company agreed to purchase 100% of the issued and outstanding shares of Gwelan Supply Ltd. and its subsidiaries, Bri-Chem Supply Ltd. and Sodium Solutions Inc., and repayment of all related party loans, for an aggregate purchase price of \$25,000,000 payable by way of \$14,200,000 cash and \$10,800,000 post-consolidated common shares of the Company at a deemed price of \$2.00 per share. Gwelan Supply Ltd. through its subsidiaries is a distributor of drilling fluids to the oil and gas industry. The purchase method of accounting, in the context of a reverse takeover, has been applied to reflect net assets of Bri-Chem Corp. acquired. Under this method, the results of operations of the Company are included in these consolidated financial statements from the date of acquisition. The Company's net interests in the assets acquired at assigned values are as follows:

Assets	
Current assets	<u>\$ 168,358</u>
Liabilities	
Current liabilities	<u>(221,300)</u>
Deficiency in net assets acquired	<u>\$ (52,942)</u>

It was determined that the non-operating public enterprise, Bri-Chem Corp., did not meet the definition of a business under CICA Handbook EIC-124, and therefore the transaction is a capital transaction in substance, rather than a business combination. The transaction is equivalent to the issuance of shares by the non-public operating enterprise, Gwelan Supply Ltd., for the net monetary assets of Bri-Chem Corp., accompanied by a recapitalization of Gwelan Supply Ltd., and without recognizing goodwill or an intangible asset that would otherwise represent the stock exchange listing.

The deficiency in net assets of the public enterprise acquired of \$52,942 was treated as a charge to the deficit balance of the combined enterprise in the current period. Accordingly, related transaction costs have been charged to equity only to the extent of cash of Bri-Chem Corp. received, and all costs in excess of cash received have been charged to current expense.

Bri-Chem Corp.
Notes to the Consolidated Financial Statements
 March 31, 2007

5. Capital stock

Authorized:

- Unlimited number of common shares
- Unlimited number of preferred shares, issuable in series

Issued and outstanding:

	<u>Number</u>	<u>Amount</u>
Balance – Bri-Chem Corp., December 31, 2006	10,034,258	\$ 4,827,733
Share consolidation (1:5)	<u>(8,027,406)</u>	<u>-</u>
	2,006,852	4,827,733
Balance - Gwelan Supply Ltd., December 31, 2006	10,205,700	11,188,722
Elimination of Bri-Chem Corp. deficit and contributed surplus (Note 4)	<u>-</u>	<u>(4,827,733)</u>
Balance, March 31, 2007	<u>12,212,552</u>	<u>\$ 11,188,722</u>

- a) On January 1, 2007, holders of shares of the Company received 0.20 amalgamated company common shares for each one common share held.
- b) On January 1, 2007, the Company exchanged 10,205,700 shares, with a total assigned value of \$11,188,722, for 10,205,700 shares of Gwelan Supply Ltd. As described in Note 4, this transaction has been accounted for as a capital transaction in substance rather than a business combination. The transaction is equivalent to the issuance of shares by Gwelan Supply Ltd. for the net monetary assets of the Company. Accordingly, the issuance of treasury shares has been recorded by eliminating Bri-Chem Corp.'s net assets, resulting in the net balance charged to deficit. Under the requirements of the TSX Venture Exchange, 5,829,040 common shares will be held in escrow and released in stages over a period of three years from January 1, 2007.

Stock options

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, consultants and employees of the Company and its affiliates. The Plan permits the issuance of stock options to purchase a maximum of 1,400,000 common shares of the Company.

On January 1, 2007, 1,116,000 options were granted under the Plan with a weighted average exercise price of \$2.00 and weighted average expiry date of 5 years. On January 11, 2007, 6,000 options were cancelled and subsequent to March 31, 2007 an additional 6,000 options were cancelled on April 5, 2007.

Bri-Chem Corp.
Notes to the Consolidated Financial Statements
 March 31, 2007

5. Capital stock (cont'd)

A summary of transactions during the period is outlined below:

Options to employees and directors

	Number of shares #	Weighted average exercise price \$	Weighted average remaining contractual life <u>Years</u>
<u>March 31, 2007</u>			
Outstanding, beginning of period	-	\$ -	-
Granted	1,116,000	2.00	4.75
Exercised	-	-	-
Expired / cancelled	(6,000)	2.00	4.75
Outstanding, end of period	<u>1,110,000</u>	<u>\$ 2.00</u>	<u>4.75</u>
Options exercisable, end of period	<u>-</u>	<u>\$ -</u>	<u>-</u>

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 assumptions:

Expected life	5 years
Risk-free rate	3.95%
Expected volatility	21%
Expected dividend yield	0.00%

Options to agents

	Number of shares #	Weighted average exercise price \$	Weighted average remaining contractual life <u>Years</u>
<u>March 31, 2007</u>			
Outstanding, beginning of period	283,000	\$ 2.00	1.25
Granted	-	-	-
Exercised	-	-	-
Expired / cancelled	-	-	-
Outstanding, end of period	<u>283,000</u>	<u>\$ 2.00</u>	<u>1.25</u>
Options exercisable, end of period	<u>283,000</u>	<u>\$ 2.00</u>	<u>1.25</u>

Bri-Chem Corp.
Notes to the Consolidated Financial Statements
 March 31, 2007

5. Capital stock (cont'd)

The fair value of agents options granted is estimated on the date of grant using the Black-Scholes option pricing model based on the following assumptions:

Expected life	1.50 years
Risk-free rate	4.09%
Expected volatility	38.8%
Expected dividend yield	0.00%

Warrants

As part of the terms of the Company issuing a subordinated loan, the Company issued 250,000 share purchase warrants with a fair value of \$100,900 to the lender. Each share purchase warrant entitles the lender to purchase one common share of the Company at a price of \$2.00 per common share from January 30, 2007, expiring January 30, 2010. The following is a summary of the warrant activities during the period:

	Number of warrants #	Weighted average exercise price \$	Weighted average remaining contractual life Years
<u>March 31, 2007</u>			
Outstanding, beginning of period	-	\$ -	-
Granted	250,000	2.00	2.80
Exercised	-	-	-
Expired	-	2.00	2.80
Outstanding, end of period	<u>250,000</u>	<u>\$ 2.00</u>	<u>2.80</u>
Warrants exercisable, end of period	<u>250,000</u>	<u>\$ 2.00</u>	<u>2.80</u>

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 assumptions:

Expected life	3 years
Risk-free rate	3.95%
Expected volatility	21%
Expected dividend yield	0.00%

Contributed surplus

Opening balance, December 31, 2006	\$ 121,830
Fair value of stock options granted to employees	87,578
Fair value of warrants granted to the lender	<u>100,900</u>
Ending balance, March 31, 2007	<u>\$ 310,308</u>

6. Income taxes

At December 31, 2006, 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 has only been recognized as a reduction to the extent of current income tax liabilities as their realization beyond that is not considered more likely than not through the use of feasible tax planning strategies. Loss carry forward will expire by 2016.

Income taxes liabilities or assets were decided at the year-end of July 31, 2006 and are therefore not reflected in the quarterly statements for the period ending March 31, 2006.

7. Stock based compensation

Compensation expense arising from the options granted in the period is recognized over the vesting period. Stock-based employee compensation expense of \$87,578 (March 31, 2006 - \$nil) was recognized during the three month period. The expiry date of outstanding stock options is January 1, 2012.

8. Comparative figures

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

Prior to the amalgamation on January 1, 2007 (Note 4), Gwelan Supply Ltd.'s year end was July 31. Gwelan Supply Ltd. was a private company and shareholders would bonus out a majority of the profits at year end. On July 31, 2006, \$8,794,731 was declared as a bonus which represents a bonus for the 12 month period however the comparative figures are only for 7 of the 12 months of operations. The March 31, 2006 comparative financial statements include 3/7ths of the bonus in salaries and employee benefits representing \$2,198,682.

Comparative earnings per share are presented using the amount of shares that were exchanged for Gwelan Supply Ltd. effective January 1, 2007 upon amalgamation.