



**Bri-Chem Corp.**  
**Second Quarter Interim Report**  
June 30, 2007

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**Notice of No Auditor Review of Interim Consolidated 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 consolidated 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 interim consolidated 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.

### Interim Consolidated Balance Sheets

	<b>June 30 2007 (unaudited)</b>	<b>December 31 2006 (audited)</b>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ -	\$ 127,930
Funds held in trust	-	11,000,000
Receivables	7,393,880	20,950,162
Inventory	17,773,476	17,940,563
Income tax receivable	19,397	-
Prepays and deposits	154,842	80,806
Current portion of note receivable	18,333	-
	<b>25,359,928</b>	<b>50,099,461</b>
Note receivable	36,667	-
Deferred costs	188,325	-
Property and equipment	2,253,506	2,157,061
Intangibles	1,030,782	1,089,783
Goodwill	416,200	416,200
Future income taxes	47,025	47,025
	<b>29,332,433</b>	<b>53,809,530</b>
<hr/>		
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness (Note 4)	\$ 3,812,299	\$ 17,410,925
Payables and accruals	2,256,975	6,927,364
Income taxes payable	-	683,178
Current portion of note payable	1,096,000	11,000,000
Current portion of long-term debt (Note 5)	80,390	554,101
	<b>7,245,664</b>	<b>36,575,568</b>
Note payable	2,200,000	3,200,000
Long-term debt (Note 5)	4,887,409	-
Future income taxes	193,389	193,389
	<b>14,526,462</b>	<b>39,968,957</b>
 <b>Shareholders' Equity</b>		
Share capital (Note 7)	11,132,444	11,188,722
Contributed surplus (Note 7)	397,734	121,830
Retained earnings	3,275,793	2,530,021
	<b>14,805,971</b>	<b>13,840,573</b>
	<b>\$ 29,332,433</b>	<b>\$ 53,809,530</b>

On behalf of the Board

“Don Caron” \_\_\_\_\_ Director

“Alan Campbell” \_\_\_\_\_ Director

**Bri-Chem Corp.**  
**Interim Consolidated Statements of Operations and Retained Earnings**  
**(unaudited)**

	<b>June 30</b> <b>(3 months)</b>		<b>June 30</b> <b>(6 months)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<u>(Note 11)</u>		<u>(Note 11)</u>	
<b>Sales</b>	\$ <b>6,135,841</b>	11,279,894	\$ <b>19,272,097</b>	34,490,649
Cost of sales	<b>4,932,110</b>	9,580,495	<b>15,729,769</b>	28,834,683
Gross margin (\$)	<b>1,203,731</b>	1,699,399	<b>3,542,328</b>	5,655,966
Gross margin (%)	<b>19.6%</b>	15.1%	<b>18.4%</b>	16.4%
<b>Expenses</b>				
Amortization	<b>88,877</b>	54,792	<b>177,053</b>	109,584
Interest on long-term debt	<b>203,451</b>	7,001	<b>352,925</b>	15,940
Interest on short-term operating debt	<b>146,182</b>	205,874	<b>321,024</b>	404,613
Salaries and employee benefits	<b>485,292</b>	2,526,790	<b>1,007,845</b>	5,076,290
Selling, general and administrative	<b>381,720</b>	254,981	<b>884,767</b>	675,056
	<b>1,305,522</b>	3,049,438	<b>2,743,614</b>	6,281,483
(Loss) earnings before income taxes and non-controlling interest share of earnings	<b>(101,791)</b>	(1,350,039)	<b>798,714</b>	(625,517)
Income taxes (Note 9)	-	-	-	-
(Loss) earnings before non-controlling interest share of earnings	<b>(101,791)</b>	(1,350,039)	<b>798,714</b>	(625,517)
Non-controlling interest share of earnings	-	1,137	-	2,274
Net (loss) earnings	\$ <b>(101,791)</b>	(1,351,176)	\$ <b>798,714</b>	(627,791)
(Loss) earnings per share - basic	\$ <b>(0.01)</b>	(0.13)	\$ <b>0.07</b>	(0.06)
Weighted average number of shares	<b>12,212,552</b>	10,205,700	<b>12,212,552</b>	10,205,700
(Loss) earnings per share - diluted	\$ <b>(0.01)</b>	(0.13)	\$ <b>0.07</b>	(0.06)
Weighted average number of shares	<b>12,241,740</b>	10,205,700	<b>12,241,740</b>	10,205,700
Retained earnings, beginning of period	\$ <b>3,377,584</b>	2,509,563	\$ <b>2,530,021</b>	1,786,178
Deficiency in net assets acquired (Note 6)	-	-	<b>(52,942)</b>	-
Net (loss) earnings	<b>(101,791)</b>	(1,351,176)	<b>798,714</b>	(627,791)
Retained earnings – end of period	\$ <b>3,275,793</b>	1,158,387	\$ <b>3,275,793</b>	1,158,387

**Bri-Chem Corp.**  
**Interim Consolidated Statement of Cash Flows**  
**(unaudited)**

	<b>June 30</b>		<b>June 30</b>	
	<b>(3 months)</b>		<b>(6 months)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Note 11)</b>		<b>(Note 11)</b>	
Increase (decrease) in cash and cash equivalents				
<b>Operating</b>				
Net (loss) earnings	\$ (101,791)	(1,351,176)	\$ 798,714	(627,791)
Non-cash items:				
Amortization	88,877	54,792	177,053	109,584
Costs associated with financing	(88,575)	-	(111,798)	-
Non-controlling interest	-	1,137	-	2,274
Stock-based compensation (Note 10)	188,326	-	275,904	-
Gain on sale of assets	(6,875)	-	(6,775)	-
	<u>79,962</u>	<u>(1,295,247)</u>	<u>1,133,098</u>	<u>(515,933)</u>
Change in non-cash operating Working capital (net of effects of business acquisition) (Note 6)	<u>5,403,853</u>	<u>6,569,491</u>	<u>8,025,050</u>	<u>6,344,556</u>
	<u>5,483,815</u>	<u>5,274,244</u>	<u>9,158,148</u>	<u>5,828,623</u>
<b>Financing</b>				
Advances to directors	-	(294,129)	-	(465,410)
Advances on note payable	48,000	-	96,000	-
Proceeds on issuance of long-term debt	-	-	5,000,000	-
Repayment of operating line	(5,466,719)	(4,926,968)	(13,598,626)	(5,255,755)
Repayment of note payable	-	-	(11,000,000)	-
Repayment of long-term debt	(18,997)	(6,133)	(586,302)	(12,233)
	<u>(5,437,716)</u>	<u>(5,227,230)</u>	<u>(20,088,928)</u>	<u>(5,733,398)</u>
<b>Investing</b>				
Purchase of property and equipment	(114,922)	(41,284)	(265,973)	(100,477)
Proceeds on disposal of property and equipment	68,823	-	68,823	-
	<u>(46,099)</u>	<u>(41,284)</u>	<u>(197,150)</u>	<u>(100,477)</u>
Net (decrease) increase in cash and cash equivalents	-	5,730	(11,127,930)	(5,252)
Cash				
Beginning of period	-	122,839	11,127,930	133,821
End of period	\$ -	128,569	\$ -	128,569

See accompanying notes to the interim consolidated financial statements.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**(unaudited)**  
June 30, 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 interim consolidated financial statements give effect to the acquisition by the Company of all the issued and outstanding securities of Gwelan Supply Ltd. (see Note 6). 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 interim consolidated financial statements are the following:

- Consolidated operations of the Company from April 1, 2007 to June 30, 2007 and from January 1, 2007 to June 30, 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 April 1, 2006 to June 30, 2006 and from January 1, 2006 to June 30, 2006 (comparative figures); and
- Consolidated statement of Cash Flows of Gwelan Supply Ltd. from April 1, 2006 to June 30, 2006 and from January 1, 2006 to June 30, 2006 (comparative figures).

These interim consolidated 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, except as described in Note 2.

These interim consolidated 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.

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**2. Change in accounting policy and new accounting policy**

Effective January 1, 2007, the Company adopted the new provisions prescribed by the Accounting Standards Board, "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

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**(unaudited)**  
June 30, 2007

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

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.

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 June 30, 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.

*Future Accounting Pronouncements*

Effective January 1, 2008, the Company will be required to adopt two new CICA standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace Section 3061 "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. The Company is currently assessing the impact these new standards will have on its consolidated financial statements.

Effective January 1, 2008, the Company will be required to adopt CICA Section 3031 "Inventories". This section relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The Company is currently assessing the impact of the implementation of this section on its consolidated financial statements.

In November 2006, the CICA issued new handbook Section 1535, "Capital Disclosures", effective for annual and interim periods beginning on or after October 1, 2007. 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 Company is currently assessing the impact of this section on its consolidated financial statements.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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**3. Seasonality of Operations**

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

**4. Bank indebtedness**

Advances under the credit facilities are as follows:

	<b>June 30</b>	December 31
	<b><u>2007</u></b>	<u>2006</u>
Bank operating line of credit	\$ 3,812,299	\$ 17,410,925

Effective January 30, 2007, the Company established a new 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 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.

**5. Long-term debt**

	<b>June 30</b>	December 31
	<b><u>2007</u></b>	<u>2006</u>
Subordinated debenture, secured by a general security agreement, assignment of all the assets, subordinated to the senior lender, bearing interest at prime plus 6%, repayable from February 2007 to January 2009 interest only, February 2009 to December 2011 monthly installments of \$60,000 plus interest with the remaining balance of \$900,000 due on January 30, 2012.	\$ 3,000,000	\$ -
Demand loan, secured by a general security agreement, subject to first security interest in covering all real property and guarantees by related parties, payable in monthly installments of \$18,000 including interest at prime plus 0.85% per annum, maturing January 31, 2022.	1,967,799	-

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**(unaudited)**  
June 30, 2007

<b>5. Long-term debt (cont'd)</b>	<b>June 30</b>	December 31
	<u><b>2007</b></u>	<u>2006</u>
Demand loan, non-revolving bearing interest at prime plus 0.85%, repayable at \$3,733 per month including interest, secured by demand collateral mortgage and an assignment of all risk fire insurance on all real and personal property, subject to a prior claim.	-	512,756
Demand loan, non-revolving bearing interest at prime plus 1.25%, repayable at \$1,420 per month, including interest, secured by demand promissory notes, assignment of all inventory, general security agreement covering all real property, life insurance policies and postponement of claim from a shareholder, subject to a prior claim.	-	38,662
GMAC loan payable in monthly instalments of \$792 including interest at 6.9%. The collateral security lodged by the Company to support the loan is a vehicle with a net book value of \$9,304.	-	<u>2,683</u>
	4,967,799	554,101
Less: current portion	<u>80,390</u>	<u>554,101</u>
	<u><b>\$ 4,887,409</b></u>	<u><b>\$ -</b></u>

**6. 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><b>\$ (52,942)</b></u>

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

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.

**7. 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 6)	-	(4,827,733)
Finalization of amounts received on issuance of share capital from prior year	<u>-</u>	<u>(56,278)</u>
Balance, June 30, 2007	<u>12,212,552</u>	<u>\$ 11,132,444</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 6, 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.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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**7. Capital stock (cont'd)**

**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.

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 Years
<u>June 30, 2007</u>			
Outstanding, beginning of period	1,110,000	\$ 2.00	4.50
Granted	25,000	2.00	5.00
Exercised	-	-	-
Expired / cancelled	<u>(6,000)</u>	<u>2.00</u>	<u>4.50</u>
Outstanding, end of period	<u>1,129,000</u>	<u>\$ 2.00</u>	<u>4.50</u>
Options exercisable, end of period	<u>75,000</u>	<u>\$ 2.00</u>	<u>4.50</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%

During the three month period ended June 30, 2007, 25,000 options were granted under the Plan at a fair value of \$14,390. A total of 1,110,000 options were granted in the first quarter of 2007 under the Plan at a fair value of \$613,050. Subsequent to June 30, 2007 an additional 75,000 options were granted on July 3, 2007 at an exercise price of \$2.00 per common share with a fair value of \$35,925 and 147,000 options were granted on July 17, 2007 at an exercise price of \$2.10 per common share with a fair value of \$70,375.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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**7. Capital stock (cont'd)**

**Options to agents**

At June 30, 2007 the Company had 283,000 agent options outstanding to acquire common shares at a weighted average exercise price of \$2.00 per common share with a fair value of \$121,830.

The fair value of agent 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>June 30, 2007</u>			
Outstanding, beginning of period	250,000	\$ 2.00	2.58
Granted	-	-	-
Exercised	-	-	-
Expired	-	-	-
Outstanding, end of period	<u>250,000</u>	<u>\$ 2.00</u>	<u>2.58</u>
Warrants exercisable, end of period	<u>250,000</u>	<u>\$ 2.00</u>	<u>2.58</u>

The fair value of the warrants 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%

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**(unaudited)**  
June 30, 2007

**7. Capital stock (cont'd)**

**Contributed surplus**

Opening balance, December 31, 2006	\$ 121,830
Fair value of stock options granted to employees	175,004
Fair value of warrants granted to the lender	<u>100,900</u>
Ending balance, June 30, 2007	<u>\$ 397,734</u>

**8. Related party transactions**

During the period, the Company incurred expenses in the normal course of operations with affiliated companies, which certain directors control as follows:

	<u>2007</u>	<u>2006</u>
Advisory	\$ <b>60,000</b>	\$ -
Accounting and administrative	<b>9,000</b>	-
Corporate	<b>9,000</b>	-

In management's opinion, these transactions are all in the normal course of operations and are conducted at fair market value.

**9. 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 forwards 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 June 30, 2006.

**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 \$188,326 (June 30, 2006 - nil) was recognized during the three month period ended June 30, 2007 and totaled \$275,904 for the six month period ended June 30, 2007 (June 30, 2006 - nil) with a corresponding increase to contributed surplus.

**Bri-Chem Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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June 30, 2007

**11. 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 6), 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 June 30, 2006 comparative financial statements include 6/7ths of the bonus in salaries and employee benefits representing \$4,397,364.

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

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**12. Subsequent event**

Pursuant to a share purchase agreement dated July 17, 2007, the Company acquired Millennium Technologies Ltd., a Western Canadian-based full-service chemical products wholesaler, for the total purchase price of \$4,440,000 consisting of cash payable of \$2,940,000 on closing, \$300,000 in cash fourteen months from closing and \$1,500,000 by way of the issuance of 714,286 common shares at a price of \$2.10 per share. The acquisition also incorporates 100,000 share purchase warrants issued to the vendors. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$2.10 per common share for a period of three years from July 17, 2007. The purchase price allocation is currently being evaluated for the fair values of the assets and liabilities acquired and as such the purchase price is subject to change.