



Bri-Chem Corp.
Third Quarter Interim Report
September 30, 2007

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Bri-Chem Corp. Interim Consolidated Balance Sheets

	September 30 2007 (unaudited)	December 31 2006 (audited)
Assets		
Current		
Cash	\$ -	\$ 127,930
Funds held in trust	-	11,000,000
Accounts receivable	21,632,178	20,950,162
Inventory	18,817,536	17,940,563
Prepays and deposits	200,597	80,806
Current portion of note receivable	<u>18,333</u>	<u>-</u>
	40,668,644	50,099,461
Note receivable	36,667	-
Property and equipment	2,615,867	2,157,061
Intangibles (Note 7)	2,056,624	1,089,783
Goodwill (Note 7)	1,234,146	416,200
Future income taxes	<u>47,025</u>	<u>47,025</u>
	\$ 46,658,973	\$ 53,809,530
<hr/>		
Liabilities		
Current		
Bank indebtedness (Note 4)	\$ 9,822,783	\$ 17,410,925
Payables and accruals	10,307,455	6,927,364
Income taxes payable	111,829	683,178
Current portion of notes payable (Note 5)	1,744,000	11,000,000
Current portion of long-term debt (Note 6)	<u>78,114</u>	<u>554,101</u>
	22,064,181	36,575,568
Notes payable (Note 5)	1,900,000	3,200,000
Long-term debt (Note 6)	4,672,355	-
Future income taxes	<u>611,958</u>	<u>193,389</u>
	29,248,494	39,968,957
Commitments (Note 12)		
Shareholders' Equity		
Share capital (Note 8)	12,347,444	11,188,722
Contributed surplus (Note 8)	612,467	121,830
Retained earnings	<u>4,450,568</u>	<u>2,530,021</u>
	17,410,479	13,840,573
	\$ 46,658,973	\$ 53,809,530

On behalf of the Board

"Don Caron" Director

"Alan Campbell" Director

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

	September 30 (3 months)		September 30 (9 months)	
	2007	2006 (Note 13)	2007	2006 (Note 13)
Sales	\$ 18,889,017	17,097,329	\$ 38,161,114	51,587,977
Cost of sales	15,581,714	14,013,424	31,311,483	42,848,106
Gross margin (\$)	3,307,303	3,083,905	6,849,631	8,739,871
Gross margin (%)	17.5%	18.0%	17.9%	16.9%
Expenses				
Amortization on property and equipment	74,759	56,079	192,812	165,663
Amortization on intangible assets	74,805	-	133,805	-
Interest on long-term debt	197,517	157,978	550,442	562,592
Interest on short-term operating debt	203,264	8,414	524,288	24,353
Salaries and employee benefits	880,911	1,009,676	1,888,756	6,085,966
Selling, general and administrative	588,098	337,368	1,472,865	1,012,424
	2,019,354	1,569,515	4,762,968	7,850,998
Earnings before income taxes and non - controlling interest share of earnings	1,287,949	1,514,390	2,086,663	888,873
Income taxes (Note 10)	113,175	310,138	113,175	310,138
Earnings before non-controlling interest share of earnings	1,174,774	1,204,252	1,973,488	578,735
Non-controlling interest share of earnings	-	35,867	-	38,141
Net earnings	\$ 1,174,774	1,168,385	\$ 1,973,488	540,594
Net earnings per share - basic	\$ 0.09	0.11	0.16	0.05
Weighted average number of shares	12,794,850	10,205,700	12,409,506	10,205,700
Net earnings per share - diluted	\$ 0.09	0.11	0.16	0.05
Weighted average number of shares	12,797,911	10,205,700	12,412,567	10,205,700
Retained earnings, beginning of period	\$ 3,275,794	1,158,387	\$ 2,530,021	1,786,178
Deficiency in net assets acquired (Note 7)	-	-	(52,941)	-
Net earnings	1,174,774	1,168,385	1,973,488	540,594
Retained earnings, end of period	\$ 4,450,568	2,326,772	\$ 4,450,568	2,326,772

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

	September 30		September 30	
	(3 months)		(9 months)	
	2007	2006	2007	2006
	(Note 13)		(Note 13)	
Increase (decrease) in cash and cash equivalents				
Operating				
Net earnings	\$ 1,174,774	1,168,385	\$ 1,973,488	540,594
Non-cash items:				
Amortization on property and equipment	74,759	56,079	192,812	165,663
Amortization on intangible assets	74,805	-	133,805	-
Future income tax	-	(7,208)	-	(7,208)
Non-controlling interest	-	35,867	-	38,141
Stock-based compensation	168,389	-	444,293	-
Gain on sale of assets	(900)	(29,395)	(7,675)	(29,395)
	<u>1,491,827</u>	<u>1,223,728</u>	<u>2,736,723</u>	<u>707,795</u>
Change in non-cash operating				
Working capital (net of effects of business acquisition) (Note 7)	<u>(2,633,973)</u>	<u>(5,720,580)</u>	<u>5,391,076</u>	<u>623,976</u>
	<u>(1,142,146)</u>	<u>(4,496,852)</u>	<u>8,127,799</u>	<u>1,331,771</u>
Financing				
Advances to directors	-	2,667,351	-	2,201,941
Advances on note payable	48,000	-	144,000	-
Proceeds on issuance of long-term debt	-	-	3,000,000	-
Proceeds on issuance of callable debt	-	-	2,000,000	-
Advances/(repayment) of operating line	3,869,095	1,904,507	(9,729,531)	(3,351,248)
Repayment of note payable	-	(68,192)	(11,000,000)	(73,966)
Repayment of long-term debt	(29,005)	(8,542)	(727,104)	(15,001)
	<u>3,888,090</u>	<u>4,495,124</u>	<u>(16,312,635)</u>	<u>(1,238,274)</u>
Investing				
Purchase of property and equipment	(42,744)	(13,683)	(308,717)	(114,160)
Proceeds on disposal of property and equipment	7,500	70,069	76,323	70,069
Cash paid on acquisition (Note 7)	<u>(2,710,700)</u>	<u>-</u>	<u>(2,710,700)</u>	<u>-</u>
	<u>(2,745,944)</u>	<u>56,386</u>	<u>(2,943,094)</u>	<u>(44,091)</u>
Net increase/(decrease) in cash and cash equivalents	-	54,658	(11,127,930)	49,406
Cash and cash equivalents				
Beginning of period	-	128,569	11,127,930	133,821
End of period	\$ -	183,227	\$ -	183,227

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
(unaudited)
September 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 7). 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 July 1, 2007 to September 30, 2007 and from January 1, 2007 to September 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 July 1, 2006 to September 30, 2006 and from January 1, 2006 to September 30, 2006 (comparative figures); and
- Consolidated statement of Cash Flows of Gwelan Supply Ltd. from July 1, 2006 to September 30, 2006 and from January 1, 2006 to September 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.

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 earnings. 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).

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
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2. Change in accounting policy and new accounting policy (cont'd)

All derivative financial instruments will be reported on the balance sheet at fair value with changes in fair value recognized in net earnings unless the derivative is part of a designated 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 earnings. 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 earnings. 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 earnings. The amounts recognized in accumulated OCI will be reclassified to net earnings in the periods in which net earnings 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 earnings.

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 September 30, 2007, the Company had no other comprehensive income or accumulated other comprehensive income.

In June 2007, the CICA issued Emerging Issues Committee Abstract No. 166 "Accounting Policy Choices for Transaction Costs", effective for annual or interim periods ending on or after September 30, 2007. This guidance provides additional clarification on accounting policy choices related to transaction costs under CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement". The accounting policy allows companies a choice of recognizing transaction costs in net income when incurred or adding transaction costs from an acquisition or issuance of a financial asset or liability to the financial instrument's carrying cost, depending on each financial instrument. The Company has chosen to add the transaction costs to the carrying amount of the related financial instrument.

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.

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

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

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.

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

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 and 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. Notes payable

Promissory note payable, bearing interest at 6% per annum, repayable in installments as follows:
\$11,000,000 plus interest upon completion of the amalgamation (see Note 1), \$1,000,000 plus interest on May 19, 2008, \$1,000,000 plus interest on May 20, 2009, and \$1,200,000 plus interest on May 20, 2010, secured by a general security agreement covering all the assets of the Company.

	September 30	December 31
	<u>2007</u>	<u>2006</u>
	\$ 3,344,000	\$ 14,200,000

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

September 30, 2007

5. Notes payable (cont'd)	September 30 2007	December 31 2006
Promissory note payable, bearing interest at prime, repayable on September 16, 2008, subject to the satisfaction of certain terms of the purchase agreement related to the acquisition of Spirit Mountain Holdings Ltd. (see Note 7).	<u>300,000</u> <u>3,644,000</u>	<u>-</u> <u>-</u>
Less: current portion	<u>1,744,000</u>	<u>11,000,000</u>
	<u>\$ 1,900,000</u>	<u>\$ 3,200,000</u>

6. Long-term debt	September 30 2007	December 31 2006
Subordinated debenture, secured by a general security agreement, covering all the assets of the Company, assignment of all the assets, subordinated to the HSBC, 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. The bank has signed a letter waiving the demand condition on the loan for the next fiscal year.	\$ 3,000,000	\$ -
Demand loan, secured by a general security agreement, subject to first security interest 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.	1,948,014	-
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

Bri-Chem Corp.
Notes to the Interim Consolidated Financial Statements
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6. Long-term debt (cont'd)	September 30 2007	December 31 <u>2006</u>
GMAC loan payable in monthly installments 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.	-	2,683
Less: transaction costs	<u>197,545</u>	-
	4,750,469	554,101
Less: current portion	78,114	554,101
	<u>\$ 4,672,355</u>	<u>\$ -</u>

7. Acquisitions

Acquisition of Spirit Mountain Holdings Ltd.

On July 17, 2007, the Company acquired all of the outstanding common shares of Spirit Mountain Holdings Ltd. ("Spirit Mountain") and its wholly-owned subsidiary, Millennium Technologies Ltd. ("Millennium"), a private Alberta wholesale chemical and fluid distributor to the oil and gas industry for a total purchase price of \$4,272,044, including 714,286 common shares at a fair market value of \$1,215,000. Concurrent with the purchase of shares, the Company also settled amounts due from shareholders of \$852,171 and amounts due to shareholders of \$1,017,925. The operations of Spirit Mountain and Millennium were amalgamated with Bri-Chem Corp. effective July 17, 2007.

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 fair values at the date of the acquisition as follows:

Current assets	\$ 7,877,552
Property and equipment	400,976
Intangible assets	1,100,646
Goodwill	817,946
Bank indebtedness	(2,993,559)
Current liabilities	(2,512,948)
Future income tax	<u>(418,569)</u>
	<u>\$ 4,272,044</u>

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

The components of the total purchase price were as follows :

Cash	\$ 2,640,000
Promissory note	300,000
714,286 common shares	1,215,000
100,000 share purchase warrants	46,344
Transaction costs	<u>70,700</u>
	<u>\$ 4,272,044</u>

The 714,826 common shares were issued as part of the purchase price at a deemed price of \$2.10 as negotiated between the parties involved in the transaction. The fair value of the common shares is based on discount factors ranging from 10 to 27% to consider sale restrictions (see Note 8).

The purchase price allocated to intangible assets include customer relationships (\$891,917) and non-competition agreements (\$208,729) which will be amortized over 5 years straight line.

The interim purchase price allocation is based on management's best estimate and is subject to change as new information becomes available.

Acquisition of Gwelan Supply Ltd.

Pursuant to an amalgamation agreement dated October 27, 2006 as amended and restated on December 19, 2006, and 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. 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 the net identifiable 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 net identifiable assets acquired at assigned values are as follows:

Current assets	\$ 168,359
Current liabilities	<u>(221,300)</u>
Deficiency in net assets acquired	<u>\$ (52,941)</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.

Bri-Chem Corp.
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7. Acquisitions (cont'd)

The deficiency in net assets of the public enterprise acquired of \$52,941 was treated as a charge to the retained earnings balance of the combined enterprise in the previous quarter. 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.

Future contingent consideration may be required if the Company meets certain minimum earnings before interest, taxes, depreciation and amortization targets at December 31, 2006, 2007, and 2008. The maximum bonus payable over the next three years is \$2,000,000.

8. Share capital

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 (5:1)	<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 7)	-	(4,827,733)
Finalization of amounts received on issuance of share capital from prior year	-	(56,278)
Issue of shares upon acquisition of Spirit Mountain (Note 7)	<u>714,286</u>	<u>1,215,000</u>
Balance, September 30, 2007	<u>12,926,838</u>	<u>\$ 12,347,444</u>

- a) On January 1, 2007, holders of shares in 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 8, 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 identifiable 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. As of September 30, 2007, 2,914,250 common shares have been released.

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8. Share capital (cont'd)

- c) On July 17, 2007, the Company issued 714,286 shares with a fair value of \$1,215,000 for the purchase of shares of Spirit Mountain (see Note 7). The following resale restrictions exist on the following shares:

238,095 common shares with resale restrictions expiring July 17, 2008
238,095 common shares with resale restrictions expiring July 17, 2009
238,096 common shares with resale restrictions expiring July 17, 2010

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>September 30, 2007</u>			
Outstanding, June 30, 2007	1,129,000	\$ 2.00	3.50
Granted	272,000	1.96	4.00
Exercised	-	-	-
Expired / cancelled	(48,000)	2.00	4.00
Outstanding, end of period	<u>1,353,000</u>	<u>\$ 1.99</u>	<u>3.75</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 weighted average assumptions:

Expected life	4 years
Risk-free rate	4.08%
Expected volatility	35.52%
Expected dividend yield	0.00%

During the three month period ended September 30, 2007, 272,000 options were granted under the Plan at a total fair value of \$145,120. A total of 1,353,000 options were granted, net of cancelled options for the nine month period ended September 30, 2007 under the Plan at an estimated fair value of \$878,280.

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8. Share capital (cont'd)

Options to agents

At September 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 total 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

- a) As part of the consideration given for the acquisition of Millennium (see Note 7), the Company issued 100,000 share purchase warrants with a fair value of \$46,344. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$2.10 per common share, as negotiated between the parties to the transaction from July 17, 2007, expiring July 17, 2010.
- b) Pursuant to the terms of the loan agreement with HSBC, the Company issued 250,000 share purchase warrants with a fair value of \$141,660 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>September 30, 2007</u>			
Outstanding, June 30, 2007	250,000	\$ 2.00	2.58
Granted	100,000	2.10	2.79
Exercised	-	-	-
Expired	-	-	-
Outstanding, end of period	<u>350,000</u>	<u>\$ 2.03</u>	<u>2.56</u>
Warrants exercisable, end of period	<u>350,000</u>	<u>\$ 2.03</u>	<u>2.56</u>

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8. Share capital (cont'd)

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 weighted average assumptions:

Expected life	3 years
Risk-free rate	4.15%
Expected volatility	38.55%
Expected dividend yield	0.00%

Contributed surplus

Opening balance, December 31, 2006	\$ 121,830
Fair value of stock options granted to employees	302,633
Fair value of warrants granted	<u>188,004</u>
Ending balance, September 30, 2007	<u>\$ 612,467</u>

9. Related party transactions

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

	September 30	September 30
	<u>2007</u>	<u>2006</u>
Advisory	\$ 105,000	\$ -
Accounting and administrative	13,500	-
Corporate	13,500	-

In management's opinion, these transactions are all in the normal course of operations and are recorded at their exchange amount, which approximates their fair values.

10. 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 have been recognized as a reduction of current income tax liabilities as their realization will be utilized in the current year.

Bri-Chem Corp.

Notes to the Interim Consolidated Financial Statements

(unaudited)

September 30, 2007

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 \$129,266 (September 30, 2006 - nil) was recognized during the three month period ended September 30, 2007 and totaled \$302,633 for the nine month period ended September 30, 2007 (September 30, 2006 – nil) was recorded in salaries and employee benefits with a corresponding increase to contributed surplus.

12. Commitments

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

2008	\$ 163,783
2009	108,202
2010	95,457
2011	62,961
2012	2,565

13. Comparative figures

Certain of the prior period's figures have been reclassified to conform to the current period consolidated financial statement presentation. The prior period figures for the three and nine month periods ended September 30, 2006 have not been audited or reviewed by an external auditor.

Prior to the amalgamation on January 1, 2007 (Note 7), 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. The comparative figures presented include the pro-rated portion of the bonus that applies to the appropriate period. The September 30, 2006 comparative financial statements include the bonus in salaries and employee benefits representing \$5,130,260.

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