**Bri-Chem Corp.**

**Year End Report**

December 31, 2011

# Contents

Grant Thornton

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# Independent Auditors' Report

To the Shareholders of
Bri-Chem Corp.

We have audited the accompanying consolidated financial statements of Bri-Chem Corp., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations, and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bri-Chem Corp. as at December 31, 2011, December 31, 2010, and January 1, 2010, and the results of its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

March 28, 2012

Grant Thornton LLP

Edmonton, Canada

Chartered Accountants

# Bri-Chem Corp.
## Consolidated Statements of Operations and Comprehensive Income
(Canadian dollars)

| For the year ended | **December 31 2011** | December 31 2010 |
|---|---|---|
| | | (Note 29) |
| **Sales** | **$ 185,723,319** | $ 152,495,386 |
| Cost of sales | **154,686,351** | 130,171,828 |
| Gross margin | **31,036,968** | 22,323,558 |
| Gross margin (%) | **16.7%** | 14.6% |
| **Expenses** | | |
| Salaries and benefits | **7,642,993** | 6,111,202 |
| Selling, general and administration (Note 27) | **7,020,031** | 4,356,304 |
| Interest on short-term operating debt | **1,550,773** | 1,119,930 |
| Amortization on property and equipment | **1,005,459** | 476,087 |
| Amortization on intangible assets | **442,560** | 326,865 |
| Interest on long-term debt | **347,300** | 633,635 |
| Foreign exchange loss (gain) | **167,773** | (646,365) |
| Interest on obligations under finance lease | **40,007** | 6,015 |
| | **18,216,896** | 12,383,673 |
| Earnings before income taxes | **12,820,072** | 9,939,885 |
| Income tax expense (recovery) (Note 19) | | |
| Current | **4,126,894** | 3,158,627 |
| Deferred | **(769,089)** | (314,469) |
| | **3,357,805** | 2,844,158 |
| Net earnings and comprehensive income | **$ 9,462,267** | $ 7,095,727 |
| Earnings (loss) attributable to: | | |
| Shareholders of the Company | **$ 10,097,640** | $ 7,129,168 |
| Non-controlling interest (Note 22) | **(635,373)** | (33,441) |
| | **$ 9,462,267** | $ 7,095,727 |
| Earnings per share (Note 23) | | |
| Basic | **$ 0.64** | $ 0.51 |
| Diluted | **$ 0.61** | $ 0.51 |

See accompanying notes to the consolidated financial statements.

# Bri-Chem Corp.
## Consolidated Balance Sheets
(Canadian dollars)

| | **December 31 2011** | December 31 2010 | January 1 2010 |
|---|---|---|---|
| **Assets** | | (Note 29) | (Note 29) |
| Current | | | |
| Accounts receivable (Note 8) | **$ 56,860,660** | $ 46,727,925 | $ 31,172,888 |
| Inventories (Note 9) | **54,179,238** | 42,414,115 | 40,063,075 |
| Prepaid expenses and deposits | **1,981,023** | 5,025,888 | 1,139,783 |
| Income taxes receivable | **-** | - | 1,381,443 |
| | **113,020,921** | 94,167,928 | 73,757,189 |
| Non-current | | | |
| Property and equipment (Note 10) | **9,808,587** | 3,684,771 | 3,657,582 |
| Intangible assets (Note 11) | **1,073,959** | 614,109 | 906,517 |
| Goodwill (Note 12) | **548,466** | - | - |
| Deferred tax assets (Note 19) | **1,131,987** | 299,631 | 140,938 |
| Other long-term assets | **86,424** | - | - |
| | **$ 125,670,344** | $ 98,766,439 | $ 78,462,226 |
| **Liabilities** | | | |
| Current | | | |
| Bank indebtedness (Note 13) | **$ 48,910,877** | $ 39,552,948 | $ 27,652,949 |
| Accounts payable and accrued liabilities (Note 14) | **30,137,391** | 25,053,083 | 23,391,873 |
| Customer deposits | **52,859** | 294,638 | 525,486 |
| Current portion of promissory notes payable (Note 15) | **368,466** | 2,391,625 | 325,696 |
| Current portion of long-term debt (Note 16) | **-** | 866,913 | 872,045 |
| Current portion of obligations under finance lease (Note 17) | **177,578** | 26,722 | 177,040 |
| Income taxes payable (Note 19) | **934,049** | 2,455,289 | - |
| | **80,581,220** | 70,641,218 | 52,945,089 |
| Non-current | | | |
| Promissory notes payable (Note 15) | **-** | 1,994,082 | 5,200,000 |
| Long-term debt (Note 16) | **-** | 2,151,281 | 2,922,439 |
| Obligations under finance lease (Note 17) | **559,868** | 65,849 | 11,161 |
| Deferred tax liabilities (Note 19) | **463,625** | 236,955 | 392,732 |
| Other long-term liabilities | **116,150** | - | - |
| | **81,720,863** | 75,089,385 | 61,471,421 |
| **Equity** | | | |
| Share capital (Note 20) | **25,862,877** | 14,451,480 | 15,156,254 |
| Contributed surplus | **613,004** | 1,079,488 | 826,125 |
| Warrants (Note 21) | **88,200** | 229,950 | 188,050 |
| Non-controlling interest (Note 22) | **(668,784)** | (33,411) | - |
| Retained earnings | **18,047,187** | 7,949,547 | 820,376 |
| Accumulated other comprehensive income | **6,997** | - | - |
| | **43,949,481** | 23,677,054 | 16,990,805 |
| | **$ 125,670,344** | $ 98,766,439 | $ 78,462,226 |

Post-reporting date events (Note 30)
Committments (Note 18)

See accompanying notes to the consolidated financial statements.

# Bri-Chem Corp.
## Consolidated Statements of Changes in Equity
(Canadian dollars)

| | Share capital | Contributed surplus | Warrants | Accumulated other compensive income | Retained earnings | Total attributed to: The Company | Total attributed to: Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2011 | $ 14,451,480 | $ 1,079,488 | $ 229,950 | $ - | $ 7,949,547 | $ 23,710,465 | $ (33,411) | **$ 23,677,054** |
| Issuance of shares upon exercise of options | 2,657,282 | (751,954) | - | - | - | 1,905,328 | - | **1,905,328** |
| Issuance of shares upon exercise of warrants | 641,750 | - | (141,750) | - | - | 500,000 | - | **500,000** |
| Employee share-based payment options | - | 188,454 | - | - | - | 188,454 | - | **188,454** |
| Consultant share-based payment options | - | 97,016 | - | - | - | 97,016 | - | **97,016** |
| Issuance of shares under financing, net of tax and share issue costs | 5,488,447 | - | - | - | - | 5,488,447 | - | **5,488,447** |
| Issuance of shares for acquisition (Note 7) | 488,251 | - | - | - | - | 488,251 | - | **488,251** |
| Issuance of preferred shares in subsidiary (Note 20) | 2,135,667 | - | - | - | - | 2,135,667 | - | **2,135,667** |
| Net earnings (loss) | - | - | - | - | 10,097,640 | 10,097,640 | (635,373) | **9,462,267** |
| Other comprehensive income | - | - | - | 6,997 | - | 6,997 | - | **6,997** |
| Balance at December 31, 2011 | $ 25,862,877 | $ 613,004 | $ 88,200 | $ 6,997 | $ 18,047,187 | $ 44,618,265 | $ (668,784) | **$ 43,949,481** |

See accompanying notes to the consolidated financial statements.

# Bri-Chem Corp.

## Consolidated Statements of Changes in Equity

(Canadian dollars)

| | Share capital | Contributed surplus | Warrants | Retained earnings | Total attributed to: The Company | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2010 | $ 15,156,254 | $ 826,125 | $ 188,050 | $ 820,376 | $ 16,990,805 | $ - | **$ 16,990,805** |
| Repurchase of share capital under NCIB (Note 20) | (717,044) | 132,116 | - | - | (584,928) | - | **(584,928)** |
| Employee share-based payment options | 12,270 | (4,486) | - | - | 7,784 | - | **7,784** |
| Issuance of share capital under share-based payment | - | 49,072 | - | - | 49,072 | - | **49,072** |
| Repricing of stock options | - | 76,661 | - | - | 76,661 | - | **76,661** |
| Fair value of warrant extension granted | - | - | 41,900 | - | 41,900 | - | **41,900** |
| Net earnings | - | - | - | 7,129,171 | 7,129,171 | (33,441) | **7,095,730** |
| Balance at December 31, 2010 | $ 14,451,480 | $ 1,079,488 | $ 229,950 | $ 7,949,547 | $ 23,710,465 | $ (33,441) | **$ 23,677,024** |

See accompanying notes to the consolidated financial statements.

# Bri-Chem Corp.

## Consolidated Statements of Cash Flows

(Canadian dollars)

| For the year ended | **December 31 2011** | December 31 2010 |
|---|---|---|
| | | (Note 29) |
| Increase (decrease) in cash and cash equivalents | | |
| **Operating activities** | | |
| Net earnings | **$ 9,462,267** | $ 7,095,727 |
| Non-cash items: | | |
| Amortization on property and equipment | **1,005,459** | 476,087 |
| Amortization on intangible assets | **442,560** | 326,865 |
| Amortization of debt related transaction costs | **161,587** | 90,512 |
| Deferred tax recovery | **(769,089)** | (314,469) |
| Share-based payments | **234,433** | 167,633 |
| (Gain) loss on sale of property and equipment | **(4,403)** | 8,119 |
| | **10,532,814** | 7,850,474 |
| Change in non-cash working capital (Note 26) | **(14,643,801)** | (16,524,024) |
| | **(4,110,987)** | (8,673,550) |
| **Financing activities** | | |
| Advances on promissory notes payable | **157,992** | 307,249 |
| Advances of operating line | **9,835,703** | 11,899,999 |
| Additions to transaction costs on operating line | **(876,642)** | - |
| Repayment of promissory notes payable | **(4,531,183)** | (1,447,238) |
| Repayment of long-term debt | **(3,154,700)** | (866,802) |
| Proceeds on issuance of shares (Note 20) | **7,619,153** | 6,719 |
| Repayments of obligations under finance lease | **(187,564)** | (190,748) |
| Repurchase of common shares (Note 20) | **-** | (584,928) |
| | **8,862,759** | 9,124,251 |
| **Investing activities** | | |
| Purchase of property and equipment | **(3,759,098)** | (508,142) |
| Purchase of intangible assets | **(40,706)** | (28,050) |
| Proceeds on disposal of property and equipment | **16,632** | 85,491 |
| Cash paid on acquisition (Note 7) | **(968,600)** | - |
| | **(4,751,772)** | (450,701) |
| Net increase in cash and cash equivalents | **-** | - |
| Cash and cash equivalents, beginning of year | **-** | - |
| Cash and cash equivalents, end of year | **$ -** | $ - |

Supplemental cash flow information (Note 26)

See accompanying notes to the consolidated financial statements.

## 1. Nature of operations

Bri-Chem Corp.'s ("the Company") shares are publicly traded on the Toronto Stock Exchange under the symbol BRY. Since 1985, Bri-Chem has established two primary segments of business through a combination of internal growth and acquisitions: Bri-Chem's Drilling Fluid Division is North America's largest independent wholesale supplier of drilling fluids for the oil and gas industry. The Company provides over 350 critical drilling fluid products, cementing, acidizing and stimulation additives from multiple strategically located warehouses throughout Canada and the United States; Bri-Chem's Steel Pipe Division is a wholesale distributor of carbon steel pipe and a manufacturer of large diameter seamless steel pipe for the energy industry.

## 2. General information and basis of presentation

Bri-Chem Corp., the Company's ultimate parent company is incorporated and located in Canada. It's registered and primary place of business is #15, 53016 Highway 60, Acheson, Alberta, T7X 5A7.

The Company is required to present the annual audited Consolidated Financial Statements for the year ended December 31, 2011 under International Financial Reporting Standards ("IFRS"). In conjunction with this, these Consolidated Financial Statements present the Company's initial financial results of operations and financial position under IFRS as at and for the year ended December 31, 2011, including 2010 comparative periods. They have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 1, Presentation of Financial Statements. Two comparative periods are presented for the consolidated balance sheets to comply with initial adoption of IFRS standards.

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized in Note 5. These accounting policies have been used throughout all periods presented in the consolidated financial statements except where the Company has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Company and the effects of transition to IFRS are presented in Note 29.

## 3. New accounting policies due to changes in facts and circumstances of the Company

*Foreign currency translation*

For the accounts of foreign operations with the US dollar as the functional currency, assets and liabilities are translated into Canadian dollars, which is the presentation currency, at period end exchange rates while revenues and expenses are translated using average rates over the period, which approximate the rate on the transaction date. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive income as a separate component of shareholder's equity. As at December 31 2011, accumulated other comprehensive income is comprised solely of foreign currency translation adjustments.

*Decommissioning liabilities*
Decommissioning liabilities include present obligations where the Company will be required to retire tangible long-lived assets from its Steel Manufacturing segment. The decommissioning liabilities are measured at the present value of the expenditure expected to be incurred. The associated asset decommissioning cost is capitalized as part of the cost of the related long-lived asset. Changes in the estimated liability resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the decommissioning liability and the related asset decommissioning cost.

## 3. New accounting policies (cont'd)

*Impairment testing of goodwill*

Upon acquisition, goodwill is allocated to the applicable cash-generating unit ("CGU") or aggregated cash-generating units that are expected to benefit from the business combination's synergies. Goodwill is assessed for impairment annually or more frequently if there are indications that impairment may have occurred. Goodwill impairment is tested at the CGU level. To assess impairment, the recoverable amount of the CGU to which the goodwill relates is compared to the carrying amount of that CGU. The recoverable amounts are determined based on the greater of its fair value less costs to sell or value in use. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued operation of the CGU. If the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in net earnings. An impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU. Goodwill impairments are not reversed.

## 4. Changes in accounting policies

*Inventory costing*

Effective January 1, 2011, the Company converted its cost measurement method for the Steel Distribution segment from a first-in first-out method to a weighted average cost method. This method is more consistent with industry practices and will provide a more accurate representation of the cost of materials sold at any given point in time by reducing the effects of commodity price risk.

The change in inventory costing method was applied retrospectively to increase (decrease) the following line items below and further disclosed in Note 29:

| | Opening balance January 1, 2010 | Year ended December 31, 2010 |
|---|---|---|
| Retained earnings | $ (115,960) | $ (115,960) |
| Cost of sales | - | 88,279 |
| Inventory | (115,960) | (27,681) |

## 5. Summary of significant accounting policies

*IFRS pronouncements adopted*

The Company's first reporting period under IFRS is December 31, 2011. Accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

**5. Summary of significant accounting policies** (cont'd)

*Principles of consolidation*

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company, its wholly-owned subsidiaries, Bri-Chem Supply Ltd., Sodium Solutions Inc., Bri-Chem Steel Corporation, Bri-Corp USA Inc, which has two wholly-owned subsidiaries, Bri-Chem Supply Corp LLC and Stryker Transportation Ltd., and its 70% owned subsidiary Bri-Steel Manufacturing Inc. All inter-company transactions and balances have been appropriately eliminated. A non-controlling interest is presented as part of equity for the portion of the subsidiary's profit or loss and net assets that is not held by the Company.

The Company attributes total comprehensive income or loss of subsidiaries between the owners of the Company and the non-controlling interest based on their respective ownership interests. The Company has applied uniform accounting policies throughout all consolidated entities and reporting dates of the subsidiaries are all consistent with the parent.

*Business combinations*

The assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies are measured at their fair values as of the date of acquisition. All identifiable assets acquired and liabilities assumed are recognized, regardless of whether they have been previously recognized in the acquiree's prior financial statements. Acquisition related and restructuring costs are recognized separately from the business combination and included in the statement of operations.

Goodwill is calculated as the excess of the sum of the fair value of consideration, the recognized amount of any non-controlling interests, and the acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair value of the identifiable net assets. If the acquisition date fair value of the identifiable net assets exceeds the sum above, the difference is recognized in net earnings immediately.

*Foreign currency translation*

Monetary items denominated in foreign currencies are translated to Canadian dollars (the presentation and functional currency of the Company) at the rate of exchange in effect at the balance sheet date. All revenue and expenses denominated in foreign currencies are translated at the monthly average rate in effect at the time of the transaction to approximate the rate on the transaction date. Gains or losses on translation are included in earnings. Non-monetary items denominated in foreign currencies are translated to Canadian dollars at the applicable historical rate. The Company's subsidiary Bri-Corp USA Inc., and its two subsidiaries Bri-Chem Supply Corp, LLC and Stryker Transportation Ltd., use the United States dollar as their functional currency.

*Segmented reporting*

Operating segments are defined as components of the Company for which separate financial information is available and is evaluated regularly by the chief decision makers in allocating resources and assessing performance. The Company operates in three business segments based on type of products produced or sold. The Fluids segment includes the sale of fluids and chemical additives to the resource and industrial markets. The Steel Distribution segment includes the sale of tubular steel products to the resource, industrial and construction industries. The Steel Manufacturing segment produces seamless steel pipe through a thermal expansion process for sale to steel pipe distributors in North America.

**5. Summary of significant accounting policies** (cont'd)

*Segmented reporting (cont'd)*

General and administrative expenses directly related to the operating segments are included as operating expenses for those segments. No asymmetrical allocations have been applied between the segments.

*Revenue*

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns based on the Company's informal policy for product returns. An allowance for the sales returns is netted against total accounts receivable outstanding.

Revenue is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and the Company maintains no continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

There are instances when customers will request that the Company bill and hold their shipments until such time as the customers are prepared to receive the goods. Revenue on bill and hold arrangements is recognized when the customer is invoiced for the goods that have been purchased and made ready for shipment as the risk of ownership of the goods has been assumed by the customer. The terms and collections experienced on the related billings are consistent with all other sales.

*Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized during the period of time necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred.

*Intangible assets*

Intangible assets include acquired software used in administration, customer relationships and non-compete agreements that qualify for recognition as an intangible asset in a business combination. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date.

The following estimated useful lives are applied:

| | |
|---|---|
| Customer relationships | 5 years straight-line |
| Non-compete agreements | 3 to 5 years straight-line |
| Computer software | 4 to 7 years straight-line |

Amortization has been recognized in profit or loss for the period. Costs associated with maintaining computer software such as expenditures relating to patches and other minor updates as well as their installation are expensed as incurred. The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognized in profit or loss.

**5. Summary of significant accounting policies** (cont'd)

*Property and equipment*

Property and equipment are recorded at cost less accumulated amortization and impairment losses. Amortization is calculated as cost less the residual value over the life of the asset. Material residual values and estimates of useful life are reviewed and updated as required and at least annually. Rates and bases of amortization applied to write-off the cost of property and equipment over their estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 4 to 10% declining-balance |
| Motor vehicles | 30% declining-balance |
| Manufacturing and other equipment | 10 to 30% declining-balance |
| Office equipment | 20% declining-balance |
| Computer equipment | 20 to 100% declining-balance |
| Pavement and landscaping | 8% declining-balance |
| Leasehold improvements | 1 to 7.7 years straight-line |
| Equipment under finance lease | 3 to 5 years straight-line |

*Leased assets*

The Company as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. Assets held under finance leases are initially recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a financing lease obligation.

Assets acquired under finance leases are amortized over the lease term or if the lease contains terms that allow ownership to pass to the Company or a bargain purchase option, assets are amortized over their estimated useful lives consistent with other property and equipment rates determined. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of borrowing costs. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Lease payments are portioned between finance expenses and reduction of the lease liability in order to achieve a constant rate of interest on the outstanding balance of the liability.

All other leases are classified as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term.

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

and some are tested at the cash-generating unit level. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

## 5. Summary of significant accounting policies (cont'd)

*Impairment testing of intangible assets and property and equipment*

The Company is required to test for impairment of intangible assets and property and equipment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment. An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. Impairment losses are allocated first to goodwill, then to remaining assets. To determine the value-in-use, management estimates expected future cash flows from each cash generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management. Impairment loss is charged to the items in each cash-generating unit, first to goodwill, then to all other items on a pro-rata basis. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

*Financial instruments*

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled, or expire.

All financial instruments and certain non-financial derivatives are initially measured at fair value. Financial assets and financial liabilities are measured subsequently as described below.

The Company categorizes its fair value measurements for financial asset and financial liabilities measured at fair value according to a three level hierarchy which prioritizes the inputs used in the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the overall fair value measurement. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

<u>Financial assets</u>

The Company's financial assets are comprised of accounts receivable and have been classified as loans and receivables for initial recognition. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

**5. Summary of significant accounting policies** (cont'd)

*Financial instruments (cont'd)*

Financial assets measured at amortized cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Accounts receivable are also assessed for impairment on a collective basis. This is determined by reference to industry and past experience, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the accounts receivables is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit and loss.

Financial liabilities

The Company's financial liabilities include debt and accounts payable and accrued liabilities, and have been classified as other financial liabilities. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

Derivative financial instruments

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss. The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in income. The foreign exchange forward contracts are recorded on the consolidated balance sheet at fair value in receivables when the contracts are in a gain position and in accrued liabilities when the contracts are in a loss position. The Company purchases foreign exchange forward contracts to mitigate the exposure to purchases and the related payable to suppliers denominated in US dollars. The Company does not designate its foreign exchange forward contracts as a hedge of underlying assets, liabilities, firm commitments or anticipated transactions.

*Inventories*
Raw materials, work-in-process and finished goods inventories held for sale are measured at the lower of cost and net realizable value. Net realizable value approximates the estimated selling price less all estimated costs of completion and necessary costs to complete the sale. Costs of ordinarily interchangeable items in the fluids segment are assigned using the first-in first-out cost formula. Costs associated with freight transportation and handling fees are determined using a combination of actual rates and the weighted average cost method and are applied consistently by product line and location. Costs of ordinarily interchangeable items in the steel distribution and steel manufacturing segments are assigned using a weighted average cost method. Raw materials items are assigned costs using the first-in first-out cost formula.

**5. Summary of significant accounting policies** (cont'd)

*Inventories (cont'd)*

Work-in-process inventory represents materials that are currently in the process of being converted into finished goods. Costs associated with the work-in-process are determined using a percentage of completion estimate and include the raw materials, labour and overhead costs incurred in the production of the item at that particular stage of completion.

Finished goods inventory represent materials that have been converted and are available for sale. Distribution goods includes all inventories purchased directly for resale.

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, balances with bank and short term deposits with original maturities of three months or less.

*Income taxes*

Tax expense comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method of tax allocation. Under this method, deferred tax assets and liabilities are determined based on the differences between the accounting and income tax bases of an asset or liability. These are measured based on the tax jurisdictions' substantively enacted income tax rates that will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in rates is included in the period during which the change is considered substantively enacted. Deferred tax assets are recorded in the financial statements if realization is considered probable.

*Share-based payments*

The Company has established a stock option plan for the Executive and Board of Directors, consultants, and employees as described in Note 21. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes Option Pricing Model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the option issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested.

**5. Summary of significant accounting policies** (cont'd)

*Provisions, contingent liabilities and contingent assets*
Provisions are recognized when present obligations as a result of a past event will most likely lead to an outflow of economic resources from the Company that can be estimated reliably. The timing or amount of the liability may still be uncertain. Provisions are measured at the estimated amount required to settle the present obligation, taking into consideration the most reliable evidence available at the reporting date. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

When a business combination is undertaken, the Company initially measures any of the acquired company's contingent liabilities at the acquisition date fair value. The contingent liabilities are subsequently measured at the higher of the amount that would be recognized above, and the amount initially recorded.

In the normal course of business, the Company enters into agreements that include indemnities in favour of third parties, such as engagement letters with advisors and consultants. The Company has also agreed to indemnify its directors and officers in accordance with the Company's corporate bylaws.

Certain agreements do not contain any limits on the Company's liability and therefore it is not possible to estimate the Company's potential liability under these circumstances. In certain cases, the Company has recourse against third parties with respect to these indemnities. The Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

*Critical accounting judgments in applying accounting policies*
The following are significant management judgments, apart from those involving estimation uncertainty, in applying the accounting policies of the Company that have the most significant effect on the financial statements.

<u>Leases</u>
Management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards of ownership. Management evaluates the lease terms and in some cases the lease transaction is not always conclusive in its classification as a finance lease.

<u>Deferred tax assets</u>
Management estimates the probability of future taxable income in which deferred tax assets can be utilized based on the Company's forecasted budget. The Company also takes into consideration non-taxable income and expenses and the various tax rules in effect or expected to be in effect at a future date. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, that deferred tax asset is recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific circumstances.

*Estimation uncertainty*
Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The actual results may differ from the estimates and assumptions made by management.

**5. Summary of significant accounting policies** (cont'd)

*Estimation uncertainty (cont'd)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairments
An impairment loss is recognized when the amount of an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and the value in use. Management estimates expected future cash flows from each asset or cash-generating unit when determining the value in use. Management makes assumptions about future operating results in the process of measuring expected future cash flows which are based on future events and circumstances. Actual results may vary from these estimates and may cause significant adjustments to the Company's assets in following years.

Sales returns provision
The Company has an informal policy whereby it accepts product returns from customers in one of its subsidiaries. Provisions recorded for estimated product returns are based on historical experience, market conditions, and drilling activities. Actual sales returns experienced may differ from this estimate. The provision is presented as part of the total accounts receivable and is disclosed in Note 8.

Useful lives of depreciable assets
Management reviews the useful lives of depreciable assets at each reporting date to determine that the useful lives represent the expected utility of the assets to the Company. Actual useful lives may vary.

Inventories
Inventories are measured at the lower of cost and net realizable value. Management uses the most reliable evidence, such as current sales prices and vendor price lists, available at the time in determining the net realizable values of the inventories.

Stock-based compensation
The Company uses the Black-Scholes Option Pricing Model for valuing its stock options to employees and directors at the date of issue. Management uses estimates of the expected life, the risk-free rate, expected volatility, and expected forfeiture rate when calculating the value of the options issued. These estimates may vary from the actual expense incurred and are updated at each reporting period based on information available at that time. The Company values options issued to consultants based on available evidence of the value the transaction represents to the Company based on services provided in exchange for the option.

Fair value of financial instruments
Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

**5. Summary of significant accounting policies** (cont'd)

*Recent pronouncements not yet effective and that have not been adopted early*

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective as at the date of authorization of these consolidated financial statements and determined that the following may have an impact on the Company:

The Company will be required to adopt the first phase of IFRS 9 – Financial Instruments as of January 1, 2015. The new standard was issued as part of the IASB plan to replace IAS 39 – Financial Instruments with a more robust set of standards for the reporting of financial instruments used by the Company. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

The Company will be required to adopt IFRS 10 – Consolidated Financial Statements supersedes IAS 27 – Consolidated and Separate Financial Statements and SIC 12 – Consolidation – Special Purpose Entities as of January 1, 2013. The standard revises the definition of control together with accompanying guidance to identify an interest in a subsidiary. The basic requirements and mechanics of consolidation and accounting for non-controlling interests and change in control remain the same. The Company has not yet assessed the impact of these standards on the Company's consolidated financial statements.

The Company will be required to adopt IFRS 13 – Fair Value Measurement as of January 1, 2013. The new standard does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. Management has not yet assessed the impact of this new standard on the Company's consolidated financial statements.

The Company will be required to adopt the Amendments to IAS 1 – Presentation of Financial Statements as of January 1, 2013. The Amendments require the Company to group items presented in other comprehensive income into those that, in accordance with other IFRSs, will not be reclassified subsequently into profit or loss, and those that will be reclassified subsequently to profit or loss when specific conditions are met. The Company expects that this will change the presentation of items in other comprehensive income, but the adoption of this standard amendment will not have a material impact on the Company's consolidated financial statements.

**6. 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 Basis ("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.

## 7. Business combination

On April 8, 2011, the Company incorporated Bri-Corp USA, Inc ("Bri-Corp") in the state of Delaware, USA for the purpose of holding the Company's US operations. Effective June 1, 2011, Bri-Corp acquired all of the outstanding ownership interests in each of Stryker Ltd., a Colorado limited liability fluid wholesale distribution business, and Stryker Transportation Ltd., a Colorado limited liability transportation and long-haul business ("Stryker Acquisition"). The acquisition was completed to enhance the Company's presence in the US fluids market.

The ownership interests were acquired for a total purchase price of $1,906,735, including 171,429 common shares at a fair market value of $488,251 (Note 20).

Upon acquisition, Stryker Ltd. was renamed Bri-Chem Supply Corp, LLC.

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

| | | |
|---|---|---|
| Current assets | $ | 1,748,956 |
| Property and equipment | | 519,131 |
| Other assets | | 89,940 |
| Intangible assets | | 826,711 |
| Goodwill | | 526,202 |
| Bank indebtedness | | (227,527) |
| Current liabilities | | (849,097) |
| Obligations under finance lease | | (438,709) |
| Deferred tax liability | | (288,872) |
| | **$** | **1,906,735** |

The components of the purchase price were as follows:

| | | |
|---|---|---|
| Cash | $ | 968,600 |
| Promissory note | | 339,010 |
| 171,429 common shares of the Company | | 488,251 |
| Closing working capital adjustment payable | | 110,874 |
| | **$** | **1,906,735** |

The 171,429 common shares were issued as part of the purchase price at a price of $2.85 with an estimated fair value of $488,251. The fair value of the common shares is based on the share price on the date of issue and were then adjusted based on discount factors ranging from 10% to 25% to consider sale restrictions. The transaction costs of the acquisition include legal and consulting fees related to the acquisition and are expensed in the period incurred and included in selling, general and administration expenses. The promissory notes payable bears interest at 6% per annum, and is repayable in June 2012.

**7. Business combinations** (cont'd)

The Company calculated a closing working capital adjustment of $110,874 based on changes to final working capital balance on acquisition date from initial purchase date information. The amount remains payable to the former owner at December 31, 2011. At the date of acquisition, the gross contractual amounts of receivables acquired were $926,359 of which 100% was estimated to be collectible.

The purchase price allocated to intangible assets includes customer relationships ($622,422) and the non-competition agreement ($204,289). The intangible assets will be amortized over 5 years on a straight line basis. The goodwill recognized primarily represents future growth expectations, expected future profitability, the existing workforce, and expected cost synergies with the Company. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

The acquired companies earned revenues of $1,174,315 and net income of $144,561 for the seven months of operations included at December 31, 2011 respectively. Based on unaudited financial information available to management, if the companies had been acquired at January 1, 2011, revenue for the year ended December 31, 2011 for the Company would have been $188,998,013. Net earnings would have been $9,541,858 for the year ended December 31, 2011 had the acquisition been completed January 1, 2011. Costs expensed in the year directly related to the acquisition total $126,424.

## 8. Accounts receivable

Accounts receivable recognized in the consolidated balance sheets can be analyzed as follows:

| | **December 31 2011** | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Accounts receivable, gross | **$ 58,751,825** | $ 49,592,182 | $ 32,852,286 |
| Allowance for doubtful accounts | **(41,852)** | (92,000) | (169,491) |
| Accounts receivable, net | **58,709,973** | 49,500,182 | 32,682,795 |
| Allowance for sales returns | **(2,607,813)** | (2,781,109) | (1,437,321) |
| Other receivable | **758,500** | 8,852 | (72,586) |
| Accounts receivable | **$ 56,860,660** | $ 46,727,925 | $ 31,172,888 |

Amounts are all short-term. The net carrying value of accounts receivable is considered a reasonable approximation of fair value.

The Company's accounts receivable have been reviewed for indicators of impairment. Certain accounts receivable were found to be impaired and an allowance for doubtful accounts of $41,852 (December 31, 2010 - $92,000) has been recorded. The change in allowance for doubtful accounts for the year is recorded in selling, general and administration expenses.

## 8. Accounts receivable (cont'd)

The change in the allowance for doubtful accounts can be reconciled as follows:

| | **December 31 2011** | December 31 2010 |
|---|---|---|
| Balance, beginning of year | **$ 92,000** | $ 169,491 |
| Bad debt expense | **179,119** | 202,456 |
| Receivables written off | **(229,267)** | (223,173) |
| Recovery of receivables | **-** | (56,774) |
| Balance, end of year | **$ 41,852** | $ 92,000 |

## 9. Inventories

In the year ended December 31, 2011, a total of $148,595,465 of inventories was included in profit and loss as an expense (December 31, 2010 - $129,461,571). Previous write-downs recognized as a reduction of expense in prior periods were reversed in the amount of $508,133 (December 31, 2010 - $1,617,577). Inventory previously written down has seen an increase in selling price back to original values or higher, leading a net realizable value higher than original cost and requiring the previous write-downs taken to be reversed up to the point of original cost.

The inventories held at year end are comprised of the following:

| | **December 31 2011** | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Distribution goods | **$ 51,917,660** | $ 42,414,115 | $ 40,063,075 |
| Raw materials | **1,859,673** | - | - |
| Work-in-progress | **244,732** | - | - |
| Finished goods | **157,173** | - | - |
| | **$ 54,179,238** | $ 42,414,115 | $ 40,063,075 |

## 10. Property and equipment

Property and equipment recognized in the consolidated balance sheets can be analyzed as follows:

| | December 31, 2011 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Land | $ 402,792 | $ - | $ 402,792 |
| Buildings | 1,787,011 | (515,188) | 1,271,823 |
| Motor vehicles | 890,687 | (319,981) | 570,706 |
| Manufacturing and other equipment | 6,865,765 | (1,567,106) | 5,298,659 |
| Office equipment | 555,841 | (247,554) | 308,287 |
| Computer equipment | 636,473 | (373,828) | 262,645 |
| Pavement and landscaping | 174,663 | (46,341) | 128,322 |
| Leasehold improvements | 1,380,775 | (567,347) | 813,428 |
| Equipment under finance lease | 986,665 | (234,740) | 751,925 |
| | $ 13,680,672 | $ (3,872,085) | $ 9,808,587 |

During the year, $40,246 (December 31, 2010 - $nil) of borrowing costs were capitalized to manufacturing equipment. The capitalization rate used to determine amount of borrowing costs eligible was 0.34%.

**10. Property and equipment** (cont'd)

| | December 31, 2010 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Land | $ 402,792 | $ - | $ 402,792 |
| Buildings | 1,759,152 | 461,774 | 1,297,378 |
| Motor vehicles | 790,845 | 212,498 | 578,347 |
| Manufacturing and other equipment | 1,632,495 | 1,035,430 | 597,065 |
| Office equipment | 309,311 | 195,684 | 113,627 |
| Computer equipment | 449,085 | 288,115 | 160,970 |
| Pavement and landscaping | 174,663 | 35,183 | 139,480 |
| Leasehold improvements | 761,194 | 470,082 | 291,112 |
| Equipment under finance lease | 104,000 | - | 104,000 |
| | $ 6,383,537 | $ 2,698,766 | $ 3,684,771 |

| | January 1, 2010 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Land | $ 402,792 | $ - | $ 402,792 |
| Buildings | 1,680,409 | 426,430 | 1,253,979 |
| Motor vehicles | 494,195 | 153,517 | 340,678 |
| Manufacturing and other equipment | 1,572,602 | 892,658 | 679,944 |
| Office equipment | 235,914 | 134,078 | 101,836 |
| Computer equipment | 412,936 | 231,039 | 181,897 |
| Pavement and landscaping | 147,465 | 24,842 | 122,623 |
| Leasehold improvements | 575,031 | 422,569 | 152,462 |
| Equipment under finance lease | 489,137 | 67,766 | 421,371 |
| | $ 6,010,481 | $ 2,352,899 | $ 3,657,582 |

## 10. Property and equipment *(cont'd)*

| | Land | Buildings | Motor Vehicles | Manufacturing and Other Equipment | Office Equipment | Computer Equipment | Pavement and landscaping | Leasehold improvements | Equipment under finance lease | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | | | | | |
| Balance at January 1, 2010 | $ 402,792 | $ 1,680,409 | $ 494,195 | $ 1,572,602 | $ 235,914 | $ 412,936 | $ 147,465 | $ 575,031 | $ 489,137 | $ 6,010,481 |
| Additions | - | 78,743 | 74,610 | 59,893 | 73,397 | 36,149 | 27,198 | 186,163 | - | 536,153 |
| Transfer of purchased lease equipment | - | - | 345,637 | - | - | - | - | - | (345,637) | - |
| Disposals | - | - | (123,597) | - | - | - | - | - | (39,500) | (163,097) |
| Balance at December 31, 2010 | 402,792 | 1,759,152 | 790,845 | 1,632,495 | 309,311 | 449,085 | 174,663 | 761,194 | 104,000 | 6,383,537 |
| Balance at January 1, 2011 | 402,792 | 1,759,152 | 790,845 | 1,632,495 | 309,311 | 449,085 | 174,663 | 761,194 | 104,000 | 6,383,537 |
| Additions | - | 27,859 | 100,595 | 5,104,600 | 234,336 | 154,510 | - | 619,581 | 363,151 | 6,604,632 |
| Additions through acquisition | - | - | 29,441 | 123,445 | 11,699 | 31,542 | - | - | 498,417 | 694,544 |
| Translation adjustment to year end | | | 1,246 | 5,225 | 495 | 1,336 | | | 21,097 | 29,399 |
| Disposals | - | - | (31,440) | - | - | - | - | - | - | (31,440) |
| Balance at December 31, 2011 | $ 402,792 | $ 1,787,011 | $ 890,687 | $ 6,865,765 | $ 555,841 | $ 636,473 | $ 174,663 | $ 1,380,775 | $ 986,665 | $ 13,680,672 |
| **Accumulated amortization and impairment** | | | | | | | | | | |
| Balance at January 1, 2010 | $ - | $ 426,430 | $ 153,517 | $ 892,658 | $ 134,078 | $ 231,039 | $ 24,842 | $ 422,569 | $ 67,766 | $ 2,352,899 |
| Amortization for the year | - | 35,344 | 76,929 | 142,772 | 61,606 | 57,076 | 10,341 | 47,513 | - | 431,581 |
| Transfer of purchased lease equipment | - | - | 62,170 | - | - | - | - | - | (62,170) | - |
| Disposals | - | - | (80,118) | - | - | - | - | - | (5,596) | (85,714) |
| Balance at December 31, 2010 | | 461,774 | 212,498 | 1,035,430 | 195,684 | 288,115 | 35,183 | 470,082 | - | 2,698,766 |
| Balance at January 1, 2011 | - | 461,774 | 212,498 | 1,035,430 | 195,684 | 288,115 | 35,183 | 470,082 | - | 2,698,766 |
| Amortization added on acquisition | - | - | 12,651 | 42,550 | 3,003 | 15,216 | - | - | 41,389 | 114,809 |
| Translation adjustment | - | - | 535 | 1,801 | 127 | 644 | | | 1,752 | 4,859 |
| Amortization for the year | - | 53,414 | 110,358 | 487,325 | 48,740 | 69,853 | 11,158 | 97,264 | 191,599 | 1,069,711 |
| Disposals | - | - | (16,061) | - | - | - | - | - | - | (16,061) |
| Balance at December 31, 2011 | $ - | $ 515,188 | $ 319,981 | $ 1,567,106 | $ 247,554 | $ 373,828 | $ 46,341 | $ 567,346 | $ 234,740 | $ 3,872,084 |

## 11. Intangible assets

Intangible assets having finite lives consist of the following:

**December 31, 2011**

| | Cost | Accumulated Amortization | Impairment Charge | Net Book Value |
|---|---|---|---|---|
| **Customer relationships** | **$ 2,541,599** | **$ 1,881,816** | **$ -** | **$ 659,783** |
| **Non-compete agreement** | **616,715** | **384,723** | **-** | **231,992** |
| **Computer software** | **323,067** | **140,883** | **-** | **182,184** |
| | **$ 3,481,381** | **$ 2,407,422** | **$ -** | **$ 1,073,959** |

December 31, 2010

| | Cost | Accumulated Amortization | Impairment Charge | Net Book Value |
|---|---|---|---|---|
| Customer relationships | $ 1,923,985 | $ 1,545,108 | $ - | $ 378,877 |
| Non-compete agreement | 372,639 | 326,139 | - | 46,500 |
| Computer software | 280,504 | 91,772 | - | 188,732 |
| | $ 2,577,128 | $ 1,963,019 | $ - | $ 614,109 |

January 1, 2010

| | Cost | Accumulated Amortization | Impairment Charge | Net Book Value |
|---|---|---|---|---|
| Customer relationships | $ 1,923,985 | $ 1,280,455 | $ - | $ 643,530 |
| Non-compete agreement | 372,639 | 296,032 | - | 76,607 |
| Computer software | 243,796 | 57,416 | - | 186,380 |
| | $ 2,540,420 | $ 1,633,903 | $ - | $ 906,517 |

**11. Intangible assets** (cont'd)

Changes in intangible asset balances in the period can be reconciled as follows:

| | Customer relationships | Non-compete agreements | Computer software | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, January 1, 2010 | $ 1,923,985 | $ 372,639 | $ 243,796 | $ 2,540,420 |
| Additions | - | - | 36,708 | 36,708 |
| Disposals | - | - | - | - |
| Impairments | - | - | - | - |
| Balance, December 31, 2010 | $ 1,923,985 | $ 372,639 | $ 280,504 | $ 2,577,128 |
| Additions | 607,300 | 239,700 | 41,965 | 888,965 |
| Translation adjustment at year end | 10,314 | 4,376 | 598 | 15,288 |
| Disposals | - | - | - | - |
| Balance, December 31, 2011 | $ 2,541,599 | $ 616,715 | $ 323,067 | $ 3,481,381 |
| **Accumulated amortization** | | | | |
| Balance, January 1, 2010 | $ 1,280,455 | $ 296,032 | $ 57,416 | $ 1,633,903 |
| Amortization expense | 264,653 | 30,107 | 34,356 | 329,116 |
| Disposals | - | - | - | - |
| Impairments | - | - | - | - |
| Balance, December 31, 2010 | $ 1,545,108 | $ 326,139 | $ 91,772 | $ 1,963,019 |
| Amortization expense | 336,708 | 58,583 | 49,111 | 444,402 |
| Disposals | - | - | - | - |
| Balance, December 31, 2011 | $ 1,881,816 | $ 384,722 | $ 140,883 | $ 2,407,421 |

**12. Goodwill**

| | **December 31 2011** | December 31 2010 |
|---|---|---|
| Balance, beginning of year | **-** | - |
| Acquired in acquisition (Note 7) | **526,202** | - |
| Translation adjustment at year end | **22,264** | - |
| Balance, end of year | **548,466** | - |

The Company performed its annual goodwill impairment test and did not find any indicators of impairment to goodwill at December 31, 2011.

## 13. Bank indebtedness

Effective August 12, 2011, the Company entered into a new secured Asset-Based Lending Facility (the "ABL Facility") with CIBC Asset-Based Lending Inc. and HSBC Bank Canada. The ABL Facility is subject to a borrowing base that is calculated as a percentage of specified value of eligible inventory and accounts receivable to a maximum of $80,000,000.

The initial term of the ABL Facility is for three years and the initial advance repaid the outstanding amounts in full to its former credit facility lender HSBC totalling $36,060,524 CDN and $1,718,883 USD. This included amounts of $1,200,986 CDN to settle the outstanding balance on the HSBC Capital subordinated debenture, $1,437,863 CDN to settle outstanding amounts on the HSBC committed non-revolving loan, and $33,421,675 CDN and $1,718,883 USD to settle the outstanding bank indebtedness balance. In addition, the Company also repaid $1,000,000 plus interest on the previously postponed promissory notes that were due on October 2010 (Note 15).

The ABL Facility is secured by a general security agreement covering all present and after acquired property and postponements of claims from related parties. The ABL Facility bears interest at the Company's discretion at prime plus 0.25% or LIBOR plus 1.75% or bankers' acceptance rate plus 1.75%, and a standby fee of 0.25% on unused amounts of the ABL Facility.

As at December 31, 2011, $49,625,932, net of unamortized transaction costs of $715,055 (December 31, 2010 - $nil) was drawn on the ABL Facility. The Company incurred a total of $876,642 of transaction costs directly related to the ABL Facility, which will be amortized into net earnings over the term of the loan.

Significant financial covenants of the ABL Facility include a minimum tangible net worth and a maximum on annual capital expenditures. As at December 31, 2011, the Company was in compliance with its covenants.

Effective December 31, 2010, the Company amended its credit facility, which resulted in an increase in its line of credit from a maximum of $40,000,000 with a $5,000,000 bulge between December 1, 2009 and April 30, 2010, to a maximum of $50,000,000 with no bulge. The credit facility included a sub-limit of $10,000,000 (December 31, 2009 - $10,000,000) on a US demand overdraft, $1,000,000 (December 31, 2009 - $100,000) on a bank guarantee and $10,000,000 (December 31, 2009 - $250,000) on an import line. The bank operating line of credit bore interest ranging from prime plus 0.75% to prime plus 1.75% per annum (December 31, 2009 – prime plus 0.75% to prime plus 1.50%) and was due on demand. The US demand overdraft bore interest ranging from US base rate plus 0.75% to US base rate plus 1.75% per annum (December 31, 2009 – US base rate plus 0.75% to US base rate plus 1.50%) and was due on demand.

In addition, the HSBC Bank Canada ("HSBC") committed non-revolving loan was amended with an increase to $2,500,000 (December 31, 2009 - $1,742,584) available subject to property appraisals, at an interest rate of prime plus 1.75% and maturing on June 30, 2012. The Company was also granted a $1,000,000 evergreen credit facility to finance potential future purchases of equipment, at a rate of prime plus 1.75% per annum. As at December 31, 2010, no additional amounts were drawn on the HSBC committed non-revolving loan or on the evergreen credit facility. At December 31, 2010, the prime rate was 3.00% and the US base rate was 3.25%.

### 13. Bank indebtedness (cont'd)

The collateral security lodged by the Company to support all debt held with HSBC Bank Canada (Note 16) was 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. At December 31, 2010, the Company was on-side with all covenant requirements (Note 29).

### 14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities recognized in the consolidated balance sheets can be analyzed as follows:

| | **December 31 2011** | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Accounts payable | **$ 26,739,544** | $ 22,465,211 | $ 21,321,737 |
| Accrued liabilities | **840,706** | 597,808 | 897,452 |
| Accrued purchase orders | **1,906,145** | 1,060,177 | 678,194 |
| Accrued compensation expense | **760,424** | 733,493 | 547,254 |
| Other accrued liabilities | **(109,428)** | 196,394 | (52,764) |
| | **$ 30,137,391** | $ 25,053,083 | $ 23,391,873 |

## 15. Promissory notes payable

| | December 31 2011 | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Promissory note payable, bearing interest at 6% per annum, repayable as $350,000 USD plus interest on June 1, 2012, unsecured. | **$ 362,312** | $ - | $ - |
| Translation adjustment at year end | **6,154** | | |
| Promissory notes payable, bearing interest at 6% per annum, repayable in installments as follows: $1,000,000 plus interest on October 29, 2009, $1,000,000 plus interest on October 29, 2010, and $1,000,000 plus interest on October 29, 2011, secured by a general security agreement covering all the assets of the Company. | **-** | 3,180,000 | 3,244,356 |
| Promissory note payable, bearing interest at 6% per annum, repayable in installments as follows: $11,000,000 plus interest on completion of the amalgamation, $1,000,000 plus interest on May 19, 2008, $1,000,000 plus interest on May 20, 2009, and $1,200,000 plus interest on May 20, 2010, secured by a general security agreement covering all the assets of the Company. | **-** | 1,205,707 | 2,281,340 |
| | **368,466** | 4,385,707 | 5,525,696 |
| Less: current portion | **368,466** | 2,391,625 | 325,696 |
| | **$ -** | $ 1,994,082 | $ 5,200,000 |

The $350,000 USD promissory note payable due June 1, 2012 is expected to be paid within one year and has been classified as a current liability, including accrued interest.

The $1,000,000 promissory note principal due in October 2009 was paid out March 31, 2011, including accrued interest. The $1,000,000 promissory note principal due in October 2010 was paid out August 16, 2011, including accrued interest. The $1,000,000 promissory note principal due in October 2011 was paid out October 27, 2011, including accrued interest. All three of these promissory notes were previously postponed at the request of the Company's lender at December 31, 2010.

The $1,000,000 promissory note principal due in May 2009, previously postponed at the request of the Company's lender, was paid out in December 2010, including accrued interest. The $1,200,000 promissory note principal due in May 2010 was paid out May 18, 2011, including accrued interest. This promissory note was previously postponed at the request of the Company's lender at December 31, 2010.

## 16. Long-term debt

| Long-term debt - at amortized cost | December 31 2011 | December 31 2010 | January 1 2010 |
|---|---|---|---|
| HSBC Capital subordinated debenture, bearing interest at prime, repayable monthly 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 January 30, 2012. In addition, the Company pays 1% on a monthly basis for total of 12% per annum to guarantor of this debt. | $ - | $ 1,620,000 | $ 2,340,000 |
| HSBC committed non-revolving loan, payable in monthly installments of $18,000 including interest at prime plus 1.75% per annum, maturing June 30, 2012 (December 31, 2010 - maturing June 30, 2011). The loan is secured by the same security as the bank indebtedness. | - | 1,520,658 | 1,667,461 |
| | - | 3,140,658 | 4,007,461 |
| Less: transaction costs | - | 122,464 | 212,977 |
| | - | 3,018,194 | 3,794,484 |
| Less: current portion | - | 866,913 | 872,045 |
| | $ - | $ 2,151,281 | $ 2,922,439 |

The HSBC Capital subordinated debenture and the HSBC committed non-revolving loan were repaid August 12, 2011 (Note 13).

The HSBC subordinated debenture was secured by the following: a general security agreement creating a fixed and floating charge over all assets of the Borrower subordinated only to a prior charge in favor of the Bank; an unlimited corporate guarantee supported by a general security agreement from Bri-Chem Supply Ltd. and Sodium Solutions Inc. and from all other material entities within the group determined by the Lender subordinated only to a prior charge from the Bank; second demand collateral land mortgage and assignment of rents from Bri-Chem Corp. creating a second fixed and specific mortgage charge over all lands and premises located at 15, 53016 Highway 60, Acheson, Alberta and 4420 – 37th Street in Camrose, Alberta; assignment by Bri-Chem Corp. to HSBC of all risk insurance in amounts and from an insurer acceptable to HSBC, on all Bri-Chem Corp. real and personal property, without limitation, lands, buildings, equipment and inventory owned by Bri-Chem Corp., showing HSBC as first loss payee, including business interruption and public liability insurance; and assignment and postponement by Alan Campbell, Brian Campbell, Roy Rasmussen, Neil Rasmussen and Roger Boisvert of all present and future amounts outstanding to them by Bri-Chem Corp.

**16. Long-term debt** (cont'd)

The long-term debt contained financial covenants including, but not limited to, a minimum debt service coverage ratio among others that are calculated on a quarterly basis. As at December 31, 2010, the Company was in compliance all covenants. On December 20, 2010, HSBC Capital amended its agreement to eliminate the funded debt to normalized EBITDA (earnings before interest, taxes, depreciation, amortization, and other non-cash transactions) financial covenant for a one year period ended January 1, 2012.

**17. Obligations under finance lease**

The Company's future minimum finance lease payments are as follows:

| | Minimum lease payments due | | | |
|---|---|---|---|---|
| | Within one year | Two to five years | After five years | Total |
| December 31, 2011 | | | | |
| Lease payments | $ 225,806 | $ 620,825 | $ 7,112 | $ 853,743 |
| Finance charges | 48,228 | 67,974 | 95 | 116,297 |
| Net present value | $ 177,578 | $ 552,851 | $ 7,017 | $ 737,446 |
| December 31, 2010 | | | | |
| Lease payments | $ 31,997 | $ 70,981 | $ - | $ 102,978 |
| Finance charges | 5,275 | 5,132 | - | 10,407 |
| Net present value | $ 26,722 | $ 65,849 | $ - | $ 92,571 |
| January 1, 2010 | | | | |
| Lease payments | $ 195,653 | $ 12,426 | $ - | $ 208,079 |
| Finance charges | 18,613 | 1,265 | - | 19,878 |
| Net present value | $ 177,040 | $ 11,161 | $ - | $ 188,201 |

The Company enters into financing lease arrangements for certain of its operating equipment. The average term of the finance lease entered into is 4.7 years. Finance lease liabilities are secured by the related assets held under finance leases. The fair value of the finance lease liabilities is approximately equal to their carrying amount.

## 18. Obligations under operating lease

*18.1 The Company as Lessee*

The Company's future minimum operating lease payments are as follows:

| | Minimum lease payments due | | | |
|---|---|---|---|---|
| | Within one year | Two to five years | After five years | Total |
| December 31, 2011 | $ 2,871,777 | 8,743,273 | 2,108,538 | $ 13,723,588 |
| December 31, 2010 | $ 1,694,932 | 5,114,953 | 2,317,200 | $ 9,127,085 |
| January 1, 2010 | $ 1,090,366 | 3,828,475 | 3,244,080 | $ 8,162,921 |

The Company leases a number of warehouse locations and office equipment under operating leases. Lease payments recognized as an expense during the year amounted to $2,871,918 (December 31, 2010 - $1,586,851). This amount consists of minimum lease payments.

The Company has sub-leased property with a term of 8 years expiring June 30, 2019. Additionally the Company has sub-leased property with a term of 5 years expiring October 31, 2016. Sublease revenues of $402,085 (December 31, 2010 - $nil) were received in the year and reported as a reduction to lease expenses incurred in the year.

The Company's operating lease agreements do not contain any contingent rent clauses, renewal or purchase options, or restrictions regarding further leasing or additional debt.

Since the Company does not have an option to purchase any of the property leased at the expiry of the lease term, no land titles pass to the Company, nor does the Company participate in the residual values of the buildings and land leased, it was determined that substantially all the risks and rewards of the buildings and land leased remain with the landlord. As such, the Company determined that the leases are operating leases.

*18.2 The Company as Lessor*

The Company has leased property owned with a term of 2 years expiring December 31, 2011. This lease was extended for a one year period expiring December 31, 2012. The lessee does not have an option to purchase the property leased at the expiry of the lease term.

Non-cancellable operating lease income is as follows:

| | Minimum lease income receivable | | | |
|---|---|---|---|---|
| | Within one year | Two to five years | After five years | Total |
| December 31, 2011 | $ 12,000 | - | - | $ 12,000 |
| December 31, 2010 | $ 12,000 | - | - | $ 12,000 |
| January 1, 2010 | $ - | - | - | $ - |

## 19. Income taxes

Income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective years' earnings before income taxes. These differences result from the following items:

| | December 31 2011 | December 31 2010 |
|---|---|---|
| Expected income tax rate at 26.50% (December 2010 - 28.00%) | **$ 3,397,319** | $ 2,783,168 |
| Increase (decrease) resulting from: | | |
| Tax rate differential | **(18,958)** | 13,289 |
| Non-deductible expenses | **73,052** | 75,732 |
| Other | **(93,608)** | (28,031) |
| | **$ 3,357,805** | $ 2,844,158 |

| | | |
|---|---|---|
| Tax expense comprises: | | |
| Current tax expense | **$ 4,126,894** | $ 3,158,627 |
| Deferred tax expense (recovery): | **$ (769,089)** | $ (314,469) |
| | **$ 3,357,805** | $ 2,844,158 |

**19. Income taxes** (cont'd)

**Temporary differences**

The tax effects of temporary differences and loss carryforwards that give rise to the Company's deferred tax assets (liabilities) are as follows:

| | **December 31 2011** | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Capital assets - excess of undepreciated capital cost compared to net book value | **$ 6,503** | $ 12,009 | $ 25,776 |
| Inventory valuation allowance | **-** | - | 27,427 |
| Share issue costs | **107,278** | 13,707 | 71,366 |
| Finance lease obligations | **93,686** | 23,544 | 49,931 |
| Intangibles - excess tax basis over net book value | **13,985** | 15,103 | 16,368 |
| Free rent period | **13,517** | 25,403 | - |
| Non-capital loss carryforwards | **1,045,669** | 333,664 | - |
| | **$ 1,280,638** | $ 423,430 | $ 190,868 |
| Deferred tax liabilities: | | | |
| Capital assets - excess of net book value over undepreciated capital cost | **$ 539,940** | $ 200,963 | $ 195,674 |
| Intangibles - excess of net book value over tax basis | **72,336** | 159,791 | 246,988 |
| | **$ 612,276** | $ 360,754 | $ 442,662 |
| Net deferred tax asset (liability) | **$ 668,362** | $ 62,676 | $ (251,794) |
| Reported in the financial statements as follows: | | | |
| Deferred tax asset | **$ 1,131,987** | $ 299,631 | $ 140,938 |
| Deferred tax liability | **(463,625)** | (236,955) | (392,732) |
| | **$ 668,362** | $ 62,676 | $ (251,794) |

In assessing whether deferred tax assets are realizable, the Company considers if it is more likley than not that all or a portion of the deferred tax assets will be utilized. The realization of deferred tax assets is dependent on the generation of future taxable income during the year in which those temporary differences become deductible. For the year ended December 31, 2011, the Company did not recognize $23,750 (December 31, 2010 - $23,750, January 1, 2010 - $23,750) of deferred tax assets as their realization was not considered probable. The amount of deferred tax assets considered realizable could be reduced in the near-term should the Company's estimates of future taxable income during the carry-forward period be reduced.

The Company has non-capital losses of $4,087,675 (2010 - $1,169,486) available to reduce future taxable income which expire in 2031.

## 20. Share capital

Authorized
Unlimited number of voting common shares
Unlimited number of preferred shares, issued in series

| Issued and outstanding | Number | | Amount |
|---|---|---|---|
| **Common shares** | | | |
| Balance, January 1, 2010 | **14,381,786** | **$** | **15,156,254** |
| Issuance of shares upon exercise of options | **6,000** | | **12,270** |
| Shares repurchased and cancelled | **(682,900)** | | **(717,044)** |
| Balance, December 31, 2010 | **13,704,886** | **$** | **14,451,480** |
| Issuance of shares upon exercise of options | **1,054,312** | | **2,657,282** |
| Issuance of shares upon exercise of warrants | **250,000** | | **641,750** |
| Issuance of shares under financing, net of tax and share issue costs | **2,000,000** | | **5,488,447** |
| Issuance of shares for acquisition (Note 7) | **171,429** | | **488,251** |
| Balance, December 31, 2011 | **17,180,627** | **$** | **23,727,210** |
| **Preferred shares in subsidiary** | | | |
| Balance, January 1, 2011 | **-** | **$** | **-** |
| Issuance of Series 1 preferred shares | **2,100,000** | | **2,135,667** |
| Balance, December 31, 2011 | **2,100,000** | **$** | **2,135,667** |
| Share capital balance, December 31, 2011 | **19,280,627** | **$** | **25,862,877** |

a) On February 23, 2011, the Company issued 2,000,000 common shares for gross proceeds of $6,000,000 under an equity financing arrangement. In consideration for services related to the offering, the Company paid Macquarie Private Wealth Inc. ("the Agent") a fee equal to 6% of the gross proceeds of the offering, totalling an aggregate commission of $360,000, plus a corporate finance fee of $30,000 plus tax. The Agent also received non-transferrable agent options equal to 7% of the number of shares sold under the offering. Upon closing of the offering, 140,000 non-transferable agent options were issued to the Agent at a fair value of $105,000, entitling the agent to purchase one Bri-Chem common share, at a price of $3.00 per share, with an expiry date of August 22, 2012.

b) On May 31, 2011, the Company issued 171,429 shares with a fair value of $488,251 for the purchase of the outstanding ownership interest of Stryker Ltd. and Stryker Transportation Ltd. The following resale restrictions exist on the following shares:

57,143 common shares with resale restrictions expiring May 31, 2012
57,143 common shares with resale restrictions expiring May 31, 2013
57,143 common shares with resale restrictions expiring May 31, 2014

## 20. Share Capital (cont'd)

c) On December 31, 2011 a subsidiary of the Company issued 2,100,000 Preferred, Series 1 non-puttable shares with a fair value of $2,135,667 to its 30% non-controlling interest partner in exchange for equipment and technical knowledge contributed to the subsidiary. Upon redemption of these shares by the subsidiary, the Company has the option to repurchase the outstanding common shares of the subsidiary, to which no value has been attached at December 31, 2011.

## 21. Share-based payments

*21.1 Share-based payment plan*

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 expiry date and price payable upon the exercise of any option granted are fixed by the Board of Directors at the time of grant, subject to regulatory requirements. Options granted under the plan are vested under such times as determined by the Board of Directors, subject to regulatory requirements. On April 28, 2011 the directors of the Company approved amendments to the current plan including an increase in the fixed number of common shares reserved for issuance under the plan by 178,559. As at December 31, 2011, the Plan permits the authorization to grant stock options up to a maximum of 1,578,559 common shares of the Company. All share-based employee remuneration will be settled in equity.

A summary of transactions during the year is outlined below.

*21.2 Options to employees and directors*

| | Number of options | Weighed average exercise price | Weighted average contractual life (years) |
|---|---|---|---|
| Outstanding, January 1, 2011 | 1,288,000 | $ 1.96 | 3.15 |
| Issued | 350,000 | 2.94 | 9.61 |
| Exercised | (1,043,000) | 1.81 | 0.26 |
| Outstanding, December 31, 2011 | 595,000 | $ 2.35 | 7.94 |
| Options exercisable, December 31, 2011 | 245,000 | $ 1.50 | 3.08 |

| December 31, 2010 | Number of options | Weighed average exercise price | Weighted average contractual life (years) |
|---|---|---|---|
| Outstanding, January 1, 2010 | 1,286,000 | $ 1.97 | 4.00 |
| Granted | 30,000 | 1.30 | 4.65 |
| Exercised | (6,000) | 1.12 | 1.00 |
| Forfeited | (22,000) | 1.83 | 4.00 |
| Outstanding, December 31, 2010 | 1,288,000 | $ 1.96 | 3.15 |

**21. Share-based payments** (cont'd)

The fair value of the employee and directors options granted during 2011 is estimated on the date of grant using the Black-Scholes Option Pricing Model based on the following weighted average assumptions:

| | **2011** | 2010 |
|---|---|---|
| Expected life | **10 years** | 5 years |
| Risk-free rate | **2.56%** | 2.29% |
| Expected volatility | **149.08%** | 154.57% |
| Expected dividend yield | **0.00%** | 0.00% |

During the year ended December 31, 2011, 350,000 options were granted (December 31, 2010 – 30,000) under the plan at a total fair value of $999,762 (December 31, 2010 - $34,452)

During the year ended December 31, 2011, $174,196 (December 31, 2010 - $121,801) was expensed in relation to the share-based payment plan to employees and directors.

*21.3 Options to consultants*

| December 31, 2011 | Number of options | | Weighed average exercise price | Weighted average contractual life (years) |
|---|---|---|---|---|
| Outstanding, January 1, 2011 | 25,000 | $ | 2.05 | 1.59 |
| Granted | 140,000 | | 3.00 | 1.34 |
| Exercised | (11,312) | | 3.00 | 1.23 |
| Outstanding, December 31, 2011 | 153,688 | $ | 2.85 | 1.58 |
| Options exercisable, December 31, 2011 | 153,688 | $ | 2.85 | 1.69 |

The fair value of the consultant options granted during the year were estimated to be $105,000, based on the value of services provided in return for the options issued. The options have an expected life of one and a half years and no forfeitures are expected to occur.

| December 31, 2010 | Number of options | | Weighed average exercise price | Weighted average contractual life (years) |
|---|---|---|---|---|
| Outstanding, January 1, 2010 | - | $ | - | - |
| Granted | 25,000 | | 2.05 | 2.00 |
| Outstanding, December 31, 2010 | 25,000 | $ | 2.05 | 1.59 |
| Options exercisable, December 31, 2010 | 8,330 | $ | 2.05 | 1.59 |

During the year ended December 31, 2011, $5,507 (December 31, 2010 - $3,932) was expensed in relation to the share-based payment plan to consultants.

**21. Share-based payments** (cont'd)

*21.4 Warrants*

a) As part of the consideration given for the acquisition of Spirit Mountain Holdings Ltd., 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) In July 2010, the Company extended the 100,000 share purchase warrants for an additional two years. The warrants were extended at an exercise price of $2.10 per common share with an incremental increase in the fair value of the warrants as a result of the extension of $41,900.

c) Pursuant to the terms of the loan agreement with HSBC Capital, the Company issued 250,000 share purchase warrants with a fair value of $141,706 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. In December 2009, the Company extended the 250,000 share purchase warrants for an additional two years. The warrants were extended at an exercise price of $2.00 with an immaterial change in the fair value of the warrants as a result of the extension. The warrants were exercised on June 2, 2011.

The following is a summary of the warrant activities during the year:

| | Number of warrants | Weighted average exercise price | Weighted average contractual life (years) |
|---|---|---|---|
| Outstanding, January 1, 2010 | 350,000 | $ 2.03 | 2.56 |
| Outstanding, December 31, 2010 | 350,000 | 2.03 | 1.21 |
| Exercised | (250,000) | 2.00 | 1.00 |
| Outstanding, December 31, 2011 | 100,000 | $ 2.10 | 0.79 |
| Exercisable, December 31, 2011 | 100,000 | $ 2.10 | 0.79 |

## 22. Non-controlling interest

On October 13, 2010, the Company acquired 70 common shares of Bri-Steel Manufacturing Inc. ("Manufacturing") upon incorporation for $1 per share. The jointly established new operating company is a result of an agreement ratified with Wuxi Huayou Special Steel Co., Ltd, ("Wuxi") of the People's Republic of China, and will provide value-added manufacturing of large diameter seamless steel pipe located in Edmonton, Alberta, Canada. Manufacturing is 70% owned by the Company, which did not arise as a result of a business combination, and 30% owned by Wuxi, who acquired their 30 common shares on October 13, 2010. Non-controlling interests have been recorded for Wuxi's share of Manufacturing's net operations for the period.

| | | **December 31, 2011** | | December 31, 2010 |
|---|---|---|---|---|
| Balance, beginning of year | **$** | **(33,411)** | $ | - |
| Common shares issued | | **-** | | 30 |
| Net loss and comprehensive loss | | **(635,373)** | | (33,441) |
| Balance, end of year | **$** | **(668,784)** | $ | (33,411) |

## 23. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the parent company as the numerator, i.e. no adjustments to profit were necessary in 2011 or 2010.

| | | **December 31 2011** | | December 31 2010 |
|---|---|---|---|---|
| Net earnings attributable to the Shareholders of the Company | **$** | **10,097,640** | $ | 7,129,168 |
| Basic weighted average number of ordinary shares | | **15,878,345** | | 13,874,990 |
| Dilutive options issued and outstanding | | **591,874** | | 74,600 |
| Diluted weighted average number of ordinary shares | | **16,470,219** | | 13,949,590 |
| Basic earnings per share | **$** | **0.64** | $ | 0.51 |
| Diluted earnings per share | **$** | **0.61** | $ | 0.51 |

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

| | **December 31 2011** | December 31 2010 |
|---|---|---|
| Options issued and outstanding | **478,688** | 960,000 |
| Warrants issued and outstanding | **-** | 250,000 |
| | **478,688** | 1,210,000 |

## 24. Segment reporting

The measurement policies the Company uses for segment reporting are the same as those used in its financial statements. General and administrative expenses directly related to the segments are included as operating expenses for those segments. There are no significant inter-segment revenues in the year ended December 31, 2011 or December 31, 2010.

In addition to these three segments, the Other segment represents insignificant segments and all remaining costs not directly attributable to an operating segment, such as corporate overhead.

Selected financial information by reportable segment is disclosed as follows:

| **December 31, 2011** | **Fluids** | **Steel Distribution** | **Steel Manufacturing** | **Other** | **Consolidated** |
|---|---|---|---|---|---|
| Revenues from external customers | $ 157,136,350 | $ 26,861,312 | $ 1,174,315 | $ 551,342 | **$ 185,723,319** |
| Cost of sales | 131,694,963 | 21,718,916 | 871,530 | 400,942 | **154,686,351** |
| Segment earnings (loss) from operations | 18,041,463 | 1,830,600 | (2,930,908) | (1,243,117) | **15,698,038** |
| Amortization | 379,394 | 157,807 | 432,318 | 478,500 | **1,448,019** |
| Interest expense (income) | 5,609,040 | (1,105,846) | 24,032 | (2,589,146) | **1,938,080** |
| Income tax expense (recovery) | 3,056,914 | 666,341 | (761,215) | 395,765 | **3,357,805** |
| Segment profit (loss) before adjustments | $ 8,996,115 | $ 2,112,298 | $ (2,626,043) | $ 471,764 | **$ 8,954,134** |
| Inventory write-down (reversal) | - | (508,133) | - | - | **(508,133)** |
| Segment profit (loss) | $ 8,996,115 | $ 2,620,431 | $ (2,626,043) | $ 471,764 | **$ 9,462,267** |
| Segment assets | $ 96,181,612 | $ 16,811,214 | $ 10,057,752 | $ 2,619,766 | **$ 125,670,344** |
| Capital expenditures | $ 302,910 | $ 170,937 | $ 3,632,958 | $ 24,101 | **$ 4,130,906** |

**24. Segment reporting** (cont'd)

| December 31, 2010 | Fluids | Steel Distribution | Other | Consolidated |
|---|---|---|---|---|
| Segment revenues | $ 118,088,431 | $ 34,406,955 | $ - | **$ 152,495,386** |
| Cost of sales | 98,482,060 | 31,689,768 | - | **130,171,828** |
| Segment earnings (loss) from operations | 13,510,932 | (2,213,379) | (412,713) | **10,884,840** |
| Amortization | 538,172 | 242,585 | 22,195 | **802,952** |
| Interest expense (income) | 2,748,434 | 353,393 | (1,342,247) | **1,759,580** |
| Income taxes (recovery) | 2,977,153 | (318,411) | 185,416 | **2,844,158** |
| Segment profit (loss) before adjustments | $ 7,247,173 | $ (2,490,946) | $ 721,923 | **$ 5,478,150** |
| Inventory write-down (reversal) | - | (1,617,577) | - | **(1,617,577)** |
| Segment profit (loss) | $ 7,247,173 | $ (873,369) | $ 721,923 | **$ 7,095,727** |
| Segment assets | $ 78,314,181 | $ 19,666,709 | $ 785,549 | **$ 98,766,439** |
| Capital expenditures | $ 262,291 | $ 245,851 | $ - | **$ 508,142** |

The Steel Manufacturing segment was not significant at December 31, 2010, thus no comparatives are provided at that date and it is grouped with the "Other" segment.

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

| | **December 31 2011** | December 31 2010 |
|---|---|---|
| Revenue | | |
| Canada and International | **$ 172,073,748** | $ 144,847,036 |
| United States | **13,649,571** | 7,648,350 |
| | **$ 185,723,319** | $ 152,495,386 |
| Non-current assets | | |
| Canada and International | **$ 10,692,815** | $ 4,598,511 |
| United States | **1,876,608** | - |
| | **$ 12,569,423** | $ 4,598,511 |

Revenues from external customers in Canada, as well as other markets, have been identified on the basis of the customer's geographical location.

During the year ending December 31, 2011, the Company had significant revenues from single customers in the Fluids segment totalling $39,662,244 or 21% (December 31, 2010 - $29,048,689 or 24%) and $33,959,131 or 18% (December 31, 2010 - $37,150,326 or 24%) of total revenues.

## 25. Financial instruments

### *25.1 Categories of financial instruments*

The carrying amounts presented in the balance sheet relate to the following categories of asset and liabilities:

| | **December 31 2011** | December 31 2010 | January 1 2010 |
|---|---|---|---|
| **Financial Assets** | | | |
| Loans and receivables | | | |
| Accounts receivable | $ 56,860,660 | $ 46,727,925 | $ 31,172,888 |
| | | | |
| **Financial Liabilities** | | | |
| Other financial liabilities | | | |
| Long-term debt | $ - | $ 3,018,194 | $ 3,794,484 |
| Promissory notes payable | 368,466 | 4,385,707 | 5,525,696 |
| Bank indebtedness | 48,910,877 | 39,552,948 | 27,652,949 |
| Accounts payable and accrued liabilities (1) | 30,137,391 | 25,053,083 | 23,391,873 |
| | $ 79,416,734 | $ 72,009,932 | $ 60,365,002 |

(1) December 31, 2010 includes derivative on foreign exchange forward contract of $169,790

### *25.2 Financial risk management objectives*

The Company is exposed to various risks in relation to financial instruments. These risks include currency risk, credit risk, interest rate risk, and liquidity risk. The Company's risk management function is performed by management, with input from the board of directors. The Company seeks to minimize the effects of the identified risks by focusing on actively securing short to medium-term cash flows and minimizing exposures to capital markets. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

*Credit risk*

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on accounts receivable are with customers in the oil and gas industry. Accounts receivable consist of a large number of customers spread across diverse geographical areas and ongoing credit evaluations are performed on the financial condition of accounts receivable. Revenue from the Company's largest two customers accounted for approximately 21%, and 18% respectively (December 31, 2010 – 19%, 24%) of total revenue during the year and 27%, and 22% respectively (December 31, 2010 – 26%, 28%) of total accounts receivable at year end.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date as follows:

| | December 31 2011 | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Trade and other receivables | $ 56,860,660 | $ 46,727,925 | $ 31,172,888 |

**25. Financial instruments** (cont'd)

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.

The aging of accounts receivable was as follows:

| **December 31, 2011** | Gross accounts receivable | Allowance for doubtful accounts | Net accounts receivable |
|---|---|---|---|
| Current | $ 13,286,194 | $ - | $ 13,286,194 |
| 31 to 60 days | 14,518,194 | - | 14,518,194 |
| 61 to 90 days | 15,473,208 | - | 15,473,208 |
| 91 to 120 days | 11,901,369 | - | 11,901,369 |
| Over 120 days | 1,723,547 | (41,852) | 1,681,695 |
| Total | $ 56,902,512 | $ (41,852) | $ 56,860,660 |

*Credit risk (cont'd)*

| **December 31, 2010** | Gross accounts receivable | Allowance for doubtful accounts | Net accounts receivable |
|---|---|---|---|
| Current | $ 15,520,997 | $ - | $ 15,520,997 |
| 31 to 60 days | 13,587,845 | - | $ 13,587,845 |
| 61 to 90 days | 12,708,104 | - | $ 12,708,104 |
| 91 to 120 days | 4,199,489 | - | $ 4,199,489 |
| Over 120 days | 803,490 | (92,000) | $ 711,490 |
| Total | $ 46,819,925 | $ (92,000) | $ 46,727,925 |

The Company held $52,859 (December 31, 2010 - $294,638) of customer deposits for the purpose of mitigating the credit risk associated with accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balance in the financial statements.

The credit risk for derivative financial instruments is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

*Interest rate risk*

Bank indebtedness is 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. The interest on promissory note is at a fixed rate. It is management's opinion that interest rate risk is not significant.

**25. Financial instruments** (cont'd)

The effective interest rate on the bank indebtedness at December 31, 2011 was Canadian bank prime interest rate plus 25 basis points (%). As at December 31, 2011, 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 $91,188 (December 31, 2010 – $73,935).

*Currency risk*

The Company is subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities and promissory note denominated in foreign currencies. Therefore, there is a 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. The Company mitigates currency risk through purchases of fixed-rate forward exchange contracts to offset future payable in foreign currencies.

Accounts receivable in foreign currency was $1,699,851 as at December 31, 2011 (December 31, 2010 - $2,799,698) accounts payable in foreign currency outstanding as at December 31, 2011 is $3,076,389 (December 31, 2010 - $5,969,389), and promissory note payable in a foreign currency of $368,466 (December 31, 2010 - $nil). The Company realized a foreign exchange loss of $167,773 (December 31, 2010 – gain of $646,365) during the fiscal year. Based on the monetary assets and liabilities held in the United States ("US") at December 31, 2011, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $47,373 (December 31, 2010 – $108,113).

*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 the repricing of 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.

**25. Financial instruments** (cont'd)

Contractual obligations related to financial liabilities at December 31, 2011 are as follows:

| | Bank credit facility | Accounts payable | Promissory notes payable * | Finance leases* | Total |
|---|---|---|---|---|---|
| 2012 | $ 48,910,877 | $ 30,137,391 | $ 371,000 | $ 225,806 | $ 79,645,074 |
| 2013 | - | - | - | 222,424 | 222,424 |
| 2014 | - | - | - | 177,560 | 177,560 |
| 2015 | - | - | - | 132,473 | 132,473 |
| 2016 | - | - | - | 86,751 | 86,751 |
| Thereafter | - | - | - | 7,112 | 7,112 |
| Total | $ 48,910,877 | $ 30,137,391 | $ 371,000 | $ 852,126 | $ 80,271,394 |

* includes interest calculated to be paid

Contractual obligations related to financial liabilities at December 31, 2010 are as follows:

*Liquidity risk (cont'd)*

| | Bank credit facility | Accounts payable | Long-term debt * | Promissory notes payable * | Finance leases* | Total |
|---|---|---|---|---|---|---|
| 2011 | $ 39,552,948 | $ 25,053,083 | $ 1,056,297 | $ 2,391,625 | $ 31,997 | $ 68,085,950 |
| 2012 | - | - | 2,305,404 | 1,994,082 | 31,997 | 4,331,483 |
| 2013 | - | - | - | - | 38,864 | 38,864 |
| 2014 | - | - | - | - | - | - |
| 2015 | - | - | - | - | - | - |
| Total | $ 39,552,948 | $ 25,053,083 | $ 3,361,701 | $ 4,385,707 | $ 102,858 | $ 72,456,297 |

* includes interest calculated to be paid

On September 21, 2011, the Company entered into a three year purchase commitment with a vendor for a liquid mud product normally purchased and distributed by the Fluids division. The agreement sets minimum purchase volumes per month and provides the Company access to additional volumes on a preferred basis if the terms are met. Volumes may be reduced if the Company does not meet at least 85% of its contract volumes on a monthly basis.

On November 17, 2011, the Company entered into a one year purchase commitment with a vendor for a product normally purchased and distributed by the Fluids division. The agreement sets a minimum purchase volume at a set price for the year based on twelve monthly purchases.

**25. Financial instruments** (cont'd)

*Derivative financial instruments*

The carrying amount for the Company's derivative financial instrument is as follows:

| | **December 31 2011** | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Forward contracts | $ - | $ 169,790 | $ - |

The derivative is measured at fair value. A foreign exchange loss of $114,926 (December 31, 2010 - $nil) was realized on settlement of these forward contracts in the year and was included in foreign exchange expense.

*25.3 Fair value of financial instruments*

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under non compulsion to act. The carrying value of accounts receivable and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments.

The carrying amount of the Company's bank indebtedness approximates the fair value as its interest rates are similar to the current market rate for similar debt. The promissory note payable has a value of $368,466 (December 31, 2010 - $4,287,750) which approximates its fair value due to the short term to maturity. The fair value of the forward exchange contracts using Level 2 fair value measurements is $nil (December 31, 2010 - $169,790).

## 26. Supplemental cash flow information

| | **December 31 2011** | December 31 2010 |
|---|---|---|
| Accounts receivable | **$ (9,071,957)** | $ (15,555,037) |
| Inventory | **(10,847,991)** | (2,262,762) |
| Prepaids and deposits | **2,911,315** | (3,886,105) |
| Accounts payable and accrued liabilities | **4,198,057** | 1,573,995 |
| Customer deposits | **(241,779)** | (230,847) |
| Income taxes payable | **(1,521,240)** | 3,836,732 |
| Translation adjustment on acquisition | **(70,206)** | - |
| | **$ (14,643,801)** | $ (16,524,024) |

| | | |
|---|---|---|
| Interest paid | $ 2,001,253 | $ 1,887,114 |
| Income tax paid | 3,185,603 | 703,338 |
| Income tax recieved | - | 1,381,442 |
| Non-cash transactions: | | |
| Share capital issued on excercise of stock options (Note 21) | 1,906,906 | 5,550 |
| Share capital issued on exercise of warrants (Note 21) | 500,000 | - |
| Equipment purchased under finance lease | 371,808 | 95,118 |
| Equipment contributed by non-controlling interest partner | 2,465,527 | - |

## 27. Related party transactions

The related party transactions are conducted on the terms and conditions agreed to by the related parties and are recorded at their exchange amounts. Interest on the promissory notes payable is recorded at the exchange amount.

*27.1 Compensation of key management personnel*

The remuneration of directors and other members of key management personnel during the year includes the following expenses:

| | **December 31 2011** | December 31 2010 |
|---|---|---|
| Salaries including bonuses [1] | **$ 939,581** | $ 729,874 |
| Director's fees | **68,500** | 56,500 |
| Benefits | **66,321** | 23,888 |
| | **$ 1,074,402** | $ 810,262 |

[1] The Company replaced the President of two of its subsidiaries in November 2011.

The remuneration of directors and key executives is determined by the executive compensation committee having regard to the performance of individuals and market trends.

*27.2 Transactions with related entities*

During the year ended December 31, 2011, the Company incurred selling, general and administration expenses in the normal course of operations with affiliated companies, which certain directors have significant influence, and are as follows:

a) Management and other advisory services of $nil (December 31, 2010 – $120,000) were paid to a company over which a director has significant influence.

b) Administrative, corporate and office sharing expenses of $60,000 (December 31, 2010 – $18,312) were paid to a company over which a director has significant influence.

*27.3 Other related party transactions*

The Company expensed interest of $27,419 (December 31, 2010 - $127,460) on promissory notes payable issued in the prior year which were held by two of the Company's directors, senior management and significant shareholders. This entire amount was paid out May 18, 2011 along with the outstanding balance. The Company expensed interest of $116,672 (December 31, 2010 - $180,000) on promissory notes payable issued on the acquisition of Bri-Chem Steel which were held by three of the former owners of Bri-Chem Steel. This entire amount was paid out on October 28, 2011 along with the outstanding balance. In addition, the Company expensed interest of $12,312 (December 31, 2010 - $nil) on a promissory note payable issued on the Stryker Acquisition which is held by the former owner. The expense has been included in interest on long term debt and added to the balance of the promissory note payable.

## 28. Capital management policies and procedures

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 the following in the definition of capital:

| | December 31 2011 | December 31 2010 |
|---|---|---|
| Bank indebtedness | **$ 48,910,877** | $ 39,552,948 |
| Long-term debt | **-** | 3,018,194 |
| Promissory notes payable | **368,466** | 4,385,707 |
| Obligations under capital lease | **737,446** | 92,571 |
| Shareholders' equity | **43,949,481** | 23,677,054 |
| Total Capital | **$ 93,966,270** | $ 70,726,474 |

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 subject to capital requirements imposed by a regulator.

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

| | December 31 2011 | December 31 2010 |
|---|---|---|
| Adjusted tangible net worth | **40,320,958** | n/a |
| Eligible capital expenditures | **4,204,589** | n/a |
| Current ratio | **n/a** | 1.33 |
| Debt service ratio | **n/a** | 2.78 |
| Total debt to tangible net worth | **n/a** | 2.80 |

As at December 31, 2011, the Company was in compliance with all financial convenants. The Company changed lenders during the year, and as such the three key ratios applicable in 2010 are no longer applicable in 2011. At December 31, 2011, the Company reports on two new covenants as described below.

Adjusted tangible net worth is defined as total assets less goodwill, intangible assets, deferred charges, and deferred tax assets, divided by total liabilities less deferred tax liabilities. Adjusted tangible net worth must not be less than a minimum threshold at any point in time.

Eligible capital expenditures are defined as all payments due or accruing due in respect of the cost of any fixed asset addition with a useful life over one year. Eligible capital expenditures must not exceed 120% of the budgeted amount for the year.

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

**28. Capital management policies and procedures** (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") plus non-cash items 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.

**29. First time adoption of IFRS**

As disclosed in Note 2, these statements comprise the Company's first annual consolidated financial statements prepared in accordance with IFRS 1, "First time adoption of International Financial Reporting Standards" and IAS 1 "Presentation of Financial Statements". The Company previously prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP. The date of transition from previous GAAP to IFRS standards was January 1, 2010.

The consolidated financial statements presented for the periods ended December 31, 2011 and December 31, 2010, and the opening balance sheet at the date of transition have all been prepared using the Company's IFRS accounting policies as presented in Note 5 above.

The Company has applied IFRS 1 – First time adoption of International Financial Reporting Standards in preparing these first annual IFRS consolidated financial statements. The effects of the transition on equity, total comprehensive income, and reported cash flows are presented in this section.

**29. First time adoption of IFRS** (cont'd)

*29.1 First-time adoption exemptions applied*

Mandatory exemptions applied by the Company:

- The Company's estimates in accordance with IFRS are consistent with estimates used under previous GAAP reporting (with adjustments for accounting policy differences) unless there is objective evidence that those estimates were in error.
- The Company has not recognized any financial assets and liabilities that had been derecognized prior to January 1, 2010 under previous GAAP.

Optional exemptions applied by the Company:

- The Company has elected not to apply IFRS 3 – Business Combinations retrospectively to past business combinations that occurred before the date of transition.
- The Company has elected to apply the transitional provisions in IFRIC 4 – Determining whether an Arrangement contains a Lease in order to use the facts and circumstances existing at the date of transition to determine whether an arrangement contains a lease.
- The Company has elected not to separate out the liability and equity portions of a compound financial instrument as required in IAS 32 – Financial Instruments: Presentation where the liability component was no longer outstanding at the date of transition.
- The Company has elected not to apply IFRS 2 – Share Based Payments to equity instruments granted to employees and non-employees that vested on or before the date of transition. This includes equity instruments granted under the reverse asset acquisition which occurred January 1, 2007.

The remaining IFRS 1 – First-time Adoption of International Financial Reporting Standards exemptions were not applicable or not material to the preparation of the Company's consolidated balance sheet at the date of transition to IFRS on January 1, 2010.

**29. First time adoption of IFRS** (cont'd)

*29.2 Equity reconciliation*

| | January 1, 2010 | | | |
|---|---|---|---|---|
| | **Previous GAAP** | **Effect of transition to IFRS** | **Effect of accounting policy change** | **IFRS** |
| **Assets** | | | | |
| **Current** | | | | |
| Accounts receivable | $ 31,172,888 | $ - | $ - | $ 31,172,888 |
| Inventories | 40,179,035 | - | (115,960) | 40,063,075 |
| Prepaid expenses and deposits | 1,139,783 | - | - | 1,139,783 |
| Income taxes receivable | 1,381,443 | - | - | 1,381,443 |
| Current assets | 73,873,149 | - | (115,960) | 73,757,189 |
| **Non-current** | | | | |
| Property and equipment | 3,676,600 | (19,018) | - | 3,657,582 |
| Intangible assets | 1,241,100 | (334,583) | - | 906,517 |
| Deferred tax assets | 140,938 | - | - | 140,938 |
| Non-current assets | 5,058,638 | (353,601) | - | 4,705,037 |
| **Total assets** | $ 78,931,787 | $ (353,601) | $ (115,960) | $ 78,462,226 |
| | | | | |
| **Liabilities** | | | | |
| **Current** | | | | |
| Bank indebtedness | $ 27,652,949 | $ - | $ - | $ 27,652,949 |
| Accounts payable and accrued liabilities | 23,391,873 | - | - | 23,391,873 |
| Income taxes payable | | | - | |
| Customer deposits | 525,486 | - | - | 525,486 |
| Promissory notes payable | 325,696 | - | - | 325,696 |
| Long-term debt | 872,045 | - | - | 872,045 |
| Obligations under finance lease | 177,040 | - | - | 177,040 |
| Current liabilities | 52,945,089 | - | - | 52,945,089 |
| **Non-current** | | | | |
| Promissory notes payable | 5,200,000 | - | - | 5,200,000 |
| Long-term debt | 2,922,439 | - | - | 2,922,439 |
| Obligations under finance lease | 11,161 | - | - | 11,161 |
| Deferred tax liabilities | 476,378 | (83,646) | - | 392,732 |
| Non-current liabilities | 8,609,978 | (83,646) | - | 8,526,332 |
| **Total liabilities** | $ 61,555,067 | $ (83,646) | $ - | $ 61,471,421 |

**29. First time adoption of IFRS** (cont'd)

*29.2 Equity reconciliation (cont'd)*

| | January 1, 2010 | | | |
|---|---|---|---|---|
| | **Previous GAAP** | **Effect of transition to IFRS** | **Effect of accounting policy change** | **IFRS** |
| **Equity** | | | | |
| Share capital | $ 15,156,254 | $ - | $ - | $ 15,156,254 |
| Contributed surplus | 826,125 | - | - | 826,125 |
| Warrants | 188,050 | - | - | 188,050 |
| Non-controlling interest | - | - | - | - |
| Retained earnings | 1,206,291 | (269,955) | (115,960) | 820,376 |
| **Total Equity** | $ 17,376,720 | $ (269,955) | $ (115,960) | $ 16,990,805 |
| | | | | |
| **Total Liabilities and Equity** | $ 78,931,787 | $ (353,601) | $ (115,960) | $ 78,462,226 |

**29. First time adoption of IFRS** (cont'd)

*29.2 Equity reconciliation (cont'd)*

| | December 31, 2010 | | | |
|---|---|---|---|---|
| | **Previous GAAP** | **Effect of transition to IFRS** | **Effect of accounting policy change** | **IFRS** |
| **Assets** | | | | |
| **Current** | | | | |
| Accounts receivable | $ 46,727,925 | $ - | $ - | $ 46,727,925 |
| Inventories | 42,441,797 | - | (27,682) | 42,414,115 |
| Prepaid expenses and deposits | 5,025,888 | - | - | 5,025,888 |
| Income taxes receivable | - | - | - | - |
| Current assets | 94,195,610 | - | (27,682) | 94,167,928 |
| **Non-current** | | | | |
| Property and equipment | 3,705,757 | (20,986) | - | 3,684,771 |
| Intangible assets | 857,441 | (243,332) | - | 614,109 |
| Deferred tax assets | 299,631 | - | - | 299,631 |
| Non-current assets | 4,862,829 | (264,318) | - | 4,598,511 |
| **Total assets** | $ 99,058,439 | $ (264,318) | $ (27,682) | $ 98,766,439 |
| | | | | |
| **Liabilities** | | | | |
| **Current** | | | | |
| Bank indebtedness | $ 39,552,948 | $ - | $ - | $ 39,552,948 |
| Accounts payable and accrued liabilities | 25,053,083 | - | - | 25,053,083 |
| Income taxes payable | 2,455,289 | - | - | 2,455,289 |
| Customer deposits | 294,638 | - | - | 294,638 |
| Promissory notes payable | 2,391,625 | - | - | 2,391,625 |
| Long-term debt | 866,913 | - | - | 866,913 |
| Obligations under finance lease | 26,722 | - | - | 26,722 |
| Current liabilities | 70,641,218 | - | - | 70,641,218 |
| **Non-current** | | | | |
| Promissory notes payable | 1,994,082 | - | - | 1,994,082 |
| Long-term debt | 2,151,281 | - | - | 2,151,281 |
| Obligations under finance lease | 65,849 | - | - | 65,849 |
| Deferred tax liabilities | 299,689 | (62,734) | - | 236,955 |
| Non-current liabilities | 4,510,901 | (62,734) | - | 4,448,167 |
| **Total liabilities** | $ 75,152,119 | $ (62,734) | $ - | $ 75,089,385 |

## 29. First time adoption of IFRS (cont'd)

*29.2 Equity reconciliation (cont'd)*

| | December 31, 2010 | | | |
|---|---|---|---|---|
| | Previous GAAP | Effect of transition to IFRS | Effect of accounting policy change | IFRS |
| **Equity** | | | | |
| Share capital | $ 14,451,480 | $ - | $ - | $ 14,451,480 |
| Contributed surplus | 1,078,423 | 1,065 | - | 1,079,488 |
| Warrants | 229,950 | - | - | 229,950 |
| Non-controlling interest | (33,411) | - | - | (33,411) |
| Retained earnings | 8,179,878 | (202,649) | (27,682) | 7,949,547 |
| **Total Equity** | $ 23,906,320 | $ (201,584) | $ (27,682) | $ 23,677,054 |
| **Total Liabilities and Equity** | $ 99,058,439 | $ (264,318) | $ (27,682) | $ 98,766,439 |

The total effect on retained earnings is further analyzed as follows:

| | January 1, 2010 | December 31, 2010 |
|---|---|---|
| Write-off of website costs, net of amortization | $ 19,018 | $ 20,986 |
| Write-off of non-compete intangibles, net of amortization | 334,583 | 243,332 |
| Adjustment to deferred tax liabilities | (83,646) | (62,734) |
| Adjustment to stock-based compensation | - | 1,065 |
| Effect on transition to IFRS | $ 269,955 | $ 202,649 |

## 29. First time adoption of IFRS (cont'd)

### *29.3 Comprehensive income*

Total comprehensive income for the year ended December 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

| | Previous GAAP | Effect of transition to IFRS | Effect of accounting policy adjustment | IFRS |
|---|---|---|---|---|
| **Sales** | $ 152,495,386 | $ - | $ - | $ 152,495,386 |
| Cost of sales | 130,260,107 | - | (88,279) | 130,171,828 |
| Gross margin | **22,235,279** | - | 88,279 | **22,323,558** |
| **Expenses** | | | | |
| Salaries and benefits | 6,110,137 | 1,065 | - | 6,111,202 |
| Selling, general and administration | 4,349,898 | 6,406 | - | 4,356,304 |
| Foreign exchange gain | (646,365) | - | - | (646,365) |
| Interest on short-term operating debt | 1,119,930 | - | - | 1,119,930 |
| Interest on long-term debt | 633,635 | - | - | 633,635 |
| Amortization on property and equipment | 480,522 | (4,435) | - | 476,087 |
| Amortization on intangible assets | 418,115 | (91,250) | - | 326,865 |
| Interest on obligations under finance lease | 6,015 | - | - | 6,015 |
| | **12,471,887** | (88,214) | - | **12,383,673** |
| Earnings before income taxes | **9,763,392** | 88,214 | 88,279 | **9,939,885** |
| Income tax expense | 2,823,246 | 20,912 | - | 2,844,158 |
| Net earnings and comprehensive income | **$ 6,940,146** | $ 67,302 | $ 88,279 | **$ 7,095,727** |
| Earnings for the year attributable to: | | | | |
| Owners of the parent | $ 6,973,587 | $ 67,302 | $ 88,279 | $ 7,129,168 |
| Non-controlling interest | (33,441) | - | - | (33,441) |
| | $ 6,940,146 | $ 67,302 | $ 88,279 | $ 7,095,727 |

Total basic and diluted EPS for the year ended December 31, 2010 are $0.51 and $0.51 respectively under IFRS, an increase of $0.01 and $0.01 respectively from previous GAAP.

**29. First time adoption of IFRS** (cont'd)

*29.4 Presentation differences*

Certain presentation differences between previous GAAP and IFRS have no impact on reported profit or total equity. Some assets and liabilities have been reclassified into another line item under IFRS at the date of transition. Current portion of deferred tax assets have been grouped with long-term assets. Warrants have been reported separately from previous grouping with contributed surplus.

Some line items are described differently (renamed) under IFRS compared to previous GAAP, although the assets and liabilities included in these line items are unaffected. These line items are as follows (with previous GAAP descriptions in brackets):

Deferred taxes (Future income taxes)
Finance lease obligations (Capital lease obligations)
Post-reporting date events (Subsequent events)

*29.5 Notes to the reconciliations*

*Property and equipment*

The decrease in property and equipment as at January 1, 2010 and December 31, 2010 is a result of the derecognition of website development costs capitalized under previous GAAP. IFRS does not permit the recognition of website development costs when the site created does not provide directly traceable future earnings potential to the Company. This resulted in costs of $25,935 and accumulated amortization of $6,916 being removed from the balance sheet on transition date. An addition of $3,205 at March 31, 2010, with accumulated amortization of $802 was also removed at the end the first quarter of 2010.

*Intangible assets*

The decrease in intangible assets as at January 1, 2010 is a result of the impairment test performed over the intangible assets in the Steel cash generating unit ("CGU"). The Company determined that $334,583 of remaining non-competition agreements intangible assets were impaired and were therefore written off on transition to IFRS. The December 31, 2010 balance was then adjusted for the accumulated amortization expense recorded in relation to these intangible assets in the year.

*Stock-based compensation*

At December 31, 2010, the Company recorded an additional $1,065 of expense related to consultant options issued in the period. Previously, these options were valued using the Black Scholes Option Pricing Model, but under IFRS the Company was required to value these options based on the fair value of the services provided in exchange for the option issue.

*29.6 Deferred tax*

The deferred tax adjustment at January 1, 2010 of $83,646 relates to the intangible assets write-off which had a corresponding deferred tax liability that required adjustment. The change in corresponding deferred tax liability to December 31, 2010 was also adjusted.

## 29. First time adoption of IFRS (cont'd)

*29.7 Statement of cash flows presentation*

The following adjustments were made to the statement of cash flows:

| For the period ended December 31, 2010 | Previous GAAP | Effect of transition to IFRS | Effect of accounting policy change | IFRS |
|---|---|---|---|---|
| Increase (decrease) in cash and cash equivalents | | | | |
| **Operating activities** | | | | |
| Net earnings | $ 6,940,146 | $ 67,302 | $ 88,279 | $ 7,095,727 |
| Non-cash items: | | | | |
| Amortization on property and equipment | 480,522 | (4,435) | - | 476,087 |
| Amortization on intangible assets | 418,115 | (91,250) | - | 326,865 |
| Amortization of debt related transaction costs | 90,512 | - | - | 90,512 |
| Future income tax recovery | (335,382) | 20,912 | - | (314,470) |
| Stock-based compensation | 167,633 | - | - | 167,633 |
| Loss on sale of property and equipment | 8,119 | - | - | 8,119 |
| | 7,769,665 | (7,471) | 88,279 | 7,850,473 |
| Change in non-cash working capital | (16,436,809) | 1,065 | (88,279) | (16,524,023) |
| | (8,667,144) | (6,406) | - | (8,673,550) |
| **Financing activities** | | | | |
| Advances on promissory notes payable | 307,249 | - | - | 307,249 |
| Advances of operating line | 11,899,999 | - | - | 11,899,999 |
| Repayment of promissory notes payable | (1,447,238) | - | - | (1,447,238) |
| Repayment of long-term debt | (866,802) | - | - | (866,802) |
| Repurchase of common shares (Note 16) | (584,928) | - | - | (584,928) |
| Repayment of obligations under finance lease | (190,748) | - | - | (190,748) |
| Proceeds on issuance of shares | 6,719 | - | - | 6,719 |
| | 9,124,251 | - | - | 9,124,251 |
| **Investing activities** | | | | |
| Purchase of property and equipment | (508,142) | - | - | (508,142) |
| Purchase of intangible assets | (34,456) | 6,406 | - | (28,050) |
| Proceeds on disposal of property and equipment | 85,491 | - | - | 85,491 |
| | (457,107) | 6,406 | - | (450,701) |
| Net increase in cash and cash equivalents | - | - | - | - |
| Cash and cash equivalents, beginning of period | - | - | - | - |

### 30. Post-reporting date events

No adjusting events have occurred between the reporting date and the date of authorization.

### 31. Authorization of financial statements

The consolidated financial statements for the year ended December 31, 2011 (including comparatives) were approved by the board of directors on March 28, 2012.

| | |
|---|---|
| *"Don Caron"* | *"Eric Sauze"* |
| Don Caron, Director | Eric Sauze, Director |