Bri-Chem Corp.
Year End Report
December 31, 2007

Contents

Grant Thornton

Auditors' Report

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To the Shareholders of
Bri-Chem Corp.

We have audited the consolidated balance sheets of Bri-Chem Corp. as at December 31, 2007 and December 31, 2006 and the consolidated statements of operations and comprehensive income, retained earnings and cash flows for the year ended December 31, 2007 and the five month period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and December 31, 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and the five month period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

The financial statements as at July 31, 2006 and for the year then ended were audited by other auditors whose report, dated October 30, 2006, stated that they had been unable to observe the counting of the physical inventories at the beginning of that year or to satisfy themselves concerning those inventory quantities at that date by alternative means. Since opening inventories enter into the determination of the results of operations and cash flows for 2006, they were unable to determine whether adjustments to cost of sales, income taxes, net income for the year, opening retained earnings and cash provided from operations might have been necessary for the year ended July 31, 2006. In their report, they expressed an opinion without reservation on the balance sheet and because of the above matter, they expressed an opinion with reservation on the statements of income, retained earnings and cash flows.

Grant Thornton LLP

Edmonton, Canada
April 2, 2008

Chartered Accountants

Bri-Chem Corp.
Consolidated Balance Sheets

	December 31 2007	December 31 2006	July 31 2006
Assets			
Current			
Cash	**$ -**	$ 127,930	$ 70,361
Funds held in trust	**-**	11,000,000	-
Accounts receivable	**24,885,748**	20,950,162	20,617,998
Inventory	**21,134,625**	17,940,563	14,625,263
Income taxes receivable	**-**	-	252
Prepaid expenses and deposits	**140,899**	80,806	9,012
	46,161,272	50,099,461	35,322,886
Property and equipment (Note 7)	**2,688,781**	2,157,061	1,846,931
Intangible assets (Note 8)	**1,942,190**	1,089,783	-
Goodwill (Note 9)	**1,081,445**	416,200	-
Future income taxes (Note 17)	**44,601**	47,025	31,634
	$ 51,918,289	$ 53,809,530	$ 37,201,451
Liabilities			
Current			
Bank indebtedness (Note 10)	**$ 12,050,168**	$ 17,410,925	$ 8,366,377
Accounts payable and accrued liabilities	**11,967,882**	6,927,364	17,888,342
Income taxes payable	**792,657**	683,178	-
Current portion of promissory notes payable (Note 11)	**1,500,515**	11,000,000	-
Current portion of long-term debt (Note 12)	**67,514**	554,101	632,180
	26,378,736	36,575,568	26,886,899
Promissory notes payable (Note 11)	**2,200,000**	3,200,000	-
Long-term debt (Note 12)	**4,621,456**	-	-
Due to directors (Note 19)	**-**	-	8,465,959
Redemption value of preferred shares (Note 3)	**-**	-	880,000
Non-controlling interest (Note 6)	**-**	-	249,194
Future income taxes (Note 17)	**476,762**	193,389	-
	33,676,954	39,968,957	36,482,052
Shareholders' Equity			
Share capital (Note 13)	**12,347,444**	11,188,722	600
Contributed surplus (Note 14)	**727,050**	121,830	-
Retained earnings	**5,166,841**	2,530,021	718,799
	18,241,335	13,840,573	719,399
	$ 51,918,289	$ 53,809,530	$ 37,201,451

Commitments (Note 20)

On behalf of the Board

"Don Caron"
Don Caron, Director

"Alan Campbell"
Alan Campbell, Director

See accompanying notes to the consolidated financial statements.

Bri-Chem Corp.
Consolidated Statements of Operations and Comprehensive Income

For the periods ended	December 31 2007 (12 months)	December 31 2006 (5 months)	July 31 2006 (12 months)
Sales	$ **59,518,665**	$ 24,131,135	$ 76,192,274
Cost of sales	**48,622,056**	19,448,616	63,633,413
	10,896,609	4,682,519	12,558,861
Expenses			
Salaries and benefits	**3,196,004**	644,058	10,154,431
Selling, general and administration	**2,040,639**	1,001,934	1,570,444
Interest on long-term debt	**698,571**	32,258	33,366
Interest on short-term operating debt	**855,487**	295,362	556,877
Amortization on property and equipment	**320,623**	94,520	219,177
Amortization on intangible assets	**347,782**	-	-
	7,459,106	2,068,132	12,534,295
Gain on sale of property and equipment	**7,874**	29,395	-
Earnings before income taxes and non-controlling interest	**3,445,377**	2,643,782	24,566
Income taxes (recovery) (Note 17)			
Current	**835,231**	747,487	18,352
Future	**209,626**	(3,648)	(5,748)
	1,044,857	743,839	12,604
Earnings before non-controlling interest	**2,400,520**	1,899,943	11,962
Non-controlling interest (Note 6)	**-**	88,721	4,544
Net earnings and comprehensive income	$ **2,400,520**	$ 1,811,222	$ 7,418
Earnings per share (Note 16)			
Basic	$ **0.19**	$ 0.18	$ -
Diluted	$ **0.19**	$ 0.18	$ -

Bri-Chem Corp.
Consolidated Statements of Retained Earnings

For the periods ended	**December 31 2007 (12 months)**	December 31 2006 (5 months)	July 31 2006 (12 months)
Retained earnings, beginning of period	**$ 2,530,021**	$ 718,799	$ 1,662,725
Change in accounting policy - retroactive adoption (Note 3)	**-**	-	(719,893)
Adjustment for restatements (Note 4)	**-**	-	(231,451)
As restated	**2,530,021**	718,799	711,381
Excess in net assets acquired (Note 6)	**236,300**	-	-
Net earnings and comprehensive income	**2,400,520**	1,811,222	7,418
Retained earnings, end of period	**$ 5,166,841**	$ 2,530,021	$ 718,799

See accompanying notes to the consolidated financial statements.

Bri-Chem Corp.
Consolidated Statements of Cash Flows

For the periods ended	December 31 2007 (12 months)	December 31 2006 (5 months)	July 31 2006 (12 months)
Increase (decrease) in cash and cash equivalents			
Operating activities			
Net earnings and comprehensive income	**$ 2,400,520**	$ 1,811,222	$ 7,418
Non-cash items:			
Amortization on property and equipment	**320,623**	94,520	219,177
Amortization on intangible assets	**347,782**	-	-
Amortization of debt related transaction costs	**22,207**		
Future income tax (recovery)	**209,626**	(3,648)	(5,748)
Non-controlling interest	**-**	88,721	4,544
Stock-based compensation	**417,170**	-	-
Gain on sale of property and equipment	**(7,874)**	(29,395)	-
	3,710,054	1,961,420	225,391
Change in non-cash working capital (Note 18)	**2,472,690**	(8,762,792)	(6,412,584)
	6,182,744	(6,801,372)	(6,187,193)
Financing activities			
Advances to directors	**-**	(69,991)	(2,470,810)
Advances from directors	**-**	-	4,638,750
Proceeds from note receivable	**-**	-	40,000
Advances on promissory notes payables	**200,515**	-	-
Proceeds on issuance of long-term debt	**5,000,000**	-	-
Advances (repayments) of operating line	**(7,502,146)**	9,044,548	3,870,940
Transactions costs on credit facility	**(105,000)**	-	-
Repayment of promissory notes payable	**(11,000,000)**	-	-
Repayment of long-term debt	**(693,572)**	(78,079)	(33,116)
Proceeds (adjustments) on issuance of shares	**(56,278)**	8,965,413	-
	(14,156,481)	17,861,891	6,045,764
Investing activities			
Purchase of property and equipment	**(519,816)**	(73,019)	(232,127)
Proceeds on disposal of property and equipment	**76,323**	70,069	375
Cash paid on acquisition (Note 6)	**(2,710,700)**	-	-
	(3,154,193)	(2,950)	(231,752)
Net increase (decrease) in cash	**(11,127,930)**	11,057,569	(373,181)
Cash and cash equivalents, beginning of period	**11,127,930**	70,361	443,542
Cash and cash equivalents, end of period	**$ -**	$ 11,127,930	$ 70,361
Cash and cash equivalents consists of:			
Cash	**$ -**	$ 127,930	$ 70,361
Funds held in trust (Note 13 (a))	**-**	11,000,000	-
	$ -	$ 11,127,930	$ 70,361

Supplemental cash flow information (Note 18)

See accompanying notes to the consolidated financial statements.

1. Organization and description of operations

Bri-Chem Corp.'s ('the Company") shares are publicly traded on the TSX Venture Exchange under the symbol BRY. The Company is a wholesale/distribution, blending and packager of drilling fluids and supplies to the natural resource and industrial sectors.

On January 1, 2007, mBase Commerce Inc. the company whose shares were traded publicly on the TSX Venture Exchange, and which had minimal operations, was amalgamated with Gwelan Supply Ltd., a Canadian oil and gas drilling fluid chemicals and additives distribution company, resulting in the amalgamated company being named Bri-Chem Corp. For legal purposes, mBase Commerce Inc. acquired all of the issued and outstanding securities of Gwelan Supply Ltd. (see Note 6). For accounting purposes, the acquisition has been treated as a reverse takeover and, as a result, the consolidated financial statements have been prepared as a continuation of the operations of Gwelan Supply Ltd. and its subsidiaries.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following significant accounting policies:

Principles of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company, and its 100% wholly-owned subsidiaries, Bri-Chem Supply Ltd. and Sodium Solutions Inc. All inter-company transactions and balances have been appropriately eliminated. Sodium Solutions Inc. was previously a 70% owned subsidiary of Gwelan Supply Ltd. The remaining 30% was acquired on December 31, 2006 (Note 6).

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. Funds held in trust consist of funds available to the Company, but held in a lawyer's trust account.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first-in first-out method for the direct purchase price of the goods. Costs associated with freight, transportation and handling fees is determined using the average cost method. Net realizable value is the estimated selling price less estimated selling costs. Management periodically reviews the inventory for obsolescence on a product by product basis in assessing provisions based upon current estimates of future events including economic conditions and growth prospects in the market place.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Rates and bases of amortization applied to write-off the cost of property and equipment over their estimated lives are as follows:

2. Summary of significant accounting policies (cont'd)

Property and equipment (cont'd)

Buildings	4 to 10% declining balance
Motor vehicles	30% declining balance
Manufacturing and lab equipment	20 to 30% declining balance
Office equipment	20% declining balance
Computer hardware	30% declining balance
Computer software	100% declining balance
Pavement and landscaping	8% declining balance
Leasehold improvements	5 years straight line

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances raise concerns that the carrying value of an asset may not be recoverable. Recoverability is determined by comparing the carrying amount of the asset to the undiscounted future cash flows, expected from the use and eventual disposition of the asset. If a write-down is warranted, the write down is measured as the amount by which the carrying amount exceeds its fair value.

Intangible assets

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at fair value. The assigned values of a group of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill are allocated to the individual assets acquired based on fair value.

Intangible assets with finite useful lives are amortized over their useful lives. Intangible assets with indefinite useful lives are reviewed for impairment annually. The Company has no intangible assets with indefinite lives.

Customer relationships are amortized over an estimated useful life of five years. Proprietary technology, technological expertise and proprietary blends are amortized over an estimated useful life of three years, and non-compete agreements are amortized ranging from three years to five years.

Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill is recorded at cost and is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value. Fair value is determined using the discounted, estimated future operating cash flows of the reporting unit.

2. Summary of significant accounting policies (cont'd)

Goodwill (cont'd)

When the fair value of the reporting unit exceeds the carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of impairment loss, if any. A reporting unit comprises business operations with similar economic characteristics and strategies, and is the level of reporting at which goodwill is tested for impairment. A reporting unit is either an operating segment or a level below and is the level at which information is available for management to make key decisions. For the purposes of goodwill impairment testing, the Company has two reporting units.

Income taxes

Income taxes have been accounted for using the liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on 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 future income tax assets and liabilities of a change in rates is included in the period during which the change is considered substantially enacted. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Transaction costs

Transaction costs directly associated with the issuance of new long-term debt obligations are applied against the fair value of the related financial liability and are amortized to interest expense using the effective interest method.

Revenue recognition

Revenue from the sale of goods is recognized when title passes to customers, which is generally at the time the goods are shipped and when reasonable assurance exists regarding measurement and collection of the consideration given. The Company has an informal policy whereby they accept product returns from customers. Provisions for estimated product returns are based on historical experience.

Use of estimates

Financial statements prepared in accordance with Canadian GAAP 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. Principal areas where uncertainty is inherent include certain accounts receivable, the allowance for doubtful accounts, the sales return provisions, obsolete inventories, the estimated useful life of property and equipment and intangible assets and the corresponding amortization rates, the valuation of future tax assets, the impairment testing of goodwill, the purchase price allocation for business acquisitions and amounts recorded as accrued liabilities and future tax liabilities. Management believes actual results are not materially different from these estimates.

2. Summary of significant accounting policies (cont'd)

Stock-based compensation

The Company has established a stock option plan for the Executive and Board of Directors, and employees as described in Note 13. 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 using the Black-Scholes option pricing model and recognized as compensation expense over the vesting period of those granted options. The corresponding adjustment is recorded to contributed surplus. 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.

Foreign currency translation

Monetary items denominated in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the balance sheet date. All revenue and expenses denominated in foreign currencies are translated at average rates in effect during the year. Gains or losses on translation are included in earnings.

Earnings per share

The computation of basic earnings per share has been calculated using the weighted average number of common shares outstanding during each reporting period. Diluted earnings per share reflect the potential dilution that would occur if stock options and warrants were exercised. The Company uses the treasury method for outstanding options and warrants which assumes that all outstanding stock options and warrants with an exercise price below the average market prices in the period are exercised and assumed proceeds are used to purchase the Company's common shares at the average market price during the reporting period. The net number of shares issued and purchased are added to the denominator figure used for basic earnings per share when calculating diluted earnings per share.

Future Accounting Pronouncements

Effective January 1, 2008, the Company will be required to adopt two new Canadian Institute of Chartered Accountants ("CICA") standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace Section 3861 "Financial Instruments – Disclosure and Presentation". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements of Section 3861. The implementation of this standard will only enhance the current disclosure.

Effective January 1, 2008, the Company will be required to adopt CICA Section 3031 "Inventories". This section relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. Under this section, inventory is to be measured at 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. Cost shall be assigned using the first-in, first-out (FIFO) or weighted average cost method. The section also requires the reversal of previous write-downs of inventory if original circumstances are reversed. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

2. Summary of significant accounting policies (cont'd)

Effective January 1, 2008, the Company will be required to adopt paragraphs .08(a) to .08(c) of CICA Section 1400 "General Standards of Financial Statements". This section requires management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as going concern. The Company does not anticipate that going concern assumption disclosure will be required in the consolidation financial statements.

In November 2006, the CICA issued new handbook Section 1535, "Capital Disclosures", effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about an entity's capital and how it is managed in order that a user of the financial statements may evaluate the entity's objectives, policies and processes for managing capital. The implementation of this standard will only enhance the current disclosure.

In February 2008, the CICA issued new handbook Section 3064 – "Goodwill and Intangible Assets" that supersedes Section 3062 – "Goodwill and Other Intangible Assets" and 3450 – "Research and Development Costs". This section provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs can be deferred only when relating to an item meeting the definition of an asset. The new accounting standard is effective for interim or annual financial statements relating to fiscal years beginning on or after October 31, 2008. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that Canadian public enterprises will need to adopt International Financial Reporting Standards (IFRSs), effective for years beginning on or after January 1, 2011. The Company will evaluate the impact this new framework will have on its consolidated financial statements closer to the adoption date.

3. Changes in accounting policies

Effective January 1, 2007, the Company adopted CICA Handbook Section 1506 – "Accounting Changes", which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant or reliable information.

Effective January 1, 2007, the Company adopted CICA Handbook Section 3855 – "Financial Instruments – Recognition and Measurement"; Section 3865 – "Hedges"; Section 1530 – "Comprehensive Income"; Section 3251 – "Equity"; and Section 3861 – "Financial Instruments – Disclosure and Presentation". These new accounting standards provide requirements for the recognition, measurement, disclosure and presentation of financial instruments, the use of hedge accounting, and also establish standards for reporting and presenting comprehensive income.

3. Changes in accounting policies (cont'd)

Financial instruments

CICA Section 3855, "Financial Instruments – Recognition and Measurement", establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. All financial instruments and certain non-financial derivatives are initially measured at fair value. Subsequent measurement will depend on an instrument's initial classification. Held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired and the effect is to reduce other comprehensive income and increase comprehensive income. Held-to-maturity investments, loans and receivables and other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company classified the relevant financial assets and liabilities in accordance with the new provisions as follows:

<u>Held for trading</u>

Cash
Deposits
Funds held in trust

<u>Loans and receivables</u>

Accounts receivable

<u>Other financial liabilities</u>

Bank indebtedness
Accounts payable and accrued liabilities
Long-term debt
Promissory notes payable

The Company did not have any embedded derivatives or other non-financial contracts.

Derivatives and hedge accounting

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempt from derivative treatment if they are treated as the Company's normal purchases and sales. All changes in fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Company has determined that the application of Section 3865 did not have any impact on the consolidated financial statements or the opening balance sheet for the year ended December 31, 2007.

3. Changes in accounting policies (cont'd)

Comprehensive income

Comprehensive income is composed of the Company's net earnings and other comprehensive income. Other comprehensive income may include any unrealized gains and losses on available for sale securities, foreign currency translation gains and losses on the net investment in self-sustaining foreign operations, and changes in the fair market values of derivative instruments designated as cash flow hedges, all net of income taxes. As the Company did not have any elements of other comprehensive income, the adoption of Section 1530 did not have an impact on the consolidated financial statements for the year ended December 31, 2007.

Equity

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to those of Section 1530 and recommend an enterprise present separately the following components of equity: retained earnings, accumulated other comprehensive income, and the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves. As the Company did not have any elements of other comprehensive income, the adoption of Section 3251 did not have an impact on the consolidated financial statements or the opening balance sheet for the year ended December 31, 2007.

Retroactive change in accounting policy – preferred shares

For the year ended July 31, 2006, Gwelan changed its accounting policy retroactively, in regards to differential reporting and chose to no longer report under this option. As a result, preferred shares issued were shown as a liability. The preferred shares were previously classified as equity under differential reporting and were subsequently shown as a liability because the shares were redeemable at the option of the holder. The effect on the July 31, 2006 financial statements was as follows:

		Increase (decrease)
Contributed surplus	$	(152,413)
Retained earnings		(719,893)
Liabilities		880,000
Share capital		(2,459)
Income taxes payable		(5,235)

4. Restatements

For the year ended July 31, 2006, Gwelan had restated its opening retained earnings as a result of the following adjustments from prior years. Accounts receivable increased by $58,000 as a result of valuation of sales allowances and doubtful accounts, inventories decreased by $259,397 due to the valuation of inventory and intercompany profit, and current income tax liabilities increased by $30,054 resulting in a net decrease to opening retained earnings of $231,451. This restatement has been reflected in the opening 2006 retained earnings.

5. 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.

6. Acquisitions

Acquisition of Spirit Mountain Holdings Inc.

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

The Company then transferred the shares of Spirit Mountain to Bri-Chem Supply Ltd. under Section 85 of the Income Tax Act of Canada. Both Spirit Mountain and its subsidiary, Millennium, were then liquidated and dissolved into Bri-Chem Supply Ltd. on the same day.

This acquisition has been accounted for using the purchase 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 fair values at the date of acquisition as follows:

Current assets	$	7,877,552
Property and equipment		400,976
Intangible assets		1,200,189
Goodwill		665,245
Bank indebtedness		(2,993,559)
Current liabilities		(2,512,948)
Future income taxes		(365,411)
	$	4,272,044

6. Acquisitions (cont'd)

The components of the total purchase price were as follows:

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

The 714,286 common shares were issued as part of the purchase price at a price of $2.10 which is representative of the fair value of the shares at the time of the acquisition adjusted for the limited trading activity of the shares. The common shares were then adjusted based on discount factors ranging from 10% to 27% to consider sale restrictions (see Note 13).

The purchase price allocated to intangible assets include customer relationships ($1,049,568) and non-competition agreements ($150,621) which will be amortized over 5 years on a straight-line basis. The goodwill acquired with Spirit Mountain is not deductible for income tax purposes.

The promissory note will be paid on September 16, 2008 (see Note 11).

Acquisition of Gwelan Supply Ltd.

Pursuant to an amalgamation agreement dated October 27, 2006 as amended and restated on December 19, 2006, and effective January 1, 2007, mBase Commerce Inc. agreed to purchase 100% of the issued and outstanding shares of Gwelan Supply Ltd. and its subsidiaries, Bri-Chem Supply Ltd. and Sodium Solutions Inc. Gwelan Supply Ltd. through its subsidiaries was a distributor of drilling fluids to the oil and gas industry. The purchase method of accounting, in the context of a reverse takeover, has been applied to reflect the net identifiable assets of mBase Commerce Inc. acquired.

Under this method, the results of operations of mBase Commerce Inc. are included in these consolidated financial statements from the date of acquisition. The Company's net interests in the net identifiable assets acquired at assigned values are as follows:

Current assets	$	168,359
Future income tax asset		289,241
Current liabilities		(221,300)
Excess in net assets acquired	$	236,300

6. Acquisitions (cont'd)

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

The excess in net assets of the public enterprise acquired of $236,300 was treated as an increase to the retained earnings balance of the combined enterprise. Accordingly, related transaction costs have been charged to equity only to the extent of cash Bri-Chem Corp. received, and all costs in excess of cash received have been charged to current expense.

Future contingent consideration may be required if the Company meets certain minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") targets of $7,650,000 in any of the three fiscal years ending December 31, 2007, 2008, and 2009. The maximum consideration payable over the three years is $2,000,000. As at December 31, 2007, no additional consideration was set up for the year as the minimum EBITDA target was not achieved.

Acquisition of non-controlling interest

On December 31, 2006, Gwelan acquired 30% of the outstanding shares of Sodium Solutions Inc. that were held by a non-controlling interest. The total purchase price was $1,800,000. The components of the total purchase price were as follows:

Promissory note	$	1,080,000
360,000 common shares		720,000
	$	1,800,000

The 360,000 common shares were issued as part of the purchase price at a price of $2.00 as negotiated between the parties involved in the transaction. Given that the Company's shares were not publicly traded at December 31, 2006, this price is representative of the value of the shares at the acquisition date based on the opening trading price of the Company's shares. The acquisition of the 30% non-controlling interest in Sodium Solutions Inc. was accounted for using the purchase method of accounting and these consolidated financial statements reflect the results of operations of Sodium Solutions Inc. from the date of acquisition. The purchase price has been allocated to the net identifiable assets acquired based on their estimated fair values as follows:

Fair value of net assets acquired excluding the following	$	710,217
Intangibles		1,089,783
Future tax liability		(416,200)
Goodwill		416,200
	$	1,800,000

7. Property and equipment

	December 31, 2007		
	Cost	**Accumulated Amortization**	**Net Book Value**
Land	**$ 255,592**	**$ -**	**$ 255,592**
Buildings	**1,651,027**	**305,505**	**1,345,522**
Motor vehicles	**199,809**	**50,675**	**149,134**
Manufacturing and lab equipment	**1,026,401**	**619,942**	**406,459**
Office equipment	**169,293**	**95,925**	**73,368**
Computer hardware	**147,397**	**85,606**	**61,791**
Computer software	**139,795**	**15,317**	**124,478**
Pavement and landscaping	**46,198**	**11,667**	**34,531**
Leasehold improvements	**520,073**	**282,167**	**237,906**
	$ 4,155,585	**$ 1,466,804**	**$ 2,688,781**

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Land	$ 41,167	$ -	$ 41,167
Buildings	1,735,450	212,147	1,523,303
Motor vehicles	226,885	166,995	59,890
Manufacturing and lab equipment	826,247	510,970	315,277
Office equipment	135,671	81,990	53,681
Computer hardware	93,920	70,995	22,925
Computer software	12,816	12,513	303
Pavement and landscaping	26,320	9,530	16,790
Leasehold improvements	349,661	225,936	123,725
	$ 3,448,137	$ 1,291,076	$ 2,157,061

7. Property and equipment (cont'd)

	July 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Land	$ 41,167	$ -	$ 41,167
Buildings	1,403,820	182,887	1,220,933
Motor vehicles	226,885	158,439	68,446
Manufacturing and lab equipment	763,884	475,495	288,389
Office equipment	134,295	77,109	57,186
Computer hardware	91,055	66,446	24,609
Computer software	12,816	12,271	545
Pavement and landscaping	26,320	8,951	17,369
Leasehold improvements	343,266	214,979	128,287
	$ 3,043,508	$ 1,196,577	$ 1,846,931

8. Intangible assets

Intangible assets having finite lives consist of the following:

	December 31, 2007		
	Cost	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 1,989,351**	**$ 283,999**	**$ 1,705,352**
Proprietary processes, techological expertise and proprietory blends	**150,000**	**50,000**	**100,000**
Non-compete agreement	**150,621**	**13,783**	**136,838**
	$ 2,289,972	**$ 347,782**	**$ 1,942,190**

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships	$ 939,783	$ -	$ 939,783
Proprietary processes, techological expertise and proprietory blends	150,000	-	150,000
	$ 1,089,783	$ -	$ 1,089,783

Amortization was not taken during 2006 as the assets were acquired during the final day of the period. There were no intangible assets as of the year ended July 31, 2006.

9. Goodwill

		December 31 2007		December 31 2006
Balance, beginning of period	$	**416,200**	$	-
Acquisitions (Note 6)		**665,245**		416,200
	$	**1,081,445**	$	416,200

10. Bank indebtedness

Effective January 30, 2007, the Company established a new credit facility to a maximum of $25,000,000 (December 31, 2006, July 31, 2006 - $20,500,000) which includes a sub-limit of $10,000,000 (December 31, 2006, July 31, 2006 - $5,600,000) on a US demand overdraft, $100,000 on a bank guarantee and $250,000 on an import line. The bank operating line of credit bears interest at prime plus 0.3% (December 31, 2006, July 31, 2006 – interest ranging from prime plus 0.3% to prime plus 0.75%). The US demand overdraft bears interest at US base rate plus 0.3%, (December 31, 2006, July 31, 2006 – interest ranging from US base rate plus 0.3% to US base rate plus 0.75%), per annum and are due on demand. At December 31, 2007, the prime rate was 6% and the US base rate was 7.25%. The collateral security lodged by the Company to support all debt (Note 12) held with HSBC Bank of Canada is a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and its subsidiaries, a floating charge over all of the Company and its subsidiaries' present and after acquired real property, a demand collateral land mortgage and assignment of rents in the amount of $2,000,000 from the Company creating a first fixed and specific mortgage charge over all of the lands and premises, $5,000,000 guarantee of HSBC Capital Canada Inc., assignment of all risk insurance on the Company's real and personal property and guarantees of related parties.

11. Promissory notes payable

	December 31 2007	December 31 2006
Promissory note payable, bearing interest at 6% per annum, repayable in installments as follows: $11,000,000 plus interest on completion of the amalgamation (see Note 6), $1,000,000 plus interest on May 19, 2008, $1,000,000 plus interest on May 20, 2009, and $1,200,000 plus interest on May 20, 2010, secured by a general security agreement covering all the assets of the Company.	**$ 3,392,000**	$ 14,200,000
Unsecured promissory note payable, bearing interest at prime, repayable on September 16, 2008, subject to certain terms of the purchase agreement related to the acquisition of Spirit Mountain Holdings Inc., which have been satisfied at year end (see Note 6).	**308,515**	-
	3,700,515	14,200,000
Less: current portion	**1,500,515**	11,000,000
	$ 2,200,000	$ 3,200,000

Principal repayments over the next five years are as follows:

2008	$ 1,500,515
2009	1,000,000
2010	1,200,000
2011	-
2012	-
	$ 3,700,515

12. Long-term debt

	December 31 2007	December 31 2006
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 0.5833% on a monthly basis for a total of 7% per annum to the guarantor of this debt. A 2% per annum standby fee is charged on the outstanding balance of the $5 million loan available. The loan security is described below. The bank agreement was amended to waive the demand condition on the loan for the next fiscal year.	**$ 3,000,000**	$ -
HSBC demand loan, payable in monthly installments of $18,000 including interest at prime plus 0.85% per annum, maturing January 31, 2022. The demand loan is secured by the same security as the bank indebtedness (see Note 10). The bank agreement was amended to waive the demand condition on the loan for the next fiscal year.	**1,928,043**	-
Demand loan, non-revolving bearing interest at prime plus 0.85%, repayable at $3,733 per month including interest, secured by demand collateral mortgages and assignment of all risk fire insurance on all real and personal property, subject to prior claim.	**-**	512,756
Demand loan, non-revolving bearing interest at prime plus 1.25%, repayable at $1,420 per month, including interest, secured by demand promissory notes, assignment of all inventory, general security agreement covering all real property, life insurance policies and postponement of claim from a shareholder, subject to prior claim.	**-**	38,662
GMAC loan payable in monthly installments of $792 including interest at 6.9%. The collateral security lodged by the Company to support the loan is a vehicle with a net book value of $9,304.	**-**	2,683
Less: transaction costs	**(239,073)**	-
	4,688,970	554,101
Less: current portion	**67,514**	554,101
	$ 4,621,456	$ -

12. Long-term debt (cont'd)

For the period ended July 31, 2006, the long-term debt consisted of the following:

(a) a GMAC loan, payable in monthly installments of $792 including interest at 6.9%. The loan was secured by a vehicle with a net book value of $10,633.

(b) A non-revolving demand loan bearing interest at prime plus 0.85%, repayable at $3,733 per month including interest, secured by demand collateral mortgage and an assignment of all fire insurance on all real and personal property.

(c) A non-revolving demand loan being interest at prime plus 1.25%, repayable at $1,420 per month, including interest, secured by demand promissory notes, assignment of all inventory, general security agreement covering all real property, life insurance policies and postponement of claim from a shareholder.

The HSBC subordinated debenture is secured by the following: a general security agreement creating a fixed and floating charge over all assets of the Borrower subordinate 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 determineed by the Lender subordinate 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 and Brian Campbell of all present and future amounts outstanding to them by Bri-Chem Corp.

Principal repayments over the next five years are as follows:

2008	$	67,514
2009		73,813
2010		740,699
2011		808,228
2012		816,459
Thereafter		2,182,257
	$	4,688,970

13. Share capital

Authorized

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

Issued and outstanding	Number		Amount
Preferred Shares			
Balance, Gwelan Supply Ltd., July 31, 2006	880	$	880,000
Section 86 exchange for common shares	(880)		(880,000)
Issuance of preferred shares on purchase of non-controlling interest	7,200		720,000
Section 86 exchange for common shares	(7,200)		(720,000)
Balance, Gwelan Supply Ltd., December 31, 2006	-	$	-
Common Shares			
Balance, Gwelan Supply Ltd., July 31, 2006	6,000	$	600
Issuance on Section 86 exchange for Common Shares	3,000		300
Section 86 exchange and issuance of common shares in exchange for Common Shares	(9,000)		(900)
Section 86 exchange and issuance of common shares in exhange for all related party debt	486		509,982
Section 86 exchange for preferred shares	800,000		880,000
Section 86 exchange for common shares	4,599,514		720,605
Issuance of shares on private placement (net of share issuance costs)	4,805,700		9,078,135
Balance, Gwelan Supply Ltd., December 31, 2006	10,205,700	$	11,188,722
Balance, mBase Commerce Inc., December 31, 2006	10,034,258		4,827,733
Share consolidation (5:1), January 1, 2007 (Note 6)	(8,027,406)		-
Balance, Bri-Chem Corp., January 1, 2007	**12,212,552**		**16,016,455**
Elimination of mBase Commerce Inc. deficit and contributed suplus (Note 6)	**-**		**(4,827,733)**
Finalization of amounts received on issuance of share capital from prior year	**-**		**(56,278)**
Issuance of shares upon acquisition of Spirit Mountain (Note 6)	**714,286**		**1,215,000**
Balance, December 31, 2007	**12,926,838**	**$**	**12,347,444**

13. Share capital (cont'd)

a) For the period ended December 31, 2006, the following share transactions took place in Gwelan Supply Ltd. prior to the reverse takeover transaction:

   i) Shareholders of Gwelan exchanged 880 Class C,D,E and F preferred shares with an assigned value of $880,000 for 880 Class G common shares under Section 86 of the Income Tax Act of Canada;
   ii) Issued 7,200 preferred shares on the purchase of non-controlling interest as described in Note 6. Subsequent to the issuance, the 7,200 preferred shares were exchanged for 7,200 Class G common shares under Section 86 of the Income Tax Act of Canada;
   iii) Shareholders of Gwelan exchanged 3,000 Class G common shares with an assigned value of $300 for 3,000 Class H common shares under Section 86 of the Income Tax Act of Canada;
   iv) Granted stock options of 497.22 Class B common shares with a fair value of $0.09;
   v) Issued 497.22 Class B common shares with an assigned value of $4.97 on the exercise of stock options granted;
   vi) Issued 486.34 Class H common shares with an assigned value of $509,982;
   vii) Exchanged all classes of shares issued and outstanding for 5,400,000 Class G common shares with a total assigned value of $2,110,588 under Section 86 of the Income Tax Act of Canada; and
   viii) Completed a private placement resulting in the issuance of 4,805,700 Class G common shares with a total value of $9,078,135, net of share issuance costs of $533,265 (net of future income taxes of $234,555). Related to this private placement, Gwelan had funds in trust of $11,000,000 at December 31, 2006, which were released subject to the completion of the private placement.

b) On January 1, 2007, shareholders received 5 amalgamated company common shares for each one common share held in mBase Commerce Inc.

c) On January 1, 2007, the Company exchanged 10,205,700 shares, with a total assigned value of $11,188,722, for 10,205,700 shares of Gwelan Supply Ltd. As described in Note 6, this transaction has been accounted for as a capital transaction in substance rather than a business combination. The transaction is equivalent to the issuance of shares by Gwelan Supply Ltd. for the net identifiable assets of the Company. Accordingly, the issuance of treasury shares has been recorded by eliminating Bri-Chem Corp.'s net assets, resulting in the net balance charged to deficit. Under the requirements of the TSX - Venture Exchange, 5,829,040 common shares will be held in escrow and released in stages over a period of three years from January 1, 2007. As of December 31, 2007, 2,914,250 common shares have been released.

d) On July 17, 2007, the Company issued 714,286 shares with a fair value of $1,215,000 for the purchase of shares of Spirit Mountain (see Note 6). The following resale restrictions exist on the following shares:

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

13. Share capital (cont'd)

Stock option 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. An option granted under the plan are vested under such times as determined by the Board of Directors, subject to regulatory requirements. As at December 31, 2007, the Plan permits the authorization to grant stock options up to a maximum of 1,400,000 common shares of the Company.

A summary of transactions during the period is outlined below:

Options to employees and directors

	Number of options	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2007	**-**	$ -	-
Granted	**1,413,000**	1.99	3.50
Exercised	**-**	-	-
Expired/cancelled	**(60,000)**	2.00	3.75
Outstanding, December 31, 2007	**1,353,000**	$ 1.99	3.63
Options exercisable, December 31, 2007	**75,000**	$ 2.00	4.00

The fair value of the employee and directors options granted is estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

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

During the year, 1,353,000 options were granted, net of cancelled options, under the Plan at a total fair value of $878,280 (December 31, 2006 – nil; July 31, 2006 - nil).

Options to agents

At December 31, 2006, the Company issued 283,000 agent options to acquire common shares at a weighted average exercise price of $2.00 per common share with a total fair value of $121,830. During 2007, there were no options to agents issued or exercised.

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

13. Share capital (cont'd)

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

Warrants

a) As part of the consideration given for the acquisition of Spirit Mountain (Note 6), the Company issued 100,000 share purchase warrants with a fair value of $46,344. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of $2.10 per common share, as negotiated between the parties to the transaction from July 17, 2007, expiring July 17, 2010.

b) Pursuant to the terms of the loan agreement with HSBC 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. The following is a summary of the warrant activities during the period:

	Number of warrants	Weighted average exercise price	Weighted average contractual life
Outstanding, January 1, 2007	-	$ -	-
Granted	**350,000**	2.03	2.56
Exercised	-	-	-
Expired	-	-	-
Outstanding, December 31, 2007	**350,000**	$ 2.03	2.56
Exercisable, December 31, 2007	**350,000**	$ 2.03	2.56

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

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

14. Contributed surplus

		December 31 2007		December 31 2006
Balance, beginning of period	**$**	**121,830**	$	-
Fair value of stock options granted to agents		**-**		121,830
Fair value of stock options granted to employees		**417,170**		-
Fair value of warrants granted to agents		**141,706**		
Fair value of warrants granted on acquisition of Spirit Mountain (Note 6)		**46,344**		-
Balance, end of period	**$**	**727,050**	$	121,830

15. Stock based compensation

Compensation expense arising from the options granted in the period is recognized over the vesting period. Stock-based employee compensation expense of $417,170 (December 31, 2006 – nil; July 31, 2006 - nil) was recorded in salaries and employee benefits with a corresponding increase to contributed surplus.

16. Earnings per share

		December 31 2007 (12 months)		December 31 2006 (5 months)		July 31 2006 (12 months)
Net earnings	**$**	**2,400,520**	$	1,811,222	$	7,418
Basic weighted average number of common shares		**12,541,319**		10,205,700		10,205,700
Dilutive effect of warrants and stock options		**-**		652		-
Diluted weighted average number of common shares		**12,541,319**		10,206,352		10,205,700
Basic earnings per share	**$**	**0.19**	$	0.18	$	0.00
Dilutive effect of warrants and stock options		**-**		-		-
Diluted earnings per share	**$**	**0.19**	$	0.18	$	0.00

Earnings per share for the comparative periods ended December 31, 2006 and July 31, 2006 of the Company's predecessor, Gwelan Supply Ltd., are presented using the amount of shares that were exchanged for Gwelan Supply Ltd. effective January 1, 2007 upon amalgamation.

17. Income taxes

Income tax expense differences 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 2007 (12 months)	December 31 2006 (5 months)	July 31 2006 (12 months)
Expected income tax rate at 32.16% (December 2006 - 32.12%, July 2006 - 33.25%)	**$ 1,108,033**	$ 849,184	$ 8,162
Increase (decrease) resulting from:			
Tax rate differential	**(23,740)**	(41,108)	-
Non-deductible expenses	**153,906**	9,910	6,965
Loss carryforward	**(225,956)**	-	-
Non-taxable portion of capital gains	**-**	(4,746)	-
Small business deduction	**-**	-	(3,033)
Other	**32,614**	(69,401)	510
	$ 1,044,857	$ 743,839	$ 12,604

A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not.

17. Income taxes (cont'd)

Temporary differences

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

	December 31 2007 (12 months)	December 31 2006 (5 months)	July 31 2006 (12 months)
Future income tax assets:			
Capital assets - excess of undepreciated capital cost compared to net book value	**$ 54,140**	$ 47,025	$ 31,634
Share issue costs	**156,571**	214,000	-
Net capital loss carryforwards	**23,750**	-	-
Less: valuation allowance	**(23,750)**	-	-
	$ 210,711	$ 261,025	$ 31,634
Future income tax liabilities:			
Capital assets - excess of net book value over undepreciated capital cost	**$ 90,691**	$ 87,953	$ -
Intangibles - excess of net book value over tax basis	**529,667**	319,436	-
Financing fees	**22,514**	-	-
	$ 642,872	$ 407,389	$ -
Net future tax asset (liability)	**$ (432,161)**	$ (146,364)	$ 31,634
Reported in the financial statements as follows:			
Future income tax asset	**$ 44,601**	$ 47,025	$ 31,634
Future income tax liability	**(476,762)**	(193,389)	-
	$ (432,161)	$ (146,364)	$ 31,634

18. Supplemental cash flow information

	December 31 2007 (12 months)	December 31 2006 (5 months)	July 31 2006 (12 months)
Accounts receivable	$ (1,031,606)	$ (332,164)	$ (9,022,401)
Inventory	861,646	(3,315,300)	(5,017,267)
Income taxes receivable	-	252	(252)
Prepaids and deposits	5,602	(71,794)	3,179
Accounts payable and accrued liabilities	2,551,513	(5,726,963)	7,673,930
Income taxes payable	85,535	683,177	(49,773)
	$ 2,472,690	$ (8,762,792)	$ (6,412,584)
Interest paid	$ 1,281,803	$ 342,882	$ 590,243
Income tax paid	725,752	64,024	68,373
Non-cash transactions:			
Compensation options issued to agents (Note 13)	-	121,830	-
Promissory note (Note 11 and Note 19)	-	14,200,000	-
Due to directors (Note 19)	-	(8,395,968)	-
Bonus payable (Note 19)	-	(5,234,014)	-
Promissory note issued on acquisition of non-controlling interest (Note 6)	-	(1,080,000)	-
Promissary note issued on acquisition of Spirit Mountain Holdings Inc. (Note 6)	(300,000)	-	-
Warrants issued on acquisition of Spirit Mountain Holdings Inc. (Note 13)	46,344	-	-
Warrants issued on acquisition of new credit facilities (Note 13)	141,706	-	-
Share capital issued (Note 13)	1,215,000	509,982	-
Exchange of preferred shares for common shares (Note 2)	-	880,000	-

19. Related party transactions

The related party transactions, except for advances on promissory notes payable, are incurred during the normal course of operations and are recorded at their exchange amounts, which is the amount of consideration established and agreed to by the related parties. Interest on the promissory notes payable is recorded at the exchange amount.

During the period ended December 31, 2007, the Company incurred selling, general and administration expenses in the normal course of operations with affiliated companies, which certain directors control, and are as follows:

a) Management and other advisory services of $171,000 (December 31, 2006 – nil; July 31, 2006 - nil) were paid to a company over which a director has significant influence.

b) Accounting, administrative and corporate expenses of $80,329 (December 31, 2006 – nil; July 31, 2006 - nil) were paid to a company over which a director has significant influence.

The Company paid directors fees of $22,875 (December 31, 2006 – nil; July 31, 2006 - nil) to three of the Company's directors.

The Company accrued interest of $200,521 on promissory notes payable issued in the prior year which are held by two of the Company's directors, officers and significant shareholders (Note 11). The expense has been included in interest on long term debt and added to the balance of the promissory notes payable.

The Company's bonuses payable for the year ended July 31, 2006 of $8,794,730 were payable to certain employees and directors of the Company. These bonuses have been recorded in wage expense for the year ended July 31, 2006.

The amounts due to directors were non-interest bearing, unsecured and had no set terms of repayment and were in the normal course of operations.

20. Commitments

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

2008	$ 153,825
2009	107,038
2010	89,272
2011	46,260
2012	1,710
Thereafter	-
	$ 398,105

20. Commitments (cont'd)

b) 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 idemnities. The Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

21. Financial instruments

The Company's financial instruments consist of recorded amounts of cash, deposits, funds held in trust, accounts receivable, as well as, bank indebtedness, accounts payable and accrued liabilities, promissory notes payable, and long-term debt.

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 trade accounts receivable are with customers in the oil and gas industry. Revenue from the Company's largest three customers accounted for approximately 26%, 21% and 6% respectively (December 31, 2006 – 28%, 22%, 7%; July 31, 2006 – 24%, 21%, 8%) of total revenue during the period and 27%, 18% and 6% respectively (December 31, 2006 – 44%, 16%, 7%; July 31, 2006 – 38%, 16%, 16%) of total accounts receivable at period end.

Interest rate risk

Demand loans and bank indebtedness are subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. It is management's opinion that interest rate risk is not significant.

Foreign exchange risk

The Company is subject to foreign currency risk due its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies. Accounts receivable in foreign currency was $206,829 as at December 31, 2007 (December 31, 2006 - $219,731; July 31, 2006 - $605,530) and accounts payable in foreign currency outstanding as at December 31, 2007 is $1,066,885 (December 31, 2006 - $239,927; July 31, 2006 - $851,574). The Company does not use derivative instruments to reduce its foreign currency risk. The Company realized a foreign exchange gain of $28,147 (December 31, 2006 - $63,900; July 31, 2006 - $85,609) during the fiscal year that was included within cost of sales.

21. Financial instruments (cont'd)

Fair value of financial instruments

The carrying value of the financial instruments of the Company approximates their fair values. The estimated fair value approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The carrying value of cash and cash equivalents, deposits, funds held in trust, accounts receivable, and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments. The carrying value of promissory notes payable and long term debt approximate their fair value given that they are subject to fluctuations in current market interest rates.

22. Comparative figures

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