Bri-Chem Corp.
Year End Report
December 31, 2008

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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, 2008 and 2007 and the consolidated statements of operations and comprehensive income, retained earnings and cash flows for the years ended December 31, 2008 and 2007. 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 audits.

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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Chartered Accountants

Edmonton, Canada

April 20, 2009

Bri-Chem Corp.
Consolidated Balance Sheets

	December 31 2008	December 31 2007
Assets		
Current		
Accounts receivable	**$ 43,175,808**	$ 24,885,748
Inventory	**39,942,913**	21,134,625
Prepaid expenses and deposits	**4,970,642**	140,899
	88,089,363	46,161,272
Property and equipment (Note 6)	**3,797,515**	2,688,781
Intangible assets (Note 7)	**4,160,064**	1,942,190
Goodwill (Note 8)	**4,728,300**	1,081,445
Future income tax assets (Note 17)	**186,457**	44,601
	$ 100,961,699	$ 51,918,289
Liabilities		
Current		
Bank indebtedness (Note 9)	**$ 37,666,571**	$ 12,050,168
Accounts payable and accrued liabilities	**24,653,886**	11,967,882
Income taxes payable	**1,292,580**	792,657
Current portion of promissory notes payable (Note 10)	**2,142,490**	1,500,515
Current portion of long-term debt (Note 11)	**853,769**	67,514
Current portion of obligations under capital lease (Note 12)	**146,867**	-
	66,756,163	26,378,736
Promissory notes payable (Note 10)	**3,200,000**	2,200,000
Long-term debt (Note 11)	**3,745,498**	4,621,456
Obligations under capital lease (Note 12)	**175,694**	-
Future income tax liabilities (Note 17)	**1,279,987**	476,762
	75,157,342	33,676,954
Shareholders' Equity		
Share capital (Note 13)	**15,295,274**	12,347,444
Contributed surplus (Note 14)	**855,454**	727,050
Retained earnings	**9,653,629**	5,166,841
	25,804,357	18,241,335
	$ 100,961,699	$ 51,918,289

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 years ended		December 31 2008		December 31 2007
Sales	**$**	**111,282,825**	$	59,518,665
Cost of sales		**92,843,778**		48,650,202
		18,439,047		10,868,463
Expenses				
Salaries and benefits		**4,821,487**		3,196,004
Selling, general and administration (Note 22)		**3,878,416**		2,012,493
Interest on short-term operating debt		**1,251,203**		855,487
Amortization on intangible assets		**934,127**		347,782
Interest on long-term debt		**649,262**		698,571
Amortization on property and equipment		**417,463**		320,623
Interest on obligations under capital lease		**4,513**		-
		11,956,471		7,430,960
Gain on sale of property and equipment		**14,442**		7,874
Earnings before income taxes		**6,497,018**		3,445,377
Income tax expense (recovery) (Note 17)				
Current		**2,229,413**		835,231
Future		**(219,183)**		209,626
		2,010,230		1,044,857
Net earnings and comprehensive income		**4,486,788**		2,400,520
Earnings per share (Note 16)				
Basic	**$**	**0.33**	$	0.19
Diluted	**$**	**0.33**	$	0.19

See accompanying notes to the consolidated financial statements.

Bri-Chem Corp.
Consolidated Statements of Retained Earnings

For the years ended		**December 31 2008**		December 31 2007
Retained earnings, beginning of year	**$**	**5,166,841**	$	2,530,021
Excess in net assets acquired (Note 5)		**-**		236,300
Net earnings and comprehensive income		**4,486,788**		2,400,520
Retained earnings, end of year	**$**	**9,653,629**	$	5,166,841

See accompanying notes to the consolidated financial statements.

Bri-Chem Corp.
Consolidated Statements of Cash Flows

For the years ended		**December 31 2008**		December 31 2007
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings	**$**	**4,486,788**	$	2,400,520
Non-cash items:				
Amortization on property and equipment		**417,463**		320,623
Amortization on intangible assets		**934,127**		347,782
Amortization of debt related transaction costs		**11,962**		22,207
Future income tax expense (recovery)		**(219,183)**		209,626
Stock-based compensation (Note 15)		**250,234**		417,170
Gain on sale of property and equipment		**(14,442)**		(7,874)
		5,866,949		3,710,054
Change in non-cash working capital (Note 18)		**(19,203,846)**		2,472,690
		(13,336,897)		6,182,744
Financing activities				
Advances on promissory notes payable		**231,895**		200,515
Proceeds on issuance of long-term debt		**-**		5,000,000
Advances (repayments) of operating line		**20,110,457**		(7,502,146)
Transaction costs on credit facility		**-**		(105,000)
Repayment of promissory notes payable		**(1,589,920)**		(11,000,000)
Repayment of long-term debt		**(101,669)**		(693,572)
Proceeds (adjustments) on issuance of shares (Note 13)		**566,000**		(56,278)
Repayment of obligations under capital lease		**(47,453)**		-
		19,169,310		(14,156,481)
Investing activities				
Purchase of property and equipment		**(798,532)**		(519,816)
Proceeds on disposal of property and equipment		**25,025**		76,323
Cash paid on acquisition (Note 5)		**(5,058,906)**		(2,710,700)
		(5,832,413)		(3,154,193)
Net increase (decrease) in cash and cash equivalents		**-**		(11,127,930)
Cash and cash equivalents, beginning of year		**-**		11,127,930
Cash and cash equivalents, end of year		**-**		-

Supplemental cash flow information (Note 18)

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 distributor of industrial drilling fluid supplies and steel products to the energy, construction and industrial sectors.

On January 1, 2007, mBase Commerce Inc. 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 5). 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 wholly-owned subsidiaries, Bri-Chem Supply Ltd., Sodium Solutions Inc. and Weifang Steel Canada Ltd. ("Weifang"). All inter-company transactions and balances have been appropriately eliminated.

Use of estimates

Preparing financial statements 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 income tax assets, the impairment testing of goodwill, the purchase price allocation for business acquisitions, amounts recorded as accrued liabilities and future income tax liabilities and the fair value of options using the Black-Scholes option pricing model. Management believes actual results will not be materially different from these estimates.

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.

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

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 useful lives are as follows:

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

Obligations under capital lease

The Company accounts for leases as either operating or capital. Capital leases are those that substantially transfer the benefit and risks of ownership to the lessee. Assets acquired under capital lease are amortized over their estimated useful lives. Obligations under capital lease are measured at lower of the present value of future minimum lease payments and fair market value. Leases not meeting the criteria are treated as operating with lease payments recorded as an expense in the period paid or accrued.

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.

During the year, there were no events or changes in circumstances which indicated that the carrying amounts of long-lived assets may not be recoverable and no impairment loss was recognized.

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.

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

Intangible assets (cont'd)

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.

The amortization methods and estimated useful lives of the intangible assets, which are reviewed annually, are as follows:

Customer relationships	5 years straight-line
Sales backlog	6 months straight-line
Proprietary technology, technological expertise and proprietary blends	3 years straight-line
Tradename	5 years straight-line
Non-competition agreements	3 to 5 years straight-line

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.

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 three reporting units. Management has determined that goodwill was not impaired during 2008.

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.

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

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 and market conditions. 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.

Stock-based compensation

The Company has established a stock option plan for the Executive and Board of Directors, and employees as described in Note 15. 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 the rate in effect on the date of the transaction. Weighted average exchange rates are used to approximate the rate in effect on the date of the transaction. Non-monetary balance sheet items denominated in foreign currencies are translated to Canadian dollars at the rate in effect on the date of the transaction. Gains or losses on translation are included in earnings.

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

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

Goodwill and intangible assets

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 1, 2008. The Company does not expect the adoption of this standard will have a material impact on the consolidated financial statements.

International financial reporting standards

During 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting purposes. The required transition date is for fiscal years beginning on or after January 1, 2011.

The Company commenced its IFRS conversion project during 2008 and established a formal project governance structure, including an IFRS Steering Committee, to monitor the progress and critical decisions in the transition to IFRS. This committee is comprised of members of finance management and is responsible for final approval of project recommendations and deliverables to the Audit Committee and the Board of Directors.

The project consists of three phases:

- **Preliminary planning and scoping** – This phase included the establishment of a dedicated team to work on the IFRS transition, the development of a detailed work plan for the implementation and completion of a high level diagnostic. The high level diagnostic involved a review of the major differences between Canadian GAAP and IFRS and prioritized the IFRS requirements based on their financial reporting impact, business impact and complexity.

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

International financial reporting standards (cont'd)

- **Detailed assessment and design** - This phase focuses on determining the specific impacts to the Company based on the application of IFRS requirements. This includes the design and development of detailed solutions and work plans by each key area to address implementation requirements. In addition, impact analysis will be performed on all areas of the business, including tax and information technology systems. Accounting policies will be finalized, first-time adoption exemptions will be considered, and a detailed implementation plan and timeline will be developed. This phase also includes the development of a training program.

- **Implementation** – This phase includes implementing the required changes necessary for IFRS compliance. The focus of this phase is the finalization of IFRS conversion impacts, approval and implementation of accounting and tax policies, implementation and testing of new processes, systems and controls, execution of customized training programs and preparation of opening IFRS balances.

The Company has commenced the first phase of the IFRS implementation and this phase has been completed for the first quarter of 2009. At this stage of the project, it is not possible to quantify the financial reporting differences between Canadian GAAP and IFRS .

Business combinations

In December 2008, the CICA issued section 1582 "Business Combinations", which will replace CICA Section 1581 of the same name. Some of the more significant changes under this guidance is that the purchase price used in a business combination is based on the fair value of the shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. This section will be effective January 1, 2011 with prospective application. Although the Company is considering the impact of the adoption of this pronouncement on its consolidated financial statements, the impact will be limited to any future acquisitions beginning in fiscal 2011.

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.

3. Changes in accounting policies (cont'd)

Inventory

Effective January 1, 2008, the Company adopted 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 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 shall be assigned using the first-in, first-out (FIFO) or weighted average cost method. The section has been applied retrospectively and had no impact on the current or previous operating results of the Company.

Inventory is measured at the lower of cost and net realizable value. Cost is determined using the first-in first-out method for direct purchase price of goods. Costs associated with freight transportation and handling fees are determined using a combination of actual rates and the weighted average cost method. The cost of inventory expensed in cost of sales for the year ended December 31, 2008 was $88,829,709 (December 31, 2007 - $47,383,531). Inventory balances are presented net of a write-down to net realizable value totaling $48,787 (2007 - $289,131).

Financial instruments

Effective January 1, 2008, the Company adopted two new Canadian Institute of Chartered Accountants ("CICA") standards, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced 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. These new standards have resulted in enhanced disclosure in Note 22 of the consolidated financial statements.

Effective January 1, 2007, the Company adopted CICA Section 3855, "Financial Instruments – Recognition and Measurement", which 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 provisions as follows:

<u>Held for trading</u>

Cash

3. Changes in accounting policies (cont'd)

Financial instruments (cont'd)

Loans and receivables

Accounts receivable

Other financial liabilities

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 balance sheet for the year ended December 31, 2007. The Company has not entered into any material derivative instrument transactions during 2008.

General standards

Effective January 1, 2008, the Company adopted paragraph .08A and .08B 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 a going concern. The adoption of this Section did not have any impact on the Company's financial statements.

Capital disclosures

Effective January 1, 2008, the Company adopted CICA handbook Section 1535, "Capital Disclosures". 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 adoption of this section did not have any impact on the Company's financial position or results of operations and has resulted in enhanced disclosure in Note 21 of the financial statements.

4. 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.

5. Acquisitions

Acquisition of Weifang Steel Canada Ltd.

On August 29, 2008, the Company acquired 100% of the outstanding common shares of Weifang , a private Alberta wholesale distributor and trader of steel tubular, casing and other steel products to the resource, industrial and construction industries for a total purchase price of $10,768,906, including 1,304,348 common shares at a fair market value of $2,260,000. Concurrent with the purchase of the shares, the Company also settled amounts to shareholders of $2,478,906, which has been reflected in the purchase price.

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	$	20,000,234
Property and equipment		738,249
Intangible assets		3,152,000
Goodwill		3,646,855
Bank indebtedness		(5,505,946)
Current liabilities		(10,011,917)
Obligations under capital lease		(370,014)
Future income taxes		(880,555)
	$	10,768,906

The components of the total purchase price were as follows:

Cash	$	4,948,906
Closing net income adjustment		450,000
Promissory notes		3,000,000
1,304,348 common shares		2,260,000
Transaction costs		110,000
	$	10,768,906

5. Acquisitions (cont'd)

The 1,304,348 common shares were issued as part of the purchase price at a price of $2.30 which is representative of the fair value of the shares at the time of the acquisition. The common shares were then adjusted based on value of a put option of stock and sale restrictions (see Note 13) with discount factors ranging from 20% - 26%. The transaction costs of the acquisition include legal and consulting fees related to the acquisition. The promissory notes payable bear interest at 6% per annum and have been recorded at fair value.

The purchase price allocated to intangible assets include: customer relationships ($1,226,000), non-competition agreements ($958,000), sales backlog ($410,000), and tradename ($558,000). Customer relationships, non-competition agreements and the tradename will be amortized over 5 years on a straight-line basis. The sales backlog will be amortized over 6 months on a straight-line basis. The goodwill acquired with Weifang is not deductible for income tax purposes.

The closing net income adjustment will be paid on January 7, 2009.

Acquisition of Spirit Mountain Holdings Inc.

On July 17, 2007, the Company acquired 100% 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

5. 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 includes 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 was paid on September 16, 2008 (see Note 10).

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

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.

5. Acquisitions (cont'd)

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, 2008, no additional consideration was set up for the year as the minimum EBITDA target was not achieved.

6. Property and equipment

		December 31, 2008	
	Cost	**Accumulated Amortization**	**Net Book Value**
Land	**$ 255,592**	**$ -**	**$ 255,592**
Buildings	**1,784,683**	**370,873**	**1,413,810**
Motor vehicles	**370,459**	**100,589**	**269,870**
Manufacturing and other equipment	**1,359,065**	**740,492**	**618,573**
Office equipment	**203,389**	**112,799**	**90,590**
Computer hardware	**227,185**	**111,751**	**115,434**
Computer software	**332,321**	**44,656**	**287,665**
Pavement and landscaping	**111,113**	**17,942**	**93,171**
Leasehold improvements	**547,827**	**350,890**	**196,937**
Equipment under capital lease	**474,500**	**18,627**	**455,873**
	$ 5,666,134	**$ 1,868,619**	**$ 3,797,515**

		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 other 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

7. Intangible assets

Intangible assets having finite lives consist of the following:

	December 31, 2008		
	Cost	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 3,215,351**	**$ 763,600**	**$ 2,451,751**
Sales backlog	**410,000**	**273,333**	**136,667**
Proprietary processes, technological expertise and proprietary blends	**150,000**	**100,000**	**50,000**
Tradename	**558,000**	**37,200**	**520,800**
Non-compete agreement	**1,108,621**	**107,775**	**1,000,846**
	$ 5,441,972	**$ 1,281,908**	**$ 4,160,064**

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

8. Goodwill

	December 31 2008	December 31 2007
Balance, beginning of year	**$ 1,081,445**	$ 416,200
Acquisitions (Note 5)	**3,646,855**	665,245
	$ 4,728,300	$ 1,081,445

9. Bank indebtedness

Effective December 18, 2008, the Company established a new credit facility to a maximum of $40,000,000, with an increase to $45,000,000 effective January 1, 2009 to May 31, 2009, with a reduction to $35,000,000 thereafter (December 31, 2007 - $25,000,000) which includes a sub-limit of $10,000,000 (December 31, 2007 - $10,000,000) on a US demand overdraft, $100,000 on a bank guarantee and $250,000 on an import line. The bank operating line of credit bears interest at prime plus 1.0% (December 31, 2007 – prime plus 0.3%). The US demand overdraft bears interest at US base rate plus 1.0%, (December 31, 2007 – US base rate plus 0.3%), per annum and are due on demand. At December 31, 2008, the prime rate was 3.5% and the US base rate was 3.25%. The collateral security lodged by the Company to support all debt (Note 11) held with HSBC Bank 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.

10. Promissory notes payable

	December 31 2008	December 31 2007
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 $1,000,000 plus interest on October 29, 2011, secured by a general security agreement covering all the assets of the Company.	**$ 3,061,150**	$ -
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.	**2,281,340**	3,392,000
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 5).	**-**	308,515
	5,342,490	3,700,515
Less: current portion	**2,142,490**	1,500,515
	$ 3,200,000	$ 2,200,000

10. Promissory notes payable (cont'd)

Principal repayments over the next three years are as follows:

2009	$	2,142,490
2010		2,200,000
2011		1,000,000
	$	5,342,490

11. Long-term debt

		December 31 2008		December 31 2007
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 total of 7% per annum to guarantor of this debt. A 2% per annum standby fee is charged on the outstanding balance of the $5 million loan available. The loan security is described below.	**$**	**3,000,000**	$	3,000,000
HSBC committed non-revolving loan, payable in monthly installments of $18,000 including interest at prime plus 0.85% per annum, maturing June 30, 2010. The loan is secured by the same security as the bank indebtedness (see Note 9).		**1,819,316**		1,928,043
Less: transaction costs		**220,049**		239,073
		4,599,267		4,688,970
Less: current portion		**853,769**		67,514
	$	**3,745,498**	$	4,621,456

11. Long-term debt (cont'd)

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 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.

Principal repayments over the next four years are as follows:

2009	$	853,769
2010		2,125,498
2011		720,000
2012		900,000
	$	4,599,267

12. Obligations under capital lease

	December 31 2008	December 31 2007
Scotiabank capital lease bearing interest at bankers acceptance plus 2%, repayable in blended monthly installments of $3,702, maturing November 16, 2010, secured by specific equipment with a net book value of $147,013 (net of accumulated amortization of $6,190).	**$ 109,915**	$ -
John Deere capital lease bearing interest at 0.90% per annum, repayable in blended monthly installments of $5,218, maturing August 22, 2010, secured by specific equipment with a net book value of $159,135 (net of accumulated amortization of $6,180).	**98,400**	-
Scotiabank capital lease bearing interest at bankers acceptance plus 2%, repayable in blended monthly installments of $3,233, maturing November 15, 2010, secured by specific equipment with a net book value of $125,713 (net of accumulated amortization of $5,407).	**96,012**	-
Doosan Global Finance capital lease bearing interest at 4.60% per annum, repayable in blended monthly installments of $1,110, maturing June 18, 2010, secured by specific equipment with a net book value of $24,013 (net of accumulated amortization of $850).	**18,234**	-
	322,561	-
Less: current portion	**146,867**	-
	$ 175,694	$ -

Future minimum lease payments required over the next two years for all obligations under capital lease are as follows:

2009	$ 159,155
2010	181,008
	340,163
Less: interest	(17,602)
	$ 322,561

13. 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, beginning of year	**12,212,552**	**$**	**16,016,455**
Elimination of mBase Commerce Inc. deficit and contributed surplus	**-**		**(4,827,733)**
Finalization of amounts received on issuance of share capital from prior year	**-**		**(56,278)**
Issuance of shares upon acquisition of Spirit Mountain (Note 5)	**714,286**		**1,215,000**
Balance, December 31, 2007	**12,926,838**	**$**	**12,347,444**
Issuance of share shares upon exercise of options	**283,000**		**687,830**
Issuance of shares upon acquisition of Weifang (Note 5)	**1,304,348**		**2,260,000**
Balance, December 31, 2008	**14,514,186**	**$**	**15,295,274**

a) On January 1, 2007, shareholders received one amalgamated company common share for every five common shares held in mBase Commerce Inc.

b) On January 1, 2007, the Company exchanged 10,205,700 shares, with a total assigned value of $11,188,722, for 10,205,700 shares of Gwelan Supply Ltd. As described in Note 5, 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, 2008, all 5,829,040 common shares have been released.

c) On July 17, 2007, the Company issued 714,286 shares with a fair value of $1,215,000 for the purchase of shares of Spirit Mountain (see Note 5). 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)

d) On August 29, 2008, the Company issued 1,304,348 shares with a fair value of $2,260,000 for the purchase of shares of Weifang (see Note 5). The following resale restrictions exist on the following shares:

434,783 common shares with resale restrictions expiring August 30, 2009
434,783 common shares with resale restrictions expiring August 30, 2010
434,782 common shares with resale restrictions expiring August 30, 2011

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. Options granted under the plan are vested under such times as determined by the Board of Directors, subject to regulatory requirements. As at December 31, 2008, 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 year is outlined below:

Options to employees and directors

December 31, 2008	Number of options		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2008	**1,353,000**	$	1.99	3.63
Granted	**30,000**		2.25	4.00
Exercised	**-**		-	-
Forfeited	**(30,000)**		2.03	4.00
Outstanding, December 31, 2008	**1,353,000**	$	1.99	3.63
Options exercisable, December 31, 2008	**441,210**	$	2.00	4.00

13. Share capital (cont'd)

December 31, 2007	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	**-**		-	-
Forfeited	**(30,000)**		2.00	4.00
Cancelled	**(30,000)**		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	4.07%
Expected volatility	35.86%
Expected dividend yield	0.00%

During the year, 30,000 options were granted (December 31, 2007 – 1,413,000), with 30,000 options forfeited (December 31, 2007 – 30,000), and no options cancelled (December 31, 2007 – 30,000) under the Plan at a total fair value of $29,700 (December 31, 2007 - $878,280). A total of 1,353,000 options, net of forfeitures have been issued under the Plan.

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 2008, 283,000 options to agents were exercised.

Warrants

a) As part of the consideration given for the acquisition of Spirit Mountain (Note 5), 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:

13. Share capital (cont'd)

	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
Outstanding, December 31, 2008	**350,000**	$	2.03	2.56
Exercisable, December 31, 2008	**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 2008		December 31 2007
Balance, beginning of year	**$**	**727,050**	$	121,830
Agent options exercised		**(121,830)**		-
Fair value of stock options granted to employees		**250,234**		417,170
Fair value of warrants granted to agents		**-**		141,706
Fair value of warrants granted on acquisition of Spirit Mountain (Note 5)		**-**		46,344
Balance, end of year	**$**	**855,454**	$	727,050

15. Stock based compensation

Compensation expense arising from the options granted in the year is recognized over the vesting period. Stock-based employee compensation expense of $250,234 (December 31, 2007 – $417,170) is recorded in salaries and employee benefits with a corresponding increase to contributed surplus.

16. Earnings per share

		December 31 2008		December 31 2007
Net earnings	**$**	**4,486,788**	$	2,400,520
Basic weighted average number of common shares		**13,515,723**		12,541,319
Dilutive effect of warrants and stock options		**-**		-
Diluted weighted average number of common shares		**13,515,723**		12,541,319
Basic earnings per share	**$**	**0.33**	$	0.19
Diluted earnings per share	**$**	**0.33**	$	0.19

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 2008		December 31 2007
Expected income tax rate at 29.50% (December 2007 - 32.16%)	**$**	**1,917,526**	$	1,108,033
Increase (decrease) resulting from:				
Tax rate differential		**6,066**		(23,740)
Non-deductible expenses		**115,124**		153,906
Loss carryforward		**-**		(225,956)
Other		**(28,486)**		32,614
	$	**2,010,230**	$	1,044,857

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 2008	December 31 2007
Future income tax assets:		
Capital assets - excess of undepreciated capital cost compared to net book value	**$ 46,705**	$ 54,140
Share issue costs	**121,972**	156,571
Capital lease obligations	**91,786**	-
Net capital loss carryforwards	**23,750**	23,750
Less: valuation allowance	**(23,750)**	(23,750)
	$ 260,463	$ 210,711
Future income tax liabilities:		
Capital assets - excess of net book value over undepreciated capital cost	**$ 241,128**	$ 90,691
Intangibles - excess of net book value over tax basis	**1,112,865**	529,667
Financing fees	**-**	22,514
	$ 1,353,993	$ 642,872
Net future tax liability	**$ (1,093,530)**	$ (432,161)
Reported in the financial statements as follows:		
Future income tax asset	**$ 186,457**	$ 44,601
Future income tax liability	**(1,279,987)**	(476,762)
	$ (1,093,530)	$ (432,161)

18. Supplemental cash flow information

	2008	2007
Accounts receivable	**$ (7,950,714)**	$ (1,031,606)
Inventory	**(10,981,211)**	861,646
Prepaids and deposits	**(2,995,931)**	5,602
Accounts payable and accrued liabilities	**2,589,383**	2,551,513
Income taxes payable	**134,627**	85,535
	$ (19,203,846)	$ 2,472,690
Interest paid	**$ 1,176,455**	$ 1,281,803
Income tax paid	**2,052,747**	725,752
Non-cash transactions:		
Promissory notes issued on acquisition of Weifang Steel Canada Ltd. (Note 5)	**(3,000,000)**	-
Promissory note issued on acquisition of Spirit Mountain Holdings Inc. (Note 5)	**-**	(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
Net income adjustment issued on acquisition of Weifang Steel Canada Ltd. (Note 5)	**(450,000)**	-
Share capital issued (Note 13)	**2,260,000**	1,215,000

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 year ended December 31, 2008, 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 $120,000 (December 31, 2007 – $171,000) were paid to a company over which a director has significant influence.

b) Accounting, administrative and corporate expenses of $49,352 (December 31, 2007 – $80,329) were paid to a company over which a director has significant influence.

The Company paid directors fees of $37,000 (December 31, 2007 – $22,875) to three of the Company's directors.

19. Related party transactions (cont'd)

The Company expensed interest of $159,477 (December 31, 2007 - $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. $81,340 (December 31, 2007 - $200,521) is included in promissory notes payable at year end. In addition, the Company expensed $61,151 (December 31, 2007 – $ nil) on promissory notes payable issued on the acquisition of Weifang (see Note 5) which are held by three of the former owners of Weifang. The expense has been included in interest on long term debt and added to the balance of the promissory notes payable.

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:

2009	$	659,810
2010		146,657
2011		93,472
2012		1,710
	$	901,649

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. Capital risk management

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 bank indebtedness, long-term debt, promissory notes payable, obligations under capital lease and shareholders' equity in the definition of capital. 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.

21. Capital risk management (cont'd)

During the twelve months ended December 31, 2008, the Company was in compliance with its externally imposed capital requirements which are debt covenants. The Company monitors these requirements on a monthly basis. Changes in certain key ratios are as follows:

	December 31 2008	December 31 2007
Current ratio	1.32	1.75
Debt service ratio	3.65	2.68
Total debt to tangible net worth	2.93	1.39
Funded debt to EBITDA	3.35	3.00

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

Debt service ratio is defined as the ratio of adjusted EBITDA less cash income taxes and unfunded capital expenditures divided by the 12 month forward looking principal, interest and other fixed obligations, including EBITDA bonuses and any payments owed under promissory notes payable. Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") 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.

Funded debt to adjusted EBITDA ratio is defined as the ratio of all interest-bearing debt, excluding promissory notes payable divided by the trailing twelve month adjusted EBITDA, which includes the trailing twelve month EBITDA from Weifang.

22. Financial instruments

The Company's financial instruments consist of recorded amounts of cash, accounts receivable, as well as, bank indebtedness, accounts payable and accrued liabilities, promissory notes payable, long-term debt, and obligations under capital lease.

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 18%, 12% and 6% respectively (December 31, 2007 – 26%, 21%, 6%) of total revenue during the year and 19%, 9% and 8% respectively (December 31, 2007 – 27%, 18%, 6%) of total accounts receivable at year end.

22. Financial instruments (cont'd)

Credit risk (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.

The aging of accounts receivable was as follows:

2008	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 10,109,767	$ -	$ 10,109,767
31 to 60 days	14,116,021	-	14,116,021
61 to 90 days	12,083,971	-	12,083,971
91 to 120 days	5,139,976	-	5,139,976
Over 120 days	1,729,508	3,435	1,726,073
Total	$ 43,179,243	$ 3,435	$ 43,175,808

The changes in allowance for doubtful accounts were as follows:

	2008	2007
Balance, beginning of year	$ 64,265	$ 285,358
Bad debt expense	3,435	121,034
Receivables written off	(31,877)	(310,327)
Recovery of receivables	(32,388)	(31,800)
Balance, end of year	$ 3,435	$ 64,265

The Company held $748,206 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.

Interest rate risk

Long term debt 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.

The effective interest rate on the bank indebtedness of December 31, 2008 was Canadian bank prime interest rate plus 100 basis points (4.50%). The demand loan bears interest at bank prime plus 85 basis points. As at December 31, 2008, other variables unchanged, an increase or decrease of 50 basis points in the prime interest rate would cause an increase or decrease by approximately $150,825 in net income.

22. Financial instruments (cont'd)

Foreign exchange risk

The Company is subject to foreign currency risk due to its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies. Accounts receivable in foreign currency was $10,027,922 as at December 31, 2008 (December 31, 2007 - $206,829) and accounts payable in foreign currency outstanding as at December 31, 2008 is $12,974,583 (December 31, 2007 - $1,066,885). The Company does not use significant derivative instruments to reduce its foreign currency risk. The Company realized a foreign exchange loss of $962,103 (December 31, 2007 - $28,147 gain) during the fiscal year that was included in selling, general and administration expenses. Based on the monetary assets and liabilities held in foreign currencies at December 31, 2008 a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $165,257.

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 reprising 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.

Contractual obligations related to financial liabilities at December 31, 2008 are as follows:

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Capital leases*	Total
2009	$ 37,666,571	$ 24,653,886	$ 982,738	$ 2,406,090	$ 159,155	$ 65,868,440
2010	-	-	2,505,401	2,462,027	181,008	5,148,436
2011	-	-	762,995	1,169,973		1,932,968
2012	-	-	900,000	-		900,000
Total	$ 37,666,571	$ 24,653,886	$ 5,151,134	$ 6,038,090	$ 340,163	$ 73,849,844

* includes interest calculated to be paid

22. Financial instruments (cont'd)

Commodity risk

Commodity risk arises from the effect that fluctuations of future commodity prices may have on the fair value or future cash flows of financial assets and liabilities. The Company does not use derivatives to reduce its commodity risk.

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, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments. The fair value of promissory notes payable approximates the carrying value as the interest rate is similar to current market rate for similar debt, while the fair value of long term debt reflects the incremental cost of borrowing given current market interest rates.

	2008		2007	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans and receivables:				
Accounts receivable	**43,175,808**	**43,175,808**	24,885,748	24,885,748
Other financial liabilities:				
Bank indebtedness	**37,666,571**	**37,666,571**	12,050,168	12,050,168
Accounts pable and accrued liabilities	**24,653,886**	**24,653,886**	11,967,882	11,967,882
Long-term debt *	**4,599,267**	**4,308,838**	4,688,970	4,688,970
Promissory notes payable *	**5,342,490**	**5,342,490**	3,700,515	3,700,515
Obligations under capital lease *	**322,561**	**322,561**	-	-

* including current portion

23. Segmented information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief decision makers in allocating resources and assessing performance. The Company operates in two business segments based on type of products sold. The fluids segment includes the sale of fluids and chemical additives to the resource and industrial markets. The steel product segment includes the sale of tubular steel products to the resource, industrial and construction industries.

23. Segmented information (cont'd)

Selected financial information by reportable segment is disclosed as follows:

December 31, 2008	Fluids	Steel	Corporate	Consolidated
Revenue	$ 83,434,468	$ 27,848,357	$ -	**$ 111,282,825**
Amortization	792,413	507,853	51,324	**1,351,590**
Interest expense (income)	4,124,363	743,533	(2,967,431)	**1,900,465**
Income taxes	838,907	561,662	609,661	**2,010,230**
Segment profit (loss)	$ 2,711,570	$ 903,596	$ 871,622	**$ 4,486,788**
Intangible assets	$ 1,464,196	$ 2,695,868	$ -	$ 4,160,064
Goodwill	1,081,445	3,646,855	-	4,728,300
Total assets	66,509,494	33,681,980	770,225	100,961,699
Capital expenditures (excluding business acquisitions)	646,255	152,277	-	798,532

No comparative information was provided for 2007, as the Company had only one reportable operating segment.

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

	December 31 2008	December 31 2007
Revenue		
Canada and International	**$ 100,164,384**	$ 58,782,068
United States	**11,118,441**	736,597
	$ 111,282,825	$ 59,518,665

Total assets, property and equipment, intangibles and goodwill related to the United States operations were not significant and therefore have been included in Canadian operations.

24. Comparative figures

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