Bri-Chem Corp.
Year End Report
December 31, 2009

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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, 2009 and December 31, 2008 and the consolidated statements of operations and comprehensive (loss) income, retained earnings and cash flows for the years then ended. 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, 2009 and December 31, 2008 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

Edmonton, Canada

April 15, 2010

Chartered Accountants

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Bri-Chem Corp.
Consolidated Balance Sheets

	December 31 2009	December 31 2008
Assets		
Current		
Accounts receivable	**$ 31,172,888**	$ 43,175,808
Inventory (Note 6)	**40,179,035**	39,942,913
Prepaid expenses and deposits	**1,139,783**	4,970,642
Income taxes receivable	**1,381,443**	-
Future income tax assets (Note 16)	**27,427**	-
	73,900,576	88,089,363
Property and equipment (Note 7)	**3,676,600**	3,609,903
Intangible assets (Note 8)	**1,241,100**	4,347,676
Goodwill (Note 8)	**-**	4,728,300
Future income tax assets (Note 16)	**113,511**	186,457
	$ 78,931,787	$ 100,961,699
Liabilities		
Current		
Bank indebtedness (Note 9)	**$ 27,652,949**	$ 37,666,571
Accounts payable and accrued liabilities	**23,917,359**	24,653,886
Income taxes payable	**-**	1,292,580
Current portion of promissory notes payable (Note 10)	**325,696**	2,142,490
Current portion of long-term debt (Note 11)	**872,045**	853,769
Current portion of obligations under capital lease (Note 12)	**177,040**	146,867
	52,945,089	66,756,163
Promissory notes payable (Note 10)	**5,200,000**	3,200,000
Long-term debt (Note 11)	**2,922,439**	3,745,498
Obligations under capital lease (Note 12)	**11,161**	175,694
Future income tax liabilities (Note 16)	**476,378**	1,279,987
	61,555,067	75,157,342
Shareholders' Equity		
Share capital (Note 13)	**15,156,254**	15,295,274
Contributed surplus (Note 14)	**1,014,175**	855,454
Retained earnings	**1,206,291**	9,653,629
	17,376,720	25,804,357
	$ 78,931,787	$ 100,961,699

Commitments and contingencies (Note 19)

On behalf of the Board

(signed) "Don Caron"
Don Caron, Director

(signed) "Alan Campbell"
Alan Campbell, Director

See accompanying notes to the consolidated financial statements.

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

For the years ended		December 31 2009		December 31 2008
Sales	**$**	**96,479,615**	$	111,282,825
Cost of sales (Note 6)		**83,172,710**		92,794,991
		13,306,905		18,487,834
Net realizable value inventory write down (Note 6)		**3,080,560**		48,787
Gross margin		**10,226,345**		18,439,047
Gross margin (%)		**10.6%**		16.6%
Expenses				
Salaries and benefits		**6,192,901**		4,821,487
Selling, general and administration (Notes 18 & 21)		**3,542,055**		3,878,416
Interest on short-term operating debt		**1,164,301**		1,251,203
Amortization on intangible assets		**986,082**		954,973
Interest on long-term debt		**661,157**		649,262
Amortization on property and equipment		**541,145**		396,617
Interest on obligations under capital lease		**5,637**		4,513
Impairment charge (Note 8)		**6,884,132**		-
		19,977,410		11,956,471
(Loss) gain on sale of property and equipment		**(18,992)**		14,442
(Loss) earnings before income taxes		**(9,770,057)**		6,497,018
Income tax (recovery) expense (Note 16)				
Current		**(564,629)**		2,229,413
Future		**(758,090)**		(219,183)
		(1,322,719)		2,010,230
Net (loss) earnings and comprehensive (loss) income		**(8,447,338)**		4,486,788
(Loss) earnings per share (Note 15)				
Basic	**$**	**(0.58)**	$	0.33
Diluted	**$**	**(0.58)**	$	0.33

See accompanying notes to the consolidated financial statements.

Bri-Chem Corp.
Consolidated Statements of Retained Earnings

For the years ended		**December 31 2009**		December 31 2008
Retained earnings, beginning of year	**$**	**9,653,629**	$	5,166,841
Net (loss) earnings and comprehensive (loss) income		**(8,447,338)**		4,486,788
Retained earnings, end of year	**$**	**1,206,291**	$	9,653,629

See accompanying notes to the consolidated financial statements.

Bri-Chem Corp.

Consolidated Statements of Cash Flows

For the years ended	**December 31 2009**	December 31 2008
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net (loss) earnings	**$ (8,447,338)**	$ 4,486,788
Non-cash items:		
Amortization on property and equipment	**541,145**	396,617
Amortization on intangible assets	**986,082**	954,973
Amortization of debt related transaction costs	**57,072**	11,962
Future income tax recovery	**(758,090)**	(219,183)
Impairment of intangible assets (Note 8)	**2,155,832**	-
Impairment of goodwill (Note 8)	**4,728,300**	-
Stock-based compensation	**130,014**	250,234
Loss (gain) on sale of property and equipment	**18,992**	(14,442)
	(587,991)	5,866,949
Change in non-cash working capital (Note 17)	**12,187,108**	(19,203,846)
	11,599,117	(13,336,897)
Financing activities		
Advances on promissory notes payable	**315,417**	231,895
(Repayments) advances of operating line	**(10,013,622)**	20,110,457
Repurchase of common shares (Note 13)	**(110,314)**	-
Repayment of promissory notes payable	**(132,211)**	(1,589,920)
Repayment of long-term debt	**(861,855)**	(101,669)
Proceeds on issuance of shares (Note 13)	**-**	566,000
Repayment of obligations under capital lease	**(155,602)**	(47,453)
	(10,958,187)	19,169,310
Investing activities		
Purchase of property and equipment	**(679,688)**	(590,074)
Purchase of intangible assets	**(35,338)**	(208,458)
Proceeds on disposal of property and equipment	**74,096**	25,025
Cash paid on acquisition (Note 5)	**-**	(5,058,906)
	(640,930)	(5,832,413)
Net increase in cash and cash equivalents	**-**	-
Cash and cash equivalents, beginning of year	**-**	-
Cash and cash equivalents, end of year	**-**	-

Supplemental cash flow information (Note 17)

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 fluids, steel products and services to the energy, construction and industrial sectors.

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 Bri-Chem Steel Corporation (formerly Weifang Steel Canada Ltd.). 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 net realizable value inventory write-downs, 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)

Inventory

Inventory is 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 are assigned using the first-in, first-out (FIFO) cost method. Costs associated with freight transportation and handling fees are determined using a combination of actual rates and the weighted average cost method and are applied consistently by product line and location.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated as the greater of cost less salvage value over the life of the asset and cost less residual value over the useful life of the property and equipment. 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 equipment	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 the lease term or if the lease contains terms that allow ownership to pass to the Company or a bargain purchase option, assets are amortized over their estimated useful lives consistent with other property and equipment rates determined. 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 capital lease 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 other than intangible assets may not be recoverable and no impairment loss was recognized on long-lived assets other than intangible assets.

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

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. 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 processes, technological expertise and proprietary blends	3 years straight-line
Tradename	5 years straight-line
Non-competition agreements	3 to 5 years straight-line
Computer software	7 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.

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

Income taxes

Income taxes have been accounted for using the liability method of tax allocation. Under this method, future income 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 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 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. No adjustment is recorded for stock options that expire unexercised. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested.

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

Financial instruments

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:

Loans and receivables

Accounts receivable

Other financial liabilities

Bank indebtedness
Accounts payable and accrued liabilities
Long-term debt
Promissory notes payable
Obligations under capital lease

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 not entered into any material derivative instrument transactions.

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 monthly average rate in effect at the time of the transaction to approximate the rate on the transaction date. Gains or losses on translation are included in earnings.

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

(Loss) earnings per share

The computation of basic (loss) earnings per share has been calculated using the weighted average number of common shares outstanding during each reporting period. Diluted (loss) 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 assumes 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 is added to the denominator figure used for basic (loss) earnings per share when calculating diluted (loss) earnings per share.

Future accounting pronouncements

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.

- **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.

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

International financial reporting standards (cont'd)

- **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 completed the first phase of the IFRS implementation in 2009, and has commenced work on the second phase. Impacts at transition date have not be quantified and finalized at this time; however significant differences are not expected based on conversion work completed to date.

3. Changes in accounting policies

Business combinations

Effective January 1, 2009, the Company elected to early adopt CICA Section 1582, "Business Combinations" which replaces section 1581 of the same name on a prospective basis in accordance with the transitional provisions. This section requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the statement of operations. The adoption of this standard has no impact on current accounting treatment of subsidiaries, but will have an impact when applied prospectively to any future business combinations.

Consolidated financial statements

Effective January 1, 2009, the Company early adopted CICA Section 1601, "Consolidated Financial Statements" which replaces section 1600 of the same name on a prospective basis in accordance with the transitional provisions. This section establishes the requirements for the preparation of consolidated financial statements, in particular the standard requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Goodwill and intangible assets

Effective January 1, 2009, the Company adopted the 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. As a result of application of this standard, the Company reclassified certain of its software costs from Property and Equipment to Intangible Assets. This standard has been applied retrospectively and affects presentation only.

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 Bri-Chem Steel Corporation (formerly Weifang Steel Canada Ltd.)

On August 29, 2008, the Company acquired 100% of the outstanding common shares of Bri-Chem Steel Corporation ("Bri-Chem Steel"), 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 was amortized over 6 months on a straight-line basis. The goodwill acquired with Bri-Chem Steel Corporation is not deductible for income tax purposes.

The closing net income adjustment was paid on January 7, 2009. Weifang was subsequently renamed Bri-Chem Steel Corporation.

6. Inventory

The cost of inventory expensed in cost of sales for the year ended December 31, 2009 was $85,601,492 (December 31, 2008 - $88,829,709). Due to the deterioration in overall economic conditions, inventory balances are presented net of a write-down to net realizable value totaling $3,080,560 (December 31, 2008 - $48,787). All inventory held is finished goods.

7. Property and equipment

		December 31, 2009	
	Cost	Accumulated Amortization	Net Book Value
Land	$ 255,592	$ -	$ 255,592
Buildings	1,827,609	426,431	1,401,178
Motor vehicles	494,195	153,517	340,678
Manufacturing and other equipment	1,572,602	892,659	679,943
Office equipment	235,914	134,078	101,836
Computer equipment	438,872	237,955	200,917
Pavement and landscaping	147,465	24,842	122,623
Leasehold improvements	575,031	422,569	152,462
Equipment under capital lease	489,137	67,766	421,371
	$ 6,036,417	$ 2,359,817	$ 3,676,600

7. Property and equipment (cont'd)

	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 equipment	351,048	135,561	215,487
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
	$ 5,457,676	$ 1,847,773	$ 3,609,903

8. Goodwill and intangible assets

The Company performed its annual assessment of the fair value of its goodwill and intangible assets. Due to the deterioration in overall economic conditions, reduced activity levels within the oil and gas industry and changes in the market, the Company concluded that the carrying value of goodwill and intangible assets were impaired and recorded an impairment charge of $6,884,132, which was allocated to goodwill and intangible assets in the amounts of $4,728,300 and $2,155,832 respectively. This also decreased the related future income tax liability for the difference between tax and book amortization of the intangible assets by $527,495 during the year. The goodwill impairment was allocated to the fluids and steel operating segments in the amounts of $1,081,445 and $3,646,855 respectively. The impairment of intangible assets were recognized in the fluids and steel operating segments in the amounts of $327,232 and $1,828,600 respectively. The impairment charge for intangible assets comprises an impairment of customer relationships ($1,291,366), proprietary products ($16,667), non-compete agreements ($401,399) and trade names ($446,400).

Goodwill	**December 31 2009**	December 31 2008
Balance, beginning of year	**$ 4,728,300**	$ 1,081,445
Acquisitions (Note 5)	**-**	3,646,855
Impairment charge	**(4,728,300)**	-
	$ -	$ 4,728,300

8. Goodwill and intangible assets (cont'd)

Intangible assets having finite lives consist of the following:

Intangible assets	December 31, 2009			
	Cost	Accumulated Amortization	Impairment Charge	Net Book Value
Customer relationships	$ 3,215,351	$ 1,280,455	$ 1,291,366	$ 643,530
Sales backlog	410,000	410,000	-	-
Proprietary processes, technological expertise and proprietary blends	150,000	133,333	16,667	-
Tradename	558,000	111,600	446,400	-
Non-compete agreement	1,108,621	296,032	401,399	411,190
Computer software	243,796	57,416	-	186,380
	$ 5,685,768	$ 2,288,836	$ 2,155,832	$ 1,241,100

	December 31, 2008			
	Cost	Accumulated Amortization	Impairment Charge	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
Computer software	208,458	20,846	-	187,612
	$ 5,650,430	$ 1,302,754	$ -	$ 4,347,676

9. Bank indebtedness

Effective July 27, 2009, the Company renewed and amended its credit facility, which resulted in an increase in its line of credit from $35,000,000 to a maximum limit of $40,000,000, with an increase to $45,000,000 from December 1, 2009 to April 30, 2010. The credit facility includes a sub-limit of $10,000,000 (December 31, 2008 - $10,000,000) on a US demand overdraft, $100,000 (December 31, 2008 - $100,000) on a bank guarantee and $250,000 (December 31, 2008 - $250,000) on an import line. The bank operating line of credit bears interest ranging from prime plus 0.75% to prime plus 1.50% per annum (December 31, 2008 – prime plus 1.0%) and is due on demand. The US demand overdraft bears interest ranging from US base rate plus 0.75% to US base rate plus 1.50% per annum (December 31, 2008 – US base rate plus 1.0%) and is due on demand.

In addition, the HSBC term loan was renewed at an interest rate of prime plus 1.75% and matures on June 30, 2011. At December 31, 2009 the prime rate was 2.25% and the US base rate was 3.25%.

9. Bank indebtedness (cont'd)

The collateral security lodged by the Company to support all debt held with HSBC Bank Canada (Note 11) 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. There were no changes to the Company's debt covenant requirements except for the total debt to tangible net worth covenant that was reduced from 3 to 1 to 2.75 to 1 on December 31, 2009 and will be further reduced to 2.5 to 1 on June 30, 2010. At December 31, 2009, the Company was on-side with all covenant requirements (Note 20).

10. Promissory notes payable

	December 31 2009	December 31 2008
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 $1,000,000 plus interest on October 29, 2011, secured by a general security agreement covering all the assets of the Company.	**$ 3,244,356**	$ 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**	2,281,340
	5,525,696	5,342,490
Less: current portion	**325,696**	2,142,490
	$ 5,200,000	$ 3,200,000

The $1,000,000 promissory note principal due in May 2009 and the $1,000,000 promissory note principal due in October 2009 have been postponed at the request of the Company's lender and therefore the principal has been reclassified to long-term as these amounts will not be paid within the next year. The installments for 2010 will not be paid within the next year and have been classified as long-term. The interest on the promissory notes will be paid within the next year and has been recorded as a current liability.

10. Promissory notes payable (cont'd)

Expected principal repayments over the next five years are as follows:

2010	$ 325,696
2011	2,200,000
2012	1,000,000
2013	1,000,000
2014	1,000,000
	$ 5,525,696

11. Long-term debt

	December 31 2009	December 31 2008
HSBC Capital subordinated debenture, bearing interest at prime, repayable monthly from February 2007 to January 2009 interest only, February 2009 to December 2011 monthly installments of $60,000 plus interest with the remaining balance of $900,000 due January 30, 2012. In addition, the Company pays 1% (2008 - 0.5833%) on a monthly basis for total of 12% (2008 - 7%) per annum to guarantor of this debt. The loan security is described below.	**$ 2,340,000**	$ 3,000,000
HSBC committed non-revolving loan, payable in monthly installments of $18,000 including interest at prime plus 1.75% per annum, maturing June 30, 2011. The loan is secured by the same security as the bank indebtedness (see Note 9).	**1,667,461**	1,819,316
	4,007,461	4,819,316
Less: transaction costs	**212,977**	220,049
	3,794,484	4,599,267
Less: current portion	**872,045**	853,769
	$ 2,922,439	$ 3,745,498

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 three years are as follows:

2010	$	872,045
2011		2,235,416
2012		900,000
	$	4,007,461

The long-term debt contains financial covenants including, but not limited to, a minimum debt service coverage ratio among others that are calculated on a quarterly basis. As at December 31, 2009, the Company was in compliance all covenants. On December 31, 2009, HSBC Capital amended its agreement to eliminate the funded debt to normalized EBITDA (earnings before interest, taxes, depreciation, amortization, and other non-cash transactions) financial covenant for a one year period to January 1, 2011.

12. Obligations under capital lease

		December 31 2009		December 31 2008
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 $130,505 (net of accumulated amortization of $22,697).	**$**	**71,411**	$	109,915
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 $111,433 (net of accumulated amortization of $19,687).		**62,378**		96,012
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 $141,909 (net of accumulated amortization of $23,406).		**36,417**		98,400
De Lage Landen capital lease bearing interest at 6.8% per annum, repayable at blended monthly installments of $654, maturing July 8, 2012, secured by specific equipment with a net book value $37,525, (net of accumulated amortization of $1,975).		**17,995**		-
Doosan Global Finance capital lease bearing interest at 4.60% per annum, repayable in blended monthly installments of $1,110, maturing June 18, 2010 was paid out on July 8, 2009 and equipment was sold.		**-**		18,234
		188,201		322,561
Less: current portion		**177,040**		146,867
	$	**11,161**	$	175,694

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

2010	$	195,653
2011		7,848
2012		4,578
		208,079
Less: interest		(19,878)
	$	188,201

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, January 1, 2008	**12,926,838**	**$**	**12,347,444**
Issuance of shares upon exercise of options	**283,000**		**687,830**
Issuance of shares upon acquisition of Bri-Chem Steel (Note 5)	**1,304,348**		**2,260,000**
Balance, December 31, 2008	**14,514,186**	**$**	**15,295,274**
Shares repurchased and cancelled	**(132,400)**		**(139,020)**
Balance, December 31, 2009	**14,381,786**	**$**	**15,156,254**

a) 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 Holdings Ltd. The following resale restrictions exist on the following shares:

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

b) 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 Bri-Chem Steel Corporation (see Note 5). The following resale restrictions exist on the following shares:

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

(c) On December 9, 2008, the Company entered into a Normal Course Issuer Bid ("NCIB") to repurchase, for cancellation, up to 815,000 of its outstanding common shares. For the year ended December 31, 2009, 132,400 shares were repurchased for cash consideration of $110,314 and have been cancelled. The excess of the carrying amount over the repurchase price has been credited to contributed surplus.

On December 17, 2009, the Company renewed its NCIB, whereby the Company is permitted to repurchase, for cancellation, up to 807,000 of its outstanding common shares. The NCIB commenced on December 18, 2009 and will terminate on December 17, 2010, or earlier if the number of shares sought has been obtained. At December 31, 2009, no additional shares had been repurchased for cancellation under the renewed NCIB.

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. 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, 2009, 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, 2009	**Number of options**		**Weighted average exercise price**	**Weighted average contractual life (years)**
Outstanding, January 1, 2009	**1,353,000**	$	1.99	3.63
Granted	**30,000**		0.75	4.00
Exercised	**-**		-	-
Forfeited	**(97,000)**		1.99	4.00
Outstanding, December 31, 2009	**1,286,000**	$	1.97	4.00
Options exercisable, December 31, 2009	**839,160**	$	1.99	4.00

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

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:

	2009	2008
Expected life	**4 years**	4 years
Risk-free rate	**2.52%**	4.07%
Expected volatility	**77.50%**	35.86%
Expected dividend yield	**0.00%**	0.00%

13. Share capital (cont'd)

Options to employees and directors (cont'd)

During the year, 30,000 options were granted (December 31, 2008 – 30,000), with 101,000 options forfeited (December 31, 2008 – 30,000) under the Plan at a total fair value of $19,500 (December 31, 2008 - $29,700). A total of 1,282,000 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 Holdings Ltd., the Company issued 100,000 share purchase warrants with a fair value of $46,344. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of $2.10 per common share, as negotiated between the parties to the transaction from July 17, 2007, expiring July 17, 2010.

b) Pursuant to the terms of the loan agreement with HSBC Capital, the Company issued 250,000 share purchase warrants with a fair value of $141,706 to the lender. Each share purchase warrant entitles the lender to purchase one common share of the Company at a price of $2.00 per common share from January 30, 2007, expiring January 30, 2010. In December 2009, the Company extended the 250,000 share purchase warrants for an additional two years. The warrants were extended at an exercise price of $2.00 with an immaterial change in the fair value of the warrants as a result of the extension. The 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, 2008				
Granted	**350,000**	$	2.03	2.56
Exercised	**-**		-	-
Expired	**-**		-	-
Outstanding, December 31, 2008	**350,000**		2.03	2.56
Outstanding, December 31, 2009	**350,000**	$	2.03	2.56
Exercisable, December 31, 2009	**350,000**	$	2.03	2.56

The fair value of the warrants extension during the year of $0.14 is estimated on the date of modification using the Black-Scholes option pricing model based on the following weighted average assumptions:

Expected life	2 years
Risk-free rate	1.32%
Expected volatility	77.50%
Expected dividend yield	0.00%

14. Contributed surplus

	December 31 2009	December 31 2008
Balance, beginning of year	**$ 855,454**	$ 727,050
Agent options exercised	**-**	(121,830)
Fair value of stock options granted to employees and directors	**130,014**	250,234
Repurchase of common shares (Note 13)	**28,707**	-
Balance, end of year	**$ 1,014,175**	$ 855,454

15. (Loss) earnings per share

	December 31 2009	December 31 2008
Net (loss) earnings	**$ (8,447,338)**	$ 4,486,788
Basic weighted average number of common shares	**14,485,860**	13,515,723
Diluted weighted average number of common shares	**14,485,860**	13,515,723
Basic (loss) earnings per share	**$ (0.58)**	$ 0.33
Diluted (loss) earnings per share	**$ (0.58)**	$ 0.33

16. Income taxes

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

	December 31 2009	December 31 2008
Expected income tax rate at 29% (December 2008 - 29.50%)	**$ (2,833,317)**	$ 1,917,526
Increase (decrease) resulting from:		
Tax rate differential	**53,916**	6,066
Non-deductible expenses	**80,073**	115,124
Goodwill writedown	**1,371,207**	-
Other	**5,402**	(28,486)
	$ (1,322,719)	$ 2,010,230

16. 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 2009	December 31 2008
Future income tax assets:		
Capital assets - excess of undepreciated capital cost compared to net book value	**$ 25,776**	$ 46,705
Inventory valuation allowance	**27,427**	-
Share issue costs	**71,366**	121,972
Capital lease obligations	**49,931**	91,786
Intangibles - excess tax basis over book value	**16,368**	-
Net capital loss carryforwards	**23,750**	23,750
Less: valuation allowance	**(23,750)**	(23,750)
	$ 190,868	$ 260,463
Future income tax liabilities:		
Capital assets - excess of net book value over undepreciated capital cost	**$ 195,674**	$ 241,128
Intangibles - excess of net book value over tax basis	**330,634**	1,112,865
	$ 526,308	$ 1,353,993
Net future tax liability	**$ (335,440)**	$ (1,093,530)
Reported in the financial statements as follows:		
Future income tax asset	**$ 140,938**	$ 186,457
Future income tax liability	**(476,378)**	(1,279,987)
	$ (335,440)	$ (1,093,530)

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

17. Supplemental cash flow information

		December 31 2009		December 31 2008
Accounts receivable	**$**	**12,002,921**	$	(7,950,714)
Inventory		**(236,122)**		(10,981,211)
Prepaids and deposits		**3,830,859**		(2,995,931)
Accounts payable and accrued liabilities		**(736,527)**		2,589,383
Income taxes payable		**(2,674,023)**		134,627
	$	**12,187,108**	$	(19,203,846)
Interest paid	**$**	**1,647,890**	$	1,176,455
Income tax paid		**1,543,380**		2,052,747
Non-cash transactions:				
Promissory notes issued on acquisition of Bri-Chem Steel Coporation (Note 5)		**-**		(3,000,000)
Net income adjustment issued on acquisition of Bri-Chem Steel Corporation		**-**		(450,000)
Share capital issued (Note 13)		**-**		2,260,000
Equipment purchased under capital lease		**39,500**		-

18. Related party transactions

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

During the year ended December 31, 2009, 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, 2008 – $120,000) were paid to a company over which a director has significant influence.

b) Accounting, administrative and corporate expenses of $39,095 (December 31, 2008 – $49,352) were paid to a company over which a director has significant influence.

The Company paid directors fees of $39,750 (December 31, 2008 – $37,000) to three of the Company’s directors.

18. Related party transactions (cont'd)

The Company expensed interest of $132,000 (December 31, 2008 - $159,477) on promissory notes payable issued in the prior year which are held by two of the Company's directors, senior management and significant shareholders. Of this amount, $81,340 (December 31, 2008 - $81,340) is included in promissory notes payable at year end. In addition, the Company expensed $183,206 (December 31, 2008 – $61,151) on promissory notes payable issued on the acquisition of Bri-Chem Steel (see Note 5) which are held by three of the former owners of Bri-Chem Steel. The expense has been included in interest on long term debt and added to the balance of the promissory notes payable.

19. Commitments and contingencies

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

2010	$ 1,090,366
2011	1,019,726
2012	954,990
2013	926,880
2014	926,880
	$ 4,918,842

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

20. 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.

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

20. Capital risk management (cont'd)

	December 31 2009	December 31 2008
Current ratio	1.40	1.32
Debt service ratio	1.35	3.65
Total debt to tangible net worth	2.11	2.93

For the year ended December 31, 2009, the Company was in compliance with all financial convenants. On December 31, 2009, HSBC Capital amended its agreement to eliminate the funded debt to normalized EBITDA financial covenant for a one year period to January 1, 2011.

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

Debt service ratio is defined as the ratio of normalized EBITDA less cash income taxes and unfunded capital expenditures for the trailing four quarters divided by the principal, interest and other fixed obligations, including EBITDA bonuses and any payments owed under promissory notes payable for the same trailing four quarters. Normalized Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") plus non-cash items is a measure that does not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures by other companies.

Total debt to tangible net worth ratio is defined as the ratio of total liabilities of the Company less postponement of long term portion of the promissory notes payable and long term portion of subordinated debt divided by total equity of the Company less intangible assets and goodwill plus any postponement of promissory notes payable and long term portion of subordinated debt.

21. Financial instruments

The Company's financial instruments consist of recorded amounts of 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 14%, 9% and 7% respectively (December 31, 2008 – 18%, 12%, 6%) of total revenue during the year and 19%, 13% and 11% respectively (December 31, 2008 – 19%, 9%, 8%) of total accounts receivable at year end.

The Company manages its credit risk through the credit application process and through an extensive collections process. The Company maintains an allowance for estimated credit losses on accounts receivable. The estimate is based on the best assessment of the collectability of the related receivable balances based, in part, on the age of the outstanding accounts receivable and on the Company's historical collection and loss experience and other economic information.

21. Financial instruments (cont'd)

The aging of accounts receivable was as follows:

2009	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 10,620,233	$ -	$ 10,620,233
31 to 60 days	9,080,357	-	9,080,357
61 to 90 days	6,679,747	-	6,679,747
91 to 120 days	4,282,864	-	4,282,864
Over 120 days	679,178	169,491	509,687
Total	$ 31,342,379	$ 169,491	$ 31,172,888

The changes in allowance for doubtful accounts were as follows:

	2009	2008
Balance, beginning of year	$ 3,435	$ 64,265
Bad debt expense	316,171	3,435
Receivables written off	(119,468)	(31,877)
Recovery of receivables	(30,647)	(32,388)
Balance, end of year	$ 169,491	$ 3,435

The Company held $525,486 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

Demand loans, obligations under capital lease, 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 at December 31, 2009 was Canadian bank prime interest rate plus 100 basis points (3.25%). The demand loan bears interest at bank prime plus a fixed increment. As at December 31, 2009, other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately $56,593 (2008 – $75,412).

21. Financial instruments (cont'd)

Currency risk

The Company is subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities denominated in foreign currencies. Therefore, there is a risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities. Although the majority of the Company's operations are in Canada, the Company has expanded its operations outside Canada, which increases its exposure to foreign currency risk. Accounts receivable in foreign currency was $1,580,209 as at December 31, 2009 (December 31, 2008 - $10,027,922) and accounts payable in foreign currency outstanding as at December 31, 2009 is $8,281,171 (December 31, 2008 - $12,974,583). The Company does not use derivative instruments to reduce its foreign currency risk. The Company realized a foreign exchange gain of $1,001,153 (December 31, 2008 - $962,103 loss) during the fiscal year that was included in selling, general and administration expenses. Based on the monetary assets and liabilities held in the United States ("US") at December 31, 2009 a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $239,781 (December 31, 2008 – $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 repricing of credit risk and the current weak economic conditions have made, and will likely continue to make it difficult to obtain financing. In addition, the cost of obtaining money from the credit market has generally increased as many lenders have increased interest rates, enacted tighter lending standards, and are not refinancing existing debt at maturity on terms similar to current debt and, in some cases, ceased to provide funding. Due to these factors, the Company cannot be certain that financing will be available when needed and to the extent required, on acceptable terms. If financing is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

21. Financial instruments (cont'd)

Contractual obligations related to financial liabilities at December 31, 2009 are as follows:

	Bank credit facility	Accounts payable	Long-term debt *	Promissory notes payable *	Capital leases*	Total
2010	$ 27,652,949	$ 23,917,359	$ 936,000	$ 641,436	$ 195,653	$ 53,343,397
2011	-	-	2,235,416	2,434,401	7,848	4,677,665
2012	-	-	900,000	1,173,495	4,578	2,078,073
2013	-	-	-	1,163,424	-	1,163,424
2014	-	-	-	1,150,915	-	1,150,915
Total	$ 27,652,949	$ 23,917,359	$ 4,071,416	$ 6,563,671	$ 208,079	$ 62,413,474

* includes interest calculated to be paid

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 the long term debt approximates the carrying value as the interest is similar to current market rate for similar debt, while the fair value of promissory notes payable reflects the incremental cost of borrowing given current market risks and interest rates for the similar debt.

	2009		2008	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans and receivables:				
Accounts receivable	**31,172,888**	**31,172,888**	43,175,808	43,175,808
Other financial liabilities:				
Bank indebtedness	**27,652,949**	**27,652,949**	37,666,571	37,666,571
Accounts pable and accrued liabilities	**23,917,359**	**23,917,359**	24,653,886	24,653,886
Long-term debt *	**3,794,484**	**3,794,484**	4,599,267	4,308,838
Promissory notes payable *	**5,525,695**	**5,353,135**	5,342,490	5,342,490
Obligations under capital lease *	**188,201**	**188,201**	322,561	322,561

* including current portion

22. 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.

Accounting policies for each of these business segments are the same as those disclosed in the Company's annual consolidated financial statements. General and administrative expenses directly related to the operating segments are included as operating expenses for those segments. There are no significant inter-segment revenues.

Selected financial information by reportable segment is disclosed as follows:

December 31, 2009	Fluids	Steel	Corporate	Consolidated
Revenue	$ 62,051,728	$ 34,427,887	$ -	**$ 96,479,615**
Amortization	749,010	749,429	28,788	**1,527,227**
Interest expense (income)	2,319,891	1,060,915	(1,549,711)	**1,831,095**
Income tax expense (recovery)	366,146	(1,264,768)	(424,097)	**(1,322,719)**
Segment profit (loss) before adjustments	$ 744,972	$ (851,389)	$ 1,725,805	**$ 1,619,388**
Impairment charge	1,408,677	5,475,455	-	**6,884,132**
Inventory write-down	347,259	2,835,337	-	**3,182,596**
Segment (loss) profit	$ (1,010,964)	$ (9,162,181)	$ 1,725,805	**$ (8,447,340)**
Intangible assets	$ 877,873	$ 363,227	$ -	$ 1,241,100
Total assets	54,788,136	23,250,643	893,008	78,931,787
Capital expenditures (excluding business acquisitions)	344,970	334,718	-	679,688

22. Segmented information (cont'd)

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) before adjustments	$ 2,760,357	$ 903,596	$ 871,622	**$ 4,535,575**
Impairment charge	-	-	-	**-**
Inventory write-down	48,787	-	-	**48,787**
Segment profit	$ 2,711,570	$ 903,596	$ 871,622	**$ 4,486,788**
Intangible assets	$ 1,651,808	$ 2,695,868	$ -	$ 4,347,676
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

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

	December 31 2009	December 31 2008
Revenue		
Canada and International	**$ 88,118,737**	$ 100,164,384
United States	**8,360,878**	11,118,441
	$ 96,479,615	$ 111,282,825

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.

23. Comparative figures

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