BRI-CHEM CORP

Year End Report

December 31, 2012

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Independent Auditors' report

To the Shareholders of
Bri-Chem Corp.

We have audited the accompanying consolidated financial statements of Bri-Chem Corp., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bri-Chem Corp. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

Edmonton, Canada

Grant Thornton LLP

March 28, 2013

Chartered Accountants

Consolidated Statements of Operations
(Canadian dollars)

For the years ended	Note	December 31 2012	December 31 2011
Sales		**$ 160,068,060**	$ 186,125,404
Cost of sales		**134,685,523**	154,686,351
Gross margin		**25,382,537**	31,439,053
Expenses			
Salaries and benefits		**9,579,021**	7,642,993
Selling, general and administration		**7,026,500**	7,422,116
Interest on short-term operating debt		**2,134,394**	1,550,773
Amortization on property and equipment		**619,925**	1,005,459
Amortization on intangible assets		**393,172**	442,560
Interest on long-term debt		**87,251**	347,300
Interest on obligations under finance lease		**40,962**	40,007
Foreign exchange (gain) loss		**(982,740)**	167,773
	24	**18,898,485**	18,618,981
Earnings before income taxes		**6,484,052**	12,820,072
Income tax expense (recovery)			
Current		**2,397,373**	4,126,894
Deferred		**(805,841)**	(769,089)
	16	**1,591,532**	3,357,805
Net earnings		**$ 4,892,520**	$ 9,462,267
Earnings attributable to:			
Shareholders of the Company		**$ 5,365,835**	$ 10,097,640
Non-controlling interest	**19**	**(473,315)**	(635,373)
		$ 4,892,520	$ 9,462,267
Earnings per share	**20**		
Basic		**$ 0.31**	$ 0.64
Diluted		**$ 0.31**	$ 0.61

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Comprehensive Income

(Canadian dollars)

For the years ended	Note		December 31 2012		December 31 2011
Net earnings		**$**	**4,892,520**	$	9,462,267
Other comprehensive (loss) income					
Foreign currency translation adjustment, net of tax of $nil (December 31, 2011 - $nil)			**(64,277)**		6,997
Comprehensive income		**$**	**4,828,243**	$	9,469,264
Comprehensive income attributable to:					
Shareholders of the Company		**$**	**5,301,558**	$	10,104,637
Non-controlling interest	**19**		**(473,315)**		(635,373)
		$	**4,828,243**	$	9,469,264

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Balance Sheets

(Canadian dollars)

	Note	December 31 2012	December 31 2011
Assets			
Current			
Accounts receivable	5	$ 37,594,701	$ 56,860,660
Inventories	6	70,286,639	54,179,238
Prepaid expenses and deposits		2,711,738	1,981,023
		110,593,078	113,020,921
Non-current			
Property and equipment	7	13,006,408	9,895,011
Intangible assets	8	2,688,623	1,073,959
Goodwill	9	1,619,307	548,466
Deferred tax assets	16	1,347,643	1,131,987
		$ 129,255,059	$ 125,670,344
Liabilities			
Current			
Bank indebtedness	10	$ 44,398,833	$ 48,910,877
Accounts payable and accrued liabilities	11	21,753,134	30,137,391
Customer deposits		52,859	52,859
Current portion of promissory note payable	12	—	368,466
Current portion of obligations under finance lease	14	164,401	177,578
Income taxes payable	16	377,622	934,049
		66,746,849	80,581,220
Non-current			
Promissory note payable	12	248,731	—
Long-term debt	13	9,457,350	—
Obligations under finance lease	14	307,670	559,868
Deferred tax liabilities	16	512,333	463,625
Other long-term liabilities		252,765	116,150
		77,525,698	81,720,863
Equity			
Share capital	17	24,396,817	23,727,210
Contributed surplus		1,355,350	613,004
Warrants	18	209,226	88,200
Non-controlling interest	19	2,412,225	1,466,882
Retained earnings		23,413,023	18,047,188
Accumulated other comprehensive (loss) income		(57,280)	6,997
		51,729,361	43,949,481
		$ 129,255,059	$ 125,670,344

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Note	Share capital	Contributed surplus	Warrants	Accumulated other comprehensive (loss) income	Retained earnings	The Company	Non-controlling interest	Total equity
Balance at January 1, 2012		$ 23,727,210	$ 613,004	$ 88,200	$ 6,997	$18,047,188	$42,482,599	$ 1,466,882	**$43,949,481**
Issuance of shares upon exercise of options	**18**	323,015	(64,708)	—	—	—	258,307	—	**258,307**
Issuance of shares upon exercise of warrants	**18**	198,800	—	(58,800)	—	—	140,000	—	**140,000**
Employee share-based payment options		—	791,040	—	—	—	791,040	—	**791,040**
Warrants issued on long-term debt	**18**	—	—	209,226	—	—	209,226	—	**209,226**
Consultant share-based payment options		—	(13,386)	—	—	—	(13,386)	—	**(13,386)**
Increase in partner investment	**19**	—	—	—	—	—	—	1,418,658	**1,418,658**
Issuance of shares for acquisition	**4**	147,792	—	—	—	—	147,792	—	**147,792**
Expiration of warrants	**18**	—	29,400	(29,400)	—	—	—	—	**—**
Net earnings (loss)		—	—	—	—	5,365,835	5,365,835	(473,315)	**4,892,520**
Other comprehensive loss		—	—	—	(64,277)	—	(64,277)	—	**(64,277)**
Balance at December 31, 2012		$ 24,396,817	$ 1,355,350	$ 209,226	$ (57,280)	$23,413,023	$49,317,136	$ 2,412,225	**$51,729,361**

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Changes in Equity

(Canadian dollars)

	Note	Share capital	Contributed surplus	Warrants	Accumulated other comprehensive income	Retained earnings	The Company	Non-controlling interest	Total equity
Balance at January 1, 2011		$ 14,451,480	$ 1,079,488	$ 229,950	$ —	$ 7,949,548	$ 23,710,466	$ (33,411)	$23,677,055
Issuance of shares upon exercise of options		2,657,282	(751,954)	—	—	—	1,905,328	—	1,905,328
Issuance of shares upon exercise of warrants		641,750	—	(141,750)	—	—	500,000	—	500,000
Employee share-based payment options		—	188,454	—	—	—	188,454	—	188,454
Consultant share-based payment options		—	97,016	—	—	—	97,016	—	97,016
Issuance of shares under financing, net of tax and share issue costs		5,488,447	—	—	—	—	5,488,447	—	5,488,447
Issuance of shares for acquisition	**4**	488,251	—	—	—	—	488,251	—	488,251
Issuance of preferred shares in subsidiary	**19**	—	—	—	—	—	—	2,135,666	2,135,666
Net earnings (loss)		—	—	—	—	10,097,640	10,097,640	(635,373)	9,462,267
Other comprehensive income		—	—	—	6,997		6,997	—	6,997
Balance at December 31, 2011		$ 23,727,210	$ 613,004	$ 88,200	$ 6,997	$ 18,047,188	$ 42,482,599	$ 1,466,882	$43,949,481

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statements of Cash Flows

(Canadian dollars)

For the years ended	Note		December 31 2012		December 31 2011
Increase (decrease) in cash and cash equivalents					
Operating activities					
Net earnings		**$**	**4,892,520**	$	9,462,267
Non-cash items:					
Amortization on property and equipment			**1,426,925**		1,005,459
Amortization on intangible assets			**393,172**		442,560
Amortization of debt related transaction costs			**234,981**		161,587
Deferred tax recovery			**(805,841)**		(769,089)
Share-based payments			**791,040**		234,433
Foreign exchange gain on debt			**(1,219,681)**		(83,959)
Interest paid on debt and finance leases			**2,262,607**		1,938,080
Lease inducement			**46,356**		46,344
Loss (gain) on sale of property and equipment			**68,037**		(4,403)
Funds from operating activities before changes in non-cash working capital			**8,090,116**		12,433,279
Change in non-cash working capital	**23**		**(4,833,892)**		(14,690,145)
Cash provided by (used in) operating activities			**3,256,224**		(2,256,866)
Financing activities					
Advances on long-term debt	**13**		**10,000,000**		—
Interest paid on debt and finance leases			**(2,262,607)**		(1,938,080)
Advances on promissory notes payable			**—**		157,992
(Repayments) advances on operating line			**(3,316,534)**		9,919,662
Debt transaction costs			**(333,424)**		(876,642)
Repayment of promissory notes payable			**(358,352)**		(4,531,183)
Repayment of long-term debt			**—**		(3,154,700)
Proceeds on issuance of shares	**17**		**385,019**		7,619,153
Repayments of obligations under finance lease			**(255,261)**		(187,564)
Cash provided by financing activities			**3,858,841**		7,008,638
Investing activities					
Purchase of property, plant and equipment			**(3,319,254)**		(3,759,098)
Purchase of intangible assets			**(20,994)**		(40,706)
Proceeds on disposal of property and equipment			**64,728**		16,632
Cash paid on acquisition	**4**		**(3,839,545)**		(968,600)
Cash used in investing activities			**(7,115,065)**		(4,751,772)
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	**23**				

The accompanying notes are an integral part of the consolidated financial statements

1. Nature of operations

Bri-Chem Corp.'s ("the Company"or "Bri-Chem") shares are publicly traded on the Toronto Stock Exchange under the symbol BRY. Since 1985, Bri-Chem has established two primary segments of business through a combination of internal growth and acquisitions: Bri-Chem's Drilling Fluid Division is North America's largest independent wholesale supplier of drilling fluids for the oil and gas industry. The Company provides over 150 drilling fluid products, cementing, acidizing and stimulation additives from multiple strategically located warehouses throughout Canada and the United States; Bri-Chem's Steel Pipe Division is a wholesale distributor of carbon steel pipe and a manufacturer of large diameter seamless steel pipe for the energy industry. Bri-Chem Corp., the Company's parent, is incorporated and located in Canada. Its registered and primary place of business is 2125 - 64 Avenue, Edmonton, Alberta, T6P 1Z4.

2. Summary of significant accounting policies

Basis of presentation

These annual consolidated financial statements and the notes hereto have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These annual consolidated financial statements have been prepared on an historical cost basis except for certain financial assets and liabilities, including derivative financial instruments that are measured at fair value. Where applicable, these differences have been described in the notes hereto.

Amounts presented in these annual consolidated financial statements and the notes hereto are in Canadian dollars, the Corporation's reporting currency, unless otherwise stated.

The consolidated financial statements for the year ended December 31, 2012 (including comparatives) were authorized for issue by the Board of Directors on March 19, 2013.

Principles of consolidation

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

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

Business combinations

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

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

Business combinations (cont'd)

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

Foreign currency translation

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

For the accounts of foreign operations with the US dollar as the functional currency, assets and liabilities are translated into Canadian dollars, which is the presentation currency, at period end exchange rates while revenues and expenses are translated using average rates over the period, which approximate the rate on the transaction date. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive income as a separate component of equity. As at December 31, 2012, accumulated other comprehensive income is comprised solely of foreign currency translation adjustments.

Segmented reporting

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

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

Revenue

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

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

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

Revenue (cont'd)

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.

Decommissioning liabilities

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

Impairment testing of goodwill

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

Borrowing costs

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

Intangible assets

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

(Canadian dollars)

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

Intangible assets (cont'd)

The following estimated useful lives are applied:

Customer relationships	2 to 7 years straight-line
Non-compete agreements	2 to 5 years straight-line
Computer software	4 to 7 years straight-line
Supply agreement	4 years straight-line
Distribution agreement	5 years straight-line

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

Property and equipment

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

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

During the year ended December 31, 2012, the Company revised its estimated useful life for certain manufacturing equipment from 10 to 30% declining balance to 5 to 10 year straight-line as a result of additional information regarding the estimated useful life.

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

Leased assets

The Company as lessee

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

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

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

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

The Company as lessor

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

Impairment testing of intangible assets and property and equipment

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

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

Financial instruments

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

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

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

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

Financial assets

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

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

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

Financial liabilities

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

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

Derivative financial instruments

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

Inventories

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

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

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

Cash and cash equivalents

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

Income taxes

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

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

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

Income taxes (cont'd)

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

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income tax levied by the same tax authority and the same taxable entity or on different taxable entities but the intent is to settle current tax assets and liabilities on a net basis or the tax assets and liabilities will be relieved simultaneously.

Share-based payments

The Company has established a stock option plan for the Executive and Board of Directors, consultants, and employees as described in Note 18. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes Option Pricing Model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the option issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested.

Provisions, contingent liabilities and contingent assets

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

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

In the normal course of business, the Company enters into agreements that include indemnities in favour of third parties, such as engagement letters with advisers 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.

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

Critical accounting judgments in applying accounting policies

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

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

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

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

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

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

Sales returns provision
The Company has an informal policy whereby it accepts product returns from customers in three of its subsidiaries. Provisions recorded for estimated product returns are based on historical experience, market conditions, and drilling activities. Actual sales returns experienced may differ from this estimate. The provision is presented as part of the total accounts receivable and is disclosed in Note 5.

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

Stock-based compensation
The Company uses the Black-Scholes Option Pricing Model for valuing its stock options to employees and directors at the date of issue. Management uses estimates of the expected life, the risk-free rate, expected volatility, and expected forfeiture rate when calculating the value of the options issued. These estimates may vary from the

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

Critical accounting judgments in applying accounting policies (cont'd)

actual expense incurred and are updated at each reporting period based on information available at that time. The Company values options issued to non-employees based on available evidence of the value the transaction represents to the Company based on services provided in exchange for the option.

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

Business combinations
The Company uses valuation techniques in determining fair values of the various elements of a business combination based on future expected cash flows and a discount rate. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Early adoption of pronouncements

IAS 1 - Presentation of Financial Statements
In 2012, the Company has early adopted the Annual Improvements to IFRSs 2009 - 2011 Cycle of IAS 1 - Presentation of Financial Statements. The amendments to IAS 1 clarifies the requirements for comparative information when entities apply accounting policies retrospectively, makes a retrospective restatement of items in the financial statements, or when items are reclassified in its financial statements. By early adopting the standard, the Company has determined that they are not required to present a third statement of financial position for items that have been reclassified retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2013 but can be applied earlier.

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

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

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

IFRS 10 - Consolidated Financial Statements
IFRS 10 - Consolidated Financial Statements, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company does not expect a material impact on the consolidated financial statements other than additional note disclosure.

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

Recent pronouncements not yet effective and that have not been adopted early (cont'd)

IFRS 13 - Fair Value Measurement
The Company will be required to adopt IFRS 13 as of January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS's with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRS.

IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Company will adopt IFRS 13 prospectively in its financial statements for the annual period beginning January 1, 2013. Management has determined that IFRS 13 may impact fair value assessments in future purchase price allocations and may result in increased disclosures surrounding the fair value of financial instruments and their calculation.

Amendments to Other Standards
In addition, there have been amendments to existing standards, including IFRS 7 - Financial Instruments: Disclosure which require disclosure about the effects of offsetting financial assets and liabilities and related arrangements on an entity's financial position. IAS 27 - Separate Financial Statements addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 - Investments in Associates and Joint Ventures has been amended to include join ventures in its scope and to address the changes in IFRS 10 - 13. IAS 32 - Financial Instruments: Presentation addresses inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

3. Seasonality of operations

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern Western Canadian Sedimentary 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.

4. Business combinations

Acquisition of Kemik Inc.

On November 30, 2012, the Company purchased the net assets of Kemik Inc., a fluid packaging company based in Calgary, Alberta, for $1,800,000 cash. The acquisition was completed to enhance the Company's presence in fluid packaging and blending in North America.

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

(Canadian dollars)

4. Business combinations *(cont'd)*

Acquisition of Kemik Inc. *(cont'd)*

Current assets	$	207,340
Property and equipment		23,540
Intangible assets		1,744,300
Goodwill		101,841
Current liabilities		(167,990)
Deferred tax liability		(109,031)
	$	1,800,000

The components of the purchase price were $1,800,000 cash.

The purchase price allocated to intangible assets includes a distribution agreement ($1,156,400) and a supply agreement ($587,900). The distribution agreement will be amortized over five years and supply agreement will be amortized over four years on a straight line basis. The goodwill recognized primarily represents future growth expectations, expected future profitability, the existing workforce, and expected cost synergies with the Company. The goodwill that arose from this business combination is not expected to be deductible for tax purposes. At the date of acquisition, the gross contractual amount of receivables acquired were $126,974 of which 100% was estimated to be collectible.

Based on unaudited financial information available to management, if Kemik Inc. had been acquired at January 1, 2012, revenue for the year ended December 31, 2012 relating to Kemik Inc. operations would have been $2,542,850. Net earnings would have been $428,630 for the year ended December 31, 2012. Consolidated revenues would have been $162,610,910 and net earning would have been $5,321,150. Costs expensed in the year directly related to the acquisition total $33,796.

Acquisition of General Supply Company

On December 31, 2012, the Company acquired all of the outstanding ownership interests in General Supply Company ("General"), an Oklahoma limited liability fluid wholesale distribution business. The acquisition was completed to enhance the Company's presence in the US fluids market, in particular the region of Oklahoma.

The ownership interests were acquired for a total purchase price of $2,541,459, including 95,451 common shares at a fair market value of $147,792 (Note 17).

(Canadian dollars)

4. Business combinations *(cont'd)*

Acquisition of General Supply Company *(cont'd)*

Current assets	$	788,675
Property and equipment		1,148,612
Other assets		3,069
Intangible assets		262,853
Goodwill		968,881
Current liabilities		(124,794)
Deferred tax liability		(505,837)
	$	2,541,459

The components of the purchase price were as follows:

Cash	$	2,039,545
Promissory note		248,731
95,451 common shares of the Company		147,792
Contingent consideration		140,754
Closing working capital adjustment receivable		(35,363)
	$	2,541,459

The 95,451 common shares were issued as part of the purchase price at a price of $1.55 with an estimated fair value of $147,792. The fair value of the common shares is based on the share price on the date of issue and were then adjusted based on discount factors ranging from 19% to 30% to consider sale restrictions. The transaction costs of the acquisition include legal and consulting fees related to the acquisition and are expensed in the period incurred and included in selling, general and administration expenses. The promissory notes payable bears interest at 4% per annum, and is repayable in February 2014. Contingent consideration of $140,754 was estimated based on the achievement of certain financial targets over the next three years.

The Company calculated a closing working capital adjustment of $35,363 based on changes to final working capital balance on the acquisition date from the initial purchase date information. The amount remains payable from the former owner at December 31, 2012.

The purchase price allocated to intangible assets includes customer relationships ($212,113) and the non-competition agreement ($50,740). The intangible assets will be amortized over seven years on a straight line basis for the customer relationship and two years for the non-competition agreement. The goodwill recognized primarily represents future growth expectations, expected future profitability, the existing workforce, and expected cost synergies with the Company. The goodwill that arose from this business combination is not expected to be deductible for tax purposes.

Based on unaudited financial information available to management, if General had been acquired at January 1, 2012, revenue for the year ended December 31, 2012 relating to General operations would have been $3,414,369. Net earnings would have been $307,295 for the year ended December 31, 2012 had the acquisition been completed January 1, 2012. Consolidated revenues would have been $163,482,429 and net earnings would have been $5,199,815. Costs expensed in the year directly related to the acquisition total $83,449.

(Canadian dollars)

4. Business combinations *(cont'd)*

Acquisition of Stryker Ltd.

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

The ownership interests were acquired for a total purchase price of $1,906,735, including 171,429 common shares at a fair market value of $488,251 (Note 17).

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

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

The components of the purchase price were as follows:

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

The components of the purchase price were as follows:

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

(Canadian dollars)

4. Business combinations *(cont'd)*

Acquisition of Stryker Ltd. *(cont'd)*

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

The Company calculated a closing working capital adjustment of $110,874 based on changes to final working capital balance on acquisition date from initial purchase date information. The amount remains payable to the former owner at December 31, 2012. At the date of acquisition, the gross contractual amounts of receivables acquired were $926,359 of which 100% was estimated to be collectible.

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

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

5. Accounts receivable

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

		December 31 2012		December 31 2011
Accounts receivable, gross	**$**	**40,338,055**	$	58,751,825
Allowance for doubtful accounts		**(95,549)**		(41,852)
Accounts receivable, net		**40,242,506**		58,709,973
Allowance for sales returns		**(2,745,078)**		(2,607,813)
Other receivable		**97,273**		758,500
Accounts receivable	**$**	**37,594,701**	$	56,860,660

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

The Company's accounts receivable have been reviewed for indicators of impairment. Certain accounts receivable were found to be impaired and an allowance for doubtful accounts of $95,549 (December 31, 2011 - $41,852) has been recorded. The change in allowance for doubtful accounts for the year is recorded in selling, general and administration expenses.

(Canadian dollars)

5. Accounts receivable *(cont'd)*

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

		December 31 2012		December 31 2011
Balance, beginning of year	**$**	**41,852**	$	92,000
Bad debt expense		**231,441**		179,119
Receivables written off		**(177,744)**		(229,267)
Balance, end of year	**$**	**95,549**	$	41,852

6. Inventories

In the year ended December 31, 2012, a total of $123,178,437 of inventories was included in profit and loss as an expense (December 31, 2011 - $148,595,465). Previous write-downs recognized as a reduction of expense in prior periods were reversed in the amount of $nil (December 31, 2011 - $508,133). Inventory previously written down had seen an increase in selling price back to original values or higher, leading a net realizable value higher than original cost and requiring the previous write-downs taken to be reversed, in the appropriate year, up to the point of original cost.

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

		December 31 2012		December 31 2011
Distribution goods	**$**	**61,927,977**	$	51,917,660
Raw materials		**5,197,444**		1,859,673
Work-in-progress		**—**		244,732
Finished goods		**3,161,218**		157,173
Balance, end of year	**$**	**70,286,639**	$	54,179,238

(Canadian dollars)

7. Property and equipment

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

	December 31, 2012		
	Cost	Accumulated Amortization	Net Carrying Value
Land	$ 549,792	$ —	$ 549,792
Buildings	2,829,440	(567,821)	2,261,619
Motor vehicles	1,074,517	(439,807)	634,710
Manufacturing and other equipment	9,677,775	(2,434,603)	7,243,172
Office equipment	607,075	(339,552)	267,523
Computer equipment	797,241	(462,516)	334,725
Pavement and landscaping	174,663	(56,607)	118,056
Leasehold improvements	1,758,427	(712,436)	1,045,991
Equipment under finance lease	740,116	(189,296)	550,820
	$ 18,209,046	$ (5,202,638)	$ 13,006,408

During the year, $nil (December 31, 2011 - $40,246) of borrowing costs were capitalized to manufacturing equipment. The capitalization rate used to determine amount of borrowing costs eligible was nil (December 31, 2011 - 0.34%).

As at December 31, 2012, there is $2,933,464 (December 31, 2011 - $52,440) not being depreciated as it is not yet available for use.

	December 31, 2011		
	Cost	Accumulated Amortization	Net Carrying Value
Land	$ 402,792	$ —	$ 402,792
Buildings	1,787,011	(515,188)	1,271,823
Motor vehicles	890,687	(319,981)	570,706
Manufacturing and other equipment	6,865,765	(1,567,106)	5,298,659
Office equipment	555,841	(247,554)	308,287
Computer equipment	636,473	(373,828)	262,645
Pavement and landscaping	174,663	(46,341)	128,322
Leasehold improvements	1,467,199	(567,347)	813,428
Equipment under finance lease	986,665	(234,740)	751,925
	$ 13,767,096	$ (3,872,085)	$ 9,808,587

(Canadian dollars)

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

	Land	Buildings	Motor Vehicles	Manufacturing and Other Equipment	Office Equipment	Computer Equipment	Pavement and landscaping	Leasehold improvements	Equipment under finance lease	Total
Cost or deemed cost										
Balance at December 31, 2010	$ 402,792	$ 1,759,152	$ 790,845	$ 1,632,495	$ 309,311	$ 449,085	$ 174,663	$ 761,194	$ 104,000	$ 6,383,537
Additions	—	27,859	100,595	5,104,600	234,336	154,510	—	706,005	363,151	6,691,056
Additions through acquisition	—	—	29,441	123,445	11,699	31,542	—	—	498,417	694,544
Translation adjustment	—	—	1,246	5,225	495	1,336	—	—	21,097	29,399
Disposals	—	—	(31,440)	—	—	—	—	—	—	(31,440)
Balance at December 31, 2011	402,792	1,787,011	890,687	6,865,765	555,841	636,473	174,663	1,467,199	986,665	13,767,096
Balance at January 1, 2012	402,792	1,787,011	890,687	6,865,765	555,841	636,473	174,663	1,467,199	986,665	13,767,096
Additions	—	40,817	201,007	2,857,798	51,207	175,967	—	291,228	181,400	3,799,424
Additions through acquisition	147,000	1,001,612	—	29,582	—	—	—	—	—	1,178,194
Translation adjustment	—	—	714	1,544	27	612	—	—	—	2,897
Disposals	—	—	(17,891)	(76,914)	—	(15,811)	—	—	(427,949)	(538,565)
Balance at December 31, 2012	$ 549,792	$ 2,829,440	$ 1,074,517	$ 9,677,775	$ 607,075	$ 797,241	$ 174,663	$ 1,758,427	$ 740,116	$ 18,209,046
Accumulated amortization and impairment										
Balance at December 31, 2010	$ —	$ 461,774	$ 212,498	$ 1,035,430	$ 195,684	$ 288,115	$ 35,183	$ 470,082	$ —	$ 2,698,766
Amortization added on acquisition	—	—	12,651	42,550	3,003	15,216	—	—	41,389	114,809
Translation adjustment	—	—	535	1,801	127	644	—	—	1,752	4,859
Amortization for the year	—	53,414	110,358	487,325	48,740	69,853	11,158	97,265	191,599	1,069,712
Disposals	—	—	(16,061)	—	—	—	—	—	—	(16,061)
Balance at December 31, 2011	—	515,188	319,981	1,567,106	247,554	373,828	46,341	567,347	234,740	3,872,085
Balance at January 1, 2012	—	515,188	319,981	1,567,106	247,554	373,828	46,341	567,347	234,740	3,872,085
Amortization added on acquisition	—	—	—	6,041	—	—	—	—	—	6,041
Translation adjustment	—	—	—	—	—	—	—	—	—	—
Amortization for the year	—	52,633	137,495	866,431	91,998	98,900	10,266	145,089	118,844	1,521,656
Disposals	—	—	(17,669)	(4,975)	—	(10,212)	—	—	(164,288)	(197,144)
Balance at December 31, 2012	$ —	$ 567,821	$ 439,807	$ 2,434,603	$ 339,552	$ 462,516	$ 56,607	$ 712,436	$ 189,296	$ 5,202,638

(Canadian dollars)

8. Intangible assets

Intangible assets having finite lives consist of the following:

December 31, 2012		**Cost**		**Accumulated Amortization**		**Net Book Value**
Customer relationships	$	2,753,712	$	2,139,058	$	614,654
Non-compete agreement		667,455		447,802		219,653
Computer software		344,061		197,705		146,356
Distribution agreement		1,156,400		24,092		1,132,308
Supply agreement		587,900		12,248		575,652
	$	5,509,528	$	2,820,905	$	2,688,623

December 31, 2011		Cost		Accumulated Amortization		Net Book Value
Customer relationships	$	2,541,599	$	1,881,816	$	659,783
Non-compete agreement		616,715		384,723		231,992
Computer software		323,067		140,883		182,184
	$	3,481,381	$	2,407,422	$	1,073,959

(Canadian dollars)

8. Intangible assets *(cont'd)*

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

	Customer relationships	Non-compete agreements	Computer software	Distribution agreement	Supply agreement	Total
Cost						
Balance, December 31, 2010	$ 1,923,985	$ 372,639	$ 280,504	$ —	$ —	$ 2,577,128
Additions	607,300	239,700	41,965	—	—	888,965
Disposals	10,314	4,376	598	—	—	15,288
Balance, December 31, 2011	$ 2,541,599	$ 616,715	$ 323,067	$ —	$ —	$ 3,481,381
Additions	—	—	20,994	—	—	20,994
Additions through acquisition	212,113	50,740	—	1,156,400	587,900	2,007,153
Disposals	—	—	—	—	—	—
Balance, December 31, 2012	$ 2,753,712	$ 667,455	$ 344,061	$ 1,156,400	$ 587,900	$ 5,509,528

Accumulated amortization						
Balance, December 31, 2010	$ 1,545,108	$ 326,139	$ 91,772	$ —	$ —	$ 1,963,019
Amortization expense	336,708	58,584	49,111	—	—	444,403
Disposals	—	—	—	—	—	—
Balance, December 31, 2011	$ 1,881,816	$ 384,723	$ 140,883	$ —	$ —	$ 2,407,422
Amortization expense	257,242	63,079	56,822	24,092	12,248	413,483
Disposals	—	—	—	—	—	—
Balance, December 31, 2012	$ 2,139,058	$ 447,802	$ 197,705	$ 24,092	$ 12,248	$ 2,820,905

(Canadian dollars)

9. Goodwill

Goodwill acquired through business combinations has been allocated to two cash-generating units (CGU's) as follows: Fluid distribution USA and Fluid packaging.

Carrying amount of goodwill allocated to each CGU

	Fluid distribution USA		Fluid packaging		Total	
As at	**December 31 2012**	December 31 2011	**December 31 2012**	December 31 2011	**December 31 2012**	December 31 2011
Goodwill	**$ 1,517,466**	$ 548,466	**$ 101,841**	$ —	**$ 1,619,307**	$ 548,466

The Company performed its annual goodwill impairment test. Among other factors, the Company considers the relationship between the value in use of its CGUs to their carrying amounts when reviewing for indicators of impairment. As at December 31, 2012, the value in use of the CGUs were above the carrying amounts, indicating there was not an impairment of goodwill in any of the CGUs identified above. The balances relating to goodwill disclosed above are as at December 31, 2012, the date of the statement of the consolidated balance sheets. There has been no impairment of goodwill recognized in the 2012 or 2011 year.

Key assumptions used in the value in use calculations

The calculation of the value in use for the two CGU's is most sensitive to the following information: discount rates, growth rate used to extrapolate cash flows beyond the budget period and gross profit.

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the market risks and specific circumstances of the Company and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return of investment by investors. The cost of debt is based on market conditions and the Company’s interest bearing borrowings. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Specific risk premiums are calculated after consideration for the volatility in the revenue streams and the risk factors affecting the predictability of the particular CGU. Post-tax discount rate ranges utilized by CGUs are as follows: fluids distribution USA (17%) and fluids packaging (17%).

Growth rate estimates

Growth rates for 2013 are established using the board approved budgeted growth rate by CGU. Longer term growth rates are established using management's estimate for each CGU. Both the 2013 operating budget and management's estimate were calculated using our current prospects and our planned strategic changes expected to be implemented. The growth rate used to extrapolate cash flows beyond the budget period used (five years) is based on Government of Canada target inflation rates and U.S. Federal Reserve long term inflation expectations (2.5% for all CGUs).

(Canadian dollars)

9. Goodwill *(cont'd)*

Gross profit

Gross profit is based on historical values and is adjusted upwards or downwards depending on expected changes in revenues. As fixed costs remain relatively constant over the short term while revenues increase, gross profits improve over this same period.

Sensitivity to changes in assumptions

Discount rates

Most rates used within the WACC calculation do not change significantly year to year; however, if the specific risk premium were adjusted in either direction, it would have an effect on the value in use of the CGU. This, in turn, would change the excess or deficiency values over the carrying amounts of the CGU. For Fluids distribution USA, the specific risk premium would need to increase by 3.5% before a deficiency would be created. For Fluids packaging, the specific risk premium would need to increase substantially over the current worst case scenario before a deficiency over the carrying value would be created.

Growth rate and gross profit assumptions

Any reduction in the sales growth rate would have a negative impact on the value in use of the overall CGUs. Similarly, gross profits as a percentage of revenues used were in line with historical rates realized by the CGUs. For the Fluid distribution USA, gross profit would have to fall by 20% of our current expectations and the gross profit for the fluids packaging CGU would have to fall by a substantial amount of its current expectations before a deficiency would result in the respective carrying amounts.

As at December 31, 2012, the recoverable amount of the Company's CGUs exceeded their carrying amounts. With regard to the assessment of value in use, management believes that no reasonably possible change in any of the above key assumptions would have caused the carrying amount of the CGUs to materially exceed its recoverable amount.

The breakdown of goodwill for December 31, 2012 and 2011 is as follows:

	Note	**December 31 2012**	December 31 2011
Balance, beginning of year		**$ 548,466**	$ —
Acquired in acquisitions	**4**	**1,070,722**	526,202
Translation adjustment at year end		**119**	22,264
Balance, end of year		**$ 1,619,307**	$ 548,466

10. Bank indebtedness

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

The initial term of the ABL Facility is for three years and the initial advance repaid the outstanding amounts in full to its former credit facility lender HSBC totalling $36,060,524 CDN and US$1,718,833. This included amounts of $1,200,986 CDN to settle the outstanding balance on the HSBC Capital subordinated debenture, $1,437,863 CDN to settle outstanding amounts on the HSBC committed non-revolving loan, and $33,421,675 CDN and $1,718,883 US to settle the outstanding bank indebtedness balance. In addition, the Company also repaid $1,000,000 plus interest on previously postponed promissory notes.

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

As at December 31, 2012, $44,899,139 (December 31, 2011 - $49,625,932), net of unamortized transaction costs of $500,304 (December 31, 2011 - $715,055) was drawn on the ABL Facility. The Company incurred a total of $876,642 of transaction costs directly related to the ABL Facility in 2011, which will be amortized into net earnings over the term of the loan.

Significant financial covenants of the ABL Facility include a minimum tangible net worth and a maximum on annual capital expenditures. As at December 31, 2012, the Company was in compliance with its covenants (Note 25).

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

In addition, on December 31, 2010, the HSBC Bank Canada ("HSBC") committed non-revolving loan was amended with an increase to $2,500,000 available subject to property appraisals, at an interest rate of prime plus 1.75% and maturing on June 30, 2012. The Company was also granted a $1,000,000 evergreen credit facility to finance potential future purchases of equipment, at a rate of prime plus 1.75% per annum.

The collateral security lodged by the Company to support all debt held with HSBC Bank Canada was a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and its subsidiaries, a floating charge over all of the Company and its subsidiaries' present and after acquired real property, a demand collateral land mortgage and assignment of rents in the amount of $2,000,000 from the Company creating a first fixed and specific mortgage charge over all of the lands and premises, $5,000,000 guarantee of HSBC Capital Canada Inc., assignment of all risk insurance on the Company's real and personal property and guarantees of related parties.

(Canadian dollars)

11. Accounts payable and accrued liabilities

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

		December 31 2012		December 31 2011
Accounts payable	**$**	**16,912,095**	$	26,739,544
Accrued liabilities		**3,964,305**		731,278
Accrued purchase orders		**233,116**		1,906,145
Accrued compensation expense		**643,618**		760,424
	$	**21,753,134**	$	30,137,391

12. Promissory note payable

		December 31 2012		December 31 2011
Promissory note payable, bearing interest at 4% per annum, repayable as $250,000 USD plus interest on February 28, 2014, unsecured.	**$**	**248,731**	$	—
Promissory note payable, bearing interest at 6% per annum, repayable as $350,000 USD plus interest on June 1, 2012, unsecured.		**—**		362,312
Translation adjustment at year end		**—**		6,154
		248,731		368,466
Less: current portion		**—**		368,466
	$	**248,731**	$	—

The $350,000 USD promissory note was paid in full on June 1, 2012.

13. Long-term debt

Long-term debt - at amortized cost		December 31 2012		December 31 2011
Fulcrum Capital Partners Inc. subordinated debenture, bearing interest at 11.5%, repayable monthly from December 2012 to December 2013 interest only, March 2014 to December 2017 quarterly installments of $300,000 plus interest.	**$**	**10,000,000**	$	—
Less: transaction costs		**542,650**		—
		9,457,350		—
Less: current portion		**—**		—
	$	**9,457,350**	$	—

(Canadian dollars)

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

The Company may repay the debt in whole or in part at any time provided that each partial prepayment of principal is not less than $250,000. If the Company were to prepay the debt in full, the minimum interest paid to the lender must be at least $2,000,000. If it is less than $2,000,000, the difference must be paid by the Company.

The transaction costs include the amount related to the Company's issuance of warrants with a fair value of $209,226 (Note 18) based on the interest rate obtained on the long-term debt.

The long-term debt contained financial covenants including, but not limited to, funded term debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). As at December 31, 2012, the Company was in compliance with all covenants (Note 25).

The Fulcrum Capital Partners Inc. (the "Lender") subordinated debenture is secured by the following: 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 ABL Facility; 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 Fulcrum Capital Partners Inc. of all risk insurance in amounts and from an insurer acceptable to Fulcrum Capital Partners Inc., on all Bri-Chem Corp. real and personal property, without limitation, lands, buildings, equipment and inventory owned by Bri-Chem Corp., showing Fulcrum Capital Partners Inc. as second loss payee, including business interruption and public liability insurance.

14. Obligations under finance lease

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

	Minimum lease payments due			
December 31, 2012	Within one year	Two to five years	After five years	Total
Lease payments	$ 185,719	$ 330,468	$ —	$ 516,187
Finance charges	21,318	22,798	—	44,116
Net present value	$ 164,401	$ 307,670	$ —	$ 472,071
December 31, 2011				
Lease payments	$ 225,806	$ 620,825	$ 7,112	$ 853,743
Finance charges	48,228	67,974	95	116,297
Net present value	$ 177,578	$ 552,851	$ 7,017	$ 737,446

The Company enters into financing lease arrangements for certain of its operating equipment. The average term of the finance lease entered into is 3.6 years. Finance lease liabilities are secured by the related assets held under finance leases. The fair value of the finance lease liabilities is approximately equal to their carrying amount. The carrying amount is $550,820 as at December 31, 2012 (December 31, 2011 - $751,925).

(Canadian dollars)

15. Obligations under operating lease

15.1 The Company as Lessee

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

	Minimum lease payments due			
	Within one year	Two to five years	After five years	Total
December 31, 2012	$ 3,349,602	10,728,056	1,706,964	$ 15,784,622
December 31, 2011	$ 2,871,777	8,743,273	2,108,538	$ 13,723,588

The Company leases a number of warehouse locations and office equipment under operating leases. Lease payments recognized as an expense during the year amounted to $3,369,318 (December 31, 2011 - $2,871,918). This amount consists of minimum lease payments.

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

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

15.2 The Company as Lessor

The Company has leased property owned with a term expiring December 31, 2012. The Company has sub-leased property with a term of eight years expiring June 30, 2019. Additionally, the Company has sub-leased property with a term of five years expiring October 31, 2016. Sub-lease revenues of $932,333 (December 31, 2011 - $402,085) were received in the year and recorded in sales on the statement of operations. The lessee does not have an option to purchase the property at the expiry of the lease term.

Non-cancellable operating lease income is as follows:

	Minimum lease income receivable			
	Within one year	Two to five years	After five years	Total
December 31, 2012	$ 665,070	3,681,830	1,345,914	$ 5,692,814
December 31, 2011	$ 915,293	3,681,830	1,345,914	$ 5,943,037

(Canadian dollars)

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. Income tax rates changed from 26.5% to 25% due to a reduction in federal statutory tax rates. These differences result from the following items:

	December 31 2012	December 31 2011
Expected income tax rate at 25.00% (December 2011 - 26.50%)	$ 1,621,013	$ 3,397,319
Increase (decrease) resulting from:		
Tax rate differential	(45,398)	(18,958)
Non-deductible expenses	228,627	73,052
Adjustment recognized in the current period in relation to the current tax of prior years	(240,335)	—
Other	27,625	(93,608)
	$ 1,591,532	$ 3,357,805
Tax expense comprises:		
Current tax expense		
Current period	$ 2,140,070	$ 4,126,894
Adjustment for prior periods	257,303	—
	2,397,373	4,126,894
Deferred tax expense		
Origination and reversal of temporary differences	$ (590,221)	$ (769,089)
Change in unrecognized deductible temporary difference	23,750	—
Adjustment for prior period	(239,370)	—
	(805,841)	(769,089)
Total tax expense	$ 1,591,532	$ 3,357,805

(Canadian dollars)

16. Income taxes *(cont'd)*

Temporary differences

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

		December 31 2012		December 31 2011
Deferred tax assets:				
Capital assets - excess of undepreciated capital cost compared to net book value	**$**	**—**	$	6,503
Share issue costs		**129,270**		107,278
Finance lease		**62,121**		93,686
Intangibles - excess tax basis over net book value		**58,862**		13,985
Free rent period		**1,931**		13,517
Non-capital loss carryforwards		**2,121,529**		1,045,669
Inventory and prepaid expenses		**303,822**		—
	$	**2,677,535**	$	1,280,638
Deferred tax liabilities:				
Capital assets - excess of net book value over undepreciated capital cost	**$**	**1,688,761**	$	539,940
Intangibles - excess of net book value over tax basis		**153,464**		72,336
	$	**1,842,225**	$	612,276
Net deferred tax asset (liability)	**$**	**835,310**	$	668,362
Reported in the financial statements as follows:				
Deferred tax asset	**$**	**1,347,643**	$	1,131,987
Deferred tax liability		**(512,333)**		(463,625)
	$	**835,310**	$	668,362

In assessing whether deferred tax assets are realizable, the Company considers if it is probable that all or a portion of the deferred tax assets will be utilized. The realization of deferred tax assets is dependent on the generation of future taxable income during the year in which those temporary differences become deductible. For the year ended December 31, 2012, the Company did not recognize $23,750 (December 31, 2011 - $23,750) of deferred tax assets in the respect of capital losses as their realization was not considered probable. The amount of deferred tax assets considered realizable could be reduced in the near-term should the Company's estimates of future taxable income during the carry-forward period be reduced.

The Company has non-capital losses of $8,486,115 (2011 - $4,087,675) available to reduce future taxable income which expire between 2030 and 2032. The Company continues to grow the division that the losses relate to and management believes that the losses will be used before they expire given the extensive growth plans and opportunities available.

(Canadian dollars)

16. Income taxes *(cont'd)*

Movement in temporary differences during the years ended December 31, 2012 and December 31, 2011:

	Balance December 31, 2010	Recognized in profit or loss	Recognized directly to equity	Acquired in a business combination	Balance December 31, 2011	Recognized in profit or loss	Acquired in a business combination	Balance December 31, 2012
Property, plant & equipment	$ 12,009	$ (5,506)	$ —	$ —	$ 6,503	$ (6,503)	$ —	$ —
Share issue costs	13,707	93,571	—	—	107,278	21,992	—	129,270
Finance leases	23,544	70,142	—	—	93,686	(31,565)	—	62,121
Intangibles	15,103	(1,118)	—	—	13,985	44,877	—	58,862
Rent-free period	25,403	(11,886)	—	—	13,517	(11,586)	—	1,931
Non-capital loss carryforwards	333,664	712,005	—	—	1,045,669	1,075,860	—	2,121,529
Inventory and prepaids	—	—	—	—	—	303,822	—	303,822
Property, plant & equipment	(200,963)	(175,574)	125,469	(288,872)	(539,940)	(677,061)	(471,760)	(1,688,761)
Intangibles	(159,791)	87,455	—	—	(72,336)	86,005	(167,133)	(153,464)
	$ 62,676	$ 769,089	$ 125,469	$ (288,872)	$ 668,362	**$ 805,841**	**$ (638,893)**	**$ 835,310**

17. Share capital

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

Issued and outstanding			
Common shares	**Note**	**Number**	**Amount**
Balance, December 31, 2010		**13,704,886**	**$ 14,451,480**
Issuance of shares upon exercise of options		**1,054,312**	**2,657,282**
Issuance of shares upon exercise of warrants		**250,000**	**641,750**
Issuance of shares under financing, net of tax and share issue costs		**2,000,000**	**5,488,447**
Issuance of shares for acquisition	**4**	**171,429**	**488,251**
Balance, December 31, 2011		**17,180,627**	**$ 23,727,210**
Issuance of shares upon exercise of options		**119,167**	**323,015**
Issuance of shares upon exercise of warrants		**66,667**	**198,800**
Issuance of shares for acquisition	**4**	**95,451**	**147,792**
Share capital balance, December 31, 2012		**17,461,912**	**$ 24,396,817**

Share issue costs included in share capital are $1,044,819 (December 31, 2011 - $1,044,819).

17. Share capital *(cont`d)*

a) On February 23, 2011, the Company issued 2,000,000 common shares for gross proceeds of $6,000,000 under an equity financing arrangement. In consideration for services related to the offering, the Company paid Macquarie Private Wealth Inc. ("the Agent") a fee equal to 6% of the gross proceeds of the offering, totalling an aggregate commission of $360,000, plus a corporate finance fee of $30,000 plus tax. The Agent also received non-transferrable agent options equal to 7% of the number of shares sold under the offering. Upon closing of the offering, 140,000 non-transferable agent options were issued to the Agent at a fair value of $105,000, entitling the agent to purchase one Bri-Chem common share, at a price of $3.00 per share, with an expiry date of August 22, 2012. During 2012, 66,667 warrants were exercised into common shares.

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

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

c) On December 31, 2012, the Company issued 95,451 shares with a fair value of $147,792 for the purchase of the outstanding ownership interest of General Supply Company. The following resale restrictions exist on the following shares:

31,817 common shares with resale restrictions expiring December 31, 2013
31,817 common shares with resale restrictions expiring December 31, 2014
31,817 common shares with resale restrictions expiring December 31, 2015

d) The Company has made a Normal Course Issuer Bid ("NCIB") with the Toronto Stock Exchange. Under the NCIB, the Company will be permitted to acquire up to 1,103,327 of its common shares during the period December 17, 2012 to December 17, 2013. All common shares purchased through the bid will be cancelled. A copy of the Notice of Intention to make a NCIB is available without charge on request to the Company's Corporate Secretary.

18. Share-based payments

18.1 Share-based payment plan

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, consultants and employees of the Company and its affiliates. The expiry date and price payable upon the exercise of any option granted are fixed by the Board of Directors at the time of grant, subject to regulatory requirements. Options granted under the plan are vested under such times as determined by the Board of Directors, subject to regulatory requirements. On May 14, 2012 the directors of the Company approved a new stock plan. Under this new plan, the maximum number of common share issuable pursuant to the new Plan together with all other share-based compensation arrangements of the Company is a rolling maximum equal to 10 percent of total outstanding common shares on a non-dilutive basis. Upon exercise, cancellation or expiration of any options, the common shares subject to such options shall be available for other options to be granted from time to time. As at December 31, 2012, the Plan permits the authorization to grant stock options up to a maximum of 1,723,760 common shares of the Company. All share-based employee remuneration will be settled in equity.

A summary of transactions during the year is outlined below.

(Canadian dollars)

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

18.2 Options to employees and directors

	Number of options		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, December 31, 2011	595,000	$	2.35	7.94
Issued	695,000		2.77	9.61
Exercised	(47,200)		1.12	3.40
Expired	(127,800)		1.79	—
Outstanding, December 31, 2012	1,115,000	$	2.73	8.73
Options exercisable, December 31, 2012	206,666	$	2.36	5.87

	Number of options		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, December 31, 2010	1,288,000	$	1.96	3.15
Issued	350,000		2.94	9.61
Exercised	(1,043,000)		1.81	0.26
Outstanding, December 31, 2011	595,000	$	2.35	7.94
Options exercisable, December 31, 2011	245,000	$	1.50	3.08

The weighted average share price at the dates of exercise was $2.24 (December 31, 2011 - $1.48).

The fair value of the employee and directors options granted during 2012 is estimated on the date of grant using the Black-Scholes Option Pricing Model based on the following weighted average assumptions:

	December 31, 2012	December 31, 2011
Expected life	**10 years**	10 years
Risk-free rate	**1.416%**	2.56%
Expected volatility	**140.07%**	149.08%
Expected dividend yield	**—%**	—%

The estimated forfeiture rate on the options is nil (December 31, 2011 - nil). During the year ended December 31, 2012, 695,000 options were granted (December 31, 2011 – 350,000) under the plan at a total fair value of $1,725,557 (December 31, 2011 - $999,762).

During the year ended December 31, 2012, $791,040 (December 31, 2011 - $174,196) was expensed in relation to the share-based payment plan to employees and directors.

(Canadian dollars)

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

18.3 Options to consultants

	Number of options		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, December 31, 2011	153,688	$	2.85	1.58
Exercised	(71,968)		2.67	0.29
Expired	(81,720)		3.00	—
Outstanding, December 31, 2012	—	$	—	—
Options exercisable, December 31, 2012	—	$	—	—

	Number of options		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, December 31, 2010	25,000	$	2.05	1.59
Granted	140,000		3.00	1.34
Exercised	(11,312)		3.00	1.23
Outstanding, December 31, 2011	153,688	$	2.85	1.58
Options exercisable, December 31, 2011	153,688	$	2.85	1.69

The weighted average share price at the dates of exercise was $2.90 (December 31, 2011 - $2.05).

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

During the year ended December 31, 2012, nil (December 31, 2011 - $5,507) was expensed in relation to the share-based payment plan to consultants.

(Canadian dollars)

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

18.4 Warrants

Pursuant to the terms of the loan agreement with Fulcrum Capital Partners Inc. (Note 13), the Company issued 300,000 share purchase warrants with a fair value of $209,226 to the lender. Each share purchase warrant entitles the lender to purchase one common share of the Company at a price of $1.77 per common share from December 6, 2012, expiring December 5, 2016. The warrants include an option to June 5, 2014 for the Company to purchase for cancellation any of the warrants for a 30% premium of the exercise price.

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

	Number of warrants		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, December 31, 2010	350,000	$	2.03	1.21
Exercised	(250,000)		2.00	1.00
Outstanding, December 31, 2011	100,000		2.10	0.79
Issued	300,000		1.77	3.93
Exercised	(66,667)		2.10	0.20
Expired	(33,333)		2.10	—
Outstanding, December 31, 2012	300,000	$	1.77	3.93
Exercisable	300,000	$	1.77	3.93

The weighted average share price at the dates of exercise were $2.90 (December 31, 2011 - $3.80).

19. Non-controlling interest

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

On December 31, 2011, a subsidiary of the Company issued 2,100,000 Preferred, Series 1 non-puttable shares with a fair value of $2,135,666 to its 30% non-controlling interest partner in exchange for equipment and technical knowledge contributed to the subsidiary. Upon redemption of the shares by the subsidiary, the Company has an option to repurchase the outstanding common shares of the subsidiary, to which no value has been attached at December 31, 2012.

During the year, the increase of partner investment of $1,418,658 includes raw materials inventory of $1,059,450 and equipment of $359,208 contributed by Wuxi to reflect the partner's share of the investment in the Company's subsidiary.

(Canadian dollars)

19. Non-controlling interest *(cont'd)*

	December 31, 2012	December 31, 2011
Balance, beginning of year	$ 1,466,882	$ (33,411)
Inventory investment by partner	1,059,450	—
Equipment investment by partner	359,208	—
Issuance of preferred shares	—	2,135,666
Net loss and comprehensive loss	(473,315)	(635,373)
Balance, end of year	$ 2,412,225	$ 1,466,882

The Company has adjusted non-controlling interest to reflect the preferred shares issued to Wuxi in the year ended December 31, 2011. The preferred shares were previously reflected in share capital as preferred shares.

20. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the parent company as the numerator, i.e. no adjustments to profit were necessary in 2012 or 2011.

	December 31, 2012	December 31, 2011
Net earnings attributable to the shareholders of the Company	$ 5,365,835	$ 10,097,640
Basic weighted average number of ordinary shares	17,282,955	15,878,345
Dilutive options and warrants issued and outstanding	117,893	591,874
Diluted weighted average number of ordinary shares	17,400,848	16,470,219
Basic earnings per share	$ 0.31	$ 0.64
Diluted earnings per share	$ 0.31	$ 0.61

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

	December 31, 2012	December 31, 2011
Options issued and outstanding	1,115,000	478,688

21. Segment reporting

The measurement policies the Company uses for segment reporting are the same as those used in its financial statements. General and administrative expenses directly related to the segments are included as operating expenses for those segments.

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. For the year ended December 31, 2012, the Company had an additional operating segment for its fluid packaging division and its fluids distribution USA segment.

Revenues between all divisions are recognized at cost.

Selected financial information by reportable segment is disclosed as follows:

(Canadian dollars)

21. Segment reporting *(cont'd)*

December 31, 2012	Fluid Distribution Canada	Fluid Distribution USA	Total Fluid Distribution	Fluid Packaging	Steel Distribution	Steel Manufacturing	Other*	Consolidated
Total revenues	$ 90,685,331	$ 19,201,252	$ 109,886,583	$ 20,307,493	$ 25,929,155	$ 15,507,439	$1,650,563	**$ 173,281,233**
Revenues from internal customers	1,257,760	96,752	1,354,512	10,093,751	98,196	729,507	937,207	**13,213,173**
Revenues from external customers	89,427,571	19,104,500	108,532,071	10,213,742	25,830,959	14,777,932	713,356	**160,068,060**
Cost of sales	74,853,081	15,090,091	89,943,172	8,778,504	20,587,873	14,761,225	614,749	**134,685,523**
Segment earnings (loss) from operations	8,737,166	866,779	9,603,945	1,075,484	1,902,545	(1,597,116)	(1,225,405)	**9,759,453**
Amortization	172,626	106,816	279,442	169,006	166,143	10,198	388,308	**1,013,097**
Interest expense (income)	1,709,343	526,796	2,236,139	217,203	31,808	511,073	(733,616)	**2,262,607**
Income tax expense (recovery)	1,767,632	—	1,767,632	177,835	411,558	(480,760)	(284,733)	**1,591,532**
Segment profit (loss)	$ 5,087,565	$ 233,167	$ 5,320,732	$ 511,440	$ 1,293,036	$ (1,637,627)	$ (595,363)	**$ 4,892,520**
Segment assets	$ 60,753,886	$ 13,566,010	$ 74,319,896	$ 10,465,749	$ 14,918,988	$ 23,605,973	$5,944,453	**$ 129,255,059**
Capital expenditures	$ 180,461	$ 1,526,075	$ 1,706,536	$ 206,588	$ 166,062	$ 1,192,098	$ 47,970	**$ 3,319,254**

* includes fluids transportation and corporate overhead costs

(Canadian dollars)

21. Segment reporting *(cont'd)*

December 31, 2011	Fluid Distribution Canada	Fluid Distribution USA	Total Fluid Distribution	Fluid Packaging	Steel Distribution	Steel Manufacturing	Other*	Consolidated
Total revenues	$ 142,661,038	$ 5,283,377	$ 147,944,415	$25,875,607	$ 27,277,692	$ 1,174,315	$ 902,765	**$ 203,174,794**
Revenues from internal customers	780,782	36,767	817,549	16,077,864	14,231	—	139,746	**17,049,390**
Revenues from external customers	141,880,256	5,246,610	147,126,866	9,797,743	27,263,461	1,174,315	763,019	**186,125,404**
Cost of sales	119,429,828	4,121,340	123,551,168	8,143,795	21,718,916	871,530	400,942	**154,686,351**
Segment earnings (loss) from operations	15,450,256	407,461	15,857,717	2,183,746	1,830,600	(2,930,908)	(1,243,117)	**15,698,038**
Amortization	190,329	54,667	244,996	134,398	157,807	432,318	478,500	**1,448,019**
Interest expense (income)	4,989,272	8,340	4,997,612	611,428	(1,105,846)	24,032	(2,589,146)	**1,938,080**
Income taxes (recovery)	2,674,790	—	2,674,790	382,124	666,341	(761,215)	395,765	**3,357,805**
Segment profit (loss) before adjustments	$ 7,595,865	$ 344,454	$ 7,940,319	$ 1,055,796	$ 2,112,298	$ (2,626,043)	$ 471,764	**$ 8,954,134**
Inventory write-down (reversal)	—	—	—	—	(508,133)	—	—	**(508,133)**
Segment profit (loss)	$ 7,595,865	$ 344,454	$ 7,940,319	$ 1,055,796	$ 2,620,431	$ (2,626,043)	$ 721,923	**$ 9,462,267**
Segment assets	$ 78,184,802	$ 4,459,303	$ 82,644,105	$96,181,612	$ 16,811,214	$ 10,057,752	$ 2,619,766	**$ 125,670,344**
Capital expenditures	$ 87,713	$ 118,181	$ 205,894	$ 97,015	$ 170,937	$ 3,261,151	$ 24,101	**$ 3,759,098**

* includes fluids transportation and corporate overhead costs

(Canadian dollars)

21. Segment reporting *(cont'd)*

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

	December 31, 2012	December 31, 2011
Revenue		
Canada and International	**$ 124,350,172**	$ 172,475,833
United States	**35,717,888**	13,649,571
	$ 160,068,060	$ 186,125,404
Non-current assets		
Canada and International	**$ 12,246,611**	$ 10,692,815
United States	**6,375,723**	1,876,608
	$ 18,622,334	$ 12,569,423

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

During the year ending December 31, 2012, the Company had significant revenues from two individual customers in the Canadian fluids distribution segment totalling $23,736,482 or 15% (December 31, 2011 - $39,662,244 or 21%) and $15,844,582 or 10% (December 31, 2011 - $33,959,131 or 18%) of total revenues.

(Canadian dollars)

22. Financial instruments

22.1 Categories of financial instruments

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

		December 31 2012		December 31 2011
Financial Assets				
Loans and receivables				
Accounts receivable	**$**	**37,594,701**	$	56,860,660
Financial Liabilities				
Other financial liabilities				
Long-term debt	**$**	**9,457,350**	$	—
Promissory notes payable		**248,731**		368,466
Bank indebtedness		**44,398,833**		48,910,877
Accounts payable and accrued liabilities		**21,753,134**		30,137,391
	$	**75,858,048**	$	79,416,734

22.2 Financial risk management objectives

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

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on accounts receivable are with customers in the oil and gas industry. Accounts receivable consist of a large number of customers spread across diverse geographical areas and ongoing credit evaluations are performed on the financial condition of accounts receivable. Revenue from the Company's largest two customers accounted for approximately 15%, and 10% respectively (December 31, 2011 – 21%, 18%) of total revenue during the year and 10%, and 20% respectively (December 31, 2011 – 27%, 22%) of total accounts receivable at year end.

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

		December 31, 2012		December 31, 2011
Trade and other receivables	**$**	**37,594,701**	$	56,860,660

(Canadian dollars)

22. Financial instruments *(cont'd)*

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

The aging of accounts receivable was as follows:

December 31, 2012	**Gross accounts receivable**	**Allowance for doubtful accounts**	**Net accounts receivable**
Current	$ 13,887,018	$ —	$ 13,887,018
31 to 60 days	11,430,701	—	11,430,701
61 to 90 days	7,175,157	—	7,175,157
91 to 120 days	3,413,384	—	3,413,384
Over 120 days	1,783,900	(95,459)	1,688,441
Total	$ 37,690,160	$ (95,459)	$ 37,594,701

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

The Company held $52,859 (December 31, 2011 - $52,859) of customer deposits for the purpose of mitigating the credit risk associated with accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balance in the financial statements.

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

Interest rate risk

Bank indebtedness is subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. The interest on promissory note and long-term debt is at a fixed rate. It is management's opinion that interest rate risk is not significant.

The effective interest rate on the bank indebtedness at December 31, 2012 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at December 31, 2012, 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 $87,631 (December 31, 2011 – $91,188).

(Canadian dollars)

22. Financial instruments *(cont'd)*

Currency risk

The Company is subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities and promissory note denominated in foreign currencies. Therefore, there is a risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities. Although the majority of the Company's operations are in Canada, the Company has expanded its operations outside Canada, which increases its exposure to foreign currency risk.

Accounts receivable in foreign currency was US$8,653,875 as at December 31, 2012 (December 31, 2011 - US $1,699,851), accounts payable in foreign currency outstanding as at December 31, 2011 is US$7,780,564 (December 31, 2011 - US$3,076,389), and promissory note payable in a foreign currency of US$250,000 (December 31, 2011 - US$368,466). The Company realized a foreign exchange gain of $982,740 (December 31, 2011 – loss of $167,773) during the fiscal year. Based on the monetary assets and liabilities held in the United States ("US") at December 31, 2012, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $52,883 (December 31, 2011 – $47,373).

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. The Company mitigates liquidity risk by maintaining adequate credit and lending facilities and through the management of its operational cash flows.

Contractual obligations related to financial liabilities at December 31, 2012 are as follows:

	Bank credit facility	Accounts payable	Long-term debt*	Promissory note payable*	Finance leases*	Total
2013	$ 44,398,833	$ 21,753,134	$ 1,054,167	$ —	$ 185,719	$ 67,391,853
2014	—	—	2,407,424	260,593	148,711	2,816,728
2015	—	—	2,169,482	—	111,453	2,280,935
2016	—	—	2,030,155	—	70,304	2,100,459
2017	—	—	7,090,828	—	—	7,090,828
Thereafter	—	—	—	—	—	—
Total	$ 44,398,833	$ 21,753,134	$ 14,752,056	$ 260,593	$ 516,187	$ 81,680,803

*includes interest calculated to be paid

(Canadian dollars)

22. Financial instruments *(cont'd)*

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

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

*includes interest calculated to be paid

On September 21, 2011, the Company entered into a three year purchase commitment with a vendor for a liquid mud drilling product that is purchased and distributed by the fluids division. The agreement sets minimum purchase volumes per month and provides the Company access to additional volumes on a preferred basis if the terms are met. Volumes may be reduced if the Company does not meet at least 85% of its contracted volumes on a monthly basis. Given the decreased volumes, the Company was not able to meet the minimum requirement. Therefore, the contract is no longer in place.

On November 17, 2011, the Company entered into a one year purchase commitment with a vendor for a product that is purchased and distributed by the fluids division. The agreement sets a minimum purchase volume at a set price for the year based on twelve monthly purchases. The Company did not renew the contact at the end of the term.

22.3 Fair value of financial instruments

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under non compulsion to act. The carrying value of accounts receivable and accounts payable, accrued liabilities and finance leases approximate their fair value because of the near term to maturity of these instruments. The carrying value of the long-term debt approximates its fair value as the loan was obtained near the end of the reporting period and interest rates have not significantly changed since this time.

The carrying amount of the Company's bank indebtedness approximates the fair value as its interest rates are similar to the current market rate for similar debt. The promissory notes payable has a value of $248,731 (December 31, 2011 - $368,466) which approximates its fair value due to the short term to maturity.

(Canadian dollars)

23. Supplemental cash flow information

	Note	December 31 2012	December 31 2011
Accounts receivable		**$ 19,276,804**	$ (9,071,957)
Inventory		**(14,279,738)**	(10,847,991)
Prepaids and deposits		**(729,759)**	2,911,315
Accounts payable and accrued liabilities		**(8,622,640)**	4,151,713
Customer deposits		**—**	(241,779)
Income taxes payable		**(545,849)**	(1,521,240)
Translation adjustment on acquisition		**67,290**	(70,206)
		$ (4,833,892)	$ (14,690,145)
Interest paid		**$ 2,262,607**	$ 2,001,253
Income tax paid		**2,953,800**	3,185,603
Non-cash transactions			
Share capital issued on exercise of stock options	17	**323,015**	1,906,906
Share capital issued on exercise of warrants	17	**198,800**	500,000
Equipment purchased under finance lease		**181,400**	371,808
Inventory contributed by non-controlling interest partner		**1,059,450**	—
Equipment contributed by non-controlling interest partner		**359,208**	2,465,527

24. Related party transactions

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

24.1 Compensation of key management personnel

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

	December 31 2012	December 31 2011
Salaries including bonuses	**$ 1,210,854**	$ 939,581
Share based payments	**504,526**	98,765
Director's fees	**232,924**	124,611
Benefits	**26,981**	66,321
	$ 1,975,285	$ 1,229,278

(Canadian dollars)

24. Related party transactions *(cont'd)*

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

24.2 Transactions with related entities

During the year ended December 31, 2012, the Company incurred office sharing costs of $60,000 (December 31, 2011 – $60,000) that were paid to a company over which a director has control.

24.3 Other related party transactions

The Company expensed interest of $nil (December 31, 2011 - $27,419) on promissory notes payable issued in the prior year which were held by two of the Company's directors, senior management and significant shareholders. This entire amount was paid out May 18, 2011 along with the outstanding balance. The Company expensed interest of $nil (December 31, 2011 - $116,672) on promissory notes payable issued on the acquisition of Bri-Steel which were held by three of the former owners of Bri-Steel. This entire amount was paid out on October 28, 2011 along with the outstanding balance.

25. Capital management policies and procedures

Management's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on the Company's debt and credit facilities and preserve financial flexibility in order to benefit from potential opportunities that may arise.

The Company includes the following in the definition of capital:

		December 31 2012		December 31 2011
Bank indebtedness	**$**	**44,398,833**	$	48,910,877
Long-term debt		**9,457,350**		—
Promissory notes payable		**248,731**		368,466
Obligations under finance lease		**472,071**		737,446
Equity		**51,729,361**		43,949,481
Total capital	**$**	**106,306,346**	$	93,966,270

The Company uses a combination of debt and equity financings to help it achieve its objectives. The percentage levels of each capital component may change as the entity attempts to take advantage of prevailing market conditions. The Company is not subject to capital requirements imposed by a regulator.

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

(Canadian dollars)

25. Capital management policies and procedures *(cont'd)*

	December 31 2012	**Minimum required**	December 31 2011	Minimum required
Adjusted tangible net worth	**$ 46,586,121**	**To exceed $27,105,000**	$ 40,320,958	To exceed $27,105,000
Eligible capital expenditures	**$ 3,463,991**	**Not to exceed $3,630,600**	$ 4,204,589	Not to exceed $4,300,000
Funded term debt to EBITDA	**0.91**	**Not to exceed 1.5:1**	—	—

As at December 31, 2012, the Company was in compliance with all financial covenants. At December 31, 2012, the Company reports on two covenants as described below related to the new long-term debt from Fulcrum Capital Partners, eligible capital expenditures and funded term debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA").

The Company has credit facilities which contain two financial covenants being a minimum tangible net worth and a maximum annual capital expenditures with the asset based lending agreement. In addition, there is an additional covenant with the subordinated debenture relating to funded term debt to EBITDA. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness.

Adjusted tangible net worth is set at a minimum and defined, on a consolidated basis, as total assets, less intangibles and goodwill, excluding deferred tax assets less total liabilities, excluding deferred tax liabilities. Capital expenditures limit is set at a maximum of 120% of the consolidated budgeted yearly expenditures. Funded term debt is any term debt without limitation the loan and any finance lease obligation. EBITDA is net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including transaction and acquisition expenses) and extraordinary items and share based payments during any of its recently completed four fiscal quarters.

The minimum covenants are noted in the above table. The Company monitors its covenants on an ongoing basis and reports on its compliance to its lenders on a monthly, quarterly and annual basis.

26. Post-reporting date events

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

(signed) "Don Caron"
Don Caron, Director

(signed) "Eric Sauze"
Eric Sauze, Director