BRI-CHEM CORP

Year End Report

December 31, 2013

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Grant Thornton

Independent Auditors' report

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To the Shareholders of
Bri-Chem Corp.

We have audited the accompanying consolidated financial statements of Bri-Chem Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years ended, 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bri-Chem Corp. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance International Financial Reporting Standards.

Edmonton, Canada

Grant Thornton LLP

March 31, 2014

Chartered Accountants

Consolidated Statements of Operations
(Canadian dollars)

For the years ended	Note	December 31 2013	December 31 2012
			(Note 2)
Sales		**$ 179,947,009**	$ 159,144,727
Cost of sales		**152,090,420**	134,059,791
Gross margin		**27,856,589**	25,084,936
Expenses			
Salaries and benefits		**12,059,102**	9,311,014
Selling, general and administration		**7,187,613**	6,417,533
Depreciation on property and equipment		**789,921**	619,925
Amortization on intangible assets		**886,324**	393,172
Interest on short-term operating debt		**2,520,082**	2,476,769
Interest on long-term debt		**1,281,934**	92,808
Interest on obligations under finance lease		**22,791**	40,962
Foreign exchange gain		**(436,682)**	(982,740)
Bad debts	**5**	**2,019,987**	231,441
Inventory write down	**6**	**1,507,322**	—
Other income		**(45,970)**	—
		27,792,424	18,600,884
Earnings before income taxes		**64,165**	6,484,052
Income tax expense (recovery)			
Current		**1,871,445**	2,397,373
Deferred		**(1,406,487)**	(805,841)
	16	**464,958**	1,591,532
Net (loss) earnings		**$ (400,793)**	$ 4,892,520
Earnings (loss) attributable to:			
Shareholders of the Company		**$ 109,481**	$ 5,365,835
Non-controlling interest	**19**	**(510,274)**	(473,315)
		$ (400,793)	$ 4,892,520
Earnings per share	**20**		
Basic		**$ 0.01**	$ 0.31
Diluted		**$ 0.01**	$ 0.31

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

Consolidated Statements of Comprehensive (Loss) Income

(Canadian dollars)

For the years ended	Note		December 31 2013		December 31 2012
Net (loss) earnings		**$**	**(400,793)**	$	4,892,520
Other comprehensive loss					
Foreign currency translation adjustment, net of tax of $nil (December 31, 2012 - $nil)			**(1,601,870)**		(64,277)
Comprehensive (loss) income		**$**	**(2,002,663)**	$	4,828,243
Comprehensive (loss) income attributable to:					
Shareholders of the Company		**$**	**(1,492,389)**	$	5,301,558
Non-controlling interest	**19**		**(510,274)**		(473,315)
		$	**(2,002,663)**	$	4,828,243

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

Consolidated Statements of Financial Position

(Canadian dollars)

	Note	**December 31 2013**	December 31 2012
Assets			
Current			
Accounts receivable	**5**	**$ 45,877,585**	$ 37,594,701
Inventories	**6**	**74,735,083**	70,286,639
Prepaid expenses and deposits		**3,234,769**	2,711,738
Income taxes recoverable		**1,797,255**	—
		125,644,692	110,593,078
Non-current			
Property and equipment	**7**	**15,596,330**	12,923,394
Intangible assets	**8**	**5,214,729**	2,688,623
Goodwill	**9**	**4,072,357**	1,619,307
Deferred tax assets	**16**	**2,564,187**	1,347,643
Other long-term assets		**119,365**	83,014
		$ 153,211,660	$ 129,255,059
Liabilities			
Current			
Bank indebtedness	**10**	**$ 53,495,254**	$ 44,398,833
Accounts payable and accrued liabilities	**11**	**27,187,839**	21,753,134
Customer deposits		**—**	52,859
Current portion of promissory notes payable	**12**	**490,039**	—
Current portion of long-term debt	**13**	**1,250,714**	—
Current portion of obligations under finance lease	**14**	**136,004**	164,401
Income taxes payable	**16**	**1,153,634**	377,622
		83,713,484	66,746,849
Non-current			
Long-term debt	**13**	**8,542,649**	9,457,350
Obligations under finance lease	**14**	**187,166**	307,670
Promissory notes payable	**12**	**—**	248,731
Deferred tax liabilities	**16**	**208,296**	512,333
Other long-term liabilities		**382,199**	252,765
		93,033,794	77,525,698
Equity			
Share capital	**17**	**33,647,907**	24,396,817
Contributed surplus		**2,532,361**	1,355,350
Warrants	**18**	**209,226**	209,226
Non-controlling interest	**19**	**1,925,018**	2,412,225
Retained earnings		**23,522,504**	23,413,023
Accumulated other comprehensive loss		**(1,659,150)**	(57,280)
		60,177,866	51,729,361
		$ 153,211,660	$ 129,255,059

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	Retained earnings	The Company	Non-controlling interest	Total equity
Balance at January 1, 2013		$ 24,396,817	$ 1,355,350	$ 209,226	$ (57,280)	$23,413,023	$49,317,136	$ 2,412,225	**$51,729,361**
Issuance of shares	**17**	9,416,366	—	—	—	—	9,416,366	—	**9,416,366**
Employee share-based payment options	**18**	—	1,196,686	—	—	—	1,196,686	—	**1,196,686**
Repurchase of shares under Normal Course Issuer Bid	**17**	(165,276)	(19,675)	—	—	—	(184,951)	—	**(184,951)**
Increase in partner investment	**19**	—	—	—	—	—	—	23,067	**23,067**
Net earnings (loss)		—	—	—	—	109,481	109,481	(510,274)	**(400,793)**
Other comprehensive loss		—	—	—	(1,601,870)	—	(1,601,870)	—	**(1,601,870)**
Balance at December 31, 2013		$ 33,647,907	$ 2,532,361	$ 209,226	$ (1,659,150)	$23,522,504	$58,252,848	$ 1,925,018	**$60,177,866**

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	**18**	—	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		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 Cash Flows

(Canadian dollars)

For the years ended	Note	December 31 2013	December 31 2012
Operating activities			
Net (loss) earnings		**$ (400,793)**	$ 4,892,520
Non-cash items:			
Depreciation on property and equipment		**1,834,824**	1,426,925
Amortization on intangible assets		**872,808**	393,172
Amortization of debt related transaction costs		**491,423**	234,981
Inventory write down		**1,507,322**	—
Unrealized foreign exchange (gain) loss		**(1,316,023)**	231,533
Deferred income tax recovery		**(1,406,487)**	(805,841)
Share-based payments		**1,196,686**	791,040
Foreign exchange loss (gain) on debt		**811,868**	(1,219,681)
Interest expense on debt and finance leases		**3,338,613**	2,262,607
Other (gains) losses		**(67,150)**	68,037
Lease inducement		**(31,888)**	46,356
Funds from operating activities before changes in non-cash working capital		**6,831,203**	8,321,649
Change in non-cash working capital	**24**	**(9,423,162)**	(5,065,425)
Cash (used in) provided by operating activities		**(2,591,959)**	3,256,224
Financing activities			
Interest paid on debt and finance leases		**(3,289,555)**	(2,262,607)
Advances (repayments) on operating line, net of transaction costs		**6,282,641**	(3,316,534)
Proceeds on issuance of shares	**17**	**9,416,366**	385,019
Repurchase common shares	**17**	**(184,951)**	—
Advances on long-term debt, net of transaction costs	**13**	**250,990**	9,666,576
Repayment of long-term debt		**(41,783)**	—
Repayment of promissory notes payable		**—**	(358,352)
Repayments of obligations under finance lease		**(184,378)**	(255,261)
Cash provided by financing activities		**12,249,330**	3,858,841
Investing activities			
Purchase of property and equipment		**(3,138,328)**	(3,319,254)
Purchase of intangible assets		**(50,589)**	(20,994)
Proceeds on disposal of property and equipment		**25,052**	64,728
Cash paid on acquisition	**4**	**(6,493,506)**	(3,839,545)
Cash used in investing activities		**(9,657,371)**	(7,115,065)
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	**24**		

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 under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through profit and loss.

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

The Company reclassified amounts in the Statement of Operations relating to transaction costs of financial liabilities measured at amortized cost, bad debt expense and sublease sales and lease expenses to categorize interest expenses, sales, and cost of sales consistently. The 2012 comparatives have been reclassified as a follows:

	Previously presented	Reclassification	Amount after reclassification
Selling, general and administration	$ 7,026,500	$ (608,967)	$ 6,417,533
Interest on short-term operating debt	2,134,394	342,375	2,476,769
Interest on long-term debt	87,251	5,557	92,808
Sales	160,068,060	(923,333)	159,144,727
Cost of sales	134,685,523	(625,732)	134,059,791
Salaries and benefits	9,579,021	(268,007)	9,311,014
Bad debts	—	231,441	231,441

The reclassifications presented in the table above did not impact the net earnings of the Company for the year ended December 31, 2012.

The consolidated financial statements for the year ended December 31, 2013 (including comparatives) were authorized for issue by the Board of Directors on March 31, 2014.

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

Principles of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company, its 70% owned subsidiary Bri-Steel Manufacturing Inc. and its wholly-owned subsidiaries (100% owned), Bri-Chem Supply Ltd., Sodium Solutions Inc., Bri-Steel Corporation, and Bri-Corp USA Inc, which

has three wholly-owned subsidiaries (100%), Bri-Chem Supply Corp LLC, Sun Coast Materials, LLC (previously named: Stryker Transportation Ltd.), and Bri-Chem Logistics, LLC (previously named: General Supply Company).

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The proportion of the voting rights in the subsidiary undertakings held directly by the parent entity of the Company do not differ from the proportion of ordinary shares held. The parent entity of the Company does not have any shareholdings in the preference shares of subsidiary undertakings included in the group.

Subsidiaries are consolidated from the date on which control is transferred to the Company. 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 controlled 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 Company applies the acquisition method to account for 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.

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

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's subsidiary Bri-Corp USA Inc., and its three subsidiaries Bri-Chem Supply Corp LLC, Sun Coast Materials, LLC, and Bri-Chem Logistics, LLC., use the United States dollar as their functional currency. Other subsidiaries including the parent entity of the Company use the Canadian dollar as their functional currency. The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting

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

from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations.

The results and financial position of all the Company's subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows: i) assets and liabilities are translated at the closing rate at the reporting date; ii) income and expenses are translated at the average exchange

rates for the period; and iii) all resulting exchange differences are recognized in other comprehensive income (loss).

Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers and 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 determines operating segments based on the geographic location and the type of products produced or sold, see Note 21.

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 internal policy for product returns. An allowance for the sales returns is netted against total accounts receivable outstanding.

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

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

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 required to settle the obligation. 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. The increase in the liability due to passage of time is recognized as interest expense.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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

Upon acquisition, goodwill is allocated to the applicable cash-generating unit (“CGU”) or groups of cash-generating units that are expected to benefit from the business combination's synergies. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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 is recognized immediately as an expense in the statement of operations and is not subsequently reversed. An impairment expense 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.

Intangible assets

Intangible assets include acquired software used in administration, customer relationships, brand, supply agreements, distribution agreements and non-compete agreements that qualify for recognition as an intangible asset in a business combination. These intangible assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of intangible assets over their estimated useful lives of 2 to 7 years and is recognized in profit or loss for the period. Residual values and useful lives are reviewed at each reporting date. 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 and declining balance
Supply agreement	4 years straight-line
Distribution agreement	4 years straight-line
Brand	2 years straight-line

Customer relationships represent existing contracts and the underlying customer relationships. Costs associated with maintaining computer software programmes 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.

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

Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Depreciation on property and equipment is calculated using either declining balance or straight line methods to allocate its cost to its residual value over the estimated useful life of the asset, as follows:

Buildings	4 to 10% declining-balance
Motor vehicles	30% declining-balance
Manufacturing equipment	10 to 30% declining-balance and straight-line
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

Material residual values and estimates of useful life are reviewed and updated as required and at least annually.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the profit or loss during the financial period in which they incurred. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized in the profit or loss.

Leases

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. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed as part of financing cost. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownerships are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized as an expense in profit or loss on a straight-line basis over the lease term.

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

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 recognized as an expense on a straight-line basis over the lease term.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization (goodwill) and are tested annually for impairment. Assets that are subject to amortization are required to be tested for impairment 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). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. 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. Prior impairments of non-financial assets (other than goodwill) may be reversed if the cash-generating unit’s recoverable amount exceeds its carrying amount and up to the amount the non-financial assets (other than goodwill) would be carried at had no impairment been recognized originally.

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.

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 that are accessible at the measurement date;
- 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 or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not observable.

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

Financial assets

The Company's financial assets are comprised of accounts receivable and have been classified as loans and receivables at initial recognition. Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in the market. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. These are classified as non-current assets. Loans and receivables are initially recognized at fair value plus transaction costs, and are subsequently carried at amortized cost using the effective interest method.

Financial assets carried at amortized cost are assessed for indicators of impairment at the end of each reporting period. A financial asset or group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, probability that they will enter bankruptcy or other financial reorganization, and observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The carrying amount of the accounts receivables and other long-term receivable 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, and they have been classified as other financial liabilities. These financial liabilities are recognized initially at fair value, net of transaction costs incurred and are carried subsequently at amortized cost using the effective interest method.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derivative financial instruments

The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk and accounts for such derivatives at fair value through profit or loss. 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 the profit or loss. The foreign exchange forward contracts are recorded on the consolidated statement of financial position 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.

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

Derivatives may be embedded into other financial instruments (host instruments) and are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host instrument. The Company has not identified any embedded derivatives.

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.

Inventories

Raw materials, work-in-progress, 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 items in the fluids segments 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 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 (based on normal operating capacity) 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.

Trade receivable

Trade receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as deduction, net of tax, from the proceeds.

Where the Company re-purchases the Company's equity share capital through Normal Course Issuer Bid, the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such common shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the common course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Current and deferred income taxes

Tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income . Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is calculated using the liability method of tax allocation. Under this method, deferred tax assets and liabilities are determined based on the temporary 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. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested. 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, where that fair value cannot be estimated reliably, they are measured at the fair value of the equity instruments granted on the date the Company receives the goods or services. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs, 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.

Provisions, contingent liabilities and contingent assets

Provisions are recognized when present obligations as a result of a past event will probably 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

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

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.

Employee benefits

Short-term benefits
Short-term employee benefit obligations are measured on a undiscounted basis and are expensed as the related service is provided. The Company recognizes a liability and an expense for short-term benefits such as bonuses, and stock purchases if the Company has a legal obligation or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably.

Defined contribution plan
A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further amounts. Obligations for contributions to the defined contribution plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Critical accounting estimates and assumptions in applying accounting policies

The preparation of these consolidated financial statements requires management to make estimates and assumptions about the future. Management continuously evaluates estimates and assumptions which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Business combinations
The Company applies the acquisition method of accounting to business combinations which involves the allocation of the cost of an acquisition to the underlying net assets acquired based on their respective estimated fair values. The Company uses valuation techniques in determining fair values of the various elements of a business combination, including intangible assets, based on future expected cash flows and a discount rate. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risks and weighted average cost of capital. If future events or results differ significantly from these estimates and assumptions, the Company could record impairment charges in the future.

Goodwill impairment
The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in the note 2. An impairment loss is recognized for the amount by which the asset's carrying amount

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

exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use. Management estimates expected future cash flows from each cash-generating unit in determining the value in use. Management makes assumptions about future operating results and tests a sensitivity of key assumptions in the process of measuring expected future cash flows which are based on future events and circumstances disclosed in the Note 9 to these consolidated financial statements.

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.

Sales returns provision
The Company has an internal policy whereby it accepts product returns from customers in certain 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.

Impairment financial assets
All of the Company's financial assets are reviewed for indicators of impairment, in accordance with the accounting policy stated in the note 2. At the end of each reporting period, management reviews the individual balances in accounts receivable and assesses their recoverability based on the aging of outstanding balances, historical bad debt experience, indicators of changes in customer credit worthiness, and changes in customer payment terms, to identify and determine the extent of impairment, if any.

Inventories
Inventories are measured at the lower of cost and net realizable value. In estimating the net realizable value, management considers evidence, such as aging of the inventory, current sales prices, estimated scrap metal prices, vendor price lists, available at the time in determining the net realizable values of the inventories.

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

New and amended standards adopted by the Company

The following standards, that are applicable to the Company, have been adopted by the Company for the first time for the financial year beginning on or after January 1, 2013 and have no material impact on the Company:

Amendment to IAS 1 - Financial Statements Presentation
The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

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

Amendment to IFRS 7 - Financial Instruments: Disclosures
The amendment to IFRS 7 is to enhance disclosure requirements related to offsetting of financial assets and financial liabilities.

IFRS 10 - Consolidated Financial Statements
In January 2013, the Company adopted IFRS 10. This standard introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Company controls the investee on the basis of de facto circumstances. IFRS 10 provides additional guidance to assist in the determination of control where this is difficult to assess.

In accordance with the transitional provisions of IFRS 10, the Company re-assessed the control conclusion for its investees at January 1, 2013. The Company has made no changes as a result of this process in the current or comparative period.

IFRS 12 - Disclosure of Interests in Other Entities
In January 2013, the Company adopted IFRS 12. This standard sets out disclosure requirements for the Company reporting under IFRS 10 to enable users of its financial statements to evaluate: a) the nature of, and risks associated with, its interests in other entities; and b) the effects of those interests on its financial position, financial performance and cash flows. The disclosure of interest in subsidiaries is included in Note 2 "*Principles of Consolidation*" and Note 19.

IFRS 13 - Fair Value Measurements and Disclosure Requirements
In January 2013, the Company adopted IFRS 13. This standard 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 has adopted IFRS 13 prospectively in its financial statements for the annual period beginning January 1, 2013. The Company has made no changes in the current or comparative period.

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

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2013. The standards issued that are applicable to the Company are as follows:

IFRS 9 - Financial Instruments
IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

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

As part of the Limited Amendments to IFRS 9 project, the IASB tentatively decided at the July 2013 board meeting to defer the mandatory effective date of IFRS 9. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after January 1, 2015 but rather left open pending the finalization of the impairment and classification and measurement requirements. As a result of these decisions and the changes being proposed to IFRS 9, the transitional guidance will change. The Company is considering the implications of the standards, the impact on the Company and the timing of its adoption by the Company.

Amendment to IAS 32- Financial Instruments: Presentation
These amendments, effective January 1, 2014, relate to the application guidance in IAS 32, and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The Company is currently assessing the impact of the amendment on its consolidated financial statements.

Amendment to IAS 36 - Impairment of assets
This amendment, effective January 1, 2014, addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This amendment is not expected to have a material impact on the Company's financial statements.

IFRIC 21- Levies
This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets', effective January 1, 2014. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This amendment is not expected to have any impact on the Company's financial statements.

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

On September 6, 2013, the Company acquired business and assets of Sun Coast Materials Co. ("Sun Coast"), a California based packager and specialty cement blender to oil well contractors operating in southern and central California. The acquisition was completed to enhance the Company's presence in fluid packaging and blending in North America. The total consideration paid on closing consisted of (i) $6,493,506 in cash; and (ii) the issuance of a promissory note with fair value of $229,420.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of September 6, 2013, whereby the assets acquired are recorded at their fair values with any excess of the total consideration over the fair value of the identifiable net assets allocated to goodwill. The fair values of the net assets acquired and aggregate consideration given were as follows:

(Canadian dollars)

4. Business combinations *(cont'd)*

Fair value of net assets acquired	**Sun Coast**
Inventory	**127,659**
Property and equipment	**1,020,265**
Intangible assets	**3,243,636**
Goodwill	**2,331,366**
Net assets acquired	**$ 6,722,926**

Consideration given	
Cash	**6,493,506**
Promissory note issued	**229,420**
Total consideration	**$ 6,722,926**

The purchase price allocated to intangible assets includes a customer relationship value of $3,142,857 and a brand value of $100,779. The intangible assets will be amortized over 2-7 years on a straight line basis. Goodwill acquired with the above business combination arises as a result of the expertise and reputation of the assembled workforce, the synergies expected to be achieved as a result of combining Sun Coast with the rest of the Company and the geographical location of the acquiree. Goodwill is expected to be deductible for tax purposes as it is an asset acquisition for tax purposes.

Based on unaudited financial information available to management, if Sun Coast had been acquired at January 1, 2013, revenue for the year ended December 31, 2013 relating to Sun Coast operations would have been $7,751,452. Consolidated revenues would have been $185,390,011 and net earnings would have been $702,917 for the year ended December 31, 2013. Sun Coast generated revenue of $2,308,450 subsequent to the date of acquisition, which is included in these annual consolidated financial statements.

The Company incurred acquisition-related costs of $329,324 relating to professional fees which have been expensed in the period of acquisition.

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:

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

(Canadian dollars)

4. Business combinations *(cont'd)*

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 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 $161,678,577 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).

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

(Canadian dollars)

4. Business combinations *(cont'd)*

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 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 $162,550,096 and net earnings would have been $5,199,815. Costs expensed in the year directly related to the acquisition total $83,449.

5. Accounts receivable

Accounts receivable recognized in the consolidated statements of financial position can be analyzed as follows:

		December 31 2013		December 31 2012
Trade accounts receivable, gross	**$**	**48,454,751**	$	40,338,055
Allowance for doubtful accounts		**(197,571)**		(95,549)
Accounts receivable, net		**48,257,180**		40,242,506
Allowance for sales returns		**(2,867,052)**		(2,745,078)
Other receivable		**487,457**		97,273
Accounts receivable	**$**	**45,877,585**	$	37,594,701

The Company pledged trade receivables with gross amount of $48,454,751 (December 31, 2012 - $40,338,055) as collateral for the Asset-Based Lending ("ABL") Facility, see Note 10.

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 $197,571 (December 31, 2012 - $95,549) has been recorded.

(Canadian dollars)

5. Accounts receivable *(cont'd)*

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

	December 31 2013	December 31 2012
Balance, beginning of year	**$ 95,549**	$ 41,852
Bad debts	**2,019,987**	231,441
Receivables written off	**(1,917,965)**	(177,744)
Balance, end of year	**$ 197,571**	$ 95,549

The primary factors the Company considers in determining whether financial assets are impaired are their overdue status and significant financial difficulty of debtors. At December 31, 2013 the Company had two individually significant receivables that were found to be impaired of $1,016,481 and $548,662, which were written off.

6. Inventories

In the year ended December 31, 2013, a total of $149,009,895 of inventories was included in profit and loss as cost of sales (December 31, 2012 - $128,158,256). At December 31, 2013, the Company pledged inventory of $74,735,083 (December 31, 2012 - $70,286,639) as collateral for the ABL Facility, Note 10.

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

	December 31 2013	December 31 2012
Distribution goods	**$ 55,878,248**	$ 61,927,977
Finished goods	**11,638,995**	3,161,218
Raw materials	**5,192,989**	5,197,444
Work in progress	**2,024,851**	—
Balance, end of year	**$ 74,735,083**	$ 70,286,639

At December 31, 2013, work in progress of $2,024,851 (2012 - nil) relates to unfinished production of steel pipes. At December 31, 2013, the Company recognized inventory write down related to net realizable value adjustment of $1,507,322 (December 31, 2012 - nil).

(Canadian dollars)

7. Property and equipment

At December 31, 2013, the Company pledged property and equipment with carrying amount of $15,596,330 (December 31, 2012 - $12,923,394) as collateral for the ABL Facility, Note 10. The Company leases various motor vehicles under finance lease agreements. At December 31, 2013, motor-vehicles includes assets under finance lease with carrying amount of $512,790 (December 31, 2012 - $505,376).

	Land	Buildings	Motor vehicles	Manufacturing and other equipment	Office equipment	Computer equipment	Pavement and landscaping	Leasehold improvements	Total
Cost									
Balance at December 31, 2011	$ 402,792	$ 1,787,011	$ 1,877,352	$ 6,865,765	$ 555,841	$ 636,473	$ 174,663	$ 1,467,199	$ 13,767,096
Additions	—	10,803	382,407	2,857,798	51,207	175,967	—	238,228	3,716,410
Additions through acquisition	147,000	1,001,612	—	29,582	—	—	—	—	1,178,194
Translation adjustment	—	—	714	1,544	27	612	—	—	2,897
Disposals	—	—	(445,840)	(76,914)	—	(15,811)	—	—	(538,565)
Balance at December 31, 2012	549,792	2,799,426	1,814,633	9,677,775	607,075	797,241	174,663	1,705,427	18,126,032
Balance at January 1, 2013	549,792	2,799,426	1,814,633	9,677,775	607,075	797,241	174,663	1,705,427	18,126,032
Additions	566,707	330,978	162,581	1,545,125	17,100	155,797	—	379,637	3,157,925
Additions through acquisition	—	—	204,857	807,823	7,584	—	—	—	1,020,264
Translation adjustment	38,870	53,818	35,190	276,803	2,494	5,885	—	7,036	420,096
Disposals	—	—	(102,724)	(467)	—	(12,441)	—	—	(115,632)
Balance at December 31, 2013	$ 1,155,369	$ 3,184,222	$ 2,114,537	$ 12,307,059	$ 634,253	$ 946,482	$ 174,663	$ 2,092,100	$ 22,608,685
Accumulated depreciation									
Balance at December 31, 2011	$ —	$ 515,188	$ 554,721	$ 1,567,106	$ 247,554	$ 373,828	$ 46,341	$ 567,347	$ 3,872,085
Translation adjustment	—	—	—	—	—	—	—	—	—
Depreciation for the year	—	52,633	256,339	872,472	91,998	98,900	10,266	145,089	1,527,697
Disposals	—	—	(181,957)	(4,975)	—	(10,212)	—	—	(197,144)
Balance at December 31, 2012	—	567,821	629,103	2,434,603	339,552	462,516	56,607	712,436	5,202,638
Balance at January 1, 2013	—	567,821	629,103	2,434,603	339,552	462,516	56,607	712,436	5,202,638
Translation adjustment	—	311	5,865	8,630	726	1,792	—	302	17,626
Depreciation for the year	—	61,907	281,063	1,157,452	70,092	114,256	9,444	152,140	1,846,354
Disposals	—	—	(32,896)	(11,764)	—	(9,603)	—	—	(54,263)
Balance at December 31, 2013	$ —	$ 630,039	$ 883,135	$ 3,588,921	$ 410,370	$ 568,961	$ 66,051	$ 864,878	$ 7,012,355
Net book amount at December 31, 2012	**$ 549,792**	**$ 2,231,605**	**$ 1,185,530**	**$ 7,243,172**	**$ 267,523**	**$ 334,725**	**$ 118,056**	**$ 992,991**	**$ 12,923,394**
Net book amount at December 31, 2013	**$ 1,155,369**	**$ 2,554,183**	**$ 1,231,402**	**$ 8,718,138**	**$ 223,883**	**$ 377,521**	**$ 108,612**	**$ 1,227,222**	**$ 15,596,330**

(Canadian dollars)

8. Intangible assets

	Customer relationships	Non-compete agreements	Computer software	Distribution agreement	Supply agreement	Brand	Total
Cost							
Balance, January 1, 2012	$ 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
Additions	—	—	50,591	—	—	—	50,591
Additions through acquisition	3,142,857	—	—	—	—	100,779	3,243,636
Translation adjustment	138,635	18,158	353	—	—	2,391	159,537
Disposals	—	—	(18,646)	—	—	—	(18,646)
Balance, December 31, 2013	$ 6,035,204	$ 685,613	$ 376,359	$ 1,156,400	$ 587,900	$ 103,170	$8,944,646

Accumulated amortization							
Balance, January 1, 2012	$ 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
Amortization expense	301,627	75,719	56,513	289,669	146,975	15,822	886,325
Translation adjustment	19,756	8,046	199	—	—	513	28,514
Disposals	—	—	(5,827)	—	—	—	(5,827)
Balance, December 31, 2013	$ 2,460,441	$ 531,567	$ 248,590	$ 313,761	$ 159,223	$ 16,335	$3,729,917
Net book amount at December 31, 2012	$ 614,654	$ 219,653	$ 146,356	$ 1,132,308	$ 575,652	$ —	$2,688,623
Net book amount at December 31, 2013	$ 3,574,763	$ 154,046	$ 127,769	$ 842,639	$ 428,677	$ 86,835	$5,214,729

(Canadian dollars)

9. Goodwill

Goodwill acquired through business combinations has been allocated to three cash-generating units (CGU's) as follows:

		December 31 2013		December 31 2012
Fluids Packaging USA	**$**	**2,386,655**	$	—
Fluids Distribution USA		**1,583,861**		1,517,466
Fluids Packaging Canada		**101,841**		101,841
Balance, end of year	**$**	**4,072,357**	$	1,619,307

The Company performed its annual goodwill impairment test in accordance with the accounting policy stated in the Note 2. The recoverable amount of CGUs allocated to Fluids Packaging USA and Fluids Packaging Canada has been determined based on value in use calculations, and the recoverable amount of the CGU allocated to Fluids Distribution USA has been determined based on fair value less costs of disposal. The recoverable amount of all CGUs was above the carrying amounts, indicating there was no impairment of goodwill in any of the CGUs identified above (2012 - no impairment).

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 key assumptions: discount rates, growth rate used in cash flow projections beyond the budget period and earnings before interest, taxes, depreciation and amortization margin (EBITDA margin).

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 Packaging USA (22.0%) and Fluids Packaging Canada (19.4%).

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 2014 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 (2.0% for Fluids Packaging USA, and 3.0% for Fluids Packaging Canada).

(Canadian dollars)

9. Goodwill *(cont'd)*

EBITDA margin

EBITDA margin is defined as margin of earnings before before interest, taxes, depreciation and amortization. This margin 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, EBITDA improve over the 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 Packaging USA, the specific risk premium would need to increase by 2.5% before remaining headroom would be removed. For Fluids Packaging Canada, the specific risk premium would need to increase by 1% before remaining headroom would be removed.

Growth rate and EBITDA margin assumptions

Any reduction in the sales growth rate would have a negative impact on the value in use of the overall CGUs. Similarly, EBITDA margins as a percentage of revenues used were in line with historical rates realized by the CGUs. For Fluids Packaging USA, EBITDA margin would have to fall by 3.0% beyond the budget period before a shortfall would result in the carrying amount. For Fluids Packaging Canada, EBITDA margin would have to fall by 0.4% beyond the budget period before a shortfall would result in the carrying amount.

Fair value less costs of disposal calculation

For the impairment test of the goodwill allocated to the Fluids Distribution USA CGU, fair value less costs of disposal ("FVLCD") was used to determine the recoverable amount since it is higher than value in use. FVLCD was calculated using the relative method (Level III hierarchy) with reference to a market average enterprise value to EBITDA multiple (" the Multiple"). The Multiple was determined using the merger and acquisition transactions conducted by public companies within the past four years and in the similar industry. The EBITDA of the CGU was based on historical financial information and equaled 10.4%. For Fluids Distribution USA CGU, the EBITDA would have to fall by 1.0% to before a shortfall would result in the carrying amount.

In 2013, 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, 2013 and 2012 is as follows:

	Note		**December 31 2013**		December 31 2012
Balance, beginning of year		**$**	**1,619,307**	$	548,466
Acquired in acquisitions	**4**		**2,331,366**		1,070,722
Translation adjustment at year end			**121,684**		119
Balance, end of year		**$**	**4,072,357**	$	1,619,307

(Canadian dollars)

10. Bank indebtedness

Effective August 12, 2011, the Company entered into a 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. On November 14, 2013 the Company amended the terms of the ABL Facility to increase the borrowing base up to a maximum of $90,000,000 (December 31, 2012 - $80,000,000), reducing interest rates and extending the maturity of the facility to August 12, 2016. Under the revised terms, the ABL Facility bears interest either at prime rate (2012 - prime rate plus 0.25%) or bankers' acceptance rate plus 1.50% (2012 - bankers' acceptance rate plus 1.75%) or LIBOR plus 1.50% (2012 - LIBOR plus 1.75%), a collateral management fee of $1,500 per month (2012 - $3,000 per month) and a standby fee of 0.25% (2012 - 0.25%) on unused amounts of the ABL Facility. The Company also changed financial covenants by replacing the minimum adjusted tangible net worth covenant with a minimum fixed charge coverage ratio covenant.

The ABL Facility is secured by a general security agreement covering all present and acquired property and postponements of claims from related parties.

As at December 31, 2013, $53,495,254 (December 31, 2012 - $44,398,833), net of unamortized transaction costs of $429,444 (December 31, 2012 - $500,304) was drawn on the ABL Facility. The Company incurred a total of $174,183 of transaction costs directly related to the amendments of ABL Facility terms in 2013 (2012: nil), which will be amortized into profit or loss as interest on short term operating debt over the revised term of the loan.

Significant financial covenants under the revised terms of the ABL Facility include a minimum fixed charge coverage ratio and a maximum on annual capital expenditures. As at December 31, 2013, the Company was in compliance with all covenants (Note 26).

11. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities recognized in the consolidated statements of financial position can be analyzed as follows:

		December 31 2013		December 31 2012
Trade accounts payable	**$**	**21,356,737**	$	16,912,095
Accrued liabilities		**2,815,474**		3,964,305
Accrued purchase orders		**1,725,430**		233,116
Accrued compensation expense		**1,290,198**		643,618
	$	**27,187,839**	$	21,753,134

(Canadian dollars)

12. Promissory notes payable

	December 31 2013	December 31 2012
Promissory note payable, bearing contractual interest at 4% per annum, repayable as US $225,842 plus interest on February 28, 2014, unsecured.	**$ 248,814**	$ 248,731
Promissory note payable, bearing contractual interest at 4% per annum, repayable as US $230,857 plus interest on September 6, 2014, unsecured.	**241,225**	—
	490,039	248,731
Less: current portion	**490,039**	—
	$ —	$ 248,731

13. Long-term debt

Long-term debt	December 31 2013	December 31 2012
Fulcrum Capital Partners Inc. subordinated debenture, bearing interest at 11.5%, repayable monthly from December 2012 to December 2013 interest only, January 2014 to December 2017 quarterly installments of $300,000 plus interest and the balance upon maturity of December 2017.	**$ 10,000,000**	$ 10,000,000
First Source Bank, long term loan of US $250,960, bearing interest at 4.72% p.a., monthly installments of US $4,711, consisting principal and interest, from February 28, 2013 to January 31, 2018, and the balance upon maturity January 31, 2018.	**222,486**	—
Less: transaction costs	**429,123**	542,650
	9,793,363	9,457,350
Less: current portion	**1,250,714**	—
	$ 8,542,649	$ 9,457,350

<u>Fulcrum Capital Partners Inc.</u>

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 contains financial covenants required under the ABL Facility (Note 10) and funded term debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). As at December 31, 2013, the Company was in compliance with all covenants (Note 26).

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

(Canadian dollars)

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

Solution 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.

First Source Bank

In accordance with the terms of the loan agreement, the Company granted First Source Bank (the "Bank") security interest in certain equipment. The carrying amount of these properties presented in the consolidated statements of financial position as of December 31, 2013 was $240,349.

14. Obligations under finance lease

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

	Minimum lease payments due			
December 31, 2013	Within one year	Two to five years	After five years	Total
Lease payments	$ 151,203	$ 198,498	$ —	$ 349,701
Finance charges	15,199	11,332	—	26,531
Net present value	$ 136,004	$ 187,166	$ —	$ 323,170
December 31, 2012				
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

The Company enters into financing lease arrangements for certain of its operating equipment. The average term of the finance lease entered into is 5 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.

15. Commitments 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, 2013	$ 3,158,260	9,179,325	1,234,026	$ 13,571,611
December 31, 2012	$ 3,349,602	10,728,056	1,220,368	$ 15,298,026

(Canadian dollars)

15. Commitments under operating lease *(cont'd)*

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 $3,891,648 (December 31, 2012 - $3,260,057).

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 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 December 31, 2016. Sub-lease revenues of $1,133,804 (December 31, 2012 - $932,333) were recognized in the year. The lessee does not have an option to purchase the property at the expiry of the lease term.

Non-cancellable minimum operating lease income is as follows:

	Minimum lease income receivable				
		Within one year	Two to five years	After five years	Total
December 31, 2013	$	903,293	2,932,277	269,183	$ 4,104,753
December 31, 2012	$	885,293	3,297,207	807,548	$ 4,990,048

(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 2013	December 31 2012
Expected income tax rate at 25.00%	**$ 16,041**	$ 1,621,013
Increase (decrease) resulting from:		
Tax rate differential	**51,644**	(45,398)
Non-deductible expenses	**336,658**	228,627
Adjustment recognized in the current period in relation to the current tax of prior years	**16,876**	(240,335)
Other	**43,739**	27,625
	$ 464,958	$ 1,591,532
Tax expense comprises:		
Current tax expense		
Current period	**$ 1,748,092**	$ 2,140,070
Adjustment for prior periods	**123,353**	257,303
	1,871,445	2,397,373
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	**$ (1,300,010)**	$ (590,221)
Change in unrecognized deductible temporary difference	**—**	23,750
Adjustment for prior period	**(106,477)**	(239,370)
	(1,406,487)	(805,841)
Total tax expense	**$ 464,958**	$ 1,591,532

(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 2013		December 31 2012
Deferred tax assets:				
Accounts receivable	**$**	**143,807**	$	—
Decommissioning liability		**29,250**		—
Share issue costs		**295,109**		129,270
Finance lease		**70,407**		62,121
Intangibles - excess tax basis over net book value		**16,158**		58,862
Free rent period		**—**		1,931
Non-capital loss carryforwards		**3,365,047**		2,121,529
Inventory and prepaid expenses		**712,393**		303,822
	$	**4,632,171**	$	2,677,535
Deferred tax liabilities:				
Capital assets - excess of net book value over undepreciated capital cost	**$**	**2,214,205**	$	1,688,761
Intangibles - excess of net book value over tax basis		**52,103**		153,464
Derivative financial instruments		**9,972**		—
	$	**2,276,280**	$	1,842,225
Net deferred tax asset	**$**	**2,355,891**	$	835,310
Reported in the financial statements as follows:				
Deferred tax asset	**$**	**2,564,187**	$	1,347,643
Deferred tax liability		**(208,296)**		(512,333)
	$	**2,355,891**	$	835,310

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, 2013, the Company did not recognize $23,750 (December 31, 2012 - $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 $13,598,708 (2012 - $8,486,115) available to reduce future taxable income which expire between 2030 and 2033. Management believes that the losses will be used before they expire given the available tax planing opportunities. At December 31, 2013, a deferred tax asset of $214,618 (2012 - $nil) for temporary differences of $1,716,940 (2012 - $nil) related to an investment in a subsidiary was not recognized because the temporary

(Canadian dollars)

16. Income taxes *(cont'd)*

difference will not reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be utilized.

Movement in temporary differences during the years ended December 31, 2013 and December 31, 2012:

	Balance December 31, 2011	Recognized in profit or loss	Acquired in a business combination	Balance December 31, 2012	Recognized in profit or loss	Recognized in equity	Balance December 31, 2013
Accounts receivable	$ —	$ —	$ —	$ —	$ 143,807	$ —	$ 143,807
Property & equipment	6,503	(6,503)	—	—	—	—	—
Decommissioning liability	—	—	—	—	29,250	—	29,250
Share issue costs	107,278	21,992	—	129,270	51,745	114,094	295,109
Finance leases	93,686	(31,565)	—	62,121	8,286	—	70,407
Intangibles	13,985	44,877	—	58,862	(42,704)	—	16,158
Rent-free period	13,517	(11,586)	—	1,931	(1,931)	—	—
Non-capital loss carryforwards	1,045,669	1,075,860	—	2,121,529	1,243,518	—	3,365,047
Inventory and prepaids	—	303,822	—	303,822	408,571	—	712,393
Property & equipment	(539,940)	(677,061)	(471,760)	(1,688,761)	(525,444)	—	(2,214,205)
Intangibles	(72,336)	86,005	(167,133)	(153,464)	101,361	—	(52,103)
Financial derivative instruments	—	—	—	—	(9,972)	—	(9,972)
	$ 668,362	$ 805,841	$ (638,893)	$ 835,310	**$ 1,406,487**	**$ 114,094**	**$ 2,355,891**

(Canadian dollars)

17. Share capital

Authorized
Unlimited number of voting common shares, no par value
Unlimited number of preferred shares, issued in series

Issued and outstanding				
Common shares		**Number**		**Amount**
Balance, January 1, 2012	**Note**	**17,180,627**	**$**	**23,727,210**
Issuance of shares upon exercise of options	**18**	**119,167**		**323,015**
Issuance of shares upon exercise of warrants	**18**	**66,667**		**198,800**
Issuance of shares for acquisition		**95,451**		**147,792**
Balance, December 31, 2012		**17,461,912**	**$**	**24,396,817**
Issuance of shares, net of tax and share issue costs		**6,667,000**		**9,416,366**
Shares repurchased and canceled under Normal Course Issuer Bid		**(118,176)**		**(165,276)**
Share capital balance, December 31, 2013		**24,010,736**	**$**	**33,647,907**

Share issue costs, net of tax, included in share capital are $1,628,953 (December 31, 2012 - $1,044,819).

a) On December 20, 2013, the Company issued 6,667,000 common shares for gross proceeds of $10,000,500 under an equity financing arrangement. In consideration for services related to the offering, the Company paid Cormark Securities Inc., Beacon Securities Limited, and Paradigm Capital Inc ("the Underwriters") a fee equal to 5% of the gross proceeds of the offering, totalling an aggregate commission of $500,025. The Company also granted to the Underwriters an Over-Allotment Option equal to 15% of the number of shares sold under the offering, exercisable in whole or in part at any time and from time to time up to 30 days following the closing of the financing, up to a maximum of $1,500,075 of additional shares on the same basis. At December 31, 2013 and subsequent to year end, the option was not exercised. The share issuance related transaction costs, net of tax, amounting to $584,134 ($0.09 per share) have been netted off with the deemed proceeds.

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

c) 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. and 57,143 common shares are restricted for resale until May 31, 2014.

d) During 2013, the Company had a Normal Course Issuer Bid ("NCIB") with the Toronto Stock Exchange. Under the NCIB, the Company was 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 were cancelled. At December 31, 2013, 118,176 shares had been repurchased for cancellation under the NCIB

(Canadian dollars)

17. Share capital *(cont`d)*

for cash consideration of $184,951. $165,276 of the total cash consideration was recorded in the share capital and $19,675 was recorded in the contributed surplus.

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, 2013, the Plan permits the authorization to grant stock options up to a maximum of 2,402,662 common shares of the Company. All share-based employee remuneration will be settled in equity.

18.2 Options to employees and directors

	Number of options		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2013	1,115,000	$	2.73	8.73
Issued	180,000		1.8	10
Expired	(30,000)		2.25	—
Outstanding, December 31, 2013	1,265,000	$	2.61	8.24
Options exercisable, December 31, 2013	514,994	$	2.67	8.04

	Number of options		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2012	595,000	$	2.35	7.94
Issued	695,000		2.77	9.61
Exercised	(47,200)		1.12	3.4
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

The weighted average share price at the dates of exercise in 2012 was $2.24.

(Canadian dollars)

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

The fair value of the employee and directors options granted during 2013 is estimated on the date of grant using the Black-Scholes Option Pricing Model based on the following weighted average assumptions:

	December 31, 2013	December 31, 2012
Expected life	**10 years**	10 years
Risk-free rate	**2.18%**	1.416%
Expected volatility	**130.73%**	140.07%
Expected dividend yield	**—%**	—%

The estimated forfeiture rate on the options is nil (December 31, 2012 - nil). During the year ended December 31, 2013, 180,000 options were granted (December 31, 2012 – 695,000) under the plan at a total fair value of $302,503 (December 31, 2012 - $1,725,557).

During the year ended December 31, 2013, $1,196,686 (December 31, 2012 - $791,040) was expensed in relation to the share-based payment plan to employees and directors.

18.3 Options to consultants

There were no options to consultants outstanding as at December 31, 2013.

	Number of options	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2012	153,688	$ 2.85	1.58
Exercised	(71,968)	2.67	0.29
Expired	(81,720)	3.00	—
Outstanding, December 31, 2012	—	$ —	—

(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, January 1, 2013	300,000	$ 1.77	3.93
Outstanding, December 31, 2013	300,000	1.77	2.93
Exercisable, December 31, 2013	300,000	$ 1.77	2.93

	Number of warrants	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2012	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, December 31, 2012	300,000	$ 1.77	3.93

The weighted average share price at the dates of exercise in 2012 was $2.90.

19. Non-controlling interest

Bri-Steel Manufacturing Inc. (“Manufacturing”) is 70% owned by the Company and 30% owned by Wuxi Huayou Special Steel Co. Ltd, ("Wuxi") of the People's Republic of China, and operates in Canada. Non-controlling interests have been recorded for Wuxi’s share of Manufacturing’s net operations for the period.

On August 1, 2013, Wuxi exchanged 2,100,000 Preferred, Series 1 non-puttable shares, and inventory and equipment investments for number of common shares of the subsidiary at cost, and cancelled an option granted to the Company to repurchase Wuxi's common shares of the subsidiary, to which no value had been attached. This exchange did not have any effect on the consolidated balance of non-controlling interest as of December 31, 2013.

	December 31, 2013	December 31, 2012
Balance, beginning of year	**$ 2,412,225**	$ 1,466,882
Inventory investment by partner	**23,067**	1,059,450
Equipment investment by partner	**—**	359,208
Net loss and comprehensive loss	**(510,274)**	(473,315)
Balance, end of year	**$ 1,925,018**	$ 2,412,225

(Canadian dollars)

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

At December 31, 2013, the Company did not have any restrictions on its ability to access or use assets and settle liabilities of Manufacturing (December 31, 2012 - no restrictions).

Set out below is the summarized financial information for the Manufacturing subsidiary which has the non controlling interest.

Summarized statement of financial position		**December 31, 2013**		December 31, 2012
Current assets	**$**	**21,828,702**	$	15,215,076
Non-current assets		**8,769,570**		8,463,362
Total assets	**$**	**30,598,272**	$	23,678,438
Current liabilities	**$**	**5,398,808**	$	5,621,092
Non-current liabilities		**19,004,581**		18,369,930
Total liabilities		**24,403,389**		23,991,022
Net assets (deficiency)	**$**	**6,194,883**	$	(312,584)

Summarized statement of operations		**December 31, 2013**		December 31, 2012
Revenue	**$**	**17,884,359**	$	15,507,439
Loss before income taxes		**2,126,143**		2,118,387
Income tax recovery		**(532,156)**		(480,780)
Net loss		**1,593,987**		1,637,607
Other comprehensive income (loss)		**—**		—
Total comprehensive loss	**$**	**1,593,987**	$	1,637,607
Total comprehensive loss attributable to:				
Shareholders of the Company	**$**	**1,083,713**	$	1,164,292
Non-controlling interest	**$**	**510,274**	$	473,315

Summarized cash flows		**December 31, 2013**		December 31, 2012
Net cash used in operating activities	**$**	**(7,900,773)**	$	(7,130,854)
Net cash used in investing activities		**(845,082)**		(1,932,457)
Net cash provided by financing activities		**8,745,855**		9,063,311
Net decrease in cash and cash equivalents	**$**	**—**	$	—
Cash and cash equivalents, beginning of year	**$**	**—**	$	—
Cash and cash equivalents, end of year	**$**	**—**	$	—

The information above is the amount before inter-company eliminations.

(Canadian dollars)

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.

	December 31, 2013	December 31, 2012
Net earnings attributable to the shareholders of the Company	$ 109,481	$ 5,365,835
Basic weighted average number of ordinary shares	17,613,227	17,282,955
Dilutive options and warrants issued and outstanding	22,057	117,893
Diluted weighted average number of ordinary shares	17,635,284	17,400,848
Basic earnings per share	$ 0.01	$ 0.31
Diluted earnings per share	$ 0.01	$ 0.31

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, 2013	December 31, 2012
Options issued and outstanding	1,215,000	1,115,000
Warrants issued and outstanding	300,000	—
Total anti-dilutive shares	1,515,000	1,115,000

21. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Chief Executive Officer and Chief Financial Officer who make strategic decisions.

The chief operating decision-makers consider the business from both a geographic and a product perspective. Geographically, management considers the performance in Canada and the USA. From a product perspective, management separately considers the fluid distribution, fluid packaging, steel distribution and steel manufacturing in these geographies. The Company's steel distribution and steel manufacturing are only in Canada.

The chief operating decision-makers assess the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes from net earnings the effects of interest, taxes, and amortization and depreciation. The adjusted EBITDA also excludes the effect of equity-settled share based payments. Corporate overhead costs, interest income and expenditure, excluding interest expense on finance lease, are not allocated to segments, as these types of activity are driven by the central treasury function, which manages the cash position of the Company.

The amounts provided to the chief operating decision-maker with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The Company has seven reportable segments: Fluids Distribution Canada, Fluids Distribution USA, Fluids Packaging Canada, Fluids Packaging USA, Steel Distribution, Steel Manufacturing and Other. The Other segment represents insignificant segments and all remaining costs not directly attributable to an operating segment, such as corporate overhead. As at December 31, 2013, the Company identified one additional operating segment as

21. Segment reporting*(cont'd)*

its fluids packaging USA segment due to acquisition of Sun Coast, Note 4. This, in addition to other changes in presentation, have resulted in comparative information being reclassified. As at December 31, 2012, the Company had identified two additional operating segments as its fluids packaging segment and its fluids distribution USA segment.

Revenues between Fluids Packaging Canada and Fluids Distribution Canada are carried out at arm's length. Revenue between the remaining divisions are recognized at cost. The revenue from external parties reported to the chief operating decision-makers is measured in a manner consistent with that in the consolidated statement of operations.

Selected financial information by reportable segment is disclosed as follows:

(Canadian dollars)

21. Segment reporting *(cont'd)*

December 31, 2013	Fluid Distribution Canada	Fluid Distribution USA	Total Fluid Distribution	Fluid Packaging Canada	Fluid Packaging USA	Total Fluid Packaging	Steel Distribution	Steel Manufacturing	Other*	Consolidated
Total revenues	$ 86,910,763	$ 45,163,917	$ 132,074,680	$ 27,420,808	$ 2,410,447	$ 29,831,255	$ 12,512,681	$ 17,884,359	$ —	**$ 192,302,975**
Revenues from internal customers	1,200,178	614,821	1,814,999	9,949,184	101,998	10,051,182	140,490	349,295	—	**12,355,966**
Revenues from external customers	85,710,585	44,549,096	130,259,681	17,471,624	2,308,449	19,780,073	12,372,191	17,535,064	—	**179,947,009**
Cost of sales**	73,507,775	34,739,879	108,247,654	13,754,586	1,393,773	15,148,359	11,695,647	15,942,326	—	**151,033,986**
Adjusted EBITDA	7,214,793	2,517,193	9,731,986	2,298,540	254,774	2,553,314	(4,428,901)	(176,821)	138,759	**7,818,337**
Amortization and depreciation	167,675	515,834	683,509	577,426	201,394	778,820	179,924	1,066,392	24,034	**2,732,679**
Interest	1,532	11,083	12,615	—	736	736	—	19,430	3,792,026	**3,824,807**
Share based compensation	—	—	—	—	—	—	—	—	1,196,686	**1,196,686**
Income tax expense (recovery)	1,618,771	491,882	2,110,653	363,749	32,943	396,692	(1,266,926)	(532,156)	(243,305)	**464,958**
Segment profit (loss)	$ 5,426,815	$ 1,498,394	$ 6,925,209	$ 1,357,365	$ 19,701	$ 1,377,066	$ (3,341,899)	$ (730,487)	$ (4,630,682)	**$ (400,793)**
Segment assets	$ 59,025,666	$ 31,566,002	$ 90,591,668	$ 11,379,346	$ 7,884,334	$ 19,263,680	$ 8,968,579	$ 30,598,272	$ 3,789,461	**$ 153,211,660**
Capital expenditures	$ 117,723	$ 454,153	$ 571,876	$ 54,180	$ 246,089	$ 300,269	$ 24,070	$ 906,854	$ 1,421,156	**$ 3,224,225**

* includes corporate overhead costs
** excludes depreciation of production equipment.

(Canadian dollars)

21. Segment reporting *(cont'd)*

December 31, 2012	Fluid Distribution Canada	Fluid Distribution USA	Total Fluid Distribution	Fluid Packaging Canada	Fluid Packaging USA	Total Fluid Packaging	Steel Distribution	Steel Manufacturing	Other*	Consolidated
Total revenues	$ 90,878,080	$ 19,765,956	$ 110,644,036	$ 20,258,958	$ —	$ 20,258,958	$ 24,996,165	$ 15,507,439	$ —	**$ 171,406,598**
Revenues from internal customers	1,287,049	63,023	1,350,072	10,093,751	—	10,093,751	88,540	729,508	—	**12,261,871**
Revenues from external customers	89,591,031	19,702,933	109,293,964	10,165,207	—	10,165,207	24,907,625	14,777,931	—	**159,144,727**
Cost of sales**	76,009,168	15,624,898	91,634,066	7,948,055	—	7,948,055	20,087,644	13,583,026	—	**133,252,791**
Adjusted EBITDA	8,737,166	362,932	9,100,098	1,075,484	—	1,075,484	1,902,846	(495,575)	122,875	**11,705,728**
Amortization and depreciation	172,626	461,479	634,105	169,006	—	169,006	174,379	817,198	25,409	**1,820,097**
Interest	—	16,153	16,153	—	—	—	—	24,810	2,569,576	**2,610,539**
Share based compensation	—	—	—	—	—	—	—	—	791,040	**791,040**
Income taxes (recovery)	1,767,632	(513,968)	1,253,664	177,835	—	177,835	411,558	(480,760)	229,235	**1,591,532**
Segment profit (loss)	$ 6,796,908	$ 399,268	$ 7,196,176	$ 728,643	$ —	$ 728,643	$ 1,316,909	$ (856,823)	$ (3,492,385)	**$ 4,892,520**
Segment assets	$ 60,753,886	$ 13,566,010	$ 74,319,896	$ 10,465,749	$ —	$ 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	$ —	$ 206,588	$ 166,062	$ 1,192,098	$ 47,970	**$ 3,319,254**

* includes corporate overhead costs
** excludes depreciation of production equipment

(Canadian dollars)

21. Segment reporting *(cont'd)*

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

	December 31, 2013	December 31, 2012
Revenue		
Canada and International	**$ 117,367,457**	$ 124,421,657
United States	**62,579,552**	34,723,070
	$ 179,947,009	$ 159,144,727
Non-current assets		
Canada and International	**$ 11,658,672**	$ 12,477,276
United States	**13,344,109**	4,837,062
	$ 25,002,781	$ 17,314,338

During the year ending December 31, 2013, the Company had significant revenues from one individual customer (December 31, 2012 - two individual customers) in the Canadian fluids distribution segment totaling $17,219,640 or 10% (December 31, 2012- $23,736,482 or 15% and $15,844,582 or 10%) of total revenues.

(Canadian dollars)

22. Financial instruments

22.1 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

		December 31 2013		December 31 2012
Financial Assets				
Loans and receivables				
Accounts receivable	**$**	**45,877,585**	$	37,594,701
Derivative financial instruments at fair value through profit and loss		**40,037**		—
		45,917,622		37,594,701
Financial Liabilities				
Other financial liabilities				
Long-term debt	**$**	**9,793,363**	$	9,457,350
Promissory notes payable		**490,039**		248,731
Bank indebtedness		**53,495,254**		44,398,833
Accounts payable and accrued liabilities		**27,187,839**		21,753,134
	$	**90,966,495**	$	75,858,048

22.2 Financial risk management objectives

The Company is exposed to various risks in relation to financial instruments. These risks include credit risk, interest rate risk, currency 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 10%, and 7% respectively (December 31, 2012 – 15%, 10%) of total revenue during the year and account for 13%, and 12% respectively (December 31, 2012 – 10%, 20%) 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 and presented in the statement of financial position.

(Canadian dollars)

22. Financial instruments *(cont'd)*

The Company manages its credit risk through the credit assessment process and through extensive credit monitoring and collections processes. The Company maintains an allowance for estimated credit losses on accounts receivable. The Company makes an assessment of past due accounts receivables for impairment and collectibility on an individual basis and considers the following factors: i) the age of the outstanding accounts receivable, ii) the payment history and loss experience, iii) debtor's financial conditions, and other economic information.

The credit analysis of accounts receivable is as follows:

December 31, 2013	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 13,995,524	$ —	$ 13,995,524
31 to 60 days	16,612,489	—	16,612,489
61 to 90 days	10,189,422	—	10,189,422
91 to 120 days	4,279,615	—	4,279,615
Over 120 days	998,106	(197,571)	800,535
Total	$ 46,075,156	$ (197,571)	$ 45,877,585

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

The Company held $nil (December 31, 2012 - $52,859) of customer deposits for the purpose of mitigating the credit risk associated with certain accounts receivable.

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, issued at variable rates, exposes the Company to cash flow interest rate risk as the required cash flow to service the debt will fluctuate as a result of the changing prime interest rate. The promissory note and long-term debt are issued at fixed rates, and expose the Company to fair value interest rate risk. Management analyzes the Company's interest rate exposure on a dynamic basis and is of the opinion that the Company's interest rate risk is not significant.

(Canadian dollars)

22. Financial instruments *(cont'd)*

The contractual interest rate on the bank indebtedness at December 31, 2013 was Canadian bank prime interest rate (3.00%) (December 31, 2012 - Canadian bank prime interest rate plus 25 basis points (3.25%)). As at December 31, 2013, 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 $100,435 (December 31, 2012 – $87,631).

Currency risk

The Company and its Canadian subsidiaries are subject to foreign currency risk due to its accounts receivable, accounts payable and accrued liabilities, and bank indebtedness denominated in foreign currencies. Therefore, there is a risk of earnings fluctuations arising from changes in and the degree of volatility of foreign exchange rates arising on foreign monetary assets and liabilities. Although the majority of the Company's operations are in Canada, the Company has expanded its operations outside Canada, which increases its exposure to foreign currency risk. The Company's US subsidiaries are not exposed to foreign currency risk as all their monetary assets and monetary liabilities are denominated in their functional currency, which is the United States dollar.

The analysis of currency risk of the Company and its Canadian subsidiaries is as follows:

Balance, December 31, 2013	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Canadian dollar	$ 29,113,347	$ (27,236,970)	$ —	$ 1,876,377
US dollar	5,139,968	(33,229,517)	3,183,000	(24,906,549)
Total[1]	$ 34,253,315	$ (60,466,487)	$ 3,183,000	$ (23,030,172)

Balance, December 31, 2012	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Canadian dollar	$ 29,899,939	$ (26,906,594)	$ —	$ 2,993,345
US dollar	4,401,791	(22,158,625)	—	(17,756,834)
Total[1]	$ 34,301,730	$ (49,065,219)	$ —	$ (14,763,489)

[1] the total does not include monetary assets and monetary liabilities of the US subsidiaries

At December 31, 2013, if the Canadian dollar had weakened/strengthened by 5% (December 31, 2012 - 5%) against the US Dollar with all other variables held constant, post-tax profit would have been $351,005 (December 31, 2012 - $73,597) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated monetary assets and liabilities.

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 forecasting and management of its operational cash flows. Such management of operational cash flows takes into consideration the Company's debt financing plans and covenant compliance.

(Canadian dollars)

22. Financial instruments *(cont'd)*

The table below analyzes the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial instruments are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table below are the contractual undiscounted cash flows.

Contractual obligations related to financial liabilities at December 31, 2013 are as follows:

	Bank credit facility	Accounts payable	Long-term debt	Promissory notes payable	Finance leases	Total
2014	$ 53,924,698	$ 27,187,839	$ 2,306,716	$ 506,728	$ 151,203	$ 84,077,184
2015	—	—	2,174,716	—	113,881	2,288,597
2016	—	—	2,045,006	—	73,645	2,118,651
2017	—	—	7,059,332	—	8,229	7,067,561
2018	—	—	4,711	—	2,743	7,454
Thereafter	—	—	—	—	—	—
Total	$ 53,924,698	$ 27,187,839	$ 13,590,481	$ 506,728	$ 349,701	$ 95,559,447

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	$ 44,899,137	$ 21,753,134	$ 1,054,167	$ —	$ 185,719	$ 67,892,157
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	$ 44,899,137	$ 21,753,134	$ 14,752,056	$ 260,593	$ 516,187	$ 82,181,107

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, accounts payable and accrued liabilities, promissory notes and finance leases approximate their fair value because of the near term to maturity of these instruments. The carrying value of other long -term receivable approximates its fair value. The carrying value of the long-term debt approximates its fair value as interest rates have not significantly changed during 2013. The carrying amount of the Company's bank indebtedness approximates the fair value as it bears floating interest rates which are similar to the current market rates (Level 2).

(Canadian dollars)

22. Financial instruments *(cont'd)*

22.3 Fair value of financial instruments

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorized are as follows:

Financial assets		2013 Valuation technique with inputs observable in markets (level 2)		2012 Valuation technique with inputs observable in markets (level 2)
Financial derivative	**$**	**40,037**	$	—
Total	**$**	**40,037**	$	—

23. Derivative financial instruments

Foreign exchange derivatives entered into by the Company have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. On December 23, 2013, the Company entered into a structured foreign exchange agreement with a notional amount of US $1,000,000 at the exchange rate of USDCAD 1.0610, at each expiry date of January 30, 2014, February 27, 2014 and March 30, 2014. This forward agreement has an embedded option to buy the notional amount at the strike rate (USDCAD 1.0610) if the future spot rate does not trade at or beyond USDCAD 1.0425 ("Barrier") at expiry dates. If the future spot rate reaches the Barrier at expiry dates, the Company has an obligation to buy US $2,000,000 at the strike rate of USDCAD 1.0610. The fair value of the foreign currency option recorded in accounts receivable on the statement of financial position at December 31, 2013 is $40,037 (December 31, 2012 - no foreign exchange derivatives). The fair value of the foreign currency derivative instrument was estimated using the Black-Scholes Option Pricing Model based on the inputs which are observable in the market and include spot USDCAD exchange rate, risk free interest rate and volatility.

(Canadian dollars)

24. Supplemental cash flow information

	Note	December 31 2013	December 31 2012
Accounts receivable		$ (7,492,125)	$ 19,276,804
Inventory		(4,818,685)	(14,279,738)
Prepaids and deposits		(442,855)	(729,759)
Accounts payable and accrued liabilities		5,132,428	(8,854,173)
Customer deposits		(52,859)	—
Income taxes payable		(1,180,101)	(545,849)
Foreign exchange		(568,965)	67,290
Change in non - cash working capital		$ (9,423,162)	$ (5,065,425)
Interest paid		$ 3,289,555	$ 2,262,607
Income tax paid		2,716,628	2,953,800
Non-cash transactions			
Share capital issued on exercise of stock options	17	—	323,015
Share capital issued on exercise of warrants	17	—	198,800
Equipment purchased under finance lease		34,651	181,400
Inventory contributed by non-controlling interest partner	19	23,067	1,059,450
Equipment contributed by non-controlling interest partner	19	—	359,208

25. 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.

25.1 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 2013	December 31 2012
Salaries including bonuses	$ 1,298,526	$ 1,210,854
Share based payments	302,503	504,526
Director's fees	101,100	232,924
Benefits	98,845	26,981
	$ 1,800,974	$ 1,975,285

(Canadian dollars)

25. 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.

25.2 Transactions with related entities

During the year ended December 31, 2013, the Company incurred office sharing costs of $60,000 (December 31, 2012 – $60,000) that were paid to a company controlled by a director of the Company.

26. 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 2013	December 31 2012
Bank indebtedness	**$ 53,495,254**	$ 44,398,833
Long-term debt	**9,793,363**	9,457,350
Promissory notes payable	**490,039**	248,731
Obligations under finance lease	**323,170**	472,071
Equity	**60,177,866**	51,729,361
Total capital	**$ 124,279,692**	$ 106,306,346

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

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

	December 31 2013	**Minimum required**	December 31 2012	Minimum required
Fixed charge coverage ratio	**1.16**	**To exceed 1.10**	—	—
Eligible capital expenditures	**$ 3,277,181**	**Not to exceed $4,262,700**	$ 3,463,991	Not to exceed $3,630,600
Funded term debt to EBITDA	**0.98**	**Not to exceed 1.5:1**	0.91	Not to exceed 1.5:1

As at December 31, 2013, the Company was in compliance with all financial covenants. 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 lender on a monthly basis.

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

On August 30, 2013, the Company revised the terms of the Asset Based Lending (ABL) Facility agreement and changed financial covenants by replacing the minimum adjusted tangible net worth covenant with a minimum fixed charge coverage ratio covenant. Effective August 30, 2013, the Company is required to comply with two financial covenants being a minimum fixed charge coverage ratio and a maximum annual eligible 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.

The fixed charge coverage ratio is set at a minimum of 1.10 to 1 level and defined as the trailing twelve months of EBITDA, less non-funded capital expenditure, to the sum of cash interest paid, plus cash income taxes paid, plus the aggregate of all dividends, distributions and principal repayments, and any amortization in the borrowing base of any eligible real property and/or eligible machinery and equipment. 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. Capital expenditures limit is set at a maximum of 120% of the consolidated budgeted yearly capital expenditures. The funded term debt to EBITDA covenant is set at a maximum of 1.50 to 1. Funded term debt is any term debt including, without limitation, the subordinated debt facility and any finance lease obligations. 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.

(signed) "Don Caron"
Don Caron, Director

(signed) "Eric Sauze"
Eric Sauze, Director