

Year End Report December 31, 2015



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Independent Auditor's Report

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, 2015 and December 31, 2014, and the consolidated statements of operations, consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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 financial position of Bri-Chem Corp. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates that Bri-Chem Corp. incurred a net loss of \$14,357,367 during the year ended December 31, 2015. It further indicates that management's forecasts are based on future demand for drilling fluid products which is driven by commodity prices and that actual commodity prices may differ significantly from the management forecasted commodity prices, and that Bri-Chem Corp.'s asset backed lending facility is due for renewal prior to August 12, 2016. These conditions, along with other factors as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the ability of Bri-Chem Corp. to continue as a going concern.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants, Chartered Accountants
March 29, 2016
Edmonton, Canada

Consolidated Statements of Operations

(Canadian dollars)

	Note	December 31 2015	December 31 2014
Sales		\$ 96,822,080	\$ 184,707,721
Cost of sales		83,341,499	152,957,843
Gross margin		13,480,581	31,749,878
Expenses			
Salaries and benefits		8,745,713	11,429,170
Selling, general and administration		5,715,192	6,655,742
Interest on short-term operating debt		1,700,171	1,980,462
Interest on long-term debt		1,592,186	1,257,952
Interest on obligations under finance lease		15,475	3,544
Amortization on intangible assets		367,412	1,259,653
Depreciation on property and equipment		1,243,516	907,837
Impairment of property and equipment	7	1,629,297	—
Impairment of goodwill and other intangible assets	8,9	3,534,307	8,567,921
Foreign exchange loss/(gain)		974,990	(2,414,934)
Bad debts		962,644	299,700
Restructuring costs		1,323,009	—
		27,803,912	29,947,047
(Loss)/earnings before income taxes		(14,323,331)	1,802,831
Income tax expense (recovery)			
Current		(2,727,890)	2,629,501
Deferred		2,761,926	(1,937,656)
	16	34,036	691,845
(Loss)/earnings from continuing operations		(14,357,367)	1,110,986
Discontinued operations			
Net loss from discontinued operations	21	—	(12,412,413)
Net loss		\$ (14,357,367)	\$ (11,301,427)
(Loss)/earnings from continuing operations attributable to:			
Shareholders of the Company		(14,357,367)	1,110,986
Non-controlling interest	19	—	—
Loss from discontinued operations attributable to:			
Shareholders of the Company		—	(9,490,998)
Non-controlling interest	19	—	(2,921,415)
Net loss attributable to:			
Shareholders of the Company		(14,357,367)	(8,380,012)
Non-controlling interest		—	(2,921,415)
		(14,357,367)	(11,301,427)
(Loss)/earnings per share from continuing and discontinued operations	20		
Basic from continuing operations		\$ (0.61)	\$ 0.05
Basic from discontinued operations		—	(0.40)
From net (loss) earnings for the year		(0.61)	(0.35)
Diluted from continuing operations		(0.61)	0.05
Diluted from discontinued operations		—	(0.40)
From net (loss) earnings for the year		\$ (0.61)	\$ (0.35)

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

Consolidated Statements of Comprehensive Loss

(Canadian dollars)

	December 31 2015	December 31 2014
Net loss	\$ 14,357,367	\$ 11,301,427
Other comprehensive (income)/loss, net of tax of \$nil (2014 - \$nil)		
Foreign currency translation adjustment	(2,119,559)	2,263,459
Total comprehensive loss	\$ 12,237,808	\$ 13,564,886
Comprehensive loss attributable to:		
Shareholders of the Company	\$ 12,237,808	\$ 10,643,471
Non-controlling interest	—	2,921,415
Total comprehensive loss	\$ 12,237,808	\$ 13,564,886

Consolidated Statement of Financial Position

(Canadian dollars)

	Note	December 31 2015	December 31 2014
Assets			
Current			
Accounts receivable	5	\$ 16,447,331	\$ 45,465,731
Inventories	6	33,362,206	57,294,436
Prepaid expenses and deposits		948,611	1,845,288
Income taxes receivable		4,112,702	622,582
		54,870,850	105,228,037
Non-current			
Property and equipment	7	12,995,770	13,468,196
Intangible assets	8	—	1,991,611
Goodwill	9	—	1,910,108
Deferred tax assets	16	6,014,610	9,034,744
Other long-term assets		139,247	145,890
		\$ 74,020,477	\$ 131,778,586
Liabilities			
Current			
Bank indebtedness	10	\$ 23,055,007	\$ 51,873,895
Accounts payable and accrued liabilities	11	6,371,417	22,076,983
Current portion of promissory notes payable	12	260,797	—
Current portion of long-term debt	13	618,123	1,257,983
Current portion of obligations under finance lease	14	66,203	23,533
Deferred revenue		—	53,554
Income taxes payable		—	493,404
		30,371,547	75,779,352
Non-current			
Long-term debt	13	7,765,308	7,416,586
Obligations under finance lease	14	116,103	53,810
Promissory notes payable	12	244,506	449,800
Deferred tax liabilities	16	128,540	692,810
Other long-term liabilities		153,731	213,784
		38,779,735	84,606,142
Equity			
Share capital	17	33,263,473	33,474,669
Contributed surplus		3,782,365	3,265,063
Warrants	18	209,226	209,226
Retained (loss) earnings		(211,272)	14,146,095
Accumulated other comprehensive loss		(1,803,050)	(3,922,609)
		35,240,742	47,172,444
		\$ 74,020,477	\$ 131,778,586

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, 2015		33,474,669	3,265,063	209,226	(3,922,609)	14,146,095	\$ 47,172,444	\$ —	\$ 47,172,444
Repurchase of shares under Normal Course Issuer Bid	17	(211,196)	—	—	—	—	(211,196)	—	(211,196)
Employee share-based payment options	18	—	517,302	—	—	—	517,302	—	517,302
Total comprehensive income/(loss)		—	—	—	2,119,559	(14,357,367)	(12,237,808)	—	(12,237,808)
Balance at December 31, 2015		\$ 33,263,473	\$ 3,782,365	\$ 209,226	\$ (1,803,050)	\$ (211,272)	\$ 35,240,742	\$ —	\$ 35,240,742

	Note	Share capital	Contributed surplus	Warrants	Accumulated other comprehensive (loss) income	Retained earnings	The Company	Non-controlling interest	Total equity
Balance at January 1, 2014		\$ 33,647,907	\$ 2,532,361	\$ 209,226	\$ (1,659,150)	\$ 23,522,504	\$ 58,252,848	\$ 1,925,018	\$ 60,177,866
Issuance of shares upon exercise of options	17	42,000	(19,500)	—	—	—	22,500	—	22,500
Repurchase of shares under Normal Course Issuer Bid	17	(215,238)	—	—	—	—	(215,238)	—	(215,238)
Employee share-based payment options	18	—	752,202	—	—	—	752,202	—	752,202
Total comprehensive loss		—	—	—	(2,263,459)	(8,380,012)	(10,643,471)	(2,921,415)	(13,564,886)
Transferred to retained earnings	19	—	—	—	—	(996,397)	(996,397)	996,397	—
Balance at December 31, 2014		\$ 33,474,669	\$ 3,265,063	\$ 209,226	\$ (3,922,609)	\$ 14,146,095	\$ 47,172,444	\$ —	\$ 47,172,444

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 2015	December 31 2014
Operating activities			
Net (loss)/earnings from continuing operations		\$(14,357,367)	\$ 1,110,986
Adjustments for:			
Depreciation on property and equipment		1,243,516	907,837
Amortization on intangible assets	8	367,412	1,259,653
Amortization of debt related transaction costs		520,006	480,091
Impairment of property and equipment	7	1,629,297	—
Impairment of goodwill and other intangible assets	8,9	3,534,307	8,567,921
Deferred tax expense/(recovery)		2,761,926	(1,937,656)
Share-based payments		517,302	752,202
Foreign exchange loss on debt		5,013,518	1,140,138
Unrealized foreign exchange gain		(4,059,601)	(3,129,062)
Interest on debt and finance leases		2,516,693	2,734,443
Other		42,653	9,305
Change in non-cash working capital	24	39,761,004	(7,359,721)
Cash provided by operating activities from continuing operations		39,490,666	4,536,137
Cash used in operating activities in discontinued operations		—	(1,162,579)
Total cash provided by operating activities		39,490,666	3,373,558
Financing activities			
Interest paid on debt and finance leases		(2,528,310)	(2,748,782)
Repayments on promissory notes payable		—	(563,325)
Advances (repayments) on operating line		(35,207,276)	10,119,105
Repayments of long-term debt		(635,923)	(1,255,222)
Repurchases of shares	17	(211,196)	(215,238)
Proceeds from issuance of shares		—	22,500
Repayments of obligations under finance lease		(57,865)	(6,286)
Cash (used in)/provided by financing activities in continuing operations		(38,640,570)	5,352,752
Cash used in financing activities in discontinued operations		—	(15,636,385)
Total cash used in financing activities		(38,640,570)	(10,283,633)
Investing activities			
Purchase of property and equipment		(850,096)	(5,599,793)
Purchase of intangible assets		—	(14,454)
Cash paid on acquisition		—	(4,650,683)
Cash used in investing activities in continuing operations		(850,096)	(10,264,930)
Cash provided by investing activities in discontinued operations		—	17,175,005
Total cash (used in)/provided by investing activities		(850,096)	6,910,075
Net change in cash and cash equivalents		—	—
Cash and cash equivalents, beginning of the year		—	—
Cash and cash equivalents, end of the year		\$ —	\$ —

1. Nature of operations and going concern

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 itself as one of North America's largest independent wholesale suppliers of drilling fluids for the oil and gas industry. The Company provides drilling fluid products, cementing, acidizing and stimulation additives from multiple strategically located warehouses throughout Canada and the United States. Bri-Chem Corp. is incorporated and located in Canada. Its registered and primary place of business is #15 - 53016 Highway 60, Acheson, Alberta T7X 5A7.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. The Company incurred a net loss of \$14,357,367 for the year ended December 31, 2015. The Company's ability to continue as a going concern is dependent on the Company's ability to generate future profitable operations, realize forecasted revenues, control operational expenditures and secure future financing when required. These financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues, and expenses which would be necessary if the Company were unable to continue as a going concern.

Management has applied significant judgement in preparing forecasts supporting the going concern assumption. Revenues are projected based on demand for drilling fluid products, which is driven by forecasted commodity prices and drilling activity levels. The timing and extent of operating and general administrative expenditures are projected based on the estimated revenue levels. The actual commodity prices may differ significantly from the forecasted commodity prices used by management.

Due to current economic conditions and prices, the Company amended both the Asset-Based Lending Facility (the "ABL Facility") (Note 10) and subordinated debenture agreement (Note 13) as at November 30, 2015. As at December 31, 2015, the Company was in compliance with all financial covenants of these agreements. The ABL Facility is subject to renewal prior to its maturity date of August 12, 2016. However, the Company has held discussions with its ABL Facility bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. Failure to reach agreement regarding the terms to extend this agreement could result in the acceleration of the relevant indebtedness.

The above material uncertainties may cast significant doubt with respect to the ability of the Company to continue as a going concern.

Management continues to monitor the Company's financing requirements and intends on renewing its ABL Facility with its existing lenders commencing in the second quarter of 2016. Management is also reviewing other potential funding sources which include the issuance of common shares to public investors, the sale of assets or operating segments, various forms of debt and possible business combinations.

Should the Company be unable to meet its obligations as they become due and is unable to fund or source new funding for future operations, the preparation of these consolidated financial statements on a going concern basis may not be appropriate. The consolidated financial statements do not reflect adjustments

1. Nature of operations and going concern (cont'd)

that would be necessary if the going concern assumption were not appropriate. Such adjustments may be material.

The directors have considered the judgements, estimates, financing options, and related uncertainties disclosed above and have concluded that there is a reasonable expectation that the Company will be able to access adequate resources to continue operations for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the consolidated financial statements.

2. Summary of significant accounting policies

Basis of presentation

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

These 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 financial statements and the notes hereto are in Canadian dollars, the Company's presentation currency, unless otherwise stated.

On July 15, 2014, the Company closed the sale transaction of assets and ongoing business operations of its steel pipe manufacturing division and steel pipe distribution division (Note 21). The Company reclassified operations associated with assets and liabilities of these segments as discontinued operations for all periods presented in 2014.

These financial statements for the year ended December 31, 2015 were authorized for issue by the Board of Directors on March 29, 2016.

Principles of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Company, and the following 100% owned subsidiaries:

- Bri-Chem Supply Ltd.,
- Sodium Solutions Inc.,
- Solution Blend Services Ltd.,
- 1100266 Alberta Ltd. ("Bri-Steel", previously named Bri-Steel Corporation),
- 1564316 Alberta Ltd. ("Manufacturing", previously named Bri-Steel Manufacturing Inc.),
- Bri-Corp USA Inc, which has three wholly-owned subsidiaries (100%), Bri-Chem Supply Corp LLC, Sun Coast Materials, LLC, and Bri-Chem Logistics, LLC.

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

Principles of consolidation (cont'd)

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company has power over or 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 Company does not differ from the proportion of ordinary shares held.

Subsidiaries are consolidated from the date on which control is obtained by 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 Company.

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, as a bargain purchase gain.

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 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

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

Foreign currency translation (cont'd)

gains and losses resulting 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) and accumulated in equity

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 22.

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 Company, 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.

When a transaction contains separately identifiable components that should be accounted for separately, the Company applies the revenue recognition criteria and relevant IFRSs to each separately identifiable component of a single transaction in order to reflect the transaction's substance.

Goodwill

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

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

Goodwill (cont'd)

For the purposes of impairment testing, 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 of disposal 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. 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. Impairment recognized against goodwill is not subsequently reversed.

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
Supply agreement	4 years straight-line
Distribution agreement	4 years straight-line
Brand	2 years straight-line

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

Intangible assets (cont'd)

Customer relationships represent existing contracts and the underlying customer relationships. Costs associated with maintaining computer software programs such as expenditures relating to patches and other minor updates as well as their installation are expensed as incurred. The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognized in profit or loss.

Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation and impairment losses. 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 profit or loss during the financial period in which they are incurred. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized in 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.

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

Leases (cont'd)

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 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.

The Company as lessor

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

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

Financial instruments (cont'd)

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.

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

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

Financial instruments (cont'd)

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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Derivative financial instruments

The Company occasionally 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 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.

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.

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

Inventories

Distribution goods 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.

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 from the acquisition date.

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 a deduction, net of tax, from the proceeds.

Where the Company re-purchases the Company's equity share capital through a 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.

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.

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

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' enacted or 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 and executives 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, including the Company's Board of Directors is calculated based on the value of the services provided in exchange for the option issue, or 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.

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

Provisions, contingent liabilities and contingent assets

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

When a business combination is undertaken, the Company initially measures any of the acquired company's contingent liabilities at the acquisition date fair value. The contingent liabilities are subsequently measured at fair value.

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 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.

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

Critical accounting estimates and assumptions in applying accounting policies

The preparation of these 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

For the purposes of impairment testing, goodwill is allocated to each CGU that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata based on the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Management makes assumptions about future operating results and tests the 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 financial statements.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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.

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

Critical accounting estimates and assumptions in applying accounting policies (cont'd)

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 of financial assets

All of the Company's financial assets are reviewed for indicators of impairment, in accordance with the accounting policy stated in 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, and 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 standard, that is applicable to the Company, has been adopted by the Company for the first time in the financial year beginning on or after January 1, 2015 and has no material impact on the Company:

Amendments to IAS 19 – Defined benefit plans: employee contributions

In January, 2015, the Company adopted amendments to IAS 19, which relate to accounting for employee contributions in a defined benefit plan. Since the Company has no defined benefit plans, the application of these amendments have had no effect on the Company's financial statements.

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

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 IFRS Interpretations Committee ("IFRIC") that are not yet effective for the financial year ended December 31, 2015. The standards and amendments issued that are applicable to the Company are as follows:

IAS 1 – Presentation of financial statements

IAS 1 Presentation of financial statements was amended by the IASB on December 18, 2014. The amendments to existing IAS 1 requirements relate to materiality; order of the notes; subtotals; accounting policies; and disaggregation. The amendments are effective for annual period beginning on or after January 1, 2016. The Company is assessing the impact of this standard on its financial statements.

IFRS 9 – Financial instruments

The complete version of IFRS 9 replaces most of the guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the impact of this standard on its financial statements.

IFRS 15 – Revenue from contracts with customers

IFRS 15 is a converged standard on revenue recognition. It replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and is to be applied retrospectively. The Company is assessing the impact of this standard on its financial statements.

Amendments to IAS 16 – Property Plant and Equipment and IAS 38 – Intangible assets

This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of the economic benefits embodied in the asset. This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendments become effective on or after January 1, 2016. This amendment will not have an impact on the Company's financial statements.

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

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

IFRS 16 – Leases

In January, 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with its distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted for those Companies that have also adopted IFRS 15, *Revenue from Contracts with Customers*. Management of the Company anticipates that the adoption of IFRS 16 in the future may have a material impact on the amounts reported and the disclosure made in the financial statements. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until the Company has performed the detailed review.

Annual improvements (2012-2014)

These annual improvements amend standards from the 2012-2014 reporting cycle. It includes changes to:

- IFRS 5, Non-current assets held for sale and discontinued operations. The amendment clarifies that, when an assets (or disposal group) is reclassified from “held for sale” to “held for distribution”, or visa versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or a disposal group) which ceases to be held for distribution but is not reclassified as “held for sale”;
- IFRS 7, Financial instruments; Disclosures. There are two amendments: 1) Servicing contracts – if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognize the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The amendment clarifies guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to IFRS 1 to give the same relief to first time adopters. 2) Interim financial statements – the amendment clarifies that the additional disclosure required by the amendments to IFRS 7, “Disclosure – Offsetting financial assets and financial liabilities” is not specifically required for all interim periods unless required by IAS 34. This amendment is retrospective;
- IAS 34, Interim financial reporting – the amendment clarifies what is meant by the reference in the standard to “information disclosed elsewhere in the interim financial report”. The amendment also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

These improvements become effective on or after July 1, 2016 and are not expected to have an impact on the Company’s financial statements.

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

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

Annual improvements 2015

Annual improvements suggested for 2015 have been included in the annual improvement cycle 2014-2016, which resulted in the publication by the IASB of an Exposure Draft dated November 19, 2015. This Exposure Draft was open for public comment until February 17, 2016. The IASB must redeliberate with respect to the issues included in this annual improvement cycle based on comments received, and complete all of the necessary due process steps, prior to any pronouncements being issued. It is not practical to provide a reasonable estimate of the effect of any resultant changes until the pronouncements are issued and the Company has performed a detailed review of the impact upon 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 Basin ("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 December 1, 2014, the Company acquired net assets of Solution Blend Service Ltd. ("Solution Blend"), a Calgary based packager and specialty cement blender to oil well contractors operating in Alberta. The acquisition was completed to enhance the Company's presence in fluid blending and packaging in Western Canada. The total consideration paid on closing consisted of (i) \$4,650,683 in cash; and (ii) the issuance of a promissory note with fair value of \$445,175.

The acquisition has been accounted for using the acquisition method of accounting with an effective date of December 1, 2014, and the results of operations have been included in these consolidated financial statements from the date of acquisition. The receivables acquired in this transaction had a fair value of \$1,252,752 and all amounts were expected to be collectible. 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:

4. Business combinations (cont'd)

Fair value of net assets acquired	Solution Blend
Cash	\$ 119,643
Accounts receivable	1,252,752
Inventory	462,037
Prepaid expenses	11,356
Property and equipment	200,000
Intangible assets	1,979,198
Goodwill	1,910,108
Deferred tax liabilities	(526,452)
Current liabilities	(312,784)
Balance, December 31, 2014	\$ 5,095,858
Consideration given	
Cash	\$ 4,650,683
Promissory note issued	445,175
Total consideration	\$ 5,095,858

The purchase price allocated to intangible assets includes a customer relationship value of \$1,752,000, brand value of \$121,000, and a non-compete agreement value of \$106,198. In 2014 the Company started to amortize the intangible assets over 2-7 years on a straight line basis. In the fourth quarter of 2015, the remaining intangible assets were written off due to impairment (See Note 8).

Goodwill acquired with the above business combination arose as a result of the expertise and reputation of the assembled workforce, the synergies expected to be achieved as a result of combining Solution Blend with the rest of the Company and the geographical location of the acquiree. Goodwill is not expected to be deductible for tax purposes. In the fourth quarter of 2015, the goodwill was written off due to impairment (See Note 9).

Based on unaudited financial information available to management, if Solution Blend had been acquired at January 1, 2014, revenue for the year ended December 31, 2014 relating to Solution Blend operations would have been \$5,888,115. Consolidated revenues from continuing operations would have been \$185,148,999 and net earnings from continuing operations would have been \$1,883,522 for the year ended December 31, 2014. Solution Blend generated revenue of \$441,278 in 2014 for the one month after acquisition, which is included in the comparable 2014 financial statements.

In addition the Company acquired land and buildings totalling \$3,000,000 from the previous shareholders of Solutions Blend. These are recorded as additions to Property and Equipment in 2014 in Note 7. The Company incurred acquisition-related costs of \$42,800 in 2014 relating to professional fees which were expensed in the period of acquisition.

5. Accounts receivable

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

	December 31 2015	December 31 2014
Trade accounts receivable, gross	\$ 18,455,094	\$ 47,500,123
Allowance for doubtful accounts	(1,278,521)	(115,888)
Accounts receivable, net	17,176,573	47,384,235
Allowance for sales returns	(780,125)	(1,984,294)
Other receivables	50,883	65,790
Accounts receivable	\$ 16,447,331	\$ 45,465,731

The Company pledged trade receivables with a carrying amount of \$16,447,331 (December 31, 2014 - \$45,465,731) 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 \$1,278,521 (December 31, 2014 - \$115,888) has been recorded.

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

	December 31 2015	December 31 2014
Balance, beginning of year	\$ 115,888	\$ 197,571
Bad debts	1,563,475	299,700
Receivables written off	(118,056)	(230,684)
Transfers to assets held for sale	—	(94,733)
Recovery of bad debts	(282,786)	(55,966)
Balance, end of year	\$ 1,278,521	\$ 115,888

The primary factors the Company considers in determining whether financial assets are impaired are their overdue status and significant financial difficulty of debtors.

6. Inventories

All inventories as at December 31, 2015 and 2014 are distribution goods. In the year ended December 31, 2015, a total of \$81,817,787 of inventories was included in profit and loss as cost of sales (December 31, 2014 - \$135,412,609).

At December 31, 2015, the Company pledged inventory of \$33,362,206 (December 31, 2014 - \$57,294,436) as collateral for the ABL Facility (Note 10).

At December 31, 2015 provisions recorded against inventory amounted to \$1,277,500 (December 31, 2014 - \$638,176).

7. Property and equipment

The Company leases various motor vehicles under finance lease agreements. Acquiring assets by entering into a financing lease involves non-cash investing and financing activities, and accordingly, does not appear in the statement of cash flows. At December 31, 2015, motor vehicles includes assets under finance lease with a carrying amount of \$218,853 (December 31, 2014 - \$80,711).

The Company recognized an impairment loss of \$3,921,580 in 2014 related to property and equipment on the sale of its Steel division (Note 21).

In accordance with its accounting policies, the Company determined that there were indicators of impairment of its property and equipment during 2015 and 2014 due to the substantial decline in the oil and gas prices and the reduction in the market price of the Company's common shares to a level substantially below its carrying amount.

The Company determined the recoverable amount of its property and equipment using the fair value less cost to sell. As a result of this review it was determined that the carrying value of Bri-Chem Supply Corp LLC, a wholly owned subsidiary of Bri-Corp USA Inc., exceeded its net recoverable value. The Company recorded an impairment of \$1,629,297 against its property and equipment in 2015. No other impairment was considered necessary following the impairment review at the year-end as the fair value of the assets exceeded the carrying value.

At December 31, 2015, the Company pledged property and equipment with carrying amount of \$12,995,770 (December 31, 2014 - \$13,468,196) as collateral for the ABL Facility, Note 10.

7. Property and equipment (cont'd)

	Land	Buildings	Motor vehicles	Manufacturing and other equipment	Office equipment	Computer equipment	Pavement and landscaping	Leasehold improvements	Total
Cost									
Balance at January 1, 2014	\$ 1,155,369	\$ 3,184,222	\$ 2,114,537	\$ 12,307,059	\$ 634,253	\$ 946,482	\$ 174,663	\$ 2,092,100	\$ 22,608,685
Additions	955,800	2,216,218	322,643	1,837,349	24,997	40,549	312,322	48,487	5,758,365
Additions through acquisition	—	—	71,500	128,500	—	—	—	—	200,000
Translation adjustment	68,341	98,909	78,620	380,312	4,979	9,687	15,042	10,928	666,818
Disposals	—	—	(20,088)	(239,438)	(16,626)	(130,923)	—	(139,609)	(546,684)
Impairment	—	—	(437,793)	(2,813,910)	(95,420)	(62,201)	—	(512,256)	(3,921,580)
Transferred to disposal group classified as held for sale	—	—	(934,036)	(4,567,870)	(160,183)	(125,933)	—	(827,646)	(6,615,668)
Balance at December 31, 2014	2,179,510	5,499,349	1,195,383	7,032,002	392,000	677,661	502,027	672,004	18,149,936
Additions	—	270,933	168,718	624,592	12,410	18,073	2,593	16,128	1,113,447
Translation adjustment	158,647	267,310	200,750	1,046,153	13,642	24,545	62,577	27,010	1,800,636
Disposals	—	—	(7,500)	(290,339)	(26,411)	(39,988)	—	(538,894)	(903,132)
Impairment	—	—	(9,889)	(1,531,511)	(3,679)	(1,066)	—	(83,150)	(1,629,297)
Balance at December 31, 2015	\$ 2,338,157	\$ 6,037,592	\$ 1,547,462	\$ 6,880,897	\$ 387,962	\$ 679,225	\$ 567,197	\$ 93,098	18,531,590
Accumulated depreciation									
Balance at January 1, 2014	—	630,039	883,135	3,588,921	410,370	568,961	66,051	864,878	7,012,355
Translation adjustment	—	3,529	22,597	46,361	1,681	4,180	—	1,958	80,306
Depreciation for the year	—	100,482	232,940	746,572	34,066	89,805	9,179	97,025	1,310,069
Disposals	—	—	(20,088)	(110,900)	(11,762)	(117,478)	—	(64,492)	(324,720)
Transferred to disposal group classified as held for sale	—	—	(632,112)	(2,175,004)	(155,559)	(86,195)	—	(347,400)	(3,396,270)
Balance at December 31, 2014	—	734,050	486,472	2,095,950	278,796	459,273	75,230	551,969	4,681,740
Translation adjustment	—	20,460	62,221	195,796	5,295	13,309	5,929	4,056	307,066
Depreciation for the year	—	226,204	236,369	631,688	23,328	68,038	40,829	17,060	1,243,516
Disposals	—	—	(6,451)	(101,277)	(26,411)	(35,113)	—	(527,250)	(696,502)
Balance at December 31, 2015	\$ —	\$ 980,714	\$ 778,611	\$ 2,822,157	\$ 281,008	\$ 505,507	\$ 121,988	\$ 45,835	\$ 5,535,820
Net book amount at									
December 31, 2014	\$2,179,510	\$4,765,299	\$ 708,911	\$ 4,936,052	\$ 113,204	\$ 218,388	\$ 426,797	\$ 120,035	\$13,468,196
Net book amount at									
December 31, 2015	\$2,338,157	\$5,056,878	\$ 768,851	\$ 4,058,740	\$ 106,954	\$ 173,718	\$ 445,209	\$ 47,263	\$12,995,770

8. Intangible assets

	Customer relationships	Non-compet agreements	Computer software	Distribution agreement	Supply agreement	Brand	Total
Cost							
Balance at January 1, 2014	\$ 6,035,204	\$ 685,613	\$ 376,359	\$ 1,156,400	\$ 587,900	\$ 103,170	\$ 8,944,646
Additions	—	—	62,026	—	—	—	62,026
Additions through acquisition	1,752,000	106,198	—	—	—	121,000	1,979,198
Impairment	(3,207,314)	(78,449)	—	(553,734)	(281,702)	(38,143)	(4,159,342)
Translation adjustment	299,024	81,885	—	—	—	9,148	390,057
Transferred to disposal group classified as held for sale	—	—	(179,561)	—	—	—	(179,561)
Balance at December 31, 2014	\$ 4,878,914	\$ 795,247	\$ 258,824	\$ 602,666	\$ 306,198	\$ 195,175	\$ 7,037,024
Impairment	(1,373,010)	(144,518)	(7,853)	—	—	(98,818)	(1,624,199)
Balance at December 31, 2015	\$ 3,505,904	\$ 650,729	\$ 250,971	\$ 602,666	\$ 306,198	\$ 96,357	\$ 5,412,825
Accumulated amortization							
Balance at January 1, 2014	\$ 2,460,441	\$ 531,567	\$ 248,590	\$ 313,761	\$ 159,223	\$ 16,335	\$ 3,729,917
Amortization expense	645,477	81,206	51,025	288,905	146,975	53,673	1,267,261
Translation adjustment	78,786	18,486	—	—	—	4,166	101,438
Transferred to disposal group classified as held for sale	—	—	(53,203)	—	—	—	(53,203)
Balance at December 31, 2014	\$ 3,184,704	\$ 631,259	\$ 246,412	\$ 602,666	\$ 306,198	\$ 74,174	\$ 5,045,413
Amortization expense	321,200	19,470	4,559	—	—	22,183	367,412
Balance at December 31, 2015	\$ 3,505,904	\$ 650,729	\$ 250,971	\$ 602,666	\$ 306,198	\$ 96,357	\$ 5,412,825
Net book value at December 31, 2014	\$ 1,694,210	\$ 163,988	\$ 12,412	\$ —	\$ —	\$ 121,001	\$ 1,991,611
Net book value at December 31, 2015	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

In accordance with its accounting policies, the Company determined that there were indicators of impairment of its intangible assets during 2015 and 2014 due to the substantial decline in the oil and gas prices and the reduction in the market price of the Company's common shares to a level substantially below tangible book value and the carrying amount.

The Company determined the recoverable amount of its intangible assets on the basis of the higher of fair value less cost to sell and value in use. The value in use was determined by discounting the future cash flows generated from the Company's continuing use of its intangible assets, based on Company's forecasts. The discounted cash flow model calculates the present value of the estimated future cash flows of the intangible assets. Estimating future cash flows requires judgment, considering past and expected future performance as well as changes to the economic environment. The calculation of value in use was based on the same key assumptions utilized in the Company's impairment analysis on goodwill as disclosed in Note 9. The Company recognized an impairment loss of \$2,238,022 (2014 -\$4,159,342) against its intangible assets as a result of this review.

9. Goodwill

	December 31 2015	December 31 2014
Fluids Blending & Packaging Canada	\$ —	\$ 1,910,108

Goodwill of \$1,910,108 acquired with business combination of Solution Blend in December 2014 (Note 4) was allocated to Fluids Blending & Packaging Canada reportable segment for impairment testing purposes. The Company performed its annual goodwill impairment test on its Solution Blend CGU in accordance with the accounting policy stated in Note 2. The recoverable amount of all CGUs has been determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering the one-year period to December 31, 2016 and forecasted revenue projections for the four years beyond the budgeted period. The recoverable amount allocated to Fluids Blending & Packaging Canada was below its carrying value, and therefore the Company recorded an impairment of goodwill of \$1,910,108 in 2015. The recoverable amount of the Solution Blend CGU amounted to \$1,672,378 as at December 31, 2015.

Key assumptions used in the value in use calculations

The calculation of the value in use for the CGUs is most sensitive to the following key assumptions:

- Discount rates, and 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. CGU-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. The pre-tax discount rate utilized by Fluids Blending & Packaging Canada is 22.0%.

9. Goodwill (cont'd)

Growth rate estimates

A growth rate for 2016 of 4.5% was established using the Board approved budgeted rate by CGU. Longer term growth rates of 5% for years 2017 to 2019 were established using management's estimate for each CGU. Both the 2016 operating budget and management's estimates were calculated using current prospects and planned strategic changes expected to be implemented. The growth rate of 2% used to extrapolate cash flows beyond the budget period used (five years) is based on the Government of Canada targeted long term inflation expectations of 2.0%. The Company's management and directors believe that any reasonably possible further change in the key assumptions on which recoverable amount is based would not cause the CGU carrying amount to exceed its recoverable amount.

EBITDA margin

EBITDA margin is defined as margin of earnings 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.

Impairment Allocation

For the year ended December 31, 2015, the goodwill impairment charge of \$1,910,108 arose in the Fluids Blending & Packaging Canada CGU following declines in energy commodity prices. The substantial decline in crude oil and natural gas prices significantly impacted the short term demand on this CGU's products as current and potential future customers are reassessing their capital budgets and inventory levels. The negative differences between the estimated recoverable amounts of CGUs and their carrying values were greater than their goodwill values as of the test date.

For the year ended December 31, 2014, the goodwill impairment charge of \$4,408,579 arose in the Fluids Distribution USA CGU, the Fluids Blending & Packaging USA CGU and the Fluids Blending & Packaging Canada CGU following a 2014 decline in energy commodity prices.

The changes of goodwill for December 31, 2015 and 2014 are as follows:

	Note	December 31 2015	December 31 2014
Balance, beginning of year		\$ 1,910,108	\$ 4,072,357
Acquired in acquisitions	4	—	1,910,108
Impairment		(1,910,108)	(4,408,579)
Translation adjustment at year end		—	336,222
Balance, end of year		\$ —	\$ 1,910,108

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, reducing interest rates and extending the maturity of the facility to August 12, 2016.

On November 30, 2015, the Company amended the terms of the ABL Facility to decrease the maximum borrowing base down to \$40,000,000. Other amendments include an increase in interest rates, a change in the financial covenants with no change to the maturity date of the facility, which is still August 12, 2016.

The ABL Facility bears interest either at the Canadian prime rate plus 1.5% (2014 - Canadian prime rate) or bankers' acceptance rate plus 3.00% (2014 - bankers' acceptance rate plus 1.50%) or LIBOR plus 3.00% (2014 - LIBOR plus 1.50%), a collateral management fee of \$1,500 per month (2014 - \$1,500 per month) and a standby fee of 0.25% (2014 - 0.25%) on unused amounts of the ABL Facility. 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, 2015, \$23,055,007 (December 31, 2014 - \$51,873,895), net of unamortized transaction costs of \$134,896 (December 31, 2014 - \$119,516), was drawn on the ABL Facility. Amounts can be drawn in either Canadian or US currency.

Significant financial covenants under the revised terms of the ABL Facility include a minimum adjusted tangible net worth and a maximum on annual capital expenditures. As at December 31, 2015, 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 are as follows:

	December 31 2015	December 31 2014
Trade accounts payable	\$ 4,657,184	\$ 18,355,990
Accrued liabilities	1,310,796	1,422,077
Accrued compensation expense	318,812	1,292,257
Accrued purchase orders	84,625	1,006,659
	\$ 6,371,417	\$ 22,076,983

12. Promissory notes payable

	December 31 2015	December 31 2014
Promissory note payable, bearing contractual interest at 4.5% per annum, repayable at \$260,797 plus interest on January 31, 2016 and \$244,506 plus interest on January 31, 2017, unsecured.	\$ 505,303	\$ 449,800
Less: current portion	260,797	—
	\$ 244,506	\$ 449,800

13. Long-term debt

Long-term debt	December 31 2015	December 31 2014
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 in December 2017.	\$ 8,376,940	\$ 8,800,000
First Source Bank, long term loan of US \$250,960, bearing interest at 4.72% per annum, 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.	38,718	187,355
	8,415,658	8,987,355
Less: transaction costs	32,227	312,786
	8,383,431	8,674,569
Less: current portion	618,123	1,257,983
	\$ 7,765,308	\$ 7,416,586

Fulcrum Capital Partners Inc.

The Company signed an agreement with Fulcrum Capital Partners Inc. (the "Lender") on November 30, 2012. The Company amended the agreement on November 30, 2015, in conjunction with the amendment to the ABL Facility (Note 10). In accordance with this amendment, the Company has deferred two quarterly payments in September and December of 2015 and will defer two more quarterly principal payments in March, and June 30 of 2016. The amendment also eliminated the funded term debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") covenant. The Lender has added a principal deferral fee of 8.5% per year that will be added to the outstanding principal amount and will bear interest at the applicable interest rate until the deferred principal is repaid in full.

13. Long-term debt (cont'd)

The transaction costs include the amount related to the Company's issuance of warrants with a fair value, at grant date, 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 a new covenant that requires the Company to maintain a twelve month rolling actual adjusted EBITDA in excess of 70% of projected adjusted EBITDA. Adjusted EBITDA is defined as net income before interest on debt, taxes on net income, depreciation and amortization, and non-recurring charges (including one-time transaction, acquisition and restructuring expenses, share based payments, and foreign exchange gains or losses), and after unfunded capital expenditures. As at December 31, 2015, the Company was in compliance with all covenants (Note 26).

The subordinated debenture is secured by the following: an unlimited corporate guarantee supported by a general security agreement from Bri-Chem Supply Ltd. and Sodium Solutions Inc. and from all other material entities within the group determined by the Lender subordinated only to a prior charge from the ABL Facility; second demand collateral land mortgage and assignment of rents from Bri-Chem Corp. creating a second fixed and specific mortgage charge over all lands and premises located at 15, 53016 Highway 60, Acheson, Alberta and 4420 – 37th Street in Camrose, Alberta; assignment by Bri-Chem Corp. to Fulcrum Capital Partners Inc. of all risk insurance in amounts and from an insurer acceptable to Fulcrum Capital Partners Inc., on all Bri-Chem Corp. real and personal property, without limitation, lands, buildings, equipment and inventory owned by Bri-Chem Corp., showing Fulcrum Capital Partners Inc. as second loss payee, including business interruption and public liability insurance.

First Source Bank

In accordance with the terms of the loan agreement, the Company granted First Source Bank (the "Bank") a security interest in certain equipment. The carrying amount of these assets presented in the consolidated statements of financial position as of December 31, 2015 was \$57,979 (December 31, 2014 - \$223,394).

14. Obligations under finance lease

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

Minimum lease payments due					
December 31, 2015	Within one year	Two to five years	After five years	Total	
Lease payments	\$ 81,811	\$ 125,919	\$ —	\$	207,730
Finance charges	15,608	9,816	—		25,424
Net present value	\$ 66,203	\$ 116,103	\$ —	\$	182,306

December 31, 2014					
Lease payments	\$ 27,063	\$ 57,998	\$ —	\$	85,061
Finance charges	3,530	4,188	—		7,718
Net present value	\$ 23,533	\$ 53,810	\$ —	\$	77,343

14. Obligations under finance lease (cont'd)

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, 2015	\$ 2,352,953	\$ 5,335,786	\$ 1,058,538	\$ 8,747,277
December 31, 2014	\$ 2,797,947	\$ 6,136,395	\$ —	\$ 8,934,342

The Company leases a number of warehouse locations and office equipment under operating leases. Lease payments recognized as an expense during the year ended December 31, 2015 amounted to \$2,219,281 (December 31, 2014 - \$2,009,006).

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

In July 2014, the Company sub-leased property as part of the sale of assets and ongoing business operations of the steel pipe distribution division with the term of 2 years expiring October 1, 2016. Additionally, the Company has sub-leased properties of discontinued operations with a term of eight and five years expiring June 30, 2019 and December 31, 2016. These sub-lease revenues were netted off against operating lease expenses and classified as discontinued operations. The lessee does not have an option to purchase the property at the expiry of the lease term.

15. Commitments under operating lease (cont'd)

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, 2015	\$ 848,772	1,099,800	-	\$ 1,948,572
December 31, 2014	\$ 1,702,997	2,886,445	-	4,589,442

16. Income taxes

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

	December 31 2015	December 31 2014
Expected income tax rate at 26.0% (2014 - 25%) for the years ended:	\$ (3,724,066)	\$ 450,708
Increase (decrease) resulting from:		
Non-recognition of deferred tax assets	3,865,588	—
Tax rate differential	(497,759)	(446,026)
Impact of change in tax rates	(79,428)	—
Non-deductible expenses	677,631	633,858
Adjustment recognized in the current period in relation to the current tax of prior years	(280,804)	209,904
Other	72,874	(156,599)
	\$ 34,036	\$ 691,845
Tax expense comprises:		
Current tax expense		
Current period	\$ (3,018,371)	\$ 2,629,501
Adjustment for prior periods	290,481	—
	(2,727,890)	2,629,501
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	\$ (548,124)	\$ (2,147,560)
Change in unrecognized deductible temporary difference	3,865,588	—
Adjustment for prior period	(555,538)	209,904
	2,761,926	(1,937,656)
Total tax expense	\$ 34,036	\$ 691,845

The Alberta corporate income tax rate changed from 10% to 12% effective July 1, 2015. Therefore the combined federal and provincial corporate tax rate for the year ended December 31, 2015 is 26.0%.

16. Income taxes (cont'd)

Temporary differences

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

	December 31 2015	December 31 2014
Deferred tax assets		
Accounts receivable	\$ —	\$ 162,845
Decommissioning liability		—
Share issue costs	139,739	201,721
Finance lease	—	—
Intangibles - excess tax basis over net book value	167,775	2,865,042
Non-capital loss carryforwards	6,351,834	6,847,152
Inventory and interest expenses	—	675,037
Other	—	—
	\$ 6,659,348	\$ 10,751,797
Deferred tax liabilities		
Capital assets - excess of net book value over undepreciated capital cost	\$ 752,373	\$ 1,160,246
Intangibles - excess of net book value over tax basis	—	869,507
Prepaid expenses	20,905	380,110
	\$ 773,278	\$ 2,409,863
Net deferred tax asset	\$ 5,886,070	\$ 8,341,934
Reported in the financial statements as follows:		
Deferred tax asset	6,014,610	9,034,744
Deferred tax liability	(128,540)	(692,810)
	\$ 5,886,070	\$ 8,341,934

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 use of available tax planning opportunities and the generation of future taxable income during the year in which those temporary differences become deductible. For the year ended December 31, 2015, the Company did not recognize \$4,180,104 of deferred tax assets in respect of US deductible temporary differences and unused tax losses and \$25,650 (December 31, 2014 - \$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 US non-capital losses of \$3,359,389 (2014 - nil) available to reduce future taxable income which expire between 2030 and 2035 on which no deferred assets have been recognized.

16. Income taxes (cont'd)

Movement in temporary differences during the years ended December 31, 2015 and December 31, 2014 are as follows:

	Balance December 31, 2014	Recognized in profit or loss	Recognized in equity	Acquired through acquisition	Translation adjustment	Balance December 31, 2015
Cost						
Accounts receivable	\$ 162,845	\$ (179,495)	\$ —	\$ —	\$ 16,650	\$ —
Share issue costs	201,721	8,245	(70,227)	—	—	139,739
Intangibles	1,995,535	(2,259,896)	—	—	432,136	167,775
Non-capital loss carryforwards	6,847,152	(1,178,166)	—	—	—	5,668,986
Inventory and interest expenses	294,927	(325,082)	—	—	30,155	—
Property & equipment	(1,160,246)	1,172,468	—	—	(102,652)	(90,430)
Other	—	—	—	—	—	—
Balance at December 31, 2015	\$ 8,341,934	\$ (2,761,926)	\$ (70,227)	\$ —	\$ 376,289	\$ 5,886,070

	Balance December 31, 2013	Recognized in profit or loss	Recognized in equity	Acquired through acquisition	Translation adjustment	Balance December 31, 2014
Cost						
Accounts receivable	\$ 143,807	\$ 5,967	\$ —	\$ —	\$ 13,071	\$ 162,845
Decommissioning liability	29,250	(29,250)	—	—	—	—
Share issue costs	295,109	(25,863)	(67,525)	—	—	201,721
Finance lease	70,407	(70,407)	—	—	—	—
Intangibles	(35,945)	2,515,506	—	(494,800)	10,774	1,995,535
Non-capital loss carryforwards	3,365,047	3,477,281	—	—	4,824	6,847,152
Inventory and interest expenses	712,393	(480,127)	—	—	62,661	294,927
Property & equipment	(2,214,205)	1,157,046	—	(31,652)	(71,435)	(1,160,246)
Financial derivative instruments	(9,972)	9,972	—	—	—	—
Balance at December 31, 2015	\$ 2,355,891	\$ 6,560,125	\$ (67,525)	\$ (526,452)	\$ 19,895	\$ 8,341,934

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, 2014	24,010,736	\$ 33,647,907
Issuance of shares upon exercise of options	30,000	42,000
Shares repurchased and cancelled	(164,610)	(215,238)
Balance, December 31, 2014	23,876,126	\$ 33,474,669
Shares repurchased and cancelled	(243,145)	(211,196)
Share capital balance, December 31, 2015	23,632,981	\$ 33,263,473

Cumulative share issuance costs of \$1,643,188 (December 31, 2014 - \$1,643,188), net of tax, are included in share capital.

In November 2014, the Company received acceptance from the Toronto Stock Exchange ("TSX") in respect of its intention to make a Normal Course Issuer Bid ("NCIB"). Under the NCIB, the Company was permitted to acquire up to 1,567,330 of its common shares during the period November 20, 2014 to November 19, 2015. The Company also entered into an "automatic securities purchase plan" with Dundee Securities Ltd. ("the Broker") for the purpose of making purchases under the NCIB ("Purchase plan"). Purchases under the Purchase plan are determined by the Broker and in its sole discretion, without consultation with the Company, subject to the limitations of the Purchase plan and the rules of the TSX.

For the year ended December 31, 2015, 243,145 shares (December 31, 2014 - 164,610 shares) had been repurchased for cancellation under the NCIB for cash consideration of \$211,196 (2014 - \$215,238). \$211,196 of the total cash consideration (2014 - \$215,238) was recorded in the share capital and \$nil (2014 - \$nil) was recorded in the contributed surplus. The Company purchased a total of 407,755 shares for cash consideration of \$426,434 under this NCIB. All common shares purchased through the NCIB were cancelled.

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, which are typically one to three years, subject to regulatory requirements. On May 14, 2012 the directors of the Company approved a new stock option 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% of total

18. Share-based payments (cont'd)

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, 2015, the Plan permits the authorization to grant stock options up to a maximum of 2,363,298 common shares (December 31, 2014 - 2,387,613 common shares) of the Company. All share-based employee remuneration will be settled in equity.

18.2 Options to employees and directors

		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2015	1,485,000	\$ 2.40	7.8
Issued	30,000	0.44	9.6
Exercised	—	—	—
Expired	(45,000)	2.21	—
Outstanding, December 31, 2015	1,470,000	2.39	7.2
Options exercisable, December 31, 2015	1,109,997	2.60	6.7

		Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2014	1,265,000	\$ 2.60	8.2
Issued	405,000	1.90	10.0
Exercised	(30,000)	0.70	—
Expired	(155,000)	2.80	—
Outstanding, December 31, 2014	1,485,000	2.40	7.8
Options exercisable, December 31, 2014	761,665	2.20	7.3

Options outstanding at December 31, 2015 consisted of the following:

Month and year of grant	Options outstanding	Options vested	Exercise price	Remaining life (years)
August 2011	260,000	260,000	\$ 2.94	5.6
August 2012	595,000	595,000	\$ 2.77	6.6
August 2013	180,000	119,998	\$ 1.80	7.6
August 2014	405,000	134,999	\$ 1.87	8.6
August 2015	30,000	—	\$ 0.44	9.6
	1,470,000	1,109,997		

18. Share-based payments (cont'd)

Additional information regarding the expected vesting periods and expiry dates are as follows:

Vesting period	Options
Already vested	1,109,997
2016	205,002
2017	145,001
2018	10,000
	1,470,000
Expiry dates	
2021	260,000
2022	595,000
2023	180,000
2024	405,000
2025	30,000
	1,470,000

The fair value of the employee and directors options granted during 2015 is estimated on the date of grant using the Black-Scholes Option Pricing Model based on the following weighted average assumptions:

	August 2015	August 2014
Expected life	10 years	10 years
Risk-free rate	1.22 %	1.89 %
Expected volatility	118.33 %	154.79 %
Expected dividend yield	— %	— %

The estimated forfeiture rate on the options is 0% (December 31, 2014 - 0%). During the year ended December 31, 2015, 30,000 stock options were granted (December 31, 2014 - 405,000) under the plan at a total fair value of \$11,470 (December 31, 2014 - \$687,253).

During the year ended December 31, 2015, \$517,302 (December 31, 2014 - \$752,202) was expensed in relation to the share-based payment plan to employees and directors.

18.3 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 at grant date 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 included 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 Company did not exercise this option during 2014 or 2015.

18. Share-based payments (cont'd)

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, 2015	300,000	\$ 1.77	1.93
Outstanding, December 31, 2015	300,000	\$ 1.77	0.93
Exercisable, December 31, 2015	300,000	\$ 1.77	0.93

	Number of warrants	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2014	300,000	\$ 1.77	2.93
Outstanding, December 31, 2014	300,000	\$ 1.77	1.93
Exercisable, December 31, 2014	300,000	\$ 1.77	1.93

19. Non-controlling interest

On July 15, 2014, Bri-Chem completed the sale of its Manufacturing and Bri-Steel ("Steel Pipe" division). As a result of the sale, the Company reclassified operations associated with assets and liabilities of the Steel Pipe division as discontinued operations for the year ended December 31, 2014 (Note 21).

	December 31 2015	December 31 2014
Balance, beginning of year	\$ —	\$ 1,925,018
Net loss and comprehensive loss	—	(2,921,415)
Transferred to retained earnings	—	996,397
Balance, end of year	\$ —	\$ —

20. Earnings (loss) per share

Both the basic and diluted earnings (loss) per share have been calculated using the loss or profit attributable to shareholders of the Company as the numerator.

	December 31 2015	December 31 2014
Net (loss)/earnings from continuing operations attributable to the shareholders of the Company	\$ (14,357,367)	\$ 1,110,986
Net loss from discontinued operations attributable to the shareholders of the Company	—	(9,490,998)
Total net loss attributable to the shareholders of the Company	\$ (14,357,367)	\$ (8,380,012)
Basic weighted average number of ordinary shares	23,655,900	24,013,533
Dilutive options issued and outstanding	—	13,232
Diluted weighted average number of ordinary shares	23,655,900	24,026,765
Basic (loss)/earnings from continuing operations per share	\$ (0.61)	\$ 0.05
Diluted (loss)/earnings from continuing operations per share	(0.61)	0.05
Basic loss from discontinued operations per share	—	(0.40)
Diluted loss from discontinued operations per share	—	(0.40)
Basic loss per share for the year	(0.61)	(0.35)
Diluted loss per share for the year	\$ (0.61)	\$ (0.35)

The following potential ordinary shares are anti-dilutive because the Company was in a net loss position, and therefore they are excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	December 31 2015	December 31 2014
Options issued and outstanding	1,470,000	1,485,000
Warrants issued and outstanding	300,000	300,000
Total anti-dilutive shares	1,770,000	1,785,000

21. Non-current assets held for sale and discontinued operations

The assets and liabilities related to the Steel Pipe Distribution and Steel Pipe Manufacturing segments (together "Steel Pipe division" or "Disposal Group") were classified as held for sale following the approval of the Company's management and Board of Directors in April 2014 to sell the Steel Pipe division, and the determination of meeting the IFRS 5 requirements. The associated business operations of assets and liabilities held for sale are presented as discontinued operations for all periods presented.

During 2014, the Company recorded impairment and re-measurement expenses of \$15,434,501 to reflect the net assets at their estimated fair values, less costs to sell, which is recorded in expenses and loss

21. Non-current assets held for sale and discontinued operations (cont'd)

recognized on the re-measurement of disposal group. \$3,921,580 of the total impairment and re-measurement expenses in 2014 relates to the impairment of property and equipment (Note 7).

On July 15, 2014 the Company closed the sale transaction of the assets and ongoing business operations of its Steel Pipe division to a USA based steel pipe company for \$17,358,762 and recognized a loss on disposal in the amount of \$277,981.

The summary and carrying value of assets and liabilities of disposal group sold on July 15, 2014 is provided in the following table:

<i>(a) Assets of disposed group</i>	July 15, 2014
Accounts receivable	\$ 3,508,044
Inventory	11,641,504
Prepaid expenses and deposits	1,440,848
Property and equipment	3,225,872
Intangible assets	126,358
Total	\$ 19,942,626

<i>(b) Liabilities of disposed group</i>	July 15, 2014
Accounts payable and accrued liabilities	\$ 2,090,658
Obligation under finance lease	215,225
Total	\$ 2,305,883

Analysis of the results of discontinued operations, and the result recognized on the re-measurement of assets of the disposal group is as follows for the years ended:

	December 31 2015	December 31 2014
Sales	\$ —	\$ 15,225,573
Cost of sales	—	12,871,498
Expenses	—	14,850,397
Loss before tax of discontinued operations	—	(12,496,322)
Income tax recovery	—	3,336,094
After tax loss of discontinued operations before re-measurement	—	(9,160,228)
Pre tax loss recognized in the re-measurement of disposal group	—	(4,336,245)
Income tax recovery	—	1,084,060
After tax loss recognized in the re-measurement of disposal group	—	(3,252,185)
Net loss for the period from discontinued operations	\$ —	\$ (12,412,413)

22. 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 fluids distribution, and fluids blending & packaging in these geographies.

The chief operating decision-makers assess the performance of the operating segments based on a measure of EBITDA. This measurement basis excludes from net earnings the effects of interest, taxes, amortization and depreciation, impairment of goodwill and other intangible assets, and the effect of equity-settled share based payments. Corporate overhead costs, interest income and expenditure, excluding interest expense on finance leases, 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-makers 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 five reportable segments: Fluids Distribution Canada, Fluids Distribution USA, Fluids Blending & Packaging Canada, Fluids Blending & Packaging USA, and Other. The Other segment represents insignificant segments and all remaining costs not directly attributable to an operating segment, such as corporate overhead. Steel Pipe Distribution and Steel Pipe Manufacturing segments have been presented as discontinued operations following the sale of the Steel Pipe division in Canada. The transaction was closed on July 15, 2014 (Note 21). As a result of the sale transaction the Steel Pipe division ceased being a reportable segment of the Company.

Revenues between Fluids Blending & Packaging Canada and Fluids Distribution Canada are recorded on the same basis as an equivalent arm's length transaction. 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.

22. Segment reporting (cont'd)

Selected financial information by reportable segment is disclosed as follows:

December 31, 2015	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging Canada	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	\$30,520,144	\$46,493,274	\$77,013,418	\$ 18,359,270	\$ 5,917,437	\$24,276,707	\$ —	\$101,290,125
Revenues from internal customers	913,485	506,982	1,420,467	3,035,498	12,080	3,047,578	—	4,468,045
Revenues from external customers	29,606,659	45,986,292	75,592,951	15,323,772	5,905,357	21,229,129	—	96,822,080
Cost of sales	29,373,677	38,752,652	68,126,329	11,905,848	3,309,323	15,215,171	—	83,341,499
EBITDA	(3,997,635)	(3,107,689)	(7,105,324)	419,348	1,072,453	1,491,801	1,889,858	(3,723,665)
Amortization and depreciation	94,389	518,589	612,978	123,308	395,304	518,612	479,338	1,610,928
Interest	1,490	30,044	31,534	2,603	29,958	32,561	3,243,737	3,307,832
Impairment of goodwill and other intangible assets	—	—	—	—	—	—	3,534,307	3,534,307
Impairment of property and equipment	—	1,629,297	1,629,297	—	—	—	—	1,629,297
Share based compensation	—	—	—	—	—	—	517,302	517,302
Income tax expense	(1,760,548)	926,282	(834,266)	(126,427)	381,468	255,041	613,261	34,036
Segment profit (loss)	\$ (2,332,966)	\$ (6,211,901)	\$ (8,544,867)	\$ 419,864	\$ 265,723	\$ 685,587	\$(6,498,087)	\$(14,357,367)
Segment assets	\$ 23,570,782	\$ 28,477,399	\$ 52,048,181	\$ 7,676,579	\$ 4,010,395	\$ 11,686,974	\$10,285,323	\$ 74,020,477
Capital expenditures	\$ 83,650	\$ 910,040	\$ 993,690	\$ 35,982	\$ 83,775	\$ 119,757	\$ —	\$ 1,113,447

* Other includes corporate overhead costs.

22. Segment reporting (cont'd)

December 31, 2014	Fluids Distribution Canada	Fluids Distribution USA	Total Fluids Distribution	Fluids Blending & Packaging Canada	Fluids Blending & Packaging USA	Total Fluids Blending & Packaging	Other*	Consolidated
Total revenues	\$82,692,065	\$74,638,290	\$157,330,355	\$ 30,383,067	\$ 8,352,810	\$38,735,877	\$ —	\$196,066,232
Revenues from internal customers	893,700	793,229	1,686,929	9,620,148	51,434	9,671,582	—	11,358,511
Revenues from external customers	81,798,365	73,845,061	155,643,426	20,762,919	8,301,376	29,064,295	—	184,707,721
Cost of sales	71,074,419	59,846,580	130,920,999	17,059,184	4,977,660	22,036,844	—	152,957,843
EBITDA	6,484,431	4,173,136	10,657,567	2,334,062	1,283,838	3,617,900	2,256,935	16,532,402
Amortization and depreciation	154,980	619,837	774,817	558,327	807,736	1,366,063	26,610	2,167,490
Interest	1,943	11,458	13,401	—	28,484	28,484	3,200,073	3,241,958
Impairment of goodwill and other intangible assets	—	2,170,620	2,170,620	937,277	5,460,024	6,397,301	—	8,567,921
Share based compensation	—	—	—	—	—	—	752,202	752,202
Income tax expense	1,527,616	(1,596,618)	(69,002)	184,432	49,850	234,282	526,565	691,845
Segment profit (loss)	\$ 4,799,892	\$ 2,967,839	\$ 7,767,731	\$ 654,026	\$ (5,062,256)	\$ (4,408,230)	\$(2,248,515)	\$ 1,110,986
Segment assets	\$ 50,180,413	\$ 47,920,522	\$ 98,100,935	\$ 12,768,867	\$ 3,723,056	\$ 16,491,923	\$17,185,728	\$ 131,778,586
Capital expenditures	\$ 38,714	\$ 1,503,304	\$ 1,542,018	\$ 67,114	\$ 996,747	\$ 1,063,861	\$ 3,014,019	\$ 5,619,898

* Other includes corporate overhead costs.

22. Segment reporting (cont'd)

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

	December 31 2015	December 31 2014
Revenue		
Canada	\$ 44,930,431	\$ 102,561,284
United States and International	51,891,649	82,146,437
	\$ 96,822,080	\$ 184,707,721
Non-current assets		
Canada	\$ 5,471,840	\$ 9,598,826
United States and International	7,663,177	7,916,979
	\$ 13,135,017	\$ 17,515,805

During the year ended December 31, 2015, the Company had no significant revenues from individual customers (December 31, 2014 - the Company had no significant revenues from individual customers).

23. Financial instruments

23.1 Categories of financial instruments

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

	December 31 2015	December 31 2014
Financial Assets		
Loans and receivables		
Accounts receivable	\$ 16,447,331	\$ 45,465,731
	\$ 16,447,331	\$ 45,465,731
Financial Liabilities		
Other financial liabilities		
Long term debt	\$ 8,383,431	\$ 8,674,569
Promissory notes payable	505,303	449,800
Bank indebtedness	23,055,007	51,873,895
Accounts payable and accrued liabilities	6,371,417	22,076,983
	\$ 38,315,158	\$ 83,075,247

23. Financial instruments (cont'd)

23.2 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 three customers accounted for approximately 9.5%, 6.5% and 6.4%, respectively (December 31, 2014 – 8.0%, 7.3% and 4.3%) of total revenue during the year and account for 3.5%, 10.6% and 7.6%, respectively (December 31, 2014 – 6.8%, 10.6%, and 10.1%) 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.

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, 2015	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	\$ 4,599,098	\$ —	\$ 4,599,098
31 to 60 days	5,647,467	—	5,647,467
61 to 90 days	4,717,217	—	4,717,217
91 to 120 days	1,537,354	(53,805)	1,483,549
Over 120 days	1,224,716	(1,224,716)	—
Total	\$ 17,725,852	\$ (1,278,521)	\$ 16,447,331

23. Financial instruments (cont'd)

December 31, 2014	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	\$ 10,695,416	\$ —	\$ 10,695,416
31 to 60 days	17,519,733	—	17,519,733
61 to 90 days	13,038,618	—	13,038,618
91 to 120 days	3,544,142	—	3,544,142
Over 120 days	783,710	(115,888)	667,822
Total	\$ 45,581,619	\$ (115,888)	\$ 45,465,731

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. For variable rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. As 25 basis point increase or decrease is used when reporting interest rate risk internally to key management and represents management's assessment of the reasonably possible change in interest rates. 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.

The contractual interest rate on the bank indebtedness at December 31, 2015 was Canadian bank prime interest rate plus 1.5% (4.2%) (December 31, 2014 - Canadian bank prime interest rate (3.00%)). As at December 31, 2015, 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 \$43,776 (December 31, 2014 - \$96,838).

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.

23. Financial instruments (cont'd)

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

Balance, December 31, 2015	Monetary financial assets	Monetary financial liabilities	Net position
Canadian dollar	\$ 7,377,016	\$ (3,427,481)	\$ 3,949,535
US dollar	486,475	(12,479,275)	(11,992,800)
Total	\$ 7,863,491	\$ (15,906,756)	\$ (8,043,265)

Balance, December 31, 2014	Monetary financial assets	Monetary financial liabilities	Net position
Canadian dollar	\$ 24,781,187	\$ (21,259,318)	\$ 3,521,869
US dollar	536,628	(24,735,689)	(24,199,061)
Total¹	\$ 25,317,815	\$ (45,995,007)	\$ (20,677,192)

At December 31, 2015, if the Canadian dollar had weakened/strengthened by 5% (December 31, 2014 - 5%) against the US Dollar with all other variables held constant, post-tax profit would have been \$1,049,115 (December 31, 2014 - \$962,335) 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.

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.

23. Financial instruments (cont'd)

Contractual obligations related to financial liabilities at December 31, 2015 are as follows:

	Bank credit facility	Accounts payable	Long-term debt	Promissory note payable	Finance leases	Total
2016	\$23,055,007	\$ 6,371,417	\$ 1,561,736	\$ 260,797	\$ 53,164	\$31,302,121
2017	—	—	9,861,797	261,250	53,597	10,176,644
2018	—	—	5,465	—	24,952	30,417
2019	—	—	—	—	4,501	4,501
2020	—	—	—	—	—	—
Thereafter	—	—	—	—	—	—
Total	\$23,055,007	\$ 6,371,417	\$11,428,998	\$ 522,047	\$ 136,214	\$41,513,683

Contractual obligations related to financial liabilities at December 31, 2014 are as follows:

	Bank credit facility	Accounts payable	Long-term debt	Promissory note payable	Finance leases	Total
2015	\$51,873,895	\$22,076,983	\$ 2,183,766	\$ —	\$ 27,063	\$76,161,707
2016	—	—	2,054,057	263,125	21,265	2,338,447
2017	—	—	7,068,383	274,375	21,265	7,364,023
2018	—	—	5,465	—	10,247	15,712
2019	—	—	—	—	5,221	5,221
Thereafter	—	—	—	—	—	—
Total	\$51,873,895	\$22,076,983	\$11,311,671	\$ 537,500	\$ 85,061	\$85,885,110

23.3 Fair value of financial instruments

The estimated fair value of the Company's financial instruments approximates 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. The carrying values 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 the long-term debt approximates its fair value as interest rates have not significantly changed during 2015. 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.

24. Supplemental cash flow information

	Note	December 31 2015	December 31 2014
Accounts receivable		\$ 32,413,161	\$ (1,679,547)
Inventories		27,921,564	(4,306,875)
Prepaid expenses and deposits		1,108,475	670,253
Accounts payable and accrued liabilities		(16,744,378)	(1,372,393)
Income taxes payable/receivable		(3,865,075)	(701,103)
Foreign exchange		(1,072,743)	29,944
Change in non-cash working capital		\$ 39,761,004	\$ (7,359,721)
Interest paid		\$ 2,528,233	\$ 2,748,782
Income tax paid		907,333	2,702,304
Non-cash transactions			
Share capital issued on exercise of stock options	17	—	42,000
Equipment purchased under finance lease		138,023	40,988

25. Related party transactions

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

	December 31 2015	December 31 2014
Salaries including bonuses	\$ 1,103,335	\$ 1,043,040
Share based payments	11,470	602,622
Directors' fees	136,170	110,200
Benefits	22,808	86,924
Total capital	\$ 1,273,783	\$ 1,842,786

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

25.1 Transactions with related entities

During the year ended December 31, 2015, the Company incurred office sharing costs of \$60,000 (December 31, 2014 – \$60,000) that were paid to a company controlled by a director of the Company. These office sharing costs were made on terms equivalent to those that prevail in arm's length transactions.

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 2015	December 31 2014
Bank indebtedness	\$ 23,055,007	\$ 51,873,895
Long-term debt	8,383,431	8,674,569
Promissory notes payable	505,303	449,800
Obligations under finance lease	182,306	77,343
Equity	35,240,742	47,172,444
Total capital	\$ 67,366,789	\$ 108,248,051

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 ABL facility (Note 10) and subordinated debenture (Note 13) require the Company to maintain certain financial covenants. The Company monitors these requirements on a monthly basis. Due to current economic conditions and prices, the Company amended both the ABL facility and subordinated debenture as at November 30, 2015. Included in these amendments were changes to the financial covenants.

These covenants are summarized as follows:

	December 31 2015	Requirement	December 31 2014	Requirement
Minimum adjusted tangible net worth	\$ 34,292,132	Must exceed \$ 31,864,000	N/A	N/A
Fixed charge coverage ratio	N/A	N/A	2.44	Must exceed 1.1
Eligible capital expenditures	N/A	N/A	\$ 2,585,291	Not to exceed \$5,806,980
Adjusted EBITDA	\$ 2,251,957	Must exceed \$ 1,016,889	N/A	N/A
Funded term debt to EBITDA	N/A	N/A	0.52	Not to exceed 1.5:1

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

As at December 31, 2015, the Company was in compliance with all financial covenants.

On November 30, 2015, the Company revised the terms of the ABL Facility agreement and changed financial covenants by replacing the minimum fixed charge coverage ratio covenant with a minimum adjusted tangible net worth covenant. Effective November 30, 2015, the Company is now required under the ABL Facility to comply with two financial covenants being a minimum adjusted tangible net worth covenant and a maximum annual eligible capital expenditures.

The minimum adjusted tangible net worth covenant requires the Company to ensure adjusted tangible net worth is greater than \$31,864,000 as at December 31, 2015. This is defined, on a consolidated basis, as total assets, less intangibles and goodwill, excluding deferred tax assets less total liabilities, excluding deferred tax liabilities. The minimum value changes slightly on a monthly basis in 2016 with the lowest minimum value in June 2016 of \$30,539,000. The capital expenditures limit is set at a maximum of 120% of consolidated budgeted yearly capital expenditures, but does not include capital additions by way of finance lease.

In addition, there is a covenant with the subordinated debenture relating to ensuring that at any given month, the twelve month rolling actual adjusted EBITDA is in excess of 70% of projected adjusted EBITDA. Adjusted EBITDA in the subordinated debenture agreement is defined as net income before interest on debt, taxes on net income and depreciation and amortization and non-recurring charges (including one-time transaction, acquisition and restructuring expenses, share based payments, and foreign exchange gains or losses), and after unfunded capital expenditures.

Failure to comply with the obligations in either of these credit facilities could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness.

(signed) "Don Caron"
Don Caron, Director

(signed) "Eric Sauze"
Eric Sauze, Director