



(formerly Texada Software Inc.)

## **MANAGEMENT DISCUSSION AND ANALYSIS (“MD&A”)**

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Years Ended December 31, 2012 and 2011

# **NOBLE IRON INC.** (formerly Texada Software Inc.)

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## **Basis of Presentation:**

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The following discussion of the financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2012 and the Consolidated Financial Statements and the MD&A for the year ended December 31, 2011 which were prepared under International Financial Reporting Standards (“IFRS”). This MD&A has been prepared as of April 30, 2013 to help investors understand the financial performance of the Company and provide information that management believes is relevant to an assessment and understanding of Noble Iron Inc.’s (“Noble” or the “Company” or the “Group”) business, risks, opportunities and performance measures. We have prepared this document in conjunction with our broader responsibilities for the accuracy and reliability of the financial statements and the development and maintenance of appropriate internal controls in our efforts to ensure that the financial information is complete and reliable. The Audit Committee of the Board of Directors, consisting of three directors, has reviewed this document and all other publicly reported financial information for integrity, usefulness and consistency.

Additional information about Noble, including copies of continuous disclosure materials, is available on Noble Iron’s website at [www.NobleIron.com](http://www.NobleIron.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com). Noble Iron maintains the registered head office in Guelph, Ontario, Canada, with executive management offices located in Houston, Texas. Noble Iron’s Investor Relations department can be reached at 1-832-767-4424. The information on the Company’s website is not to be considered a part of this MD&A.

## **Forward Looking Statements:**

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This document may contain forward-looking statements which reflect the Company’s current expectations regarding future events. The forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "estimate", "expect", "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements involve risk and uncertainties, including the difficulty in predicting acceptance of and demands for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, fluctuations in operating results and other risks, any of which could cause actual results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Many risks are inherent in Noble Iron’s industries of business; others are more specific to the Company. You should consult Noble Iron’s ongoing quarterly filings for additional information on risks and uncertainties relating to these forward-looking statements. You should not place undue reliance on any forward-looking statements. Management assumes no obligation to update or alter any forward-looking statements whether as a result of new information, further events or otherwise other than as required by law.

## **Non-IFRS Measures:**

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The term “Adjusted EBITDA” refers to net earnings (loss) before interest expense, income taxes, depreciation, amortization, gain on fair value increment on acquisition, acquisition expenses, stock-based compensation, gain on expiry of default judgement, interest expense on convertible debentures, accretion on convertible debentures, and foreign exchange. The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration the other items listed above.

Adjusted Working Capital is defined by Management as working capital excluding purchases for equipment secured by financing. Management believes adjusted working capital is more indicative of the company’s working capital position. Adjusted EBITDA and Adjusted Working Capital are not recognized measures under IFRS and, accordingly, readers are cautioned that Adjusted EBITDA and Adjusted Working Capital should not be construed as an alternative to net earnings (loss) determined in accordance with IFRS as an indicator of the financial performance of the Company or as a measure of the Company’s liquidity and cash flows. The Company’s method of calculating Adjusted EBITDA and Adjusted Working Capital may differ from other issuers and, accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other issuers.

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# **NOBLE IRON INC.** (formerly Texada Software Inc.)

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## **Overview:**

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Noble Iron Inc., a TSX Venture Exchange listed company (symbol NIR.V), operates in three primary industries:

- Construction and Industrial Equipment Rental
- Construction and Industrial Equipment Distribution
- Enterprise Asset Management Software

Noble Iron offers equipment for rent, equipment for sale, and software applications for the construction and industrial equipment industry. Its Enterprise Asset Management Software, through a wholly owned subsidiary, Systematic Computer Services Corporation (“SCSC”) has been developing rental and asset management software worldwide for over 25 years.

In August of 2011 the Company began operating directly in the construction and industrial equipment rental industry. The Company now operates multiple large Centralized Equipment Logistics Locations™ (“CELLs”). Noble Iron CELLs currently serve Southern California and Houston, Texas.

In May 2012, the Company expanded into the construction and industrial equipment distribution industry through the signing of an exclusive dealer agreement with a global construction equipment manufacturer. The segment currently operates out of the Company’s Houston, Texas CELL.

## **Historical Timeline and Background:**

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Noble Iron Inc. was incorporated on March 21, 2000 as Aqua Capital Corp. On May 13, 2002 Aqua Capital Corp. was acquired by RentOnTheDot Inc. (“ROTD”), which constituted the Company’s “Qualifying Transaction” under Policy 2.4 of the TSX Venture Exchange. As the acquisition of ROTD resulted in the shareholders of ROTD owning greater than 50% of the Company’s common shares, it was accounted for as an acquisition of the Company by ROTD using the purchase method with ROTD being identified as the acquirer. SCSC was acquired in 2001 by ROTD.

Effective May 15, 2002, the Company changed its name to “Texada Software Inc.” carrying on the business of ROTD, and its principal subsidiary SCSC, developing and providing enterprise asset management software solutions to the equipment rental and construction industry.

On October 22, 2010, the Company announced the appointment of William Swisher as Chief Executive Officer and implemented a strategy to pursue expansion directly in the construction and industrial equipment rental and distribution industries.

On August 30, 2011, the Company announced it had concluded the acquisition of certain operating assets of a U.S. based construction and industrial equipment rental business, Rolls Scaffold & Equipment Inc., dba Rolls High Reach (“Rolls”). Established in 1958, Rolls was a Southern California based rental business focused on aerial reach equipment. The Company acquired certain rental fleet and operating assets from Rolls for cash and assumed liabilities of approximately \$1.1 million USD. In addition, the Company purchased rental fleet from an existing lender to Rolls. The lender provided term financing in conjunction with the acquisition and took a first preferred security interest in all assets of the Company’s wholly owned U.S. subsidiary, Noble Rents, Inc.

On September 15, 2011, the Company completed a previously announced non-brokered private placement of 8,000,000 common shares of the Company at a price of \$0.50 per share for gross proceeds of \$4.0 million. The Company used the proceeds to satisfy liquidity conditions related to the Rolls acquisition, expand its rental fleet, and provide for general working capital.

On November 10, 2011, Noble Iron announced Nabil Kassam, a director of the Company, had been appointed to the role of Executive Chairman, replacing William Swisher who had held the role of Chairman and continues as a director and Chief Executive Officer of the Company. In addition, the Company announced the appointment of Samir Manji and

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William Palmer to its Board of Directors. Samir Manji is the founder, President and CEO of Amica Mature Lifestyles Inc. (“Amica”). Amica is an industry leading TSX-listed company which manages and owns luxury independent living retirement communities. William Palmer is a seasoned entrepreneur with over 35 years of experience starting and operating a variety of businesses in the United States, Canada and Europe. Mr. Palmer was the founder and CEO, of one of Europe's largest self-storage companies with locations in England, France and Germany.

On December 2, 2011, the Company's convertible debentures, with an original face amount of \$1.1 million were retired with accrued interest totalling \$1.7 million. Of the total due outstanding, \$0.6 million was paid in cash to five debentures holders with the balance converted into 1,998,996 common shares of the Company by the remaining debenture holders at an average price of \$0.5675 per share.

On May 15, 2012, the Company entered into an exclusive dealer agreement with LiuGong Construction Machinery, N.A. LP (“LiuGong”) for the 20 counties making up the greater Houston, Texas market.

On May 31, 2012, the Company announced the closing of a \$25.0 million USD revolving secured line of credit facility from a large U.S. lender for the recapitalization of all outstanding debt of its wholly owned subsidiary Noble Rents Inc. A total of \$13.2 million was funded at closing. Interest on the variable rate facility was equal to LIBOR plus 325 basis points, approximately 3.50% at closing. The facility has no scheduled principal payments during the four year term, and is guaranteed by Noble Iron Inc. Under the terms of the financing, Noble Rents, Inc. can borrow up to \$25.0 million US based upon borrowing base availability as supported by the subsidiary's rental fleet, accounts receivable and parts inventory.

On June 28, 2012, the Company announced the addition of Malcolm Hunter and Ron Schwarz to the Board of Directors. Mr. Hunter is an Owner, as well as the President and Chief Operating Officer, of Deeley Harley-Davidson® Canada. Deeley Harley-Davidson® Canada is the single largest customer of Harley-Davidson Inc. globally, and has earned the designation of being one of the 50 Best Managed Companies in Canada for 15 consecutive years. Mr. Ron Schwarz is an independent investor with over 20 years of experience as a senior executive in equity research, wholesale banking and asset management. Mr. Schwarz has held the positions of Executive Director of UBS Global Asset Management Canada, and CIBC's Managing Director and Head of Canadian Cash Equities.

On June 29, 2012, the Company closed a previously announced non-brokered private placement of 4,500,000 common shares at a price of \$1.00 per share for gross proceeds of \$4.5 million. The proceeds were used to acquire certain assets of Bane Machinery Houston L.P., working capital, and additional fleet purchases for a new CELL in Houston, Texas.

On July 9, 2012, the Company purchased certain assets of Bane Machinery Houston L.P., located in Houston, Texas. Along with the purchase of earth moving assets from Bane, the Company retained all of the Houston based employees and an active customer list.

On July 23, 2012, the Company announced the completion of a name change from “Texada Software Inc.” to “Noble Iron Inc.”, and that the Company's shares would trade under the stock symbol “NIR” on the TSX Venture Exchange. The name change better reflects the Company's evolving business model. The Company also announced the completion of a stock consolidation on the basis of one (1) new common share for every five (5) the existing common shares. All references in this MD&A, as to the number of shares and per share amounts, reflect this consolidation as if it had taken place on December 31, 2010.

On September 10, 2012, the Company announced, and was advised that, the execution and appeal periods for a default judgment in the original amount of \$0.2 million US rendered against a wholly owned subsidiary in September 2002 had expired. The original default judgment was accrued by the Company along with interest through June 30, 2012. At expiration of the judgement the Company recorded a one-time non-cash adjustment to income of \$0.7 million US.

On September 20, 2012, the Company announced approved financing for the purchase of rental fleet for its equipment rental and distribution businesses. The financing, from a global equipment manufacturer, provided for the ability to purchase approximately \$8.0 million US of aerial work platforms and light construction equipment. The terms of the financing provided for an initial down payment approximating 10%, a 63-month loan term, with an indicative floating interest rate of approximately 5.99% based on the three-month LIBOR rate at the time of the approval.

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On October 15, 2012, the Company announced a significant software customer, representing less than 10% of total Company revenues, was to migrate their Texada Software serviced locations to the software platform currently being utilized within their parent company's business. The Company has negotiated terms in which it will assist the customer with its software migration and has secured a revised contract with the customer through 2013.

## **Description of Noble Iron's Businesses:**

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### **Construction and Industrial Equipment Rental**

Through wholly-owned U.S. subsidiaries the Company operates in the construction and industrial equipment rental industry, currently in the Southern California and Houston, Texas markets. Established in August 2011, the Southern California CELL is situated in Ventura County, California. This CELL effectively services three of the larger MSAs ("Metropolitan Statistical Areas") in the United States being: Los Angeles, San Diego, and Riverside-San Bernardino.

The Company expanded its construction and industrial equipment rental operations to the greater Houston, Texas area in July of 2012. This second CELL serves one of the largest MSAs in the United States.

In conjunction with the entrance into the equipment rental industry in 2011, the Company launched a proactive project, and implementation plan, for Noble Interactive Customer Care ("NiCC"). NiCC is a proprietary customer interface that integrates technology, customer care, and call center interaction as well as a variety of other business processes unique to the Company and the equipment industry.

The Company's construction and industrial rental CELLS deploy fleets of aerial, forklift, heavy construction, and light compact construction equipment supplied by brand name manufacturers such as Terex, LiuGong, Kobelco, New Holland, and others. Segment revenues consist of short term rental revenue to professional contractors along with other ancillary rental associated revenue. Other revenues include proceeds from the disposition of existing rental fleet in the ordinary course as part of the Company's ongoing capital expenditure plan for each respective CELL. Fleet disposals are targeted to maintain an optimal average fleet age while providing recurring capital for fleet reinvestment.

### **Construction and Industrial Equipment Distribution**

With the announcement of the exclusive LiuGong Construction Machinery distribution agreement on May 15, 2012, the Company also operates in the construction and industrial equipment sales and distribution. This exclusive dealership agreement with LiuGong operates out of the Houston, Texas CELL. Under this agreement, the Company is the exclusive distributor of LiuGong Construction Machinery equipment for 20 counties making up and surrounding the greater Houston, Texas area.

### **Enterprise Asset Management Software**

The Company's software division operates under the brand name Texada Software, and is a premier provider of enterprise asset management software solutions for users of construction equipment and rentable assets, such as construction equipment rental companies, equipment dealerships, contractors and construction companies. Texada software applications manage the complete equipment asset life-cycle from acquisition through to disposal, offering enhanced efficiency through better asset utilization, effective location tracking, optimized scheduling, reservations and other features. The Company's technology solutions are scalable to meet the unique needs of any sized operation and are backed by implementation, services, and support.

The segment's revenues are derived from license revenues, which include server license fees, user license fees, Software as a Service ("SaaS") subscription fees and upgrade fees. In addition to these fees, the segment generates maintenance and service revenue. The products are generally licensed under single-year, multi-year, or perpetual arrangements in which the fair value of the license fee is separately determinable from service fees. Maintenance fee arrangements generally include ongoing customer support and rights to certain product updates "if and when available". Service revenue consists of professional fees charged for product training, consulting, implementation, and programming services. Customers typically purchase a combination of software, maintenance, and professional services.

## **Noble Iron's Markets:**

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### **Construction and Industrial Equipment Rental and Distribution**

The equipment rental market consists of companies renting various types of construction and industrial equipment, on both short and long-term contracts, in return for rental fees. The rental industry is highly fragmented and consists of a small number of multi-location regional or national rental houses as well as large number of small independent businesses serving discrete local markets. The industry is driven by a broad range of economic factors including residential and non-residential construction trends as well as overall economic activity.

Construction equipment is largely distributed to end users through two channels: equipment rental companies and equipment dealers. Examples of other national rental equipment companies include United Rentals, Hertz Equipment Rental, and Sunbelt Rentals.

Management estimates the total North American construction and industrial related equipment rental and distribution market is currently \$85.0 billion US, with \$35.7 billion representing the size of the equipment rental market in 2012 as published by the American Rental Association ("ARA"). The equipment rental industry is growing faster than the general economy and will continue to do so in 2013 and beyond. The industry experienced 8.6 % growth in 2012.

The relative sizes of the three primary segments of the equipment rental market as published by the ARA, on the basis of total revenue generated, are approximately:

- Heavy and Light Construction - 67%
- General Tool - 25%
- Party / Event - 8%

The Company currently operates in the heavy and light construction and industrial equipment rental market, with approximately 95% its current rental fleet being aerial reach, forklift and earth moving equipment. The heavy and light construction equipment rental market consists of equipment with a significant capital cost which is deployed to contractors to meet the demands of their construction projects. Customers in this market are generally repeat customers, having long-standing relationships with equipment rental companies, and in some instances, may have contractual supply arrangements for certain types of equipment.

With the market for construction and industrial equipment improving over the past several quarters, and with industry analysts predicting prolonged growth, the Company believes there will be continued growth within the estimated \$85.0 billion US North American equipment rental and distribution market that will outpace general economic improvement in North America.

### **Enterprise Asset Management Software**

The \$35.7 billion US construction equipment rental industry currently accounts for approximately 90% of the software segment's revenue. It is estimated that there are more than 30,000 companies worldwide who rent various types of equipment, 12,000 of which conduct business in the United States and Canada. However, most companies serving this market require industry specific software to facilitate the contract and asset management functions within their businesses.

The market for rental management software has existed for over 30 years, and management estimates its growth at generally less than 10% per year. Management estimates there are more than 200 providers of rental management software to the three primary segments of the rental market and that there are no competitors who service the global market.

Management estimates current annual revenues in the North American enterprise asset management software solutions market to be approximately \$50.0 million USD, as it relates to the rental industry. This estimate places the Company as



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the second largest provider of these solutions. Management believes the Company can continue as a stable and established leader in this market for the foreseeable future.

## Financial Overview:

### Company Results

The Company continues to seek growth opportunities within the construction and industrial equipment rental segment, while investing in additional fleet for existing CELLS. The combined efforts are expected to increase the breadth of the equipment offered for rent while filling demand from increasing market share that has been achieved through customer relationships and key pricing initiatives.

In addition to growth opportunities, resources are being expended on proprietary technological advances within the construction and industrial equipment rental segment, designed to minimize operational costs while driving revenue growth from existing and new customers.

Management also continues to focus on the enterprise asset management software segment, while concentrating efforts on customer conversions from the software segment's ERP (Enterprise Resource Planning) products to the SaaS based model launched in 2011. This commitment reaffirms the Company's strategic intent to continue as an industry leading provider of enterprise asset management software solutions to existing customers while continuing to expand its installation base.

### Summary of Quarterly Results

The following chart outlines, in summary form, the Company's comparative results for the quarters of 2012 and 2011 with summarized Balance Sheet information presented for 2012 and 2011:

Quarterly Results (000's)	2012					2011				
	FY 2012	Q4	Q3	Q2	Q1	FY 2011	Q4	Q3	Q2	Q1
Revenue	\$16,165	\$4,146	\$3,970	\$4,047	\$4,002	\$7,670	\$3,487	\$1,883	\$1,198	\$1,102
Adjusted EBITDA (loss)	945	(164)	145	444	520	\$98	78	96	(19)	(57)
Net earnings (loss) for the period	(1,815)	(593)	(290)	(526)	(406)	\$1,676	(2,410)	4,358	(107)	(166)
Earnings (loss) per share - basic *	(\$0.12)	(\$0.03)	(\$0.02)	(\$0.04)	(\$0.03)	\$0.38	(\$0.21)	\$0.83	(\$0.04)	(\$0.07)
Earnings (loss) per share - diluted *	(\$0.12)	(\$0.03)	(\$0.02)	(\$0.04)	(\$0.03)	\$0.35	(\$0.21)	\$0.83	(\$0.04)	(\$0.07)
Weighted Avg. Shares Outstanding (Basic)	14,917,407	17,194,970	17,133,042	12,671,262	12,554,466	4,363,951	11,221,801	5,251,122	2,555,470	2,555,470
Weighted Avg. Shares Outstanding (Diluted)	14,917,407	17,194,970	17,133,042	12,671,262	12,554,466	4,837,679	11,221,801	5,251,122	2,555,470	2,555,470

Selected Information (000's)	2012		2011	
Total Assets	\$	34,782	\$	24,220
Total Current Liabilities	\$	5,950	\$	3,989
Total Non-Current Liabilities	\$	19,875	\$	14,097
Total Shareholder Equity	\$	8,957	\$	6,134

\*All per share earnings (losses) reflect the July 23, 2012 five (5) for one (1) share consolidation and are presented as if the consolidation took place on December 31, 2010.

The Company incurred a net loss of \$0.6 million for the three month period ended December 31, 2012 compared to a loss of \$2.4 million for the three month period ended December 31, 2011. This change is primarily due to the entry into the Southern California equipment rental market in August 2011 and a corresponding gain on acquisition associated with that transaction, the tax effect of which was recorded in the fourth quarter of 2011. On July 9, 2012, the Company purchased certain assets from Bane Equipment in Houston, Texas. The acquisitions, and growth of equipment assets purchased by the Company, have added a significant depreciable base to the Company, creating a \$1.3 million expense for depreciation and amortization in the fourth quarter of 2012 compared to \$0.7 million in the fourth quarter of 2011.

The Company generated Adjusted EBITDA of (\$0.2) million on \$4.1 million of revenue for the fourth quarter of 2012, compared to \$0.1 million of Adjusted EBITDA on \$3.5 million of revenue for the same quarter of 2011. Adjusted EBITDA was \$0.9 million on \$16.2 million of revenues for the year ended December 31, 2012 compared to Adjusted EBITDA of \$0.1 million on \$7.7 million of revenues for the year ended December 31, 2011.

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## Overview of the Year Ended December 31, 2012

The following chart outlines, in summary form, the Company's comparative results for the three and twelve months ended December 31, 2012 and December 31, 2011:

Comparative Financial Results (000's)	Three Months Ended				Twelve Months Ended			
	December 31, 2012		December 31, 2011		December 31, 2012		December 31, 2011	
<b>Revenue</b>	<b>4,146</b>	<b>100%</b>	<b>3,514</b>	100%	<b>16,165</b>	<b>100%</b>	<b>7,670</b>	<b>100%</b>
<b>Cost of Revenue</b>	(1,739)	(42%)	(878)	(25%)	(4,925)	(30%)	(1,512)	(20%)
<b>Summary Expenses</b>								
Support, Maintenance and Delivery	(1,759)	(42%)	(1,370)	(39%)	(6,262)	(39%)	(2,745)	(36%)
Research and Development	(218)	(5%)	(240)	(7%)	(865)	(5%)	(794)	(10%)
Sales and Marketing	(489)	(12%)	(353)	(10%)	(1,399)	(9%)	(660)	(9%)
General and Administration	(1,439)	(35%)	(1,319)	(38%)	(5,679)	(35%)	(2,833)	(37%)
Deferred Income Tax Recovery	1,071	26%	618	18%	1,430	9%	618	8%
Business Acquisition Expenses	0	0%	(9)	(0%)	0	0%	(309)	(4%)
Gain on fair value increment on acquisition, net of deferred income taxes	243	6%	(1,943)	(55%)	243	2%	3,218	42%
Default Judgment Reversal	0	0%	0	0%	691	4%	0	0%
Foreign Exchange	(118)	(3%)	(6)	(0%)	(76)	(0%)	(19)	(0%)
Stock Based Compensation	(86)	(2%)	(54)	(2%)	(228)	(1%)	(107)	(1%)
Interest Expense on Convertible Debentures	0	0%	(78)	(2%)	0	0%	(452)	(6%)
Accretion on Convertible Debentures	0	0%	(13)	(0%)	0	0%	(69)	(1%)
Interest	(204)	(5%)	(280)	(8%)	(910)	(6%)	(330)	(4%)
<b>Net Earnings (Loss)</b>	<b>(592)</b>	<b>(14%)</b>	<b>(2,410)</b>	<b>(69%)</b>	<b>(1,815)</b>	<b>(11%)</b>	<b>1,676</b>	<b>22%</b>
<b>Add Back:</b>								
Depreciation/Amortization	1,334	32%	724	21%	3,910	24%	972	13%
Interest Expense	204	5%	280	8%	910	6%	330	4%
Deferred Income Tax Recovery	(1,071)	(26%)	(618)	(18%)	(1,430)	(9%)	(618)	(8%)
Business Acquisition Expenses	0	0%	9	0%	0	0%	309	4%
Gain on fair value increment on acquisition, net of deferred income taxes	(243)	(6%)	1,943	55%	(243)	(2%)	(3,218)	(42%)
Default Judgment Reversal	0	0%	0	0%	(691)	(4%)	0	0%
Foreign Exchange	118	3%	6	0%	76	0%	19	0%
Stock Based Compensation	86	2%	54	2%	228	1%	107	1%
Interest Expense on Convertible Debentures	0	0%	78	2%	0	0%	452	6%
Accretion on Convertible Debentures	0	0%	13	0%	0	0%	69	1%
<b>Adjusted EBITDA</b>	<b>(164)</b>	<b>(4%)</b>	<b>78</b>	<b>2%</b>	<b>945</b>	<b>6%</b>	<b>98</b>	<b>1%</b>

For the three and twelve month period ended December 31, 2012, the Company's revenues grew \$0.6 million and \$8.5 million, respectively. The revenue growth is primarily driven by the Construction and Industrial Equipment Rental segment. This segment and its results are discussed in further detail below.

For the year ended December 31, 2012 the Company incurred a net loss of \$1.8 million as compared to \$1.7 million net income for the year ended December 31, 2011. The largest contributing factor to this variance is expense for depreciation and amortization with \$3.9 million recorded in 2012 compared to \$1.0 million recorded in 2011.

On July 9, 2012, the Company announced the closing of an Asset Purchase Agreement to acquire assets of Bane Machinery Houston L.P. ("Bane"), located in Houston, Texas. Total consideration for the acquisition was approximately \$2.3 million US and resulted in a \$0.2 million onetime acquisition gain on fair value increment, net of deferred taxes.



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During 2011, the Company also recorded a \$3.2 million gain on acquisition of fair value increment, net of deferred taxes, related to the purchase of certain assets of Rolls High Reach.

For the year ended December 31, 2012, a non-recurring transaction was recorded within a wholly owned U.S. business entity. The transaction involved the reversal of an accrued liability related to a default judgement against a lease obligation incurred in 2002. In the period since 2002, principle and interest related to the judgement had been accrued, totalling \$0.7 million. This reversal is a one-time event and is separately disclosed and labeled accordingly within the chart above. Upon expiration of this judgement the amounts were reversed in the third quarter and recorded as an adjustment to earnings in 2012.

## Segment Results:

Following the May 15, 2012 LiuGong Construction Machinery exclusive dealership agreement, the Company now operates in three business segments being Construction and Industrial Equipment Rental, Enterprise Asset Management Software and Construction and Industrial Equipment Distribution. A summary overview of the segments having material financial activity in the quarter ended December 31, 2012 is provided below. Revenue Assistance Operations (“RAO”) expenses, which are not specific to a singular business segment, are provided as a separate summary to maintain integrity within the financial information provided for all business segments.

### Construction and Industrial Equipment Rental

As the Company entered the equipment rental segment via acquisition, the financial results for this business are only included in the Company’s operating results from the effective acquisition date. For comparative purposes, the following chart containing three and twelve month data is provided:

Comparative Financial Results (000's)	Three Months Ended				Twelve Months Ended			
	December 31, 2012		December 31, 2011		December 31, 2012		December 31, 2011	
<b>Revenue</b>	<b>\$3,071</b>	<b>100%</b>	<b>\$2,446</b>	<b>100%</b>	<b>\$11,400</b>	<b>100%</b>	<b>\$3,210</b>	<b>100%</b>
<b>Cost of Revenue</b>	(1,610)	(52%)	(746)	(31%)	(4,386)	(38%)	(975)	(30%)
Summary Expenses								
Support, Maintenance and Delivery	(1,540)	(50%)	(1,076)	(44%)	(4,948)	(43%)	(1,430)	(45%)
Sales and Marketing	(230)	(7%)	(300)	(12%)	(825)	(7%)	(370)	(12%)
General and Administration	(462)	(15%)	(462)	(19%)	(2,235)	(20%)	(630)	(20%)
Deferred Income Tax Recovery	1071	35%	618	25%	1,430	13%	618	19%
Business Acquisition Expenses	0	0%	(9)	(0%)	0	0%	(309)	(10%)
Gain on fair value increment on acquisition, net of deferred income taxes	243	8%	(1,943)	(79%)	243	0%	3,218	0%
Interest	(184)	(6%)	(240)	(10%)	(776)	(7%)	(238)	(7%)
<b>Net Earnings (Loss)</b>	<b>\$360</b>	<b>12%</b>	<b>(\$1,713)</b>	<b>(70%)</b>	<b>(\$98)</b>	<b>(1%)</b>	<b>\$3,094</b>	<b>96%</b>
<b>Add Back:</b>								
Depreciation/Amortization	1,287	42%	696	28%	3,738	33%	923	29%
Deferred Income Tax Recovery	(1,071)	(35%)	(618)	-25%	(1,430)	(13%)	(618)	(19%)
Interest Expense	184	6%	240	10%	776	7%	238	7%
Business Acquisition Expenses	0	0%	9	0%	0	0%	309	10%
Gain on fair value increment on acquisition, net of deferred income taxes	(243)	(8%)	1,943	79%	(243)	(2%)	(3,218)	(100%)
<b>Adjusted EBITDA</b>	<b>\$516</b>	<b>17%</b>	<b>\$556</b>	<b>23%</b>	<b>\$2,743</b>	<b>24%</b>	<b>\$727</b>	<b>23%</b>

\*Revenue and Cost of Revenue are inclusive of \$1.2 million of inter-company related rental revenue and cost due to the re-renting of equipment between Southern California and Houston CELLS.

Total revenue generated from the equipment rental segment for the year ended December 31, 2012 was \$11.4 million, resulting in a net loss of \$0.1 million and Adjusted EBITDA of \$2.7 million. Revenue for the fourth quarter was \$3.1 million with \$0.4 million of net earnings and Adjusted EBITDA of \$0.5 million. Revenue increased by \$8.2 million year over year as a result of the aforementioned acquisitions in the rental and distribution segment.

# NOBLE IRON INC. (formerly Texada Software Inc.)

Cost of revenue in the quarter ended December 31, 2012 was \$1.6 million comprised primarily of depreciation and amortization of \$1.3 million. Cost of revenue for the year ended 2012 was \$4.4 million comprised primarily of depreciation totaling \$3.7 million. The segment also recognized a deferred tax recovery of \$1.4 million for 2012, of which \$1.1 million was recognized in the fourth quarter. A tax recovery of \$0.6 million was recognized in 2011.

## Enterprise Asset Management Software

Comparative Financial Results (000's)	Three Months Ended				Twelve Months Ended			
	December 31, 2012		December 31, 2011		December 31, 2012		December 31, 2011	
<b>Revenue</b>	<b>\$1,075</b>	<b>100%</b>	<b>\$1,069</b>	<b>100%</b>	<b>\$4,765</b>	<b>100%</b>	<b>\$4,460</b>	<b>100%</b>
<b>Cost of Revenue</b>	(129)	(12%)	(132)	(12%)	(539)	(11%)	(536)	(12%)
Summary Expenses								
Support, Maintenance and Delivery	(219)	(20%)	(294)	(27%)	(1,314)	(28%)	(1,315)	(29%)
Research and Development	(218)	(20%)	(240)	(22%)	(865)	(18%)	(794)	(18%)
Sales and Marketing	(81)	(8%)	(53)	(5%)	(312)	(7%)	(290)	(7%)
General and Administration	(278)	(26%)	(208)	(19%)	(851)	(18%)	(1,024)	(23%)
Interest	(20)	(2%)	27	3%	(87)	(2%)	(25)	(1%)
Foreign Exchange (Gain) loss	(146)	(14%)	14	1%	(47)	(1%)	1	0%
<b>Net Earnings (Loss)</b>	<b>(16)</b>	<b>(1%)</b>	<b>183</b>	<b>17%</b>	<b>751</b>	<b>16%</b>	<b>476</b>	<b>11%</b>
<b>Add Back:</b>								
Depreciation/Amortization	35	3%	28	3%	143	3%	49	1%
Foreign Exchange (Gain) loss	146	14%	(14)	(1%)	47	1%	(1)	(0%)
Interest Expense	20	2%	(27)	(3%)	87	2%	25	1%
<b>Adjusted EBITDA</b>	<b>186</b>	<b>17%</b>	<b>170</b>	<b>16%</b>	<b>1,028</b>	<b>22%</b>	<b>550</b>	<b>12%</b>

For the year ended December 31, 2012, total revenue increased to \$4.8 million as compared to \$4.5 million for 2011, representing an increase of 7% over 2011. License based revenues increased in 2012 compared to 2011 due to an increase in the number of users and implementations on the SaaS platform. Service based revenue increased marginally compared to prior year due to increased professional services revenue.

Support, maintenance, and delivery expenses include personnel and related costs associated with maintenance, training and professional services efforts. Sales and marketing expenses consist primarily of personnel and related costs associated with selling and marketing functions, including advertising, commissions, trade shows and other promotional activities. Research and development expenses include personnel and related costs associated with improvements to the Company's technology and software. General and administration expenses include personnel and related costs associated with the administration of the business segment, rental of office space, legal and professional fees, bad debt and insurance. Operating expenses for the quarter ended December 31, 2012 remained relatively steady as compared to the quarter ended December 31, 2011. Support, maintenance and delivery expenses tied to new license support declined slightly. This decrease was offset by a slight increase in general and administrative expense due to administration of the business segment.

# NOBLE IRON INC. (formerly Texada Software Inc.)

## Revenue Assistance Operations

The Company incurs certain macro-level expenses which are presented in this MD&A as Revenue Assistance Operations (“RAO”). These expenses represent costs associated with, but are not limited to: public entity management, strategic planning and execution, technological advances, corporate level management, Company-wide branding, trademark activity as well as ancillary costs to support these functions. A summary of these financial expenses are as follows:

Comparative Financial Results (000's)	Three Months Ended				Twelve Months Ended			
	December 31, 2012		December 31, 2011		December 31, 2012		December 31, 2011	
<b>Summary Expenses</b>								
Support, Maintenance and Delivery	0	0%	0	0%	0	0%	0	0%
Sales and Marketing	(178)	19%	0	0%	(262)	11%	0	0%
General and Administration	(700)	75%	(648)	74%	(2,593)	105%	(1,178)	62%
Default Judgment Reversal	0	0%	0	0%	691	(28%)	0	0%
Foreign Exchange	28	(3%)	(20)	2%	(29)	1%	(20)	1%
Stock Based Compensation	(86)	9%	(54)	6%	(228)	9%	(107)	6%
Interest Expense on Convertible Debentures	0	0%	(78)	9%	0	0%	(452)	24%
Accretion on Convertible Debentures	0	0%	(13)	1%	0	0%	(69)	4%
Interest	(0)	0%	(68)	8%	(47)	2%	(68)	4%
<b>Net Earnings (Loss)</b>	<b>(936)</b>	<b>100%</b>	<b>(880)</b>	<b>100%</b>	<b>(2,468)</b>	<b>100%</b>	<b>(1,894)</b>	<b>100%</b>
<b>Add Back:</b>								
Depreciation/Amortization	12	(1%)	0	0%	29	(1%)	0	0%
Interest Expense	0	(0%)	68	(8%)	47	(2%)	68	(4%)
Default Judgment Reversal	0	0%	0	0%	(691)	28%	0	0%
Foreign Exchange	(28)	3%	20	(2%)	29	(1%)	20	(1%)
Stock Based Compensation	86	(9%)	54	(6%)	228	(9%)	107	(6%)
Interest Expense on Convertible Debentures	0	0%	78	(9%)	0	0%	452	(24%)
Accretion on Convertible Debentures	0	0%	13	(1%)	0	0%	69	(4%)
<b>Adjusted EBITDA</b>	<b>(866)</b>	<b>93%</b>	<b>(648)</b>	<b>74%</b>	<b>(2,826)</b>	<b>115%</b>	<b>(1,178)</b>	<b>62%</b>

RAO expenses increased over the comparable periods of 2011 due to the Company’s growth, integration of acquisitions in the rental and distribution segment and continued development of the infrastructure required to support the Company in its strategic initiatives.

For the year ended December 31, 2012, a non-recurring transaction was recorded within a wholly owned U.S. business entity. The transaction involved the reversal of an accrued liability related to a default judgement against a lease obligation incurred in 2002. In the period since 2002, principal and interest related to the judgement had been accrued, totalling \$0.7 million. This reversal is a one-time event and is separately disclosed and labeled accordingly within the chart above. Upon expiration of this judgement the amounts were reversed and recorded as an adjustment to earnings in the period.

## Liquidity:

Liquidity risk is the risk the Company will not be able to meet its obligations as they become due. The Company manages its liquidity risk through cash and debt management.

The Company’s centralized finance function maintains and manages liquidity by assessing future cash flow expectations and by maintaining sufficient availability against committed borrowing facilities. Cash flow estimates are based on rolling forecasts that take into account borrowing limits, cash restrictions and compliance with debt covenants. Cash which is surplus to working capital requirements is managed by the centralized finance function. These funds are typically held as deposits, in both US and Canadian funds, with larger financial institutions.

## **NOBLE IRON INC.** (formerly **Texada Software Inc.**)

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Cash flow from operations for the year ended December 31, 2012 was \$0.5 million compared to negative (\$0.9) million for the year ended December 31, 2011. As of December 31, 2012, the Company had cash of \$1.8 million and working capital of \$0.2 million compared to cash of \$2.0 million working capital of \$1.2 million at December 31, 2011.

As of December 31, 2012, the Company had available unused approved credit facilities (operating, capital, and other combined) of \$8.9 million USD. The Company also had accounts receivable of \$3.2 million and cash totaling \$1.8 million. Management expects to discharge the Company's liabilities by means of cash flow generated from operations, existing cash reserves, raising of capital in the equity markets and refinancing of debt instruments. Management considers adjusted working capital as a more indicative measure of the Company's near term liquidity. Adjusted working capital was \$2.6 million as of December 31, 2012.

### **Capital Resources:**

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During the year, the Company recapitalized all existing debt of the Southern California CELL under a single revolving credit facility. The amount refinanced at closing totaled \$13.2 million US leaving \$11.8 million US undrawn under the facility subject to adequate borrowing base as determined by the value of certain rental assets of Noble Rents Inc. There is no required principle payment under the four year facility. The interest rate on the debt facility is fully floating based upon the LIBOR rate plus 325 basis points.

Included with the unused approved credit facilities described in "Liquidity" above, the Company's primary lender provided the \$25.0 million asset based revolving credit facility in support of the Company's Southern California CELL. The lender has also made available to the Company a standby letter of credit facility, subject to borrowing base availability, with an authorized limit of \$2.0 million, which was undrawn by the Company as of December 31, 2012. The facility also contains covenants specifying a minimum fixed charge coverage ratio of 1.5, a maximum funded debt to EBITDA (as defined in the credit facilities agreements) ratio of 8.5 to 1.0, a minimum availability of \$1.0 million US and a restriction on dividends to shareholders. As of December 31, 2012 the Company was in compliance with all bank covenants. EBITDA refers to net earnings (loss) before interest expense, income taxes, depreciation, and amortization.

On June 29, 2012, the Company completed the closing of a non-brokered private placement, of 4,500,000 common shares of the Company at a price of \$1.00 per share for gross proceeds of \$4.5 million. The major use of cash during the year ended December 31, 2012 was the acquisition of certain assets of Bane Machinery and to meet liquidity requirements of lenders.

On September 20, 2012, the Company announced approved financing for the purchase of new rental fleet for its equipment rental and distribution businesses. The agreement is for approximately \$8.0 million US of equipment financing from a global equipment manufacturer to be drawn over several tranches for the acquisition of aerial work platforms and light construction equipment. The terms of the financing provide for an initial down payment of approximately 10%, a 63-month term, and an indicative floating interest rate of approximately 5.99% based on the three-month LIBOR rate.

As of December 31, 2012, the Company had cash of \$1.8 million and working capital of \$0.2 million compared to cash of \$2.0 million working capital of \$1.2 million at December 31, 2011.

As noted in Subsequent Events, it is anticipated that the debt supporting the Company's Houston, Texas, CELL will be refinanced under terms substantially similar to those terms of the Southern California CELL during the first half of 2013 which is expected to result in additional interest savings.

Fleet purchases for the CELLS are procured through a payables process until subsequently financed. This has resulted in a substantial increase in current liabilities due to temporary timing differences associated with receipt of fleet purchases and their subsequent financing utilizing long-term debt under existing borrowing facilities. As of December 31, 2012, invoices for equipment shipped to the CELLS amounted to \$2.4 million. As such, short-term borrowings under terms from manufactures related to equipment purchases are included in Other Current Liabilities on the balance sheet.

# **NOBLE IRON INC.** (formerly Texada Software Inc.)

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## **Off-Balance Sheet Arrangements:**

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During 2012, the Company did not participate in any financing arrangements which would be considered off-balance sheet.

## **Transactions between Related Parties:**

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During 2012, the Company did not participate in any transactions which are deemed to be related party.

## **Changes in Accounting Policies:**

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The Company did not change or adopt any new accounting policies in 2012.

## **Risks and Uncertainties:**

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Noble Iron's management team is responsible for the evaluation and management of risk factors affecting the Company. The following is Management's assessment of the significant risks which would have the greatest impact on the Company over the ensuing 12 to 24 months given currently available information. This analysis contains forward looking statements that may differ materially from actual results.

As described under "Liquidity", the Company had a cash balance of approximately \$1.8 million as of the close of business on December 31, 2012 and had working capital of \$0.2 million. There can be no assurances that these resources, combined with cash generated from future operations, will be adequate to allow the Company to continue funding operations, which includes funding needed to sustain and grow the equipment rental fleet while providing for additional CELL locations.

### **Revenue and Collection Risk:**

Certain customer concentration risks are present within each segment of the Company. Having a large number of customers with lower average account balances exposes the Company to aggregate billing and collection risk. These risks can include missed billings, unwarranted credits, additional time to collect payments and greater risk of customer default. Continual process improvements are being made to strengthen this area to ensure timely collection of the Company's accounts receivable. These efforts include the positioning of resources and technology to improve the efficiency of invoicing, collections and customer credit processing.

### **Technology and Software Development:**

The process of developing technology from concept stage, through design and to final production involves time to complete proper testing, redesigning as required and acceptance and adoption by customers. Unexpected testing results or performance irregularities are normal in a development process and can result in new product offerings being delayed beyond projected time frames or slow adoption from customers. The risk of not developing and introducing reliable products, on a timely basis, presents a risk to the Company's software business. Management mitigates this risk through its continuous product development plan. This continual assessment, adjusted to meet market trends, is communicated periodically with customers and business partners.

### **Reliance on Key Personnel:**

The success of Noble Iron depends on the abilities, experience, efforts and industry knowledge of their respective senior management and other key employees, including its ability to retain and attract skilled management and employees. The loss of services from key personnel could have a material adverse effect on Noble Iron's business, financial condition, results of operations or future prospects, particularly since it does not enter into non-competition arrangements with senior management and other key employees in certain circumstances. In addition, the growth plans described in this MD&A may require additional employees, increase the demand on management, and produce risks in both productivity and retention levels. Noble Iron may not be able to attract and retain additional qualified management and employees as

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needed in the future. There can be no assurance Noble Iron will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on its business, financial condition, results of operations and future prospects.

## **Foreign Currency and Exchange Risk:**

Foreign currency risk in the exchange rates between the Canadian dollar and foreign currencies could affect the Company's operating and financial results. The Company is exposed to foreign currency risk as substantially all of its assets and liabilities are denominated in foreign currency, particularly the US dollar. Future growth of the Company is increasingly expected to be in US dollar denominated assets. To date, the Company has funded its growth by issuing equity in Canadian funds and raising debt in US dollars. The Company's management monitors exchange rate fluctuations and presently does not use any derivative instruments to manage foreign currency exposure. As the Company continues to grow its US operations, exposure to foreign currency risk may increase with the likelihood of the Company employing exchange rate derivative instruments.

## **Asset and Leverage Risk:**

The integration and sustained growth initiative of the Company's operations into the construction and industrial equipment rental business poses risks that include, but are not limited to: the considerable financial leverage, debt repayment requirements relative to anticipated cash flow, the execution of an operational turnaround for acquisitions, the reaction of the Company's software customers to its expansion into the segment, and the availability of additional capital to grow the segment beyond the existing CELLS. There can be no assurances that sufficient capital will be available on acceptable terms, if at all.

Having refinanced the debt of the Company's Southern California CELL into a revolving credit facility, secured by the appraised value of the rental equipment, the Company is subject to the risk of market fluctuations related to the value of its rental fleet. If the market value of used equipment were to fall faster and further than management expectations, the Company would be at risk of having an insufficient borrowing base securing its' debt. This would result in a default under the facility if the Company were not in a position to cure the default through additional capitalization. It is also anticipated that the debt supporting the Company's Houston, Texas, CELL will be refinanced under terms substantially similar to those terms of the Southern California CELL.

A significant portion of the Company's debt is subject to interest rate risk due to the fact the rate charged is fully floating tied to LIBOR. A one percent change in the LIBOR rate would result in an additional annual expense to the Company of approximately \$200,000 US. At present, the Company does not employ an interest rate hedge to mitigate this risk. Management may elect to do such in the future. There can be no assurance that a sufficient hedge could be procured to fully mitigate this risk.

The construction and industrial equipment rental industry has demonstrated year-over-year revenue growth surpassing the most recent rate of gross domestic product in the United States where the Company's rental business is transacted. Should the current rate of construction and industrial equipment rental growth in the United States stagnate, or should the United States enter a recessionary period with a prolonged decline in construction activity, the Company may lack sustainable revenue growth needed support its debt obligations and capital expenditure plan.

## **Outstanding Share Data:**

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As of April 30, 2013, and following the July 23, 2012 five-for-one share consolidation, the Company had 17,334,968 issued and outstanding common shares. Further information can be found in the Company's Consolidated Financial Statements for the years ended December 31, 2012 and 2011.

## **Seasonality:**

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The Company's equipment rental business will generally be lower from December through March as the winter weather and seasonal migration of workers hampers construction activity. Around April, the rental demand for construction and general rental equipment generally picks up due to the warmer weather and usually remains strong through November.



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Seasonality, to some extent, is mitigated by the fact that the Company's current rental operations are located in Southern California and Texas, both of which are considered warm weather climates with mild winter periods.

The Company's Asset Management Software revenue is largely generated from recurring license fees which accrue equally each month and quarter, therefore seasonality is not a large factor in this business.

### **Subsequent Events:**

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On March 20, 2013, the Company announced it had received financing terms from its current lender, Regions Bank, for an additional \$15.0 million asset based lending facility to refinance debt and support growth at the Company's Houston, Texas CELL. Terms of the facility are substantially similar to that provided by the same lender in support of the Company's Southern California CELL.

On March 25, 2013 Noble Iron announced a non-brokered private placement (the "Private Placement") of up to 3,846,154 common shares of the Company (the "Common Shares") at a price of \$1.30 CDN per share for anticipated gross proceeds of up to \$5.0 million. The Company intends to use the net proceeds of the Private Placement for working capital, equipment purchases, and capitalization in support of securing additional debt facilities. The Company has received conditional approval, however the Private Placement is subject to receipt of all required regulatory and TSX Venture Exchange approvals and has not yet been finalized.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).