Bri-Chem Corp.
First Quarter Interim Report

March 31, 2012

(unaudited)

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Bri-Chem Corp.
Consolidated Statements of Operations
(Expressed in Canadian dollars)
(unaudited)

For the three months ended		March 31 2012		March 31 2011
Sales	**$**	**52,566,448**	$	50,647,489
Cost of sales		**43,385,346**		42,972,379
Gross margin		**9,181,102**		7,675,110
Gross margin (%)		**17.5%**		15.2%
Expenses				
Salaries and benefits		**2,361,473**		1,658,626
Selling, general and administration		**2,083,995**		1,636,062
Interest on short-term operating debt		**715,108**		451,402
Amortization on property and equipment		**442,181**		110,078
Foreign exchange gain		**(467,077)**		(5,390)
Amortization on intangible assets		**116,459**		85,340
Interest on long-term debt		**4,955**		146,962
Interest on obligations under finance lease		**16,010**		2,024
		5,273,104		4,085,104
Earnings before income taxes (recovery)		**3,907,998**		3,590,006
Income tax expense (recovery)				
Current		**1,171,155**		1,068,994
Deferred		**(156,761)**		(111,441)
		1,014,394		957,553
Net earnings	**$**	**2,893,604**	$	2,632,453
Earnings (loss) attributable to:				
Shareholders of the Company	**$**	**3,061,478**	$	2,715,674
Non-controlling interest (Note 9)		**(167,874)**		(83,221)
	$	**2,893,604**	$	2,632,453
Earnings per share (Note 10)				
Basic	**$**	**0.18**	$	0.19
Diluted	**$**	**0.18**	$	0.18

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.

Consolidated Statements of Comprehensive Income

(Expressed in Canadian dollars)
(unaudited)

For the three months ended		**March 31 2012**		March 31 2011
Net earnings	**$**	**2,893,604**	$	2,632,453
Other comprehensive income, net of tax				
Foreign currency translation adjustment		**(11,419)**		-
Comprehensive income	**$**	**2,882,185**	$	2,632,453
Comprehensive income (loss) attributable to:				
Shareholders of the Company	**$**	**3,050,059**	$	2,715,674
Non-controlling interest (Note 9)		**(167,874)**		(83,221)
	$	**2,882,185**	$	2,632,453

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Consolidated Balance Sheets
(Expressed in Canadian dollars)
(unaudited)

		March 31 2012		December 31 2011
Assets				
Current				
Accounts receivable	$	**54,649,870**	$	56,860,660
Inventories		**60,614,732**		54,179,238
Prepaid expenses and deposits		**4,356,876**		1,981,023
		119,621,478		113,020,921
Non-current				
Property and equipment		**9,986,219**		9,808,587
Intangible assets		**942,739**		1,073,959
Goodwill		**537,962**		548,466
Deferred tax assets		**1,291,832**		1,131,987
Other long-term assets		**93,097**		86,424
	$	**132,473,327**	$	125,670,344
Liabilities				
Current				
Bank indebtedness	$	**61,943,861**	$	48,910,877
Accounts payable and accrued liabilities		**21,175,757**		30,137,391
Customer deposits		**88,633**		52,859
Current portion of promissory notes payable		**366,574**		368,466
Current portion of obligations under finance lease (Note 5)		**159,495**		177,578
Income taxes payable		**681,683**		934,049
		84,416,003		80,581,220
Non-current				
Obligations under finance lease (Note 5)		**467,551**		559,868
Deferred tax liabilities		**457,858**		463,625
Other long-term liabilities		**137,771**		116,150
		85,479,183		81,720,863
Equity				
Share capital (Note 7)		**25,948,921**		25,862,877
Contributed surplus		**689,438**		613,004
Warrants (Note 8)		**88,200**		88,200
Non-controlling interest (Note 9)		**(836,658)**		(668,784)
Retained earnings		**21,108,665**		18,047,187
Accumulated other comprehensive income		**(4,422)**		6,997
		46,994,144		43,949,481
	$	**132,473,327**	$	125,670,344

Obligations under operating lease (Note 6)

Bri-Chem Corp.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)
(unaudited)

	Share capital	Contributed surplus	Warrants	Accumulated other compensive income	Retained earnings	Total attributed to: The Company	Non-controlling interest	Total equity
Balance at January 1, 2012	$ 25,862,877	$ 613,004	$ 88,200	$ 6,997	$ 18,047,187	$ 44,618,265	$ (668,784)	**$ 43,949,481**
Issuance of shares upon exercise of options	86,044	(7,915)	-	-	-	78,129	-	**78,129**
Employee share-based payment options	-	97,735	-	-	-	97,735	-	**97,735**
Consultant share-based payment options	-	(13,386)	-	-	-	(13,386)	-	**(13,386)**
Net earnings	-	-	-	-	3,061,478	3,061,478	(167,874)	**2,893,604**
Other comprehensive income	-	-	-	(11,419)	-	(11,419)	-	**(11,419)**
Balance at March 31, 2012	$ 25,948,921	$ 689,438	$ 88,200	$ (4,422)	$ 21,108,665	$ 47,830,802	$ (836,658)	**$ 46,994,144**

Bri-Chem Corp.

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)
(unaudited)

	Share capital	Contributed surplus	Warrants	Retained earnings	Total attributed to: The Company	Non-controlling interest	Total equity
Balance at January 1, 2011	$ 14,451,480	$ 1,079,488	$ 229,950	$ 7,949,547	$ 23,710,465	$ (33,411)	**$ 23,677,054**
Issue of share capital under share-based payment	155,608	(64,888)	-	-	90,720	-	**90,720**
Employee share-based payment options	-	10,976	-	-	10,976	-	**10,976**
Consultant share-based payment options	-	105,499	-	-	105,499	-	**105,499**
Issue of share capital under financing, net of tax	5,488,447	-	-	-	5,488,447	-	**5,488,447**
Net earnings (loss)	-	-	-	2,715,674	2,715,674	(83,221)	**2,632,453**
Balance at March 31, 2011	$ 20,095,535	$ 1,131,075	$ 229,950	$ 10,665,221	$ 32,121,781	$ (116,632)	**$ 32,005,149**

See accompanying notes to the interim consolidated financial statements.

Bri-Chem Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(unaudited)

For the three months ended		March 31 2012		March 31 2011
Increase (decrease) in cash and cash equivalents				
Operating activities				
Net earnings	$	**2,893,604**	$	2,632,453
Non-cash items:				
Amortization on property and equipment		**442,181**		110,078
Amortization on intangible assets		**116,459**		85,340
Amortization of debt related transaction costs		**107,559**		17,419
Deferred tax recovery		**(165,612)**		(110,045)
Tenant inducement		**908**		-
Share-based payments		**97,734**		13,976
Gain on sale of property and equipment		**201**		-
		3,493,034		2,749,221
Change in non-cash working capital		**(15,780,389)**		(8,749,574)
		(12,287,355)		(6,000,353)
Financing activities				
Advances on promissory notes payable		**5,179**		66,647
Advances of operating line		**12,925,425**		2,775,657
Repayment of promissory notes payable		**-**		(1,228,894)
Repayment of long-term debt		**-**		(216,329)
Proceeds on issuance of shares (Note 7)		**64,744**		5,546,472
Repayment of obligations under finance lease		**(42,693)**		(12,720)
		12,952,655		6,930,833
Investing activities				
Purchase of property and equipment		**(731,161)**		(926,881)
Purchase of intangible assets		**(3,597)**		(3,599)
Proceeds on disposal of property and equipment		**69,458**		-
		(665,300)		(930,480)
Net increase in cash and cash equivalents		**-**		-
Cash and cash equivalents, beginning of period		**-**		-
Cash and cash equivalents, end of period	**$**	**-**	$	-

Supplemental cash flow information:				
Interest paid	**$**	**735,678**	$	756,865
Income taxes paid	**$**	**918,789**	$	480,664

See accompanying notes to the interim consolidated financial statements.

1. Nature of operations

Bri-Chem Corp.'s ("the Company") shares are publicly traded on the Toronto Stock Exchange under the symbol BRY. Since 1985, Bri-Chem has established two primary segments of business through a combination of internal growth and acquisitions: Bri-Chem's Drilling Fluid Division is North America's largest independent wholesale supplier of drilling fluids for the oil and gas industry. The Company provides over 350 critical drilling fluid products, cementing, acidizing and stimulation additives from multiple strategically located warehouses throughout Canada and the United States; Bri-Chem's Steel Pipe Division is a wholesale distributor of carbon steel pipe and a manufacturer of large diameter seamless steel pipe for the energy industry.

2. Basis of presentation

The unaudited interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". They do not contain all necessary annual disclosures in accordance with IFRS.

These unaudited interim consolidated financial statements, in all material respects, follow the same accounting policies and method of application as the annual audited consolidated financial statements of the preceding fiscal year.

3. New accounting policies

These interim consolidated financial statements have been prepared in accordance with the accounting policies adopted in the Company's consolidated financial statements for the year ended December 31, 2011.

4. Seasonality of operations

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

5. Obligations under finance lease

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

	Within one year	Two to five years	After five years	Total
March 31, 2012				
Lease payments	$ 198,904	$ 520,564	$ -	$ 719,468
Finance charges	39,409	53,013	-	92,422
Net present value	$ 159,495	$ 467,551	$ -	$ 627,046
December 31, 2011				
Lease payments	$ 225,806	$ 620,825	$ 7,112	$ 853,743
Finance charges	48,228	67,974	95	116,297
Net present value	$ 177,578	$ 552,851	$ 7,017	$ 737,446

The Company enters into financing lease arrangements for certain of its operating equipment. The average term of the finance lease entered into is 4.7 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.

6. Obligations under operating lease

6.1 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
March 31, 2012	$ 3,115,967	$ 11,154,261	$ 2,402,124	$ 16,672,352
December 31, 2011	2,871,777	8,743,273	2,108,538	13,723,588

The Company leases a number of warehouse locations and office equipment under operating leases. Lease payments recognized as an expense during the period amounted to $707,225 (March 31, 2011 - $515,814). This amount consists of minimum lease payments.

The Company has sub-leased property with a term of eight years expiring June 30, 2019. Additionally the Company has sub-leased property with a term of five years expiring October 31, 2016. Sublease revenues of $268,233 (March 31, 2011 - $nil) were received in the period and reported as a reduction to lease expenses incurred in the period.

6. Obligations under operating lease (cont'd)

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.

6.2 The Company as Lessor

The Company has leased property owned for a term of two years that expired December 31, 2011. This lease was extended for a one year period expiring December 31, 2012. The lessee does not have an option to purchase the property leased at the expiry of the lease term.

Non-cancellable operating lease income is as follows:

	Minimum lease income receivable			
	Within one year	Two to five years	After five years	Total
March 31, 2012	$ 9,000	$ -	$ -	$ 9,000
December 31, 2011	12,000	-	-	12,000

7. Share capital

Authorized

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

Issued and outstanding	Number		Amount
Common shares			
Balance, January 1, 2011	13,704,886	$	14,451,480
Issuance of shares upon exercise of options	1,054,312		2,657,282
Issuance of shares upon exercise of warrants	250,000		641,750
Issuance of shares under finanacing, net of tax and share issue costs	2,000,000		5,488,447
Issuance of shares for acquisition (Note 6)	171,429		488,251
Balance, December 31, 2011	17,180,627	$	23,727,210
Issuance of shares upon exercise of options	27,848		86,044
Balance, March 31, 2012	17,208,475	$	23,813,254
Preferred shares in subsidiary			
Balance, January 1, 2011	-	$	-
Issuance of Series 1 non-voting preferred shares	2,100,000		2,135,667
Balance December 31, 2011 and March 31, 2012	2,100,000	$	2,135,667
Share capital balance, March 31, 2012	19,308,475	$	25,948,921

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

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

57,143 common shares with resale restrictions expiring May 31, 2012
57,143 common shares with resale restrictions expiring May 31, 2013
57,143 common shares with resale restrictions expiring May 31, 2014

7. Share capital (cont'd)

c) On December 31, 2011 a subsidiary of the Company issued 2,100,000 Preferred, Series 1 non-puttable shares with a fair value of $2,135,667 to its 30% non-controlling interest partner in exchange for equipment and technical knowledge contributed to the subsidiary. Upon redemption of these shares by the subsidiary, the Company has an option to repurchase the outstanding common shares of the subsidiary, to which no value has been attached at March 31, 2012.

8. Share-based payments

8.1 Share-based payment plan

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, consultants and employees of the Company and its affiliates. The expiry date and price payable upon the exercise of any option granted are fixed by the Board of Directors at the time of grant, subject to regulatory requirements. Options granted under the plan are vested under such times as determined by the Board of Directors, subject to regulatory requirements. As at March 31, 2012, the Plan permits the authorization to grant stock options up to a maximum of 1,578,559 common shares of the Company. All share-based employee remuneration will be settled in equity.

A summary of transactions during the period is outlined below.

8.2 Options to employees and directors

	Number of options		Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2012	595,000	$	1.50	3.08
Exercised	(10,000)		1.12	0.50
Expired	(10,000)		1.12	-
Outstanding, March 31, 2012	575,000	$	1.50	2.83
Options exercisable, March 31, 2012	225,000	$	1.50	2.80

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

During the three month period ended March 31, 2012, $97,734 (March 31, 2011- $10,976) was expensed in relation to the share-based payment plan to employees and directors.

8. Share-based payments (cont'd)

8.3 Options to consultants

	Number of options		Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2012	153,688	$	2.85	1.69
Exercised	(17,848)		3.00	1.44
Outstanding, March 31, 2012	135,840	$	2.83	1.44
Options exercisable, March 31, 2012	135,840	$	2.83	1.44

	Number of options		Weighed average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2011	25,000	$	2.05	1.59
Granted	140,000		3.00	1.34
Exercised	(11,312)		3.00	1.23
Outstanding, December 31, 2011	153,688	$	2.85	1.58
Options exercisable, December 31, 2011	153,688	$	2.85	1.69

8.4 Warrants

a) As part of the consideration given for the acquisition of Spirit Mountain Holdings Ltd., the Company issued 100,000 share purchase warrants with a fair value of $46,300. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of $2.10 per common share, as negotiated between the parties to the transaction from July 17, 2007, expiring July 17, 2010.

In July 2010, the Company extended the 100,000 share purchase warrants for an additional two years. The warrants were extended at an exercise price of $2.10 per common share with an incremental increase in the fair value of the warrants as a result of the extension of $41,900.

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

8. Share-based payments (cont'd)

	Number of warrants	Weighted average exercise price	Weighted average contractual life (years)
Outstanding, January 1, 2011	350,000	$ 2.03	1.21
Exercised	(250,000)	2.00	1.00
Outstanding, December 31, 2011	100,000	2.03	0.79
Outstanding, March 31, 2012	100,000	$ 2.10	0.54
Exercisable, March 31, 2012	100,000	$ 2.10	0.54

9. Non-controlling interest

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

	March 31 2012	December 31 2011
Balance, beginning of period	**$ (668,784)**	$ (33,411)
Net loss and comprehensive loss	**(167,874)**	(635,373)
Balance, end of period	**$ (836,658)**	$ (668,784)

10. Earnings per share

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

(three months ended)		March 31 2012		March 31 2011
Net earnings attributable to the Shareholders of the Company	**$**	**3,061,478**	$	2,715,674
Basic weighted average number of ordinary shares		**17,193,631**		14,550,108
Dilutive options issued and outstanding		**220,681**		788,788
Diluted weighted average number of ordinary shares		**17,414,312**		15,338,896
Basic earnings per share	**$**	**0.18**	$	0.19
Diluted earnings per share	**$**	**0.18**	$	0.18

11. Segment reporting

The measurement policies the Company uses for segment reporting are the same as those used in its financial statements. General and administrative expenses directly related to the segments are included as operating expenses for those segments. There are significant intersegment revenues between the Steel Manufacturing and the Steel Distribution segments.

The Company has four reportable segments: Fluids, Steel Distribution, Steel Manufacturing and Other. The Other segment represents insignificant segments and all remaining costs not directly attributable to a reportable operating segment, such as corporate overhead.

11. Segment reporting (cont'd)

Selected financial information by reportable segment is disclosed as follows:

(three months ended) March 31, 2012	Fluids	Steel Distribution	Steel Manufacturing	Other	Consolidated
Revenues from external customers	$ 43,425,910	$ 6,976,112	$ 2,034,247	$ 130,179	**$ 52,566,448**
Cost of sales	35,972,893	5,921,364	1,410,054	81,035	**43,385,346**
Segment earnings (loss) from operations	5,408,806	151,106	(23,490)	(333,711)	**5,202,711**
Amortization	141,441	40,820	290,177	86,202	**558,640**
Interest expense (income)	11,706	228	6,223	717,916	**736,073**
Income taxes (recovery)	1,364,212	28,568	(177,416)	(200,970)	**1,014,394**
Segment profit (loss)	$ 3,891,447	$ 81,490	$ (142,474)	$ (936,859)	**$ 2,893,605**
Segment assets	$ 98,836,304	$ 19,056,967	$ 13,784,613	$ 795,443	**$ 132,473,327**
Capital expenditures	$ 570,535	$ 55,901	$ 104,725	$ -	**$ 731,161**

There were no significant inter-segment revenues for the period ended March 31, 2012.

(three months ended) March 31, 2011	Fluids	Steel Distribution	Steel Manufacturing	Other	Consolidated
Revenues from external customers	$ 43,336,837	$ 7,310,652	$ -	$ -	**$ 50,647,489**
Cost of sales	36,562,908	6,409,471	-	-	**42,972,379**
Segment earnings (loss) from operations	5,165,124	(62,406)	(372,370)	(344,538)	**4,385,810**
Amortization	150,041	36,205	5,307	3,865	**195,418**
Interest expense (income)	1,094,134	(70,333)	2,379	(425,793)	**600,387**
Income taxes (recovery)	1,068,586	(1,448)	(124,372)	14,787	**957,553**
Segment profit (loss)	$ 2,852,363	$ (26,830)	$ (255,684)	$ 62,603	**$ 2,632,453**
Segment assets	$ 86,019,449	$ 20,625,121	$ 1,962,776	$ 690,734	**$ 109,298,080**
Capital expenditures	$ 19,437	$ 30,425	$ 1,213,119	$ 13,400	**$ 1,276,381**

There were no significant inter-segment revenues for the period ended March 31, 2011.

11. Segment reporting (cont'd)

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

(three months ended)		March 31 2012		March 31 2011
Revenue				
Canada and International	**$**	**45,450,895**	$	49,680,169
United States		**7,115,553**		967,320
	$	**52,566,448**	$	50,647,489
Non-current assets				
Canada and International	**$**	**8,481,679**	$	12,649,423
United States		**4,370,170**		-
	$	**12,851,849**	$	12,649,423

Revenues from external customers in Canada, as well as other markets, have been identified on the basis of the customer's geographical location. Total non-current assets related to United States and International operations were not significant at March 31, 2011 and therefore have been included in Canadian operations.

12. Financial instruments

12.1 Categories of financial instruments

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

		March 31 2012		December 31 2011
Financial Assets				
Loans and receivables				
Accounts receivable	$	54,649,870	$	56,860,660
Financial Liabilities				
Promissory notes payable	$	366,574	$	368,466
Bank indebtedness		61,943,861		48,910,877
Accounts payable and accrued liabilities		21,175,757		30,137,391
	$	83,486,192	$	79,416,734

12. Financial instruments (cont'd)

12.2 Financial risk management objectives

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

Credit risk

Credit risk arises from the possibility that the entities to which the Company provides services may experience financial difficulty and be unable to fulfill their obligations. Concentrations of credit risk on accounts receivable are with customers in the oil and gas industry. Accounts receivable consist of a large number of customers spread across diverse geographical areas and ongoing credit evaluations are performed on the financial condition of accounts receivable. Revenue from the Company's two largest customers accounted for approximately 22% and 17% respectively (March 31, 2011 – 24% and 14%) of total revenue during the period and 24% and 25% respectively (March 31, 2011 – 27% and 16%) of total accounts receivable at period end. These customers are within the Company's fluids segment.

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

	March 31 2012	December 31 2011
Trade and other receivables	**$54,649,870**	$ 56,860,660

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

12. Financial instruments (cont'd)

The aging of accounts receivable was as follows:

March 31, 2012	Gross accounts receivable	Allowance for doubtful accounts	Net accounts receivable
Current	$ 9,705,415	$ -	$ 9,705,415
31 to 60 days	19,992,077	-	19,992,077
61 to 90 days	20,523,050	-	20,523,050
91 to 120 days	3,152,186	-	3,152,186
Over 120 days	1,348,995	(71,853)	1,277,142
Total	$ 54,721,723	$ (71,853)	$ 54,649,870

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

The Company held $88,633 (December 31, 2011 - $52,859) of customer deposits for the purpose of mitigating the credit risk associated with accounts receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balance in the financial statements.

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

Interest rate risk

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

12. Financial instruments (cont'd)

The effective quarterly interest rate on the bank indebtedness at March 31, 2012 was Canadian bank prime interest rate plus 25 basis points (3.25%). As at March 31, 2012, other variables unchanged, an increase or decrease of 25 basis points in the prime interest rate would impact the Company's net earnings by approximately $116,502 (March 31, 2011 – $83,152).

Currency risk

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

Accounts receivable in foreign currency was USD $3,840,078 as at March 31, 2012 (March 31, 2011 – USD - $1,481,719), accounts payable in foreign currency outstanding as at March 31, 2012 is USD $2,384,900 (March 31, 2011 – USD $3,362,456), and a promissory note in foreign currency outstanding as at March 31, 2012 is USD $367,490 (March 31, 2011 - $nil). The Company realized a foreign exchange gain of $467,077 (March 31, 2011 – $5,390) during the three month period ended March 31, 2012. Based on the monetary assets and liabilities held in the United States ("US") at March 31, 2012, a 5% increase in exchange rates would impact the Company's net earnings by a gain of approximately $51,754 (March 31, 2011 – loss of $63,822).

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they become due. The Company actively monitors its financing obligations, as well as its cash and cash equivalents to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. Global financial markets and economic conditions have been disrupted and volatile. The debt and equity markets have been distressed. These factors, together with the repricing of credit risk and the current weak economic conditions have made, and will likely continue to make it difficult to obtain financing. In addition, the cost of obtaining money from the credit market has generally increased as many lenders have increased interest rates, enacted tighter lending standards, and are not refinancing existing debt at maturity on terms similar to current debt and, in some cases, ceased to provide funding. Due to these factors, the Company cannot be certain that financing will be available when needed and to the extent required, on acceptable terms. If financing is not available when needed, or is available only on unfavorable terms, the Company may be unable to implement its business plans, or take advantage of business opportunities, or respond to competitive pressures, all of which could have a material adverse effect on the Company's financial conditions, results of operations, and cash flows.

12. Financial instruments (cont'd)

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

	Bank credit facility	Accounts payable	Promissory notes payable *	Finance leases*	Total
2012	$ 62,551,354	$ 21,175,757	$ 366,574	$ 178,882	$ 84,272,567
2013	-	-	-	177,751	177,751
2014	-	-	-	165,301	165,301
2015	-	-	-	152,613	152,613
2016	-	-	-	20,798	20,798
Thereafter	-	-	-	1,748	1,748
Total	$ 62,551,354	$ 21,175,757	$ 366,574	$ 697,093	$ 84,790,778

* includes interest calculated to be paid

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

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

* includes interest calculated to be paid

12.3 Fair value of financial instruments

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties who are under non compulsion to act. The carrying value of accounts receivable and accounts payable and accrued liabilities approximate their fair value because of the near term to maturity of these instruments.

The carrying amount of the Company's bank indebtedness approximates the fair value as its interest rate is similar to the current market rate for similar debt. The promissory note payable has a value of $366,574 (December 31, 2011 - $368,466) which approximates its fair value due to the short term to maturity.

13. Related party transactions

The related party transactions are conducted on the terms and conditions agreed to by the related parties.

13.1 Transactions with related entities

During the quarter ended March 31, 2012, the Company incurred office sharing costs of $15,750 (March 31, 2011 - $7,405) in the normal course of operations with BRC Advisors Inc., a company which a certain director and officer has significant influence over.

13.2 Other related party transactions

The Company expensed interest of $5,178 (March 31, 2011 - $nil) on the promissory note payable issued on the acquisition of Stryker, which is held by the former owner of Stryker. The expense has been included in interest on long term debt and added to the balance of the promissory note payable.

14. 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:

		March 31 2012		December 31 2011
Bank indebtedness	**$**	**61,943,861**	$	48,910,877
Promissory notes payable		**366,574**		368,466
Obligations under finance lease		**627,046**		737,446
Shareholders' equity		**46,994,144**		43,949,481
Total capital	**$**	**109,931,625**	$	93,966,270

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

The bank indebtedness requires the Company to maintain certain financial covenants. The Company monitors these requirements on a monthly basis. As at March 31, 2012 and December 31, 2011, the Company was in compliance with all financial covenants. Changes in certain key ratios and covenants are as follows:

14. Capital management policies and procedures (cont'd)

	March 31 2012	December 31 2011
Adjusted tangible net worth	**$ 43,763,753**	40,320,958
Eligible capital expenditures	**731,161**	4,204,589

Adjusted tangible net worth is set at a minimum and defined as total assets, less intangibles and goodwill, divided by total liabilities.

Capital expenditures limit is set at a maximum of 120% of the budgeted yearly expenditures.

15. Post-reporting date event

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

16. Authorization of financial statements

The consolidated financial statements for the period ended March 31, 2012 (including comparatives) were approved by the Board of Directors on May 14, 2012.

"Don Caron"
Don Caron, Director

"Eric Sauze"
Eric Sauze, Director