Consolidated Financial Statements of

BENEV CAPITAL INC.
(formerly Bennett Environmental Inc.)

Years ended December 31, 2012 and 2011

BENEV CAPITAL INC.

Consolidated Statement of Financial Position
(Expressed in Canadian dollars)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 63,856,221	$ 58,720,802
Restricted cash (note 4)	513,052	1,515,105
Amounts receivable (note 5)	1,645,903	92,023
Holdback receivable (note 6)	-	300,000
Deferred costs	40,224	3,163,009
Prepaid expenses and other	488,780	374,043
	66,544,180	64,164,982
Property, plant and equipment (note 7)	7,243,868	8,774,826
Assets under finance lease (note 8)	186,534	491,040
	$ 73,974,582	$ 73,430,848
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	$ 1,974,460	$ 1,714,370
Current tax liabilities	144,134	333,000
Deferred revenue (note 11)	-	9,438,669
Provisions (note 12)	125,974	139,551
Current portion of long-term liabilities (note13)	79,000	79,000
Current portion of finance lease obligations (note 14)	32,642	122,565
	2,356,210	11,827,155
Long-term liabilities (note 13)	658,881	731,193
Long-term portion of finance lease obligations (note 14)	-	32,642
Shareholders' equity:		
Share capital (note 15)	96,969,879	96,969,879
Contributed surplus (note 16)	8,414,394	4,873,827
Share purchase warrants (note 17)	-	2,721,131
Accumulated deficit	(34,424,782)	(43,724,979)
Total equity	70,959,491	60,839,858
	$ 73,974,582	$ 73,430,848

Continuing operations (note 1)
Contingencies (note 30)
Subsequent events (notes 1 and 30)

On behalf of the Board:

"Lawrence Haber" — Lawrence Haber, Director

"James Farrar" — James Farrar, Director

See accompanying notes to consolidated financial statements.

BENEV CAPITAL INC.

Consolidated Statements of Operations and Comprehensive Income (Loss)
(Expressed in Canadian dollars)
For the year ended December 31

	2012	2011
Sales (note 19)	$ 28,298,586	$ -
Expenses:		
Operating costs (note 20)	13,394,457	1,571,890
Administration and business development (note 21)	4,797,498	5,349,069
Management/Board restructuring costs (note 22)	-	2,501,440
Amortization	805,823	882,971
Impairment loss (notes 1 and 7)	1,224,005	-
Loss on disposal of assets held for sale (note 23)	57,334	18,286
	20,279,117	10,323,656
Operating income (loss)	8,019,469	(10,323,656)
Finance income (note 24)	1,192,436	918,309
Finance costs (note 24)	(83,708)	(151,815)
Net finance income	1,108,728	766,494
Income (loss) before income taxes	9,128,197	(9,557,162)
Income taxes recovery (note 25)		
Current	172,000	247,564
Net income (loss) for the period, being comprehensive income (loss)	$ 9,300,197	$ (9,309,598)
Earnings (loss) per share (note 18)		
Basic earnings (loss) per share	$ 0.24	$ (0.24)
Diluted earnings (loss) per share	0.24	(0.24)

See accompanying notes to consolidated financial statements.

BENEV CAPITAL INC.

Consolidated Statement of Changes in Equity
(Expressed in Canadian dollars)
For the year ended December 31

	Share capital	Contributed surplus	Share purchase warrants	Accumulated deficit	Total equity
Balance at January 1, 2011	$ 93,364,040	$ 4,846,334	$ 2,721,131	$ (32,164,000)	$ 68,767,505
Comprehensive loss for the period	-	-	-	(9,309,598)	(9,309,598)
Equity-based compensation	-	482,008	-	-	482,008
Conversion from equity-settled to cash-settled stock option plan (note 16)	-	(791,617)	-	(2,251,381)	(3,042,998)
Conversion from cash-settled to equity-settled stock option plan (note 16)	-	407,111	-	-	407,111
Share options exercised	3,605,839	(70,009)	-	-	3,535,830
Balance at December 31, 2011	96,969,879	4,873,827	2,721,131	(43,724,979)	60,839,858
Comprehensive income for the period	-	-	-	9,300,197	9,300,197
Equity-based compensation (note 16)	-	819,436	-	-	819,436
Expiry of share purchase warrants	-	2,721,131	(2,721,131)	-	-
Balance at December 31, 2012	$ 96,969,879	$ 8,414,394	$ -	$ (34,424,782)	$ 70,959,491

See accompanying notes to consolidated financial statements.

BENEV CAPITAL INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
For the year ended December 31

	2012	2011
Cash flows provided by (used in) operating activities:		
Net income (loss) for the period	$ 9,300,197	$ (9,309,598)
Adjustments for:		
Amortization	805,823	882,971
Impairment loss	1,224,005	-
Foreign exchange gains related to U.S. Department of Justice accrual	-	(5,300)
Unwinding of discount on provision	6,688	75,045
Share-based compensation	819,436	626,953
Income tax recovery	(172,000)	(247,564)
Loss on disposal of assets held for sale	57,334	18,286
Gain on sale of property, plant and equipment	(2,311)	(1,671)
Changes in non-cash working capital items:		
Amounts receivable	(1,553,880)	229,883
Holdback receivable	-	(300,000)
Prepaid expenses and other	(114,737)	187,358
Deferred costs	3,122,785	(2,501,084)
Accounts payable and accrued liabilities	502,756	(931,003)
Provisions	(13,577)	(556,276)
Deferred revenue	(9,438,669)	6,993,300
Current tax liabilities	(16,866)	(3,398)
Repayment of long-term liabilities	(79,000)	(2,231,379)
Net cash provided by (used in) operating activities	4,447,984	(7,073,477)
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	29,307	4,250
Proceeds from sale of assets held for sale	-	1,834,356
Acquisition of property, plant and equipment	(221,360)	(105,677)
Change in restricted cash	1,002,053	(1,504,456)
Net cash provided by investing activities	810,000	228,473
Cash flows from financing activities:		
Proceeds from exercise of share options	-	755,000
Payment of finance lease liabilities	(122,565)	(182,837)
Net cash (used in) provided by financing activities	(122,565)	572,163
Net increase (decrease) in cash and cash equivalents	5,135,419	(6,272,841)
Cash and cash equivalents at beginning of period	58,720,802	64,993,643
Cash and cash equivalents at end of period	$ 63,856,221	$ 58,720,802

See accompanying notes to consolidated financial statements.

On June 22, 2012, the shareholders of the Company approved a change of the company's name from Bennett Environmental Inc. to BENEV Capital Inc. ("BCI"). On June 28, 2012, the Articles of Amendment giving effect to this name change were filed and made effective. BCI is a company domiciled in Canada. The consolidated financial statements of BCI as at and for the year ended December 31, 2012 are composed of BCI and its subsidiaries (together referred to as the "Company"). The Company was incorporated on July 29, 1992 under the Canada Business Corporation Act and primarily carries on the business of remediating hydrocarbon contaminated soil. The treatment of contaminated soil is performed using the Company's thermal oxidation technology.

1. Continuing operations:

The Company generates its revenues by treating contaminated soils pursuant to contracts obtained in competitive bidding processes. The Company's customer base is composed mainly of government agencies, utilities, environmental services companies and private industry. The number and size of the contracts obtained each year will vary depending on the funding of the projects and the timing of the processing of contaminated materials from customers.

The facility can only be run efficiently when operating continuously for extended periods. The sporadic level of demand for the Company's services is such that this facility is rarely operated continuously for extended periods. In order to maximize operating efficiency the Company has adopted a campaign approach which involves periods of shutdown during which inventories are stockpiled followed by periods of operation where the Company processes the accumulated inventories and the entire process is then repeated.

The Company commenced a new campaign to process soil on May 2, 2012 and operated continuously, with the exception of maintenance shutdowns, until December 4, 2012 when the current operating campaign at its Saint Ambroise facility ended. Prior to this, the facility had not processed soil since it was shut down at the conclusion of its last campaign, which ended on September 23, 2010. As at December 31, 2012 the Company held approximately 225 tonnes of untreated soil at its Saint Ambroise facility. The processing of all soil held in inventory will not commence until sufficient material has been received for the efficient operation of the facility.

As at December 31, 2012 the Company has sufficient cash available to fund its operating needs for the foreseeable future.

1. Continuing operations (continued):

Subsequent event – sale of Saint Ambroise Treatment Facility

On March 7, 2013 the Company announced that it had entered into a binding purchase and sale agreement to sell its Saint Ambroise, Quebec waste treatment plant and related assets and liabilities to 8439117 Canada Inc., a company controlled by the plant's current manager. The Saint Ambroise plant is the Company's sole operating facility and is responsible for all of the Company's sales and a substantial portion of its expenses.

Consideration is composed of $8 million in cash at closing plus an additional amount which could be as high as $2 million or more, contingent on a specific potential new contract being entered into within three years from the date of signing of the purchase agreement. The receipt of the potential new contract cannot be assured. In addition, the purchase price will be adjusted for working capital at closing, and for certain new soil contracts received between signing and closing. A copy of the purchase agreement has been filed on SEDAR, and a shareholders' meeting of BCI to approve the transaction is expected to be called for some time in April or May, 2013.

The purchaser has arranged debt financing commitments for the purchase price from a number of Quebec-based lending institutions, but they are conditional and remain subject to finalization. The transaction is conditional (absent applicable waivers) on, among other things, the receipt of financing by the purchaser, approval by BCI's shareholders without dissents being over a specified level, the entry into a new collective agreement with the plant's union, and the receipt of applicable regulatory approvals. Second City Capital Partners I, Limited Partnership and funds for which I.A. Michael Investment Counsel Ltd. acts as advisor, BCI's two principal shareholders, who in the aggregate hold approximately 41% of the issued and outstanding shares, have indicated their intention to vote in favour of the transaction, absent a superior proposal.

The carrying amount of the Saint Ambroise plant assets exceeds the expected proceeds from the planned sale (before additional contingent amounts) less estimated disposal costs. Accordingly, the Company has recorded an impairment loss and reduced the carrying value of the plant assets (note 7).

Unadjusted carrying value of property, plant, equipment and assets under financial leases	$	8,604,005
Recoverable amount:		
Proceeds from plant		8,000,000
Disposal costs		(620,000)
		7,380,000
Impairment loss	$	1,224,005

2. Basis of compliance:

(a) Statement of compliance

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

The consolidated financial statements were authorized for issuance by the Board of Directors on March 20, 2013.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- available-for-sale financial assets are measured at fair value; and
- certain classes of property, plant and equipment as at the date of transition to IFRS were measured at fair value as the deemed cost.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented is in Canadian dollars.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of compliance (continued):

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 1 – sale of Saint Ambroise Treatment Facility
Note 3(d) – property, plant and equipment
Note 3(k) – revenue recognition
Note 7 – impairment loss

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 1 – sale of Saint Ambroise Treatment Facility
Note 3(i) – share-based payment transactions
Note 3(j) – provisions
Note 3(n) – utilization of tax losses
Note 7 – impairment loss

3. Significant accounting policies:

The accounting policies have been applied consistently by the Company's entities.

(a) Basis of consolidation

(i) Business combinations

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

3. Significant accounting policies (continued):

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from the Company transactions between subsidiaries, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. All foreign exchange gains and losses are recognized in profit or loss.

(c) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

3. Significant accounting policies (continued):

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held for trading and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company has the following items classified as loans and receivables: amounts receivable and holdback receivable.

3. Significant accounting policies (continued):

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. The Company has no available-for-sale financial assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Company has the following non-derivative financial liabilities: finance lease obligations, long-term liabilities and accounts payable and accrued liabilities.

3. Significant accounting policies (continued):

(iii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is classified as treasury shares and is recognized as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

(d) Property, plant and equipment

(i) Recognition and measurement

Building and land improvements, kilns and refractory, mobile and treatment equipment and assets under finance lease are measured at the deemed cost less accumulated amortization and accumulated impairment losses. The remaining items and additions to property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within finance income or finance costs in profit or loss.

3. Significant accounting policies (continued):

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is expensed. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Amortization

Amortization is based on the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss over the estimated useful lives of each part of an item of property, plant and equipment. Amortization is provided using the following methods and annual rates since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Asset	Basis	Rate
Automobiles	Declining balance	30%
Buildings and land improvements	Straight line	1 to 52 years
Computer equipment	Declining balance	30%
Furniture and equipment	Declining balance	20%
Kilns and refractory	Straight line	6 to 11 years
Mobile and treatment equipment	Straight line	1 to 18 years
Software	Declining balance	100%

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Leased assets are amortized over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not amortized.

3. Significant accounting policies (continued):

(e) Intangible assets

Research and development

Expenditure on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

(f) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Company's statement of financial position.

(g) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise or indications that a debtor or issuer will enter bankruptcy.

3. Significant accounting policies (continued):

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the financial asset (including receivables). Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest Company of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

3. Significant accounting policies (continued):

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the other assets on a pro rata basis.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

(h) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss is allocated to remaining assets and liabilities on a pro rata basis. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

3. Significant accounting policies (continued):

(i) Employee benefits

(i) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(ii) Tenure benefits

The Company records a liability at the present value of the benefits expected to be paid under the agreement for the tenure agreement with the founder of the Company. A risk-free rate that reflects the risk specific to the liability has been used at the date of measurement.

(iii) Share-based payment transactions

The Company accounts for all stock-based payments to employees and non-employees using the fair value based method of accounting. The Company measures the compensation cost of stock-based option awards to employees at the grant date using the Black-Scholes option pricing model to determine the fair value of the options. The compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options. Forfeitures are estimated and are adjusted if actual forfeitures differ from the original estimate unless forfeitures are due to market-based vesting conditions. When the equity-settled stock options are exercised, capital stock is increased by the sum of the consideration paid and the carrying value of the stock options recorded to contributed surplus.

3. Significant accounting policies (continued):

In the first quarter of 2011 the Company completed an arrangement with an investment dealer allowing eligible stock option holders to simultaneously exercise options and sell the resultant shares to an investment dealer, thereby receiving cash immediately. The arrangement required that the investment dealer sell the purchased shares into the market as conditions allow. Any change in price between the investment dealer's purchase and sale was for the account of the Company.

This feature was considered to be a cash settlement, and therefore the Company changed the accounting for the stock options. Effective on the date of the change in plan terms, the outstanding stock options were no longer accounted for as equity awards. Cash-settled awards were accounted for as liabilities measured at fair value at the end of each reporting period and the expense was recognized over the relevant vesting period. The compensation cost related to the awards was remeasured and adjusted each period while the options were outstanding.

In the second quarter of 2011 the Company amended the above arrangement. The changes required the optionee to reimburse the Company for any disbursements made to compensate the investment dealer for losses resulting from the purchase and sale of the optionee's common shares. The changes also required the Company to remit to the optionee any funds received from the investment dealer for gains resulting from the purchase and sale of the optionee's common shares.

During the third quarter of 2011 the Company provided the investment dealer notice of cancellation of the arrangement and effective October 1, 2011 all stock options were accounted for using the equity-settled method.

(iv) The Company accounts for the underwriter compensation units issued in connection with issuance of shares using the fair value based method of accounting. The Company measures the compensation cost awarded at the grant date using the Black-Scholes option pricing model to determine the fair value of the units. When the units are exercised, capital stock is increased by the sum of the consideration paid and the carrying value of the units is recorded to contributed surplus.

3. Significant accounting policies (continued):

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a legal or constructive present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(k) Revenue

The Company provides highly specialized treatment of contaminated materials. In some cases, the Company is also engaged to remove and transport the contaminated materials to its facilities for processing and disposal. Revenue in the course of ordinary activities is measured at the fair value of the consideration received or receivable. The Company recognizes revenue for these activities when persuasive evidence exists that all of the following criteria are met:

(i) amount of revenue can be reliably measured;

(ii) remediation activities are completed for each batch of material or waste stream being treated;

(iii) the Company has confirmed that the contaminants have been destroyed in accordance with the contract terms;

(iv) collection is reasonably assured; and

(v) costs incurred can be reliably measured.

For those contracts whereby the Company is engaged to transport the contaminated material from the customer's site to the Company's facilities, the transportation costs incurred are deferred until the materials have been treated and the Company has determined that the contaminants have been destroyed in accordance with the contract terms. Transportation costs are reimbursable under the terms of the contract.

All other processing costs are expensed as incurred.

3. Significant accounting policies (continued):

(l) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Company's incremental borrowing rate.

(m) Finance income and finance costs

Finance income comprises interest income on funds invested and gains on the disposal of property, plant and equipment. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, losses on the disposal of property, plant and equipment, and impairment losses recognized on financial assets.

3. Significant accounting policies (continued):

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

(o) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees and warrants.

(p) Deferred costs:

Deferred costs relate to costs incurred to load and ship contaminated materials to the treatment facility and other treatment costs for materials, for which treatment is not complete. Amounts are reimbursable under the contract. Accordingly, these amounts will be expensed when the treatment of the related materials is complete.

(q) New standards and interpretations not yet adopted:

Offsetting Financial Assets and Financial Liabilities:

In December 2011, the International Accounting Standards Board ("IASB") amended IFRS 7, *Financial Instruments: Disclosures* and added additional disclosure requirements for offsetting financial assets and financial liabilities in accordance with IAS 32 *Financial Instruments: Presentation*. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company does not expect IFRS 7 to have a material impact on the financial statements.

Consolidated Financial Statements:

In June 2012, the IASB amended IFRS 10 Consolidated Financial Statements. IFRS 10 established principles for the presentation and preparation of consolidated financial statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

3. Significant accounting policies (continued):

Fair Value Measurements:

IFRS 13 *Fair Value Measurement*: IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

Separate Financial Statements

The objective of the amendments to IAS 27 is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 is effective for annual periods beginning on or after January 1, 2013. The Company does not expect IAS 27 to have a material impact on the financial statements.

Employee Benefits:

The IASB published an amended version of IAS 19 *Employee Benefits* in June 2011. The amendments will require that past service costs be recognized in full immediately in profit or loss. The amendments impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, *Provisions*, and when the entity can no longer withdraw the offer of the termination benefits. The amendment is effective for annual periods beginning on or after January 1, 2013. The Company does not expect IAS 19 to have a material impact on the financial statements.

4. Cash and cash equivalents:

	2012	2011
Bank balances	$ 225,683	$ 2,738,929
Short-term deposits	63,630,538	55,981,873
Restricted cash	513,052	1,515,105
	$ 64,369,273	$ 60,235,907

As at December 31, 2012, the Company had restricted cash of $513,052 (December 31, 2011 - $1,515,105) which includes $12,045 (December 31, 2011 - $12,039) as required under the Company's corporate credit card agreement; $501,007 (December 31, 2011 – $500,810) security pledged for foreign exchange contracts and nil (December 31, 2011 – $1,002,256) required for letters of credit.

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 28.

5. Amounts receivable:

	2012	2011
Trade receivables (net)	$ 1,728,302	$ 939,066
Allowance for doubtful accounts	(58,944)	-
Amounts recorded as an offset to deferred revenue	(131,984)	(852,692)
GST & QST receivable	108,529	5,649
	$ 1,645,903	$ 92,023

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables, excluding construction work in progress, is disclosed in note 28.

6. Holdback receivable:

When the Company sold its Belledune facility on April 8, 2011, the purchaser held back $300,000 of cash consideration at closing to cover the costs of remediating creosote contamination of the building. During the third quarter of 2012, the Company agreed to allow the purchaser of the facility to retain the holdback in return for releasing the Company from all post-closing undertakings and its obligation to remediate the facility previously estimated to be $242,666.

7. Property, plant and equipment:

	Automobiles	Buildings and land improvements	Computer equipment	Furniture and equipment	Kilns and refractory	Land	Mobile and treatment equipment	Software	Total
Cost or deemed costs									
Balance at January 1, 2011	$ 91,185	$ 4,930,498	$ 297,006	$ 194,435	$ 448,859	$ 163,228	$ 4,730,573	$ 52,976	$ 10,908,760
Additions	-	-	26,614	13,180	9,424	-	48,396	8,063	105,677
Disposals	-	-	(49,160)	(3,706)	-	-	-	-	(52,866)
Balance at December 31, 2011	$ 91,185	$ 4,930,498	$ 274,460	$ 203,909	$ 458,283	$ 163,228	$ 4,778,969	$ 61,039	$ 10,961,571
Cost or deemed costs									
Balance at January 1, 2012	$ 91,185	$ 4,930,498	$ 274,460	$ 203,909	$ 458,283	$ 163,228	$ 4,778,969	$ 61,039	$ 10,961,571
Additions	51,220	-	41,311	1,099	-	23,895	423,796	10,039	551,360
Disposals	(35,991)	-	-	-	-	(14,629)	-	-	(50,620)
Balance at December 31, 2012	$ 106,414	$ 4,930,498	$ 315,771	$205,008	$458,283	$ 172,494	$ 5,202,765	$ 71,078	11,462,311
Accumulated amortization									
Balance at January 1, 2011	$ 46,215	$ 417,887	$ 224,221	$ 123,554	$ 49,038	$ -	$ 476,234	$ 48,109	$ 1,385,258
Additions	13,491	246,853	29,270	15,494	51,748	-	486,020	8,898	851,774
Impairment loss	-	-	-	-	-	-	-	-	-
Disposals	-	-	(49,159)	(1,128)	-	-	-	-	(50,287)
Balance at December 31, 2011	$ 59,706	$ 664,740	$ 204,332	$ 137,920	$ 100,786	$ -	$ 962,254	$ 57,007	$ 2,186,745
Balance at January 1, 2012	$ 59,706	$ 664,740	$ 204,332	$137,920	$ 100,786	$ -	$ 962,254	$ 57,007	$ 2,186,745
Additions	15,253	246,853	26,674	13,307	52,533	-	467,646	9,051	831,317
Impairment loss	-	1,224,005	-	-	-	-	-	-	1,224,005
Disposals	(23,624)	-	-	-	-	-	-	-	(23,624)
Balance at December 31, 2012	$ 51,335	$ 2,135,598	$ 231,006	$ 151,227	$ 153,319	$ -	$ 1,429,900	$ 66,058	$ 4,218,443
Carrying amounts									
At January 1, 2011	44,970	4,512,611	72,785	70,880	399,821	163,228	4,254,339	4,867	9,523,502
At December 31, 2011	31,479	4,265,758	70,128	65,989	357,497	163,228	3,816,715	4,032	8,774,826
At January 1, 2012	31,479	4,265,758	70,128	65,989	357,497	163,228	3,816,715	4,032	8,774,826
At December 31, 2012	55,079	2,794,900	84,765	53,781	304,964	172,494	3,772,865	5,020	7,243,868

8. Assets under finance lease

		Treatment equipment
Costs or deemed costs		
Balance at January 1, 2011	$	552,000
Additions		-
Disposals		-
Balance at December 31, 2011	$	552,000
Balance at January 1, 2012	$	552,000
Additions		-
Disposals		(330,000)
Balance at December 31, 2012	$	222,000
Accumulated amortization		
Balance at January 1, 2011	$	29,763
Additions		31,197
Disposals		-
Balance at December 31, 2011	$	60,960
Balance at January 1, 2012	$	60,960
Additions		21,749
Disposals		(47,243)
Balance at December 31, 2012	$	35,466
Carrying amounts		
At January 1, 2011		522,237
At December 31, 2011		491,040
At January 1, 2012		491,040
At December 31, 2012		186,534

The Company leases treatment equipment under a number of finance lease agreements. Some leases provide the Company with the option to purchase the equipment at a beneficial price.

9. Deferred tax assets and liabilities:

Unrecognized deferred tax assets:

The following deferred tax assets have not been recognized in the financial statements:

	2012	2011
Non-capital tax losses	$ 2,986,682	$ 5,388,828
Property, plant and equipment	4,937,269	4,788,421
Share issue costs	233,281	340,542
Tenure/severance	204,971	221,907
Capital loss	53,842	50,447
Other	344,948	346,434
	$ 8,760,993	$ 11,136,579

The non-capital losses expire in 2028-2032. Deferred tax assets have not been recognized in respect of these items because it is not considered to be probable that future taxable profit will be available against which the Company can utilize the benefits.

Recognized deferred tax assets and liabilities:

In 2012 $10,200,000 (2011 – nil) of previously unrecognized tax losses were recognized as these were utilized to offset taxable profits earned in the current year.

10. Accounts payable and accrued liabilities:

	2012	2011
Trade accounts payable and accrued liabilities	$ 1,974,460	$ 1,714,370

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

11. Deferred revenue:

Deferred revenue classified as current liabilities relates to cash received from customers where the revenue recognition has not occurred. If transportation costs are incurred they are also deferred until the soil has been remediated and the Company has determined that the contaminants have been destroyed in accordance with the contract terms. Transportation costs are reimbursable under the terms of the contracts.

12. Provisions:

Balance at January 1, 2011	$	695,827
Provisions used during the period		(488,418)
Provisions reversed during the period		(71,637)
Change in foreign exchange rate		3,779
Balance at December 31, 2011		139,551
Provisions used during the period		(13,207)
Provisions reversed during the period		-
Change in foreign exchange rate		(370)
Balance at December 31, 2012	$	125,974

(a) During 2005, the Company was served with a claim in the amount of $5,000,000 by a consultant retained by the founder and former CEO claiming breach of contract. The claim was submitted to arbitration and $145,000 was recorded as an expense in 2005 as the Company's estimate of its obligation under the arbitrator's decision. Upon appeal by the consultant, the arbitrator's decision was overturned with the Company being liable for additional amounts estimated to be $315,000 which were expensed in 2007. In 2008, a payment of $374,091 was made, including recoverable input tax credits of $18,900 and interest of $40,191 leaving an accrual of $100,000 as of December 31, 2012 representing the Company's estimate of costs related to the claim. The Company believes that it has adequately provided for and expensed amounts related to this claim.

12. Provisions (continued):

(b) During 2009, the Company's founder and former CEO, John Bennett, requested indemnification from the Company for legal costs incurred in connection with the U.S. Department of Justice anti-trust investigation (note 13(b)). This investigation led to his indictment in connection with bid-rigging and other illegal activities during the time period he was CEO of the Company and during the first quarter of 2012 he was committed for extradition to the U.S. by a B.C. court to face criminal proceedings. In 2010, he brought an Application to the Ontario Superior Court to compel the Company to reimburse him for the legal costs he may incur in connection with this matter. The Company believed it was not required to indemnify Mr. Bennett for the expenses and served a Motion Record seeking to stay the former director's Application pending a resolution of the criminal proceedings against the same individual in the United States. He served a cross-motion seeking interim relief. The Court heard both of these motions on October 26, 2010 and subsequently dismissed the Company's motion and awarded costs to Mr. Bennett. The Company filed a Motion for Leave to Appeal this decision which was dismissed on September 23, 2011. In 2011, the Ontario Superior Court required that the Company provide Mr. Bennett with interim relief for legal costs incurred after August 30, 2009. During the current year the Company has made payments of $13,207 in connection with the criminal proceedings. In 2011 the Company made payments of $238,418 to Mr. Bennett in respect of previously accrued legal costs composed of $125,000 incurred to secure interim relief from the Company and $113,418 in connection with the criminal proceedings.

During the second quarter of 2012, Mr. Bennett served the Company with a claim in connection with this matter. The claim seeks to recover Mr. Bennett's legal costs incurred prior to August 31, 2009, estimated to be approximately $200,000, and any future payments he is required to make resulting from criminal or civil proceedings against him. Management believes there is no basis for the claim against the Company for costs before August 31, 2009. Accordingly the Company has made no additional provision as a result of this action and intends to vigorously defend against this new claim.

12. Provisions (continued):

Subject to a $150,000 U.S. retention, the underwriter of the Company's Directors' and Officers' Liability policy agreed to fund the reasonable legal costs, incurred by Mr. Bennett, in connection with the criminal proceedings. The Company has agreed to indemnify the underwriter for all reimbursed legal costs in the event that the former director and officer is found guilty. As of December 31, 2012 the Company has accrued $25,974 (2011 - $39,551) in respect of this matter composed of the retention and the legal costs incurred by Mr. Bennett when he responded to the Company's Motion. The Company expensed $75,012 of this liability in 2010 and $241,188 in 2009 and recorded a foreign exchange gain of $370 in 2012 and a foreign exchange loss of $3,779 in 2011 on the U.S. dollar portion of the liability. The Company's obligation may differ from the amount accrued at December 31, 2012 of $25,974 depending upon the outcome of future events which cannot be determined at this time. The obligation may increase if he is found to be guilty and the insurer exercises its right to recover payments from the Company. If this occurs, the Company may be able to recover payments made to the insurer from him or offset against the reward for tenure payments due to him (note 13(a)).

In addition, the Application will now proceed as an action, under a timetable to be established by the Court. In the action, the individual may file a statement of claim in which the relief sought will exceed the relief awarded in the interim order. The outcome of this proceeding is not determinable at this time.

(c) The Company terminated an employment arrangement in 2007 and recorded $279,637 as an expense in accordance with this employee's employment contract in its 2007 consolidated financial statements. In the first quarter of 2008, the Company was served with a claim by this employee claiming breach of contract for $540,000. In March 2011, the claim was settled for $250,000.

13. Long-term liabilities:

Long-term liabilities comprise the following:

	Tenure agreement	U.S. Department of Justice	Total
	(a)	(b)	
Balance January 1, 2011	$ 820,633	$ 2,151,194	$ 2,971,827
Paid during 2011	(79,000)	(2,152,379)	(2,231,379)
Unwinding of discount	68,560	6,485	75,045
Foreign exchange gain	-	(5,300)	(5,300)
	810,193	-	810,193
Less current portion	(79,000)	-	(79,000)
Balance December 31, 2011	$ 731,193	$ -	$ 731,193
Balance January 1, 2012	$ 810,193	$ -	$ 810,193
Paid during 2012	(79,000)	-	(79,000)
Unwinding of discount	6,688	-	6,688
	737,881	-	737,881
Less current portion	(79,000)	-	(79,000)
Balance December 31, 2012	$ 658,881	$ -	$ 658,881

(a) The tenure agreement is between the Company and its founder and former CEO. The tenure payments are made on a monthly basis in the amount of $6,583 ($79,000 annually). The tenure agreement expires on December 31, 2022. The carrying value of the liability is the present value of the future payments discounted by an assumed rate of 1.37% based upon the current long-term Canadian bond rate which is reviewed and updated annually as required.

(b) On July 31, 2008 the Company plead guilty to one count of conspiracy to commit fraud in United States District Court, District of New Jersey relating to its conduct with respect to the Federal Creosote Superfund contract. The carrying value of the liability was the present value of future payments discounted by an assumed rate of 0.30%. In 2010, at the request of the Department of Justice the Company agreed to accelerate its payments such that the balance of the obligation was paid in full during 2011.

14. Finance lease obligations:

	2012	2011
Current liabilities		
Current portion of finance lease liabilities	$ 32,642	$ 122,565
Non-current liabilities		
Finance lease liabilities	$ -	$ 32,642

Terms and debt repayment schedule:

				2012		2011	
				Nominal			
	Currency	Interest rate %	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Finance lease liabilities	CAD	up to 1.75	2012-2013	$ 32,686	$ 32,642	$ 156,025	$ 155,207

The finance leases are secured by the related equipment.

Finance lease liabilities are payable as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
			2012			2011
Less than one year	$ 32,686	$ 44	$32,642	$123,339	$774	$122,565
Between one and five years	-	-	-	32,686	44	32,642
	$ 32,686	$ 44	$ 32,642	$156,025	$818	$155,207

15. Capital and other components of equity:

Share capital and contributed surplus:

Common shares and preference shares:

At December 31, 2012 the authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Series I non-voting redeemable preferred shares. No Series I, non-voting redeemable preferred shares have been issued.

The issued share capital of the Company is as follows:

	Common shares	Amount
As at January 1, 2011	37,047,230	$ 93,364,040
Share options exercised	1,638,332	3,605,839
Balance December 31, 2011 and December 31, 2012	38,685,562	$ 96,969,879

16. Share-based payment:

The Company has a share option plan (the "Plan") where the maximum number of common shares issued under the Plan will be 10% of the issued and outstanding common shares at the time of grant. The Plan provides for the granting of options for the purchase of common shares of the Company at the fair market value of the Company's stock at the grant date. Stock options are granted to both employees and non-employees. The Company's Board of Directors has discretion as to the number of stock options granted, as well as in determining the vesting period and expiry dates.

In the first quarter of 2011 the Company completed an arrangement with an investment dealer allowing eligible stock option holders to simultaneously exercise options and sell the resultant shares to an investment dealer, thereby receiving cash immediately. The arrangement required that the investment dealer sell the purchased shares into the market as conditions allow. Any change in price between the investment dealer’s purchase and sale was for the account of the Company.

16. Share-based payment (continued):

This feature was considered to be a cash settlement, and therefore the Company changed the accounting for the stock options. Effective on the date of the change in plan terms, the outstanding stock options were no longer accounted for as equity awards. Cash-settled awards were accounted for as liabilities measured at fair value at the end of each reporting period and the expense was recognized over the relevant vesting period. The compensation cost related to the awards was remeasured and adjusted each period while the options were outstanding.

At the date of the change in the plan terms, an adjustment was recorded to reclassify the award from equity to liability and to increase the liability to reflect the current fair value of the awards on that date. As a result of the fair value measurement of the outstanding options at March 3, 2011, the historical stock compensation expense that had been recorded into Contributed Surplus of $791,617 was reclassified to liability and the amount of the liability was increased to the estimated fair value of the options of $3,042,998. The increase in the accrued amount of $2,251,381 was charged to accumulated deficit.

In the second quarter of 2011 the Company amended the above arrangement. The changes required the optionee to reimburse the Company for any disbursements made to compensate the investment dealer for losses resulting from the purchase and sale of the optionee's common shares. The changes also required the Company to remit to the optionee any funds received from the investment dealer for gains resulting from the purchase and sale of the optionee's common shares.

During the third quarter of 2011 the Company provided the investment dealer notice of cancellation of the arrangement and effective October 1, 2011 all stock options were accounted for using the equity-settled method. As a result, the remaining cash-settled stock-based liability of $407,111 was reclassified to Contributed Surplus.

16. Share-based payment (continued):

During the year ended December 31, 2012 the Company issued no stock options (2011 – 1,435,000). For the 2011 issuance, 150,000 options (in the aggregate) were issued to employees of the Company, 385,000 options (in the aggregate) were issued to non-executive directors of the Company and 900,000 options were issued to the President and CEO. The 150,000 stock options issued to the employees of the Company were not subject to performance conditions and vest at grant date. In order to align their interests with the Company's shareholders, exercise of the stock options issued to the non-executive directors and to the President and CEO were subject to performance conditions. For all options granted to the non-executive directors and for one-third of the options received by the President and CEO, vesting occurs on the earlier of: (i) the date the share price exceeds 133% of the share price on grant date; and (ii) the date the Company enters into a transformational transaction. For the balance of the options granted to the President and CEO, vesting occurs only at the time the Company enters into a transformational transaction. Transformational transaction is defined as an arrangement with another company which results in a substantial change in the nature, size or prospects of the business, and includes a change of control. None of the foregoing options were subject to the arrangement with the investment dealer, referred to in the preceding paragraphs, and are therefore accounted for as equity-settled awards. Under the equity-settled method of accounting, the fair value of each option was estimated on the date of grant.

Total stock compensation expensed during the year was $819,436 (2011 – $626,953).

The following table summarizes information relating to outstanding and exercisable options at December 31, 2012:

	Options outstanding			Options exercisable	
Exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Number exercisable	Weighted average exercise price per share
$ 0.24	93,335	1.21	$ 0.24	93,335	$ 0.24
$ 2.08	103,125	2.93	2.08	103,125	2.08
$ 2.12	1,358,000	3.48	2.12	150,000	2.12
	1,554,460		$ 2.00	346,460	$ 1.60

16. Share-based payment (continued):

The number and weighed average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options 2012	Weighted average exercise price	Number of options 2011
Outstanding at January 1	$ 2.02	1,768,960	$0.69	2,039,792
Forfeited during the year	2.09	(214,500)	2.07	(67,500)
Exercised during the year	-	-	0.46	(1,638,332)
Granted during the year	-	-	2.12	1,435,000
Outstanding at December 31	$ 2.00	1,554,460	$2.02	1,768,960
Exercisable at December 31	$ 1.60	346,460	$1.74	483,960

The options outstanding at December 31, 2012 have an exercise price in the range of $0.24 to $2.12 (2011 - $0.24 to $2.12) and a weighted contractual life of 3.30 years (2011 – 4.18 years).

The fair value of each option grant was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2012	2011
Risk-free interest rate	N/A	1.27%
Expected option lives years	N/A	3.17
Expected volatility	N/A	72%
Dividend yield	N/A	Nil%

There were no stock options granted in 2012. In 2011, the total fair value of the options granted in the year was $1,469,583 or $1.02 per option. Of the 1,435,000 options issued in 2011, 150,000 options vested immediately. The balance vest once certain performance criteria are met.

16. Share-based payment (continued):

Contributed surplus:

		2012		2011
Balance, beginning of year	$	4,873,827	$	4,846,334
Equity-based compensation charged to earnings		819,436		482,008
Amount transferred to share capital for options exercised		-		(70,009)
Expiry of share purchase warrants		2,721,131		-
Conversion from equity-settled to cash-settled stock option arrangement		-		(791,617)
Conversion from cash-settled to equity-settled stock option arrangement		-		407,111
Balance, end of year	$	8,414,394	$	4,873,827

17. Share purchase warrants:

At December 31, 2012, the Company had nil (2011 – 4,713,115) warrants outstanding which were exchangeable into common shares of the Company at the holder's option on a one-for-one basis at an exercise price of $3.75. None of these warrants were exercised during the years ended December 31, 2012 or December 31, 2011. All outstanding warrants expired May 7, 2012.

	Warrants		Amount
Balance, January 1, 2011 and December 31, 2011	4,713,115	$	2,721,131
Warrants expired	(4,713,115)		(2,721,131)
Balance, December 31, 2012	-	$	-

18. Earnings (loss) per share:

Basic earnings (loss) per share

The calculation of basic earnings (loss) per share at December 31, 2012 was based on the net income (loss) attributable to common shareholders of $9,300,197 (2011 - $(9,309,598)), and a weighted average number of common shares outstanding of 38,685,562 (2011 – 38,233,512).

The reconciliation of the earnings for the period and weighted average number of common shares used to calculate basic and diluted earnings per share is as follows:

		2012		2011
Net income (loss) for the year	$	9,300,197	$	(9,309,598)
Net income (loss) per common share:				
Basic		0.24		(0.24)
Diluted		0.24		(0.24)
Weighted average number of shares:				
Basic		38,685,562		38,233,512
Diluted		38,765,183		38,233,572

Options aggregating 79,621 have been included in the computation of diluted earnings per share for the year ended December 31, 2012. Warrants have not been included in the calculations of diluted earnings per share for the year ended December 31, 2012 as these are anti-dilutive. Stock options and warrants have not been included in the calculations of diluted loss per share as they are anti-dilutive for the year ended December 31, 2011.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

19. Sales:

The Company generates its revenues by treating contaminated soils pursuant to contracts obtained in competitive bidding processes. The Company's customer base is composed mainly of government agencies, utilities, environmental services companies and private industry. The number and size of the contracts obtained each year will vary depending on the funding of the projects and the timing of the processing of contaminated materials from customers.

The facility can only be run efficiently when operating continuously for extended periods. The sporadic level of demand for the Company's services is such that this facility is rarely operated continuously for extended periods. In order to maximize operating efficiency the Company has adopted a campaign approach which involves periods of shutdown during which inventories are stockpiled followed by periods of operation where the Company processes the accumulated inventories and the entire process is then repeated.

The Company commenced a new campaign to process soil on May 2, 2012 and operated continuously, with the exception of maintenance shutdowns, until December 4, 3012 when the Company announced that is current operating campaign at its saint Ambroise facility ended. The Company recorded revenue of $28,298,586 (2011 – nil) related to soil treated.

20. Operating expenses:

	2012	2011
Goods and services	$ 10,731,641	$ 152,904
Wages and benefits	2,308,338	1,256,053
Occupancy costs	354,478	162,933
	$ 13,394,457	$ 1,571,890

Goods and services include landfill, transportation, butane and other operating costs.

21. Administrative and business development expenses:

	2012	2011
Wages and benefits	$ 1,476,268	$ 1,537,788
Professional fees	1,314,281	1,997,622
Goods and services	944,044	905,980
Share-based compensation	819,436	626,953
Occupancy costs	243,469	280,726
	$ 4,797,498	$ 5,349,069

Goods and services include insurance, advertising, vehicle expenses, general repairs and maintenance costs and other general and administrative costs.

Professional fees include legal, audit, accounting and consulting services.

22. Management/Board restructuring costs:

	2012	2011
Proxy contest expenses	$ -	$ 1,544,873
Severance costs	-	777,981
Special directors' and officers' insurance costs	-	114,569
Other expenses	-	64,017
	$ -	$ 2,501,440

23. Loss on disposal of assets held for sale:

As previously disclosed in note 6, the Company allowed the purchaser of the Belledune facility to retain the $300,000 holdback in return for releasing the Company from all post-closing undertakings and its obligations to remediate the facility which were estimated to be $242,666. Accordingly, a loss of $57,334 was reported in 2012. In 2011, the Company sold its Belledune facility for $2,904,689. Upon the sale, the Company increased its accrual for the estimated remediation costs, resulting in a loss of $18,286.

24. Finance income and finance costs:

	2012	2011
Interest income on cash equivalents	$ 1,190,125	$ 916,638
Gain on disposal of property, plant and equipment	2,311	1,671
Finance income	1,192,436	918,309
Interest expense on financial liabilities measured at fair value through profit	(30,315)	(51,749)
Unwinding of discount on financial liabilities	(6,688)	(75,045)
Interest expense on finance leases	(774)	(2,746)
Net foreign exchange loss	(45,931)	(22,275)
Finance costs	(83,708)	(151,815)
Net finance income	$ 1,108,728	$ 766,494

25. Income tax expense:

	2012	2011
Current tax expense		
Current period	$ -	$ -
Adjustments for prior periods	(172,000)	(247,564)
	$ (172,000)	$ (247,564)
Deferred tax expense		
Origination and reversal of temporary differences	$ 2,715,895	$ -
Recognition of previously unrecognized tax losses	(2,715,895)	-
	$ -	$ -

25. Income tax expense (continued):

Reconciliation of effective tax rate

		2012		2011
Net income (loss) for the period being comprehensive income (loss)		$ 9,300,197		$ (9,309,598)
Income tax recovery		(172,000)		(247,564)
Income (loss) before income taxes		$ 9,128,197		$ (9,557,162)
Income tax using the Company's Canadian federal and provincial income tax rates	26.8%	2,449,444	28.4%	$ (2,714,234)
Permanent differences	1.6%	145,612	(1.8)%	172,718
Change in unrecognized temporary and other differences	(28.4)%	(2,595,056)	(26.6)%	2,541,516
Over provided in prior periods	(1.9)%	(172,000)	2.6%	(247,564)
	(1.9)%	$ (172,000)	2.6%	$ (247,564)

The Company has non-capital losses carried forward of approximately $11,100,000 which are available to reduce future years' income for income tax purposes which expire as follows:

2030	$ 200,000
2031	9,700,000
2032	1,200,000
	$ 11,100,000

26. Operating leases:

Leases as lessee:

Non-cancellable operating lease rentals are payable as follows:

		2012		2011
Less than one year	$	19,662	$	38,014
Between 1 and 5 years		-		-
	$	19,662	$	38,014

As at April, 2011, the Company's office lease agreement expired. Subsequent to the expiry of the lease agreement, the Company leased the facility on a month-to-month basis. The Company and the landlord must provide each other 60 days' notice prior to the termination of the lease.

During the year ended December 31, 2012 an amount of $117,385 (2011 - $112,452) was recognized as an expense in profit or loss in respect of operating leases.

27. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of certain property, plant and equipment recognized as a result of adjusting historical cost to deemed cost on the transition to IFRS was based on appraisals prepared by independent valuators as at January 1, 2010. The fair values of the property, plant and equipment were determined by using the replacement cost and market approaches.

(ii) Deferred revenue

The fair value of the deferred revenue is the proportional amount of the collected funds received from the Company's customers adjusted for remediation activities that have not yet been completed and the contaminants have not been confirmed as being destroyed in accordance with the contract terms.

27. Determination of fair values (continued):

(iii) Share-based payment transactions

The fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

28. Financial risk management:

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors has responsibility for the oversight of the Company's risk management framework. The Board of Directors has mandated the Audit Committee to review how management monitors compliance of the Company's risk management policies and procedures and review the adequacy of the risk management policies and procedures.

Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

28. Financial risk management (continued):

Cash and equivalents and restricted cash:

Cash not immediately required for operating purposes is invested in short-term bank deposits. The Company controls the credit risk of these deposits by placing its cash with only major Canadian chartered banks.

Amounts receivable and holdback receivable:

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit risk arises from the potential default of a customer in meeting its financial obligation to the Company. The Company has established a credit evaluation, approval and monitoring processes to mitigate potential credit risk.

The Company evaluates the collectability of accounts receivable and records an allowance for doubtful accounts which reduces receivables to the amount management reasonably believes will be collected.

The Company is subject to a concentration of credit risk in its amounts receivable and holdback receivable. As at December 31, 2012, 2 customers represented 55% and 10% respectively (December 31, 2011 - 2 customers – 76% and 9%) of the aggregate amount of amounts receivable and holdback receivable.

Approximately 1% of the Company's customers have been transacting with the Company for more than 5 years. In monitoring customer credit risk, customers that are deemed to be "high risk", are required to prepay before services are rendered. The Company has title to the soil at its facility. In the event of non-payment, the Company shall have the right to return title and possession of untreated material to its customer.

Management is of the opinion that any risk of loss due to bad debts is significantly reduced due to the financial strength of its customers. The Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

28. Financial risk management (continued):

Forward Exchange Contracts:

Credit risk exists in the event of non-performance by counterparty to forward exchange contracts. The risk is minimized as each contract is with a major chartered bank and represents an exchange between the same party allowing for an offset in the event of non-performance. Management does not believe there is a significant risk of non-performance by the counterparty because the portions with and the credit ratings of such counterparty are monitored. As at December 31, 2012, the Company had a contract to sell $230,000 U.S. at $0.9920 for a total of $228,160. The contract expires on January 31, 2013. The fair value of the contract as at December 31, 2012 was an unrealized foreign exchange loss of $667 which was recorded as an accrued liability on the Statement of Financial Position and a foreign exchange loss on the Statement of Operations and Comprehensive Income (Loss).

Exposure to credit risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2012	2011
Cash and cash equivalents	$ 63,856,221	$ 58,720,802
Restricted cash	513,052	1,515,105
Amounts receivable	1,645,903	92,023
Holdbacks receivable	-	300,000
Total	$ 66,015,176	$ 60,627,930

28. Financial risk management (continued):

The aging of amounts receivable at the reporting date was:

	Carrying amount	
	2012	2011
Current	$ 425,780	$ 89,235
31-90 days	1,209,342	1,270
Over 90 days	69,725	1,518
	1,704,847	92,023
Allowance for doubtful accounts	58,944	-
Total amounts receivable	$ 1,645,903	$ 92,023

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity risk is to monitor consolidated cash flow to ensure that there will always be sufficient liquidity to meet liabilities when due.

At December 31, 2012, the Company has a cash and cash equivalents balance of $63,856,221 (December 31, 2011 - $58,720,802) and positive working capital of $64,187,970 (December 31, 2011 - $52,337,827). Management believes the Company has sufficient cash flows to meet amounts due.

The Company had no bank borrowings outstanding at December 31, 2012 and December 31, 2011.

28. Financial risk management (continued):

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

Millions of Canadian dollars	Carrying amount	Contractual cash flow	2013	2014	2015	2016	2017	Thereafter
Tenure agreement	$ 0.74	$ 0.79	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.39
Finance leases	0.03	0.03	0.03	-	-	-	-	-
Accounts payable and accrued liabilities	1.97	1.97	1.97	-	-	-	-	-
Total contractual obligations	$ 2.74	$ 2.79	$ 2.08	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.39

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates will affect the Company's income or the value of its holding in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company did not designate its foreign exchange forward contracts as hedges and accordingly did not use hedge accounting. As a result of this, the foreign exchange forward contracts and butane swap contracts are recorded on the consolidated balance sheet at fair value in current assets when the contracts are in a gain position and in current liabilities when the contracts are in a loss position. Changes in fair value of these contracts are recognized as gains or losses in the statement of operations and comprehensive income. The Company does not utilize financial instruments for speculative purposes. As at December 31, 2012 the Company had a foreign exchange contract to sell $230,000 U.S. As at December 31, 2012 the Company did not have any butane swap contracts in place.

28. Financial risk management (continued):

Currency risk:

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company, primarily the Canadian dollar. The currencies in which these transactions primarily are denominated in are the US dollar. In respect of monetary assets and liabilities denominated in US dollars, the Company ensures that its net exposure is kept to an acceptable level by buying or selling US dollars at spot rate when necessary of by periodically entering into forward exchange contracts to offset its balance sheet exposure and to hedge the cash flow risk associated with its estimated net foreign currency cash requirements and certain significant transactions.

As at December 31, 2012, the Company had a foreign exchange contract to sell $230,000 U.S. at $0.9920 for a total of $228,160. As at December 31, 2011, the Company had a foreign exchange contract to buy $1,300,000 U.S. at $1.0278 for a total of $1,336,140.

The Company's exposure to foreign currency risk at the reporting date is described below:

	2012 U.S.$	2011 U.S.$
Cash, restricted cash and cash equivalents	$ 62,531	$ 1,085,951
Amounts receivable	250,095	-
Accounts payable and accrued liabilities	(89,727)	(304,517)
Notional amount of U.S. dollar forward contracts	(230,000)	1,300,000
Net exposure in U.S. dollars	$ (7,101)	$ 2,081,434

Sensitivity analysis:

A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have increased (decreased) equity and profit and loss by approximately $700 as at December 31, 2012. A similar strengthening (weakening) as at December 31, 2011 would have decreased (increased) equity and profit and loss by approximately $208,000.

28. Financial risk management (continued):

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The company's exposure to interest rate risk mainly arises from the interest impact of its cash and equivalents as it is subject to floating market rates of interest. Based on the balance outstanding on December 31, 2012, a one percent point increase (decrease) in the money market instruments which the Company invests would increase (decrease) interest income by approximately $640,000 (2011 - $600,000).

The Company's financial assets and liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The Company's obligation under capital lease bears a fixed rate interest rate.

Capital Management:

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Management defines capital as the Company's total shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management. The Board of Directors reviews the capital structure on a quarterly basis.

In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares or warrants, and issue new debt.

There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29. Operating segments:

(a) Geographic information:

The Company operates in one reportable operating segment, which involves the business of remediating contaminated soil and other waste materials. All significant property, plant and equipment are located in Canada. The table below summarizes sales by country:

	2012	2011
Sales by country:		
Customers domiciled in the United States	$ 2,455,922	$ -
Customers domiciled in Canada	25,842,664	-
	$ 28,298,586	$ -

(b) Major customers:

Revenues from two customers represented 69% of the Company's total sales in 2012 (2011 – no sales).

30. Contingencies:

(a) Claim by U.S. contractor

During the second quarter of 2008, a prime contractor on a U.S. Federal Government project ("Project") filed a complaint against the Company in a U.S. court. The complaint also names a director and officer, an officer and a senior manager, all of whom are no longer with the Company. The complaint alleges these three individuals colluded with an employee of the prime contractor relating to, among other things, the awarding of the Project during the years 2002 through 2004. On a joint and several basis, the complaint seeks approximately $1.1 million U.S. plus the value of additional gratuities. The majority of the counts within the complaint seek damages on a joint and several basis from multiple defendants, including the Company. During the first quarter of 2009, the Court stayed all proceedings in this matter pending the conclusion of the Antitrust Division of the United States Department of Justice investigation into the same matter. Management intends to defend against this claim vigorously if the current stay is lifted. Management considers that it is not probable that a liability will result and no amount has been recorded in the Company's financial statements in respect of the complaint.

30. Contingencies (continued):

(b) Claims involving the Company's founder and former CEO

The Company has filed a claim against the Company's founder and former CEO, John Bennett, for $10,340,550. The claim alleges that he was directly or indirectly responsible for the illegal payments that resulted in the Company pleading guilty to conspiracy to commit fraud as described in note 13(b). In addition to seeking to recover these illegal payments, the associated fines and legal fees, the claim seeks to recover bonuses which were inappropriately paid and punitive damages. The Company's claim has been stayed pending the outcome of the criminal proceedings involving Mr. Bennett that are related to the Company's claim.

Mr. Bennett has served a claim against Second City Capital Partners I, Limited Partnership ("Second City"), Samuel Belzberg ("Belzberg") and the Company. The claim alleges that the Company was in possession of material undisclosed information and that, while in possession of such information, the Company and Belzberg directed Second City to purchase the Company's common shares from Mr. Bennett. Management believes there is no basis for making this allegation against the Company. Accordingly the Company has made no provision in respect of this matter and intends to vigorously defend against this claim.

In the first quarter of 2012, Mr. Bennett served another claim against the Company. The claim, in the amount of $50,000,000, alleges, among other things, conspiracy and oppression. The claim relates to the U.S. Department of Justice August, 2009 indictment of Mr. Bennett in connection with alleged bid-rigging and other illegal conduct occurring during the time period while he was CEO of the Company. The claim was also served against eight individuals who are former directors, officers, employees or significant shareholders of the Company. In response to a motion for judgment by the Company, Mr. Bennett amended his claim in July of 2012. During the third quarter of 2012 the Company received a Notice of Discontinuance from John Bennett for this claim. Mr. Bennett has also discontinued this action against these other named defendants. In the first quarter of 2013, the Court awarded the Company and other named defendants a partial recovery of the costs they have incurred in defending against this action.

The Company had not recorded any provision in respect of this matter and will not record a recovery of awarded costs in the amount of $70,000 until collectability is assured.

30. Contingencies (continued):

(c) Environmental Protection Agency

During the first quarter of 2012, the United States Environmental Protection Agency ("EPA") provided the Company with a Notice of Proposed Debarment for a period of five years. The notice resulted from documentary and procedural compliance deficiencies in connection with a prior agreement with the EPA and did not relate to environmental matters at the facility. On October 3, 2012, the Company announced the resolution to all outstanding issues with the EPA. Pursuant to the terms of the negotiated Administrative Agreement (the "Agreement") executed by the parties, the Company has agreed to undertake certain reporting, certification, and monitoring requirements. The Agreement extends for two years. To the extent the Company satisfies the terms of the Agreement, the EPA agrees not to exclude it from performing work for the U.S. Government.

(d) U.S. Department of Justice Civil Litigation

In November of 2008 the Company was notified that the U.S. Department of Justice Civil Division was investigating whether the Company violated the civil False Claims Act in connection with the Federal Creosote project in New Jersey during the 2002-2004 time period. The Company believes that it is not probable that any liability will arise and no amount has been recorded in the Company's financial statements in respect of this investigation.

(e) Claim against contractor

The Company has filed a claim against a contractor for breach of contract and negligent representation in the amount of $1,000,000. The contractor has counter-claimed for breach of contract and interference with contractual relationships in the amount of $300,000. The action is still in the pleading stages. The Company believes that it is not probable that any liability will result and therefore no accrual has been recorded in connection with this claim.

(f) Other

In the ordinary course of business, other lawsuits have been filed against and by the Company. In the opinion of management, the outcome of the lawsuits now pending will involve amounts that would not have a material adverse effect on the consolidated position of the Company.

31. Related parties:

Transactions with shareholders:

As a result of a settlement agreement made as at June 22, 2011 with the Company's largest shareholder, Second City Capital Partners I, L.P. ("SCC"), the Company agreed to a proposal to replace the CEO and change the composition of the Board of Directors. The resolutions arising from this settlement agreement were voted on and passed at the Company's Annual and Special Meeting on June 29, 2011. The Company entered into transition agreements with the Company's CEO and CFO and agreed to reimburse SCC for expenditures incurred in connection with its dispute with the Company. SCC expenditures, in the amount of $600,541, were expensed by the Company during the second quarter of 2011 and paid in the third quarter of 2011. The transition agreements with the CEO and CFO are described below.

Transactions with key management personnel:

Key management personnel of the Company includes all individuals who occupied the following positions during the reporting periods:

- members of the Board of Directors
- President and Chief Executive Officer
- Chief Financial Officer

The table below provides a breakdown of the compensation of key management personnel benefits included in net income:

	2012	2011
Short-term benefits	$ 861,257	$ 1,105,610
Share-based payments	819,436	502,877
Termination benefits	-	777,981
	$ 1,680,693	$ 2,386,468

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Details of certain short-term and termination benefits included in the above table are discussed below.

31. Related parties (continued):

On June 29, 2011 Mr. Jack Shaw's employment as the Company's President and CEO was terminated. During the second quarter of 2011 he received a termination payment of $275,000. Mr. Shaw has agreed to provide the Company with consulting and transitioning services for a period of up to six months commencing June 29, 2011. Upon satisfactory completion of the consulting contract he received a further termination payment of $137,500. This payment was issued in the first quarter of 2012.

During the second quarter of 2011, and as part of these settlement arrangements, Mr. Fred Cranston agreed to continue as the Company's CFO on a full-time basis for a period not less than 12 months commencing on June 29, 2011. Mr. Cranston received a termination payment of $199,167 during the second quarter of 2011. During the second quarter of 2012, Mr. Cranston received a further termination payment of $160,000. The full amount of all termination payments to Messrs. Shaw and Cranston were expensed in the second quarter of 2011.

The Company had retained the services of a corporation, owned by a former director, to support its corporate development activity commencing in September, 2010. The agreement was terminated effective June 22, 2011. During the period ended December 31, 2012, the Company incurred consulting fee expenses of nil (2011 – $102,839) under this arrangement.

32. Company entities:

	Country of Incorporation	Ownership Interest - %	
		2012	2011
Bennett RemTech Ltd.	Canada	100	100
7599471 Canada Ltd.	Canada	100	100
Bennett Environmental U.S. Inc.	United States	100	100
TerraCycle Environmental (USA) Inc.	United States	100	100