BENEV CAPITAL INC.
(formerly Bennett Environmental Inc.)

Management's Discussion and Analysis

March 22, 2013

The following is management's discussion in respect of the results of operations of BENEV Capital Inc. ("BENEV" or the "Company") for the year ended December 31, 2012 and comparative results of operations for the year ended December 31, 2011 and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2012, and 2011. The financial statements of the Company are presented in Canadian dollars and are in accordance with International Financial Reporting Standards ("IFRS"). The following Management Discussion and Analysis ("MD&A") is dated March 22, 2013. Additional information related to the Company, including its Annual Information Form, Management Information Circular and Proxy form is available on SEDAR at www.sedar.com.

SALE OF SAINT AMBROISE, QUEBEC WASTE TREATMENT PLANT

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, Mr. Jean-Francois Landry. Consideration is composed of $8 million in cash at closing plus an earn out 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 BENEV to approve the transaction is to be held on May 3, 2013. Canaccord Genuity Corp. has provided an opinion to the effect that the consideration to be received by BENEV under the purchase agreement is fair from a financial point of view to the Company.

Closing is expected to occur in the second quarter of 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 BENEV'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, BENEV'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.

BENEV shall be entitled to terminate the agreement to accept a superior proposal, on the terms set out in the definitive agreement, and in such circumstances would be liable to pay the purchaser's reasonable expenses, up to a maximum of $500,000.

Due to its significant tax loss carry forwards and other tax assets, BENEV is not expected to incur income tax as a result of the consideration anticipated at closing. The tax effects of any additional consideration which may be received in future periods will vary depending upon the amount of tax assets available at that time, if any, to offset such consideration.

The Saint Ambroise treatment 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. Upon the completion of the sale transaction, the Company will no longer own any material producing assets and intends to continue operations as a merchant bank. In this regard, Mr. Haber, as well as certain members of the Corporation's board, are experienced mergers and acquisition ("M&A") professionals. Consistent with the strategy articulated since the installation of a new Board in June, 2011, the sale transaction is designed to transform the Company and to enable it to create meaningful value for shareholders. The sale of the plant is the first step in this direction, which is expected to increase the range of available options and provide enhanced flexibility on a go forward basis. As a merchant bank, in addition to managing its substantial cash position, the Company will continue to seek to source, structure and complete a transformative transaction or series of transactions to enhance value for all shareholders, with a focus on attractive equity investments in businesses with cash flow as a first priority. A return of capital, special dividend and/or the dissolution of the Company may also be considered.

The balance of this MD&A discusses the Company as a whole including the Saint Ambroise facility.

OVERVIEW

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 Company's soil treatment facility located in Saint Ambroise, Quebec is an ISO 14001(2004) certified facility. It treats soils contaminated with organics and its Certificate of Authorization was expanded in 2005 to include dioxins and furans. The facility has an annual processing capacity of up to 100,000 metric tonnes depending on the nature of material being processed.

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.

2012 OPERATING CAMPAIGN

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. During 2012 the Company treated approximately 54,000 tonnes of soil and approximately 14,000 tonnes were processed during the final quarter of the year. As at December 31, 2012 the Company held approximately 225 tonnes of untreated soil at its Saint Ambroise facility.

CHANGE OF COMPANY NAME

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. On June 28, 2012, the Articles of Amendment giving effect to this name change were filed and made effective.

DISCONTINUANCE OF JOHN BENNETT'S $50 MILLION LAWSUIT

During the third quarter of 2012 the Company received a Notice of Discontinuance from John Bennett regarding the lawsuit that Mr. Bennett, the Company's former CEO, commenced against the Company in January, 2012. This lawsuit, which made allegations of conspiracy and oppression against the Company and which also named a number of former directors and officers of the Company as defendants, sought damages in an amount in excess of $50 million from the Company and such other defendants. Mr. Bennett has also discontinued this action against these other named defendants.

In the first quarter of 2013 the Court awarded the Company and the other named defendants a partial recovery of the costs incurred defending this action. The Company had not recorded any provision in respect of the lawsuit and will not record a recovery of awarded costs, in the amount of $70,000, until collectability is assured.

SETTLEMENT WITH ENVIRONMENTAL PROTECTION AGENCY

On October 3, 2012 the Company entered into an Administrative Agreement (the "Agreement") with the Environmental Protection Agency of the United States of America ("EPA"), under which it has agreed to extend the term of its Corporate Responsibility Program (the "CRP"), which it had previously agreed to implement in a prior compliance agreement entered into with the EPA in February, 2009 (the "Compliance Agreement"), for an additional period of two years, commencing on October 3, 2012. Under the Agreement, BENEV also agreed to certain additional reporting, certification and monitoring requirements regarding its CRP.

In March of 2012, BENEV announced that it had been notified by the EPA that as a result of certain documentary and procedural compliance deficiencies that occurred during the period prior to June 2011, the EPA intended to bring proceedings against it to bar it from accepting new U.S. federal government or related contracts for a period of five years. The issues raised in the

EPA notice were of an administrative compliance nature, and did not relate to environmental concerns or any current breaches.

BENEV has worked cooperatively with EPA staff to resolve these issues, and as a result, has entered into the Agreement. Additionally, BENEV has, during this period, rectified the deficiencies which had occurred under the Compliance Agreement on its own initiative.

Under the Agreement, BENEV will continue its CRP, which includes: periodic training for its employees regarding environmental, health and safety, ethics, and integrity issues; periodic updating and review of its codes of ethics and conduct; and periodic audits of its compliance with applicable laws and regulations regarding the conduct of its business. In addition, BENEV will be required to periodically certify its compliance with these requirements, and must retain an independent monitor to provide oversight of its compliance with the Agreement.

Provided that the terms and conditions of the Agreement are faithfully fulfilled, the Agreement provides that the EPA will not suspend, debar or statutorily disqualify BENEV for the documentary and procedural compliance deficiencies which occurred during the period prior to June, 2011, as was contemplated in the EPA's above-referenced proposed debarment notice to the Company.

BENEV has taken steps and put processes in place to seek to ensure its compliance with the requirements of the Agreement.

SELECTED ANNUAL INFORMATION

The following sets forth selected financial data for each of the three most recently completed financial years (expressed in Cdn $):

	2012	2011	2010
Sales	28,298,586	-	32,668,014
Earnings (loss) for the year	9,300,197	(9,309,598)	14,395,155
Earnings (loss) per share			
Basic	0.24	(0.24)	0.42
Diluted	0.24	(0.24)	0.41
Working capital	64,187,970	52,337,827	59,618,605
Long-term liabilities	658,881	763,835	896,839
Shareholders' equity	70,959,491	60,839,858	68,767,505
Total assets	73,974,582	73,430,848	79,270,795

Variations of revenue and earnings over the three year period is the result of changes in the volumes of material processed. Changes in earnings per share are due to differences in the underlying earnings. Variations in earnings are primarily responsible for the increases and decreases in working capital over the three year period.

Long-term liabilities have declined as the Company makes payments on its tenure and finance lease obligations. Variations in shareholders' equity are the result of earnings or losses over the three year period. Finally, the fluctuations in assets is primarily due to the impact of earnings on current assets and the sale of the Belledune facility.

SUMMARY OF 2012 PERFORMANCE AND TRENDS

The Company generates its soil treatment revenues through obtaining contracts with government agencies or environmental services companies. The revenue generated is impacted by the volume of materials obtained and processed, and the price per tonne as discussed below.

Volume

The Company is in a niche product market for soil remediation. Volumes of material received and processed on an annual basis, can vary significantly period over period as it is dependent on where government and private sector funding spending is directed. On a long-term basis the Company expects that the revenue from material that will require thermal treatment will remain sporadic.

Pricing

Pricing in the soil remediation business which affects material processed at the Saint Ambroise facility has been inconsistent over the last several years because:

1) Historically, a portion of the Company's annual volume has come from the United States. The increase in the Canadian dollar relative to the U.S. dollar has put downward pressure on the sales price per tonne.

2) New competitors in the market and excess treatment capacity have reduced prices for certain wastes in the market place.

3) The overall average price per tonne tends to be higher if the Company's responsible for transporting soil from the customer's site to the Saint Ambroise facility.

The Company's operating costs consist primarily of energy, labour, disposal and transportation and are impacted by the volumes of materials being processed through the facilities. The Company is also impacted by the administrative and business development expenses which are fixed in nature and will not fluctuate directly with the volume of materials processed.

Transportation

The costs for transportation of materials from the customer site to the Company's facilities have increased over the last several years as a result in the increasing energy costs, fuel surcharges, and insurance costs. The Company prefers to enter into contracts where the customer is responsible for the transportation and no longer including the transportation of materials to the Company's facilities as part of its treatment services in all cases. However, during 2012 the Company's two largest contracts included transportation.

Labour

Direct labour costs per hour have continued to trend upwards which will impact the operating costs of the Company. However, the direct labour costs incurred are a function of the volumes of materials being processed due to the campaign nature of operations.

Energy

The Company uses a significant amount of energy in its remediation process. During 2012 energy accounted for approximately 33% of the Company's total direct variable costs (excluding transportation and costs incurred at customer sites).

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012

Sales

Sales for 2012 were $28.3 million compared to nil in the same period a year earlier. The most recent campaign to process soil held in inventory commenced on May 2, 2012 and ended on December 4, 2012. No soil was processed during 2011.

Operating Costs

Operating expenses are described in note 20 to the accompanying year end financial statements. These expenses are: wages and benefits; occupancy costs and goods and services expenses. All of these costs have variable and fixed components. Of the three categories, goods and services shows the greatest fluctuation with volume as it contains transportation and processing supply costs.

Operating costs for 2012 were $13.4 million compared to $1.6 million in 2011. Operating costs increased because no soil was processed in 2011.

Administration and Business Development Costs

The components of administration and business development costs are described in note 21 to the accompanying year end financial statements. These costs were $4.8 million in 2012, compared with $5.3 million in 2011. The decrease is due to a reduction in professional and consulting fees in connection with M&A activities partially offset by an increase in non-cash share-based compensation.

Management/Board Restructuring Costs

As described in the MD&A for the second quarter of 2011 in the section titled "Change of Board and Management" the Company was engaged in a proxy contest with its largest shareholder during the latter part of the first quarter and most of the second quarter of 2011. The costs of this contest and related events amounted to $2.5 million including: $1.5 million in proxy contest expenses, consisting of professional fees, consulting fees, printing costs, and other related expenses; special directors' and officers' insurance costs of $0.1 million; severance costs of $0.8 million; and other expenses totalling $0.1 million. No costs were incurred in 2012 in respect of this matter.

Amortization

Amortization expense for 2012 was $0.8 million compared to $0.9 million for 2011. Certain capital assets located at the Saint Ambroise facility were fully amortized for accounting purposes at the end of 2011 and will not give rise to further amortization expenses. This results in a reduction of amortization expense for 2012 over the same period in 2011.

Impairment Loss

As discussed on pages one and two of this report, the Company has entered into an agreement to sell its Saint Ambroise waste treatment plant. The carrying amount of the Saint Ambroise assets exceeds the expected proceeds from the planned sale (before additional contingent amounts) less expected disposal costs. Accordingly, the Company has recorded an impairment loss and a reduction in the carrying value of the long-term plant assets, both in the amount of $1.2 million.

Loss on Disposal of Assets Held for Sale

When the Company sold its Belledune facility, on April 8, 2011, the purchaser held back $0.3 million 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. As a result of this agreement the Company has recorded an additional loss in the amount of $0.05 million. A loss of $0.02 million was incurred during 2011.

Finance Income/Costs

Finance income earned in 2012 increased by $0.3 million over 2011. The increase was primarily due to a larger interest refund in connection with a corporate income tax reassessment than was received in the same period in 2011.

Finance costs remained relatively flat, ranging between $0.1 million and $0.2 million during 2012 and 2011, respectively.

Income taxes

During 2012 the Company recorded a current income tax recovery of approximately $0.2 million versus a current income tax recovery of $0.2 million in the prior year. The recovery results from the reduction of an accrual recorded in a period that is no longer required. The income tax recovery in the same period of the prior year was due to the reassessment of a return filed in a previous period.

The Company incurred deferred income tax expense of nil in both years.

Net Earnings/Loss

The net earnings for the year ended December 31, 2012 was $9.3 million or basic and diluted earnings per share of $0.24 as compared to a net loss of $9.3 million or a basic and diluted loss per share of $0.24 for the same period of 2011.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

At December 31, 2012 the Company had cash and equivalents of $63.9 million and net working capital (including cash) of $64.2 million compared to cash and equivalents of $58.7 million and working capital (including cash) of $52.3 million on December 31, 2011. At December 31, 2012 the Company had $0.5 million in restricted cash compared to $1.5 million at year end 2011. Restricted cash was used to secure corporate credit cards and foreign exchange contracts at December 31, 2012. At the previous year end the restricted cash was used to secure corporate credit cards, foreign exchange contracts and a letter of credit.

Cash from Operating Activities

Cash of $4.4 million was provided by operating activities during 2012 compared to cash used in operating activities of $7.1 million for 2011. The increase results from earnings generated in 2012 as compared to a loss in 2011. The year over year increase in cash from operations is less than the increase in earnings primarily due to changes in deferred revenue during 2012 and 2011. Deferred revenue arises when cash is received from customers before the soil is processed and revenue recorded.

Cash from Investing Activities

Cash of $0.8 million and $0.2 million was generated from investing activities during 2012 and 2011, respectively. The return of deposits used to secure a line of credit was primarily responsible for the generation of cash in the current period. The increase during the prior year resulted from the sale of the Belledune facility offset by an increase in restricted cash to secure foreign exchange contracts and a line of credit.

Cash from Financing Activities

Cash used in financing activities during 2012 was $0.1 million as compared to cash generated by financing activities of $0.6 million for 2011. Finance lease obligations were responsible for the use of cash in 2012. The majority of the cash generated in 2011 came from the exercise of stock options.

Capital Expenditures

The Company purchased equipment for and made improvements to its Saint Ambroise facility in the amount of $0.2 million during 2012 as compared to $0.1 million in the prior year.

Contractual Obligations

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.

SUMMARY OF QUARTERLY RESULTS

The following table discloses certain unaudited financial data for the eight most recently completed quarters, expressed in millions of Canadian dollars (except per share data – basic and diluted which is in dollars).

	2012				2011			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net sales	7.83	12.23	8.23	-	-	-	-	-
Net income (loss)	0.61	6.55	3.37	(1.22)	(1.57)	(1.67)	(4.29)	(1.77)
Earnings (loss) per common share*								
Basic	0.02	0.17	0.09	(0.03)	(0.04)	(0.04)	(0.11)	(0.05)
Diluted	0.02	0.17	0.09	(0.03)	(0.04)	(0.04)	(0.11)	(0.05)

*The sum of the quarterly earnings per share values in 2012 does not equal the total on the financial statements for the year ended December 31, 2012 due to rounding.

Variations in revenue over the last eight quarters are due to the volumes of material processed in each quarter. The net income in the third quarter of 2012 is significantly higher than the second and fourth quarters of 2012. This is due to differences in: volumes processed; the amount of transportation included in revenue; and income taxes. While there is no revenue in five of the last eight quarters, the loss in the second quarter of 2011 is significantly higher. Costs incurred in connection with the proxy contest are responsible for the higher losses in the second quarter of 2011.

RESULTS OF OPERATIONS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2012

SALES

Sales for the fourth quarter of 2012 was $7.8 compared to nil the same period a year earlier. This is a result of the Saint Ambroise facility being shut down during the fourth quarter of 2011.

Operating Costs

Operating costs for the fourth quarter of 2012 were $4.2 million compared to $0.4 million in 2011. Operating costs increased because no soil was processed in the comparable quarter of 2011.

Administration and Business Development Costs

Administration and business development costs were $1.2 million during the fourth quarter of 2012 as compared to $1.1 in the same quarter of 2011. The increase is primarily due to an increase in employee bonus accruals and insurance premiums partially offset by decreases in

non-cash share-based compensation and professional and consulting fees in connection with M&A activities.

Amortization

Amortization expense has remained relatively flat at $0.2 million during the fourth quarter of both years.

Impairment Loss

As discussed on pages one and two of this report, the Company has entered into an agreement to sell its Saint Ambroise waste treatment plant. The carrying amount of the Saint Ambroise assets exceeds the expected proceeds from the planned sale (before additional contingent amounts) less expected disposal costs. Accordingly, the Company has recorded an impairment loss and a reduction in the carrying value of the long-term plant assets, both in the amount of $1.2 million.

Finance Income/Costs

There was no significant fluctuation in finance income in the fourth quarter of 2012 as compared to the same quarter of the prior year.

Finance costs were $0.01 million during the fourth quarter of 2012 as compared to $0.08 million in the same period of the prior year. The costs in 2011 relate primarily to accretion expense resulting from a reduction in the discount rate used to calculate the present value of long-term liabilities.

Income taxes

During the quarter ended December 31, 2012 the Company recorded a current income tax recovery of nil versus a current income tax recovery of $0.02 million in the same period of the prior year. The 2011 provision resulted from the reassessment of prior periods.

A deferred tax expense of $0.6 million was recorded in the current period versus nil in the same period of the prior year. The deferred tax expense resulted from generation of taxable income in the fourth quarter which drew down the deferred tax asset recorded in the third quarter of 2012. The deferred tax asset was recorded in order to recognize income tax loss carry-forwards in advance of the date they could be realized. Further explanation can be found on page 5 of the Company's MD&A dated November 13, 2012.

Net Earnings (Loss)

The net earnings for the fourth quarter of 2012 was $0.6 million or a basic and diluted earnings per share of $0.02 compared to a net loss of $1.6 million or basic and diluted loss per share of $0.04 for the fourth quarter of 2011.

The net earnings increased because no soil was processed in the comparable period of the prior year.

FINANCIAL AND OTHER INSTRUMENTS

On occasion short-term foreign exchange forward contracts are used to reduce foreign exchange risk. The Company marks these contracts to market, and records the corresponding gain or loss in income.

As at December 31, 2012, the Company held a foreign exchange contract to sell $230,000 U.S. The fair value of the contract was an unrealized 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).

PROVISIONS AND CONTINGENCIES

There were no developments during 2012 or subsequent to year end regarding provisions or contingencies except for the discontinuance of John Bennett's $50 million lawsuit and the settlement with the EPA which are described on pages 3 and 4 of this report, and as noted below:

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.

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. Accordingly the Company has made no additional provision as a result of this action and intends to vigorously defend against this claim.

Refer to note 12(b) of the accompanying consolidated annual financial statements for a full explanation of the above provision.

TRANSACTIONS WITH RELATED PARTIES

The following 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.

As a result of a settlement agreement made as at June 22, 2011 with the Company's largest shareholder, 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 and paid in the third quarter of 2011. The transition agreements with the CEO and CFO are described below.

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 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 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. All termination payments to Mr. Shaw and Mr. Cranston which have been paid have been expensed and all unpaid termination payments have been expensed and recorded as liabilities 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.

Additional information regarding the compensation of key personnel is recorded in note 31 of the accompanying financial statements.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its consolidated financial statements in accordance with IFRS and makes estimates and assumptions that affect the reporting amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingencies. On an on-going basis the Company evaluates its estimates and judgements, including those related to revenue recognition, adequacy

of allowance for doubtful accounts, impairment of long-lived assets, share-based transactions, provisions and contingences and deferred tax assets and liabilities. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from the Company's estimates. Senior management has discussed, with the Company's audit committee, the development, selection, and disclosure of accounting estimates used in preparation of our consolidated financial statements.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

- The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. The Company considers factors such as a customer's credit-worthiness, past transaction history, current economic industry trends and changes in customer payment terms when determining if collection is reasonably assured. If these factors indicate collection is not reasonably assured, revenue is deferred until collection is reasonably assured or the Company may increase its allowance for doubtful accounts. A change in these factors could impact the estimated allowance and the provision for bad debts recorded in administration and business development expenses. There was no significant change in the allowance for credit losses in the period.

- Estimates of the useful lives of capital and definite-lived intangible assets are based on the nature of the asset, historical experience and the terms of any related supply contracts. The residual value and useful life of property, plant and equipment asset is reviewed at each financial year end and if expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The Company performs its impairment test on long-lived assets upon the occurrence of events or changes in circumstances indicate that an impairment loss may have been incurred. If the estimated recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount and the reduction is recorded as an impairment loss. It was determined that there were no impairment losses in 2012 other than the write-down of the Saint Ambroise facility as described in the 2012 consolidated financial statements and pages 8 and 12 of this report .

- 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. The Company did not recognize any deferred tax assets as at December 31, 2012 as it is not probable that future taxable profits will be available against which the deferred tax assets can be utilized.

- Note 12 of the 2012 consolidated financial statements discloses the provisions recognized by the Company as at December 31, 2012. 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. It was determined that there were no other provisions

required as at December 31, 2012 other than those disclosed in the 2012 consolidated financial statements.

- The Company evaluates contingent losses based on the probability of whether the future event will confirm that an asset is impaired or liability incurred and whether the amount of the loss can be reasonably estimated. It was determined that there were no other material contingencies requiring disclosure as at December 31, 2012 other than those disclosed in the 2012 consolidated financial statements.

SHARE CAPITAL

The number of common shares outstanding at March 22, 2013 was 38,685,562. There were 1,477,460 stock options outstanding as at March 22, 2013 exercisable at prices from $0.24 to $2.12 per share.

CHANGES IN ACCOUNTING POLICIES

During 2012, there were no changes in accounting policies.

New Standards and Interpretations Not Yet Adopted

(a) 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.

(b) 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.

(c) 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.

(d) Separate Financial Statements

The objective of 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.

(e) 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.

Risk Factors

Information on "Risk Factors" can be found in the Company's Annual Information Form dated March 22, 2013 for the fiscal year ended December 31, 2012.

CONTROLS AND PROCEDURES

(a) Management's Report on Internal Control over Financial Reporting

Management is responsible for certifying the design of internal control over financial reporting ("ICFR") in the Company's Interim Filings.

Our ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the applicable financial reporting framework, ICFR should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets;

- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the applicable financial reporting framework;

- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors; and

- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the CEO and CFO, carried out an assessment of the design and effectiveness of the designed ICFR and concluded there are no disclosable design weaknesses and the controls are effective as at December 31, 2012. There was no change in the Company's ICFR that occurred during the period covered by this report that has materially affected or is reasonably likely to materially affect, its ICFR.

(b) Management's Report on Disclosure Controls and Procedures

Management is responsible for certifying the design and evaluating the effectiveness of disclosure controls and procedures. Management, including the CEO and CFO, carried out an assessment of the design and evaluated the effectiveness of the Corporation's disclosure controls and procedures and concluded there are no disclosable design weaknesses and the controls are effective as at December 31, 2012.

Forward Looking Statements

Certain statements contained in this MD&A, or incorporated herein by reference, may constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The use of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "confident", "plan" and "intends" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in international, national and local business and economic conditions; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of the Company. The foregoing list of factors is not exhaustive. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as expressly required by law.