Interim Condensed Consolidated Financial Statements of

BENNETT ENVIRONMENTAL INC.

Nine months ended September 30, 2011 and 2010
(Unaudited)

BENNETT ENVIRONMENTAL INC.

Interim Condensed Consolidated Statement of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	September 30, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	$ 60,025,814	$ 64,993,643	$ 17,645,459
Restricted cash (note 4)	210,054	10,649	865,918
Amounts receivable	131,971	321,906	10,215,767
Holdbacks receivable	-	-	3,029,363
Holdback receivable (note 5)	300,000	-	-
Deferred costs	2,586,218	661,925	-
Prepaid expenses and other	516,400	561,402	446,104
Assets classified as held for sale (note 5)	-	2,675,532	2,675,532
	63,770,457	69,225,057	34,878,143
Property, plant and equipment (note 6)	8,970,905	9,523,502	10,290,464
Assets under finance lease (note 7)	498,840	522,237	382,500
Deferred tax assets	-	-	3,915,650
	$ 73,240,202	$ 79,270,796	$ 49,466,757
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 1,892,658	$ 2,850,241	$ 5,369,309
Current tax liabilities	331,500	583,962	2,087,079
Liabilities related to assets held for sale (note 5)	242,666	618,020	475,532
Stock compensation liability (note 14)	407,113	-	-
Deferred revenue (note 1)	6,620,812	2,445,369	7,286,897
Provisions (note 10)	424,230	695,828	620,825
Current portion of long-term liabilities (note12)	645,567	2,230,194	285,621
Current portion of finance lease obligations (note 11)	153,279	182,838	135,316
	10,717,825	9,606,451	16,260,579
Long-term liabilities (note 12)	697,099	741,633	2,912,430
Long-term portion of finance lease obligations (note 11)	47,836	155,206	229,330
Shareholders' equity:			
Share capital (note 13)	96,890,271	93,364,040	71,949,963
Contributed surplus (note 13)	4,312,274	4,846,334	4,244,554
Share purchase warrants (note 13)	2,721,131	2,721,131	429,056
Accumulated deficit	(42,146,234)	(32,163,999)	(46,559,155)
Total equity	61,777,442	68,767,506	30,064,418
Subsequent events (notes 1, 10 & 14)			
	$ 73,240,202	$ 79,270,796	$ 49,466,757

See accompanying notes to interim condensed consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)
(Expressed in Canadian dollars)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Sales	$ -	$ 10,604,723	$ -	$ 32,668,014
Expenses:				
Operating costs	430,187	2,396,652	1,141,178	7,877,376
Administration and business development	1,180,925	1,626,326	4,285,449	4,176,400
Management/Board restructuring costs (note 15)	13,651	-	2,503,723	-
Amortization	221,919	263,155	661,143	781,896
Loss on disposal of assets held for sale (note 5)	-	-	16,615	-
	1,846,682	4,286,133	8,608,108	12,835,672
Results from operating activities	(1,846,682)	6,318,590	(8,608,108)	19,832,342
Finance income	201,955	129,887	721,637	223,822
Finance costs	(21,127)	(94,274)	(73,158)	(665,040)
Net finance income (costs)	180,828	35,613	648,479	(441,218)
Income (loss) before income taxes	(1,665,854)	6,354,203	(7,959,629)	19,391,124
Income taxes expense (recovery)	-	(989,677)	(228,775)	2,080,880
Net income (loss) for the period, being comprehensive income (loss)	$ (1,665,854)	$ 7,343,880	$ (7,730,854)	$ 17,310,244
Earnings (loss) per share (note 16)				
Basic (loss) earnings per share	$ (0.04)	$ 0.20	$ (0.20)	$ 0.53
Diluted (loss) earnings per share	(0.04)	0.19	(0.20)	0.50

See accompanying notes to interim condensed consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Condensed Consolidated Statement of Changes in Equity
(Unaudited)
(Expressed in Canadian dollars)
For the nine months ended September 30, 2010

	Attributable to equity holders of the Company				
	Share capital	Contributed surplus	Share purchase warrants	Accumulated deficit	Total equity
Balance at January 1, 2010	$ 71,949,963	$ 4,244,554	$ 429,056	$ (46,559,155)	$ 30,064,418
Comprehensive income for the period	-	-	-	17,310,244	17,310,244
Share-based compensation	-	98,621	-	-	98,621
Share options exercised	241,220	(98,721)	-	-	142,499
Warrants exercised	1,314,656	-	(429,056)	-	885,600
Shares issued in connection with public offering closing May 7, 2010	22,213,117	-	-	-	22,213,117
Share-based costs	(2,354,916)	-	-	-	(2,354,916)
Fair value of compensation options issued in connection with share and warrant offering closing May 7, 2010	-	483,992	-	-	483,992
Excess fair value of warrants issued on over-allotment closing May 21, 2010 over consideration received	-	(110,656)	-	-	(110,656)
Fair value of compensation options issued in connection with over-allotment closing May 21, 2010	-	9,191	-	-	9,191
Warrants issued in connection with public offering closing May 7 and May 21, 2010 net of issue costs	-	-	2,721,131	-	2,721,131
Balance at September 30, 2010	$ 93,364,040	$ 4,626,981	$ 2,721,131	$ (29,248,911)	$ 71,463,241

See accompanying notes to interim condensed consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Condensed Consolidated Statement of Changes in Equity
(Unaudited)
(Expressed in Canadian dollars)
For the nine months ended September 30, 2011

	Attributable to equity holders of the Company				
	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	$ (32,163,999)	$ 68,767,506
Comprehensive loss for the period	-	-	-	(7,730,854)	(7,730,854)
Share-based compensation	-	257,557	-	-	257,557
Conversion from equity-settled to cash-settled stock option plan (note 14)	-	(791,617)	-	(2,251,381)	(3,042,998)
Share options exercised	3,526,231	-	-	-	3,526,231
Balance at September 30, 2011	$ 96,890,271	$ 4,312,274	$ 2,721,131	$ (42,146,234)	$ 61,777,442

See accompanying notes to interim condensed consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)
For the nine months ended September 30

	2011	2010
Cash flows provided by (used in) operating activities:		
Net income (loss) for the period	$ (7,730,854)	$ 17,310,244
Adjustments for:		
Amortization	661,143	781,896
Foreign exchange gains related to U.S. Department of Justice accrual	7,012	(48,796)
Unwinding of discount on provisions	19,552	48,789
Gain on sale of property, plant and equipment	(1,671)	-
Loss on sale of assets held for sale	18,286	-
Share-based compensation	402,502	98,621
Income tax expense (recovery)	(228,775)	3,915,650
Change in non-cash working capital items:		
Amounts receivable	189,935	6,338,714
Holdbacks receivable	(300,000)	3,029,363
Prepaid expenses and other	45,002	(344,639)
Deferred costs	(1,924,293)	-
Accounts payable and accrued liabilities	272,422	(1,729,850)
Stock compensation liability	(407,113)	-
Liabilities related to assets held for sale	(375,354)	103,737
Provisions	(271,598)	(5,048)
Deferred revenue	4,175,443	(6,299,480)
Current tax payable	(23,687)	(1,095,155)
Repayment of long-term liabilities	(1,655,725)	(59,250)
Net cash provided by (used in) operating activities	(7,127,773)	22,044,796
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	4,250	30,000
Proceeds from sale of assets held for sale	1,834,356	-
Acquisition of property, plant and equipment	(87,728)	(244,336)
Change in restricted cash	(199,405)	855,301
Net cash provided by investing activities	1,551,473	640,965
Cash flows from financing activities		
Proceeds from exercise of warrants	-	885,600
Proceeds from exercise of share options	745,400	142,500
Proceeds from shares and warrants due to public offering, net of costs	-	22,961,859
Payment of finance lease liabilities	(136,929)	(176,497)
Net cash provided by financing activities	608,471	23,813,462
Net increase (decrease) in cash and cash equivalents	(4,967,829)	46,499,223
Cash and cash equivalents at beginning of period	64,993,643	17,645,459
Cash and cash equivalents at end of period	$ 60,025,814	$ 64,144,682

See accompanying notes to the interim condensed consolidated financial statements.

Bennett Environmental Inc. ("BEI") is a company domiciled in Canada. The interim condensed consolidated financial statements of BEI as at and for the nine months ended September 30, 2011 are composed of BEI 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:

After several years of sporadic operations resulting from the lack of soil for processing, the Saint Ambroise facility re-opened on April 6, 2009 and with the exception of maintenance shutdowns, operated continuously until September 23, 2010 when the Company announced that its current operating campaign at its Saint Ambroise facility ended. This period of uninterrupted production has been primarily responsible for the Company's profitability in 2009 and 2010. There can be no assurance that the Company will receive soil treatment contracts sufficient to result in an extended period of operation similar to 2009 and 2010.

As at September 30, 2011 the Company held approximately 20,000 tonnes of untreated soil at its Saint Ambroise facility. Advance payments of $6,620,812 have been received from customers pertaining to a portion of the untreated soil. These payments have been recorded as deferred revenue as of September 30, 2011. The processing of all soil held in inventory will not commence until sufficient material has been received for the efficient operation of the facility. Based on the current amount of unprocessed soil held at the facility and jobs which have been awarded but not received, the Company expects to commence operations during the first quarter of 2012. For each of these contracts awarded there is no commitment on the part of the client with respect to the amount of material that will be shipped under the contract, or the timing of these shipments. Actual amounts shipped may be more or less than the estimated amounts.

As at September 30, 2011 the Company has approximately $60 million in cash available to fund acquisitions and its daily operating needs.

2. Basis of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the unaudited interim consolidated financial statements for the quarter ended March 31, 2011, which were prepared in accordance with IFRS and the audited annual consolidated financial statements for the year ended December 31, 2010, which were prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP").

2. Basis of compliance (continued):

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 21. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under CGAAP (previous GAAP) to those reported for those periods and at the date of transition under IFRS.

The interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on November 11, 2011.

3. Significant accounting policies:

The accounting policies have been applied consistently to all periods presented in these interim condensed consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

These interim condensed consolidated financial statements should be read in conjunction with the unaudited interim consolidated financial statements for the quarter ended March 31, 2011 and the audited annual consolidated financial statements for the year ended December 31, 2010.

Recently issued but not adopted accounting guidance includes, IFRS 7 *Financial Instruments*: *Disclosure*; IFRS 9 *Financial Instruments;* IFRS 10 *Consolidated Financial Statements*; IFRS 13 *Fair Value Measurement*; IAS 1 *Presentation of Financial Statements; Presentation of Items of Other Comprehensive Income*; and IAS 19 *Employee Benefits*.

(a) Transfers of Financial Assets

In October 2010, the International Accounting Standards Board ("IASB") amended IFRS 7, *Financial Instruments: Disclosures* and added additional disclosure requirements for financial assets that have been transferred but not derecognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The amendments are effective for annual periods beginning on or after July 1, 2011, so will be effective for the year ending December 31, 2012. The Company does not expect IFRS 1 to have a material impact on the financial statements.

3. Significant accounting policies (continued):

(b) Financial Instruments

IFRS 9, *Financial Instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, so will be effective for the year ending December 31, 2013. The Company does not expect IFRS 9 to have a material impact on the financial statements.

(c) Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements*: IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 replace SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Statements*. The amendments are 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.

(d) Fair Value Measurements

IFRS 13 *Fair Value Measurement*: IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It 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, i.e. an exit price. 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.

3. Significant accounting policies (continued):

(e) Presentation of Other Comprehensive Income

In June 2011, the IASB published amendments to IAS 1 *Presentation of Financial Statements*: *Presentation of Items of Other Comprehensive Income*. The key objectives of the IASB in publishing these amendments are to improve the presentation of items in other comprehensive income ("OCI") and to align the presentation of OCI between IFRS and U.S. GAAP financial statements. The amendments are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. The Company does not expect IAS 1 to have a material impact on the financial statements.

(f) 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:

As at September 30, 2011, the Company had restricted cash of $210,054 (December 31, 2010 - $10,649, January 1, 2010 - $865,918) which includes $10,032 (December 31, 2010 - $10,649; January 1, 2010 - $10,560) as required under the Company's corporate credit card agreement; $200,022 (December 31, 2010 – nil; January 1, 2010 - $255,189) required for foreign exchange hedging agreements and nil (December 31, 2010 – nil; January 1, 2010 - $600,169) required for butane price swap agreements.

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 17.

5. Assets classified as held for sale and liabilities related to assets held for sale:

On April 8, 2011, the Company sold its Belledune facility. The sale price was $2,904,689 composed of cash consideration of $2,229,058 plus assumed accumulated property tax liabilities of $675,631. The Purchaser held back $300,000 of cash consideration at closing to cover the costs of remediating the creosote contamination of the building. The Company has estimated these remediation costs to be $225,000 and has recorded an accrual for this amount in liabilities related to assets held for sale and additional expenses of $22,443, resulting in a loss on disposal of assets held for sale of $18,286 in the second quarter. The holdback is to be released once the Company has paid for monitoring costs and remediation costs.

6. Property, plant and equipment:

Upon transition to IFRS on January 1, 2010, the Company elected to measure buildings and land improvements, kilns and refractory and mobile and treatment equipment at fair value as its deemed cost. Certain items of property, plant and equipment had a fair value of approximately $1.8 million above their book value under CGAAP. The fair value measurements were 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. All subsequent amortization under IFRS is based on this deemed cost. There is no restriction on the distribution of the balance to shareholders.

(Expressed in Canadian dollars)

6. Property, plant and equipment (continued):

	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, 2010	$ 86,232	$ 4,889,542	$ 263,280	$ 159,802	$ 412,500	$ 163,228	$ 4,654,000	$ 43,243	$ 10,671,827
Additions	-	40,956	31,859	34,633	36,359	-	116,573	9,732	270,112
Disposals	-	-	-	-	-	-	(40,000)	-	(40,000)
Balance at September 30, 2010	$ 86,232	$ 4,930,498	$ 295,139	$ 194,435	$ 448,859	$ 163,228	$ 4,730,573	$ 52,975	$ 10,901,939
Balance at January 1, 2011	$ 91,185	$ 4,930,498	$ 297,008	$ 194,435	$ 448,859	$ 163,228	$ 4,730,573	$ 52,975	$ 10,908,761
Additions	-	-	26,614	13,180	9,424	-	35,046	3,464	87,728
Disposals	-	-	(49,160)	(3,706)	-	-	-	-	(52,866)
Balance at September 30, 2011	$ 91,185	$ 4,930,498	$ 274,462	$ 203,909	$ 458,283	$ 163,228	$ 4,765,619	$ 56,439	$ 10,943,623
Accumulated amortization									
Balance at January 1, 2010	$ 28,004	$ -	$ 200,252	$ 110,163	$ -	$ -	$ -	$ 42,944	$ 381,363
Additions	13,101	313,350	17,766	10,043	36,298	-	365,501	3,874	759,933
Disposals	-	-	-	-	-	-	(10,000)	-	(10,000)
Balance at September 30, 2010	$ 41,105	$ 313,350	$ 218,018	$ 120,206	$ 36,298	$ -	$ 355,501	$ 46,818	$ 1,131,296
Balance at January 1, 2011	$ 46,215	$ 417,887	$ 224,220	$ 123,556	$ 49,038	$ -	$ 476,234	$ 48,109	$ 1,385,259
Additions	10,118	185,140	23,181	11,621	38,615	-	364,047	5,024	637,746
Disposals	-	-	(49,159)	(1,128)	-	-	-	-	(50,287)
Balance at September 30, 2011	$ 56,333	$ 603,027	$ 198,242	$ 134,049	87,653	$ -	$ 840,281	$ 53,133	$ 1,972,718
Carrying amounts									
At January 1, 2010	$ 58,228	$ 4,889,542	$ 63,028	$ 49,639	$ 412,500	$ 163,228	$ 4,654,900	$ 299	$ 10,290,464
At September 30, 2010	45,127	4,617,148	77,121	74,229	412,561	163,228	4,375,072	6,157	9,770,643
At January 1, 2011	44,970	4,512,611	72,788	70,879	399,821	163,228	4,254,339	4,866	9,523,502
At September 30, 2011	34,852	4,327,471	76,220	69,860	370,630	163,228	3,925,338	3,306	8,970,905

(Expressed in Canadian dollars)

7. Assets under finance lease

		Treatment equipment
Costs or deemed costs		
Balance at January 1, 2010	$	382,500
Additions		222,000
Disposals		(52,500)
Balance at September 30, 2010	$	552,000
Balance at January 1, 2011	$	552,000
Additions		-
Disposals		-
Balance at September 30, 2011	$	552,000
Accumulated amortization		
Balance at January 1, 2010	$	-
Additions		21,963
Disposals		-
Balance at September 30, 2010	$	21,963
Balance at January 1, 2011	$	29,763
Additions		23,397
Disposals		-
Balance at September 30, 2011	$	53,160
Carrying amounts		
At January 1, 2010	$	382,500
At September 30, 2010		530,037
At January 1, 2011		522,237
At September 30, 2011		498,840

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.

(Expressed in Canadian dollars)

8. Deferred tax assets and liabilities:

Unrecognized deferred tax assets:

Deferred tax assets have not been recognized in respect of the following items:

	September 30, 2011	December 31, 2010	January 1, 2010
Non-capital tax losses	$ 4,805,479	$ 2,321,789	$ 3,226,696
Property, plant and equipment	4,885,608	5,315,755	6,566,461
Share issue costs	370,058	476,732	24,267
Tenure/severance	286,863	373,608	346,282
Capital loss	50,362	52,158	56,314
Other	346,767	298,540	273
	$ 10,745,137	$ 8,838,582	$ 10,220,293

The non-capital losses expire in 2028-2031. 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.

9. Deferred revenue:

Deferred revenue classified as current liabilities consists of 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 contract.

(Expressed in Canadian dollars)

10. Provisions:

Balance at January 1, 2010	$	620,825
Provisions made during the period		167,000
Provisions reversed during the period		(79,055)
Change in foreign exchange rate		(12,942)
Balance at December 31, 2010	$	695,828
Balance at January 1, 2011	$	695,828
Provisions made during the period		-
Provisions used during the period		(250,000)
Provisions reversed during the period		(29,637)
Change in foreign exchange rate		8,039
Balance at September 30, 2011	$	424,230

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 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.

During 2009, a former officer and director requested indemnification from the Company for legal costs incurred in connection with the U.S. Department of Justice anti-trust investigation (note 12(b)). During the first quarter of 2010, this individual 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 the individual 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. The individual 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 the individual. The Company filed a Motion for Leave to Appeal this decision which was dismissed on September 23, 2011. As a result, the Company is now required to advance funds to the individual to cover his legal expenses in connection with the criminal proceedings. Subsequent to the end of the third quarter the Company made a payment of $82,200 to the individual in respect of previously accrued legal costs.

10. 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 the former officer and director, 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 September 30, 2011 the Company has accrued $324,230 in respect of this matter composed of the retention and the legal costs incurred by the individual 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 loss of $8,039 in 2011 on the U.S. dollar portion of the liability. The Company's obligation may differ from the accrued amount of $324,230 depending upon the outcome of future events which cannot be determined at this time. The obligation may increase if the individual 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 the individual or offset against the reward for tenure payments due to him (note 12(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.

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.

(Expressed in Canadian dollars)

11. Finance lease obligations:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 17.

	September 30, 2011	December 31, 2010	January 1, 2010
Current liabilities			
Current portion of finance lease liabilities	$ 153,279	$ 182,838	$ 135,316
Non-current liabilities			
Finance lease liabilities	$ 47,836	$ 155,206	$ 229,330

Terms and debt repayment schedule:

				September 30, 2011		December 31, 2010	
	Currency	Interest rate %	Year of maturity	Face value	Nominal Carrying amount	Face value	Carrying amount
Finance lease liabilities	CAD	up to 1.75	2011-2014	$202,420	$201,115	$341,608	$338,044

	Currency	Nominal interest rate %	Year of maturity	Face value	January 1, 2010 carrying amount
Finance lease liabilities	CAD	1.0 – 6.25	2011-2013	$376,908	$364,646

The finance leases are secured by the related equipment.

(Expressed in Canadian dollars)

11. Finance lease obligations (continued):

Finance lease liabilities:

	Future Minimum Lease Payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	September 30,			December 31,			January 1,		
	2011	2011	2011	2010	2010	2010	2010	2010	2010
Less than one year	$154,461	$1,182	$153,279	$185,584	$2,746	$182,838	$141,625	$ 6,309	$135,316
Between one and five years	47,959	123	47,836	156,024	818	155,206	235,283	5,953	229,330
	$202,420	$1,305	$201,115	$341,608	$3,564	$338,044	$376,908	$12,262	$364,646

12. Long-term liabilities:

Long-term liabilities comprise the following:

	Tenure agreement	U.S. Department of Justice	Total
	(a)	(b)	
Balance January 1, 2010	$ 866,908	$ 2,331,143	$ 3,198,051
Paid during 2010	(79,000)	(201,200)	(280,200)
Unwinding of discount	32,725	145,864	178,589
Foreign exchange gain	-	(124,613)	(124,613)
Balance December 31, 2010	820,633	2,151,194	2,971,827
Paid during 2011	(59,250)	(1,596,475)	(1,655,725)
Unwinding of discount	14,716	4,836	19,552
Foreign exchange loss	-	7,012	7,012
	776,099	566,567	1,342,666
Less current portion	(79,000)	(566,567)	(645,567)
Balance September 30, 2011	$ 697,099	$ -	$ 697,099

(a) The tenure agreement is between the Company and its founder and former CEO.

12. Long-term liabilities (continued):

(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 (note 19(b)). The carrying value of the liability is 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 has agreed to accelerate its payments such that the balance of the obligation will be paid in full during 2011. As a result of the liability payment being accelerated, it has been reclassified as a current liability and this increased the unwinding of the discount in 2010 by $102,213.

13. Capital and other components of equity:

(a) Share capital:

Issuance of common shares:

On May 7, 2010, the Company completed a financing arrangement with a syndicate of underwriters (“Underwriters”) whereby the Underwriters agreed to purchase on a bought deal basis, an aggregate of 8,196,722 units (“Units”) at a price of $3.05 per Unit. Each Unit consists of one common share of the Company and one-half of one warrant of the Company, with each warrant entitling the holder to purchase one common share of the Company at a price of $3.75 expiring May 7, 2012. The gross proceeds received by the Company from the distribution on May 7, 2010 were $25,000,002. Net proceeds from this financing transaction were $22,835,404.

The Company had agreed to grant the Underwriters an over-allotment option to purchase an additional 15% of the offering, which expired on June 7, 2010. The Underwriters sold 1,229,508 units in connection with the over-allotment which was the maximum amount allowed by the prospectus. The share portion of the over-allotment was satisfied by the Underwriters’ purchase of 1,229,508 common shares of the Company on the secondary market. On May 21, 2010 the Company provided the warrant portion of the over-allotment by issuing 614,754 warrants for gross proceeds of $135,246. Net proceeds from this additional financing transaction were $126,455.

The Company granted the Underwriters compensation options to purchase additional Units equal to 6.5% of all Units issued pursuant to the May 7, 2010 closing at a price of $3.05 per Unit. The Underwriters also received compensation options equal to 6.5% of the warrants issued in connection with the over-allotment option. The compensation options issued on May 21, 2010 carry the right to purchase one-half of one warrant at a price of $0.22. All the compensation options expire on May 7, 2012, none have been exercised as at September 30, 2011.

(Expressed in Canadian dollars)

13. Capital and other components of equity (continued):

The fair value of the shares issued in connection with the public offering closing May 7, 2010 was determined to be $2.71, the closing price of the stock on the Toronto Stock Exchange on May 6, 2010.

Common shares and preference shares:

At September 30, 2011 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, 2010	27,487,176	$ 71,949,963
Shares issued in connection with public offering	8,196,722	22,213,117
Share issue costs	-	(2,354,916)
Share options exercised (note 14)	283,332	241,220
Warrants exercised	1,080,000	1,314,656
Balance December 31, 2010	37,047,230	93,364,040
Share options exercised	1,598,332	3,526,231
Balance September 30, 2011	38,645,562	$ 96,890,271

(Expressed in Canadian dollars)

13. Capital and other components of equity (continued):

(b) Contributed surplus:

	September 30, 2011	December 31, 2010
Balance, beginning of year	$ 4,846,334	$ 4,244,554
Stock-based compensation charged to earnings	257,557	317,974
Amount transferred to share capital for options exercised	-	(98,721)
Fair value of compensation options issued in connection with share and warrant offering closing May 7, 2010	-	483,992
Excess fair value of warrants issued on over-allotment closing May 21, 2010 over consideration received	-	(110,656)
Fair value of compensation options issued in connection with over-allotment closing May 21, 2010	-	9,191
Conversion from equity-settled to cash-settled stock option arrangement (note 14)	(791,617)	-
Balance, end of period	$ 4,312,274	$ 4,846,334

(c) Share purchase warrants:

At September 30, 2011, the Company has 4,713,115 warrants outstanding which are 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. All outstanding warrants expire May 7, 2012. None of these warrants were exercised during the nine month period ended September 30, 2011.

The fair value of one warrant issued in connection with the public offering closing on May 7, 2010 was determined to be $0.68, twice the difference between the Unit price of $3.05 and the fair value of the shares issued of $2.71.

The fair value of the warrants issued on May 21, 2010 as the over-allotment option was determined to be $0.40, the closing price of the warrant on the Toronto Stock Exchange on May 20, 2010.

(Expressed in Canadian dollars)

13. Capital and other components of equity (continued):

At January 1, 2010, the Company had 1,080,000 outstanding warrants which were exchangeable into common shares of the Company at the holder's option on a one-for-one basis, at any time between March 1, 2008 and March 1, 2010, at a price of $0.77 for the first 540,000 warrants exercised and at $0.87 with respect to the remaining 540,000 warrants. On February 19, 2010 all of these warrants were exercised for aggregate consideration of $885,600.

	Warrants	Amount
Balance, January 1, 2010	1,080,000	$ 429,056
Warrants exercised	(1,080,000)	(429,056)
Warrants issued in connection with public offering closing May 7 and 21, 2010 net of issue costs	4,713,115	2,721,131
Balance, December 31, 2010 and September 30, 2011	4,713,115	$ 2,721,131

14. 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 requires 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 is for the account of the Company.

14. Share-based payment (continued):

This feature is 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 are accounted for as liabilities measured at fair value at the end of each reporting period and the expense is recognized over the relevant vesting period. The compensation cost related to the awards will be remeasured and adjusted each period while the options are outstanding. In addition, any change in price that is paid to or received from the investment dealer is recorded as an adjustment to stock compensation expense.

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 the Company amended the above arrangement. The changes require 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 require 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 stock options issued prior to 2011 continued to be subject to the arrangement with the investment dealer and were accounted for as cash-settled awards. On September 30, 2011, the fair value of these stock options was remeasured, resulting in a recovery of $131,127 to stock compensation expense and an equivalent decrease recorded to the liability.

(Expressed in Canadian dollars)

14. Share-based payment (continued):

During the nine months ended September 30, 2011 the Company issued 1,435,000 stock options (2010 – nil), of which 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 are 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 are 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. Stock compensation expense of $208,267 was incurred on the options issued in the third quarter. Total stock compensation expensed during the quarter for both cash-settled and equity-settled options was $77,140 (2010 – $33,235).

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

The following summarizes the transactions relating to the stock compensation liability:

Fair value of options as at March 3, 2011	$ 3,042,998
Increase in fair value of liability	144,945
Exercise of options	(2,780,831)
Cash-settled stock-based liability as at September 30, 2011	$ 407,112

(Expressed in Canadian dollars)

14. Share-based payment (continued):

The following table summarizes information relating to outstanding and exercisable options at September 30, 2011:

	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	133,335	2.47	$ 0.24	133,335	$ 0.24
$ 1.99	7,500	4.21	1.99	7,500	1.99
$ 2.08	270,625	4.19	2.08	270,625	2.08
$ 2.12	1,435,000	4.93	2.12	150,000	2.12
	1,846,460		$ 1.98	561,460	$ 1.65

The fair value of each option grant outstanding on September 30, 2011 was estimated using the Black-Scholes option pricing model using the following weighted average assumptions and market information:

Options expiring	August, 2011 and March, 2014	December, 2015	September, 2016
Share price at September 2, 2011	$ -	$ -	$ 2.12
Share price at September 30, 2011	1.99	1.99	-
Risk-free interest rate	0.80%	0.99%	1.27%
Expected option lives years	1.80	2.02	3.17
Expected volatility	81.50%	81.50%	72.20%
Dividend yield	Nil%	Nil%	Nil%

Total fair value of the options granted in the third quarter was $1,469,583 or $1.02 per option (2010 – nil). Of the 1,435,000 options issued, 150,000 of the options vest immediately, with the balance vesting once certain performance criteria are met.

(Expressed in Canadian dollars)

15. Management/Board restructuring costs

During the latter part of the first quarter and most of the second quarter of 2011 the Company was engaged in a proxy contest with its largest shareholder. The contest resulted in the replacement of the majority of the Board of Directors and the CEO of the Company. The costs of the process, including payments required by the settlement agreement with the shareholder as described in note 20, are as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Proxy contest expenses	$ 13,651	$ -	$ 1,544,873	$ -
Severance costs	-	-	777,981	-
Special directors' and officers' insurance costs	-	-	114,569	-
Other expenses	-	-	66,300	-
	$ 13,651	$ -	$ 2,503,723	$ -

16. Earnings per share:

Basic earnings per share

The calculation of basic earnings per share at September 30, 2011 was based on the net income (loss) attributable to common shareholders of $(7,730,854) (2010 - $17,310,244), and a weighted average number of common shares outstanding of 38,093,334 (2010 – 32,955,191).

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:

	2011	2010
Net income (loss) for the period	$ (7,730,854)	$ 17,310,244
Net income (loss) (per common share) -		
Basic	(0.20)	0.53
Diluted	(0.20)	0.50
Weighted average number of shares:		
Basic	38,093,334	32,955,191
Diluted	38,502,173	34,468,735

16. Earnings per share (continued):

Options aggregating 408,839 (2010 – 1,513,545) and warrants aggregating nil (2010 – nil) have been included in the computation of diluted earnings per share for the nine months ended September 30, 2011.

17. 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 interim condensed 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.

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.

17. Financial risk management (continued):

Amounts receivable and holdbacks 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 holdbacks receivable. As at September 30, 2011, 2 customers represented 69% and 13% respectively (December 31, 2010 - 2 customers – 16% and 8%, January 1, 2010 - 2 customers – 44% and 43%) of the aggregate amount of amounts receivable and holdbacks receivable.

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. As at September 30, 2011, nil (December 31, 2010 - nil, January 1, 2010 43%) of the aggregate amount of amounts receivable and holdbacks receivable are protected by a payment bond.

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 September 30, 2011, the Company had a contract to sell $275,000 U.S. at $1.0191 for a total of $280,253. The contract expires in December, 2011. The fair value of the contact as at September 30, 2011 was an unrealized loss of $8,003 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).

(Expressed in Canadian dollars)

17. Financial risk management (continued):

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		
	September 30, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	$ 60,025,814	$ 64,993,643	$ 17,645,459
Restricted cash	210,054	10,649	865,918
Amounts receivable	131,971	321,906	10,215,767
Holdback receivable	300,000	-	3,029,363
Total	$ 60,667,839	$ 65,326,198	$ 31,756,507

The aging of amounts receivable at the reporting date was:

	Carrying amount		
	September 30, 2011	December 31, 2010	January 1, 2010
Current	$ 123,332	$ 152,868	$ 4,972,277
31-90 days	7,794	103,008	4,924,171
Over 90 days	1,845	66,030	319,319
Total amounts receivable	$ 132,971	$ 321,906	$ 10,215,767
Less: Allowance for bad debts	(1,000)	-	-
Net amounts receivable	$ 131,971	$ 321,906	$ 10,215,767

There was no significant change in the allowance for credit losses in the period.

17. Financial risk management (continued):

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 September 30, 2011, the Company has a cash and cash equivalents balance of $60,025,814 (December 31, 2010 - $64,993,643; January 1, 2010 - $17,645,459) and positive working capital of $53,052,632 (December 31, 2010 - $59,618,606; January 1, 2010 - $18,617,564). Management believes the Company has sufficient cash flows to meet amounts due.

The Company had no bank borrowings outstanding at September 30, 2011 and December 31, 2010.

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	2011	2012	2013	2014	2015	Thereafter
Department of Justice Fine and Restitution	$ 0.57	$ 0.57	$ 0.57	$ –	$ –	$ –	$ –	$ –
Tenure agreement	0.78	0.89	0.02	0.08	0.08	0.08	0.08	0.55
Operating leases	–	0.07	0.03	0.04	–	–	–	–
Finance leases	0.20	0.20	0.05	0.12	0.03	–	–	–
Accounts payable and accrued liabilities	2.54	2.54	2.04	0.50	–	–	–	–
Total contractual obligations	$ 4.09	$ 4.27	$ 2.71	$ 0.74	$ 0.11	$ 0.08	$ 0.08	$ 0.55

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

17. Financial risk management (continued):

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 or its butane swap contracts as hedges of underlying assets, liabilities, firm commitments or anticipated transactions 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 September 30, 2011 the Company did not have any foreign exchange or butane swap contracts in place.

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. These transactions are primarily denominated in U.S. dollars. In respect of monetary assets and liabilities denominated in U.S. dollars, the Company ensures that its net exposure is kept to an acceptable level by buying or selling U.S. dollars at spot rate when necessary or 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.

17. Financial risk management (continued):

As at September 30, 2011, the Company had a foreign exchange contract to sell $275,000 U.S. at $1.0191 for a total of $280,253 (2010 – nil).

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

	September 30, 2011 U.S.$	December 31 2010 U.S.$	January 1, 2010 U.S.$
Cash, restricted cash and cash equivalents	$ 113,884	$ 1,801,233	$ 1,030,863
Amounts receivable	1,269,363	447,618	1,452,748
Accounts payable and accrued liabilities	(1,132,300)	(2,326,877)	(2,608,210)
Notional amount of U.S. dollar forward contracts	(275,000)	-	-
Net exposure in U.S. dollars	$ (24,053)	$ (78,026)	$ (124,599)

Sensitivity analysis:

A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have decreased (increased) equity and increased (decreased) the loss by approximately $2,000 as at September 30, 2011. A similar strengthening (weakening) as at December 31, 2010 would have increased (decreased) equity and profit by approximately $8,000.

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 September 30, 2011, a one percent point increase (decrease) in the bank prime rate would increase (decrease) interest income by approximately $600,000 (2010 - $640,000).

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.

17. Financial risk management (continued):

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.

18. Operating segments:

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.

19. Contingencies:

(a) Federal Creosote project

During the second quarter of 2008, the prime contractor on the Federal Creosote 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 claims these three individuals colluded with an employee of the prime contractor relating to, among other things, the awarding of the Federal Creosote 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. The outcome of this matter is not determinable and no amount has been recorded in the Company's financial statements in respect of the complaint.

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

The U.S. Department of Justice Civil Division is 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 outcome of this investigation is not determinable and no amount has been recorded in the Company's financial statements in respect of this investigation. The Company continues to bid on work for various U.S. government entities and does not believe that this matter will affect its eligibility for this work. The Company is cooperating fully with the investigation.

(c) Claim against Company's founder and former CEO for unlawful activities

The Company has filed a claim against the Company's founder and former CEO 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 12(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 the Company's founder and former CEO that are related to the Company's claim.

19. Contingencies (continued):

(d) 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 and the outcome is not determinable. No accrual has been recorded in connection with this claim.

(e) Claim by founder and former CEO

In 2011 the Company's founder and former CEO ("Plaintiff") served a claim against Second City Capital Partners I, Limited Partnership ("Second City"), Samuel Belzberg ("Belzberg"), the Company and its former Chairman. The claim alleges that the Company was in possession of material undisclosed information and that, while in possession of such information, the Company and its former Chairman, and Belzberg directed Second City to purchase the Company's common shares from the Plaintiff. The plaintiff has not specified a dollar value for damages. Management believes there is no basis for making these allegations against the Company. Accordingly the Company has made no provision in respect of this matter and intends to vigorously defend against the claim. The Plaintiff has subsequently discontinued his claim against the Company's former Chairman.

(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. However, should any loss result from the resolution of these claims, such loss would be charged against income in the year the claim is resolved.

20. Related parties:

The Company had retained the services of a corporation, owned by a former director, to support its corporate development activity commencing in September, 2010. During the nine month period ended September 30, 2011, the Company paid consulting fees of $119,506 (2010 – $33,335) under this arrangement. The agreement was terminated effective June 22, 2011.

During the nine months ended September 30, 2011, the Company paid tenure payments of $59,250 (2010 - $59,250) to a former director and officer of the Company.

20. Related parties (continued):

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 and paid in the third quarter. 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 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 will receive a further termination payment of $137,500. 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 and is entitled to receive a further termination payment of $159,333 upon successful completion of his service obligation to the Company. 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 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.

21. Explanation of transition to IFRS:

The accounting policies set out have been applied in preparing the financial statements for the nine months ended September 30, 2011, the comparative information presented in these financial statements for both the nine months ended September 30, 2010 and the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's transition date).

(a) Initial elections upon adoption

The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The IFRS 1 exemptions and exceptions applied in the conversion from CGAAP to IFRS by the Company are explained as follows:

IFRS Exemption Options

(i) Business combinations

The Company elected under IFRS 1 not to restate previous business combinations prior to the transition date.

(ii) Share-based payments

The Company elected under IFRS 1 not to apply IFRS 2, *Share-Based Payments*, to all equity instruments of share-based payments that had vested at the transition date.

(iii) Fair value as deemed cost

IFRS 1 also provides an optional election on transition to IFRS which allows the use of fair value as deemed cost on items of property, plant and equipment. The Company has elected under IFRS 1 to fair value buildings and land improvements, kilns and refractory and mobile and treatment equipment.

IFRS Mandatory exception

(i) Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under CGAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

21. Explanation of transition to IFRS (continued):

b) Reconciliation between CGAAP and IFRS

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous CGAAP. An explanation of how the transition from previous CGAAP to IFRSs has affected the Company's financial position, statement of comprehensive income and cash flows is set out in the following tables and the notes that accompany the tables.

(Expressed in Canadian dollars)

21. Explanation of transition to IFRS (continued):

Below is the Company's consolidated statement of financial position as at September 30, 2010 under IFRS.

	Note	Previous Canadian GAAP	Effect of Transition to IFRS	IFRS
Cash and cash equivalents		$ 64,144,682	$ -	$ 64,144,682
Restricted cash		10,617	-	10,617
Amounts receivable		3,877,053	-	3,877,053
Prepaid expenses and other		790,743	-	790,743
Assets classified as held for sale		2,675,532	-	2,675,532
		71,498,627	-	71,498,627
Property, plant and equipment	(c)	7,942,359	1,828,284	9,770,643
Assets under finance lease	(c)	505,700	24,337	530,037
		$ 79,946,686	$ 1,852,621	$ 81,799,307
Accounts payable and accrued liabilities	(d)	$ 4,255,235	$ (615,777)	$ 3,639,458
Liabilities related to assets held for sale		579,269	-	579,269
Current tax payable		991,924	-	991,924
Deferred revenue		987,417	-	987,417
Provisions	(d)	-	615,777	615,777
Current portion of long-term Liabilities		284,115	-	284,115
Current portion of finance lease Obligations		182,310	-	182,310
		7,280,270	-	7,280,270
Long-term liabilities		2,854,679	-	2,854,679
Long-term portion of financial lease obligations		201,115	-	201,115
Shareholders' equity				
Share capital		93,364,040	-	93,364,040
Contributed surplus		4,626,981	-	4,626,981
Share purchase warrants		2,721,131	-	2,721,131
Accumulated deficit	(c)	(31,101,530)	1,852,621	(29,248,909)
		$ 79,946,686	$ 1,852,621	$ 81,799,307

(Expressed in Canadian dollars)

21. Explanation of transition to IFRS (continued):

Below is the Company's consolidated statement of changes in equity as at January 1, 2010, September 30, 2010 and December 31, 2010 under IFRS:

	As at January 1, 2010	As at September 30, 2010	As at December 31, 2010
Total shareholders' equity under CGAAP	$ 28,228,046	$ 69,610,622	$ 66,936,096
Adjustment for fair value as deemed cost on property, plant and equipment	1,836,372	1,852,621	1,831,409
Total shareholders' equity under IFRS	$ 30,064,418	$ 71,463,243	$ 68,767,505

(Expressed in Canadian dollars)

21. Explanation of transition to IFRS (continued):

The following table sets out the reconciliation of comprehensive income for the three months ended September 30, 2010:

	Note	Previous Canadian GAAP	Effect of Transition to IFRS	IFRS
Sales		$ 10,604,723	$ -	$ 10,604,723
Expenses				
Operating costs		2,396,652	-	2,396,652
Administrative and business development	(e)	1,642,495	(16,169)	1,626,326
Amortization	(c)	271,551	(8,396)	263,155
Foreign exchange	(e)	(1,456)	1,456	-
Interest	(e)	79,561	(79,561)	-
		4,388,803	(102,670)	4,286,133
Results from operating activities		6,215,920	102,670	6,318,590
Other income, including interest	(f)	129,887	(129,887)	-
Finance income	(f)	-	129,887	129,887
Finance costs	(e)	-	(94,274)	(94,274)
Net finance costs		-	35,613	35,613
Income before income taxes		6,345,807	8,396	6,354,203
Income taxes (recovery)				
Current		(1,509,817)	-	(1,509,817)
Deferred		520,140	-	520,140
		(989,677)	-	(989,677)
Net income, being comprehensive income for the period		$ 7,335,484	$ 8,396	$ 7,343,880

(Expressed in Canadian dollars)

21. Explanation of transition to IFRS (continued):

The following table sets out the reconciliation of comprehensive income for the nine months ended September 30, 2010:

	Note	Previous Canadian GAAP	Effect of Transition to IFRS	IFRS
Sales		$ 32,668,014	$ -	$ 32,668,014
Expenses				
Operating costs		7,877,376	-	7,877,376
Administrative and business development	(f)	4,225,923	(49,523)	4,176,400
Amortization	(c)	795,593	(13,697)	781,896
Foreign exchange	(g)	812	(812)	-
Interest	(f)	608,267	(608,267)	-
		13,507,971	(672,299)	12,835,672
Results from operating activities		19,160,043	672,299	19,832,342
Other income, including interest	(g)	214,833	(214,833)	-
Finance income	(g)	-	223,822	223,822
Finance costs	(f)	-	(665,040)	(665,040)
Net finance costs		-	(441,218)	(441,218)
Income before income taxes		19,374,876	16,248	19,391,124
Income taxes (recovery)				
Current		(1,834,770)	-	(1,834,770)
Deferred		3,915,650	-	3,915,650
		2,080,880	-	2,080,880
Net income, being comprehensive income for the period		$ 17,293,996	$ 16,248	$ 17,310,244

Notes to the reconciliations:

(c) On the transition to IFRS, the Company elected to measure buildings and land improvements, kilns and refractory, mobile and treatment equipment at its fair value and use that fair value as its deemed cost at that date. Under previous CGAAP these certain categories of property, plant and equipment were measured on a depreciated cost basis. The fair value of the property, plant and equipment increased by $1,831,409 for the year ended December 31, 2010.

(Expressed in Canadian dollars)

21. Explanation of transition to IFRS (continued):

The impact arising from the change is summarized as follows:

Consolidated statement of comprehensive income

	For the period ended September 30, 2010	For the year ended December 31, 2010
Decrease in amortization expense	$ 13,697	$ 19,419
Increase (decrease) in gain on disposal of property, plant and equipment	2,551	(24,382)
Increase (decrease) in net income for the period	$ 16,248	$ (4,963)

Consolidated statement of financial position

	January 1, 2010	September 30, 2010	December 31, 2010
Increase in property, plant and equipment	$ 1,865,946	$ 1,828,284	$ 1,788,719
Increase (decrease) in assets under finance lease	$ (29,574)	$ 24,337	$ 42,690
Increase in accumulated deficit	$ (1,836,372)	$ (1,852,621)	$ (1,831,409)

(d) The Company has previously classified contingent obligations as accounts payable and accrued liability or a long-term debt, depending upon the nature of the obligation. In accordance with IFRS and the Company's accounting policy, these obligations have been reclassified to provisions.

The impact arising from the change is summarized as follows:

Consolidated statement of financial position

	January 1, 2010	September 30, 2010	December 31, 2010
Decrease in accounts payable and accrued liabilities	$ (341,188)	$ (615,777)	$ (695,827)
Decrease in current portion of long-term liabilities	$ (279,637)	$ -	$ -
Increase in provisions	$ 620,825	$ 615,777	$ 695,827

21. Explanation of transition to IFRS (continued):

(e) The unwinding of the discount on the tenure and Department of Justice obligations were reported as an administrative and business development costs under CGAAP and have been reclassified to finance cost. Interest expense was reported as a separate line item under CGAAP and has also been reclassified to finance cost under IFRS. Foreign exchange losses and losses on disposal of property, plant and equipment have been reallocated to financing costs. There is no impact to the net earnings of the Company.

(f) Interest income, gains and losses on disposal of capital assets and rebates were reported as other income under CGAAP and have been reclassified to finance income. Foreign exchange was reported as a separate line item under CGAAP and has also been reclassified to finance income under IFRS. Foreign exchange gains and gains on disposal of property, plant and equipment have been reallocated to financing income. There is no impact to the net earnings of the Company.

(g) The IFRS transition adjustments noted above did not have a material impact on the presentation of the Company's statement of cash flow.