Consolidated Financial Statements of

BENNETT ENVIRONMENTAL INC.

Years ended December 31, 2009 and 2008

BENNETT ENVIRONMENTAL INC.

Consolidated Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 17,645,459	$ 2,602,692
Restricted cash (note 3)	865,918	1,793,708
Amounts receivable (note 7)	10,215,767	7,414,973
Holdbacks receivable (note 8)	3,029,363	-
Deferred transportation costs	-	110,283
Prepaid expenses and other	446,104	701,976
Future income tax asset (note 17)	3,915,650	-
	36,118,261	12,623,632
Property, plant and equipment (note 12)	8,424,518	9,664,407
Assets under capital leases (note 4)	412,074	-
Assets held for sale (note 5)	2,675,532	3,007,284
	$ 47,630,385	$ 25,295,323
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,710,496	$ 4,185,212
Liabilities related to assets held for sale (note 5)	475,532	1,551,500
Income taxes payable	2,087,079	2,363,981
Deferred revenue	7,286,897	175,496
Current portion of long-term liabilities (note 13)	565,258	1,019,244
Current portion of lease obligations (note 14)	135,316	-
	16,260,578	9,295,433
Long-term liabilities (note 13)	2,912,430	3,460,152
Long-term portion of lease obligations (note 14)	229,330	-
Shareholders' equity:		
Share capital (note 15)	71,949,963	71,733,963
Contributed surplus (note 15)	4,244,554	4,085,649
Share purchase warrants (note 16)	429,056	429,056
Accumulated deficit	(48,395,526)	(63,708,930)
	28,228,047	12,539,738
Continuing operations (note 1)		
Related party transactions (note 18)		
Contingencies (note 22)		
Commitments (note 20)		
	$ 47,630,385	$ 25,295,323

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Christopher Wallace, Director

Ralph Neville, Director

BENNETT ENVIRONMENTAL INC.

Consolidated Statements of Operations and Comprehensive Income (Loss)
Years ended December 31, 2009 and 2008

	2009	2008
Sales	$ 28,058,146	$ 8,289,104
Expenses:		
Operating costs	10,104,108	5,243,498
Administration and business development	4,507,128	5,469,809
Depreciation and amortization	1,855,050	2,177,512
Foreign exchange	(13,395)	8,204
Impairment of long-lived assets (note 5)	331,752	723,903
Recovery of long-term receivables (note 9)	-	(700,197)
Interest	107,734	280,630
	16,892,377	13,203,359
Earnings (loss) before the undernoted	11,165,769	(4,914,255)
U.S. Department of Justice (note 13(c))	-	332,468
Other income, including interest	299,669	362,044
Earnings (loss) before income taxes	11,465,438	(4,219,743)
Income taxes (recovery) (note 17):		
Current	67,684	69,473
Future	(3,915,650)	-
	(3,847,966)	69,473
Net earnings (loss) from continuing operations	15,313,404	(4,289,216)
Net loss from discontinued operations (note 6)	-	(343,033)
Net earnings (loss) for the year, being comprehensive income (loss)	$ 15,313,404	$ (4,632,249)
Net earnings (loss) from continuing operations per common share (note 19)		
Basic	$ 0.56	$ (0.16)
Diluted	0.55	(0.16)
Net earnings (loss) from discontinued operations per common share (note 19)		
Basic	$ -	$ (0.01)
Diluted	-	(0.01)
Net earnings (loss) per common share (note 19)		
Basic	$ 0.56	$ (0.17)
Diluted	0.55	(0.17)

See accompanying notes to consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Consolidated Statements of Accumulated Deficit and Other Comprehensive Income
Years ended December 31, 2009 and 2008

	2009	2008
Accumulated deficit and other comprehensive income, beginning of year	$ (63,708,930)	$(59,076,681)
Net earnings (loss) for the year	15,313,404	(4,632,249)
Accumulated deficit and other comprehensive income, end of year	$ (48,395,526)	$(63,708,930)

See accompanying notes to consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Consolidated Statements of Cash Flows
Years ended December 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net earnings (loss) from continuing operations	$ 15,313,404	$ (4,289,216)
Items not involving cash:		
Depreciation and amortization	1,855,050	2,177,512
Stock-based compensation	259,705	86,470
U.S. Department of Justice (note 13(c))	-	263,468
Foreign exchange related to U.S. Department of Justice accrual (note 13 (c))	(383,407)	-
Impairment of long-lived assets	331,752	723,903
Gain on sale of investment	(79,910)	(88,704)
Gain on sale of property, plant and equipment	(56,438)	-
Future income taxes recovery	(3,915,650)	-
Accretion interest	74,173	146,363
Increase of tenure liability	-	186,956
Changes in non-cash operating working capital	1,903,575	88,365
Cash provided by (used for) continuing operations	15,302,254	(704,883)
Cash provided by (used for) discontinued operations	-	153,030
Cash provided by (used for) operating activities	15,302,254	(551,853)
Financing:		
Cash provided by (used for) financing activities		
Repayment of lease obligations	(62,394)	-
Repayment of long-term liabilities	(696,326)	-
Issuance of share capital due to exercise of stock options	115,200	-
Cash provided by (used in) financing activities	(643,520)	-
Investments:		
Cash provided by (used for) investing activities		
Change in restricted cash	927,790	(905,392)
Proceeds on disposal of investment	-	154,678
Purchase of property, plant and equipment	(543,757)	(4,577)
Cash provided by (used in) investing activities	384,033	(755,291)
Increase (decrease) in cash and cash equivalents	15,042,767	(1,307,144)
Cash and cash equivalents, beginning of year	2,602,692	3,909,836
Cash and cash equivalents, end of year	$ 17,645,459	$ 2,602,692
Supplemental cash flow information:		
Interest paid	$ 48,138	$ 77,522
Income tax refund	338,926	1,060,300
Income taxes paid	85,149	-
Non-cash transactions:		
Leases on asset acquisitions	$ 457,860	$ -

See accompanying notes to consolidated financial statements.

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. In 1997, the Company commenced operations at its Récupère Sol Inc. (“RSI”) facility located in Saint Ambroise, Quebec.

In 2002, the Company acquired Material Resource Recovery S.R.B.P. Inc. ("MRR") located in Cornwall, Ontario which carries on the business of remediating hazardous and non-hazardous contaminated electrical equipment and construction material. MRR was sold on December 18, 2008 to a third party (note 6).

In 2004, the Company completed the construction of a new facility located in Belledune, New Brunswick to treat soil contaminated with hydrocarbons and creosote using thermal oxidation technology. During 2006, the Company completed the compliance testing and the results were accepted by the Ministry of Environment in New Brunswick. The Company has entered into an agreement to sell the facility (note 5).

On June 29, 2006, the Company formed a new subsidiary called Trans-Cycle Industries, Ltd. ("TCI"), which acquired all the net assets of Trans-Cycle Industries, Inc. located in Kirkland Lake, Ontario. TCI carries on the business of remediating and disposing of obsolete electrical equipment including transformers, ballasts, capacitors and lead-shielded cable. TCI was sold on December 18, 2008 to a third party (note 6).

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, has operated continuously throughout the balance of 2009. This resulted in positive earnings for the Company for these periods and also on a year to date basis.

1. Continuing operations (continued):

As at December 31, 2009, the Company does not have inventory to operate beyond the end of September, 2010 and based upon the Saint Ambroise facility's history of sporadic operation, there can be no assurance it will do so. These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and satisfy its liabilities in the normal course of business. The consolidated financial statements do not reflect adjustments that would be necessary, if the going concern assumption is not appropriate. If the going concern basis is not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

2. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Bennett Remediation Services Ltd., Bennett RemTech Ltd., Bennett Environmental U.S., Inc. ("BEIUS"), Terra-cycle Environmental USA Inc. RSI, MRR, Bennett Environmental New Brunswick Inc. and TCI. The results of operations of MRR and TCI are included in discontinued operations up to the date of sale. All material intercompany transactions and balances have been eliminated on consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of highly liquid investments having an original term to maturity of three months or less when acquired.

(c) Deferred transportation costs:

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

(Expressed in Canadian dollars)

2. Significant accounting policies (continued):

(d) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization commences on property, plant and equipment once construction has been completed and the asset is available for use.

Depreciation and amortization is provided for using the following methods and annual rates:

Asset	Basis	Rate
Automobiles	Declining balance	30%
Computer equipment	Declining balance	30%
Furniture and equipment	Declining balance	20%
Kilns	Straight line	10 years
Land improvements	Declining balance	8% to 20%
Leasehold improvements	Straight line	Over term of lease
Software	Declining balance	100%
Storage building and pads	Straight line	20 years
Treatment buildings	Declining balance	20%
Treatment equipment	Declining balance	20%

(e) Long-lived assets:

Long lived assets, which comprise property, plant and equipment, are amortized over their estimated useful lives. The Company reviews long-lived assets for impairment upon the occurrence of events or changes in circumstances indicating that the carrying amount may not be recoverable, or that the estimated useful life may require modification.

The Company determines whether there is impairment, when the carrying amount of the asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and disposal. If there is impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, which is calculated using discounted cash flows when quoted market prices are not available. In the fourth quarter of 2009 (and third quarter of 2008) the Company completed its impairment test for long-lived assets and determined that impairments existed (note 5).

2. Significant accounting policies (continued):

(f) Capital leases:

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease and are amortized using the declining balance method at a rate of 20%. The related lease payments are recorded as a debt obligation (note 14).

(g) Stock-based compensation:

The Company accounts for all stock-based payments to employees and non-employees using the fair value based method of accounting. The Company measures the compensation cost of stock-based option awards to employees at the grant date using the Black-Scholes option pricing model to determine the fair value of the options. The compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options. Actual forfeitures are accounted for as they occur. When the stock options are exercised, capital stock is increased by the sum of the consideration paid and the carrying value of the stock options recorded to contributed surplus.

(h) Revenue recognition:

The Company provides highly specialized treatment of contaminated materials. In some cases, the Company is also engaged to remove and transport the contaminated materials to its facilities for processing and disposal. The Company recognizes revenue for these activities using the proportional performance method when all of the following criteria are met:

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

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

(iii) collection is reasonably assured.

2. Significant accounting policies (continued):

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

All other processing costs are expensed as incurred.

Revenue from long-term fixed-price soil remediation contracts is recognized using the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. This method is used because management considers costs to be the best available measure of performance on these contracts. Contract costs include all direct material and wages and related benefits. Revenue related to unpriced change orders under the percentage of completion method is recognized to the extent of the costs incurred, if the amount is probable of collection. If it is probable that the contract will be adjusted by an amount that exceeds the costs attributable to the change order and the amount of the excess can be reliably estimated, revenue in excess of the costs attributable to unpriced change orders is recorded when realization is assured beyond a reasonable doubt.

The Company records revenue relating to claims to the extent of costs incurred and only when it is probable that the claim will result in additional contract revenue and the amount can be reasonably estimated. Claims are amounts in excess of the agreed upon contract price that the Company seeks to collect from its customers for customer-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs.

The Company did not have any long-term fixed price contracts in process during the years ended December 31, 2009 and 2008.

2. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the going concern assumption, determination of percentage of completion and estimated project costs and revenues for contract revenue recognition, recoverability of amounts receivable, property, plant and equipment and other assets, the determination of stock-based compensation, the assessment of realization of future income tax balances, estimates of future obligations related to asset retirement obligations and environmental obligations and amounts accrued for litigation. Actual results could differ from those estimates.

(j) Translation of foreign currency:

Monetary items denominated in foreign currency are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the consolidated statement of operations.

The Company's foreign subsidiary, BEIUS, is an integral part of the Company's operations and has, therefore, been translated using the temporal method. Under the temporal method, revenue and expenses are translated using the average exchange rate during the year, monetary assets and liabilities at the year-end exchange rates and non-monetary assets and liabilities at their historical exchange rates. Differences arising from currency translation are adjusted through the consolidated statement of operations.

2. Significant accounting policies (continued):

(k) Financial instruments:

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. These estimates, although based on the relevant market information about the financial instrument, are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(i) Fair values:

The carrying values of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these instruments.

The carrying values of long-term liabilities approximate their fair values since the interest rates are based on market rates of interest for similar debt securities.

(ii) Foreign currency risk:

A portion of the Company's revenue is transacted in United States dollars. Fluctuations in the exchange rates between the United States dollar and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations.

The Company has entered into foreign exchange forward contracts in order to reduce the impact of fluctuating foreign exchange rates. These contracts have been marked to market, with the realized and unrealized gains or losses from changes in fair value recorded in earnings.

2. Significant accounting policies (continued):

(l) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases (temporary differences). Changes in the net future tax asset or liability are included in earnings. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the year that includes the date of enactment or substantive enactment. A valuation allowance is recorded to reduce future tax assets to an amount that is anticipated to be realized on a more-likely-than-not basis.

(m) Earnings (loss) per share:

Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the weighted average number of common and dilutive potential common shares outstanding during the year. Potential common shares consist of the incremental number of common shares issuable upon the exercise of stock options and warrants and are calculated using the treasury stock method.

(n) Asset retirement obligations:

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. The liability is increased by the passage of time and changes in the amount and timing of estimated future cash flows needed to settle the obligation. The cost is subsequently amortized into income on the same basis as the related asset.

The Company did not have any asset retirement obligations during the years ended December 31, 2009 and 2008.

2. Significant accounting policies (continued):

(o) Employee future benefits:

(i) A liability and expense for contractual termination benefits is recorded based on their fair value when it is probable that employees will be entitled to the benefits, and the amount can be reasonably estimated. This occurs when management approves and commits the Company to the obligation; management's termination plan specifically identifies all significant actions to be taken; actions required to fulfill management's plan are expected to begin when approved; and significant changes to the plan are not likely.

(ii) A liability and expense is recorded for special termination benefits based on their fair value when management approves and commits the Company to the obligation; management's termination plan specifically identifies the target level of reduction in number of employees, job classifications and their locations; the benefit arrangement has been communicated to employees in sufficient detail to enable them to determine the type and amount of benefits they will receive upon termination; and the period of time to complete the plan of termination indicates that significant changes to the plan are not likely.

(iii) The Company records a liability at the present value of the benefits expected to be paid under the agreement for the tenure agreement with the founder of the Company. A risk adjusted discount rate is used at the date of measurement.

(p) Recently adopted pronouncements:

(i) Goodwill and intangible assets:

On January 1, 2009, the Company adopted The Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, “Goodwill and Intangible Assets”. Section 3064, replaces Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”. This new standard establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Financial Reporting Standard, IAS 38, Intangible Assets. This new standard did not have an impact on the Company’s consolidated financial statements.

2. Significant accounting policies (continued):

(ii) Credit risk and fair value of financial assets and financial liabilities:

On January 20, 2009, the Company adopted the Emerging Issues Committee of the Accounting Standards Board Abstract 173, “Credit Risk and Fair Value of Financial Assets and Financial Liabilities”, which establishes that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This new standard did not have a material impact on the Company’s consolidated financial statements.

(q) Recently issued pronouncements not yet adopted:

(i) International Financial Reporting Standards:

In February 2008, The Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company will be required to report using IFRS beginning January 1, 2011 and is currently in the process of evaluating the impact of the change to IFRS.

(ii) Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, “Consolidated Financial Statements”, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning January 1, 2011. Earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

(iii) In December 2008, the CICA issued Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-Controlling Interests”.

2. Significant accounting policies (continued):

Section 1582 establishes standards for accounting for business combinations and is equivalent to IFRS 3. The new standards apply to business combinations with an acquisition date on or after January 1, 2011; however, earlier adoption is permitted.

Sections 1601 and 1602, together, replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for non-controlling interest in a subsidiary to a business combination. It is equivalent to the provisions of IFRS standard, IAS 27, Consolidated and Separate Financial Statements. The new standards apply to interim and annual consolidated financial statements with fiscal years beginning on or after January 1, 2011. Early adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

3. Restricted cash:

As at December 31, 2009, the Company had restricted cash of $865,918 (2008 - $1,793,708) which includes $10,560 (2008 - $10,442) as required under the Company's corporate credit card agreement; nil (2008 - $1,487,634) required for letters of credit, $255,189 (2008 – $295,632) required for foreign exchange hedging agreements and $600,169 (2008 – nil) required for butane price swap agreements.

4. Assets under capital leases:

Included in capital leases as at December 31, 2009 is equipment with a cost of $457,860 (2008 - nil) less accumulated depreciation of $45,786 (2008 – nil) for a net book value of $412,074 (2008 – nil).

5. Assets and liabilities held for sale:

In December of 2009, the Company sold an option to purchase the Belledune facility expiring December 31, 2010. The option consideration was $100,000 which is refundable under certain conditions and can be applied to the purchase of the property when the option is exercised. The option entitles the holder to purchase the facility for consideration of $2,675,532 including certain liabilities to be assumed by the purchaser. The proposed purchase price has resulted in a writedown of the carrying value of the facility of $331,752 which was recorded in the fourth quarter of 2009.

(Expressed in Canadian dollars)

5. Assets and liabilities held for sale (continued):

During 2008, the Company had entered into an agreement to sell the Belledune facility for $3,007,284 in total consideration including liabilities assumed by the purchaser, resulting in a write-down of $723,903 which was recorded in 2008. In November of 2009 the Company terminated all discussions with the purchaser due to that company's inability to close the sale. The purchaser's deposit of $50,000 was forfeited and recorded in income during the fourth quarter of 2009.

Assets held for sale relate to the Belledune facility and are comprised of the following:

	2009	2008
Assets held for sale:		
Treatment building	$ 83,529	$ 93,886
Treatment equipment	1,888,377	2,122,526
Kiln	703,626	790,872
	$ 2,675,532	$ 3,007,284
Liabilities related to assets held for sale:		
Deferred revenue	$ -	$ 141,700
Accrual for soil treatment	-	1,065,584
Accrual for property taxes	475,532	344,216
	$ 475,532	$ 1,551,500

The Company recorded an impairment charge in the fourth quarter of 2009 (second quarter of 2008) related to reducing the carrying value of the Belledune net assets to their fair value as a result of the agreement to sell the Belledune assets as follows:

	2009	2008
Treatment building	$ 10,357	$ 14,015
Treatment equipment	234,149	316,854
Kiln	87,246	118,063
Deferred permitting costs	-	274,971
	$ 331,752	$ 723,903

(Expressed in Canadian dollars)

6. Discontinued operations:

On December 18, 2008 the Company sold the shares of its TCI and MRR subsidiaries (the "Subsidiaries"). Total consideration, net of working capital adjustments, was estimated to be $211,773 less closing costs of $43,159. The gain on sale was estimated to be $88,704 in 2008 and working capital adjustments resulted in an additional gain of $79,910 in 2009. As part of the closing procedures the purchaser arranged to provide financial assurance necessary to replace the Subsidiaries' deposits held by various Government agencies throughout Canada. These deposits were to be repaid to the Company when finally released by these Government agencies. As at December 31, 2008 these deposits amounted to $3,091,287 including interest and are included in amounts receivable. During 2009 all of these deposits were received by the Company.

Combined revenue during the year up to the date of sale for the Subsidiaries was $5,320,404 and the loss before income taxes was $(343,033).

Summary of Combined Balance Sheets of Subsidiaries sold:

Net working capital deficit	$ (1,499,686)
Property, plant and equipment	1,458,058
Other assets	150,017
Deferred gain	(42,415)
Net assets	$ 65,974

7. Amounts receivable:

	2009	2008
Billed	$ 10,057,115	$ 4,215,701
GST & QST receivable	-	16,455
Refundable deposits (note 6)	-	3,091,287
Due from purchaser of TCI and MRR (note 6)[i]	158,652	91,530
	$ 10,215,767	$ 7,414,973

[i]The amount due from the purchaser was subsequently collected in January, 2010.

8. Holdbacks receivable:

The holdbacks receivable of $3,029,363 represents 20% of the amount invoiced for treated soil to a contractor managing a large project for the Ontario Ministry of the Environment (“M.O.E.”). These holdbacks will be released for payment, 60 days following the acceptance by the M.O.E. of destruction certificates for the first 78,000 tonnes of soil shipped from the project site. The M.O.E. holds a payment bond for approximately $32 million which is intended to guarantee payment to subcontractors in the event of non-payment by the contractor.

9. Long-term receivables:

In 2007 the Company wrote off the remaining amounts receivable totalling $5.0 million due from Defence Construction Canada ("DCC"), a federal government agency, relating to a contract undertaken in 2003 and 2004. The Company continued to pursue a claim against DCC for amounts outstanding.

On December 4, 2008, the Company recorded in income $700,197 as settlement of this claim.

10. Financial instruments:

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. The Board of Directors has responsibility for the review 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 arises from the potential default of a customer in meeting its financial obligation to the Company. The Company has 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.

(Expressed in Canadian dollars)

10. Financial instruments (continued):

The Company is subject to a concentration of credit risk in its amounts receivable and holdbacks receivable. As at December 31, 2009, two customers represented 43.6% and 43% respectively (2008 one customer – 46.6%) of the aggregate amount of amounts receivable and holdbacks receivable.

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. Payments from the customer representing 43% (2008 – nil) of the aggregate amount of amounts receivable and holdbacks receivable are protected by a payment bond as described in note 8.

The aging of amounts receivable at the reporting date was:

	2009	2008
Current	$ 4,972,277	$ 6,713,329
31-90 days	4,924,171	701,644
Greater than 90 days	319,319	1,911
Gross amounts receivable	10,215,767	7,416,884
Less: Allowance for doubtful accounts	-	(1,911)
Total amounts receivable, net	$ 10,215,767	$ 7,414,973

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

Credit risk exists in the event of non-performance by a 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.

(Expressed in Canadian dollars)

10. Financial instruments (continued):

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

	2009	2008
Cash and cash equivalents	$ 17,645,459	$ 2,602,692
Restricted cash	865,918	1,793,708
Amounts receivable	10,215,767	7,414,973
Holdbacks receivable	3,029,363	-
Deferred transportation costs	-	110,283
Total	$ 31,756,507	$ 11,921,656

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 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 in accordance with CICA Handbook Section 3865, Hedges, and accordingly did not use hedge accounting. As a result of this, the foreign exchange forward contracts and butane swap contracts are recorded on the consolidated balance sheet at fair value in current assets when the contracts are in a gain position and in current liabilities when the contracts are in a loss position. Changes in fair value of these contracts are recognized as gains or losses in the statement of operations and comprehensive income. The Company does not utilize financial instruments for speculative purposes.

(i) Foreign exchange risk:

The Company periodically enters into forward exchange contracts to offset its balance sheet exposure and to hedge the cash flow risk associated with its estimated net foreign currency cash requirements and certain significant transactions.

As at December 31, 2009, the Company has no foreign exchange contracts outstanding.

As at December 31, 2008, the Company had contracts outstanding to buy $1.25 million U.S. at various rates from $1.1485 to $1.2598 for a total of $1,546,775. The contracts expired at various dates in January, 2009. The fair value of the contracts as at December 31, 2008 was an unrealized loss of $24,275 which was recorded as an accrued liability on the balance sheet and a foreign exchange loss on the statement of operations and comprehensive income.

10. Financial instruments (continued):

The Company is exposed to the following currency risk at the reporting date excluding the foreign exchange contracts as described above:

	2009 U.S.	2008 U.S.
Cash, restricted cash and cash equivalents	$ 1,030,863	$ 1,191,857
Amounts receivable	1,452,748	4,900
Accounts payable and accrued liabilities	(2,608,210)	(2,476,891)
Net exposure in U.S. dollars	$ (124,599)	$ (1,280,134)

After considering the effects of the foreign exchange contracts as described above, a 10% strengthening of the Canadian dollar against the U.S. dollar would have increased the gain from operations by approximately $13,000 for the year ended December 31, 2009. A similar strengthening for the period ended December 31, 2008 would have decreased the loss from operations by $4,000.

The following summary illustrates the fluctuations in the exchange rates during the period ended December 31, 2009:

	U.S. $
Opening exchange rate as at January 1, 2009	1.2180
Closing exchange rate as at December 31, 2009	1.0510
Average exchange rate for the three months ended December 31, 2009	1.0562
Average exchange rate for the twelve months ended December 31, 2009	1.1419

(ii) Butane swap contract price risk

The Company is exposed to commodity price risk on butane used to fuel the thermal oxidizer at its Saint Ambroise facility. Swap contracts and other agreements are periodically used to fix the price of butane and reduce the adverse impact of price increases. As at December 31, 2009 the Company has an outstanding swap contract whereby it has agreed to pay a fixed rate of $0.4052 per litre and its counterparty has agreed to pay spot on a notional amount of 1.4 million litres of butane over the five month period ended February, 2010.

10. Financial instruments (continued):

At December 31, 2009 the fair value of the contract is an unrealized gain of approximately $17,165 which is recorded as a prepaid on the balance sheet and a gain on the statement of operations and comprehensive income. A 10% strengthening in the forward price of butane over the remaining life of the swap would have increased the earnings from operations by approximately $24,370 for the year ended December 31, 2009 (2008 – nil) due to an increase in the value of the swap contract. The mark-to-market gain and sensitivity analysis described above do not consider the offsetting impact of price changes on the costs incurred by the facility on its physical purchases of butane.

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to monitor consolidated cash flow to ensure that there will always be sufficient liquidity to meet liabilities when due.

At December 31, 2009, the Company has a cash and cash equivalents balance of $17,645,459 and positive working capital of $19,857,683. Management believes the Company will have sufficient cash flows to meet amounts due.

The Company had no bank borrowings outstanding at December 31, 2009 and 2008.

The following lists the Company's significant contractual obligations:

Millions of Canadian dollars	2010	2011	2012	2013	2014	Thereafter	Total
Department of Justice Fine and Restitution	0.21	0.20	0.20	1.72	-	-	2.33
Tenure agreement	0.08	0.08	0.08	0.08	0.08	0.47	0.87
Operating leases	0.11	0.11	0.04	-	-	-	0.26
Capital leases	0.14	0.14	0.08	0.02	-	-	0.38
Standby capacity agreement	0.50	-	-	-	-	-	0.50
Total contractual obligations	1.04	0.53	0.40	1.82	0.08	0.47	4.34

(Expressed in Canadian dollars)

10. Financial instruments (continued):

(iv) Fair values:

The Company's financial instruments consist of cash and cash equivalents, restricted cash, amounts receivable, deferred transportation costs, accounts payable and accrued liabilities, long-term liabilities, lease obligations, foreign exchange contracts and butane swap contracts.

The carrying value of cash and cash equivalents, restricted cash, amounts receivable, deferred transportation costs, accounts payable and accrued liabilities approximates their fair values due to the immediate or short-term maturity of these financial instruments.

The carrying value of the long-term liabilities approximates fair value because the future cash flows have been discounted using a risk adjusted discount rate.

The table below analyzes the Company's financial liabilities which will be settled into relevant maturity groupings based on the remaining periods at December 31, 2009 to the contractual maturity date. The amounts disclosed in this table are the contractual undiscounted cash flow:

	Payments due:					
	In less than 6 Months	Between 6 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities, long-term liabilities and lease obligations	$ 6,932,263	$ 600,150	$ 430,825	$ 2,392,719	$ 632,000	$ 10,987,957

11. 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.

(Expressed in Canadian dollars)

11. Capital management (continued):

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.

12. Property, plant and equipment:

2009	Cost	Accumulated amortization	Net book value
Automobiles	$ 95,120	$ 37,390	$ 57,730
Computer equipment	580,407	494,175	86,232
Furniture and equipment	594,851	580,816	14,035
Kilns	8,898,854	8,610,325	288,529
Land	163,228	-	163,228
Land improvements	162,521	94,740	67,781
Leasehold improvements	58,322	58,322	-
Software	271,260	270,961	299
Storage building and pads	5,949,330	2,601,191	3,348,139
Treatment buildings	2,972,636	756,310	2,216,326
Treatment equipment	10,052,826	7,870,607	2,182,219
	$ 29,799,355	$ 21,374,837	$ 8,424,518

2008	Cost	Accumulated amortization	Net book value
Automobiles	$ 32,219	$ 25,362	$ 6,857
Computer equipment	558,954	461,882	97,072
Furniture and equipment	558,589	558,589	-
Kilns	8,700,309	7,805,381	894,928
Land	163,228	-	163,228
Land improvements	162,521	85,955	76,566
Leasehold improvements	58,322	58,322	-
Software	270,663	270,663	-
Storage building and pads	5,837,550	2,304,543	3,533,007
Treatment buildings	2,972,636	664,782	2,307,854
Treatment equipment	9,914,989	7,330,094	2,584,895
	$ 29,229,980	$ 19,565,573	$ 9,664,407

(Expressed in Canadian dollars)

12. Property, plant and equipment (continued):

Depreciation and amortization of property, plant and equipment for the year ended December 31, 2009 was $1,809,264 (2008 - $2,177,512).

13. Long-term liabilities:

Long-term liabilities comprise the following:

	Tenure agreement (a)	Severance payable (b)	U.S. Department of Justice (c)	Total
Balance December 31, 2007	$ 746,359	$ 646,304	$ 2,750,000	$ 4,142,663
Addition (reduction)	186,956	-	(332,468)	(145,512)
Paid during 2008	-	(75,000)	(185,054)	(260,054)
Accretion charge	146,363	-	-	146,363
Foreign exchange	-	-	595,936	595,936
Balance December 31, 2008	$1,079,678	$ 571,304	$ 2,828,414	$ 4,479,396
Addition (reduction)	20,362	(16,510)	-	3,852
Paid during 2009	(261,959)	(275,157)	(159,210)	(696,326)
Accretion charge	28,827	-	45,346	74,173
Foreign exchange	-	-	(383,407)	(383,407)
	866,908	279,637	2,331,143	3,477,688
Less current portion	79,000	279,637	206,621	565,258
Balance December 31, 2009	$ 787,908	$ -	$ 2,124,522	$ 2,912,430

(a) The tenure agreement is between the Company and its founder and former CEO. The total value of the liability related to this agreement is $866,908 at December 31, 2009 which is a decrease of $212,770 over the fair value as at December 31, 2008. The Company deferred payments under this tenure agreement in October, 2006.

(b) During 2007, certain employment agreements were terminated. The Company did not accrue and expense severance costs in 2008 or 2009 (2007 - $355,977).

The Company deferred payments under a consulting agreement in October, 2006.

(Expressed in Canadian dollars)

13. Long-term liabilities (continued):

(c) 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 22(a)). The Company had accrued a liability of $2.77 million U.S. during 2007 in connection with this matter which was decreased by $332,468 to reflect the final sentencing in the fourth quarter of 2008. During 2009, the unrealized foreign exchange gain on this liability amounted to $383,407 (2008 – unrealized loss of $595,936). This gain or loss, as the case may be, was offset by the Company's efforts to hedge its overall foreign exchange exposure as described in note 2(k)(ii).

The amounts are payable over a five year period.

Principal payments on long-term liabilities as at December 31, 2009 are as follows:

2010	$ 565,258
2011	281,852
2012	278,151
2013	1,801,520
Thereafter	550,907
	$ 3,477,688

14. Obligations under capital lease:

	Monthly Principal Payments	Interest Rate	Effective Rate	Maturity Date
Obligations under capital lease	$ 11,802	1.0% to 6.25%	2.14%	October, 2013

The obligations under capital lease are secured by the related equipment.

Repayments required over the next four years are as follows:

	Obligations under capital lease		
	Principal	Interest	Total
2010	$ 135,316	$ 6,309	$ 141,625
2011	137,699	3,926	141,625
2012	77,754	1,626	79,380
2013	13,877	401	14,278
	$ 364,646	$ 12,262	$ 376,908

(Expressed in Canadian dollars)

15. Share capital:

(a) 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.

(b) The issued share capital of the Company is as follows:

	Common shares	Amount
Total issued shares, December 31, 2008	27,018,675	$ 71,805,842
Shares repurchased in 2004[(i)]	(11,500)	(71,879)
Balance, December 31, 2008	27,007,175	71,733,963
Stock options exercised	480,001	216,000
Balance, December 31, 2009	27,487,176	$ 71,949,963

[(i)] During the year ended December 31, 2004, the Company, pursuant to a Normal Course Issuer Bid, acquired 11,500 of its common shares for consideration totalling $71,879. These shares were cancelled during 2009.

(c) Stock option plan:

The Company has a stock 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.

1,850,000 stock options were granted during the year ended December 31, 2009 (2008 – nil).

(Expressed in Canadian dollars)

15. Share capital (continued):

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

	2009
Risk-free interest rate	1.95%
Expected option lives	5 years
Expected volatility	159%
Dividend yield	Nil%

Total fair value of options on date of grant was $395,569 or $0.21 per option. One-third of options vested immediately, and the remaining options will vest equally over the next two years on each anniversary date.

Stock option activity for 2009 and 2008 is presented below:

	2009		2008	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	646,000	$ 0.96	881,000	$ 2.71
Granted	1,850,000	0.24	-	-
Exercised	(480,001)	0.24	-	-
Cancelled	(6,000)	3.18	(235,000)	7.52
Outstanding, end of year	2,009,999	0.46	646,000	$ 0.96
Exercisable, end of year	776,667	0.82	599,200	$ 0.98

(Expressed in Canadian dollars)

15. Share capital (continued):

The following table summarizes information relating to outstanding and exercisable options at December 31, 2009:

	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	1,369,999	4.25	$ 0.24	136,667	$ 0.24
$ 0.67	500,000	1.83	0.67	500,000	0.67
$ 1.73	130,000	1.58	1.73	130,000	1.73
$ 4.20	10,000	0.08	4.20	10,000	4.20
	2,009,999		$ 0.46	776,667	$ 0.82

(d) Contributed surplus:

	2009	2008
Balance, beginning of year	$ 4,085,649	$ 3,999,179
Stock-based compensation charge to earnings	259,705	86,470
Options exercised	(100,800)	-
Balance, end of year	$ 4,244,554	$ 4,085,649

16. Share purchase warrants:

At December 31, 2009, the Company has 1,080,000 outstanding warrants (2008 – 1,080,000) which are 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 the above warrants were exercised for aggregate consideration of $885,600.

(Expressed in Canadian dollars)

17. Income taxes:

Income tax expense varies from the amount that would be computed by applying the Canadian federal and provincial statutory tax rate of 30.9% (2008 – 33.50%) to earnings (loss) before income taxes as shown in the following table:

	2009	2008
Earnings (loss) before income taxes	$ 11,465,438	$ (4,219,743)
Combined Canadian federal and provincial income taxes at expected rate	3,542,820	$ (1,413,614)
Provincial tax rate difference	-	(2,541)
Permanent and other differences	1,629,260	1,164,896
Change in valuation allowance	(9,020,046)	304,424
Differences in current rate and future rate on temporary differences	-	16,308
	$ (3,847,966)	$ 69,473

The Company has non-capital losses carried forward of approximately $26,836,000, which are available to reduce future years' income for income tax purposes.

Non-capital loss carryforwards expire as follows:

2010	$ 12,000
2011	3,175,000
2015	5,341,000
2026	3,902,000
2027	4,392,000
2028	6,531,000
2029	3,483,000
	$ 26,836,000

(Expressed in Canadian dollars)

17. Income taxes (continued):

The composition of the future tax assets is as follows:

	2009	2008
Future tax assets:		
Loss carryforwards	$ 8,051,155	$ 9,076,700
Property, plant and equipment	6,748,633	9,248,978
Holdbacks receivable	(908,809)	-
Share issue costs	24,267	592,439
Tenure/severance	346,282	544,824
Capital loss carryforward	56,314	56,314
Other	273	301
	14,318,115	19,519,556
Less valuation allowance	(10,402,465)	19,519,556
Net future income tax asset (liability)	$ 3,915,650	$ -

18. Related party transactions:

During the year ended December 31, 2009, the Company paid consulting fees of $275,157 (2008 – nil) and related interest of $9,297 (2008 - nil) to a company owned by a former director and officer of the Company pursuant to the termination agreement that was accrued and recorded in expense in 2004.

During the year ended December 31, 2009, the Company paid tenure payments of $250,167 (2008 - nil) and related interest of $11,792 (2008 - nil) to a former director and officer of the Company.

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.

(Expressed in Canadian dollars)

19. Earnings (loss) per share:

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

	2009	2008
Earnings (loss) for the year:		
Net earnings (loss) from continuing operations	$ 15,313,404	$ (4,289,216)
Net loss from discontinued operations	-	(343,033)
Net earnings (loss) for the year	15,313,404	(4,632,249)
Net earnings (loss) from continuing operations (per common share) -		
Basic	0.56	(0.16)
Diluted	0.55	(0.16)
Net loss from discontinued operations (per common share) -		
Basic	-	-
Diluted	-	(0.01)
Net earnings (loss) (per common share) -		
Basic	0.56	-
Diluted	0.55	(0.17)
Weighted average number of shares:		
Basic	27,115,586	27,007,175
Diluted	27,961,153	27,007,175

Options aggregating 140,000 (2008 – 646,000) and warrants aggregating 1,080,000 (2008 – 1,080,000) have not been included in the computation of diluted earnings per share for the year ended December 31, 2009 as they are anti-dilutive.

(Expressed in Canadian dollars)

20. Commitments:

Future minimum annual rental payments for operating leases and for a standby capacity agreement are payable as follows:

Year ending December 31:	
2010	$ 614,041
2011	114,041
2012	38,014
	$ 766,096

21. Segmented information:

(a) Geographic information:

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

	2009	2008
Sales by country:		
Customers domiciled in the United States	$ 5,886,577	$ 1,147,842
Customers domiciled in Canada	22,171,569	7,141,262
	$ 28,058,146	$ 8,289,104

(b) Major customers:

For the year ended December 31, 2009, one customer represented approximately 54% (2008 - 34%) of total revenues.

22. 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 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 13(c). 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.

22. Contingencies (continued):

(d) Other:

(i) 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. During the fourth quarter of 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.

(ii) 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 13(c)). The Company has accrued and expensed all invoices received to date in the amount of $241,188, (approximately $230,000 U.S.). This individual has made an application to court to compel the Company to reimburse him for these invoices and any future costs he may incur in connection with this matter. The Company believes it is not required to indemnify the individual for the expenses and is preparing its response to the application. Other former officers and directors may also seek indemnification from the Company for legal fees incurred in connection with this investigation.

(iii) The Company terminated an employment arrangement in 2007 and recorded as an expense $280,000 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. A formal motion of defense has been filed with the courts. Management will vigorously defend the claim.

(iv) 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.