Consolidated Financial Statements of

BENNETT ENVIRONMENTAL INC.

Years ended December 31, 2010 and 2009

BENNETT ENVIRONMENTAL INC.

Consolidated Balance Sheets
December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 64,993,643	$ 17,645,459
Restricted cash (note 3)	10,649	865,918
Amounts receivable (note 6)	321,906	10,215,767
Holdbacks receivable	-	3,029,363
Deferred costs	661,925	-
Prepaid expenses and other	561,401	446,104
Future income tax asset (note 14)	-	3,915,650
	66,549,524	36,118,261
Property, plant and equipment (note 9)	7,734,783	8,424,518
Assets under capital leases (note 4)	479,547	412,074
Assets held for sale (note 5)	2,675,532	2,675,532
	$ 77,439,386	$ 47,630,385
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,546,068	$ 5,710,496
Liabilities related to assets held for sale (note 5)	618,020	475,532
Income taxes payable	583,962	2,087,079
Deferred revenue	2,445,369	7,286,897
Current portion of long-term liabilities (note 10)	2,230,194	565,258
Current portion of lease obligations (note 11)	182,838	135,316
	9,606,451	16,260,578
Long-term liabilities (note 10)	741,633	2,912,430
Long-term portion of lease obligations (note 11)	155,206	229,330
Shareholders' equity:		
Share capital (note 12)	93,364,040	71,949,963
Contributed surplus (note 12)	4,846,334	4,244,554
Share purchase warrants (note 13)	2,721,131	429,056
Accumulated deficit	(33,995,409)	(48,395,526)
	66,936,096	28,228,047
Contingencies (note 19)		
Commitments (note 17)		
	$ 77,439,386	$ 47,630,385

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
Years ended December 31, 2010 and 2009

	2010	2009
Sales	$ 32,668,014	$ 28,058,146
Expenses:		
Operating costs	8,495,640	10,104,108
Administration and business development	6,111,809	4,587,038
Amortization	1,063,077	1,855,050
Foreign exchange	2,278	(13,395)
Gain on sale of investment	-	(79,910)
Impairment of long-lived assets (note 5)	-	331,752
Interest (note 14)	877,781	107,734
	16,550,585	16,892,377
Earnings before the undernoted	16,117,429	11,165,769
Other income, including interest	512,912	299,669
Earnings before income taxes	16,630,341	11,465,438
Income tax expense (recovery) (note 14):		
Current	(1,685,426)	67,684
Future	3,915,650	(3,915,650)
	2,230,224	(3,847,966)
Net earnings and comprehensive income for the year	$ 14,400,117	$ 15,313,404
Earnings per common share (note 16)		
Basic	$ 0.42	$ 0.56
Diluted	0.41	0.55

See accompanying notes to consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Consolidated Statements of Accumulated Deficit and Other Comprehensive Income
Years ended December 31, 2010 and 2009

	2010	2009
Accumulated deficit and other comprehensive income, beginning of year	$ (48,395,526)	$ (63,708,930)
Net earnings and comprehensive income for the year	14,400,117	15,313,404
Accumulated deficit and other comprehensive income, end of year	$ (33,995,409)	$ (48,395,526)

See accompanying notes to consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Net earnings from continuing operations	$ 14,400,117	$ 15,313,404
Items not involving cash:		
Amortization	1,063,077	1,855,050
Stock-based compensation	317,974	259,705
Foreign exchange related to U.S. Department of Justice accrual (note 10 (b))	(124,613)	(383,407)
Impairment of long-lived assets	-	331,752
Gain on sale of investment	-	(79,910)
Gain on disposal of property, plant and equipment	(24,382)	(56,438)
Future income taxes (recovery)	3,915,650	(3,915,650)
Accretion	178,589	74,173
Changes in non-cash operating working capital	3,499,780	1,903,575
Cash provided by operating activities	23,226,192	15,302,254
Financing:		
Cash provided by (used for) financing activities		
Repayment of lease obligations	(221,878)	(62,394)
Repayment of long-term liabilities	(280,200)	(696,326)
Issuance of share capital due to exercise of stock options	142,500	115,200
Issuance of share capital due to exercise of warrants	885,600	-
Issuance of shares and warrants due to public offering, net of costs	22,961,859	-
Cash provided by (used in) financing activities	23,487,881	(643,520)
Investments:		
Cash provided by (used for) investing activities		
Change in restricted cash	855,269	927,790
Proceeds on disposal of property, plant and equipment	30,000	-
Purchase of property, plant and equipment	(251,158)	(543,757)
Cash provided by investing activities	634,111	384,033
Increase in cash and cash equivalents	47,348,184	15,042,767
Cash and cash equivalents, beginning of year	17,645,459	2,602,692
Cash and cash equivalents, end of year	$ 64,993,643	$ 17,645,459

	2010	2009
Supplemental cash flow information:		
Interest paid	$ 742,129	$ 48,138
Income tax refund	700,543	338,926
Income taxes paid	756,308	85,149
Non-cash transactions:		
Assets acquired by capital leases	$ 222,000	$ 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 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. In 2009 the Company entered into an agreement to sell the facility (note 5).

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 the first three quarters of 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.

At the end of February 2011 the Company held approximately 16,000 tonnes of untreated soil at its Saint Ambroise facility. This inventory includes approximately 12,000 tonnes of polychlorinated biphenyl (“PCB”) contaminated soil from southern Ontario which will be processed subject to the client meeting specified financial requirements. The Company has not recorded any revenue related to this soil in inventory. In addition, the processing of all soil held in inventory will not commence until sufficient material has been received for the efficient operation of the facility.

As at December 31, 2010 the Company has approximately $65 million in cash available to fund acquisitions and its daily operating needs. $23 million of the cash on hand as at December 31, 2010 was raised through a public offering completed in May, 2010.

2. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company's wholly owned subsidiaries. All inter-company 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 from acquisition.

(c) Deferred costs:

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

(d) Property, plant and equipment:

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

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%
Software	Declining balance	100%
Storage building and pads	Straight line	20 years
Treatment buildings	Declining balance	4%
Treatment equipment	Declining balance	20%

2. Significant accounting policies (continued):

(e) Long-lived assets:

Long-lived assets, which comprise property, plant and equipment and assets under capital lease, 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. An impairment loss 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 the Company tested the long-lived assets for impairment and recorded an impairment charge of $331,752 (note 5). It was determined that there was no additional impairment in 2010.

(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 11).

(g) Stock-based compensation:

(i) Stock options

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 is recorded to contributed surplus.

2. Significant accounting policies (continued):

(ii) Underwriter compensation units

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

(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.

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.

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 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, warrants, 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 is an integral part of the Company's operations and has 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.

(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.

2. Significant accounting policies (continued):

(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 may enter into foreign exchange forward contracts in order to reduce the impact of fluctuating foreign exchange rates. These contracts are marked to market, with the realized and unrealized gains or losses from changes in fair value recorded in earnings.

(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.

2. Significant accounting policies (continued):

(m) Earnings per share:

Basic earnings per share is calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings 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, 2010 and 2009.

(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.

2. Significant accounting policies (continued):

(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 issued pronouncements not yet adopted:

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. The Company's first annual IFRS statements will be for the year ended December 31, 2011 and will include the comparative period of 2010. Starting in the first quarter of 2011, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2010.

3. Restricted cash:

As at December 31, 2010, the Company had restricted cash of $10,649 (2009 - $865,918) which includes $10,649 (2009 - $10,560) as required under the Company's corporate credit card agreement; nil (2009 – $255,189) required for foreign exchange hedging agreements and nil (2009 – $600,169) required for butane price swap agreements.

4. Assets under capital leases:

Included in capital leases as at December 31, 2010 is equipment with a cost of $619,360 (2009 - $457,860) less accumulated depreciation of $139,813 (2009 – $45,786) for a net book value of $479,547 (2009 – $412,074).

(Expressed in Canadian dollars) (except as otherwise noted)

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 Company has granted an extension of this option to March 31, 2011. 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 base consideration of $2,200,000 plus accumulated property tax liabilities to be assumed by the purchaser. The base consideration that would be received if the option is exercised and the transaction closes is composed of the option deposit, $900,000 in cash on closing and two subsequent payments of $600,000 on the first and second anniversary date of closing, bearing interest at 3% compounded semi-annually. 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.

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

	2010	2009
Assets held for sale:		
Treatment building	$ 83,529	$ 83,529
Treatment equipment	1,888,377	1,888,377
Kiln	703,626	703,626
	$ 2,675,532	$ 2,675,532
Liabilities related to assets held for sale:		
Accrual for property taxes	$ 618,020	$ 475,532

The Company recorded an impairment charge in the fourth quarter of 2009 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:

	2010	2009
Treatment building	$ -	$ 10,357
Treatment equipment	-	234,149
Kiln		87,246
	$ -	$ 331,752

(Expressed in Canadian dollars) (except as otherwise noted)

6. Amounts receivable:

	2010	2009
Accounts receivable	$ 1,266,480	$ 26,685,670
GST & QST receivable	220,795	-
Amounts recorded as an offset to deferred revenue	(1,165,369)	(16,628,555)
Other receivables	-	158,652
	$ 321,906	$ 10,215,767

7. 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 amounts 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 December 31, 2010, two customers represented 16% and 8% respectively (2009 - 43.6% and 43%) respectively, 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.

(Expressed in Canadian dollars) (except as otherwise noted)

7. Financial instruments (continued):

The aging of amounts receivable at the reporting date was:

	2010	2009
Current	$ 152,868	$ 4,972,277
31-90 days	103,008	4,924,171
Greater than 90 days	66,030	319,319
Total amounts receivable, net	$ 321,906	$ 10,215,767

There was no significant 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.

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

	2010	2009
Cash and cash equivalents	$ 64,993,643	$ 17,645,459
Restricted cash	10,649	865,918
Amounts receivable	321,906	10,215,767
Holdbacks receivable	-	3,029,363
Deferred costs	661,925	-
Total	$ 65,988,123	$ 31,756,507

7. Financial instruments (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 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.

The Company had no foreign exchange contracts outstanding at December 31, 2010 and 2009.

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

	2010 U.S.	2009 U.S.
Cash, restricted cash and cash equivalents	$ 1,801,233	$ 1,030,863
Accounts receivable	447,618	1,452,748
Accounts payable and accrued liabilities	(2,326,877)	(2,608,210)
Net exposure in U.S. dollars	$ (78,026)	$ (124,599)

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 $8,000 for the year ended December 31, 2010. A similar strengthening for the period ended December 31, 2009 would have increased the gain from operations by approximately $13,000.

(Expressed in Canadian dollars) (except as otherwise noted)

7. Financial instruments (continued):

The following summary illustrates the fluctuations in the exchange rates during the period ended December 31, 2010:

	U.S. $
Opening exchange rate as at January 1, 2010	1.0510
Closing exchange rate as at December 31, 2010	0.9946
Average exchange rate for the twelve months ended December 31, 2009	1.1419
Average exchange rate for the twelve months ended December 31, 2010	1.0303

(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, 2010 the Company has no outstanding swap contracts. As at December 31, 2009 the Company had an outstanding swap contract whereby it had agreed to pay a fixed rate of $0.4052 per litre and its counterparty had agreed to pay spot on a notional amount of 1.4 million litres of butane over the five month period ended February, 2010.

At December 31, 2009 the fair value of the contract was an unrealized gain of approximately $17,165 which was recorded as a prepaid expense 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 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, 2010, the Company has a cash and cash equivalents balance of $64,993,643 and positive working capital of $56,943,073. Management believes the Company has sufficient cash and available resources to meet amounts due.

7. Financial instruments (continued):

The Company had no bank borrowings outstanding at December 31, 2010 and 2009.

The following lists the Company's significant contractual obligations:

	2011	2012	2013	2014	2015	Thereafter	Total
			(in millions)				
Department of Justice Fine and Restitution (note 10(b))	$ 2.15	$ -	$ -	$ -	$ -	$ -	$ 2.15
Tenure agreement (note 10(a))	0.08	0.08	0.08	0.08	0.08	0.42	0.82
Operating leases	0.11	0.04	-	-	-	-	0.15
Capital leases	0.19	0.12	0.03	-	-	-	0.34
Total contractual obligations	$ 2.53	$ 0.24	$ 0.11	$ 0.08	$ 0.08	$ 0.42	$ 3.46

(iv) Fair values:

The Company's financial instruments consist of cash and cash equivalents, restricted cash, amounts receivable, deferred 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 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, 2010 to the contractual maturity date. The amounts disclosed in this table are the contractual undiscounted cash flows for accounts payable and accrued liabilities, liabilities related to assets held for sale, long-term liabilities and lease obligations:

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
$ 5,371,543	$ 1,207,455	$ 202,338	$ 269,686	$ 553,000	$ 7,604,022

8. 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.

(Expressed in Canadian dollars) (except as otherwise noted)

9. Property, plant and equipment:

2010	Cost	Accumulated amortization	Net book value
Automobiles	$ 91,185	$ 46,215	$ 44,970
Computer equipment	297,008	224,220	72,788
Furniture and equipment	234,144	148,115	86,029
Kilns	8,135,213	7,864,654	270,559
Land	163,228	-	163,228
Land improvements	162,521	102,295	60,226
Software	52,976	48,109	4,867
Storage building and pads	5,999,753	2,901,856	3,097,897
Treatment buildings	2,972,636	844,963	2,127,673
Treatment equipment	8,472,111	6,665,565	1,806,546
	$ 26,580,775	$ 18,845,992	$ 7,734,783

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
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
	$ 29,741,033	$ 21,316,515	$ 8,424,518

Amortization of property, plant and equipment for the year ended December 31, 2010 was $969,050 (2009 - $1,809,264).

(Expressed in Canadian dollars) (except as otherwise noted)

10. Long-term liabilities:

Long-term liabilities comprise the following:

	Tenure agreement	Severance payable	U.S. Department of Justice	Total
	(a)		(b)	
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 gain	-	-	(383,407)	(383,407)
Balance December 31, 2009	866,908	279,637	2,331,143	3,477,688
Reclassified to accounts payable and accrued liabilities	-	(279,637)	-	(279,637)
Paid during 2010	(79,000)	-	(201,200)	(280,200)
Accretion charge	32,725	-	145,864	178,589
Foreign exchange gain	-	-	(124,613)	(124,613)
	820,633	-	2,151,194	2,971,827
Less current portion	(79,000)	-	(2,151,194)	(2,230,194)
Balance December 31, 2010	$ 741,633	$ -	$ -	$ 741,633

(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 $820,633 at December 31, 2010 which is a decrease of $46,275 over the amount recorded as at December 31, 2009.

(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(a)). The Company had accrued a liability of $2.75 million during 2007 in connection with this matter which was decreased by $332,468 to reflect the final sentencing in the fourth quarter of 2008. The carrying value of the liability is the present value of future payments discounted by an assumed rate of 2.03%. During 2010, the unrealized foreign exchange gain on this liability amounted to $124,613 (2009 – unrealized foreign exchange gain of $383,407). 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). 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 accretion expense during the period by $102,213.

(Expressed in Canadian dollars) (except as otherwise noted)

10. Long-term liabilities (continued):

Principal payments on long-term liabilities as at December 31, 2010 are as follows:

	2010	2009
2010	$ -	$ 565,258
2011	2,230,194	281,852
2012	79,000	278,151
2013	79,000	1,801,520
2014	79,000	79,000
2015	79,000	-
Thereafter	425,633	471,907
	$ 2,971,827	$ 3,477,688

11. Obligations under capital lease:

	Monthly Principal Payments	Interest Rate	Effective Rate	Maturity Date
Obligations under capital lease	$ 15,236	up to 1.75%	1.50%	October, 2013

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

The Company's obligation under capital leases consists of:

	2010	2009
Minimum lease payments payable under the lease	$ 341,608	$ 376,908
Less amount representing interest	(3,564)	(12,262)
	338,044	364,646
Current portion	(182,838)	(135,316)
	$ 155,206	$ 229,330

(Expressed in Canadian dollars) (except as otherwise noted)

11. Obligations under capital lease (continued):

Future minimum annual lease payments payable under the capital lease are as follows:

	2010	2009
2010	$ -	$ 141,625
2011	185,584	141,625
2012	123,338	79,380
2013	32,686	14,278
	$ 341,608	$ 376,908

12. Share capital:

(a) The authorized share capital of the Company consists of an unlimited number of common shares, an unlimited number of Series I non-voting redeemable preferred shares and an unlimited number of warrants. No Series I, non-voting redeemable preferred shares have been issued.

(b) 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.

(Expressed in Canadian dollars) (except as otherwise noted)

12. Share capital (continued):

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 December 31, 2010. The value assigned to these compensation options is provided in note 12(e).

(c) 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
Stock options exercised	283,332	241,220
Warrants exercised	1,080,000	1,314,656
Shares issued in connection with public offering closing May 7, 2010	8,196,722	22,213,117
Share issue costs	-	(2,354,916)
Balance, December 31, 2010	37,047,230	$ 93,364,040

(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.

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.

(d) 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.

(Expressed in Canadian dollars) (except as otherwise noted)

12. Share capital (continued):

323,125 stock options were granted during the year ended December 31, 2010 (2009 – 1,850,000).

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:

	2010	2009
Risk-free interest rate	3.27%	1.95%
Expected option lives	4 years	5 years
Expected volatility	68%	159%
Dividend yield	Nil%	Nil%

Total fair value of options on date of grant was $351,983 or $1.09 per option (2009 - $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 2010 and 2009 is presented below:

	2010		2009	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	2,009,999	$ 0.46	646,000	$ 0.96
Granted	323,125	2.08	1,850,000	0.24
Exercised	(283,332)	0.50	(480,001)	0.24
Cancelled	(10,000)	4.20	(6,000)	3.18
Outstanding, end of year	2,039,792	$ 0.69	2,009,999	$ 0.46
Exercisable, end of year	1,262,708	$ 0.74	776,667	$ 0.82

(Expressed in Canadian dollars) (except as otherwise noted)

12. Share capital (continued):

The following table summarizes information relating to outstanding and exercisable options at December 31, 2010:

	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
$ 1.99	7,500	4.96	$ 1.99	7,500	$ 1.99
$ 2.08	315,625	4.94	2.08	155,208	2.08
$ 0.24	1,136,667	3.21	0.24	520,000	0.24
$ 0.67	500,000	0.89	0.67	500,000	0.67
$ 1.73	80,000	0.60	1.73	80,000	1.73
	2,039,792		$ 0.69	1,262,708	$ 0.74

(e) Contributed surplus:

	2010	2009
Balance, beginning of year	$ 4,244,554	$ 4,085,649
Stock-based compensation charged to earnings	317,974	259,705
Options exercised	(98,721)	(100,800)
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	-
Balance, end of year	$ 4,846,334	$ 4,244,554

(Expressed in Canadian dollars) (except as otherwise noted)

13. Share purchase warrants:

At December 31, 2010, 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.

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.

At December 31, 2009, 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, December 31, 2008 and 2009	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 (note 12(b))	4,713,115	2,721,131
Balance, December 31, 2010	4,713,115	$ 2,721,131

(Expressed in Canadian dollars) (except as otherwise noted)

14. Income taxes:

Income tax expense varies from the amount that would be computed by applying the Canadian federal and provincial statutory tax rate of 30.2% (2009 – 30.9%) to earnings before income taxes as shown in the following table:

	2010	2009
Earnings before income taxes	$ 16,630,341	$ 11,465,438
Combined Canadian federal and provincial income taxes at expected rate	$ 5,022,363	$ 3,542,820
Permanent and other differences	(1,722,737)	1,629,260
Change in valuation allowance	(1,069,402)	(9,020,046)
Income tax expense (recovery)	$ 2,230,224	$ (3,847,966)

The Company has non-capital losses carried forward of approximately $8,600,000, which are available to reduce future years' income for income tax purposes.

Non-capital loss carryforwards expire as follows:

2028	$ 5,410,000
2029	2,958,000
2030	232,000
	$ 8,600,000

The composition of the future tax assets is as follows:

	2010	2009
Future tax assets:		
Loss carryforwards	$ 2,321,789	$ 8,051,155
Property, plant and equipment	5,810,235	6,748,633
Holdbacks receivable	-	(908,809)
Share issue costs	476,732	24,267
Tenure/severance	373,608	346,282
Capital loss carryforward	52,158	56,314
Other	298,540	273
	9,333,062	14,318,115
Less valuation allowance	(9,333,062)	(10,402,465)
Net future income tax asset (liability)	$ -	$ 3,915,650

Interest on taxes payable of $778,104 (2009 - $28,001) has been included in interest expense.

(Expressed in Canadian dollars) (except as otherwise noted)

15. Related party transactions:

During the year ended December 31, 2010, the Company paid consulting fees of nil (2009 – $275,157) and related interest of nil (2009 - $9,297) 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. There were no amounts outstanding as at December 31, 2010 (2009 – nil).

During the year ended December 31, 2010, the Company paid tenure payments of $79,000 (2009 - $250,167) and related interest of nil (2009 - $11,792) to a former director and officer of the Company. For the remaining outstanding balance as at December 31, 2010 and December 31, 2009 refer to note 10(a), Long-term liabilities.

The Company has retained the services of a corporation, owned by a current director, to support its corporate development activity for a seven month period ending in March, 2011. During the year ended December 31, 2010, the Company paid consulting fees of $76,676 (2009 – nil) under this arrangement. As at December 31, 2010 there was a balance of $16,668 recorded in the accounts payable and accrued liabilities (2009 – nil).

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.

16. Earnings per share:

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

	2010	2009
Earnings for the year:		
Net earnings for the year	$ 14,400,117	$ 15,313,404
Net earnings (per common share) -		
Basic	0.42	0.56
Diluted	0.41	0.55

Weighted average number of shares:		
Basic	33,986,609	27,115,586
Diluted	35,363,764	27,961,153

(Expressed in Canadian dollars) (except as otherwise noted)

16. Earnings per share (continued):

Options aggregating 1,377,155 (2009 – 140,000) and warrants aggregating nil (2009 – 1,080,000) have not been included in the computation of diluted earnings per share for the year ended December 31, 2010 as they are anti-dilutive.

17. Commitments:

Future minimum annual rental payments for operating leases are payable as follows:

Year ending December 31:	
2011	$ 114,041
2012	38,014
	$ 152,055

18. 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:

	2010	2009
Sales by country:		
Customers domiciled in the United States	$ 93,857	$ 5,886,577
Customers domiciled in Canada	32,574,157	22,171,569
	$ 32,668,014	$ 28,058,146

(b) Major customers:

For the year ended December 31, 2010, one customer represented approximately 99% (2009 - 54%) of total revenues.

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 Investigation

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 10(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) 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 (2009 - $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 10(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 believes it is 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 has filed a Motion for Leave to Appeal this decision.

The individual's claim for reimbursement of legal costs in connection with the Department of Justice investigation is covered by the Company's insurance policy subject to a $150,000 U.S. retention. The Company has accrued $316,200 as at December 31, 2010 in respect of this matter composed of the retention and the individual's legal costs incurred responding to the Company's Motion. The Company expensed $75,012 of this liability in 2010 and $241,188 in 2009. The Company's obligation may differ from the accrued amount of $316,200 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. The Company may be able to recover payments made to the insurer directly from the individual or offset against the reward for tenure payments due to him (note 10(a)).

19. Contingencies (continued):

In the fourth quarter of 2010, the insurance company insuring the Company's Directors' and Officers' Liability policy agreed to fund the reasonable legal costs, incurred by the former officers and directors, in connection with the U.S. Department of Justice anti-trust investigation.

Also the insurance company has requested that the Company indemnify them for all reasonable legal costs that they paid in the event that the former director and officer is found guilty. Accordingly, the Company has reversed $79,568 (approximately $80,000 U.S.) in the fourth quarter of 2010 with respect to this matter.

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. During the first quarter of 2011, the claim was settled for $250,000.

(iv) 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.

(v) 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. Comparative figures:

Certain reclassifications of the prior year amounts have been made to facilitate comparison with the current year's presentation.

21. Subsequent event:

Prior to the end of the first quarter of 2011 the Company is expected to complete arrangements allowing eligible option holders to simultaneously exercise options and sell the resultant shares to a specified investment dealer. The investment dealer will then 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.

The above arrangement requires the Company to change the way it accounts for stock-based compensation awards as the awards can no longer be considered equity awards, but rather are considered to be cash settled awards that are accounted for as liabilities. Currently the compensation cost of stock options are measured at fair value on the grant date with this cost being recognized over the relevant vesting period of the options. As a result of the settlement arrangement, the options will now be accounted for as a liability that is measured at fair value at the end of each reporting period and the expense will be recognized over the relevant vesting period. The compensation cost related to the awards will be remeasured and adjusted while the options are outstanding.

The adoption of this new accounting will occur during the first quarter of 2011 when the Company will be reporting its results using IFRS. Under IFRS in the first quarter of 2011, an adjustment will be recorded to reclassify the award from equity to liability and to increase the liability to reflect the current fair value of the awards. This will result in a charge to accumulated deficit of approximately $2.2 million, a reduction of contributed surplus by approximately $0.8 million and an increase to accounts payable and accrued liabilities of approximately $3.0 million.