Interim Consolidated Financial Statements of

BENNETT ENVIRONMENTAL INC.

Three months ended March 31, 2011 and 2010
(Unaudited)

BENNETT ENVIRONMENTAL INC.

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

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	$ 63,720,123	$ 64,993,643	$ 17,645,459
Restricted cash (note 4)	10,680	10,649	865,918
Amounts receivable	394,472	321,906	10,215,767
Holdbacks receivable	-	-	3,029,363
Deferred costs	1,708,897	661,925	-
Prepaid expenses and other	477,781	561,402	446,104
Assets classified as held for sale (note 5)	2,675,532	2,675,532	2,675,532
	68,987,485	69,225,057	34,878,143
Property, plant and equipment (note 6)	9,344,654	9,523,502	10,290,464
Assets under finance lease (note 7)	514,438	522,237	382,500
Deferred tax assets	-	-	3,915,650
	$ 78,846,577	$ 79,270,796	$ 49,466,757
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 2,228,805	$ 2,850,241	$ 5,369,309
Current tax liabilities	571,083	583,962	2,087,079
Liabilities related to assets held for sale (note 5)	675,631	618,020	475,532
Stock compensation liability (note 14)	803,241	-	-
Deferred revenue	4,261,838	2,445,369	7,286,897
Provisions (note 10)	412,440	695,828	620,825
Current portion of long-term liabilities (note12)	1,648,076	2,230,194	285,621
Current portion of finance lease obligations (note 11)	183,368	182,838	135,316
	10,784,482	9,606,451	16,260,579
Long-term liabilities (note 12)	726,879	741,633	2,912,430
Long-term portion of finance lease obligations (note 11)	109,165	155,206	229,330
Shareholders' equity:			
Share capital (note 13)	96,590,705	93,364,040	71,949,963
Contributed surplus (note 14)	4,104,007	4,846,334	4,244,554
Share purchase warrants (note 15)	2,721,131	2,721,131	429,056
Accumulated deficit	(36,189,792)	(32,163,999)	(46,559,155)
Total equity	67,226,051	68,767,506	30,064,418
Subsequent events (notes 5, 19(e), 20)			
	$ 78,846,577	$ 79,270,796	$ 49,466,757

See accompanying notes to interim consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)

(Expressed in Canadian dollars)

For the three months ended March 31

	2011	2010
Sales	$ -	$ 11,148,377
Expenses:		
Operating costs	374,711	2,954,764
Administration and business development	1,696,936	1,358,633
Amortization	217,243	261,300
	2,288,890	4,574,697
Results from operating activities	(2,288,890)	6,573,680
Finance income	324,222	44,222
Finance costs	(38,519)	(36,171)
Net finance income	285,703	8,051
Income (loss) before income taxes	(2,003,187)	6,581,731
Income taxes expense (recovery)	(228,775)	1,705,459
Net income (loss) for the period, being comprehensive income (loss)	$ (1,774,412)	$ 4,876,272
Earnings (loss) per share (note 16)		
Basic (loss) earnings per share	$ (0.05)	$ 0.17
Diluted (loss) earnings per share	(0.05)	0.17

See accompanying notes to interim consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Consolidated Statement of Changes in Equity
(Unaudited)
(Expressed in Canadian dollars)
For the three months ended March 31, 2010

	Attributable to equity holders of the Company				
	Share capital	**Contributed surplus**	**Share purchase warrants**	**Accumulated deficit**	**Total equity**
Balance at January 1, 2010	$ 71,949,963	$ 4,244,554	$ 429,056	$ (46,559,155)	$ 30,064,418
Comprehensive income for the period	-	-	-	4,876,272	4,876,272
Share-based compensation	-	32,513	-	-	32,513
Share options exercised	199,221	(79,121)	-	-	120,100
Warrants exercised	1,314,656	-	(429,056)	-	885,600
Balance at March 31, 2010	$ 73,463,840	$4,197,946	$ -	$ (41,682,883)	$ 35,978,903

See accompanying notes to interim consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Consolidated Statement of Changes in Equity (continued)
(Unaudited)
(Expressed in Canadian dollars)
For the three months ended March 31, 2011

	Attributable to equity holders of the Company				
	Share capital	Contributed surplus	Share purchase warrants	Accumulated deficit	Total equity
Balance at January 1, 2011	$ 93,364,040	$ 4,846,334	$ 2,721,131	$ (32,163,999)	$ 68,767,506
Comprehensive loss for the period	-	-	-	(1,774,412)	(1,774,412)
Share-based compensation	-	49,290	-	-	49,290
Conversion from equity settled to cash settled stock option plan (note 14)	-	(791,617)	-	(2,251,381)	(3,042,998)
Share options exercised	3,226,665	-	-	-	3,226,665
Balance at March 31, 2011	$ 96,590,705	$ 4,104,007	$ 2,721,131	$ (36,189,792)	$ 67,226,051

See accompanying notes to interim consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)
For the three months ended March 31

	2011	2010
Cash flows provided by (used in) operating activities:		
Net income (loss) for the period	$ (1,774,412)	$ 4,876,272
Adjustments for:		
Amortization	217,243	261,301
Foreign exchange gains related to U.S. Department of Justice accrual	(54,162)	(78,074)
Unwinding of discount on provisions	6,568	9,942
Gain on sale of property, plant and equipment	(1,671)	-
Share-based compensation	394,698	32,513
Income tax expense (recovery)	(228,775)	1,705,459
Change in amounts receivable	(72,566)	9,560,250
Change in holdbacks receivable	-	(2,222,608)
Change in prepaid expenses and other	83,621	38,279
Change in deferred costs	(1,046,972)	-
Change in accounts payable and accrued liabilities	181,805	(2,049,798)
Change in stock compensation liability	(803,241)	-
Change in liabilities related to assets held for sale	57,611	34,790
Change in provisions	(283,387)	(8,078)
Change in deferred revenue	1,816,469	7,581,858
Change in current tax payable	215,896	143,832
Repayment of long-term liabilities	(549,278)	(19,750)
Net cash provided by (used in) operating activities	(1,840,553)	19,866,188
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	4,250	-
Acquisition of property, plant and equipment	(33,175)	(74,963)
Change in restricted cash	(31)	855,348
Net cash provided by (used in) investing activities	(28,956)	780,385
Cash flows from financing activities		
Proceeds from exercise of warrants	-	885,600
Proceeds from exercise of share options	641,500	120,100
Payment of finance lease liabilities	(45,511)	(33,610)
Net cash provided by financing activities	595,989	972,090
Net increase (decrease) in cash and cash equivalents	(1,273,520)	21,618,663
Cash and cash equivalents at beginning of period	64,993,643	17,645,459
Cash and cash equivalents at end of period	$ 63,720,123	$ 39,264,122

See accompanying notes to the interim consolidated financial statements.

Bennett Environmental Inc. ("BEI") is a company domiciled in Canada. The interim consolidated financial statements of BEI as at and for the three months ended March 31, 2011 are composed of BEI and its subsidiaries (together referred to as the "Company"). The Company was incorporated on July 29, 1992 under the Canada Business Corporation Act and primarily carries on the business of remediating hydrocarbon contaminated soil. The treatment of contaminated soil is performed using the Company's thermal oxidation technology.

1. Continuing operations:

After several years of sporadic operations resulting from the lack of soil for processing, the Saint Ambroise facility re-opened on April 6, 2009 and with the exception of maintenance shutdowns, operated continuously until September 23, 2010 when the Company announced that its current operating campaign at its Saint Ambroise facility ended. This period of uninterrupted production has been primarily responsible for the Company's profitability in 2009 and 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.

As at March 31, 2011 the Company held approximately 16,000 tonnes of untreated soil at its Saint Ambroise facility. The Company has not recorded any revenue related to this soil. 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 March 31, 2011 the Company has approximately $64 million in cash available to fund acquisitions and its daily operating needs.

2. Basis of compliance:

(a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Company's first IFRS interim consolidated financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The interim consolidated financial statements do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2010, which were prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP").

2. Basis of compliance (continued):

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

The interim consolidated financial statements were authorized for issuance by the Board of Directors on May 18, 2011.

(b) Basis of measurement

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

- available-for-sale financial assets are measured at fair value;
- certain classes of property, plant and equipment as at the date of transition to IFRS were measured at fair value; and
- liabilities for cash-settled share-based payment arrangements are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

2. Basis of compliance (continued):

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

Note 3(d) – property, plant and equipment
Note 3(k) – revenue recognition

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

Note 3(i)– determination of stock-based compensation
Note 3(j) – provisions and contingencies
Note 3(n) – utilization of tax losses

3. Significant accounting policies:

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

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

(a) Basis of consolidation

(i) Business combinations

Acquisitions on or after January 1, 2010

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

3. Significant accounting policies (continued):

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

3. Significant accounting policies (continued):

(c) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

Financial assets at fair value through profit or loss

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

3. Significant accounting policies (continued):

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. The Company has the following available-for-sale financial assets: assets classified as held for sale.

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities

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

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

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

3. Significant accounting policies (continued):

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

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

(iii) Share capital

Common shares

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

Repurchase of share capital (treasury shares)

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

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses. On transition to IFRS on January 1, 2010, certain items of property, plant and equipment were recorded at fair value as the deemed cost (see note 21).

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

3. Significant accounting policies (continued):

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs

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

(iii) Amortization

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

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

Asset	Basis	Rate
Automobiles	Declining balance	30%
Buildings and land improvements	Straight line	1 to 42 years
Computer equipment	Declining balance	30%
Furniture and equipment	Declining balance	20%
Kilns and refractory	Straight line	6 to 11 years
Mobile and treatment equipment	Straight line	5 to 19 years
Software	Declining balance	100%

3. Significant accounting policies (continued):

The above rates have been determined by the Company upon transition to IFRS. Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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

(e) Intangible assets

Research and development

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

(f) Leased assets

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

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

(g) Impairment

(i) Financial assets (including receivables)

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

3. Significant accounting policies (continued):

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

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

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

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

(ii) Non-financial assets

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

3. Significant accounting policies (continued):

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

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

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

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

(h) Non-current assets held for sale

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

3. Significant accounting policies (continued):

(i) Employee benefits

(i) Termination benefits

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

(ii) Tenure benefits

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

(iii) Share-based payment transactions

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

3. Significant accounting policies (continued):

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

This feature is considered to be a cash settlement option, and therefore the Company changed the accounting for the stock options. Effective on the date of the change in plan terms, the outstanding stock options were no longer accounted for as equity awards. Cash settled awards are accounted for as liabilities measured at fair value at the end of each reporting period and the expense is recognized over the relevant vesting period. The compensation cost related to the awards will be remeasured and adjusted each period while the options are outstanding. In addition, any change in price that is paid to or received from the investment dealer is recorded as an adjustment to stock compensation expense.

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

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

(j) Provisions

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

3. Significant accounting policies (continued):

(k) Revenue

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

(i) amount of revenue can be reliably measured;

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

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

(iv) collection is reasonably assured; and

(v) costs incurred can be reliably measured.

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

All other processing costs are expensed as incurred.

(l) Lease payments

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

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

3. Significant accounting policies (continued):

Determining whether an arrangement contains a lease

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

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

(m) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, the losses on the disposal of available-for-sale financial assets and impairment losses recognized on financial assets.

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

(n) Income tax

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

3. Significant accounting policies (continued):

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

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

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

(o) Earnings per share

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

3. Significant accounting policies (continued):

(p) Deferred costs:

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

(q) New standards and interpretations not yet adopted

IFRS 9 *Financial Instruments:*

In November 2009 the IASB issued IFRS 9 *Financial Instruments*, and in October 2010 the IASB published amendments to IFRS 9.

The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 9 to have a material impact on the financial statements. The classification and measurement of the Group's financial assets is not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial assets that it holds.

Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets:*

In October 2010 the IASB issued *Amendments to IFRS 7 Disclosures - Transfers of Financial Assets*, which is effective for annual periods beginning on or after January 1, 2012.

The Company does not expect the amendments to have a material impact on the financial statements, because of the nature of the Company's operations and the types of financial assets that it holds.

4. Cash and cash equivalents:

As at March 31, 2011, the Company had restricted cash of $10,680 (December 31, 2010 - $10,649, January 1, 2010 - $865,918) which includes $10,680 (December 31, 2010 - $10,649; January 1, 2010 - $10,560) as required under the Company's corporate credit card agreement; nil (December 31, 2010 – nil; January 1, 2010 - $255,189) required for foreign exchange hedging agreements and nil (December 31, 2010 – nil; January 1, 2010 - $600,169) required for butane price swap agreements.

4. Cash and cash equivalents (continued):

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

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

In December of 2009, the Company sold an option to purchase the Belledune facility expiring December 31, 2010. The option consideration of $0.1 million which is refundable under certain conditions and could be applied to the purchase of the property when the option is exercised. The Company granted an extension of the option to March 31, 2011 at which time the parties executed an agreement of purchase and sale. The purchase price is equal to base consideration of $2.2 million plus accumulated property tax liabilities which are to be assumed by the purchaser. The base consideration is composed of the option deposit, $1.8 million cash on closing and a holdback of $0.3 million. Subsequent to closing the transaction the purchaser is to monitor the level of creosote contamination of the property and if the contamination exceeds normal industrial standards the Company shall be responsible for the costs of remediation. The holdback is to be released once the Company has paid for monitoring costs and remediation costs, if any. The transaction was completed on April 8, 2011.

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

	March 31, 2011	December 31, 2010	January 1, 2010
Assets held for sale:			
Treatment building	$ 83,529	$ 83,529	$ 83,529
Treatment equipment	1,888,377	1,888,377	1,888,377
Kiln	703,626	703,626	703,626
	$ 2,675,532	$ 2,675,532	$ 2,675,532
Liabilities related to assets held for sale:			
Accrual for property taxes	$ 675,631	$ 618,020	$ 475,532

6. Property, plant and equipment:

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

BENNETT ENVIRONMENTAL INC.

Notes to Interim Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Three months ended March 31, 2011

6. Property, plant and equipment (continued):

	Automobiles	Buildings and land improvements	Computer equipment	Furniture and equipment	Kilns and refractory	Land	Mobile and treatment equipment	Software	Total
Cost or deemed costs									
Balance at January 1, 2010	$ 86,232	$ 4,889,542	$ 263,280	$ 159,802	$ 412,500	$ 163,228	$ 4,654,000	$ 43,243	$ 10,671,827
Additions	-	19,888	-	17,948	15,924	-	21,204	-	74,964
Disposals	-	-	-	-	-	-	-	-	-
Balance at March 31, 2010	$ 86,232	$ 4,909,430	$ 263,280	$ 177,750	$ 428,424	$ 163,228	$ 4,675,204	$ 43,243	$ 10,746,791
Balance at January 1, 2011	$ 91,185	$ 4,930,498	$ 297,008	$ 194,435	$ 448,859	$ 163,228	$ 4,730,573	$ 52,975	$ 10,908,761
Additions	-	-	2,449	13,180	-	-	17,546	-	33,175
Disposals	-	-	-	(3,706)	-	-	-	-	(3,706)
Balance at March 31, 2011	$ 91,185	$ 4,930,498	$ 299,457	$ 203,909	$ 448,859	$ 163,228	$ 4,748,119	$ 52,975	$ 10,938,230
Accumulated amortization									
Balance at January 1, 2010	$ 28,004	$ -	$ 200,252	$ 110,163	$ -	$ -	$ -	$ 42,944	$ 381,363
Additions	4,367	104,362	4,727	2,931	11,668	-	127,628	75	255,758
Disposals	-	-	-	-	-	-	-	-	-
Balance at March 31, 2010	$ 32,371	$ 104,362	$ 204,979	$ 113,094	$ 11,668	$ -	$ 127,628	$ 43,019	$ 637,121
Balance at January 1, 2011	$ 46,215	$ 417,887	$ 224,220	$ 123,556	$ 49,038	$ -	$ 476,234	$ 48,109	$ 1,385,259
Additions	3,373	61,714	5,551	3,874	12,741	-	120,976	1,217	209,446
Disposals	-	-	-	(1,129)	-	-	-	-	(1,129)
Balance at March 31, 2011	$ 49,588	$ 479,601	$ 229,771	$ 126,301	$ 61,779	$ -	$ 597,210	$ 49,326	$ 1,593,576
Carrying amounts									
At January 1, 2010	$ 58,228	$ 4,889,542	$ 63,028	$ 49,639	$ 412,500	$ 163,228	$ 4,654,900	$ 299	$ 10,290,464
At March 31, 2010	53,861	4,805,068	58,301	64,656	416,756	163,228	4,547,576	224	10,109,670
At January 1, 2011	44,970	4,512,611	72,788	70,879	399,821	163,228	4,254,339	4,866	9,523,502
At March 31, 2011	41,597	4,450,897	69,686	77,608	387,080	163,228	4,150,909	3,649	9,344,654

7. Assets under finance lease

		Treatment equipment
Costs or deemed costs		
Balance at January 1, 2010	$	382,500
Additions		-
Disposals		-
Balance at March 31, 2010	$	382,500
Balance at January 1, 2011	$	552,000
Additions		-
Disposals		-
Balance at March 31, 2011	$	552,000
Accumulated amortization		
Balance at January 1, 2010	$	-
Additions		5,545
Disposals		-
Balance at March 31, 2010	$	5,545
Balance at January 1, 2011	$	29,763
Additions		7,799
Disposals		-
Balance at March 31, 2011	$	37,562
Carrying amounts		
At January 1, 2010	$	382,500
At March 31, 2010		376,955
At January 1, 2011		522,237
At March 31, 2011		514,438

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

8. Deferred tax assets and liabilities:

Unrecognized deferred tax assets:

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

	March 31, 2011	December 31, 2010	January 1, 2010
Non-capital tax losses	$ 2,843,789	$ 2,321,789	$ 3,226,696
Property, plant and equipment	5,072,726	5,315,755	6,566,461
Share issue costs	435,670	476,732	24,267
Tenure/severance	285,278	373,608	346,282
Capital loss	50,999	52,158	56,314
Other	361,914	298,540	273
	$ 9,050,376	$ 8,838,582	$ 10,220,293

The non-capital losses expire in 2028-2031. Deferred tax assets have not been recognized in respect of these items because it is not considered to be probable that future taxable profit will be available against which the Company can utilize the benefits.

9. Deferred revenue:

Deferred revenue classified as current liabilities consist of amounts billable on contracts whereby the Company is engaged in the remediation of contaminated soil. If transportation costs are incurred they are also deferred until the soil has been remediated and the Company has determined that the contaminants have been destroyed in accordance with the contract terms. Transportation costs are reimbursable under the terms of the contract.

10. Provisions:

		Legal
Balance at January 1, 2010	$	620,825
Provisions made during the period		167,000
Provisions reversed during the period		(79,055)
Change in foreign exchange rate		(12,942)
Balance at December 31, 2010	$	695,828
Balance at January 1, 2011	$	695,828
Provisions made during the period		-
Provisions used during the period		(250,000)
Provisions reversed during the period		(29,637)
Change in foreign exchange rate		(3,751)
Balance at March 31, 2011	$	412,440

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.

10. Provisions (continued):

During 2009, a former officer and director requested indemnification from the Company for legal costs incurred in connection with the U.S. Department of Justice anti-trust investigation (note 12(b)).

During the first quarter of 2010, this individual brought an Application to the Ontario Superior Court to compel the Company to reimburse him for the legal costs he may incur in connection with this matter. The Company 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 $312,440 as at March 31, 2011 in respect of this matter composed of the retention and the individual's legal costs incurred responding to the Company's Motion. The Company has recorded a recovery of $3,760 pertaining to foreign exchange in 2011, expensed $75,012 of this liability in 2010 and $241,188 in 2009. The Company's obligation may differ from the accrued amount of $312,440 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 12(a)).

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 officer and director, in connection with the U.S. Department of Justice anti-trust investigation.

Also the insurance company has required 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 as the Company's exposure would be limited to the $150,000 U.S. retention noted above.

Other former officers and directors may also seek indemnification from the Company for legal fees incurred in connection with this investigation. Two of these individuals have pled guilty and have not sought indemnification from the Company.

10. Provisions (continued):

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

11. Finance lease obligations:

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

	March 31, 2011	December 31, 2010	January 1, 2010
Current liabilities			
Current portion of finance lease liabilities	$ 183,368	$ 182,838	$ 135,316
Non-current liabilities			
Finance lease liabilities	$ 109,165	$ 155,206	$ 229,330

Terms and debt repayment schedule:

				March 31, 2011		December 31, 2010	
	Currency	Interest rate %	Year of maturity	Face value	Nominal Carrying amount	Face value	Carrying amount
Finance lease liabilities	CAD	up to 1.75	2011-2014	$ 295,212	$292,533	$341,608	$338,044

11. Finance lease obligations (continued):

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

The finance leases are secured by the related equipment.

Finance lease liabilities:

	Future Minimum Lease Payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	March 31,			December 31,			January 1,		
	2011	2011	2011	2010	2010	2010	2010	2010	2010
Less than one year	$185,584	$2,216	$183,368	$185,584	$2,746	$182,838	$141,625	$ 6,309	$135,316
Between one and five years	109,628	463	109,165	156,024	818	155,206	235,283	5,953	229,330
	$295,212	$2,679	$292,533	$341,608	$3,564	$338,044	$376,908	$12,262	$364,646

12. Long-term liabilities:

Long-term liabilities comprise the following:

	Tenure agreement (a)	U.S. Department of Justice (b)	Total
Balance January 1, 2010	$ 866,908	$ 2,331,143	$ 3,198,051
Paid during 2010	(79,000)	(201,200)	(280,200)
Unwinding of discount	32,725	145,864	178,589
Foreign exchange gain	-	(124,613)	(124,613)
Balance December 31, 2010	820,633	2,151,194	2,971,827
Paid during 2011	(19,750)	(529,528)	(549,278)
Unwinding of discount	4,996	1,572	6,568
Foreign exchange gain	-	(54,162)	(54,162)
	805,879	1,569,076	2,374,955
Less current portion	(79,000)	(1,569,076)	(1,648,076)
Balance March 31, 2011	$ 726,879	$ -	$ 726,879

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

(b) On July 31, 2008 the Company plead guilty to one count of conspiracy to commit fraud in United States District Court, District of New Jersey relating to its conduct with respect to the Federal Creosote Superfund contract (note 19(b)). The carrying value of the liability is the present value of future payments discounted by an assumed rate of 0.30%. In 2010, at the request of the Department of Justice the Company has agreed to accelerate its payments such that the balance of the obligation will be paid in full during 2011. As a result of the liability payment being accelerated, it has been reclassified as a current liability and this increased the unwinding of the discount in 2010 by $102,213.

13. Capital and other components of equity:

Share capital and contributed surplus:

Issuance of common shares:

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

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

The Company granted the Underwriters compensation options to purchase additional Units equal to 6.5% of all Units issued pursuant to the May 7, 2010 closing at a price of $3.05 per Unit. The Underwriters also received compensation options equal to 6.5% of the warrants issued in connection with the over-allotment option. The compensation options issued on May 21, 2010 carry the right to purchase one-half of one warrant at a price of $0.22. All the compensation options expire on May 7, 2012, none have been exercised as at March 31, 2011.

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

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

Common shares and preference shares:

At March 31, 2011 the authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Series I non-voting redeemable preferred shares. No Series I, non-voting redeemable preferred shares have been issued.

The issued share capital of the Company is as follows:

	Common shares	Amount
As at January 1, 2010	27,487,176	$ 71,949,963
Shares issued in connection with public offering	8,196,722	22,213,117
Share issue costs	-	(2,354,916)
Share options exercised	283,332	241,220
Warrants exercised	1,080,000	1,314,656
Balance December 31, 2010	37,047,230	93,364,040
Share options exercised	1,466,666	3,226,665
Balance March 31, 2011	38,513,896	$ 96,590,705

14. Share-based payment:

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

14. Share-based payment (continued):

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

This feature is considered to be a cash settlement option, and therefore the Company changed the accounting for the stock options. Effective on the date of the change in plan terms, the outstanding stock options were no longer accounted for as equity awards. Cash settled awards are accounted for as liabilities measured at fair value at the end of each reporting period and the expense is recognized over the relevant vesting period. The compensation cost related to the awards will be remeasured and adjusted each period while the options are outstanding. In addition, any change in price that is paid to or received from the investment dealer is recorded as an adjustment to stock compensation expense.

At the date of the change in the plan terms, an adjustment was recorded to reclassify the award from equity to liability and to increase the liability to reflect the current fair value of the awards on that date. As a result of the fair value measurement of the outstanding options at March 3, 2011, the historical stock compensation expense that had been recorded into Contributed Surplus of approximately $0.8 million was reclassified to liability and the amount of the liability was increased to the estimated fair value of the options of $3.0 million. The increase in the accrued amount of approximately $2.2 million was charged to accumulated deficit.

Under the new method of accounting, at March 31, 2011, the fair value of the options was remeasured, resulting in a charge of $345,408 to stock compensation expense and an equivalent increase recorded to the liability. Total stock compensation charged to earnings during the quarter is $394,698 (2009 - $32,513).

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

14. Share-based payment (continued):

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

Fair value of options as at March 3, 2011	$ 3,042,998
Increase in fair value of liability as at measurement date	345,408
Exercise of options	(2,585,165)
Cash settled stock-based liability as at March 31, 2011	$ 803,241

The following table summarizes information relating to outstanding and exercisable options at March 31, 2011:

	Options outstanding			Options exercisable	
Exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Number exercisable	Weighted average exercise price per share
$ 0.24	220,001	2.97	$ 0.24	220,001	$ 0.24
$ 1.73	30,000	0.35	1.73	30,000	1.73
$ 1.99	7,500	4.72	1.99	7,500	1.99
$ 2.08	315,625	4.69	2.08	155,208	2.08
	573,126		$ 1.35	412,709	$ 1.07

Inputs for measurement of grant date fair values:

The fair value of each option grant on March 31, 2011 was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

Options expiring	August, 2011 and March, 2014	December, 2015
Share price at March 31, 2011	$ 2.20	$ 2.20
Risk-free interest rate	0.92%	2.38%
Expected option lives years	0.3	3.80
Expected volatility	127.6%	127.6%
Dividend yield	Nil%	Nil%

No stock options were granted during the three months ended March 31, 2011 (2010 – nil).

14. Share-based payment (continued):

Contributed surplus:

	March 31, 2011	December 31, 2010
Balance, beginning of year	$ 4,846,334	$ 4,244,554
Stock-based compensation charged to earnings	49,290	317,974
Amount transferred to share capital for options exercised	-	(98,721)
Fair value of compensation options issued in connection with share and warrant offering closing May 7, 2010	-	483,992
Excess fair value of warrants issued on over-allotment closing May 21, 2010 over consideration received	-	(110,656)
Fair value of compensation options issued in connection with over-allotment closing May 21, 2010	-	9,191
Conversion from equity-settled to cash-settled stock option arrangement	(791,617)	-
Balance, end of period	$ 4,104,007	$ 4,846,334

15. Share purchase warrants:

At March 31, 2011, the Company has 4,713,115 warrants outstanding which are exchangeable into common shares of the Company at the holder's option on a one-for-one basis at an exercise price of $3.75. All outstanding warrants expire May 7, 2012. None of these warrants were exercised during the three month period ended March 31, 2011.

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

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

15. Share purchase warrants (continued):

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

16. Earnings per share:

Basic earnings per share

The calculation of basic earnings per share at March 31, 2011 was based on the net income (loss) attributable to common shareholders of $(1,774,412) (2010 - $4,876,272), and a weighted average number of common shares outstanding of 37,063,526 (2010 - 27,981,732).

16. Earnings per share (continued):

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

		2011		2010
Net income (loss) for the period	$	(1,774,412)	$	4,876,272
Net income (loss) (per common share) -				
Basic		(0.05)		0.17
Diluted		(0.05)		0.17
Weighted average number of shares:				
Basic		37,063,526		27,981,732
Diluted		38,407,147		29,433,077

Options aggregating 1,343,621 (2010 – 1,809,999) and warrants aggregating nil (2010 – nil) have been included in the computation of diluted earnings per share for the three months ended March 31, 2011.

17. Financial risk management:

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

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

17. Financial risk management (continued):

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

Credit risk:

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

Cash and equivalents and restricted cash:

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

Amounts receivable and holdbacks receivable:

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

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

The Company is subject to a concentration of credit risk in its amounts receivable and holdbacks receivable. As at March 31, 2011, 2 customers represented 4% and 1% respectively (December 31, 2010 - 2 customers – 16% and 8%, January 1, 2010 - 2 customers – 43.6% and 43%) of the aggregate amount of amounts receivable and holdbacks receivable.

17. Financial risk management (continued):

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

Management is of the opinion that any risk of loss due to bad debts is significantly reduced due to the financial strength of its customers. The Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary. As at March 31, 2011, none (December 31, 2010 - nil, January 1, 2010 43%) of the aggregate amount of amounts receivable and holdbacks receivable are protected by a payment bond.

Forward Exchange Contracts:

Credit risk exists in the event of non-performance by counterparty to forward exchange contracts. The risk is minimized as each contract is with a major chartered bank and represents an exchange between the same party allowing for an offset in the event of non-performance. Management does not believe there is a significant risk of non-performance by the counterparty because the portions with and the credit ratings of such counterparty are monitored. As at March 31, 2011, there were no foreign exchange contracts in place.

Exposure to credit risk:

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

	Carrying amount		
	March 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	$ 63,720,123	$ 64,993,643	$ 17,645,459
Restricted cash	10,680	10,649	865,918
Amounts receivable	394,472	321,906	10,215,767
Holdbacks receivable	-	-	3,029,363
Total	$ 64,125,275	$ 65,326,198	$ 31,756,507

17. Financial risk management (continued):

The aging of amounts receivable at the reporting date was:

	Carrying amount		
	March 31, 2011	December 31, 2010	January 1, 2010
Current	$ 197,068	$ 152,868	$ 4,972,277
31-90 days	114,951	103,008	4,924,171
Over 90 days	82,453	66,030	319,319
Total amounts receivable, net	$ 394,472	$ 321,906	$ 10,215,767

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

Liquidity risk:

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

At March 31, 2011, the Company has a cash and cash equivalents balance of $63,720,123 (December 31, 2010 - $64,993,643; January 1, 2010 - $17,645,459) and positive working capital of $58,203,003 (December 31, 2010 - $59,618,606; January 1, 2010 - $18,617,564). Management believes the Company has sufficient cash flows to meet amounts due.

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

17. Financial risk management (continued):

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

Millions of Canadian dollars	Carrying amount	Contractual cash flow	2011	2012	2013	2014	2015	Thereafter
Department of Justice Fine and Restitution	$1.57	$1.57	$1.57	$-	$-	$-	$-	$-
Tenure agreement	0.81	0.93	0.06	0.08	0.08	0.08	0.08	0.55
Operating leases	-	0.12	0.09	0.03	-	-	-	-
Finance leases	0.29	0.29	0.14	0.12	0.03	-	-	-
Accounts payable and accrued liabilities	3.71	3.71	3.71	-	-	-	-	-
Total contractual obligations	$6.38	$6.62	$5.57	$0.23	$0.11	$0.08	$0.08	$0.55

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

Market risk:

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

The Company did not designate its foreign exchange forward contracts or its butane swap contracts as hedges of underlying assets, liabilities, firm commitments or anticipated transactions and accordingly did not use hedge accounting. As a result of this, the foreign exchange forward contracts and butane swap contracts are recorded on the consolidated balance sheet at fair value in current assets when the contracts are in a gain position and in current liabilities when the contracts are in a loss position. Changes in fair value of these contracts are recognized as gains or losses in the statement of operations and comprehensive income. The Company does not utilize financial instruments for speculative purposes. As at March 31, 2011 the Company did not have any foreign exchange or butane swap contracts in place.

17. Financial risk management (continued):

Currency risk:

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

As at March 31, 2011, the Company has no foreign exchange contracts outstanding (2010 – nil).

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

	March 31, 2011 US$	December 31 2010 US$	January 1, 2010 US$
Cash, restricted cash and cash equivalents	$ 1,757,379	$ 1,801,233	$ 1,030,863
Amounts receivable	127,591	447,618	1,452,748
Accounts payable and accrued liabilities	(1,778,498)	(2,326,877)	(2,608,210)
Net exposure in U.S. dollars	$ 106,472	$ (78,026)	$ (124,599)

Sensitivity analysis:

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

17. Financial risk management (continued):

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The company's exposure to interest rate risk mainly arises from the interest impact of its cash and equivalents as it is subject to floating market rates of interest. Based on the balance outstanding on March 31, 2011, a one percent point increase (decrease) in the bank prime rate would increase (decrease) interest income by approximately $630,000 (2010 - $640,000).

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

Capital Management:

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

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

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

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

18. Operating segments:

Geographic information:
The Company operates in one reportable operating segment, which involves the business of remediating contaminated soil and other waste materials. All significant property, plant and equipment are located in Canada.

19. Contingencies:

(a) Federal Creosote project

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

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

The U.S. Department of Justice Civil Division is investigating whether the Company violated the civil False Claims Act in connection with the Federal Creosote project in New Jersey during the 2002-2004 time period. The outcome of this investigation is not determinable and no amount has been recorded in the Company's financial statements in respect of this investigation. The Company continues to bid on work for various U.S. government entities and does not believe that this matter will affect its eligibility for this work. The Company is cooperating fully with the investigation.

19. Contingencies (continued):

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

The Company has filed a claim against the Company's founder and former CEO for $10,340,550. The claim alleges that he was directly or indirectly responsible for the illegal payments that resulted in the Company pleading guilty to conspiracy to commit fraud as described in note 12(b). In addition to seeking to recover these illegal payments, the associated fines and legal fees, the claim seeks to recover bonuses which were inappropriately paid and punitive damages. The Company's claim has been stayed pending the outcome of the criminal proceedings involving the Company's founder and former CEO that are related to the Company's claim.

(d) Claim against contractor

The Company has filed a claim against a contractor for breach of contract and negligent representation in the amount of $1,000,000. The contractor has counter-claimed for breach of contract and interference with contractual relationships in the amount of $300,000. The action is still in the pleading stages and the outcome is not determinable. No accrual has been recorded in connection with this claim.

(e) Claim by founder and former CEO

Subsequent to the end of the first quarter of 2011 the Company's founder and former CEO ("Plaintiff") served a claim against Second City Capital Partners I, Limited Partnership ("Second City"), Samuel Belzberg ("Belzberg"), the Company and its former chairman. The claim alleges that the Company was in possession of material undisclosed information and that, while in possession of such information, the Company and its former Chairman, and Belzberg directed Second City to purchase the Company's common shares from the Plaintiff. Management believes there is no basis for making these allegations against the Company. Accordingly the Company has made no provision in respect of this matter and intends to vigorously defend against the claim. Subsequent to the end of the first quarter of 2011 the Plaintiff discontinued his claim against the Company's former Chairman.

19. Contingencies (continued):

(f) Other

In the ordinary course of business, other lawsuits have been filed against and by the Company. In the opinion of management, the outcome of the lawsuits now pending will involve amounts that would not have a material adverse effect on the consolidated position of the Company. However, should any loss result from the resolution of these claims, such loss would be charged against income in the year the claim is resolved.

20. Related parties:

The Company 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 period ended March 31, 2011, the Company paid consulting fees of $50,003 (2010 – nil) under this arrangement. Subsequent to the end of the first quarter of 2011 the agreement was extended to the end of June, 2011.

During the three months ended March 31, 2011, the Company paid tenure payments of $19,750 (2010 - $19,750) 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.

21. Explanation of transition to IFRS:

As stated in note 2(a), these are the Company's first interim consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the three months ended March 31, 2011, the comparative information presented in these financial statements for both the three months ended March 31, 2010 and the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's transition date).

(a) Initial elections upon adoption

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

IFRS Exemption Options

(i) Business combinations

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

(ii) Share-based payments

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

(iii) Fair value as deemed cost

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

21. Explanation of transition to IFRS (continued):

IFRS Mandatory exception

(i) Estimates

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

(b) Reconciliation between CGAAP and IFRS

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

Below is the Company's consolidated statement of financial position as at the transition date of January 1, 2010 and as at December 31, 2010 under IFRS.

21. Explanation of transition to IFRS (continued):

	Note	January 1, 2010 Previous Canadian GAAP	January 1, 2010 Effect of Transition to IFRS	January 1, 2010 IFRS	December 31, 2010 Previous Canadian GAAP	December 31, 2010 Effect of Transition IFRS	December 31, 2010 IFRS
Cash and cash equivalents		$ 17,645,459	$ -	$ 17,645,459	$ 64,993,643	$ -	$64,993,643
Restricted cash		865,918	-	865,918	10,649	-	10,649
Amounts receivable		10,215,767	-	10,215,767	321,906	-	321,906
Holdbacks receivable		3,029,363	-	3,029,363	-	-	-
Deferred costs		-	-	-	661,925		661,925
Prepaid expenses and other		446,104	-	446,104	561,401	-	561,401
Future income tax asset	(e)	3,915,650	(3,915,650)	-	-	-	-
Assets classified as held for sale		2,675,532	-	2,675,532	2,675,532	-	2,675,532
		38,793,793	(3,915,650)	34,878,143	69,225,056	-	69,225,056
Property, plant and equipment	(c)	8,424,518	1,865,946	10,290,464	7,734,783	1,788,719	9,523,502
Assets under finance lease		412,074	(29,574)	382,500	479,547	42,690	522,237
Deferred tax assets	(e)	-	3,915,650	3,915,650	-	-	-
		$ 47,630,385	$ 1,836,372	$ 49,466,757	$ 77,439,386	$ 1,831,409	$ 79,270,795
Accounts payable and accrued liabilities	(d)	$ 5,710,497	$ (341,188)	$ 5,369,309	$ 3,546,068	$ (695,827)	$ 2,850,241
Liabilities related to assets held for sale		475,532	-	475,532	618,020	-	618,020
Current tax payable		2,087,079	-	2,087,079	583,962	-	583,962
Deferred revenue		7,286,897	-	7,286,897	2,445,369	-	2,445,369
Provisions	(d)	-	620,825	620,825	-	695,827	695,827
Current portion of long-term liabilities	(d)	565,258	(279,637)	285,621	2,230,194	-	2,230,194
Current portion of finance lease obligations		135,316	-	135,316	182,838	-	182,838
		16,260,579	-	16,260,579	9,606,451	-	9,606,451
Long-term liabilities		2,912,430	-	2,912,430	741,633	-	741,633
Long-term portion of finance lease obligations		229,330	-	229,330	155,206	-	155,206
Shareholders' equity							
Share capital		71,949,963	-	71,949,963	93,364,040	-	93,364,040
Contributed surplus		4,244,554	-	4,244,554	4,846,334	-	4,846,334
Share purchase warrants		429,056	-	429,056	2,721,131	-	2,721,131
Accumulated deficit	(c)	(48,395,527)	1,836,372	(46,559,155)	(33,995,409)	1,831,409	(32,164,000)
		$ 47,630,385	$ 1,836,372	$ 49,466,757	$ 77,439,386	$ 1,831,409	$79,270,795

21. Explanation of transition to IFRS (continued):

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

	As at January 1, 2010	As at March 31, 2010	As at December 31, 2010
Total shareholders' equity under CGAAP	$ 28,228,046	$ 34,150,045	$ 66,936,096
Adjustment for fair value as deemed cost on property, plant and equipment	1,836,372	1,828,857	1,831,409
Total shareholders' equity under IFRS	$ 30,064,418	$ 35,978,902	$ 68,767,505

21. Explanation of transition to IFRS (continued):

The following table sets out the reconciliation of comprehensive income for the year ended December 31, 2010:

	Note	Previous Canadian GAAP	Effect of Transition to IFRS	IFRS
Sales		$ 32,668,014	$ -	$ 32,668,014
Expenses				
Operating costs		8,495,640	-	8,495,640
Administrative and business development	(f)	6,111,809	(76,376)	6,035,433
Amortization	(c)	1,063,077	(19,419)	1,043,658
Foreign exchange	(f)	2,278	(2,278)	-
Interest	(f)	877,781	(877,781)	-
		16,550,585	(975,854)	15,574,731
Results from operating activities		16,117,429	975,854	17,093,283
Other income, including interest	(c), (g)	512,912	(512,912)	-
Finance income	(g)	-	488,530	488,530
Finance costs	(f)	-	(956,435)	(956,435)
Net finance costs		-	(980,817)	(467,905)
Income before income taxes		16,630,341	(4,963)	16,625,378
Income taxes (recovery)				
Current		(1,685,426)	-	(1,685,426)
Deferred		3,915,650	-	3,915,650
		2,230,224	-	2,230,224
Net income for the period		$ 14,400,117	$ (4,963)	$ 14,395,154

21. Explanation of transition to IFRS (continued):

The following table sets out the reconciliation of comprehensive income for the three months ended March 31, 2010:

	Note	Previous Canadian GAAP	Effect of Transition to IFRS	IFRS
Sales		$ 11,148,377	$ -	$ 11,148,377
Expenses				
Operating costs		2,954,764	-	2,954,764
Administrative and business development	(f)	1,368,575	(9,942)	1,358,633
Amortization	(c)	253,787	7,513	261,300
Foreign exchange	(f)	(1,686)	1,686	-
Interest	(f)	26,229	(26,229)	-
		4,601,669	(26,972)	4,574,697
Results from operating activities		6,546,708	26,972	6,573,680
Other income, including interest	(g)	42,536	(42,536)	-
Finance income	(g)	-	44,222	44,222
Finance costs	(f)	-	(36,171)	(36,171)
Net finance costs		-	8,051	8,051
Income before income taxes		6,589,244	(7,513)	6,581,731
Income taxes (recovery)				
Current		(149,953)	-	(149,953)
Deferred		1,855,412	-	1,855,412
		1,705,459	-	1,705,459
Net income for the period		$ 4,883,785	$ (7,513)	$ 4,876,272

Notes to the reconciliations:

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

21. Explanation of transition to IFRS (continued):

The impact arising from the change is summarized as follows:

Consolidated statement of comprehensive income

	For the period ended March 31, 2010	For the year ended December 31, 2010
Decrease (increase) in amortization expense	$ (7,513)	$ 19,419
Decrease in gain on disposal of property, plant and equipment	-	(24,382)
Decrease in net income for the period	$ (7,513)	$ (4,963)

Consolidated statement of financial position

	January 1, 2010	March 31, 2010	December 31, 2010
Increase in property, plant and equipment	$ 1,865,946	$ 1,843,374	$ 1,788,719
Increase (decrease) in assets under finance lease	$ (29,574)	$ (14,515)	$ 42,690
Increase in accumulated deficit	$ (1,836,372)	$ (1,828,859)	$ (1,831,409)

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

The impact arising from the change is summarized as follows:

Consolidated statement of financial position

	January 1, 2010	March 31, 2010	December 31, 2010
Decrease in accounts payable and accrued liabilities	$ (341,188)	$ (612,748)	$ (695,827)
Decrease in current portion of long-term liabilities	$ (279,637)	$ -	$ -
Increase in provisions	$ 620,825	$ 612,748	4 695,827

21. Explanation of transition to IFRS (continued):

(e) Future income tax asset was reported as a current asset under CGAAP. Under IFRS it has been reclassified as a long-term asset under deferred tax assets.

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

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

Reconciliation of comprehensive income for the year ended December 31, 2010:

	Canadian GAAP	Effect of Transition to IFRSs	IFRS
Total comprehensive income for the period	$ 14,400,117	$ (4,963)	$ 14,395,154
Earnings per share			
Basic earnings per share	$ 0.42	$ 0.00	$ 0.42
Diluted earnings per share	0.41	0.00	0.41

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