

Interim Condensed Consolidated Financial Statements of

BENNETT ENVIRONMENTAL INC.

Six months ended June 30, 2011 and 2010
(Unaudited)

BENNETT ENVIRONMENTAL INC.

Interim Condensed Consolidated Statement of Financial Position
(Unaudited)

(Expressed in Canadian dollars)

	June 30, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	\$ 61,797,796	\$ 64,993,643	\$ 17,645,459
Restricted cash (note 4)	20,744	10,649	865,918
Amounts receivable	328,011	321,906	10,215,767
Holdbacks receivable	-	-	3,029,363
Holdback receivable (note 5)	300,000	-	-
Deferred costs	1,911,566	661,925	-
Prepaid expenses and other	162,358	561,402	446,104
Assets classified as held for sale (note 5)	-	2,675,532	2,675,532
	64,520,475	69,225,057	34,878,143
Property, plant and equipment (note 6)	9,147,972	9,523,502	10,290,464
Assets under finance lease (note 7)	506,639	522,237	382,500
Deferred tax assets	-	-	3,915,650
	\$ 74,175,086	\$ 79,270,796	\$ 49,466,757
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 1,879,406	\$ 2,850,241	\$ 5,369,309
Current tax liabilities	488,500	583,962	2,087,079
Liabilities related to assets held for sale (note 5)	225,000	618,020	475,532
Stock compensation liability (note 14)	564,339	-	-
Deferred revenue	5,370,137	2,445,369	7,286,897
Provisions (note 10)	411,675	695,828	620,825
Current portion of long-term liabilities (note 12)	1,120,075	2,230,194	285,621
Current portion of finance lease obligations (note 11)	183,900	182,838	135,316
	10,243,032	9,606,451	16,260,579
Long-term liabilities (note 12)	712,035	741,633	2,912,430
Long-term portion of finance lease obligations (note 11)	62,990	155,206	229,330
Shareholders' equity:			
Share capital (note 13)	96,812,271	93,364,040	71,949,963
Contributed surplus (note 13)	4,104,007	4,846,334	4,244,554
Share purchase warrants (note 13)	2,721,131	2,721,131	429,056
Accumulated deficit	(40,480,380)	(32,163,999)	(46,559,155)
Total equity	63,157,029	68,767,506	30,064,418
	\$ 74,175,086	\$ 79,270,796	\$ 49,466,757

See accompanying notes to interim condensed consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

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

(Expressed in Canadian dollars)

	Three months ended		Six months ended	
	2011	June 30, 2010	2011	June 30, 2010
Sales	\$ -	\$ 10,914,914	\$ -	\$ 22,063,291
Expenses:				
Operating costs	336,279	2,525,960	710,990	5,480,724
Administration and business development	1,576,277	1,191,441	3,104,523	2,550,074
Management/Board restructuring costs (note 15)	2,285,577	-	2,490,072	-
Amortization	221,981	257,441	439,224	518,741
Loss on disposal of assets held for sale(note 5)	18,286	-	18,286	-
	4,438,400	3,974,842	6,763,095	8,549,539
Results from operating activities	(4,438,400)	6,940,072	(6,763,095)	13,513,752
Finance income	167,307	52,277	525,760	93,935
Finance costs	(19,495)	(537,158)	(56,440)	(570,765)
Net finance income (costs)	147,812	(484,881)	469,320	(476,830)
Income (loss) before income taxes	(4,290,588)	6,455,191	(6,293,775)	13,036,922
Income taxes expense (recovery)	-	1,365,098	(228,775)	3,070,557
Net income (loss) for the period, being comprehensive income (loss)	\$ (4,290,588)	\$ 5,090,093	\$ (6,065,000)	\$ 9,966,365
Earnings (loss) per share (note 16)				
Basic (loss) earnings per share	\$ (0.11)	\$ 0.15	\$ (0.16)	\$ 0.32
Diluted (loss) earnings per share	(0.11)	0.14	(0.16)	0.31

See accompanying notes to interim condensed consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Condensed Consolidated Statement of Changes in Equity
(Unaudited)

(Expressed in Canadian dollars)

For the six months ended June 30, 2010

	Attributable to equity holders of the Company				
	Share capital	Contributed surplus	Share purchase warrants	Accumulated deficit	Total equity
Balance at January 1, 2010	\$ 71,949,963	\$ 4,244,554	\$ 429,056	\$ (46,559,155)	\$ 30,064,418
Comprehensive income for the period	-	-	-	9,966,366	9,966,366
Share-based compensation	-	65,386	-	-	65,386
Share options exercised	241,220	(98,721)	-	-	142,499
Warrants exercised	1,314,656	-	(429,056)	-	885,600
Shares issued in connection with public offering closing May 7, 2010	22,213,117	-	-	-	22,213,117
Share-based costs	(2,356,506)	-	-	-	(2,356,506)
Fair value of compensation options issued in connection with share and warrant offering closing May 7, 2010	-	483,992	-	-	483,992
Excess fair value of warrants issued on over-allotment closing May 21, 2010 over consideration received	-	(110,656)	-	-	(110,656)
Fair value of compensation options issued in connection with over-allotment closing May 21, 2010	-	9,191	-	-	9,191
Warrants issued in connection with public offering closing May 7 and May 21, 2010 net of issue costs	-	-	4,713,115	-	4,713,115
Balance at June 30, 2010	\$ 93,362,450	\$ 4,593,746	\$ 4,713,115	\$ (36,592,789)	\$ 66,076,522

See accompanying notes to interim condensed consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Condensed Consolidated Statement of Changes in Equity
(Unaudited)

(Expressed in Canadian dollars)

For the six months ended June 30, 2011

	Attributable to equity holders of the Company				
	Share capital	Contributed surplus	Share purchase warrants	Accumulated deficit	Total equity
Balance at January 1, 2011	\$ 93,364,040	\$ 4,846,334	\$ 2,721,131	\$ (32,163,999)	\$ 68,767,506
Comprehensive loss for the period	-	-	-	(6,065,000)	(6,065,000)
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	3,448,231	-	-	-	3,448,231
Balance at June 30, 2011	\$ 96,812,271	\$ 4,104,007	\$ 2,721,131	\$ (40,480,380)	\$ 63,157,029

See accompanying notes to interim condensed consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

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

	2011	2010
Cash flows provided by (used in) operating activities:		
Net income (loss) for the period	\$ (6,065,000)	\$ 9,966,364
Adjustments for:		
Amortization	439,224	518,741
Foreign exchange gains related to U.S. Department of Justice accrual	(55,117)	30,165
Unwinding of discount on provisions	13,037	33,354
Gain on sale of property, plant and equipment	(1,671)	-
Loss on sale of assets held for sale	18,286	-
Share-based compensation	325,362	65,386
Income tax expense (recovery)	(228,775)	3,395,510
Change in non-cash working capital items:		
Amounts receivable	(6,105)	2,836,829
Holdbacks receivable	(300,000)	2,183,468
Prepaid expenses and other	399,044	191,004
Deferred costs	(1,249,641)	-
Accounts payable and accrued liabilities	416,395	(1,906,994)
Stock compensation liability	(564,339)	-
Liabilities related to assets held for sale	(393,020)	65,584
Provisions	(284,153)	3,121
Deferred revenue	2,924,768	(994,061)
Current tax payable	133,313	325,503
Repayment of long-term liabilities	(1,097,637)	(39,500)
Net cash provided by (used in) operating activities	(5,576,029)	16,674,474
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	4,250	30,000
Proceeds from sale of assets held for sale	1,834,356	-
Acquisition of property, plant and equipment	(50,675)	(183,121)
Change in restricted cash	(10,095)	855,333
Net cash provided by investing activities	1,777,836	702,212
Cash flows from financing activities		
Proceeds from exercise of warrants	-	885,600
Proceeds from exercise of share options	693,500	142,500
Proceeds from shares and warrants due to public offering, net of costs	-	22,961,859
Payment of finance lease liabilities	(91,154)	(131,248)
Net cash provided by financing activities	602,346	23,858,711
Net increase (decrease) in cash and cash equivalents	(3,195,847)	41,235,397
Cash and cash equivalents at beginning of period	64,993,643	17,645,459
Cash and cash equivalents at end of period	\$ 61,797,796	\$ 58,880,856

See accompanying notes to the interim condensed consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

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

Six months ended June 30, 2011

Bennett Environmental Inc. ("BEI") is a company domiciled in Canada. The interim condensed consolidated financial statements of BEI as at and for the six months ended June 30, 2011 are composed of BEI and its subsidiaries (together referred to as the "Company"). The Company was incorporated on July 29, 1992 under the Canada Business Corporation Act and primarily carries on the business of remediating hydrocarbon contaminated soil. The treatment of contaminated soil is performed using the Company's thermal oxidation technology.

1. Continuing operations:

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

As at June 30, 2011 the Company held approximately 16,700 tonnes of untreated soil at its Saint Ambroise facility. The Company has received advance payments from its customers related to these soil treatment contracts, but 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 June 30, 2011 the Company has approximately \$62 million in cash available to fund acquisitions and its daily operating needs.

2. Basis of compliance:

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

BENNETT ENVIRONMENTAL INC.

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

Six months ended June 30, 2011

2. Basis of compliance (continued):

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

The interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on August 8, 2011.

3. Significant accounting policies:

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

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

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

(a) Transfers of Financial Assets

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

BENNETT ENVIRONMENTAL INC.

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

Six months ended June 30, 2011

3. Significant accounting policies (continued):

(b) Financial Instruments

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

(c) Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements*: IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 replace SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Statements*. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company has not determined the impact of IFRS 10 on its financial statements.

(d) Fair Value Measurements

IFRS 13 *Fair Value Measurement*: IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the impact of IFRS 13 on its financial statements.

BENNETT ENVIRONMENTAL INC.

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

Six months ended June 30, 2011

3. Significant accounting policies (continued):

(e) Presentation of Other Comprehensive Income

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

(f) Employee Benefits

The IASB published an amended version of IAS 19 *Employee Benefits* in June 2011. The amendments will require that past service costs be recognized in full immediately in profit or loss. The amendments impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, *Provisions*, and when the entity can no longer withdraw the offer of the termination benefits. The amendment is effective for annual periods beginning on or after January 1, 2013. The Company has not yet determined the impact of IAS 19 on its financial statements.

4. Cash and cash equivalents:

As at June 30, 2011, the Company had restricted cash of \$20,744 (December 31, 2010 - \$10,649, January 1, 2010 - \$865,918) which includes \$20,744 (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.

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

BENNETT ENVIRONMENTAL INC.

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

Six months ended June 30, 2011

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

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

6. Property, plant and equipment:

Upon transition to IFRS on January 1, 2010, the Company elected to measure buildings and land improvements, kilns and refractory and mobile and treatment equipment at fair value as its deemed cost. Certain items of property, plant and equipment had a fair value of approximately \$1.8 million above their book value under CGAAP. The fair value measurements was based on appraisals prepared by independent valuers 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 Condensed Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Six months ended June 30, 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	-	40,956	9,353	26,583	39,108	-	89,398	3,500	208,898
Disposals	-	-	-	-	-	-	(40,000)	-	(40,000)
Balance at June 30, 2010	\$ 86,232	\$ 4,930,498	\$ 272,633	\$ 186,385	\$ 451,608	\$ 163,228	\$ 4,703,398	\$ 46,743	\$ 10,840,725
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	-	-	35,046	-	50,675
Disposals	-	-	(49,160)	(3,706)	-	-	-	-	(52,866)
Balance at June 30, 2011	\$ 91,185	\$ 4,930,498	\$ 250,297	\$ 203,909	\$ 448,859	\$ 163,228	\$ 4,765,619	\$ 52,975	\$ 10,906,570
Accumulated amortization									
Balance at January 1, 2010	\$ 28,004	\$ -	\$ 200,252	\$ 110,163	\$ -	\$ -	\$ -	\$ 42,944	\$ 381,363
Additions	8,734	208,812	10,156	6,293	23,557	-	246,002	1,024	504,578
Disposals	-	-	-	-	-	-	(10,000)	-	(10,000)
Balance at June 30, 2010	\$ 36,738	\$ 208,812	\$ 210,408	\$ 116,456	\$ 23,557	\$ -	\$ 236,002	\$ 43,968	\$ 875,941
Balance at January 1, 2011	\$ 46,215	\$ 417,887	\$ 224,220	\$ 123,556	\$ 49,038	\$ -	\$ 476,234	\$ 48,109	\$ 1,385,259
Additions	6,746	123,426	15,280	7,747	25,481	-	242,512	2,434	423,626
Disposals	-	-	(49,159)	(1,128)	-	-	-	-	(50,287)
Balance at June 30, 2011	\$ 52,961	\$ 541,313	\$ 190,341	\$ 130,175	\$ 74,519	\$ -	\$ 718,746	\$ 50,543	\$ 1,758,598
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 June 30, 2010	49,494	471,686	62,225	69,929	428,051	163,228	4,467,396	2,775	9,964,784
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 June 30, 2011	38,224	4,389,185	59,956	73,734	374,340	163,228	4,046,873	2,432	9,147,972

BENNETT ENVIRONMENTAL INC.

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

Six months ended June 30, 2011

7. Assets under finance lease

		Treatment equipment
Costs or deemed costs		
Balance at January 1, 2010	\$	382,500
Additions		222,000
Disposals		(52,500)
Balance at June 30, 2010	\$	552,000
Balance at January 1, 2011	\$	552,000
Additions		-
Disposals		-
Balance at June 30, 2011	\$	552,000
Accumulated amortization		
Balance at January 1, 2010	\$	-
Additions		14,164
Disposals		-
Balance at June 30, 2010	\$	14,164
Balance at January 1, 2011	\$	29,763
Additions		15,598
Disposals		-
Balance at June 30, 2011	\$	45,361
Carrying amounts		
At January 1, 2010	\$	382,500
At June 30, 2010		537,836
At January 1, 2011		522,237
At June 30, 2011		506,639

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.

BENNETT ENVIRONMENTAL INC.

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

Six months ended June 30, 2011

8. Deferred tax assets and liabilities:

Unrecognized deferred tax assets:

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

	June 30, 2011	December 31, 2010	January 1, 2010
Non-capital tax losses	\$ 4,233,230	\$ 2,321,789	\$ 3,226,696
Property, plant and equipment	4,986,949	5,315,755	6,566,461
Share issue costs	399,895	476,732	24,267
Tenure/severance	287,303	373,608	346,282
Capital loss	50,331	52,158	56,314
Other	347,120	298,540	273
	<u>\$ 10,304,828</u>	<u>\$ 8,838,582</u>	<u>\$ 10,220,293</u>

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.

BENNETT ENVIRONMENTAL INC.

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

Six months ended June 30, 2011

10. Provisions:

Balance at January 1, 2010	\$	620,825
Provisions made during the period		167,000
Provisions reversed during the period		(79,055)
Change in foreign exchange rate		(12,942)
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Balance at December 31, 2010	\$	695,828
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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		(4,516)
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Balance at June 30, 2011	\$	411,675

During 2005, the Company was served with a claim in the amount of \$5,000,000 by a consultant retained by the founder and former CEO claiming breach of contract. The claim was submitted to arbitration and \$145,000 was recorded as an expense in 2005 as the Company's estimate of its obligation under the arbitrator's decision. Upon appeal by the consultant, the arbitrator's decision was overturned with the Company being liable for additional amounts estimated to be \$315,000 which were expensed in 2007. In 2008, a payment of \$374,091 was made, including recoverable input tax credits of \$18,900 and interest of \$40,191 leaving an accrual of \$100,000 representing the Company's estimate of costs related to the claim. The Company believes that it has adequately provided for and expensed amounts related to this claim.

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

During the first quarter of 2010, this individual brought an Application to the Ontario Superior Court to compel the Company to reimburse him for the legal costs he may incur in connection with this matter. The Company 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 parties have agreed to stay the Court's order requiring the Company to reimburse the individual's legal costs until the Court of Appeal has reached a decision regarding the Motion for Leave to Appeal.

BENNETT ENVIRONMENTAL INC.

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

Six months ended June 30, 2011

10. Provisions (continued):

Subject to a \$150,000 U.S. retention, the underwriter of the Company's Directors' and Officers' Liability policy agreed to fund the reasonable legal costs, incurred by the former officer and director, in connection with the U.S. Department of Justice anti-trust investigation. Also the underwriter has required that the Company indemnify them for all reimbursed legal costs in the event that the former director and officer is found guilty.

The Company has accrued \$311,675 as at June 30, 2011 in respect of this matter composed of the retention and the individual's legal costs incurred by the individual when he responded to the Company's Motion. The Company recorded a recovery of \$4,525 pertaining to foreign exchange in 2011 and expensed \$75,012 of this liability in 2010 and \$241,188 in 2009. The Company's obligation may differ from the accrued amount of \$311,675 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)).

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.

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.

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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.

	June 30, 2011	December 31, 2010	January 1, 2010
Current liabilities			
Current portion of finance lease liabilities	\$ 183,900	\$ 182,838	\$ 135,316
Non-current liabilities			
Finance lease liabilities	\$ 62,990	\$ 155,206	\$ 229,330

Terms and debt repayment schedule:

				June 30, 2011	December 31, 2010		
	Currency	Interest rate %	Year of maturity	Face value	Nominal Carrying amount	Face value	Carrying amount
Finance lease liabilities	CAD	up to 1.75	2011-2014	\$ 248,816	\$ 246,890	\$341,608	\$338,044

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

The finance leases are secured by the related equipment.

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11. Finance lease obligations (continued):

Finance lease liabilities:

	Future Minimum Lease Payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	June 30,			December 31,			January 1,		
	2011	2011	2011	2010	2010	2010	2010	2010	2010
Less than one year	\$ 185,584	\$ 1,684	\$183,900	\$185,584	\$2,746	\$182,838	\$141,625	\$ 6,309	\$135,316
Between one and five years	63,232	242	62,990	156,024	818	155,206	235,283	5,953	229,330
	\$ 248,816	\$ 1,926	\$ 246,890	\$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	(39,500)	(1,058,137)	(1,097,637)
Unwinding of discount	9,902	3,136	13,038
Foreign exchange gain	-	(55,118)	(55,118)
	791,035	1,041,075	1,832,110
Less current portion	(79,000)	(1,041,075)	(1,120,075)
Balance June 30, 2011	\$ 712,035	\$ -	\$ 712,035

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

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12. Long-term liabilities (continued):

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

13. Capital and other components of equity:

- (a) Share capital:

Issuance of common shares:

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

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

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

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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 June 30, 2011 the authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Series I non-voting redeemable preferred shares. No Series I, non-voting redeemable preferred shares have been issued.

The issued share capital of the Company is as follows:

	Common shares	Amount
As at January 1, 2010	27,487,176	\$ 71,949,963
Shares issued in connection with public offering	8,196,722	22,213,117
Share issue costs	-	(2,354,916)
Share options exercised (note 14)	283,332	241,220
Warrants exercised	1,080,000	1,314,656
Balance December 31, 2010	37,047,230	93,364,040
Share options exercised	1,568,332	3,448,231
Balance June 30, 2011	38,615,562	\$ 96,812,271

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

(b) Contributed surplus:

	June 30, 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 (note 14)	(791,617)	-
Balance, end of period	\$ 4,104,007	\$ 4,846,334

(c) Share purchase warrants:

At June 30, 2011, the Company has 4,713,115 warrants outstanding which are exchangeable into common shares of the Company at the holder's option on a one-for-one basis at an exercise price of \$3.75. All outstanding warrants expire May 7, 2012. None of these warrants were exercised during the six month period ended June 30, 2011.

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

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

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

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

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

14. Share-based payment:

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

In the first quarter of 2011 the Company completed an arrangement with an investment dealer allowing eligible stock option holders to simultaneously exercise options and sell the resultant shares to an investment dealer, thereby receiving cash immediately. The arrangement requires that the investment dealer sell the purchased shares into the market as conditions allow. Any change in price between the investment dealer's purchase and sale is for the account of the Company.

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14. Share-based payment (continued):

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

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 \$791,617 was reclassified to liability and the amount of the liability was increased to the estimated fair value of the options of \$3,042,998. The increase in the accrued amount of \$2,251,381 was charged to accumulated deficit.

Under the new method of accounting, at June 30, 2011, the fair value of the options was remeasured, resulting in a recovery of \$69,336 to stock compensation expense and an equivalent decrease recorded to the liability. Total stock compensation recovered during the quarter is \$69,336 (2009 – expensed \$32,513).

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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	276,072
Exercise of options	(2,754,731)
<hr/>	
Cash settled stock-based liability as at June 30, 2011	\$ 564,339

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

Exercise prices	Options outstanding			Options exercisable	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Number exercisable	Weighted average exercise price per share
\$ 0.24	133,335	2.72	\$ 0.24	133,335	\$ 0.24
\$ 1.73	30,000	0.10	1.73	30,000	1.73
\$ 1.99	7,500	4.47	1.99	7,500	1.99
\$ 2.08	285,625	4.44	2.08	216,875	2.08
	456,460		\$ 1.52	387,710	\$ 1.42

Inputs for measurement of grant date fair values:

The fair value of each option grant on June 30, 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 June 30, 2011	\$ 2.15	\$ 2.15
Risk-free interest rate	0.92%	1.39%
Expected option lives years	1.69	2.17
Expected volatility	160.3%	160.3%
Dividend yield	Nil%	Nil%

No stock options were granted during the six months ended June 30, 2011 (2010 – nil).

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15. Management/Board restructuring costs

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

	Three months ended June 30, 2011		Six months ended June 30, 2010	
Proxy contest expenses	\$ 1,335,177	\$ -	\$ 1,531,222	\$ -
Severance costs	777,981	-	777,981	-
Special directors' and officers' insurance costs	114,569	-	114,569	-
Other expenses	57,850	-	66,300	-
	\$ 2,285,577	\$ -	\$ 2,490,072	\$ -

16. Earnings per share:

Basic earnings per share

The calculation of basic earnings per share at June 30, 2011 was based on the net income (loss) attributable to common shareholders of \$(6,065,000) (2010 - \$9,966,364), and a weighted average number of common shares outstanding of 37,815,627 (2010 - 30,875,259).

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	\$ (6,065,000)	\$ 9,966,335
Net income (loss) (per common share) -		
Basic	(0.16)	0.32
Diluted	(0.16)	0.31
Weighted average number of shares:		
Basic	37,815,627	30,875,259
Diluted	38,767,736	32,429,686

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16. Earnings per share (continued):

Options aggregating 952,109 (2010 – 1,554,427) and warrants aggregating nil (2010 – 1,080,000) have been included in the computation of diluted earnings per share for the six months ended June 30, 2011.

17. Financial risk management:

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

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

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

Credit risk:

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

Cash and equivalents and restricted cash:

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

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17. Financial risk management (continued):

Amounts receivable and holdbacks receivable:

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

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

The Company is subject to a concentration of credit risk in its amounts receivable and holdbacks receivable. As at June 30, 2011, 2 customers represented 48% and 5% 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.

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 June 30, 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 June 30, 2011, there were no foreign exchange contracts in place.

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17. Financial risk management (continued):

Exposure to credit risk:

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

	Carrying amount		
	June 30, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	\$ 61,797,796	\$ 64,993,643	\$ 17,645,459
Restricted cash	20,744	10,649	865,918
Amounts receivable	328,011	321,906	10,215,767
Holdback receivable	300,000	-	3,029,363
Total	\$ 62,446,551	\$ 65,326,198	\$ 31,756,507

The aging of amounts receivable at the reporting date was:

	Carrying amount		
	June 30, 2011	December 31, 2010	January 1, 2010
Current	\$ 196,913	\$ 152,868	\$ 4,972,277
31-90 days	57,670	103,008	4,924,171
Over 90 days	74,428	66,030	319,319
Total amounts receivable	\$ 329,011	\$ 321,906	\$ 10,215,767
Less: Allowance for bad debts	1,000	-	-
Net amounts receivable	\$ 338,011	\$ 321,906	\$ 10,215,767

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

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17. Financial risk management (continued):

Liquidity risk:

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

At June 30, 2011, the Company has a cash and cash equivalents balance of \$61,797,796 (December 31, 2010 - \$64,993,643; January 1, 2010 - \$17,645,459) and positive working capital of \$54,277,443 (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 June 30, 2011 and December 31, 2010.

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

Millions of Canadian dollars	Carrying amount	Contractual cash flow	2011	2012	2013	2014	2015	Thereafter
Department of Justice Fine and Restitution	\$1.04	\$1.04	\$1.04	\$-	\$-	\$-	\$-	\$-
Tenure agreement	0.79	0.91	0.04	0.08	0.08	0.08	0.08	0.55
Operating leases	-	0.09	0.06	0.03	-	-	-	-
Finance leases	0.25	0.25	0.10	0.12	0.03	-	-	-
Accounts payable and accrued liabilities	2.67	2.67	2.37	0.30	-	-	-	-
Total contractual obligations	\$4.75	\$4.96	\$3.61	\$0.53	\$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.

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17. Financial risk management (continued):

Market risk:

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

The Company did not designate its foreign exchange forward contracts or its butane swap contracts as hedges of underlying assets, liabilities, firm commitments or anticipated transactions and accordingly did not use hedge accounting. As a result of this, the foreign exchange forward contracts and butane swap contracts are recorded on the consolidated balance sheet at fair value in current assets when the contracts are in a gain position and in current liabilities when the contracts are in a loss position. Changes in fair value of these contracts are recognized as gains or losses in the statement of operations and comprehensive income. The Company does not utilize financial instruments for speculative purposes. As at June 30, 2011 the Company did not have any foreign exchange or butane swap contracts in place.

Currency risk:

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company, primarily the Canadian dollar. 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 or by periodically entering into forward exchange contracts to offset its balance sheet exposure and to hedge the cash flow risk associated with its estimated net foreign currency cash requirements and certain significant transactions.

As at June 30, 2011, the Company has no foreign exchange contracts outstanding (2010 – nil).

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17. Financial risk management (continued):

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

	June 30, 2011 US\$	December 31 2010 US\$	January 1, 2010 US\$
Cash, restricted cash and cash equivalents	\$ 1,194,081	\$ 1,801,233	\$ 1,030,863
Amounts receivable	65,908	447,618	1,452,748
Accounts payable and accrued liabilities	(1,245,141)	(2,326,877)	(2,608,210)
Net exposure in U.S. dollars	\$ 14,848	\$ (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 \$2,000 as at June 30, 2011. A similar strengthening (weakening) as at December 31, 2010 would have increased (decreased) equity and profit and loss by approximately \$8,000.

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The company's exposure to interest rate risk mainly arises from the interest impact of its cash and equivalents as it is subject to floating market rates of interest. Based on the balance outstanding on June 30, 2011, a one percent point increase (decrease) in the bank prime rate would increase (decrease) interest income by approximately \$618,000 (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.

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17. Financial risk management (continued):

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.

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19. Contingencies (continued):

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

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

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

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

(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.

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19. Contingencies (continued):

(e) Claim by founder and former CEO

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

(f) Other

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

20. Related parties:

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

During the six months ended June 30, 2011, the Company paid tenure payments of \$39,500 (2010 - \$39,500) to a former director and officer of the Company.

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20. Related parties (continued):

As a result of a settlement agreement made as at June 22, 2011 with the Company's largest shareholder, Second City Capital Partners I, L.P. ("SCC"), the Company agreed to a proposal to replace the CEO and change the composition of the Board of Directors. The resolutions arising from this settlement agreement were voted on and passed at the Company's Annual and Special Meeting on June 29, 2011. The Company has entered into transition agreements with the Company's CEO and CFO and has agreed to reimburse SCC for expenditures incurred in connection with its dispute with the Company. SCC expenditures, in the amount of \$600,541, were expensed by the Company during the second quarter and paid subsequently. The transition agreements with the CEO and CFO are described below.

On June 29, 2011 Mr. Jack Shaw's employment as the Company's President and CEO was terminated. During the second quarter he received a termination payment of \$275,000. Mr. Shaw has agreed to provide the Company with consulting and transitioning services for a period of up to six months commencing June 29, 2011. Upon satisfactory completion of the consulting contract he will receive a further termination payment of \$137,500. During the second quarter of 2011, and as part of these settlement arrangements, Mr. Fred Cranston agreed to continue as the Company's CFO on a full-time basis for a period not less than 12 months commencing on June 29, 2011. Mr. Cranston received a termination payment of \$199,167 during the second quarter and is entitled to receive a further termination payment of \$159,333 upon successful completion of his service obligation to the Company. All termination payments to Mr. Shaw and Mr. Cranston which have been paid have been expensed and all unpaid termination payments have been expensed and recorded as liabilities in the second quarter of 2011.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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21. Explanation of transition to IFRS:

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

(a) Initial elections upon adoption

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

IFRS Exemption Options

(i) Business combinations

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

(ii) Share-based payments

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

(iii) Fair value as deemed cost

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

IFRS Mandatory exception

(i) Estimates

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

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Notes to Interim Condensed Consolidated Financial Statements
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21. Explanation of transition to IFRS (continued):

b) Reconciliation between CGAAP and IFRS

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

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

BENNETT ENVIRONMENTAL INC.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

21. Explanation of transition to IFRS (continued):

	Note	June 30, 2010		IFRS
		Previous Canadian GAAP	Effect of Transition IFRS	
Cash and cash equivalents		\$ 58,880,856	\$ -	\$ 58,880,856
Restricted cash		10,585	-	10,585
Amounts receivable		7,378,938	-	7,378,938
Holdbacks receivable		845,895	-	845,895
Prepaid expenses and other		255,100	-	255,100
Future income tax asset	(e)	520,140	(520,140)	-
Assets classified as held for sale		2,675,532	-	2,675,532
		70,567,046	(520,140)	70,046,906
Property, plant and equipment	(c)	8,132,590	1,832,192	9,964,782
Assets under finance lease	(c)	525,804	12,032	537,836
Deferred tax assets	(e)	-	520,140	520,140
		\$ 79,225,440	\$ 1,844,224	\$ 81,069,664
Accounts payable and accrued liabilities	(d)	\$ 4,086,258	\$ (623,946)	\$ 3,462,312
Liabilities related to assets held for sale		541,117	-	541,117
Current tax payable		2,412,582	-	2,412,582
Deferred revenue		6,292,836	-	6,292,836
Provisions	(d)	-	623,946	623,946
Current portion of long-term liabilities		250,739	-	250,739
Current portion of finance lease obligations		181,784	-	181,784
		13,765,316	-	13,765,316
Long-term liabilities		2,971,331	-	2,971,331
Long-term portion of finance lease obligations		246,890	-	246,890
Shareholders' equity				
Share capital		93,362,450	-	93,362,450
Contributed surplus		4,593,746	-	4,593,746
Share purchase warrants		2,722,721	-	2,722,721
Accumulated deficit	(c)	(38,437,014)	1,844,224	(36,592,790)
		\$ 79,225,440	\$ 1,844,224	\$ 81,069,664

BENNETT ENVIRONMENTAL INC.

Notes to Interim Condensed Consolidated Financial Statements
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21. Explanation of transition to IFRS (continued):

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

	As at January 1, 2010	As at June 30, 2010	As at December 31, 2010
Total shareholders' equity under CGAAP	\$ 28,228,046	\$ 38,437,014	\$ 66,936,096
Adjustment for fair value as deemed cost on property, plant and equipment	1,836,372	1,844,224	1,831,409
Total shareholders' equity under IFRS	\$ 30,064,418	\$ 36,592,790	\$ 68,767,505

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21. Explanation of transition to IFRS (continued):

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

	Note	Previous Canadian GAAP	Effect of Transition to IFRS	IFRS
Sales		\$ 10,914,914	\$ -	\$ 10,914,914
Expenses				
Operating costs		2,525,960	-	2,525,960
Administrative and business development	(f)	1,214,853	(23,412)	1,191,441
Amortization	(c)	270,255	(12,814)	257,441
Foreign exchange	(f)	3,954	(3,954)	-
Interest	(f)	502,477	(502,477)	-
		4,517,499	(542,657)	3,974,842
Results from operating activities		6,397,415	542,657	6,940,072
Other income, including interest	(g)	42,410	(42,410)	-
Finance income	(g)	-	49,713	49,713
Finance costs	(f)	-	(534,594)	(534,594)
Net finance costs		-	(484,881)	(484,881)
Income before income taxes		6,439,825	15,366	6,455,191
Income taxes (recovery)				
Current		(175,000)	-	(175,000)
Deferred		1,540,098	-	1,540,098
		1,365,098	-	1,365,098
Net income, being comprehensive income for the period		\$ 5,074,727	\$ 15,366	\$ 5,090,093

BENNETT ENVIRONMENTAL INC.

Notes to Interim Condensed Consolidated Financial Statements
(Unaudited)
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21. Explanation of transition to IFRS (continued):

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

	Note	Previous Canadian GAAP	Effect of Transition to IFRS	IFRS
Sales		\$ 22,063,291	\$ -	\$ 22,063,291
Expenses				
Operating costs		5,480,724	-	5,480,724
Administrative and business development	(f)	2,583,428	(33,354)	2,550,074
Amortization	(c)	524,042	(5,301)	518,741
Foreign exchange	(g)	2,268	(2,268)	-
Interest	(f)	528,706	(528,706)	-
		9,119,168	(569,629)	8,549,539
Results from operating activities		12,944,123	569,629	13,513,752
Other income, including interest	(g)	84,946	(84,946)	-
Finance income	(g)	-	93,935	93,935
Finance costs	(f)	-	(570,765)	(570,765)
Net finance costs		-	(476,830)	(476,830)
Income before income taxes		13,029,069	7,853	13,036,922
Income taxes (recovery)				
Current		(324,953)	-	(324,953)
Deferred		3,395,510	-	3,395,510
		3,070,557	-	3,070,557
Net income, being comprehensive income for the period		\$ 9,958,512	\$ 7,853	\$ 9,966,365

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.

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Notes to Interim Condensed Consolidated Financial Statements
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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 June 30, 2010	For the year ended December 31, 2010
Decrease in amortization expense	\$ 5,301	\$ 19,419
Increase (decrease) in gain on disposal of property, plant and equipment	2,552	(24,382)
Increase (decrease) in net income for the period	\$ 7,853	\$ (4,963)

Consolidated statement of financial position

	January 1, 2010	June 30, 2010	December 31, 2010
Increase in property, plant and equipment	\$ 1,865,946	\$ 1,832,192	\$ 1,788,719
Increase (decrease) in assets under finance lease	\$ (29,574)	\$ 12,032	\$ 42,690
Increase in accumulated deficit	\$ (1,836,372)	\$ (1,844,224)	\$ (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	June 30, 2010	December 31, 2010
Decrease in accounts payable and accrued liabilities	\$ (341,188)	\$ (623,946)	\$ (695,827)
Decrease in current portion of long-term liabilities	\$ (279,637)	\$ -	\$ -
Increase in provisions	\$ 620,825	\$ 623,946	4 695,827

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Notes to Interim Condensed Consolidated Financial Statements
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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.
- (h) The IFRS transition adjustments noted above did not have a material impact on the presentation of the Company's statement of cash flow.