Interim Consolidated Financial Statements of

BENNETT ENVIRONMENTAL INC.

Three and nine months ended September 30, 2009 and 2008
(Unaudited)

BENNETT ENVIRONMENTAL INC.

Interim Consolidated Balance Sheets
(Expressed in Canadian dollars)

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 6,144,652	$ 2,602,692
Restricted cash (note 3)	870,530	1,793,708
Amounts receivable (note 7)	8,494,746	7,414,973
Holdbacks receivable (note 8)	2,060,912	-
Deferred transportation costs	-	110,283
Prepaid expenses and other	719,934	701,976
Future income tax asset (note 15)	2,595,354	-
	20,886,128	12,623,632
Property, plant and equipment	8,438,844	9,664,407
Assets under capital leases (note 4)	367,558	-
Assets held for sale (note 5)	3,007,284	3,007,284
	$ 32,699,814	$ 25,295,323
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,575,250	$ 4,185,212
Liabilities related to assets held for sale (note 5)	1,624,670	1,551,500
Income taxes payable	1,962,679	2,363,981
Deferred revenue	-	175,496
Current portion of long-term liabilities (note 10)	519,390	1,019,244
Current portion of lease obligations (note 11)	121,062	-
	8,803,051	9,295,433
Long-term liabilities (note 10)	3,155,886	3,460,152
Long-term portion of lease obligations (note 11)	215,443	-
Shareholders' equity:		
Share capital (note 12)	71,904,963	71,733,963
Contributed surplus	4,229,902	4,085,649
Share purchase warrants (note 13)	429,056	429,056
Accumulated deficit	(56,038,487)	(63,708,930)
	20,525,434	12,539,738
Continuing operations (note 1)		
Contingencies (note 18)		
	$ 32,699,814	$ 25,295,323

See accompanying notes to interim consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
	(Unaudited)		(Unaudited)	
Sales	$ 10,916,688	$ 15,517	$ 17,411,462	$ 2,307,723
Expenses:				
Operating costs	3,000,741	455,714	7,373,743	2,789,198
Administration and business Development	1,183,396	1,380,855	3,585,294	3,545,061
Depreciation and amortization	456,881	483,131	1,356,452	1,694,595
Impairment of long-lived assets (note 5)	-	-	-	723,903
Foreign exchange	4,519	(196)	7,623	37,580
Interest	11,780	133,681	105,777	153,446
	4,657,317	2,453,186	12,428,889	8,943,783
Earnings (loss) before the undernoted	6,259,371	(2,437,668)	4,982,573	(6,636,060)
Other income, including interest	60,231	22,825	160,200	166,878
Earnings (loss) before income taxes	6,319,602	(2,414,843)	5,142,773	(6,469,182)
Income tax expense (recoverable) (note 15)				
Current	-	-	67,684	69,473
Future	(2,595,354)	-	(2,595,354)	-
	(2,595,354)	-	(2,527,670)	69,473
Net earnings (loss) from continuing operations	8,914,956	(2,414,843)	7,670,443	(6,538,655)
Net earnings (loss) from discontinued operations (note 6)	-	(31,755)	-	(325,711)
Net earnings (loss) for the period, being comprehensive income	$ 8,914,956	$ (2,446,598)	$ 7,670,443	$ (6,864,366)
Net earnings (loss) from continuing operations per common share (note 16)				
Basic	$ 0.33	$ (0.09)	$ 0.28	$ (0.24)
Diluted	0.32	(0.09)	0.28	(0.24)
Net earnings (loss) from discontinued operations per common share (note 16)				
Basic	$ -	$ -	$ -	$ (0.01)
Diluted	-	-	-	(0.01)
Net earnings (loss) per common share (note 16)				
Basic	$ 0.33	$ (0.09)	$ 0.28	$ (0.25)
Diluted	0.32	(0.09)	0.28	(0.25)

See accompanying notes to interim consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Consolidated Statements of Accumulated Deficit
(Expressed in Canadian dollars)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
	(Unaudited)		(Unaudited)	
Accumulated deficit, beginning of period	$ (64,953,443)	$ (63,494,449)	$ (63,708,930)	$ (59,076,681)
Net earnings (loss) for the period	8,914,956	(2,446,598)	7,670,443	(6,864,366)
Accumulated deficit, end of period	$ (56,038,487)	$ (65,941,047)	$ (56,038,487)	$ (65,941,047)

See accompanying notes to interim consolidated financial statements.

BENNETT ENVIRONMENTAL INC.

Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
	(Unaudited)		(Unaudited)	
Cash provided by (used in):				
Operations:				
Net earnings (loss) from continuing operations	$ 8,914,956	$ (2,414,843)	$ 7,670,443	$ (6,538,655)
Items not involving cash:				
Depreciation and amortization	456,881	483,131	1,356,452	1,694,596
Stock-based compensation	40,486	19,257	224,053	74,464
Foreign exchange related to U.S. Department of Justice accrual	(214,337)	123,450	(342,057)	202,235
Loss from impairment of long-lived assets	-	-	-	723,903
Accretion interest	20,552	-	67,237	-
Future income taxes (recovery)	(2,595,354)	-	(2,595,354)	-
Changes in non-cash operating working capital	(5,315,692)	898,828	(3,178,459)	3,342,044
Cash provided by (used for) continuing operations	1,307,492	(890,177)	3,202,315	(501,413)
Cash provided by (used for) discontinued operations	-	199,376	-	8,628
Cash provided by (used for) operating activities	1,307,492	(690,801)	3,202,315	(492,785)
Financing:				
Cash provided by (used for) financing activities				
Repayment of lease obligations	(30,035)	-	(30,035)	-
Repayments of long-term liabilities	(5,319)	-	(512,791)	(75,000)
Issuance of share capital	91,200	-	91,200	-
Cash provided by (used for) financing activities	55,846	-	(451,626)	(75,000)
Investments:				
Change in restricted cash	875,339	(40,713)	923,178	(68,229)
Purchase of property, plant and equipment	(62,902)	(2,845)	(131,907)	(4,579)
Cash provided by (used for) investing activities	812,437	(43,558)	791,271	(72,808)
Increase (decrease) in cash and cash equivalents	2,175,775	(734,359)	3,541,960	(640,593)
Cash and cash equivalents, beginning of period	3,968,877	4,003,602	2,602,692	3,909,836
Cash and cash equivalents, end of period	$ 6,144,652	$ 3,269,243	$ 6,144,652	$ 3,269,243
Supplemental cash flow information:				
Interest paid	$ 3,049	$ 26,446	$ 33,112	$ 56,200
Income taxes paid	13,149	-	85,149	-
Income tax refund	40,668	-	338,926	1,060,300
Non-cash transactions:				
Leases on asset acquisitions	$ -	$ -	$ 397,360	$ -

See accompanying notes to interim consolidated financial statements.

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1. Continuing operations:

After several years of sporadic operations resulting from the lack of soil for processing, the Saint Ambroise facility re-opened on April 6, 2009 and with the exception of maintenance shutdowns, has operated continuously throughout the second and third quarters of 2009. This resulted in positive earnings for the Company for these periods and also on a year to date basis. As of October 31, 2009 the Saint Ambroise facility is holding sufficient soil inventories to continue operating until the end of April, 2010. This will allow the Company to have sufficient cash and working capital to fund operations beyond the third quarter of 2010.

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

2. Significant accounting policies:

(a) Basis of presentation:

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and accordingly, do not include all disclosures required for annual financial statements. These consolidated financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements except as disclosed in note 2(c) to these interim consolidated financial statements. In the opinion of management, all adjustments, including reclassifications and normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows at September 30, 2009 and for all periods presented, have been made. Interim results are not necessarily indicative of the results for a full year.

These interim consolidated financial statements should be read in conjunction with the December 31, 2008 annual consolidated financial statements.

2. Significant accounting policies (continued):

(b) Revenue recognition:

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

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

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

(iii) collection is reasonably assured.

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

All other processing costs are expensed as incurred.

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

2. Significant accounting policies (continued):

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

The Company did not have any long-term fixed price contracts in process during the nine month period ended September 30, 2009 and 2008.

(c) Change in accounting policies:

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

On January 1, 2009, the Company adopted the Emerging Issues Committee of the Accounting Standards Board Abstract 173, "Credit Risk and Fair Value of Financial Assets and Financial Liabilities", which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This new standard did not have an impact on the Company's consolidated financial statements.

(d) Recent accounting pronouncement:

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to report under International Financial Reporting Standards ("IFRS") effective for fiscal periods beginning on or after January 1, 2011. The Company has completed an initial impact assessment process focusing on differences between IFRS and the Company's accounting policies and is in the process of developing a plan to convert its consolidated financial statements to IFRS. The Company has begun to establish a project plan and identify key individuals with an initial focus on the componentization of capital assets. The Company will continue to invest in training and resources required throughout the transition period to ensure a timely conversion. Upon adoption of IFRS, it is likely that changes in accounting policies will be required that may materially impact the Company's consolidated financial statements.

2. Significant accounting policies (continued):

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

3. Restricted cash:

As at September 30, 2009, the Company had restricted cash of $870,530 (2008- $1,793,708) which includes $10,549 (2008 - $10,442) as required under the Company's corporate credit card agreement; nil (2008 - $1,487,634) required for letters of credit, $259,944 (2008 - $295,632) required for foreign exchange hedging agreements and $600,037 (2008 - nil) required for butane price swap agreements.

4. Assets under capital leases:

Included in capital leases as at September 30, 2009 (December 31, 2008 – nil) is equipment with a cost of $397,360 (December 31, 2008 - nil) less accumulated depreciation of $29,802 (December 31, 2008 – nil) for a net book value of $367,558 (December 31, 2008 – nil).

5. Assets and liabilities held for sale:

The Company has entered into an agreement to sell the net assets of its Belledune facility for total consideration of approximately $1.4 million net of liabilities to be assumed by the purchaser. The purchaser, as part of the purchase and sale agreement, will assume the outstanding property taxes and liabilities related to the soil on hand at the facility. As a result, the deferred revenue and accrued liability for the untreated soil will be eliminated upon the sale. The purchaser has been unable to close the transaction for reasons outside of the Company's control. As a result, the Company is continuing to market the Belledune facility for sale, and in October, 2009, has entered into negotiations to sell the facility to a third party. While no agreement has been finalized, the preliminary negotiations indicate the Company should realize approximately $1.4 million on any sale net of any liabilities that need to be discharged.

(Expressed in Canadian dollars)

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

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

Assets held for sale:

Treatment building	$ 93,886
Treatment equipment	2,122,526
Kiln	790,872
	$ 3,007,284

Liabilities related to assets held for sale:

Deferred revenue	$ 141,700
Accrual for soil treatment	1,065,584
Accrual for property taxes	417,386
	$ 1,624,670

The Company recorded an impairment charge in the second quarter of 2008 related to reducing the carrying value of the Belledune net assets to their fair value as follows:

Treatment building	$ 14,015
Treatment equipment	316,854
Kiln	118,063
Deferred permitting costs	274,971
	$ 723,903

6. Discontinued operations:

On December 18, 2008 the Company sold the shares of its Trans-Cycle Industries, Ltd. and Material Resource Recovery S.R.B.P. Inc. subsidiaries (the "Subsidiaries"). Total consideration, net of working capital adjustments, is estimated to be $197,935 less closing costs of $43,257 resulting in a gain of $88,704 recorded in the December 31, 2008 audited consolidated financial statements. As part of the closing procedures the purchaser arranged to provide financial assurance necessary to replace the Subsidiaries' deposits held by various Government agencies throughout Canada. These deposits were to be repaid to the Company when finally released by these Government agencies. As at September 30, 2009 all have been refunded.

Combined revenue during the third quarter of 2008 for the Subsidiaries was $1,387,608 (nine months ended September 30, 2008 - $4,040,236) and the loss before income taxes was $31,755 (nine months ended September 30, 2008 - $310,282).

(Expressed in Canadian dollars)

6. Discontinued operations (continued):

Summary of Combined Balance Sheets of Subsidiaries sold:

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

7. Amounts receivable:

	September 30, 2009	December 31, 2008
Billed	$ 8,403,216	$ 4,215,701
Refundable deposits (note 6)	-	3,091,287
GST & QST receivable	-	16,455
Due from purchaser of TCI and MRR (note 6) [i]	91,530	91,530
	$ 8,494,746	$ 7,414,973

[i] The amount due from the purchaser is non-interest bearing and is expected to be settled in the fourth quarter of 2009.

8. Holdbacks receivable:

The holdbacks receivable of $2,060,912 represents 20% of the amount invoiced for treated soil to a contractor managing a large project for the Ontario Ministry of the Environment ("M.O.E."). The holdbacks will be released for payment, 30 days after the Company provides a certificate of destruction confirming that all contaminants have been destroyed for all soil received at the Company's Saint Ambroise facility. The M.O.E. holds a payment bond for approximately $32 million which is intended to guarantee payment to subcontractors in the event of non-payment by the contractor.

9. Financial instruments:

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. The Board of Directors has responsibility for the review of the Company's risk management framework. The Board of Directors has mandated the Audit Committee to review how management monitors compliance of the Company's risk management policies and procedures and review the adequacy of the risk management policies and procedures.

Credit risk:

Credit risk arises from the potential default of a customer in meeting its financial obligation to the Company. The Company has credit evaluation, approval and monitoring processes to mitigate potential credit risk.

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

The Company is subject to a concentration of credit risk in its amounts receivable. As at September 30, 2009, one customer represented 87% (December 31, 2008 – 47%) of amounts receivable.

Management is of the opinion that any risk of loss due to bad debts is significantly reduced due to the financial strength of its customers. The Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary. Payments from the customer representing 87% of amounts receivable are protected by a payment bond as described in note 8.

(Expressed in Canadian dollars)

9. Financial instruments (continued):

The aging of amounts receivable at the reporting date was:

	September 30, 2009	December 31, 2008
Current	$ 7,871,710	$ 6,713,329
31-90 days	623,036	701,644
Greater than 90 days	1,794	1,911
Gross amounts receivable	8,496,540	7,416,884
Less: Allowance for doubtful accounts	(1,794)	(1,911)
Total amounts receivable, net	$ 8,494,746	$ 7,414,973

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

Credit risk exists in the event of non-performance by a counterparty to forward exchange contracts. The risk is minimized as each contract is with a major chartered bank and represents an exchange between the same party allowing for an offset in the event of non-performance. Management does not believe there is a significant risk of non-performance by the counterparty because the portions with and the credit ratings of such counterparty are monitored.

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

	September 30, 2009	December 31, 2008
Cash and cash equivalents	$ 6,144,652	$ 2,602,692
Restricted cash	870,530	1,793,708
Amounts receivable	8,494,746	7,414,973
Holdbacks receivable	2,060,912	-
Deferred transportation costs	-	110,283
Total	$ 17,570,840	$ 11,921,656

9. Financial instruments (continued):

Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates will affect the Company's income or the value of its holding in financial instruments. The Company did not designate its foreign exchange forward contracts or its butane swap contracts as hedges of underlying assets, liabilities, firm commitments or anticipated transactions in accordance with CICA Handbook Section 3865, Hedges, and accordingly did not use hedge accounting. As a result of this, the foreign exchange forward contracts and butane swap contracts are recorded on the consolidated balance sheet at fair value in current assets when the contracts are in a gain position and in current liabilities when the contracts are in a loss position. Changes in fair value of these contracts are recognized as gains or losses in the statement of operations and comprehensive income. The Company does not utilize financial instruments for speculative purposes.

(i) Foreign exchange risk:

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

As of September 30, 2009, the Company has no foreign exchange contracts outstanding.

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

9. Financial instruments (continued):

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

	September 30, 2009 U.S.	December 31, 2008 U.S.
Cash, restricted cash and cash equivalents	$ 2,154,087	$ 1,191,857
Amounts receivable	626,597	4,900
Accounts payable and accrued liabilities	(2,782,360)	(2,476,891)
Net exposure in U.S. dollars	$ (1,676)	$ (1,280,134)

After considering the effects of the foreign exchange contracts as described above, a 10% strengthening of the Canadian dollar against the U.S. dollar would have increased the earnings from operations by approximately $200 for the three month period ended September 30, 2009. A similar strengthening for the period ended December 31, 2008 would have decreased the loss from operations by $4,000.

The following summary illustrates the fluctuations in the exchange rates applied during the period ended September 30, 2009:

	U.S. $
Opening exchange rate as at January 1, 2009	1.2180
Closing exchange rate as at September 30, 2009	1.0707
Average exchange rate for the three months ended September 30, 2009	1.0980
Average exchange rate for the nine months ended September 30, 2009	1.1698

(ii) Butane swap contract price risk

The Company is exposed to commodity price risk on butane used to fuel the thermal oxidizer at its Saint Ambroise facility. Swap contracts and other agreements are periodically used to fix the price of butane and reduce the adverse impact of price increases. As at September 30, 2009 the Company has an outstanding swap contract whereby it has agreed to pay a fixed rate of $0.4052 per litre and its counterparty has agreed to pay spot on a notional amount of 1.4 million litres of butane over the five month period ended February, 2010.

9. Financial instruments (continued):

At the end of the third quarter of 2009 the fair value of the contract is an unrealized loss of approximately $121,000 which is recorded as an accrued liability on the balance sheet and an operating cost on the statement of operations and comprehensive income. A 10% strengthening in the cost of butane would have increased the earnings from operations by approximately $37,000 for the period ended September 30, 2009 (December 31, 2008 – nil) due to an increase in the value of the swap contract. The mark-to-market loss and sensitivity analysis described above do not consider the offsetting impact of price changes on the costs incurred by the facility on its physical purchases of butane.

Liquidity risk:

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

At September 30, 2009, the Company has a cash and cash equivalents balance of $6,144,652 and positive working capital of $12,083,077. Management believes the Company will have sufficient cash flows to meet amounts due.

The Company had no bank borrowings outstanding at September 30, 2009 or December 31, 2008.

Fair values:

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

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

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

The table below analyzes the Company's financial liabilities which will be settled into relevant maturity groupings based on the remaining periods at September 30, 2009 to the contractual maturity date. The amounts disclosed in this table are the contractual undiscounted cash flow.

9. Financial instruments (continued):

	Payments due:					
	In less than 6 Months	Between 6 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Greater than 5 years	Total
Accounts payable and accrued liabilities, long-term liabilities and lease obligations	$ 4,887,705	$ 381,383	$ 417,632	$ 2,645,222	$ 651,750	$ 8,983,692

10. Capital management:

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

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

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

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

(Expressed in Canadian dollars)

11. Long-term liabilities:

Long-term liabilities comprise the following:

	Tenure agreement	Severance payable	U.S. Department of Justice	Total
Balance December 31, 2008	$1,079,678	$ 571,304	$ 2,828,414	$ 4,479,396
Addition (reduction)	-	(16,509)	-	(16,509)
Paid	(237,633)	(275,158)	-	(512,791)
Accretion charge	32,590	-	34,647	67,237
Foreign exchange charge	-	-	(342,057)	(342,057)
	874,635	279,637	2,521,004	3,675,276
Less current portion	79,000	279,637	160,753	519,390
Balance September 30, 2009	$ 795,635	$ -	$ 2,360,251	$ 3,155,886

12. Obligations under capital lease:

	Monthly Principal Payments	Interest Rate	Effective Rate	Maturity Date
Obligation under capital lease	$ 10,374	1.0 to 1.5%	1.22%	June, 2012

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

Repayments required over the next three years are as follows:

	Obligations under capital lease		
	Principal	Interest	Total
2010	$ 121,062	$ 3,430	$ 124,492
2011	122,547	1,945	124,492
2012	92,896	473	93,369
	$ 336,505	$ 5,848	$ 342,353

(Expressed in Canadian dollars)

13. Share capital:

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

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

	Common shares	Amount
Total issued shares, December 31, 2008	27,018,675	$ 71,805,842
Shares repurchased in 2004 and held in treasury	(11,500)	(71,879)
Balance, December 31, 2008	27,007,175	71,733,963
Issued during the nine months ended September 30, 2009:		
Exercise of options	380,001	171,000
Balance, September 30, 2009	27,387,176	$ 71,904,963

(c) Stock option plan:

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

1,850,000 stock options were granted during the nine months ended September 30, 2009 (2008 – nil).

(Expressed in Canadian dollars)

13. Share capital (continued):

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

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

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

Stock option activity for the nine months ended September 30, 2009 is as follows:

	Shares	Weighted average exercise price
Outstanding, December 31, 2008	646,000	$ 0.96
Granted	1,850,000	0.24
Exercised	(380,001)	(0.24)
Cancelled	(6,000)	3.18
Outstanding, September 30, 2009	2,109,999	$ 0.45

(Expressed in Canadian dollars)

13. Share capital (continued):

The following table summarizes information relating to outstanding and exercisable options at September 30, 2009 and December 31, 2008:

Range of exercise prices	Number of options September 30, 2009	Number of options December 31, 2008
$ 0.24	1,469,999	-
$ 0.67 - $ 1.73	630,000	630,000
$ 3.18	-	6,000
$ 4.20	10,000	10,000
	2,109,999	646,000

14. Share purchase warrants:

At September 30, 2009, the Company has 1,080,000 outstanding warrants (December 31, 2008 – 1,080,000) which are exchangeable into common shares of the Company at the holder's option on a one-for-one basis, at any time between March 1, 2008 and March 1, 2010, at a price of $0.77 for the first 540,000 warrants exercised and at $0.87 with respect to the remaining 540,000 warrants. No warrants have been exercised during the period.

(Expressed in Canadian dollars)

15. Income taxes:

The Company has non-capital losses carried forward of approximately $30,416,000 which are available to reduce future years' income for income tax purposes.

Non-capital loss carryforwards expire as follows:

2009	$ 8,000
2010	12,000
2011	3,176,000
2015	6,565,000
2026	5,865,000
2027	4,392,000
2028	9,451,000
2029	947,000
	$ 30,416,000

The composition of the future tax assets are as follows:

	September 30, 2009	December 31, 2008
Future tax assets:		
Loss carryforwards	$ 9,829,550	$ 9,076,700
Property, plant and equipment	8,262,912	9,248,978
Holdbacks receivable	(618,274)	-
Share issue costs	26,694	592,439
Tenure/severance	380,910	544,824
Capital loss carryforward	56,314	56,314
Other	285	301
	17,938,391	19,519,556
Less valuation allowance	(15,343,037)	19,519,556
Net future income tax asset (liability)	$ 2,595,354	$ -

(Expressed in Canadian dollars)

16. Earnings (loss) per share:

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Net earnings (loss) from continuing operations for the period	$ 8,914,956	$ (2,414,843)	$ 7,670,443	$ (6,538,655)
Net earnings (loss) from discontinued operations for the period	-	(31,755)	-	(325,711)
Net earnings (loss) for the period	8,914,956	(2,446,598)	7,670,443	(6,864,366)
Net earnings (loss) per common share from continuing operations –				
Basic	0.33	(0.09)	0.28	(0.24)
Diluted	0.32	(0.09)	0.28	(0.24)
Net earnings (loss) per common share from discontinued operations –				
Basic	-	-	-	(0.01)
Diluted	-	-	-	(0.01)
Net earnings (loss) per common shares –				
Basic	0.33	(0.09)	0.28	(0.25)
Diluted	0.32	(0.09)	0.28	(0.25)
Weighted average number of shares				
Basic	27,017,392	27,007,175	27,010,618	27,007,175
Diluted	27,506,604	27,007,175	27,040,637	27,007,175

Options aggregating 640,000 (2008 – 646,000) and warrants aggregating 1,080,000 (2008 – 1,080,000) have not been included in the computation of diluted earnings per share for the three months ended September 30, 2009 as they are considered anti-dilutive.

(Expressed in Canadian dollars)

17. Segmented information:

(a) Geographic information:

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Sales by country:				
Customers domiciled in the United States	$ 112,605	$ 13,087	$ 4,383,846	$ 1,701,614
Customers domiciled in Canada	10,804,083	2,430	13,027,616	606,109
	$ 10,916,688	$ 15,517	$ 17,411,462	$ 2,307,723

(b) Major customers:

For the quarter and nine months ended September 30, 2009 one customer represented approximately 89% and 59% (2008 - 84% and12%), respectively, of total revenues.

18. 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.

18. 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 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 11(c) of the audited consolidated financial statements for the years ended December 31, 2008 and 2007.

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. It is anticipated that those proceedings will be resolved in 2010.

(d) Other:

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

18. Contingencies (continued):

(ii) During the second quarter of 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 11(c) to the 2008 annual audited consolidated financial statements). As a result the Company accrued and expensed $152,826, (approximately $121,000 U.S.) in the first quarter of 2009 to administration and business development expenses. This individual and other former officers and directors may seek additional indemnification from the Company for legal fees incurred in connection with this investigation.

(iii) The Company terminated an employment arrangement in 2007 and recorded as an expense $280,000 in accordance with this employee's employment contract in its 2007 consolidated financial statements. In the first quarter of 2008, the Company was served with a claim by this employee claiming breach of contract for $540,000. A formal motion of defense has been filed with the courts. Management will vigorously defend the claim.

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

19. Related party transactions

During the nine months ended September 30, 2009, the Company paid consulting fees of $275,157 (2008 – nil) and related interest of $9,297 (2008 - nil) to a company owned by a former director and officer of the Company pursuant to the termination agreement that was accrued and recorded in expense in 2004.

During the nine months ended September 30, 2009, the Company paid tenure payments of $237,633 (2008 - nil) and related interest of $11,792 (2008 - nil) to a former director and officer of the Company.