

BENNETT ENVIRONMENTAL INC.

Management's Discussion and Analysis

August 10, 2011

The following is management's discussion in respect of the results of operations of Bennett Environmental Inc. ("Bennett" or the "Company") for the quarter ended June 30, 2011 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the quarters ended June 30, 2011 and 2010 and the Company's audited consolidated financial statements and management's discussion and analysis ("MD&A") for the years ended December 31, 2010 and 2009. The financial statements for the years ended December 31, 2010 and 2009 were prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). Effective January 1, 2011 the Company adopted International Financial Reporting Standards ("IFRS") as required by the Canadian Institute of Chartered Accountants and in accordance with these requirements the transition date for implementation of IFRS was January 1, 2010. Except as otherwise noted all amounts for prior periods reported in this MD&A and the accompanying interim financial statements have been restated or reclassified to conform to IFRS. The financial statements of the Company are presented in Canadian dollars. The following MD&A is dated August 10, 2011. Additional information related to the Company, including its Annual Information Form, Management Information Circular and Proxy form is available on SEDAR at www.sedar.com.

OVERVIEW

The Company generates its revenues by treating contaminated soils pursuant to contracts obtained in a competitive bidding process. The Company's customer base is composed mainly of government agencies, utilities, environmental services companies and industry. The number and size of the contracts obtained each year will vary depending on the funding of the projects and the timing of the processing of contaminated materials from the Company's customer base.

The Company's soil treatment facility located in Saint Ambroise, Quebec is an ISO 14001(2004) certified facility. It treats soils contaminated with organics and its Certificate of Authorization was expanded in 2005 to include dioxins and furans. The facility has an annual processing capacity of up to 100,000 metric tonnes depending on the nature of material being processed.

The facility can only be run efficiently when operating continuously for extended periods. The sporadic level of demand for the Company's services is such that this facility is rarely operated continuously for extended periods. In order to maximize operating efficiency the Company has adopted a campaign approach which involves periods of shutdown during which inventories are stockpiled followed by periods of operation where the Company processes the accumulated inventories and the entire process is then repeated.

On February 18, 2009 the Company announced that, in connection with the Ontario government's announcement of the award of the Pottersburg Creek clean-up, it had in place an agreement to receive the PCB impacted material removed from the storage vaults at that site. The Company started processing soil under this contract in June of 2009 and completed the processing in September of 2010. During this period approximately 113,000 tonnes of soil were processed originating from Pottersburg Creek representing 79% of soil processed in 2009 and 2010.

The Pottersburg Creek clean up and other projects allowed the Saint Ambroise facility to operate continuously since it was re-opened on April 6, 2009 until September 23, 2010 when the Company announced that its current operating campaign ended. This period of uninterrupted production was primarily responsible for the Company's profitability in 2009 and the first three quarters of 2010.

The facility has not processed soil since the September 23, 2010 shut down. At the end of June 2011 the Company held approximately 16,700 tonnes of untreated soil at the facility. The Company has not recorded any revenue related to this soil in inventory. The processing of all soil held in inventory will not commence until sufficient material has been received for the efficient operation of the facility.

CHANGE OF BOARD AND MANAGEMENT

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, Second City Capital Partners I, L.P. ("SCC"), which holds approximately 23% of the Company's common shares. On June 22, 2011, the Company and SCC issued a joint press release announcing the resolution of matters between them, on the basis that: all of the then incumbent directors, with the exception of James Farrar, withdrew their consents to act as directors of the Company; the slate of new directors proposed by SCC was to be proposed for election at the Company's June 29, 2011 annual and special shareholders' meeting ("ASM"); the Company's President and CEO, Jack Shaw, agreed to step aside as of June 29, 2011 and provide consulting assistance to the Company during a transition period; and Lawrence (Lorie) Haber agreed to join the Board of Directors on that date as its Chair, and also agreed to serve as the Company's new CEO on an interim basis.

On June 29, 2011 the shareholders of the Company elected a Board of Directors composed of six directors, namely: Livia Mahler (Lead Director), James Farrar, Hon. John Reynolds, Ian Kidson, Mitchell Gropper and Lawrence Haber (Chair). As well, Mr. Haber was appointed as President and CEO of the Company (on an interim basis); Jack Shaw was retained by the Company in a consulting capacity for a transitional period of up to six months; certain severance payments were made or incurred to Mr. Shaw; and certain severance payments were made or incurred to Fred Cranston, the Company's CFO. Mr. Cranston continues to be employed by the Company on a full time basis as its CFO, and with the exception of the aforementioned severance payments, his employment arrangements with the Company are largely unchanged.

While the events in the second quarter of 2011 took time and cost money, the Company's key assets have been preserved and the opportunities available to the Company were not impaired. The Board of Directors is in the process of positioning the Company for the future, and is united

in its view to enhance the value of the Company for the benefit of its shareholders and other stakeholders. Reference is made to the discussion below under: “Strategy”; “Administration and Business Development Costs”; and “Management/Board Restructuring Costs”.

STRATEGY

As noted above, the Board of Directors is in the process of positioning the Company for the future, and is united in its view to enhance the value of the Company for the benefit of the Company's shareholders and other stakeholders. The transitioning of the Company and its strategic focus has been started and is underway. The Board plans to take a broad view of the opportunities available to the Company, which will include but not be limited to, the environmental sector. The Board and CEO will seek to source, structure and complete one or more transactions, designed to create meaningful value for shareholders. In this regard, as stated in the Company's June 29, 2011 press release, the Company will need to have sufficient resources to pursue value enhancing strategies, and thus, the Board has no current plans to pay a dividend in the near term.

With respect to its core soil remediation business, Bennett is continuing to focus on building sustainable growth and shareholder value by securing orders for soil treatment by building new relationships with key market players and decision makers in treatment projects.

BELLE DUNE

On April 8, 2011, the Company sold its Belledune facility. The sale price was \$2.9 million composed of cash consideration of \$2.2 million plus assumed accumulated property tax liabilities of \$0.7 million. The Purchaser held back \$0.3 million 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 \$0.2 million 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 \$0.02 million in the quarter. The holdback is to be released once the Company has paid for monitoring costs and remediation costs.

CHANGE IN ACCOUNTING FOR SHARE-BASED COMPENSATION

Changes to Canadian personal tax rules introduced in the Federal budget of March, 2010 changed the way that stock options were taxed for option recipients. Prior to the change in rules, option holders were permitted to defer the taxable benefit resulting from option exercise until the resultant shares were sold. The budget removed this deferral and required the immediate payment of income tax on the taxable benefit whether the shares were sold or held. In order to fund the payment of the income taxes payable upon exercise of stock options some of the Company's option holders may find it necessary to immediately sell the shares resulting from the exercise. Due to the low volume of shares normally traded it may not be possible to sell a larger volume of shares in the time period required to fund the required income tax payments without unduly depressing the share price.

In order to assist employees and Directors with the impact of these tax changes and the illiquidity of the stock, the Company concluded an arrangement with an investment dealer during the first quarter to provide a convenient method for exercising options and selling the resultant shares. This arrangement is for the exclusive benefit of eligible persons as defined by the Company Stock Option Plan. Under this arrangement option holders can simultaneously exercise and sell their shares to the investment dealer. The investment dealer then sells the purchased shares into the market as conditions allow. Under the terms of the arrangement at that time, any change in price between the investment dealer's purchase and sale is for the account of the Company. Approximately 795,000 shares were bought and sold through the arrangement without recourse or gain to the Company. The Company's only cost to date has been a flat fee paid to administer the arrangement.

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

The adoption of this accounting occurred during the first quarter of 2011. At the time of adoption the Company recorded an adjustment to reclassify the award from equity to liability and to increase the liability to reflect the current fair value of the awards. This resulted in a charge to accumulated deficit of approximately \$2.2 million, a reduction of contributed surplus by approximately \$0.8 million and an increase to accounts payable and accrued liabilities of approximately \$3.0 million. When options are subsequently exercised their fair value immediately prior to exercise is transferred from accrued liabilities to share capital along with the cash received from the option holder.

During the second quarter the Company further 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. Since the date of this change 15,000 options have been exercised according to the new arrangement.

RESULTS OF OPERATIONS

Sales

Sales for the second quarter of 2011 were nil compared to \$10.9 million in the same period a year earlier. The decrease from the same quarter of the prior year is a result of the Saint Ambroise facility being shut down during the second quarter of this year.

Operating Costs

Operating costs consist mainly of transportation costs, fuel, processing supplies, maintenance costs, and labour. Some of these costs fluctuate based on the number of tonnes processed; however, there are some costs which are fixed in nature.

Operating costs for the second quarter of 2011 were \$0.3 million compared to \$2.5 million in 2010. The decrease in operating costs compared to the prior year is primarily because soil was not processed during the most recent quarter.

OTHER INCOME STATEMENT ITEMS

Administration and Business Development Costs

Administration and business development costs were \$1.6 million in the second quarter of 2011, compared with \$1.2 million in the same quarter of 2010. The increase is due to expenditures made evaluating acquisitions which were not concluded.

Management/Board Restructuring Costs

As described in the section of this report titled “Change of Board and Management” the Company was engaged in a proxy contest with its largest shareholder during the latter part of the first quarter and most of the second quarter of 2011. For the second quarter of 2011, the costs of this contest and related events amounted to \$2.3 million including: \$1.3 million in proxy contest expenses, consisting of professional fees, consulting fees, printing costs, and other related expenses; special directors’ and officers’ insurance costs of \$0.1 million; severance costs of \$0.8 million; and other expenses totalling \$0.1 million.

Amortization

Amortization expense decreased slightly in the second quarter of 2011 over the comparative period due to some capital assets reaching the end of their depreciation lives.

Finance Income/Costs

Finance income earned in the second quarter of 2011 increased by \$0.1 million over the comparable quarter in 2010. The increase was due to higher cash balances and higher interest rates earned on those cash balances.

Finance costs declined from the comparable period by \$0.5 million. Finance costs were higher during the second quarter of 2010 due to interest charges in connection with a capital and income tax reassessments of prior periods.

Income Taxes

For the second quarter of 2011 the Company recorded an income tax expense of nil compared with \$1.4 million in the same period of the prior year. The income tax expense in the same period of the prior year was primarily due to future income tax expenses which resulted from earning taxable income during the quarter which reduced future tax assets recorded in prior periods.

Net Loss

The net loss for the second quarter of 2011 was \$4.3 million or a basic and diluted loss per share of \$0.11 compared to net earnings of \$5.1 million or basic and diluted earnings per share of \$0.15 and \$0.14, respectively for the second quarter of 2010. The net loss for the second quarter of 2011 was the result of: no processing at the Saint Ambroise facility throughout the period; management/board restructuring costs; and expenditures made evaluating acquisitions which were not concluded.

SUMMARY OF QUARTERLY RESULTS

The following table discloses certain unaudited financial data for the eight most recently completed quarters, expressed in millions of Canadian dollars (except per share data – basic and diluted which is in dollars). Quarterly financial information for 2009 has been prepared in accordance with CGAAP.

| | 2011 | | 2010 | | | | 2009 | |
|----------------------------------|--------|--------|--------|------|------|------|------|------|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Net sales | - | - | - | 10.6 | 10.9 | 11.1 | 10.7 | 10.9 |
| Net income (loss) | (4.3) | (1.8) | (2.9) | 7.3 | 5.1 | 4.9 | 7.6 | 8.9 |
| Earnings (loss) per common share | | | | | | | | |
| Basic | (0.11) | (0.05) | (0.08) | 0.20 | 0.15 | 0.17 | 0.28 | 0.33 |
| Diluted | (0.11) | (0.05) | (0.08) | 0.19 | 0.14 | 0.17 | 0.28 | 0.32 |

Variations in revenue over the last eight quarters are primarily due to the volumes of material processed in each quarter. The variation in earnings occurring in the last two quarters of 2009 and the first three quarters of 2010 are caused by variations in the amounts of income tax recovered or expensed during each quarter.

While there is no revenue in any of the three most recent quarters there is significant variation in the amount of losses. During the first quarter of 2011 the loss declined by \$1.1 million as compared to the last quarter of 2010. This was due to lower expenses in all major cost categories. The largest reductions occurred in income taxes, operating costs and finance costs. The loss during the second quarter of 2011 exceeded the losses of the two previous quarters by a significant margin. This was due to costs incurred in connection with the proxy contest with SCC. Had these costs not been incurred, the net loss would have been \$2.0 million.

Changes in earnings (loss) per share have also been influenced by an increase in the number of shares outstanding resulting from the Company's financing transaction which closed in May, 2010 and exercise of warrants in the first quarter of 2010.

OPERATING RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2011

Sales

Sales for the six month period ended June 30, 2011 were nil compared to \$22.1 million in the same period a year earlier. The decrease is a result of the Saint Ambroise facility not processing soil during the first half of this year.

Operating Costs

Operating costs consist mainly of transportation costs, fuel, processing supplies, maintenance costs, and labour. Some of these costs fluctuate based on the number of tonnes processed; however, there are some costs which are fixed in nature.

Operating costs for the six months ended June 30, 2011 were \$0.7 million compared to \$5.5 million in the same period a year ago. The decrease in operating costs compared to the prior period is a result of no production at the Saint Ambroise facility.

OTHER INCOME STATEMENT ITEMS

Administration and Business Development Costs

Administration and business development costs were \$3.1 million in the six months ended June 30, 2011, compared with \$2.6 million in the same period of 2010. The increase is due to expenditures made evaluating acquisitions which were not concluded.

Management/Board Restructuring Costs

As described in the section of this report titled "Change of Board and Management" the Company was engaged in a proxy contest with its largest shareholder during the latter part of the first quarter and most of the second quarter of 2011. For the first six months of 2011, the costs of this contest and related events amounted to \$2.5 million including: \$1.5 million in proxy contest expenses, consisting of professional fees, consulting fees, printing costs, and other related expenses; special directors' and officers' insurance costs of \$0.1 million; severance costs of \$0.8 million; and other expenses totalling \$0.1 million.

Amortization

Certain capital assets located at the Saint Ambroise facility were fully amortized for accounting purposes at the end of 2010 and will not give rise to any further amortization expenses. This resulted in a reduction of amortization expense for the second quarter of 2011 over the same period in 2010.

Finance Income/Costs

Finance income earned in the second half of 2011 increased by \$0.4 million over the comparable period in 2010. The increase was due to higher cash balances and higher interest rates earned on those cash balances and interest received during the first quarter of 2011 in connection with an income tax reassessment of prior periods.

Finance costs declined from the comparable period by \$0.5 million. Finance costs were higher during the first half of 2010 due to interest charges in connection with a capital and income tax reassessments of prior periods.

Income taxes

For the first half of 2010 the Company recorded a income tax recovery of \$0.2 million versus an income tax expense of \$3.1 million in the same period of the prior year.

The income tax recovery for 2011 results from the reassessment of a return filed in a prior period. The income tax expense for the comparable period is primarily due to future income taxes resulting from earning taxable income during the period which had reduced future tax assets recorded in prior periods.

Net Loss

The net loss for the six months ended June 30, 2011 was \$6.1 million or a basic and diluted loss per share of \$0.16 compared to net earnings of \$10.0 million or basic and diluted earnings per share of \$0.32 and \$0.31, respectively for the second quarter of 2010. The net loss for the second quarter of 2011 was the result of: no production at the Saint Ambroise facility throughout the period; management/board restructuring costs; and expenditures made evaluating acquisitions which were not concluded.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

At June 30, 2011 the Company had cash and equivalents of \$61.8 million and working capital (including cash) of \$54.3 million compared to cash and equivalents of \$65.0 million and working capital of \$59.6 million on December 31, 2010.

Cash from Operating Activities

For the first half of 2011, cash used by operations amounted to approximately \$5.6 million as compared to the six month period ended June 30, 2010 when cash provided by operations amounted to \$16.7 million. The loss in 2011 and earnings in 2010 were the primary causes of the use and generation of cash, respectively.

Cash from Investing Activities

Cash generated by investing activities during the second half of 2011 was \$1.8 million versus cash provided of \$0.7 million in the same period of the prior year. The increase in cash during the current year resulted from the sale of the Belledune facility. The return of deposits used to secure performance bonds, foreign exchange hedging and butane swap agreements was primarily responsible for the generation of cash in the prior period.

Cash from Financing Activities

Cash provided by financing activities was \$0.6 million in the second half of 2011 versus \$23.9 million in the comparable period of the prior year. The majority of this cash was generated by the exercise of options in the current period and by an equity issue and the exercise of warrants in the prior period.

Capital Expenditures

During the second quarters of 2011 and 2010 the Company acquired equipment for the Saint Ambroise facility of \$0.05 million and \$0.18 million respectively.

Contractual Obligations

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.

FINANCIAL AND OTHER INSTRUMENTS

The Company has on occasion used short-term foreign exchange forward contracts and butane swap contracts to reduce foreign exchange risk and commodity risk, respectively. The Company marks these contracts to market, and records the corresponding gain or loss in income.

At June 30, 2011 and December 31, 2010 the Company had no foreign exchange contracts or butane swap agreements outstanding.

TRANSACTIONS WITH 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.

The Company makes annual payments of \$79,000 to a former director and officer according to a tenure agreement between the parties. During the six months ended June 30, 2011, the Company made payments of \$39,500 (2010 - \$39,500) against the tenure liability as described in note 12 to the accompanying financial statements.

As a result of a settlement agreement made as at June 22, 2011 with the Company's largest shareholder, 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 ASM 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.

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.

CONTINGENCIES AND PROVISIONS

No additional developments have occurred relating to the contingencies as described in note 19 to the interim consolidated financial statements for the period ended March 31, 2011.

No additional developments have occurred relating to any provision involving litigation as described in note 10 to the interim consolidated financial statements for the period ended March 31, 2011 except for the following:

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. During the third quarter of 2011 the parties 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.

Refer to note 10 to Interim Condensed Consolidated Financial Statements for the six month period ended June 30, 2011 for a full explanation of the provision.

CRITICAL ACCOUNTING ESTIMATES

Except as noted below, there are no changes in the Company's critical accounting estimates as described in the Company's annual MD&A dated March 28, 2011 which can be found on SEDAR at www.sedar.com.

Property, plant and equipment

The Company elected to measure certain items of property, plant and equipment at the date of transition to IFRS at fair value and use those fair values as deemed cost. These fair values are supported by appraisals prepared by independent accredited professionals. See notes 6 and 20 to the accompanying interim condensed consolidated financial statements.

SHARE CAPITAL

The number of common shares outstanding at August 10, 2011 was 38,645,562. There were 426,460 stock options outstanding as at August 10, 2011 exercisable at prices from \$0.24 to \$2.08 per share. The number of warrants outstanding as at August 10, 2011 was 4,713,115. There are 532,786 compensation options outstanding which entitle the holder to purchase one common share and one-half of a warrant for an aggregate price of \$3.05. There are also 39,959 compensation options outstanding which allows the holder to acquire one-half of a warrant for \$0.22.

CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

The Accounting Standards Board (“AcSB”) confirmed in February 2008 IFRS will replace CGAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. Accordingly, the Company has adopted IFRS effective January 1, 2011 and has prepared its current interim condensed consolidated financial statements using IFRS accounting policies the Company expects to adopt in its annual consolidated financial statements as at and for the year ending December 31, 2011. Prior to the adoption of IFRS, the Company’s financial statements were prepared in accordance with CGAAP. The Company’s financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS.

IFRS are premised on a conceptual framework similar to CGAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure on the consolidated financial statements.

The impact of the adoption of IFRS on the Company’s balance sheets for January 1, June 30, and December 31 of 2010 was to increase shareholders’ equity and property, plant and equipment by \$1.8 million as compared to CGAAP. All of the change at January 1, 2010 and almost all of the change at the two subsequent balance sheet dates in 2010 related to the Company’s election, under IFRS 1, to use fair value as deemed cost on certain items of property, plant and equipment. This change will increase the total amount of amortization over the remaining useful life of these capital assets.

Separate accounting for components of property, plant and equipment is more rigorously applied and broader under IFRS. A separate component may be a physical component such as a major spare part, or a non-physical component such as an overhaul. In order to comply with IFRS the Company has further segmented its property, plant and equipment. In the course of segmenting these assets the Company has assigned useful lives and amortization methods that reflect the pattern in which the assets’ future economic benefits are expected to be consumed. This has had the effect of reducing the annual amortization as compared to CGAAP. However, when these changes are combined with the IFRS I election to increase the amortizable value of certain assets, the 2010 amortization under IFRS is not significantly different from the value reported under CGAAP.

For the year ended December 31, 2010 or June 30, 2010 the adoption of IFRS did not result in significant changes to earnings and did not result in material adjustments to the Company’s cash flow statement as compared to CGAAP.

Significant accounting polices adopted under IFRS are included in note 3 to the March 31, 2011 interim consolidated financial statements. A summary of exemptions and elections along with reconciliations of CGAAP to IFRS and descriptions of the effect of transitioning from CGAAP to IFRS are included in note 20 to the accompanying interim condensed consolidated financial statements.

Recently issued pronouncements not yet adopted:

(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.

(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.

(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.

RISK FACTORS

Information on "Risk Factors" can be found in the Company's Annual Information Form dated March 28, 2011 for the fiscal year ended December 31, 2010.

CONTROLS AND PROCEDURES

(a) *Management’s Report on Internal Control over Financial Reporting*

Management is responsible for certifying the design of internal control over financial reporting (“ICFR”) in the Company’s Interim Filings.

Our ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable GAAP, ICFR should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets;
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable GAAP;
- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors; and

- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the CEO and CFO, carried out an assessment of the design of the Corporation's ICFR and concluded that no disclosable weaknesses existed as at June 30, 2011:

There was no change in the Company's ICFR that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, its ICFR.

(b) Management's Report on Disclosure Controls and Procedures

Management is responsible for certifying the design of disclosure controls and procedures in the Company's Interim Filings. Management, including the CEO and CFO, carried out an assessment of the design of the Corporation's disclosure controls and procedures and concluded that no disclosable weaknesses existed as at June 30, 2011.

Forward Looking Statements

Certain statements in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A such statements are such words as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "confident", "plan" and "intends" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in international, national and local business and economic conditions; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of the Company. The foregoing list of factors is not exhaustive. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.