BENNETT ENVIRONMENTAL INC.

Management's Discussion and Analysis

March 16, 2010

The following is management's discussion in respect of the results of operations of Bennett Environmental Inc. ("Bennett" or the "Company") for the year ended December 31, 2009 and comparative results of operations for the year ended December 31, 2008 and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2009, and 2008. The financial statements of the Company are presented in Canadian dollars and in accordance with generally accepted accounting principles in Canada. The following discussion of the financial condition is dated March 16, 2010. Additional information related to the Company, including its Annual Information Form and Management Information Circular and Proxy form is available on SEDAR at www.sedar.com.

OVERVIEW

The Company generates its revenues by obtaining contracts for the treatment of contaminated soils. The Company's customer base is comprised 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 facilities can only be run efficiently when operating 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. In accordance with the above approach, the Saint Ambroise facility, stopped processing soil in early January, 2009 and was not re-opened until April 6, 2009 and with the exception of maintenance shutdowns, has operated continuously throughout the balance of 2009.

All amounts described as tonnes throughout are metric tonnes ("tonnes").

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 that it had in place an agreement to receive the PCB impacted material removed from the storage vaults at that site. The purchase order received in connection with this project was modified several times during the year with the most recent version authorizing the Company to receive up to 120,000 tonnes from the site. As at December 31, 2009 the Company had received approximately 107,000 tonnes from the site and had processed 36,000 tonnes of this soil. While the Ontario government has announced the successful conclusion of the removal of all material from the vaults at the site, the Company expects that there will be some volume of contaminated soil found outside of the vaults that will be shipped at a later date. The fact that a portion of the purchase order remains unutilized does not guarantee that additional contaminated soils exist or that such soils will be received by Saint Ambroise.

During 2008 the Company agreed to sell the Belledune facility for $3.0 million in total consideration including liabilities assumed by the purchaser, resulting in a write-down of approximately $0.7 million which was recorded in 2008. In November of 2009 the Company terminated all discussions with the purchaser due to that company's inability to close the sale. In December of 2009 the Company sold an option to purchase the facility expiring December 31, 2010. The option consideration was $0.1 million which is refundable under certain conditions and can be applied to the purchase of the property when the option is exercised. The option entitles the holder to purchase the facility for consideration of $2.7 million including certain liabilities to be assumed by the purchaser. The proposed sale of the property to the option holder includes an explicit non-compete agreement. The facility cannot be used for the thermal treatment of contaminated soil. The proposed purchase price has resulted in a write-down of the carrying value of the facility of $0.3 million which was recorded in the fourth quarter of 2009. The Company has also received a proposal for the treatment of the contaminated soil on the property. The proposal is approximately $0.5 million below the historic carrying value of the liability. As a result the liability was reduced by $0.5 million to equal the amount of the proposal and the reduction was recorded as income during the fourth quarter of 2009.

In December, 2008 the Company sold the shares of its Trans-Cycle Industries, Ltd. and Material Resource Recovery S.R.B.P. Inc. subsidiaries (the "Subsidiaries"). As part of the closing procedures the purchaser arranged to provide financial assurance necessary to replace the Subsidiaries' deposits in the amount of $3.1 million held by various Government agencies throughout Canada. All of these deposits have been received by the Company. Subsequent to December 31, 2009, the Company collected the outstanding amount of $0.2 million due from the purchaser of the facilities. The results of operations from the Subsidiaries for the three months and year ended December 31, 2008 have been reclassified as net loss from discontinued operations on the consolidated financial statements that accompany this report.

STRATEGY

Bennett is continuing to implement its long-term strategy, which is focused on building sustainable growth and shareholder value through the reduction and rationalization of costs and securing orders for soil treatment by building new relationships with key market players and decision makers in treatment projects. As announced during 2009, the Board and management are seeking opportunities to diversify the Company's business.

SELECTED ANNUAL INFORMATION

The following sets forth selected financial data for each of the three most recently completed financial years (expressed in Cdn $):

	2009	**2008**	**2007**
Sales	$28,058,146	$8,289,104	$11,287,736
Earnings (loss) before discontinued operations	15,313,404	(4,289,216)	(15,623,443)
Earnings (loss) from discontinued operations	-	(343,033)	(2,140,363)
Earnings (loss for) the year	15,313,404	(4,632,249)	(17,763,806)
Earnings (loss) per share before discontinued operations			
Basic	0.56	(0.16)	(0.60)
Diluted	0.55	(0.16)	(0.60)
Earnings (loss) per share from discontinued operations			
Basic	-	(0.01)	(0.08)
Diluted	-	(0.01)	(0.08)
Earnings (loss) per share			
Basic	0.56	(0.17)	(0.68)
Diluted	0.55	(0.17)	(0.68)
Working capital	19,857,683	3,328,199	(1,093,224)
Long-term liabilities	3,141,760	3,460,152	1,945,773
Shareholders' equity	28,228,047	12,539,738	17,085,517
Total assets	47,630,385	25,295,323	31,416,969

The loss for 2007 resulted from low volumes of soils processed, higher administration and business development costs, losses from discontinued operations, the write-off of a long-term receivable and a fine and restitution payment in respect of a U.S. Department of Justice ("DOJ") investigation of the company's bidding activities. Period to period variations between 2009 and 2008 are discussed in the balance of this report.

BUSINESS

Saint-Ambroise Facility: 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.

Belledune Facility: This facility is located in the Renviro Park near the Village of Belledune, New Brunswick. The Belledune facility is situated on approximately 20 acres of land and where it houses a Mark IV Thermal Oxidizer. In April 2006 this facility underwent a compliance test and processed a small amount of soil. Presently due to adverse market conditions, this facility is not operational. As disclosed in the Overview section, the Company has agreed to sell the Belledune facility.

SUMMARY OF 2009 PERFORMANCE AND TRENDS

The Company generates its soil treatment revenues through obtaining contracts with government agencies or environmental services companies. The revenue generated is impacted by the volume of materials obtained and processed and the price per tonne as discussed below.

Volume

The Company is in a niche product market for soil remediation. Volumes of material received and processed on an annual basis, can vary significantly period over period as it is dependent on where government and private sector funding spending is directed. The Company views the 2009 and 2008 volumes as indicative of the volatility in the market segment for soil remediation. On a long-term basis the Company expects that the revenue from material that will require thermal treatment will remain sporadic.

Volumes received at the Saint Ambroise facility was higher than in the prior year. This was the result of the Ontario government's decision to undertake the Pottersburg project which was responsible for 55% of the soil processed in 2009. In September of 2008 the federal government changed the regulations pertaining to the storage of PCB wastes, requiring that all stored materials be shipped for destruction by December 31, 2009. Subsequently this was amended to allow holders of PCB inventories two years from December 31, 2009 to treat the inventories on site. There is limited capability in the Canadian market to meet this demand and there is a regulatory requirement that the PCB markets be managed in Canada.

Pricing

Pricing in the soil remediation business which affects material processed at the Saint Ambroise facility has been inconsistent over the last several years because:

1) Significant portions of the Company's annual volume has come from the United States. The increase in the Canadian dollar relative to the U.S. dollar has put downward pressure on the sales price per tonne.

2) New competitors in the market and excess treatment capacity have reduced prices for certain wastes in the market place.

3) In most cases, the Company's contracts now exclude transportation of materials from the customers' site to Bennett's facilities. In past years, contracts included transportation services. The Company has made an effort to exclude transportation where possible which has lowered the overall average price per tonne and has been offset in lower average transportation costs.

Price pressure in 2009 as described above was offset by higher volumes of soil processed as compared to recent years.

The Company's operating costs consist primarily of energy, labour, disposal and transportation and are impacted by the volumes of materials being processed through the facilities. The Company is also impacted by the administrative and business development expenses which are fixed in nature and will not fluctuate directly with the volume of materials processed.

Transportation

The costs for transportation of materials from the customer site to the Company's facilities has increased over the last several years as a result in the increasing energy costs, fuel surcharges, and insurance costs. The Company is continuing its efforts to enter into contracts where the customer is responsible for the transportation and no longer including the transportation of materials to the Company's facilities as part of its treatment services in all cases.

Labour

Direct labour costs per hour have continued to trend upwards which will impact the operating costs of the Company. However, the direct labour costs incurred are a function of the volumes of materials being processed due to the campaign nature of operations.

Energy

The Company uses a significant amount of energy in its remediation process. Energy accounts for approximately 43% (2008 – 47%) of the Company's total direct variable costs (excluding transportation). The reduction is due to the decline in butane prices as compared to the prior year.

Disposal Costs

Disposal costs increased in 2009 compared to prior years as a result of the additional volume processed in 2009 versus 2008.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009

Sales

Sales for 2009 were $28.1 million compared to $8.3 million in the same period a year earlier. The increase from the prior year is a result of an increase in the volume of soil processed.

Operating Costs

Operating costs in 2009 were $10.1 million compared to $5.2 million in 2008. The increase in operating costs compared to the prior year is primarily a result of higher volume of soils being processed at the Saint Ambroise facility. Expressed as a percent of sales, total operating costs have fallen from 63% in 2008 to 36% in 2009. This reduction is due to efficiencies achieved by running the facility continuously for the majority of 2009.

OTHER INCOME STATEMENT ITEMS

Administration and Business Development Costs

Administration and business development costs were $4.5 million in 2009, compared with $5.5 million in 2008.

This decrease is primarily due to a reduction in legal fees compared to 2008. These fees have declined because many of the Company's historical legal and regulatory issues have been settled and because the Company recovered legal fees expensed in prior periods. Property taxes are also significantly lower than in the prior year. During 2009 the Company successfully appealed the assessed value of the Saint Ambroise facility. This resulted in the recovery of municipal taxes paid in prior periods and reductions for the current and future years.

Approximately 40% of the total reduction in administration and business development costs expenses over the prior year resulted from favourable one-time events or recoveries of amounts expensed in prior periods. It is not expected that these reductions can be repeated in 2010.

Depreciation and amortization

Depreciation and amortization expense for 2009 was $1.9 million compared to $2.2 million for 2008. The reduction was due to the decreased asset base as a result of the reclassification of the Belledune facility as an asset held for sale in the second quarter of 2008 and the depreciation of the long-lived assets. No amortization was taken on the Belledune assets after the second quarter of 2008 as the assets are classified as held for sale. As a result of a new agreement entered into to sell its Belledune facility, the Company wrote-down a further $0.3 million of its Belledune assets during the fourth quarter of 2009. The net book value of the Belledune long-lived assets was $2.7 million at December 31, 2009 compared with $3.0 million as of December 31, 2008.

Foreign exchange

During 2009 the Company incurred a negligible foreign exchange gain versus a negligible loss in the prior year. As a result of the increasing volatility of the Canadian dollar versus the U.S. dollar, the Company has strengthened its hedging procedures and reduced exposure to these fluctuations.

Write-down of assets held for sale

The write-down of the Belledune facility is described in the Overview Section of this report.

Recovery of long-term receivable

In 2007 the Company wrote off the remaining amounts receivable totalling $5.0 million due from Defence Construction Canada ("DCC"), a federal government agency, relating to a contract undertaken in 2003 and 2004. The Company continued to pursue a claim against DCC for amounts outstanding.

On December 4, 2008, the Company recorded in income $0.7 million as settlement of this claim.

Gain on sale of discontinued operations

The sale of TCI and MRR is discussed in the Overview Section of this report.

U.S. Department of Justice

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 bidding for the Federal Creosote project in New Jersey. Sentencing on this matter occurred December 15, 2008. The Company had estimated that its liability with respect to this matter to be $2.8 million and had recorded this amount in 2007. In the fourth quarter of 2008 this accrual was decreased by $0.3 million to reflect the final sentencing. No current officer or director of the Company was employed at the Company at the time when the matters giving rise to this charge and resulting sentence occurred. The Company will continue to cooperate with agencies of the United States government concerning these matters to preserve its good standing with the Environmental Protection Agency.

Income taxes

For the year ended December 31, 2009 the Company has recorded a future income tax recovery of $3.9 million versus a nil amount in the prior year. The recovery is the net result of the recognition of a $4.8 million future tax asset and a $0.9 million future tax liability. The future tax asset is due to the recognition of income tax loss carry forwards and other future benefits of $16.1 million. The Company is recognizing these amounts now because the inventory levels of unprocessed soil on hand at December 31, 2009 makes it more likely than not there will be sufficient taxable income to utilize the tax loss carry forwards. The future tax liability is due to holdbacks receivable which create temporary differences between accounting and taxable income.

After recognition of these tax loss carry forwards, the Company has $10.4 million in future tax assets which have not been recognized in the financial statements. This is because it is not more likely than not there will be sufficient taxable income to realize these tax assets.

During 2009 the Company recorded a current income tax provision of approximately $0.1 million versus the same amount for the prior year. Both of these amounts were caused by reassessments of prior periods.

As discussed above, the Company recognizes future tax assets based on the estimated future taxable income which is expected to be generated from inventories held by its Saint Ambroise facility. Everything else being equal, reductions in the levels of these inventories will reduce earnings in the period the reduction takes place. Inventories are expected to fall during the first quarter of 2010.

Net Earnings

The net earnings for the year ended December 31, 2009 were $15.3 million or a basic and diluted earnings per share of $0.56 and $0.55 respectively as compared to a net loss of $4.6 million or a basic and diluted loss per share of $0.17 for the same period of 2008.

The higher net earnings are due to new contracts resulting in increased volumes of soil processed resulting in more sales generated and the recognition of the future tax asset as discussed above.

The loss from discontinued operations of $0.3 million for the year ended 2008 is due to the Kirkland Lake and Cornwall facilities which were sold in December of 2008. The net losses from 2008 are composed of the net losses from both continuing and discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

At December 31, 2009 the Company had cash and equivalents of $17.6 million and working capital (including cash) of $19.9 million compared to cash and equivalents of $2.6 million and working capital of $3.3 million on December 31, 2008. At December 31, 2009 the Company had $0.9 million in restricted cash compared to $1.8 million at year end 2008. Restricted cash was used to secure corporate credit cards, foreign exchange and butane swap contracts at December 31, 2009. At the previous year end the restricted cash was used to secure corporate credit cards, performance bonds and foreign exchange hedging agreements.

Cash from Operating Activities

Year to date cash of $15.3 million provided by operations compares to cash used by continuing operations of $0.7 million during the year ended December 31, 2008. The improvement is primarily due to earnings growth. Cash from operations also improved as a result of a decline in non-cash working capital. This decline resulted from the growth in deferred revenue exceeding the growth in amounts and holdbacks receivable. The Company records deferred revenue when

cash is collected from customers before all conditions for revenue recognition have been met (see note 2(h) to the 2009 consolidated financial statements).

For the fourth quarter of 2009 cash generated from operating activities was $12.2 million compared to a use of cash of $0.1 million in the same quarter a year earlier. While an increase in earnings was partially responsible for the improvement, most of the difference is attributable to changes in non-cash working capital during the respective quarters. During the last quarter of 2009 non-cash working capital decreased by $5.1 million primarily due to a large increase in deferred revenue, whereas the fourth quarter of 2008 saw an increase in non-cash working capital of $3.2 million caused by an increase in amounts receivable. Subsequent to year end the Company has collected $7.5 million of the amounts receivable outstanding as at December 31, 2009.

Cash from Financing Activities

Cash used by financing activities was $0.6 million and $0.2 million for 2009 and the fourth quarter of 2009, respectively. This compares to nil during the same periods in the previous year. The increase over the prior periods is primarily due to payments made to a former officer and director that reduced long-term obligations as described in the Related Party section of this report.

Cash from Investing Activities

Cash of $0.4 million was generated by investing activities during 2009 versus a use of cash of $0.8 million in the prior year. During 2008 cash was used to secure a performance bond and in 2009 the cash was returned when the bond was retired. Cash used by investing activities was $0.5 million and $0.6 million during the fourth quarters of 2009 and 2008, respectively. Cash was used to secure a performance bond during the fourth quarter of 2008 and during the same quarter of 2009 cash was used to purchase equipment for, and make improvements to the Saint Ambroise facility.

Capital Expenditures

The Company purchased equipment for, and made improvements to its Saint Ambroise facility for a total cost of $1.0 million and $0.5 million during 2009, and the fourth quarter of 2009, respectively. The Company did not make significant capital expenditures in 2008.

Contractual Obligations

The Company's contractual obligations consist of its long-term debt obligations relating to termination and severance payments to former executives of the Company which will be paid out over the next year, pension payments to a former CEO of the Company, operating and capital lease obligations and a standby capacity agreement payment. The following lists the Company's significant contractual obligations.

Millions of Canadian dollars	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**
Department of Justice Fine and Restitution	0.21	0.20	0.20	1.72	-	-	2.33
Tenure agreement	0.08	0.08	0.08	0.08	0.08	0.47	0.87
Operating leases	0.11	0.11	0.04	-	-	-	0.26
Capital leases	0.14	0.14	0.08	0.02	-	-	0.38
Standby capacity agreement	0.50	-	-	-	-	-	0.50
Total contractual obligations	1.04	0.53	0.40	1.82	0.08	0.47	4.34

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):

	2009				2008			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net sales	10.7	10.9	6.1	0.4	6.0	-	-	2.3
Net earnings (loss) before discontinued operations	7.6	8.9	1.1	(2.3)	2.2	(2.4)	(2.6)	(1.5)
Net earnings (loss) from discontinued operations	-	-	-	-	-	-	(0.2)	(0.1)
Net earnings (loss)	7.6	8.9	1.1	(2.3)	2.2	(2.4)	(2.8)	(1.6)
Net earnings (loss) before discontinued operations per common share								
Basic	0.28	0.33	0.04	(0.09)	0.08	(0.09)	(0.10)	(0.05)
Diluted	0.28	0.32	0.04	(0.09)	0.08	(0.09)	(0.10)	(0.05)
Net earnings (loss) from discontinued operations per common share								
Basic	-	-	-	-	-	-	-	(0.01)
Diluted	-	-	-	-	-	-	-	(0.01)
Net earnings (loss) per common share								
Basic	0.28	0.33	0.04	(0.09)	0.08	(0.09)	(0.10)	(0.06)
Diluted	0.28	0.32	0.04	(0.09)	0.08	(0.09)	(0.10)	(0.06)

Variations in revenue over the last eight quarters is primarily due to the volumes of material processed in each quarter. The variation in earnings between the third and fourth quarter of 2009 is caused by the differences in amounts of future tax recoveries recognized in each quarter. The recovery of an amount previously written off and an adjustment to the DOJ fine resulted in the earnings for the last quarter of 2008 exceeding the second quarter of 2009.

RESULTS OF OPERATIONS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2009

SALES

Sales for the fourth quarter of 2009 were $10.7 million compared to $6.0 million in the same period a year earlier. The increase from the prior year is a result of the Saint Ambroise facility processing increased volumes of material.

Operating Costs

Operating costs for the fourth quarter of 2009 were $2.8 million compared to $2.5 million in 2008. The increase in operating costs compared to the prior year is primarily a result of higher volume of soils being processed at the Saint Ambroise facility.

OTHER INCOME STATEMENT ITEMS

Administration and Business Development Costs

Administration and business development costs were $0.9 million during the fourth quarter of 2009 as compared to $1.7 in the same quarter of 2008. The decline in costs of $0.8 million is due to reductions in wages, property taxes and legal fees. Wages are lower because during the fourth quarter of 2008 the Company recorded an increase in the amount payable under a tenure agreement with the Company's founder and former president. During the fourth quarter of 2009 the company recognized the successful outcome of appealing the assessed tax value of its Saint Ambroise facility. This resulted in the recovery of municipal taxes paid in prior years and reductions in current and future periods. Legal fees were lower because the Company has continued to settle its historical legal and regulatory issues.

Approximately 50% of the total reduction in administration and business development costs resulted from favourable one-time events or recoveries of amounts expensed in prior periods. It is not expected that these reductions can be repeated in 2010.

Depreciation and amortization

Depreciation and amortization expense for the fourth quarter of 2009 was $0.5 million which was consistent with the same period in the prior year. No amortization has been taken on the Belledune assets after the second quarter of 2008 since these assets are classified as held for sale. The net book value of the Belledune long-lived assets was $2.7 million at December 31, 2009 and $3.0 million at December 31, 2008.

Foreign exchange

During both the fourth quarters of 2009 and 2008 the Company recognized negligible foreign exchange gains.

Write-down of assets held for sale

The write-down of the Belledune facility is described in the Overview Section of this report.

Recovery of long-term receivable

For a discussion of the recovery of long-term receivable refer to the recovery of long-term receivable under the Operating Results for the year ended December 31, 2009 of this report.

Income taxes

For the three months ended December 31, 2009 the Company has recorded a net future income tax recovery of $1.3 million versus a nil amount in the same period of the prior year.

The net tax recovery is due to the recognition of a future tax asset of $1.6 million which is reduced by the recognition of a future tax liability of $0.3 million. The inventory of unprocessed soil grew during the fourth quarter of 2009. The higher level of inventory increases the amount of estimated future taxable income meeting the test of being "more likely than not" to utilize existing tax loss carry forwards and other future tax benefits. The increase in the future tax asset over the third quarter was $1.6 million which was reduced by an increase in the future tax liability of $0.3 million. The increase in the liability is required to reflect the increase in holdbacks receivable during the quarter.

Net Earnings

The net earnings for the fourth quarter of 2009 were $7.6 million or a basic and diluted earnings per share of $0.28 compared to net earnings of $2.2 million or basic and diluted loss per share of $0.08 for the fourth quarter of 2008.

The higher net earnings from continuing operations for the fourth quarter of 2009 compared to the same quarter in the prior year was due to increased volumes of soil processed over the quarter resulting in more sales generated and the recognition of the future tax asset as discussed in the income taxes section above.

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 December 31, 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. The fair value of these contracts was an unrealized loss of $0.02 million which was recorded as an accrued liability on the balance sheet and a foreign exchange loss on the statement of operations and comprehensive loss.

The fair value of the butane swap outstanding at the end of the third quarter of 2009 was an unrealized gain of approximately $0.02 million which was recorded as a prepaid on the balance sheet and an operating cost on the statement of operations and comprehensive income. No butane swap agreements were outstanding as at December 31, 2008.

The unrealized gains and losses described above do not include the impact of currency or commodity price movements on underlying exposures these contracts are intended to protect.

PROPOSED TRANSACTIONS

The Company plans to sell its Belledune facility as described in the Overview section.

TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2009, the Company paid consulting fees of $0.28 million (2008 – nil) and related interest of $0.01 million (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 year ended December 31, 2009, the Company paid tenure payments of $0.25 million (2008 - nil) and related interest of $0.01 million (2008 - nil) to a former director and officer of the Company.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada and makes estimates and assumptions that affect the reporting amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent liabilities. On an on-going basis the Company evaluates its estimates and judgements, including those related to revenue recognition, adequacy of allowance for doubtful accounts, deferred permitting costs, impairment of long-lived assets and future income taxes. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from the Company's estimates. Senior management has discussed, with the Company's audit committee, the development, selection, and disclosure of accounting estimates used in preparation of our consolidated financial statements.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

- The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. The Company considers factors such as a customer's credit-worthiness, past transaction history, current economic industry trends and changes in customer payment terms when determining if collection is reasonably assured. If these factors indicate collection is not reasonably assured, revenue is deferred until collection is reasonably assured or the Company may

increase its allowance for doubtful accounts. A change in these factors could impact the estimated allowance and the provision for bad debts recorded in administration and business development expenses.

- The Company performs its impairment test on long-lived assets upon the occurrence of events or changes in circumstances indicate that an impairment loss may have been incurred. The Company estimates the useful lives of capital and definite-lived intangible assets based on the nature of the asset, historical experience and the terms of any related supply contracts. The valuation of long-lived assets is based on the amount of future net cash flows that these assets are estimated to generate. In 2008 management entered into an agreement to sell the Belledune facility for $3.0 million in total consideration including liabilities resulting in a write-down of $0.7 million to the Belledune assets in that year. In the fourth quarter of 2009 the Company terminated all discussions with the purchaser due to that company's inability to close the sale. Subsequently management sold an option to purchase the Belledune facility for consideration of $2.7 million including liabilities resulting in a further write-down of the Belledune assets of $0.3 million.

- The Company evaluates its future income tax assets to assess whether their realization is more likely than not. If their realization is not considered more likely than not, the Company will provide for a valuation allowance. The ultimate realization of our future tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences or loss carry-forward amounts can be utilized. The Company considers future taxable income and tax planning strategies in making its assessment. During the third and fourth quarters of 2009 the Company recognized future tax assets based on soil inventories held at the Saint Ambroise facility.

- Revenue on long-term, fixed price contracts is recognized on the percentage of completion method, based on the ratio of costs incurred to date over total estimated total costs. There is no revenue from any long-term, fixed priced contracts in 2009 or 2008. Estimates of the total costs of significant projects are reviewed on an ongoing basis and adjustments to the revenue recognition ratio are made as required.

- Note 22 of the 2009 consolidated financial statements discloses additional contingencies and litigation against the Company as of December 31, 2009. The Company evaluates contingent losses based on the likelihood of whether the future event will confirm that an asset is impaired or liability incurred and whether the amount of the loss can be reasonably estimated. The Company records contingent gains when it is likely that it will be realized.

SHARE CAPITAL

The number of common shares outstanding at March 16, 2010 was 28,567,176. There were 1,999,999 stock options outstanding as at March 16, 2010 exercisable at prices from $0.24 to $1.73 a share. On February 19, 2010, the sole owner of the Company's outstanding warrants exercised all their holdings and purchased 1,080,000 common shares for the approximate consideration of $0.9 million.

CHANGES IN ACCOUNTING POLICIES

Financial instruments:

Goodwill and intangible assets:

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 a material impact on the Company's consolidated financial statements.

Credit risk and fair value of financial assets and financial liabilities:

On January 20, 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.

Recently issued pronouncements not yet adopted:

International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to report under IFRS effective for fiscal periods beginning on or after January 1, 2011. The Company has prepared a plan that addresses all the key elements of the changeover which are described below.

(a) Accounting Policies:

An initial impact assessment focusing on the differences between IFRS and the Company's accounting policies indicated significant differences in the area of property, plant and equipment ("PPE").

Under IFRS, when an item of PPE is comprised of individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (called component accounting). The Company has not been accounting for components separately.

It may not be practicable to reconstruct the cost of components from the Company's historical records because costs have been aggregated by the entire asset. To overcome this problem IFRS transitional provisions allow companies to make an election that deems the cost of fixed assets, on date of transition (January 1, 2010), to be equal to appraised value. The election can be applied on an asset by asset basis. The Company has arranged for an appraisal of its PPE to identify all significant components having different useful lives or depreciation pattern. Once a comparison of the appraisal results and cost records has been completed the Company will decide which assets shall be reported at appraised value and which assets shall be reported at depreciated cost.

It is anticipated that appraised value of most assets will exceed depreciated cost on the date of transition. Where the Company elects to record assets at appraised value the excess of appraised value over depreciated cost at date of transition will be recorded directly in shareholders' equity and will not be recorded in earnings. However, the higher carrying value of those assets recorded at appraised value will increase depreciation expense over the life of the asset.

Under IFRS companies are required to select a depreciation method that closely reflects the pattern in which the asset's future economic benefits are expected to be consumed. Under Canadian GAAP the method need only be systematic and rational. The Company currently uses straight line and declining balance depreciation methods for its treatment equipment. In order to conform with IFRS it may be appropriate to change the depreciation method for certain treatment assets from declining balance to straight-line. Changes made to the method of depreciation of assets which are restated to appraised values on January 1, 2010 are made prospectively. Changes made to the method or rate of depreciation of assets which are carried at historical cost on January 1, 2010, must be made retrospectively.

The comparison of the appraisal to cost records should be complete by the end of the third quarter of 2010. The preliminary estimate of the impact of these changes will be presented to the audit committee by the end of the fourth quarter of 2010.

(b) Information Systems:

The adoption of component accounting for PPE will require changes to the Company's information systems. These changes are occurring now in order to record the purchase of PPE during 2010 in accordance with IFRS.

(c) Internal Controls over Financial Reporting:

In order to record all purchases of PPE after December 31, 2009 in accordance with IFRS the Company has implemented new controls at this time. These controls ensure that PPE purchases are properly broken down into components having different rates or patterns of depreciation.

(d) Financial Reporting Expertise:

All senior financial staff have completed IFRS training. The Audit Committee and CEO have received updates on the Company's progress and will receive additional updates and educational materials throughout 2010. The Company plans to hire additional staff to assist in the preparation of IFRS financial statements and the various GAAP to IFRS reconciliations required to be disclosed in connection with March 31, 2011 interim financial statements. Draft financial statements and reconciliations are expected to be completed by the fourth quarter of 2010.

(e) Disclosure Controls and Procedures:

During the transition period the Company is required to describe its transition plan, communicate the impact of the changeover and provide updates in the annual and interim Management Discussion and Analysis ("MD&A"). The Company has modified its controls to ensure that the required disclosures are made during the transition period.

The first quarter reported under IFRS (March 31, 2011) will contain reconciliations from Canadian GAAP to IFRS. The MD&A accompanying the interim report is required to supplement the financial statement reconciliations and discuss the impact of the changeover to IFRS. Changes to the Company's procedures required to bring about these disclosures will be made when draft reconciliations are prepared in the fourth quarter of 2010.

(f) Business Activity:

The Company has not completed its review of the impact of IFRS on its business activities. The results of this review will be made available in the MD&A for the second quarter of 2010.

Consolidated Financial Statements:

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 fiscal years beginning January 1, 2011. Earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

In December 2008, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests".

Section 1582 establishes standards for accounting for business combinations and is equivalent to IFRS 3. The new standards apply to business combinations with an acquisition date on or after January 1, 2011; however, earlier adoption is permitted.

Sections 1601 and 1602, together, replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for non-controlling interest in a subsidiary to a business combination. It is equivalent to the provisions of IFRS standard, IAS 27, Consolidated and Separate Financial Statements. The new standards apply to interim and annual consolidated financial statements with fiscal years beginning on or after January 1, 2011. Early adoption is

permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

RISK FACTORS

Information on "Risk Factors" can be found in the Company's Annual Information Form dated March 16, 2010 for the fiscal year ended December 31, 2009.

CONTROLS AND PROCEDURES

(a) Management's Report on Internal Controls over Financial Reporting

Management is responsible for certifying the design and effectiveness of the Corporation's internal controls over financial reporting ("ICFR") as required by Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

Our ICFR are 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.

(b) Material Weaknesses in Design of ICFR

Management, including the CEO and CFO, carried out an assessment of the design of the Corporation's ICFR and concluded that the following disclosable weaknesses existed as at December 31, 2009:

Segregation of Duties

Control deficiencies have been identified within the Company's accounting and finance departments and its financial information systems over segregation of duties and user access respectively. Specifically, certain duties within the accounting and finance departments were not properly segregated due to the small number of individuals employed in these areas. In addition, the Company identified instances whereby personnel had the ability to initiate transactions or accounting entries within certain financial reporting applications that were not compatible with their other roles and responsibilities. These deficiencies may be considered a material weakness resulting in a more-than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

As the Company incurs future growth, it plans to expand the number of individuals involved in the accounting function as appropriate. At the present time, the CEO and CFO oversee all material transactions and related accounting records. In addition, the Audit Committee reviews on a quarterly basis the financial statements and key risks of the Company and queries management about significant transactions, there is a quarterly review of the Company's financial statements by the Company's auditors and there is daily oversight by the senior management of the Company.

Complex and Non-routine Transactions

As required, the Company records complex and non-routine transactions. These sometimes are extremely technical in nature and require an in-depth understanding of Generally Accepted Accounting Principles ("GAAP"). The Company's accounting staff has only a fair and reasonable knowledge of the rules related to GAAP and reporting and the transactions may not be recorded correctly, potentially resulting in material misstatement of the financial statements of the Company.

To address this risk, the Company consults with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. In addition, quarterly reviews of the financial statements are completed by the Company's auditors, and an annual audit is completed and presented to the Audit Committee for its review and approval. During such reviews and audits, material misstatements detected are corrected by the Company. As the Company incurs future growth, we plan to expand the technical competence of the individuals involved in the accounting function as appropriate.

(c) Effectiveness of ICFR

Management, including the CEO and CFO, carried out an assessment of the effectiveness of the designed ICFR and concluded the controls are effective as at December 31, 2009.

(d) Changes in ICFR

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.

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

Management is responsible for certifying the design and evaluating the effectiveness of disclosure controls and procedures. Management, including the CEO and CFO, carried out an assessment of the design and evaluated the effectiveness of the Corporation's disclosure controls and procedures and concluded there are no disclosable design weaknesses and the controls are effective as at December 31, 2009.

Forward Looking Statements

Certain statements in this management's discussion and analysis 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 management's discussion and analysis such statements are such words as "may", "will", "expect", "believe", "plan", 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 management's discussion and analysis. 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.