BENNETT ENVIRONMENTAL INC.

Management's Discussion and Analysis

March 28, 2011

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, 2010 and comparative results of operations for the year ended December 31, 2009 and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2010, and 2009. The financial statements of the Company are presented in Canadian dollars and in accordance with generally accepted accounting principles ("GAAP") in Canada. The following discussion of the financial condition is dated March 28, 2011. 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 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 facilities can only be run efficiently when operating continuously for extended periods. The sporadic level of demand for the Company's services is such that these facilities are 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 have allowed the Company's 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 at its Saint Ambroise facility ended. This period of uninterrupted production has been primarily responsible for the Company's profitability in 2009 and the first three quarters of 2010.

At the end of February 2011 the Company held approximately 16,000 tonnes of untreated soil at its Saint Ambroise facility. This inventory includes approximately 12,000 tonnes of PCB contaminated soil from southern Ontario which will be processed subject to the client meeting specified financial requirements. In addition, the processing of all soil held in inventory will not commence until sufficient material has been received for the efficient operation of the facility.

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.

The Board and management are also seeking opportunities to diversify the Company's business including potential opportunities for acquisitions, to reduce volatility in the Company's financial results. In order to increase the cash reserves available for acquisitions, working capital and general corporate purposes the Company raised approximately $23 million through a common share and warrant issue that closed in May of 2010. More information regarding this share and warrant issuance can be found in the Short Form Prospectus dated April 29, 2010 which is available on SEDAR at www.sedar.com. At present there is no proposed acquisition that has progressed to a state that justifies an announcement. Pending deployment for acquisitions, the Company intends to invest most of the proceeds in short-term term deposits.

In December of 2009 the Company sold an option to purchase its Belledune facility expiring December 31, 2010. The Company has granted an extension of this option to March 31, 2011. 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 base consideration of $2.2 million plus accumulated property tax liabilities to be assumed by the purchaser. The base consideration that would be received if the option is exercised and the transaction closes is composed of the option deposit, $0.9 million in cash on closing and two subsequent payments of $0.6 million on the first and second anniversary date of closing, bearing interest at 3% compounded semi-annually. 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 an impairment of the carrying value of the facility of $0.3 million which was recorded in the fourth quarter of 2009. It was determined that there was no additional impairment in 2010.

On March 15, 2011 the Company's largest shareholder, Second City Capital Partners I ("SCC") requisitioned the directors of the Company to call a meeting of the shareholders to remove four directors including the current CEO and replace them with four nominees to be identified at a later date. The shareholder's reasons for wanting to make the change are outlined in the requisition which is available on SEDAR as an Early Warning Report filed on March 15, 2011.

In its press release announcing the requisition SCC said that in advance of the meeting it would file a dissident proxy circular containing information with respect to the SCC director nominees and detailed reasons in support of its position. The Board of Directors has formed a Special Committee, composed of independent directors not affiliated with SCC, to consider SCC's requisition and advise the Board on a response.

SELECTED ANNUAL INFORMATION

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

	2010	**2009**	**2008**
Sales	$ 32,668,014	$28,058,146	$8,289,104
Earnings (loss) before discontinued operations	14,400,117	15,313,404	(4,289,216)
Earnings (loss) from discontinued operations	-	-	(343,033)
Earnings (loss for) the year	14,400,117	15,313,404	(4,632,249)
Earnings (loss) per share before discontinued operations			
Basic	0.42	0.56	(0.16)
Diluted	0.41	0.55	(0.16)
Earnings (loss) per share from discontinued operations			
Basic	-	-	(0.01)
Diluted	-	-	(0.01)
Earnings (loss) per share			
Basic	0.42	0.56	(0.17)
Diluted	0.41	0.55	(0.17)
Working capital	56,943,073	19,857,683	3,328,199
Long-term liabilities	896,839	3,141,760	3,460,152
Shareholders' equity	66,936,096	28,228,047	12,539,738
Total assets	77,439,386	47,630,385	25,295,323

The loss for 2008 resulted from low volumes of soils processed, higher administration and business development costs, losses from discontinued operations and the impairment of long-lived assets. Period to period variations between 2010 and 2009 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 2010 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. On a long-term basis the Company expects that the revenue from material that will require thermal treatment will remain sporadic.

Volumes processed at the Saint Ambroise facility were higher in 2010 than in any period in the Company's history. The 2009 volumes were higher than any previous year other than 2003. This was the result of the Ontario government's decision to undertake the Pottersburg project which was responsible for 99% and 55% of the soil processed in 2010 and 2009, respectively. In September of 2008 the Canadian 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) A portion 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 2010 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 have 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. In 2010, the Company's main contract, the Pottersburg contract, required the customer to be responsible to arrange and pay for transportation costs from their site to our facility.

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. During 2010 and 2009 energy accounted for approximately 43% of the Company's total direct variable costs (excluding transportation).

Disposal Costs

During 2010 the Company processed soils having a lower level of metal contamination than in 2009. As a result the unit disposal costs declined as compared with the prior year.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2010

Sales

Sales for 2010 were $32.7 million compared to $28.1 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

While the volume of soil processed in 2010 exceeded 2009 by 18%, operating costs fell by $1.6 million. Expressed as a percent of sales, total operating costs have fallen from 36% in 2009 to 26% in 2010. This is due to reduced transportation and disposal costs. During 2010 almost all soils were processed under contracts where the customer was responsible for transport costs to the Saint Ambroise facility as compared to 2009 where the Company paid transport costs for several large contracts. Disposal costs fell in 2010 because processed soils contained lower levels of metal contaminants which require disposal in hazardous waste landfill sites.

OTHER INCOME STATEMENT ITEMS

Administration and Business Development Costs

Administration and business development costs were $6.1 million in 2010, compared with $4.6 million in 2009.

The increase in costs of $1.5 million is primarily due to increases in property and capital taxes and expenses incurred in connection with identifying and investigating potential acquisitions. During the prior year property taxes were lower due to the recovery of amounts paid in prior years. Capital taxes increased over 2009 due to reassessments of prior periods.

Depreciation and amortization

Depreciation and amortization expense for 2010 was $1.1 million compared to $1.9 million for 2009. The reduction was primarily due to significant portions of the kiln located at the Saint Ambroise facility being fully depreciated for accounting purposes and did not give rise to any further depreciation expense.

Impairment of long-lived assets

The impairment of the Belledune facility is described in the Overview Section of this report.

Interest

Interest expense was $0.9 million for 2010 compared to $0.1 million for 2009. This was primarily due to interest charges in connection with a reassessment of capital taxes for prior periods.

Income taxes

The Company incurred future income tax expense of $3.9 million in 2010 versus a $3.9 million recovery of the prior year. The $3.9 million expense was primarily due to earning taxable income which reduced future tax assets recorded in prior periods. The $3.9 million recovery in 2009 is the net result of the recognition of a $4.8 million future tax asset related to reversals of valuation allowances against tax losses carried forward, and a $0.9 million future tax liability.

During 2010 the Company recorded a current income tax recovery of approximately $1.7 million versus a current income tax provision of $0.1 million in the prior year. The current tax recovery

in 2010 is a result of a reassessment of prior years' tax filings and a reduction to income tax accruals, recorded in prior periods, which are no longer required. The income tax provision in 2009 was caused by reassessments of prior periods.

Net Earnings

The net earnings for the year ended December 31, 2010 were $14.4 million or basic and diluted earnings per share of $0.41 and $0.42 respectively as compared to a net earnings of $15.3 million or a basic and diluted earnings per share of $0.56 and $0.55 respectively for the same period of 2009.

The lower net earnings are primarily due to an increase in income tax expense. The reduction in earnings per share over the prior period is caused by the lower net earnings and the increase in the number of common shares outstanding. The number of issued shares increased during the year as a result of the exercise of warrants and options and the equity issue completed in May of 2010.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

At December 31, 2010 the Company had cash and equivalents of $65.0 million and working capital (including cash) of $56.9 million compared to cash and equivalents of $17.6 million and working capital (including cash) of $19.9 million on December 31, 2009. At December 31, 2010 the Company had $0.01 million in restricted cash compared to $0.9 million at year end 2009. Restricted cash was used to secure corporate credit cards at December 31, 2010. At the previous year end the restricted cash was used to secure corporate credit cards, foreign exchange hedging agreements and butane swap contracts.

Cash from Operating Activities

Year to date cash of $23.2 million provided by operating activities compares to cash provided by operating activities of $15.3 million during the year ended December 31, 2009. The improvement is primarily due to earnings growth. While net earnings for the periods differ by less than $1.0 million, cash from operations increased by approximately $8.0 million. The difference between net earnings and cash from operations is primarily due to future income taxes which do not affect cash. The Company recorded a $3.9 million future tax expense in 2010 and the same amount as a recovery in 2009.

For the fourth quarter of 2010 cash generated from operating activities was $1.1 million compared to cash generated from operations of $12.2 million in the same quarter a year earlier. The decrease is substantially due to a decrease in earnings as the Company's facility was not operational in the fourth quarter of 2010. Despite the loss during the fourth quarter of 2010 the Company was able to generate cash from operations through the collection of amounts receivable.

Cash from Financing Activities

Cash provided by financing activities was $23.5 million and cash used in financing activities of $0.3 million for 2010 and the fourth quarter of 2010, respectively. This compares to cash used in financing activities of $0.6 million and $0.2 million during the same periods in the previous year. The majority of the cash generated in 2010 came from an offering of shares and warrants which was completed in May 2010. The cash used in financing activities in the fourth quarter of both years and for all of 2009 pertain to payments made to a former officer and director, the U.S. Department of Justice and the payment of lease obligations that reduced long-term obligations.

Cash from Investing Activities

Cash of $0.6 million was generated by investing activities during 2010 versus cash generated by investing activities of $0.4 million in the prior year. Cash used by investing activities was $0.01 million and $0.5 million during the fourth quarters of 2010 and 2009, respectively. The fluctuations are due to the change in restricted cash and the purchase of property, plant and equipment.

Capital Expenditures

The Company purchased equipment for and made improvements to its Saint Ambroise facility in the amount of $0.5 million during 2010 as compared to $1.0 million in the prior year. Capital expenditures of $0.01 million and $0.5 million, also for the Saint Ambroise facility, were made during the last quarter of 2010 and 2009, respectively.

Contractual Obligations

The Company's contractual obligations consist of its debt obligations relating to the Department of Justice fine and restitution, pension payments to a former CEO of the Company, operating and capital lease obligations. The following lists the Company's significant contractual obligations.

Millions of Canadian dollars	2011	2012	2013	2014	2015	Thereafter	Total
Department of Justice Fine and Restitution	2.15	-	-	-	-	-	2.15
Tenure agreement	0.08	0.08	0.08	0.08	0.08	0.42	0.82
Operating leases	0.11	0.04	-	-	-	-	0.15
Capital leases	0.19	0.12	0.03	-	-	-	0.34
Total contractual obligations	2.53	0.24	0.11	0.08	0.08	0.42	3.46

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):

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales	-	10.6	10.9	11.1	10.7	10.9	6.1	0.4
Net earnings (loss)	(2.9)	7.3	5.1	4.9	7.6	8.9	1.1	(2.3)
Net earnings (loss) per common share								
Basic	(0.08)	0.20	0.15	0.17	0.28	0.33	0.04	(0.09)
Diluted	(0.08)	0.19	0.14	0.17	0.28	0.32	0.04	(0.09)

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. Changes in earnings per share during 2010 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.

RESULTS OF OPERATIONS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2010

SALES

Sales for the fourth quarter of 2010 were nil compared to $10.7 million in the same period a year earlier. The decrease from the prior year is a result of the Saint Ambroise facility being shut down during the fourth quarter of 2010.

Operating Costs

Operating costs for the fourth quarter of 2010 were $0.6 million compared to $2.8 million in 2009. The operating costs declined from the prior year 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 $1.9 million during the fourth quarter of 2010 as compared to $0.9 in the same quarter of 2009. The increase in costs of $1.0 million is due to expenses incurred in connection with identifying and investigating potential acquisitions and increases in property taxes and stock-based compensation expenses. During the fourth quarter of 2009 property taxes were lower due to the recovery of amounts paid in prior years. Stock options were issued during the fourth quarter of 2010 which resulted in the increase in stock-based compensation expense over the same period of the prior year.

Depreciation and amortization

Depreciation and amortization expense for the fourth quarter of 2010 was $0.3 million as compared to $0.5 million in the same quarter in the prior year. Significant portions of the kiln located at the Saint Ambroise facility being fully depreciated and did not give rise to any further depreciation in the fourth quarter of 2010.

Impairment of long-lived assets

The impairment of the Belledune facility is described in the Overview Section of this report.

Interest

Interest expense was $0.3 million for the fourth quarter as compared to nil in the same period in 2009. The increase is due primarily to interest charges in connection with a reassessment of capital taxes for prior periods.

Income taxes

For the fourth quarter of 2010 the Company has recorded a net future income tax of nil versus a $1.3 million recovery in the same period of the prior year.

The net tax recovery in the fourth quarter of 2009 was due to the recognition of a future tax asset of $1.6 million related to reversals of valuation allowances against tax losses carried forward, and a $0.3 million future tax liability. During the quarter ended December 31, 2010 the Company recorded a current income tax provision of $0.15 million versus $0.07 million in the same period of the prior year. Both of these provisions resulted from the reassessment of prior periods.

Net (Loss) Earnings

The net loss for the fourth quarter of 2010 was $2.9 million or a basic and diluted earnings per share of $(0.08) compared to net earnings of $7.6 million or basic and diluted loss per share of $0.28 for the fourth quarter of 2009.

The net loss from continuing operations for the fourth quarter of 2010 was due to the closure of the facility throughout the period. In addition to operating continuously, earnings in the fourth

quarter of 2009 also benefitted from the recognition of tax assets in that period. Unlike the end of 2009, there were not sufficient inventories of unprocessed soil on hand at December 31, 2010 to justify recognizing future tax assets.

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, 2010 and 2009 the Company has no foreign exchange contracts outstanding.

The fair value of the butane swap outstanding at the end 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, 2010.

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.

SUBSEQUENT EVENT

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 is making arrangements with an investment dealer to provide a convenient method for exercising options and selling the resultant shares. This arrangement is expected to be in place before the end of the first quarter of 2011 and 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 will then sell the purchased shares into the market as conditions allow. Any change in price between the investment dealer's purchase and sale is for the account of the Company.

The implementation of the above arrangement requires 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. Currently the compensation cost of stock options are 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 will now be accounted for as a liability that is measured at fair value at the end of each reporting period and the expense will be recognized over the relevant vesting period. The compensation cost related to the awards will be remeasured and adjusted while the options are outstanding.

The adoption of this new accounting will occur during the first quarter of 2011 when the Company will be reporting its results using IFRS. Under IFRS in the first quarter of 2011, an adjustment will be recorded to reclassify the award from equity to liability and to increase the liability to reflect the current fair value of the awards. This will result 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.

TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2010, the Company paid consulting fees of nil (2009 – $275,157) and related interest of nil (2009 - $9,297) 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, 2010, the Company paid tenure payments of $79,000 (2009 - $250,167) and related interest of nil (2009 - $11,792) to a former director and officer of the Company.

The Company has retained the services of a corporation, owned by a current director, to support its corporate development activity for a seven month period ending in March, 2011. During the year ended December 31, 2010, the Company paid consulting fees of $76,676 under this arrangement.

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

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 December of 2009, the Company sold an option to purchase the Belledune facility expiring December 31, 2010. During the year the Company granted an extension of this option to March 31, 2011. As described in the Overview section of this report the proposed purchase price has resulted in a write-down of the carrying value of the facility of $331,752 which was recorded in the fourth quarter of 2009. It was determined that there was no additional impairment in 2010.

- 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. The Company did not recognize future tax assets in the fourth quarter of 2010 based on soil inventories held at the Saint Ambroise facility.

- Note 19 of the 2010 consolidated financial statements discloses contingencies and litigation against the Company as of December 31, 2010. 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.

SHARE CAPITAL

The number of common shares outstanding at March 28, 2011 was 37,047,230. There were 2,039,792 stock options outstanding as at March 28, 2011 exercisable at prices from $0.24 to $2.08 a share. The number of warrants outstanding as at March 28, 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

Recently issued pronouncements not yet adopted:

International Financial Reporting Standards

In February 2008, The Canadian Accounting Standards Board confirmed that the use of IFRS will be required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company will be required to report using IFRS with an effective date of transition of January 1, 2010. A detailed transition plan to change over to IFRS was included in the Company's 2009 MD&A. The key elements of the plan are Accounting Policies, Information Systems, Internal Controls over Financial Reporting, Financial Reporting Expertise, Disclosure Controls and Procedures and Business Activity. The Company continues to implement this plan and is expected to meet the filing requirements for its first IFRS interim financial report. In order to help investors understand the impact of the changeover and assess the Company's IFRS readiness the 2009 MD&A and 2010 interim MD&A have disclosed progress against the plan and the expected consequences of the changeover. Progress against the plan, key policy choices and the quantitative impact of the transition which has not been previously communicated are discussed below.

(a) Accounting Policies

As of the date of transition IFRS must be applied retrospectively. That is, the transitional financial statements are to be prepared as though IFRS had always been applied. The First-Time Adoption of Financial Reporting Standard ("IFRS 1") provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS described above. The most significant IFRS 1 exemptions which apply to the Company are as follows:

An entity may elect not to apply IFRS 2, "Share-based Payments" to equity instruments granted on or before November 7, 2002, or which vested prior to transition to IFRS, and may also elect not to apply IFRS 2 to liabilities arising from share-based payment transactions which settled before the date of transition to IFRS. The Company is planning on electing, on transition to IFRS, to take this exemption and apply IFRS 2 to equity instruments and liabilities as described above.

An entity may elect to measure an item of property, plant or equipment ("PPE") at the transition to IFRS at its fair value and use its fair value as its deemed cost at that time. This election can be applied on an asset by asset basis. The Company intends to make this election for certain assets for reasons which are fully explained on page 17 of the Company's 2009 annual MD&A. The expected impact of making this election will be to decrease the accumulated deficit by approximately $1.8 million and increase the PPE by the same amount. The fair value of the PPE was obtained by using appraisal reports prepared by independent appraisers. Other than this adjustment to accumulated deficit and PPE the Company does not expect any other significant quantitative differences between the opening balance sheet under IFRS and that previously reported under Canadian GAAP. The change in PPE will increase the total amount of expected depreciation over the lives of the assets. However, the amount of depreciation in any particular year will also be influenced by the IFRS requirement to componentize assets, and the useful life and depreciation method assigned to each asset component.

In previous MD&A reports the company stated that it expects certain accounting standards to affect its financial statements as prepared under IFRS. The impact of those accounting principles on the Company's financial statements are updated below:

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 depreciation 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 depreciation as compared to Canadian GAAP. However, when these changes are combined with the IFRS I election to increase the depreciable value of certain assets, the 2010 depreciation under IFRS is not expected to be significantly different from the value previously reported.

Under IFRS, share-based awards that vest in installments must be accounted for as though each installment is a separate award. The fair value of the awards is required to be measured separately for each installment and is recognized over the vesting period of each installment. The MD&A for the third quarter of 2010 suggested that IFRS methodology may result in the front-loading of compensation expense as opposed to the Company's current accounting. This matter has been reviewed and the transition to IFRS is not expected to generate significant differences with Canadian GAAP.

IFRS contains a single comprehensive standard under which assets are tested for impairment either individually or within cash generated units ("CGU"). The Company will be required to test long lived assets for impairment on an annual basis. Differences exist when measuring an impairment charge. For assets other than goodwill, Canadian GAAP first requires an assessment of impairment based on undiscounted cash flows and only where there is impairment is it necessary to proceed to a fair value measurement. IFRS uses the recoverable amount, which is the higher of fair value less costs to sell and value in use, for both the assessment of whether there is an impairment and the

measurement of the loss for all assets or CGU. Impairment charges under IFRS may be more frequent as the cash flow test for recovery is based on discounted cash flows rather than undiscounted cash flows as under Canadian GAAP. Under IFRS, reversal of impairment charges, is required if the circumstances leading to the impairment have changed. Certain ceilings are placed on the amount of the reversal, thereby creating the need for tracking multiple asset values in the event of a write down. This standard is not expected to affect the Company.

The threshold for recognizing a provision under IFRS is lower than under Canadian GAAP. The test under IFRS is "more likely than not" whereas under Canadian GAAP the threshold is "probable". Measurement differences exist between Canadian GAAP and IFRS. Under IFRS, when a range of estimates exists, and no single estimate within the range is better than another, the obligation is measured at the mid-point of the range, rather than at the low end of the range as required by Canadian GAAP. The Company does not expect it will need to record a quantitative adjustment to its liabilities as a result of this standard. Under Canadian GAAP, contingent liabilities refer to both recognized and unrecognized uncertain obligations. Under IFRS uncertain obligations that do not qualify for recognition are classified as contingences and uncertain obligations that qualify for recognition are classified as provisions.

As a result the Company expects it will reclassify liabilities of approximately $0.6 million from accrued liabilities to provisions on the transitional balance sheet. The notes to the financial statements describing these obligations will appear in the provision note instead of the contingency note.

(b) Information systems

The adoption of component accounting for PPE requires changes to the Company's information systems. These involve creation and maintenance of sub ledgers to record the acquisition, disposal and depreciation of assets on a component basis. This work has been completed.

(c) Financial Reporting Expertise

Except for the Corporate Controller who was recently hired, all senior financial staff have completed IFRS training. The Audit Committee and CEO have received updates on the Company's progress and educational materials. The Company hired contract 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 have been completed.

(d) Disclosure Controls and Procedures

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 have been completed.

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 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.

Management, including the CEO and CFO, carried out an assessment of the design and effectiveness of the designed ICFR and concluded there are no disclosable design weaknesses and the controls are effective as at December 31, 2010. 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 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, 2010.

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 "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 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.