Bennett Environmental 2005 Annual Report

Corporate Profile

Bennett Environmental Inc. is a recognized North American leader in high temperature treatment services for the remediation of contaminated soils and other PCB contaminated construction debris and provides thermal solutions to contamination problems throughout Canada and the U.S.

Bennett employs a fourth generation High Temperature Thermal Oxidizer (HTTO) technology to provide a safe, economical and permament treatment solution for contaminated soils. The HTTO technology is comprised of a rotary kiln primary combustion chamber, a vertical secondary combustion chamber, a vertical gas cooling (quenching) tower, dry gas scrubbing, high effeciency fabric filter, an induced draft fan and a continuously monitored emission stack.

HTTO technology routinely achieves high contaminant desctruction and removal efficiency (>99.9999) for PCB compounds and meets both the stringent Canada wide and United States Environmental Protection Agency (USEPA) Maximum Available Control Technology (MACT) emission standards.

Bennett's operations are constructed with maximum containment to virtually eliminate fugitive emissions during receipt, preparation and storage of contaminated soil.

Bennett's facility is designed to be the best demonstrated available technology (BDAT) applicable for the treatment of soils impacted with persistent organic pollutants (POPs).

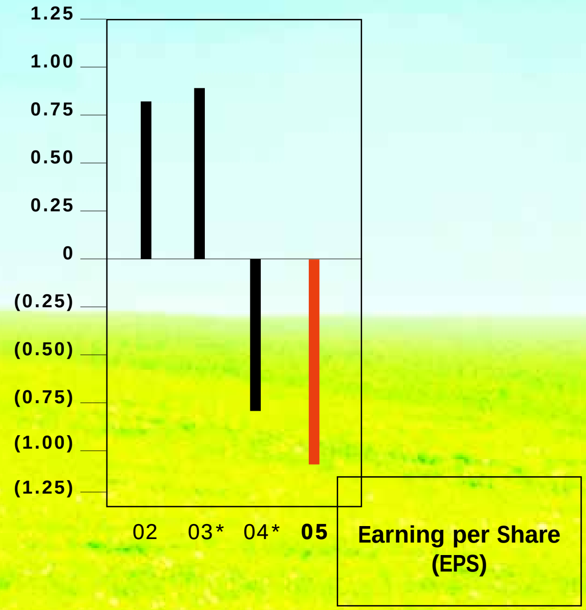
KEY ACCOMPLISHMENTS FOR 2005

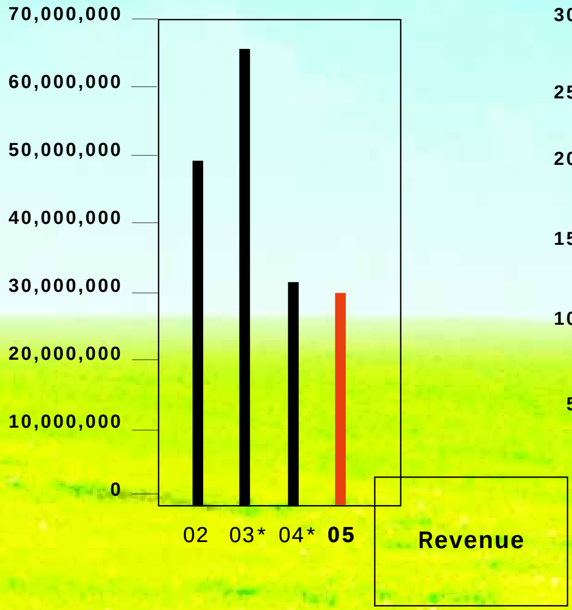
- **Continued to broaden our Management team;**
- **Developed a new business strategy designed to increase market share by expanding and diversifying the current client base;**
- **Refocused the sales team and signed on new clients;**
- **Negotiated and settled outstanding legal issues; and**
- **Consolidated operations, reduced overhead and improved efficiency.**

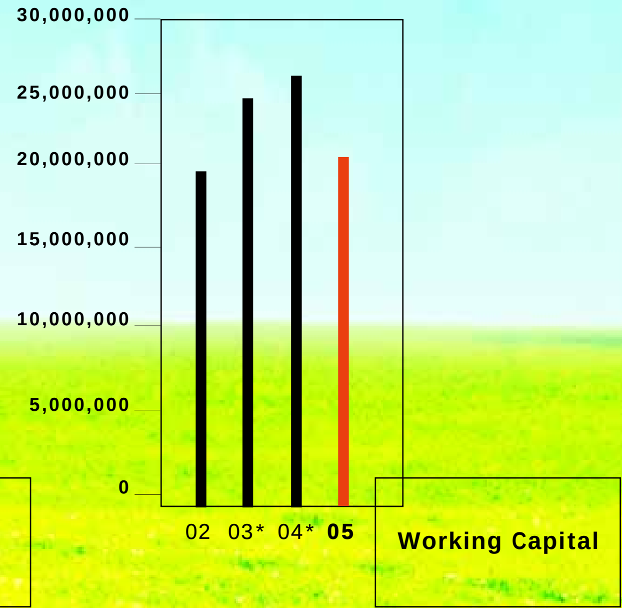
FINANCIAL HIGHLIGHTS

	2005	2004*	2003*	2002
Revenues	**29,250,249**	30,642,052	64,487,677	48,103,845
Net Earnings (loss)	**(25,044,823)**	(13,955,024)	13,593,244	12,542,851
Earnings per Share (EPS)	**(1.16)**	(0.76)	0.81	0.78
Return of Sales	**—**	—	21%	26%
Working Capital	**20,102,384**	25,919,525	24,777,605	19,057,602
Shareholder's Equity	**56,361,667**	80,003,390	54,317,774	35,503,860
Total Assets	**65,525,072**	90,012,402	70,168,207	52,384,674

*The Company restated its consolidated financial statements for the years ended December 31, 2004 and 2003. Please refer to note 3 of the restated consolidated financial statements as at and for the years ended December 31, 2004 and 2003 for further explanation.







A New Company

Our newly revitalized company is fast emerging as North America's leader in safe and efficient remediation of contaminated soil.

Fellow Shareholders,

For more than a dozen years, Bennett has provided its clients with world-class environmental solutions to their soil and debris remediation problems, using the best demonstrated available environmental technology – technology that is innovative and customer-focused.

Bennett has grown from a small, start-up Company to a mature, publicly traded corporation. Along the way there have been challenging times, as there are for any entrepreneurial Company evolving into a publicly traded corporation with dedicated professional management.

I am pleased to report that we have made significant strides over the past year and I am confident that we have put those challenges behind us. Now we are moving onto the bigger challenge – growing our business, improving our services and creating increased shareholder value.

In 2005, we improved our corporate governance structures and positioned the Company to move to the next level in its growth as a leading provider of environmental solutions in the remediation industry across North America. We have settled many outstanding issues with regulators, negotiated new certificates of authorization for our Quebec plant and resolved the class action suit at a minimal cost to you, the shareholders. More importantly though, we have taken the necessary steps to build better relationships with all of our business partners – customers, regulators, government officials, neighbours and environmental groups.

Today, your Company is focused on moving towards good corporate and social responsibility – our hallmarks are transparency, integrity and high ethical standards. These are qualities that are critical to the success of any company, especially one that operates in the highly competitive environmental services field. Our formula is simple – hiring the right people, developing sound strategies and executing on a solid business plan. The result is a highly focused, customer-driven team that is dedicated to increasing shareholder value and building a company with a genuine environmental and social conscience.

The Board of Directors and Management have worked hard to identify the road ahead and together we have developed a plan that we believe will build shareholder value and lead your Company into what should be a prosperous future.

The plan is innovative and forward-looking. Over the next several years it will capitalize on the growing need for sound environmental advice and service and will transform the Company from one with world-class soil remediation technology into a full-service environmental solutions company.

We are tremendously encouraged by what lies ahead. I want to thank shareholders who have waited patiently while we worked through the past challenges. To our dedicated employees and customers that have stood by us, thank you for remaining loyal.

I know the entire Board believes that 2006 will be a year of opportunity for your Company.

David Williams
Chairman of the Board

New Potential

We believe the success of an environmental solutions company lies in finding the right people and being a socially responsible company.

Dear Shareholders,

When I arrived at Bennett in 2004, my task was to take your Company to the next level. While that focus hasn't wavered, many events forced some unexpected detours on our road to building better shareholder value.

While 2004 was characterized by intense challenges, 2005 has been a year of foundation-building and bringing both stability and growth back to our business. It was a year of taking the small but important steps we needed in order to prepare the Company for moving forward.

I am pleased to report that we have largely succeeded in putting the majority of our past problems behind us and we can now put all of our combined efforts together on growing this business. Our focus is clearly the future, and not simply surviving the present.

Our new focus is executing the strategies developed by the Board and Management to seize the opportunities to become a leading, full-service environmental solutions company.

In 2006 our new strategy will be focused on people, performance and getting traction on the sales foundation we built last year. We believe the success of an environmental solutions company lies in providing the right environmental solution to certain environmental problems, while at the same time being a socially responsible company. A company that takes into account the concerns not only of its investors, but of its customers, employees, regulators and the public, all of which have a vested interest in maintaining a healthy environment, will grow and thrive into the future. It is the right way to do things, and it is good business. With the right people, policies and strategies in place, I believe the result will be improved. On that front, let me share with you some of our accomplishments:

Stronger Management Team

We have continued to rebuild our Management team. We recently recruited Tom Wesolowski as Vice President of Engineering and Technology. Tom is a seasoned engineer with more than 20 years of experience dealing with environmental issues, permits and processes. We are confident that his addition to the team will help drive Bennett's vision and performance forward.

Refocused Sales Force

Our sales team has refocused its efforts on the Northeastern United States and Central and Eastern Canada, which we see as a "sweet spot" for the long-term growth potential of our business. The sales team has continued to build strong relationships with key customers, consultants and brokerage firms and has identified more opportunities for potential business. These actions have enabled the Company to bid on new contracts and build a more diversified customer base. These efforts are steadily beginning to pay off. In 2005, we processed approximately 35,000 tonnes of new orders, versus 7,000 tonnes in 2004.

Settling Disputes

The year 2005 was also important in clearing away litigation that had been hampering the Company. We resolved the outstanding class action litigation with a settlement that provided an aggregate cash payment of US$9.75 million, the bulk of which was covered by our insurer and without an admission of wrong doing by the Company. We also settled and won a number of other legal issues that lingered from 2004, which will free up an enormous amount of Management's time.

New Vision and Mission

In 2005, our Management team developed a new mission and vision for Bennett. Our vision is simple: Over the next three years we want to become North America's fastest growing environmental solutions provider in the hazardous materials remediation service market.

We have developed new business strategies that will see your Company develop markets for its leading, environmentally sound technology and expand into other services and opportunities. These strategies take into account the changing dynamic of the scarce resources that governments have for cleaning up contaminated sites. We are now targeting a different customer base, "PRPs" – private responsible parties – who are becoming increasingly more aware of the need to clean up environmental liabilities that they may have on their balance sheet.

As regulators develop more confidence in our technology and operational abilities, they also see new possibilities for the Company. For example, the government of Quebec recently granted an amendment to our Certificate of Authorization for our Récupère Sol ("RSI") facility in Saint Ambroise, Quebec – an approval that will now allow RSI to process dioxin and furan contaminated soils. There are also other drivers that regulators are putting in place, which will enable the Company to build market share. In Ontario, the Government has instituted Land Disposal Restrictions ("LDR") that will force hazardous waste providers to have their materials pre-treated prior to disposal in a landfill. The LDR will become fully effective in 2009. Further, Environment Canada is in the process of having a regulation enacted to end the use of equipment containing PCBs between December 2009 and December 2014, depending on the location and concentration of PCBs. We expect these regulations to open expanded market opportunities for your Company.

The new opportunities for your Company, outside the traditional market base of treating contaminated soil, are numerous. But to take advantage of them we must diversify and become a full-service environmental solutions company that capitalizes on our technology and our people so that we can fill our excess plant capacity.

Going forward Bennett will explore new waste streams that can be treated in our facilities, seek new markets for remediated soils, examine opportunities in Europe, and consider the acquisition of companies that add diversified and complementary processes to our current capabilities.

Fostering Better Relations

The environmental solutions business is all about building relationships and maintaining strong ties to the government, business, regulators and the environmental community. We are rebuilding those relationships in areas where they were weak and are aggressively courting new relationships with those who see themselves like Bennett – as active environmentalists – and who truly understand the benefits that our best demonstrated available technology brings to cleaning up our environment.

Shareholder Value

While it's still early in the game, we already see improvements. Much of 2005 was spent on implementing cost containment measures and we now have those costs under control. We are constantly aware that we are using shareholder money and that we must be vigilant on how that money is spent and how we can generate a return that you, the shareholder, want and deserve as a result of your investment.

One significant financial event that we recorded in 2005 was an asset impairment of $15.4 million for our facility in Belledune, New Brunswick. The Belledune facility was constructed in 2003 and 2004. During 2005 the plant was idle and did not process any material commercially. The permit negotiated in 2003 was focused mainly on creosote-contaminated soils and the volume for processing this type of contaminated soil has become uncertain. Based on this, the Company believes that these assets are impaired and therefore we took a write down of $15.4 million; however, Management believes that over time, positive cash flow will be generated from this facility to support the revised valuation.

We have taken the steps that needed to be taken. We still have a long way to go. However, we believe that the plan we have in place and the team we have built will allow us to rebuild shareholder value, grow our business and make Bennett a profitable and socially responsible Company, committed to applying the best technological solutions to help solve the world's environmental problems.

In light of our new vision, the Company plans to re-brand itself and change its name to reflect the vision of an environmental solutions company – one that not only remediates soils and debris, but recycles them too.

I would like to thank my colleagues on the Management team and all our employees for their tireless efforts throughout 2005. I would also like to gratefully acknowledge the invaluable contribution of all the members of our Board of Directors and finally, I would like to thank our shareholders, who share our vision and honour us with their trust.

Allan Bulckaert

President and Chief Executive Officer

New Focus

Bennett was busy on a number of fronts in 2005. We took the actions necessary to stabilize the Company and bring it out of crisis. And we rebuilt the foundation to position us for improved future growth.

Settling Past Disputes and Building Better Relationships

We have settled the majority of outstanding legal disputes with regulators and shareholders, disputes such as the Class Action suit, and a Federal Court case, in which the federal government tried to intervene at the Bennett facility in Belledune. We also successfully negotiated with the Quebec Ministry of Sustainable Development, Environment and Parks ("MSDEP") regarding the Pre Order it issued in 2004. Further, the Company also obtained an amended certificate of authorization from the MSDEP, which permits us to receive and treat dioxin and furan contaminated soils. This will allow the Company to open up new markets, particularly in the U.S. This brings closure to these outstanding issues and means Management can focus its time on building a better business and delivering a profit to the shareholders.

We continued down the path of commissioning the Belledune plant. In 2005 the Company procured the majority of soil necessary for the regulatory compliance test, and that compliance test was completed in April, 2006.

We are also significantly improving our relationships and raising our profile with key stakeholders in both the public and private sector. As a Company that is regulated by federal and provincial governments it is important that we comply with Canada's stringent regulations, continue to educate regulators and our neighbours on our technology and be an active part of the communities where our facilities are located.

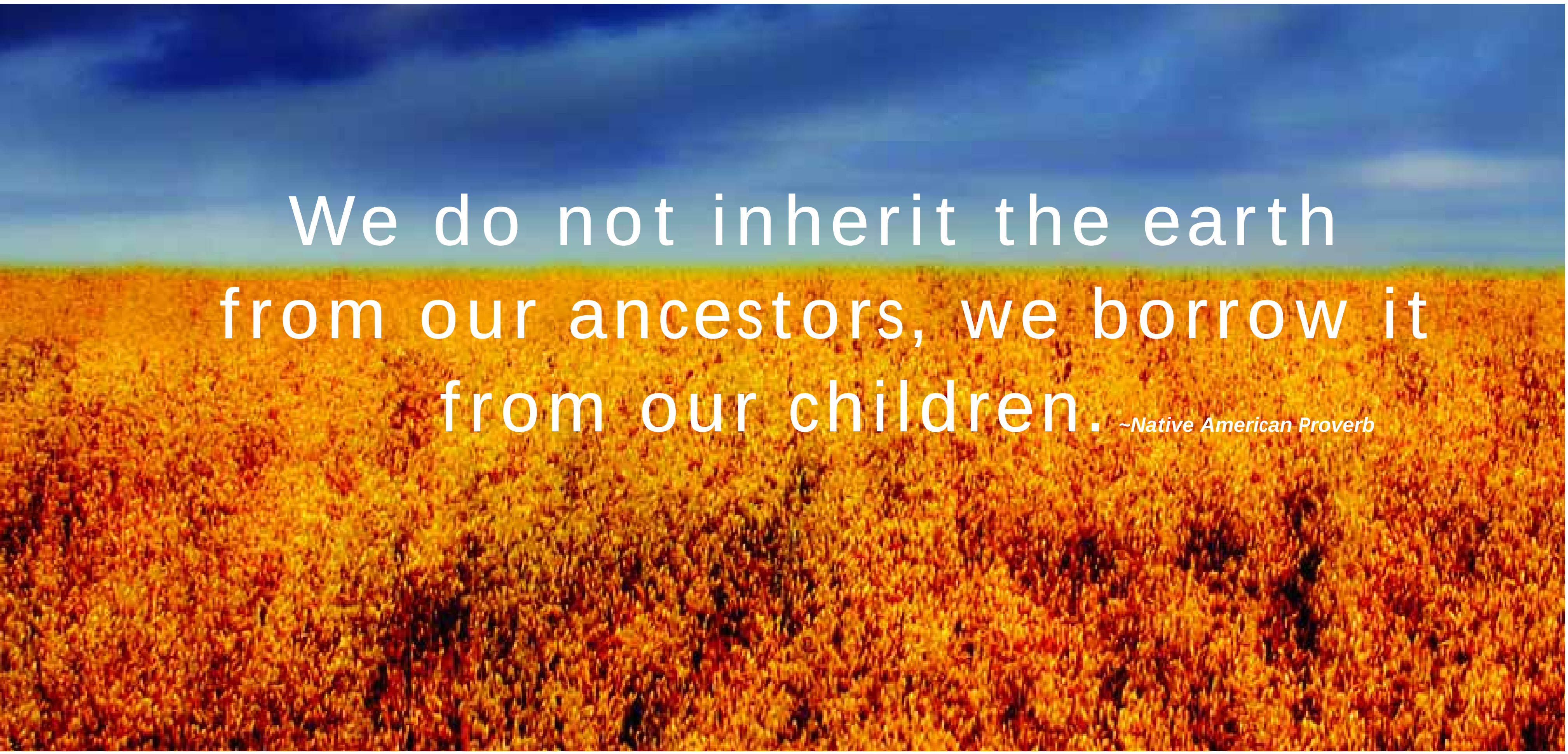
Improving our Business

We are aware that we are using shareholder money to run this Company so we spend every penny of that investment wisely. This past year we have concentrated on "right-sizing" your Company to better reflect the current business climate and we have made major inroads in reducing our business costs. We closed our Vancouver office and reduced our head count from 104 employees in December 2004 to 73 today – a reduction of 30%.

Our restructured sales team has refocused its efforts to diversify the market base. No longer will we be held hostage to a few large contracts. Our philosophy is to win dozens of small contracts, as opposed to focusing meager resources on a few large contracts. In 2005, 70% of sales came from new clients.

Our efforts are paying off financially and we stabilized the Company's Balance Sheet in the second half of the year. By focusing on every detail of the Company – from sales to human resources – we have been able to reduce expenditures, increase our customer base and repair relationships that were damaged in the past.

We now have a new focus and Management believes this will lead to a much brighter future for your Company.


We do not inherit the earth
from our ancestors, we borrow it
from our children. ~Native American Proverb

New Strategies

Bennett's treatment facilities have industry-leading emissions control performance; better than the most stringent standards set by governments in North America and Europe.

There is more than 10 million tons of contaminated soil in North America. Last year Bennett remediated 44,000 tonnes of soil – it's not a lot, but it is a start; we must redouble our efforts to improve capacity utilization at RSI and to find suitable soil for the soon-to-be-permitted facility in Belledune, New Brunswick.

The market for environmental services in North America is undergoing a rapid change. In the U.S. alone government officials have identified more than 77,000 hazardous waste sites and some suggest that there may be another 217,000 uncovered over the next 30 years. The remediation of these sites is expected to cost over US$6 billion annually. In Canada, some speculate that there is more than C$4 billion of remediation work to be undertaken.

Bennett's world-class, high-temperature thermal oxidation technology ideally positions the Company to play a leading role in efforts to clean up our environment both here in Canada and in the U.S.

However, high-temperature thermal technology is only part of the solution. It will take a combined effort of governments, industry and citizens, along with environmentally regulated and safe technology to address the damage done to our environment over the course of the last 100 years. Low temperature thermal oxidation, bioremediation, stabilization and metals cleaning and reclamation will all be called on to tackle this immense problem. All of these technologies can play a role in the clean up of our environment and all of these technologies are stringently regulated and controlled by government and meet rigorous standards on what emissions they can produce.

At Bennett we are – *and want to be seen as* – active environmentalists. In order to grow this Company and provide an attractive return to shareholders, we need to be more than simply a high temperature thermal operator. To adapt to the changing market demands we've adopted a new vision for Bennett. **Management's vision is that Bennett will become a leading environmental services solutions provider in the hazardous material remediation market in North America.** We have a plan to take us there over the next three years or so.

We won't stray from our core value of making a positive impact on the environment by using best demonstrated available technology. We will strive to achieve our objective in an ethical, socially responsible manner and in a way that considers all stakeholders – regulators, clients, employees, the communities in which we operate, environmental groups and others who share our belief in being active environmentalists.

Our goal is focused and simple: to capitalize on our strengths and become a "one-stop shop" for the remediation of soil and debris by using multiple strategies and technologies.


10,000,000 metric tons of **earth** is being contaminated
in North America every year. Last year Bennett made
44,000 tonnes **safe** again for humans and wildlife.
Its not a lot, but **its a start.**

New Opportunities

The Road Ahead: Increased revenues and positive EBITDA; Reduced General and Administrative costs; Expanded services through acquisitions.

The Board and Management have given a great deal of time and thought to how your Company could better penetrate the market and capitalize on the growing opportunities in the environmental services industry. Those opportunities include:

Legislative Change

Governments are continually reviewing environmental legislation with a goal to offering the best protection to the citizens. Both the federal and provincial governments are passing new rules and regulations governing the environment, such as those that will lead to the discontinuation of PCBs in the marketplace by 2014 and the implementation of Ontario's new Land Disposal Restrictions in 2009. That creates opportunities for companies such as Bennett, which continues to have emissions that meet the current government regulations or are substantially below. We need to actively build good relationships with government so that we can work together to ensure Canada is seen as having one of the most stringent emission standards in the world. We must be vigilant to ensure we keep pace with technology so that we can also meet these standards. We must encourage governments to impose rigorous standards equally across all industrial sectors. We must also work to educate governments about our technology so that they will crack down on those who still choose the cheapest, but most short-sighted, option to dispose of hazardous waste – a dump or landfill. Governments must be made aware that there is a safe alternative to this antiquated approach.

We firmly believe that Bennett has the best demonstrated available technology and now is the time for us to work with governments and through the environmental assessment process to seek to expand the permits at all of our facilities.

New Business Lines

How do we maximize the capacity utilization? It is simple. We need to look at processing other waste streams that are compatible with our technology and to supplement the soil volume. Some opportunities that we are currently reviewing include:

To increase capacity utilization:

- Dioxins and furans contaminated soils
- Brownfield developments
- Transfer and broker services

To increase market share:

- Low temperature thermal remediation
- Metals remediation
- Bioremediation
- Mobile Thermal Services

Building out the Business

Going forward, Bennett will aggressively look for new opportunities to expand. This could include acquisitions, a joint venture and possibly licensing our technology.

Over the past several months, we have been working with some parties in Europe that recognize the strength of our technology and we are currently in early discussions with governments and the private sector in Europe to explore this potential.

Our technology has been developed and honed over the past decade or so and now is the time to explore alternatives for increasing business and delivering better shareholder value.

Recupere Sol Results	PCDD/F (I-TEQ) ng/m³	HCl (mg/m³)	NO_x (mg/m³)	SO_x (mg/m³)	TSP (mg/m³)
1997 (PCB)	0.0416	0.0025	132.5	9.68	4.35
1998 (PCB)	0.047	0.11	171.0	8.0	1.9
1999 (PCP)	0.017	0.13	114.1	1.9	0.7
2000 (PCB)	0.005	0.11	178.6	22.46	8.8
2001 (PAH)	No results	No results	63.9	20.0	7.2
2002 (PCB)	0.00638	0.217	—	2.25	17.4
2003 (PCB)	0.0315	0.937	233.1	0.63	4.2
2005 (Dioxins)	0.0097	2.80	133.7	1.28	10.0
CWS (Canada Wide Standard)	0.08	75	—	—	20
EU (European Union)	0.1	10	400	30	10
US EPA MACT (Maximum Achievable Control Technology)	0.14	22	—	—	24
Ontario A-7	0.14	27	207	56	17
Quebec Regs.	0.5	75	—	200	50

Compliance Test Results at RSI vs. Government Regulations

New Horizons

Corporate Environmental and Social Responsibility

Our market is competitive, but competition is about more than making a profit. It's about being a good corporate citizen and growing one's business in a socially responsible manner. This philosophy is one that Bennett now fully embraces and is committed to driving down into all aspects of the Company and its employees.

In 2005, we developed an Environmental Policy that demonstrates our commitment to the protection of the environment, human health and natural resources through sound business and sustainable Management practices. Our Board of Directors adopted the policy in July 2005.

Bennett's Environmental Health and Safety Committee has spent much of the year working on developing this policy, but more importantly, we've worked on developing key performance indicators for measuring the success of our policy. We look forward to reporting on these achievements in next year's annual report.

Complying With Our Permits

Récupère Sol Inc ("RSI"), Saint Ambroise, Québec

Our high temperature thermal oxidation process sets the bar when it comes to soil remediation. Bennett's RSI plant has consistently met or been significantly below North American and European emissions standards. Each year RSI must undergo rigorous compliance testing – testing that is monitored by third parties and then forwarded to respective governments for their analysis. These annual tests, supplemented by regular ambient air, water and other tests, ensure that any pollutants emanating from our facilities are below acceptable standards established by the regulators.

In 2005, RSI was issued an amended Certificate of Authorization ("C of A"), by the Quebec Ministry of Sustainable Development, Environment and Parks ("MSDEP") making it unnecessary for the MSDEP to take any further action with respect to the Prior Notice that it had issued in September 2004.

In January 2006, the MSDEP also issued an amended C of A to Récupère Sol establishing a clear protocol for RSI's acceptance and processing of dioxin and furan contaminated soils. This new C of A is a direct result of a successful, comprehensive and demanding series of performance tests by RSI in the spring of 2005. During these tests, RSI achieved Destruction and Removal Efficiencies ("DRE") for dioxins and furans averaging 99.999992%. These results are in an order of magnitude greater than DRE regulatory requirement of 99.9999%. Further, the emission concentrations for dioxins and furans are well below the extremely stringent Canada Wide Standard – which is one of the toughest dioxin and furan emission standards in the world.


The nation that destroys its soil destroys itself.
~ Franklin D. Roosevelt

Material Resource Recovery ("MRR") Cornwall, Ontario

During the summer of 2005, MRR conducted a substantive review of its operations. This review was agreed to at the time that MRR was granted its operating permit in 1999 from Ontario's Ministry of Environment. This five-year review was conducted by Conestoga-Rovers and Associates ("CRA"), an independent third-party engineering firm. Its purpose was to review the general operating conditions, the changes to the surrounding area, environmental monitoring programs, and equipment and systems used at the plant.

We are pleased to report that CRA concluded: "Environmental monitoring programs have been properly implemented and executed by MRR in compliance with current C of A and that internal monitoring programs show that MRR continues to be a safe place for the employees who work in all parts of the plant."

Belledune, New Brunswick

The Compliance Test was completed in April 2006. The results of the test will be sent to the Government of New Brunswick for review and analysis and the Company hopes to hear back from the Government on its operating permit sometime late in the second quarter or in the early part of the third quarter.

Adopting Global Business Standards

How do companies like Bennett build trust in those we work with, the communities in which we are located and with the regulators? One answer is by ensuring that we comply with international standards – in our case being registered and certified to the International Organization for Standardization's ("ISO") 14001 series of standards for Environmental Management.

In 2004, RSI was registered to the 1999 version of ISO 14001, but that was not enough for us to rest on our laurels. We want to be measured against the best companies in the country and so in 2005 RSI upgraded its systems and was audited by the Quality Management Institute ("QMI"), a third-party Government of Canada accredited registrar. Subsequent to its audit, QMI presented RSI with its registration to ISO 14001 (2004 version). What that means is we have a sound, internationally recognized accreditation under international environmental management systems.

Bennett's Environmental and Safety Committee of the Board of Directors has instructed Bennett's Management team to undergo this certification process at MRR in Cornwall. Once Belledune is operational it will also undergo this certification process.

Being registered to these kinds of internationally recognized standards helps Bennett compete in the marketplace, but more importantly it is one more step that we are taking to ensure we operate in an environmentally sound manner.

Investing In Communities

A socially responsible Company invests not only in people, but also in the communities in which it does business.

We continue to maintain a strong commitment to every community in which we operate. The past two years have been very tough ones financially for our shareholders, but despite this we still managed to spend more than $500,000 on community projects in the Saguenay where RSI is located.

Bennett Belledune is also supporting the community. After consultation with the Mayors in the Baie de Chaleurs Region, we made a donation to the Jacquet River Atlantic Salmon Conservation Project. By supporting this project, Bennett Belledune can do a small part to ensure that salmon can successfully return to the streams of this community to spawn in both the spring and the fall.

We believe this kind of spending is an investment in those communities and in recognition of this going forward, our Company has decided to pledge 0.75% of our sales revenue to community organizations, academic institutions and others who do work to improve the quality of life and environment in that community. Each year Bennett will work with its plant managers and local representatives to search out those who are as committed as we are to making their neighbourhoods a better place to live.

Open and Transparent Company

Part of being a good corporate citizen involves being open and transparent with your neighbours. Our philosophy is to work on a proactive basis within the communities where we are located and with the regulators, stakeholder groups and others who have an interest in being active environmentalists. It has been our practice to have regular community meetings and meetings with local and provincial government representatives so that we can explain what we do and how we do it. More importantly, these meetings allow us to listen to the concerns of our neighbours and elected representatives so that we can take into consideration their comments.

Building Safe Workplaces

Our employees are essential and we have undertaken to actively improve the safety of our plants. In 2005, RSI saw a 66.5% reduction in the number of incidents/accidents, and at MRR incidents/accidents amounted to one, down from six in 2004. This is the trend that we like to see; however, we must continue to be vigilant in this area for the protection of those who work at or live in close proximity to our plants.

Soil Remediation

Some might ask, why do you do what you do? Our answer is simple, land is finite, so rehabilitating contaminated soils from industrial activity is necessary for communities to grow and thrive. In 2005, Bennett successfully remediated 44,000 tonnes of soil. That doesn't sound like much, but that's enough dirt to spread four inches deep across 90 acres. Or enough to cover 45 Canadian-sized football fields or 240 ice hockey rinks four inches deep. Our goal is to not only remediate contaminated soil, but as we move forward in the future we will be searching for safe ways to re-use this soil, so that we can truly be part of the soil lifecycle.

Implementing strong environmental policies, meeting stringent compliance rules, adopting global business standards, investing in our communities and building safe workplaces. This is what the new Bennett Environmental is all about and it's part of the recipe for rebuilding shareholder value and returning Bennett to profitability.


water, you pray for rain.
of soil, you pray for forgiveness. *Gov. Bob Kerrey*

The following is management's discussion in respect of the results operations of Bennett Environmental Inc. ("Bennett" or the "Company") for the year ended December 31, 2005 and comparative statements for December 31, 2004 and should be read in conjunction with the audited annual consolidated financial statements and notes for the year ended December 31, 2005 and 2004. 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 current as of May 31, 2006. 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.

CORPORATE OVERVIEW

Bennett Environmental Inc. is a North American leader in soil remediation services, targeting Canada and the North eastern United States. Our high temperature thermal oxidation process is the industry's leading technology for rehabilitating contaminated soil.

Our decontamination process heats contaminants to over 1,000 degrees Celsius, which destroys contaminants and allows soil to be safely returned to the environment. Bennett recently received approval to process dioxins and furans as part of its treatment process.

Bennett sets itself apart from its competitors by its commitment to the environment and maintaining high emission standards that meet and exceed government-approved levels.

The foundation of our success lies in our highly skilled workforce and our commitment to customer service. We believe in operating a transparent company with strong social corporate responsibility policies and good governance.

STRATEGY

Bennett is embarking on a new long-term strategy focused on building sustainable growth and shareholder value. Our objective is to transform the Company into a full-service environmental solutions firm that focuses on more than high temperature soil remediation. We plan to build shareholder value by expanding into new markets and services. In addition to soil remediation, the opportunities we may pursue include:

- Project management
- Brownfield developments
- Landfill, transfer and broker services
- Low thermal remediation
- Metals remediation
- Bioremediation
- Waste water treatment
- Mobile services

CORE BUSINESS

Bennett's key market segments, described below, include soil remediation and debris decontamination.

Soil remediation

Récupère Sol Inc. (RSI): This is our primary soil remediation facility located in Saint Ambroise, Quebec. RSI is an ISO 14001-certified facility. It treats soils contaminated with hydrocarbons, such as PCBs and its compliance certificate was recently expanded in 2005 to include dioxins and furans. The plant has an annual processing capacity of 100,000 tonnes and could vary depending on the nature of material being processed. In 2005, RSI processed 43,351 tonnes of contaminated soil and the plant accounts for 81% of Bennett's revenues. Last year, RSI committed more than $231,000 to local various community-based activities.

Belledune: This is our latest state-of-the-art facility, which is nearing start up, and is located in the Renviro Park near the Village of Belledune, New Brunswick. The Belledune facility is situated on 20 acres of land and will operate a Mark IV Thermal Oxidizer. The facility has applied for a permit to treat 100,000 metric tonnes per year of hydrocarbons and creosote impacted soil and will undergo test burns in 2006 as part of its compliance procedure. Belledune will not begin operations until adequate volumes of soil are received for processing.

Contaminated goods

Material Resource Recovery (MRR): MRR specializes in the thermal destruction of PCB-contaminated debris, including construction material such as wood, concrete and metal. The Cornwall, Ontario-based plant also processes contaminated plastics and has the equipment and required permits to treat contaminated water.

The plant processed 1,183,000 kgs of materials and accounted for 13% of revenues.

MRR's "Turn Key" service program provides clients with a complete and integrated package of services for treating environmentally sensitive materials. Services include any necessary regulatory notifications and on site, analytical, transportation and destruction services. MRR's "Turn Key" service is tailored to meet the specialized needs of individual customers and provides them with a cost-effective decontamination program for any size of job.

SELECTED ANNUAL INFORMATION

The following sets forth selected financial data for each of the three most recently completed financial years.

Expressed in Canadian dollars (millions)	**2005**	2004*(*1)*	2003
Revenue	**29,250,249**	30,642,052	64,487,677
Net Earnings (loss)	**(25,044,823)**	(13,955,024)	13,593,244
Earnings per Share - basic	**(1.16)**	(0.76)	0.81
Earnings per Share - diluted	**(1.16)**	(0.76)	0.78
Return of Sales (defined as net earnings (loss) divided by sales)	**—**	—	21%
Working Capital	**20,102,384**	25,919,525	24,777,605
Long-term liablilities	**808,996**	1,483,045	993,593
Shareholder's Equity	**56,361,667**	80,003,390	54,317,774
Total Assets	**65,525,072**	90,012,402	70,168,207

**1. The Company restated its consolidated financial statements for the years ended December 31, 2004 and 2003. Please refer to note 3 to the restated consolidated financial statements as at and for the years ended December 31, 2004 and 2003 for further explanation.*

SUMMARY OF 2005 PERFORMANCE

Bennett's financial results for the year ended December 31, 2005 showed a slow and steady improvement over 2004. We reduced our operating costs, improved our EBITDA (defined as Earnings before interest, taxes, and amortization) and cut our operating loss over the prior year. This indicates that our emphasis on sales, improving order flow, managing costs and increasing productivity is positively impacting our bottom line.

In the year ended December 31, 2005 our sales grew to $29.3 million. We recorded a net loss of $25.0 million or $1.16 per share compared to a loss of $14.0 million or $0.76 per share for the same period in 2004. A significant portion of the loss related to a non-cash impairment of its processing facility in New Brunswick. The Company recorded a non-cash impairment of $15.4 million for its facility in Belledune, New Brunswick.

In 2005 the Company settled a shareholder class action lawsuit that was commenced in the third quarter of 2004. The Company recorded a charge of approximately $0.9 million ($0.75 million USD) for its portion of the settlement of the shareholder class action. The total settlement amount was $11.7 million ($9.75 million USD), with the Company's insurer contributing $10.8 million ($9.0 million USD). The settlement agreement was approved by the courts in the first quarter of 2006.

The Company also reached an agreement with the Quebec Ministry of Sustainable Development and Parks (the "Ministry"), respecting their Prior-Notice that was filed over one year ago. The Company has agreed to incorporate new standards of dioxins and furans and a new testing protocol into its operating permit in exchange for the Ministry to withdraw its prior-notice that was issued September 16, 2004.

In total, 43,351 tonnes of soil were processed at the Quebec facility during 2005 and the Quebec facility shut down for 20 weeks because of a lack of soil in-feed and to conduct maintenance work.

The Company's MRR facility in Cornwall processed approximately 1,183,000 kg of material in 2005. Processing volumes increased over the previous year by 260,000 kg.

The Company is pleased to announce that it has completed the environmental Compliance Test at its facility in Belledune, New Brunswick. The Compliance Test was completed on April 19, 2006 and the samples that were taken by an independent third party environmental consulting firm, during the testing period, were sent to a laboratory for analysis. BEI believes that it will take the laboratory up to eight (8) weeks to complete the analysis of the test samples. Once the analysis is complete, those results will be sent to the Government of New Brunswick for review against the draft operating permit.

The Company recorded a non-cash impairment of $15.4 million for its facility in Belledune, New Brunswick. The new facility in Belledune was completed in 2004 and during 2005, the Company had anticipated that the site would be able to conduct test burns in order to receive its final operating permit to begin commercial operations. However, the Company has not been able to conduct any test burns in 2005 and does not expect to obtain the final operating permit until mid-2006. The company performed an impairment test on the recoverability of the assets at Belledune and wrote them down accordingly.

RESULTS OF OPERATIONS

Consolidated financial results

The consolidated net loss for the year ended December 31, 2005 was $25.0 million or a net loss of $1.16 per share compared to a loss of $14.0 million or $0.76 per share for the same period in 2004.

OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 2005

Sales

Sales for the year ended December 31, 2005 were $29.3 million compared to $30.6 million in 2004. The Company's Quebec facility processed about 43,351 tonnes and about 1,183,000 kilograms were processed at the Cornwall facility. Our Belledune, New Brunswick facility was not operating during 2004 and 2005. As well, Bennett shipped about 11,539 tonnes of non-hazardous material to non-Company owned landfill sites.

The following table summarizes revenue by facility for 2005 compared to the same period in the prior year:

Expressed in Canadian dollars (millions)	**2005**	2004 *(restated *1,2)*
Saint Ambroise, Quebec	**$ 23.7**	$ 15.9
Saglek *(restated 1)*	**—**	$ 7.1
Cornwall, Ontario	**$ 3.8**	$ 3.3
Land filling	**$ 1.8**	$ 4.3
Total Sales	**$ 29.3**	$ 30.6

**1. The Company restated its consolidated financial statements for the years ended December 31, 2004 and 2003. Please refer to note 3 to the restated consolidated financial statements as at and for the years ended December 31, 2004 and 2003 for further explanation.*

**2. The Company adopted the fair value based method of accounting for stock-based compensation effective January 1, 2004 retroactive with restatement of prior years to January 1, 2002. Refer to note 2(a)(i) of the restated consolidated financial statements for the years ended December 31, 2004 and 2003 for further explanation.*

For the year ended December 31, 2005, average revenue per tonne for soil processing was approximately $548 per tonne compared to $638 per tonne in 2004.

Contribution margins

For the year ended December 31, 2005 contribution margins (defined as sales less operating expenses) were $9.8 million compared to a contribution margin of $5.1 million a year earlier.

On a per tonne basis, gross contribution margins improved to approximately $175 per tonne from a gross margin of $63 per tonne in the same period last year. Contribution margins improved for a number of reasons, most significantly, most new contracts being negotiated excluded transportation costs. These costs are being incurred by the customer. This diminishes the risk associated with transportation expense as fuel costs continue to increase.

Operating costs

Operating costs for the year ended December 31, 2005 were $19.5 million compared to $25.6 million for the same period a year ago. The table below summarizes operating costs for each operating facility in millions of dollars (expressed in Cdn $ millions):

	2005	2004 (restated *1,2)
Saint Ambroise, Quebec	$ 13.3	$ 8.3
Saglek	—	$ 9.4
Cornwall, Ontario	$ 3.6	$ 3.3
Land filling	$ 1.8	$ 4.6
Belledune, New Brunswick	$ 0.8	$ 0.0
Total Operating Costs	$ 19.5	$ 25.6

**1. The Company restated its consolidated financial statements for the years ended December 31, 2004 and 2003. Please refer to note 3 to the restated consolidated financial statements as at and for the years ended December 31, 2004 and 2003 for further explanation.*

**2. The Company adopted the fair value based method of accounting for stock-based compensation effective January 1, 2004 retroactive with restatement of prior years to January 1, 2002. Refer to note 2(a)(i) of the restated consolidated financial statements for the years ended December 31, 2004 and 2003 for further explanation.*

Cost per tonne year ended December 31, 2005 at the Company's Quebec facilities decreased to $307 per tonne from $333 per tonne over last year. The decrease in costs per tonne occurred, because current year results do not include any costs relating to the Saglek contract which was completed in 2004. 28,000 tonnes from the Saglek site were processed in St. Ambroise in 2004. The balance of the Saglek operating costs represent site costs for excavating, packaging and washing contaminated material on site and transportation costs for material moved from Saglek to St. Ambroise, Quebec. These costs do not include any allocation of indirect or fixed overhead costs.

During the year ended Dec. 31, 2005, the Company's Quebec facility ran at approximately 7.7 tonnes per hour compared to 10.2 tonnes per hour in 2004. The slower production rates were due to the nature of the material being processed.

Operating costs at the Company's Cornwall facility were $3.6 million compared to $3.3 million for the prior year.

OTHER INCOME STATEMENT ITEMS

Administration and business development costs

Administration and business development costs were $14.1 million for the year ended December 31, 2005. The annual costs for 2005 reflect a charge of approximately $0.9 million ($0.75 million USD) related to the settlement of the shareholder class action. In the absence of this charge, administration and development costs would have been $13.2 million. In addition, insurance costs and permitting costs were approximately $0.92 million higher than in the prior year and these increases were offset by lower marketing and wage costs. Legal fees were down over 2004 as increased costs were incurred in 2004 related to the class action lawsuit.

This compares to administration and development costs of $15.8 million in 2004. The 2004 figures include severance charges of approximately $2.8 million and legal fees related to the shareholder class action of approximately $0.9 million.

Expressed in Canadian dollars (millions)	2005	2004
Insurance	$ 2.1	$ 1.2
Marketing and public relations	1.8	2.1
Office supplies and miscellaneous	0.5	1.6
Wages, salaries and management fees	4.2	2.8
Class action lawsuit	0.9	NIL
Professional fees	3.5	4.6
Severence and termination	NIL	2.8
Stock-based compensation	1.1	0.7
	$ 14.1	$ 15.8

Amortization

Amortization for the year ended December 31, 2005 was $4.3 million compared to $3.8 million a year ago. The increase relates to the accelerated amortization of certain assets and licenses including those purchased from Eli-Ecologic, which were being amortized on a straight-time basis over two years. These assets were fully amortized by December 2005.

Income Taxes

For the year ended December 31, 2005, recoverable taxes were $0.2 million on pre-tax loss of $24.9 million. This expense does not approximate statutory tax rates because certain expenses in the year are not deductible for tax purposes as well as a valuation allowance being set-up against the losses incurred asset impairment valuation of the Belledune facility of $8.7 million. It is uncertain whether the Company will be able to utilize these losses in the future. Other permanent differences, including the Company stock-based compensation and the settlement of the class action lawsuit, have contributed to lowering the tax recovery rate from the statutory rate of approximately 36.12%. These permanent differences are not deductible for tax purposes. Please refer to note 11 to the consolidated financial statements as at and for the years ended December 31, 2005 and 2004 for further explanation.

Cash from operations

For the year ended December 31, 2005, cash used for operating activities before changes in operating working capital amounted to $4.2 million. Cash used for operating working capital was approximately $0.8 million for a net usage by operations of approximately $5.0 million for the year.

SUMMARY OF QUARTERLY RESULTS

The following table discloses certain financial data for the eight most recently completed quarters, expressed in Canadian dollars (millions) (excepts per share data – basic and fully diluted):

	2005				2004 *(Restated *1,2)*			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Net Sales	**8.8**	**10.4**	**6.2**	**3.9**	4.9	12.5	5.0	8.2
Net Income/(Loss)	**(20.2)**	**0.2**	**(1.4)**	**(3.6)**	(5.6)	(5.9)	(1.7)	(.07)
Earnings Per Share – Basic	**(0.94)**	**0.03**	**(0.07)**	**(0.17)**	(0.32)	(0.33)	(0.11)	(0.06)
Earnings Per Share - Diluted	**(0.94)**	**0.03**	**(0.07)**	**(0.17)**	(0.32)	(0.33)	(0.11)	(0.06)

**1. The Company restated its consolidated financial statements for the years ended December 31, 2004 and 2003. Please refer to note 3 to the restated consolidated financial statements as at and for the years ended December 31, 2004 and 2003 for further explanation.*

** 2. The Company adopted the fair value based method of accounting for stock-based compensation effective January 1, 2004 retroactive with restatement of prior years to January 1, 2002. Refer to note 2(a)(i) of the restated consolidated financial statements for the years ended December 31, 2004 and 2003 for further explanation.*

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

At year end December 31, 2005, the Company had cash and equivalents of $7.8 million and working capital amounted to $20.1 million. The Company believes it has sufficient cash to meet working capital requirements and expects to generate sufficient cash over the next twelve months. These activities include, but are not limited to, the collection of its trade accounts receivable, recoveries of insurance claims for defence costs and recoveries of income taxes. Included in amounts receivable are amounts outstanding from one customer of approximately $4.8 million relating to claims for additional work performed pursuant to the contract which are in dispute with the customer. The Company believes it has sufficient external evidence to support collection of the claims amount of at least $4.8 million.

Expenditure

For the year ended December 31, 2005, the Company invested approximately $1.6 million in capital assets, permits and other assets, compared to $28.3 million a year earlier. The primary investments were related to the construction of Belledune, soil-cooling system at RSI and building extension at MRR.

Long-term liabilities and other long-term commitments

The Company has approximately $2 million in long-term liabilities outstanding at year-end December 31, 2005. Most of these amounts relate to long-term termination and severance payments to former executives of the Company and will be paid out over the next 24 months in the case of the termination payments and the next 15 years in the case of pension payments. Note 7 of the annual financial statements describes the allocation of long-term liabilities to these various components. In addition to this amount, the Company has certain operating lease obligations that go beyond 2005. The table below summarizes these commitments.

Year ending December 31:	Commitment Amount
2006	$ 196,192
2007	174,239
2008	166,936
2009	161,536
2010	161,536
Total:	$ 860,439

OFF-BALANCE SHEET ARRANGEMENTS

The Company has pledged approximately $1.3 million to collateralize a letter of credit issued to the Ministry of Environment (Ontario). The Ministry of Environment requires financial assurance in the form of a letter of credit for storage capacity at the Company's Cornwall facility. The 1.3 million is disclosed as restricted cash on the balance sheet. When the Company obtains its final operating permit for Belledune, it will need to provide a letter of credit to the government of New Brunswick of between $2.5 million and $5.0 million depending on the final permitted level of storage capacity.

FINANCIAL AND OTHER INSTRUMENTS

The Company has on occasion used short-term foreign exchange futures contracts to help reduce foreign exchange risk. Management assesses the future foreign exchange risk and if appropriate enters into a hedge arrangement. As of December 31, 2005 the Company had no foreign exchange contracts in place.

PROPOSED TRANSACTIONS

The Company currently does not have any proposed transactions.

TRANSACTIONS WITH RELATED PARTIES

In the year ended December 31, 2005, the Company expensed legal fees of $1,712,459 (2004 – $1,733,668) to two legal firms, of which two directors are associated.

In the year ended December 31, 2005, the Company expensed management fees of $104,167 (2004 – $336,642) to a company owned by a former director and officer of the Company.

During the year, the Company sold its 50% investment in a company to a related party for $250,000 including cash of $175,000 and land of $75,000. The land has not yet been recorded, as title has not yet been legally transferred.

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.

FOURTH QUARTER RESULTS

Consolidated Financial Results

The consolidated net loss for the fourth quarter was $20.2 million or a net loss of $0.94 per share compared to a loss of $9.7 million or a loss of $0.53 per share in the fourth quarter of 2004. During the quarter the Company recorded a pre-tax impairment of $15.4 million for its Belledune assets. Construction of the new facility was completed in 2004 and during 2005, the Company anticipated that the site would be able to conduct test burns in order to receive its final operating permit. However, the Company did not conduct any test burns in 2005 and does not expect to obtain the final operating permit until mid-2006. The Company performed an impairment test on the recoverability of the assets at Belledune and wrote down the assets and permits related to this facility during the fourth quarter of 2005.

Sales

Sales for the fourth quarter of 2005 were $8.8 million compared to $4.9 million in the same period a year earlier. About 15,400 tonnes were processed at the Company's Quebec facility and about 333,000 kilograms were processed at the Cornwall facility. As well, Bennett shipped about 2,039 tonnes of non-hazardous material to non-Company owned landfill sites. In the fourth quarter of 2005, the Company processed approximately 17,723 tonnes compared to 24,969 tonnes in 2004. Approximately 15,400 tonnes of soil was processed at the Quebec facility, while 333,000 kilograms of material was processed in Cornwall and the Company land filled approximately 2,039 tonnes in the fourth quarter of 2005. The following table summarizes revenue by facility for the fourth quarter of 2005 compared to the same period in the prior year:

Expressed in Canadian dollars (millions)	**2005**	2004 *(restated 1)*
Saint Ambroise, Quebec	**$ 7.5**	$ 2.7
Cornwall, Ontario	**$ 1.1**	$ 1.2
Land filling	**$ 0.2**	$ 1.0
Total Sales	**$ 8.8**	$ 4.9

1. The Company restated its consolidated financial statements for the years ended December 31, 2004 and 2003. Please refer to note 3 to the restated consolidated financial statements as at and for the years ended December 31, 2004 and 2003 for further explanation.

In the fourth quarter of 2005, average revenue per tonne for soil processing was approximately $490 compared to $277 per tonne in the fourth quarter of 2004. Overall, the average revenue per tonne increased in 2005 because of the type of material remediated including the completion of the Saglek contract in 2004.

Contributing Margins

For the quarter ended December 31, 2005, contribution margins (defined as sales less operating expenses) were $3.4 million compared to a negative contribution margin of $3.8 million in the same period a year earlier. On a per tonne basis, contribution margins improved to approximately $195 per tonne from a contribution margin of $15 per tonne in the same period last year.

While contribution margins were $3.4 million in the quarter, they were negatively impacted by high transportation costs and other energy-related costs. However, higher volumes offset these costs because fixed costs were absorbed over more tonnes, lowering overall unit costs. Production rates were approximately 10.4 tonnes per hour in the quarter, compared to 11.2 tonnes per hour in the fourth quarter of 2004.

Operating Costs

Operating costs in the fourth quarter of 2005 were $5.3 million compared to $8.7 million for the same period a year ago. The table below summarizes operating costs for each operating facility in millions of dollars:

	2005	2004 *(restated 2)*
Saint Ambroise, Quebec	$ 3.8	$ 6.9
Cornwall, Ontario	$ 1.1	$ 0.8
Land filling	$ 0.2	$ 1.0
Belledune, New Brunswick	$ 0.2	$ 0.0
Total Operating Costs	$ 5.3	$ 8.7

2. The Company adopted the fair value based method of accounting for stock-based compensation effective January 1, 2004 retroactive with restatement of prior years to January 1, 2002. Refer to note 2(a)(i) of the restated consolidated financial statement for the years ended December 31, 2004 and 2003 for further explanation.

Cost per tonne in the fourth quarter of 2005 at the Company's Quebec facilities decreased to $255 per tonne from $709 per tonne in the fourth quarter of 2004. The decrease in costs was the result of costs related to the Saglek contract incurred in 2004.

During the quarter, the Company's Quebec facility ran at approximately 10.4 tonnes per hour in 2005 compared to 11.2 tonnes per hour in the fourth quarter of 2004. The production rate for the fourth quarter of 2005 is consistent with the same quarter of 2004.

Operating costs at the Company's Cornwall facility were $1.1 million and increased from the prior year as a result of reserves for remediation of debris on hand at December 31, 2005.

OTHER INCOME STATEMENT ITEMS

Administration and Business Development Costs

Administration and business development costs were $4.7 million in the fourth quarter of 2005. This compares to administration and development costs of $4.5 million in the fourth quarter of 2004. The 2005 quarterly figures include additional professional fees for the SEC and OSC investigations, audit and Sarbanes-Oxley compliance work of approximately $0.5 million. The 2004 quarterly figures include severance charges of approximately $2.0 million and legal fees related to the shareholder class action of approximately $0.9 million.

Amortization

Amortization for the fourth quarter of 2005 was $0.8 million compared to $1.6 million a year ago. The decrease relates to the accelerated amortization of certain assets and licenses including those purchased Eli-Ecologic, which are being amortized on a straight-time basis over two years. These assets were fully amortized by December 2005.

Income Taxes

For the fourth quarter year ended December 31, 2005, income taxes were $3.0 million on a pre-tax loss of $17.2 million. This expense does not approximate the statutory tax rate of approximately 36.12%. A valuation allowance, as a result of the asset impairment of the Belledune facility, has been established for $8.7 million. Certain permanent differences, including stock-based compensation and the attainment of the class action lawsuit, have reduced the effective tax recovery rate from the statutory rate. These permanent differences are not deductible for tax purposes.

Cash From Operations

For the quarter ended December 31, 2005, cash used for operating activities before changes in operating working capital amounted to $0.9 million. Cash generated by operating working capital was approximately $3.4 million for a net generation from operations of approximately $2.5 million for the quarter. The principal generation of cash from operating working capital in the quarter was the collection of income tax recoveries.

CONTINGENCIES

(a) Judicial Review of Minister Decision

On May 20, 2004 the Company received a report from the federal Canadian Environment Assessment Agency (the "CEAA") which confirmed that there was no reason to conclude that the Company's facility at Belledune, New Brunswick would likely cause significant adverse transboundary environmental effects. The study team was comprised of experts from Fisheries and Oceans Canada, Environment Canada, Health Canada, Indian and Northern Affairs Canada and the CEAA.

Despite the findings of this report, the former federal Minister of the Environment, the Hon. David Anderson, referred the project to a CEAA federal review panel to assess the potential transboundary environmental effects of the Belledune facility. The Company applied to the Federal Court of Canada for a judicial review of the legality of the Minister's decision to refer this project to a review panel.

On August 19, 2004, the Federal Court of Canada granted the Company's application and overruled the decision by the former federal Minister of Environment to refer the project to a review panel. The federal Minister of Environment has appealed the Federal Court of Canada decision to the Federal Court of Appeal.

On July 19, 2005, the Federal Court of Appeal upheld the Federal Court Judge Harrington's order to overrule the decision by the former Environment Minister, the Hon. David Anderson, to form a panel to review the Company's thermal oxidizer in Belledune, New Brunswick.

On September 16, 2005, the Minister of the Environment, The Hon. Stephane Dionne, accepted the July 19, 2005 Federal Court of Appeal decision, and will not be seeking leave to appeal the Supreme Court of Canada. As a result of the decision, there are no further matters impacting the Company.

(b) Manville, New Jersey (Federal Creosote Contracts)

In June 2003, the Company announced that it had been awarded a subcontract (the "2003 Phase III Contract") to treat 300,000 tons (plus or minus 15%) of soil contaminated with wood treatment chemicals such as creosote, from the Federal Creosote Superfund Site (the "FC Site") in Manville, New Jersey. The 2003 Phase III contract is an indefinite delivery/indefinite quantity ("ID/IQ") contract.

Shortly after the award of the 2003 Phase III Contract, an unsuccessful bidder lodged a protest of the award with United States Army Corps of Engineers (the "Corps"), which supervises the contractors on the FC Site and is responsible for the remediation process and consents to the award of subcontracts under U.S. government procurement regulations.

The Corps alleges, and the Company disputes, that the Corps withdrew its consent to the award of the 2003 Phase III Contract to the Company, although it consented to ship up to 10,000 tons of soil to the Company for treatment under the 2003 Phase III Contract. The principal contractor on the FC Site did not take any action to cancel the 2003 Phase III Contract, or otherwise notify the Company of the Corps' actions. The Company began receiving shipments against the 2003 Phase III Contract in August 2003.

After the unsuccessful bidder's protest of the 2003 Phase III Contract, the principal contractor issued an Invitation for Bids ("IFB") in November 2003 for an ID/IQ contract for thermal remediation. The IFB provided for a guaranteed minimum of 1,000 tons and a maximum of 100,000 tons. The company bid on the IFB in December 2003, and was notified in early 2004 that it was the low bidder. During and after the bidding process, the Company repeatedly asked the principal contractor to state whether the IFB supplemented or replaced the 2003 Phase III Contract. The principal contractor did not respond to these queries. To benefit from deliveries from the FC site, the Company elected to participate in the contract process, while continuing to seek clarification from the principal contractor and the Corps regarding the IFB. Without waiving any of its rights under the 2003 Phase III Contract, on June 3, 2004 the Company entered into an ID/IQ subcontract (the "2004 Phase III Contract") with a guaranteed minimum of 1,000 tons and a maximum of 100,000 tons for the same type of services as were covered by the 2003 Phase III Contract. The 2004 Phase III Contract is on less favourable economic terms than the 2003 Phase II Contract but is consistent with pricing under FC Site contracts concluded before the 2003 Phase III Contract. On July 22, 2004, the Company announced that, based on correspondence received from the Corps, all future shipments from the FC Site will be delivered under the 2004 Phase III Contract.

Currently, a number of agencies ranging from municipal to federal and including the United States Environmental Protection Agency (the "EPA") are conducting studies to determine the extent of excavation required at the FC Site in order to remove soil contaminants including creosote. The extent of the excavation is ultimately expected to be dependent upon a number of factors including a decision by municipal authorities as to the future use of the land and United States federal government funding restrictions imposed on the EPA. The Company is awaiting a definitive design plan from the EPA to better evaluate the prospects for additional contracts for the FC Site. The extent of the excavation will be factored into the definitive design plan for the FC Site and will be a primary factor in determining the tonnage of soil to be treated by the Company.

There is no financial statement impact as a result of this matter.

(c) Class Action

On July 30, 2004, a class action lawsuit was filed in the United States against the Company and certain officers. A total of 12 similar actions have been filed to this date. Plaintiffs filed a Consolidated Amended Complaint on December 23, 2004. That complaint asserts claims under sections 10(b) and 20(a) of the United States Securities Exchange Act of 1934. as amended, and Securities and Exchange Commission Rule 10b-5 based on the Company's public statements concerning the Company's subcontract for Phase III of the Manville, New Jersey federal creosote soil remediation project.

The consolidated complaint names as defendants the Company, its former Chairman and Chief Executive Officer John Bennett, its current Chief Executive Officer Allan Bulckaert, its former Vice President of Engineering and Business Development Danny Ponn, its former Chief Financial Officer Richard Stern and its former Vice President of Sales and Marketing for the United States Robert Griffiths.

Plaintiffs purport to assert their claims on behalf of a class of purchasers of the Company's securities from June 2, 2003 to July 22, 2004, inclusive, and on behalf of a subclass of purchasers of the Company's securities in a private placement that closed on January 24, 2004. All defendants have filed motions to dismiss the consolidated amended complaint.

Before argument of the motions to dismiss, the Company, its insurance companies and counsel for plaintiffs entered into a memorandum of understanding regarding the proposed settlement of the action. A stipulation of settlement was entered into among all of the parties to the consolidated action as of October 25, 2005. Under the settlement, the action would be dismissed with prejudice and the defendants and other released parties would receive a release of claims that were or could have been asserted by members of the class in exchange for a cash payment of U.S. $9,750,000, to be paid by the Company and its insurers, of which U.S. $9,000,000 was paid by the Company's insurance providers. The full amount of the settlement payment was paid into an escrow account in September 2005, by the Company and its insurers. Following notice to class members, at a hearing on January 13, 2006, the Court stated that the settlement would be approved on the terms agreed among the parties. The Court entered its order and final judgment to this effect on February 21, 2006. Under the Federal Rules of Civil Procedure, the time to file a notice of appeal from the order and final judgment expired on March 23, 2006 without any further issue.

(d) Regulatory Investigations

(i) On January 29, 2004, the Company announced that it was in discussions with Ontario Securities Commission (the "OSC") concerning a disclosure issue raised by the OSC staff arising from information disclosed in response to questions posed in a telephone call with a research analyst after the release of the Company's 1999 annual results in March 2000. OSC staff suggested that some of the information conveyed in response to the analyst's questions had not been publicly disclosed and might have been material. The Company has not received any further queries from the OSC staff on this matter since September 30, 2004.

(ii) On July 30, 2004, the Company was informed by the OSC that it was investigating the trading of shares of the Company prior to (i) the disclosure on March 29, 2004 relating to delays in shipments of soil from the two largest customers of the Company which caused an unscheduled shut down of the Company's plant in Saint Ambroise, Quebec, and (ii) the disclosure on July 22, 2004 regarding the status of the Phase III contracts to treat contaminated soil from the FC Site. The OSC requested a detailed written chronology of the events which resulted in the announcements on March 29, 2004 and July 22, 2004.

On August 26, 2004, the OSC requested further information and documents relating to (i) the Saglek Labrador project for the Department of National Defense, (ii) the timely disclosure of the Federal Court of Canada decision to quash the decision of the former federal Minister of Environment to refer the Company's project in Belledune, New Brunswick to a federal review panel, and (iii) the Company's customer contract backlog status, projected soil volume to be processed in the third quarter of 2004 and the plans for the Belledune facility.

On August 19, 2004, the Company was advised by the Toronto Stock Exchange ('TSX") that the TSX was also investigating the Company's July 22, 2004 announcement regarding the status of the Phase III contracts to treat contaminated soil from the FC Site. The TSX requested certain information in connection with its investigation.

The Company provided the requested information and documents in respect to each of the above requests to the OSC and the TSX on September 30, 2004. The Company has not received any further queries from OSC or the TSX on these matters.

(iii) In a letter dated August 23, 2004, the United States Securities and Exchange Commission (the "SEC") advised the Company that the SEC is conducting an informal inquiry of the Company. The SEC requested that the Company voluntarily produce certain records and oral testimony, and the Company is cooperating with the request. According to the notice, "[t]his request is confidential and should not be construed as an indication by the Commission or its staff that any violation of the Federal Securities laws has occurred, nor should it be construed as a reflection upon any security, person or entity." The SEC subsequently obtained a judicial order opening a formal investigation and authorizing it to depose witnesses. This matter is ongoing and the Company is continuing to co-operate with the SEC in this matter.

(iv) In a letter dated September 3, 2004, the Company received notice from the NASD Regulatory Division (the "NASD"), on behalf of the American Stock Exchange (the "AMEX"), that it is conducting a review of certain transactions in the Company's common shares which occurred prior to the Company's announcement on July 22, 2004 of the loss in its second quarter of 2004. According to the notice, "this is a routine review and should not be construed as an indication that any violations of Federal Securities laws or Exchange rules have occurred, on an adverse reflection on the Company, its securities or any individual who effected transactions in such securities." On December 22, 2004, the Company received a request for additional information to which the Company responded on February 11, 2005. The Company has not received any further queries with respect to this matter.

(v) The Company and certain of the current officers and former officers received a letter dated February 11, 2005 from the OSC giving such officers and directors the opportunity to provide written submissions to the OSC before the OSC determines to commence enforcement proceedings. The OSC stated in the letter to the Company that it was of the view that the Company failed to disclose the change in status of the contract that the Federal Creosote Site, and made allegations of illegal insider trading. Submissions were submitted to the OSC by March 17, 2005. This matter is ongoing and the Company is continuing to co-operate with the OSC on this matter.

(vi) On March 16, 2005, the Company received a letter from the TSX alleging that the Company had breached the TSX's timely disclosure policy by failing to promptly disclose the change of the status of the 2003 Phase III Contract in August 2003 after the Company's original press release of the award of the 2003 Phase III Contract on June 2, 2003. The TSX also alleged in the letter that the Company did not provide balanced disclosure by failing to disclose the removal of the Company from certain indices. The Company's disclosure committee along with key management attended a timely disclosure education session on May 13, 2005.

(vii) On December 22, 2005, the Company received a letter from the OSC inquiring about the revenue recognition of the Company. Specific questions were raised in regards to the compensation program in place at the Cornwall facility. A letter of response was sent dated January 5, 2006. On January 19, 2006, the Company received a response to their January 5, 2006 letter, stating that their review was complete and they had no further comments on the issues discussed.

(viii) In September 2005, the Company received a letter from the SEC as part of their continuous disclosure review. The Company has responded to this initial letter and has received subsequent follow-up letters that latest being in January 2006. The Company has responded to the latest letter and is awaiting the response from the SEC.

(ix) In April 2006, the Company received a letter form the OSC as part of their continuous disclosure review. The Company is in the process of preparing its response to this letter.

(e) Quebec Order

On September 17, 2004, RSI received a Preliminary Notice to the issuance of an Order from the Quebec Ministry of Sustainable Development and Parks (formerly the Quebec Ministry of the Environment) concerning the RSI plant in Saint-Ambroise. The Preliminary Notice alleges that increases in levels of dioxins and furans measured in soils near the RSI plant are attributable to RSI. If issued, the Order seeks to require RSI to limit its emissions of dioxins and furans, to install equipment to further monitor the emissions and to transmit the collected data to the Ministry.

On November 1, 2004, RSI filed its observations with respect to the allegations contained in the Preliminary Notice, The Company disputes allegations contained in the Preliminary Notice. In support of its positions, the Company commissioned several qualified third-party experts to review the allegations contained in the Preliminary Notice. The experts retained support of the Company's position that other sources may have contributed to increase in levels of dioxins and furans in the soil around the RSI plant.

Since the filing of its observations, RSI has exchanged correspondence and has had several discussions with the Ministry. Recently, at a meeting held on February 9, 2005, the Company met with Ministry officials where they asked the Company to develop an action plan to address the concerns raised in the Preliminary Notice. The Company developed an action plan that it believes addresses the Ministry's concerns, while at the same time allows it to remain commercially competitive. The action plan was submitted to the Ministry on February 21, 2005. Subsequently, there was a submission of an amended action plan on March 21, 2005.

On December 5, 2005, the Quebec ministry of Sustainable Development ("MSDEP"), Environment and Parks issued a new amended Certificate of Authorization to Recupere Sol Inc. for the operations of it facility located in St. Ambroise, Quebec. Bennett Environmental Inc. has been notified by the MSDEP that it will not take further action with respect to the Prior Notice issued on September 16, 2004 and that it will not issue an order against Recupere Sol Inc.

(f) Other

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

(ii) During a routine audit, the Ministry of Revenu Quebec (MRQ) identified in a letter, that our subsidiary in Quebec has incorrectly deducted input tax credits for QST related to utilities. QST legislation denies such input tax credits for service-type businesses. A proposed adjustment letter was received by the Company dated December 8, 2005 for $1,086,900.

A letter dated February 7, 2006 has been filed with the Interpretation Department of the Commodity tax services of the Ministry of Revenue of Quebec. The Company believes that it is entitled to input tax credits on electricity, gas, fuel and steam used for soil decontamination. The Company continues to work with its tax consultants and the MRQ to resolve the issues. The Company has accrued $113,054 of the proposed adjustment for amounts where management believes the MRQ is correct in their assessment.

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 ongoing basis, the Company evaluates its estimates and judgements, including those related to revenue recognition, adequacy of allowance for doubtful accounts, deferred permitting costs, 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 creditworthiness, 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.

- The Company capitalizes deferred permitting costs during the application process and amortizes these costs over the expected life of the permit. The Company evaluates the carrying costs of these permits on a regular basis to determine whether a change in the carrying value of the deferred permitting costs has occurred. The Company considers factors such as the likelihood of obtaining a final operating permit, market conditions, and changes in environmental legislation to determine if the carrying costs can reasonably be recovered. If these factors indicate that an impairment in the carrying costs of the permitting costs has occurred, the Company may increase the amortization of the deferred permitting costs.

- Revenues from the Saglek Labrador long-term, fixed price contract was recognized on the percentage of completion method, based on the ratio of costs incurred to date over total estimated total costs. Estimates of the total costs of significant projects were reviewed on an ongoing basis and adjustments to the revenue recognition ratio were made as required. The Company currently has no contracts accounted for under the percentage of completion method.

- 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. If this assessment indicates that the Company's ability to realize future tax assets changes, it could make an adjustment to these assets that would be charged to income.

- The company uses an estimate of the related undiscounted cash flows, excluding interest, over the remaining life of the property and equipment and long-lived assets in assessing their recoverability. The company measures impairment loss as the amount by which the carrying amount of the asset(s) exceeds the fair value of the asset(s).

CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

We carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as to the effectiveness, design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**")) as of December 31, 2005. The evaluation considered the procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported in the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission and communicate to our management as appropriate to allow discussions regarding required disclosure. Upon such review, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2005.

(b) Changes in Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. In late 2004 and subsequent to the periods covered by this report, during 2005, under new management, the Company took certain steps to improve its internal control over financial reporting. These improvements included:

- strengthening the accounting and auditing department, including appointing new Chief Financial Officer in September 2004, hiring new corporate controller with external audit and public company experience in January 2005 and adding three new positions to accounting department: accounting manager (2005), financial analyst (2006) and accounts payable clerk (2005);
- engaging outside independent consultants to assist in the evaluation, design and implementation of improved internal controls;
- adopting a revised/formal policy on revenue recognition;
- improving segregation of duties of accounting staff;
- providing training sessions to accounting staff on applicable accounting guidance;
- moving the accounting department from Vancouver, British Columbia to the Company's head office in Oakville, Ontario and centralizing accounting and payroll functions;
- providing formal review and analysis of quarterly accounting issues and related literature to Audit Committee members;
- including a formal agenda item on Audit Committee and Board of Director meeting agendas to report on the progress of projects and a summary of variance items on both revenues and costs;
- implementing new accounting software systems;
- adopting a monthly budget reporting system for each location and a system of providing monthly financial reporting package per site for review by senior management; and
- adopting accounting review systems including review and approval of payroll registers, conducting daily bank reconciliations and using a month-end closing checklist.

Other than as discussed above, there was no change in the Company's internal control over financial reporting that occurred during the periods covered by this report that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

SHARE CAPITAL

The number of common shares outstanding year at May 31, 2006 was 21,573,440, compared to 21,427,440 in 2004. In addition, there were 1,023,001 stock options outstanding at May 31, 2005 exercisable at prices ranging between $2.67 to $22.05 a share.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2005, the Company adopted Accounting Guideline 15, "Consolidation of Variable Interest Entities ("VIEs"), issued by the Canadian Institute of Chartered Accountants. VIEs are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The guideline provides specific guidance for determining when an entity is a VIE and who, if anyone, should consolidate the VIE. The adoption of this standard did not have any impact on the consolidated interim financial statements.

OUTLOOK

The Company has not provided financial guidance for the 2006 year.

RISK FACTORS

Information on "Risk Factors" can be found in the Company's Annual Information Form for the fiscal year ended December 31, 2005.

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 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements contained in this annual report have been prepared by management in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in this annual report and for ensuring that this information is consistent, where appropriate with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The financial statements include amounts, which are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The shareholders' auditors, KPMG LLP, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards.

Allan Bulckaert
Chief Executive Officer
May 30, 2006

Andrew Boulanger
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Bennett Environmental Inc. as at December 31,2005 and 2004 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
May 30, 2006
Except for Note 17(b)
Which is dated June 28, 2006

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian dollars) December 31, 2005 and 2004	**2005**	2004
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,844,521**	$ 13,830,570
Restricted cash (note 14)	**1,349,316**	1,349,490
Amounts receivable (note 3)	**16,817,042**	14,316,648
Income taxes receivable	**959,417**	3,417,204
Deferred transportation costs	**625,506**	331,709
Prepaid expenses and other	**860,991**	1,199,871
	28,456,793	34,445,492
Future income tax asset (note 11)	**595,091**	891,826
Note receivable (note 4)	**173,250**	315,000
Property, plant and equipment (note 5)	**33,166,627**	48,920,377
Other assets (note 6)	**2,486,673**	4,793,069
Goodwill	**646,638**	646,638
	$ 65,525,072	$ 90,012,402
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 5,820,376**	$ 6,646,005
Deferred revenue	**1,416,286**	661,557
Current portion of long-term liabilities (note 7)	**1,117,747**	1,218,405
	8,354,409	8,525,967
Long-term liabilities (note 7)	**808,996**	1,483,045
Shareholders' equity:		
Share capital (note 8)	**67,997,683**	67,644,681
Contributed surplus (note 8(g))	**2,645,303**	1,595,205
Retained earnings (deficit)	**(14,281,319)**	10,763,504
	56,361,667	80,003,390
Contingencies (notes 3 and 16)		
Related party transactions (note 12)		
Commitments (note 14)		
Subsequent events (notes 7 and 17)		
	$ 65,525,072	$ 90,012,402

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Expressed in Canadian dollars) Years ended December 31, 2005 and 2004	**2005**	2004
Sales	**$ 29,250,249**	$ 30,642,052
Expenses:		
Operating costs	**19,456,611**	25,568,125
Administration and business development (note 9)	**14,089,405**	15,780,332
Amortization	**4,307,568**	3,771,371
Foreign exchange	**325,611**	273,626
Settlement of litigation (note 16(c))	**878,025**	—
Loss from asset impairment (notes 5 and 6)	**15,376,475**	4,343,979
Interest	**50,675**	305,313
	54,484,370	50,042,746
Loss before the undernoted	**(25,234,121)**	(19,400,694)
Loss on investments (note 10)	**—**	(818,193)
Other income, including interest	**381,752**	580,280
Loss before income taxes	**(24,852,369)**	(19,638,607)
Income taxes (recovery) (note 11):		
Current	**(104,281)**	(2,937,047)
Future	**296,735**	(2,746,536)
	192,454	(5,683,583)
Loss for the year	**(25,044,823)**	(13,955,024)
Retained earnings, beginning of year	**10,763,504**	24,718,528
Retained earnings (deficit), end of year	**$ (14,281,319)**	$ 10,763,504
Loss per share (note 13):		
Basic	**$ (1.16)**	$ (0.76)
Diluted	**(1.16)**	(0.76)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars) Years ended December 31, 2005 and 2004	**2005**	2004
Cash provided by (used in):		
Operations:		
Loss for the year	**$ (25,044,823)**	$ (13,955,024)
Items not involving cash:		
Amortization	**4,307,568**	3,771,371
Stock-based compensation	**1,050,098**	675,176
Loss on disposal of property, plant and equipment	**4,330**	—
Loss (gain) on investments	**(175,000)**	818,193
Loss from asset impairment (notes 5 and 6)	**15,376,475**	4,343,979
Future income taxes	**296,735**	(2,746,536)
Increase in cash surrender value of life insurance policy	**(79,242)**	(30,375)
Accretion charge	**95,171**	165,000
Change in non-cash operating working capital:		
Amounts receivable	**(2,500,394)**	7,807,707
Prepaid expenses and other	**338,880**	955,112
Deferred transportation costs	**(293,797)**	(179,816)
Accounts payable and accrued liabilities	**(825,629)**	(3,928,117)
Income taxes receivable	**2,457,787**	(4,513,449)
Deferred revenue	**754,729**	(152,852)
Severance payable (note 7)	**(800,378)**	1,660,000
	(5,037,490)	(5,309,631)
Financing:		
Repayments of long-term liabilities	**(69,500)**	(121,744)
Issuance of share capital net of share issue costs	**353,002**	37,838,129
Shares repurchased and held in treasury	**—**	(71,879)
Decrease (increase) in restricted cash	**174**	(316,080)
	283,676	37,328,426
Investments:		
Decrease (increase) in note receivable	**141,750**	(142,500)
Proceeds on disposal of investments	**175,000**	—
Proceeds on disposal of property, plant and equipment	**108,170**	—
Purchase of property, plant and equipment	**(1,572,465)**	(28,304,635)
Increase in other assets	**(84,690)**	(1,294,033)
	(1,232,235)	(29,741,168)
Increase (decrease) in cash and cash equivalents	**(5,986,049)**	2,277,627
Cash and cash equivalents, beginning of year	**13,830,570**	11,552,943
Cash and cash equivalents, end of year	**$ 7,844,521**	$ 13,830,570
Supplemental cash flow information:		
Interest paid	**$ 42,358**	$ 20,800
Income tax refund	**2,829,007**	–
Income taxes paid	**7,865**	385,212
Supplemental disclosure of non-cash transactions:		
Stock options granted for services rendered	**—**	436,461

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars) Years ended December 31, 2005 and 2004

1. OPERATIONS

The Company was incorporated on July 29, 1992 under the Canada Business Corporation Act and primarily carries on the business of remediating chlorinated hydrocarbon contaminated soil. The treatment of contaminated soil is performed using the Company's thermal oxidation technology. In 1997, the Company commenced operations of its remediation site located in St. Ambroise, Quebec.

In 2002, the Company acquired Material Resource Recovery Inc. ("MRR") located in Cornwall, Ontario which carries on the business of remediating hazardous and non-hazardous contaminated electrical equipment, construction material, and natural gas storage units.

In 2004, the Company completed the construction of a new facility in Belledune, New Brunswick. The Company is in the process of performing compliance tests with the Department of Environment in order to obtain the final operating permit. The Company completed the compliance tests in April 2006 and is awaiting results. The Company expects the Belledune facility to be operational in mid-2006.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, Bennett Remediation Services Ltd. ("BRS"), Bennett RemTech Ltd. ("BRT"), Bennett Environmental U.S., Inc. ("BEIUS"), Re?cupe?re Sol Inc. ("RSI"), MRR and Bennett Environmental New Brunswick Inc. ("BEINB"). All material intercompany transactions and balances have been eliminated on consolidation.

(b) Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments having an original term to maturity of three months or less when acquired.

(c) Deferred transportation costs

Deferred transportation costs relate to costs incurred to ship contaminated soil to the treatment facility and other treatment costs for soil, for which treatment is not complete. These amounts will be expensed when the treatment of the related soil is complete.

(d) Investments

Investments where the Company has the ability to exercise significant influence are recorded on the equity basis of accounting and the Company's share of earnings (loss) is included in the computation of earnings. Investments where the Company does not exercise significant influence are accounted for under the cost method and income is reflected only to the extent of dividends received. The Company's management reviews the estimated realizable value of the investments on a regular basis based on established criteria including trading value, anticipated cash flows and profitability of the investees. If an other than temporary impairment in value is determined, a provision is recorded.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization commences on property, plant and equipment once construction has been completed and the asset is in use.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortization is provided for using the following methods and annual rates:

Asset	Basis	Rate
Automobiles	Declining balance	30%
Computer equipment	Declining balance	30%
Equipment - ELI Ecologic Inc. ("ELI")	Straight line	2 years
Furniture and equipment and treatment equipment	Declining balance	20%
Kiln - RSI facility	Straight line	10 years
Land improvements	Declining balance 8 to	20%
Leasehold improvements	Straight line	Over term of lease
Storage building and pads	Straight line	20 years
Software	Declining balance	100%
Treatment building	Declining balance	20%

(f) Other assets

The Company defers costs incurred related to securing permits to operate their kilns. Deferred permitting costs are amortized over ten years, commencing in the year the permit is secured. Costs related to unsuccessful permitting efforts are expensed in the period that this determination is made.

Operating licenses and other assets related to ELI are amortized over two years, being the estimated useful lives of the assets and the expected term of the licenses.

(g) Long-lived assets

Effective January 1, 2004, the Company adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3063, Impairment of Long-Lived Assets ("HB 3063") which requires an entity to evaluate whether events and circumstances have occurred that may warrant revision of the estimated useful life of long-lived assets or whether the remaining balance of long-lived assets should be evaluated for possible impairment.

The Company determines whether there is an impairment, when the carrying amount of the asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and disposal. If there is an impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

(h) Stock-based compensation

Effective January 1, 2004, the Company adopted the requirements for accounting for stock- based compensation to employees on a retroactive basis with restatement of prior periods. The requirements require that a fair value-based method of accounting be applied to employee stock-based awards.

The restatement at January 1, 2004 resulted in an increase to share capital at December 31, 2003 of $493,601, to contributed surplus of $1,201,776 and a decrease to retained earnings of $1,695,377. The adjustments represent the total compensation expense which would have been recorded had a fair value based method been used for stock options granted to employees after January 1, 2002, as adjusted, and adjustments for exercised options.

The Company accounts for all stock-based payments to non-employees using the fair value-based method of accounting. Under the fair value-based method, stock-based payments to non-employees are measured at the fair value of the equity instruments issued. The Company uses the Black-Scholes option pricing model to determine the fair value of the options. The stock-based compensation cost of the options is amortized over the relevant vesting period of the options.

(i) Goodwill and other intangible assets

The Company accounts for goodwill and intangible assets under the provisions of CICA Handbook Section 3062 ("HB 3062"), Goodwill and Other Intangible Assets. UnderHB 3062, goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company has identified one reporting unit. Impairment is assessed by comparing the reporting unit's carrying amount to its fair value. Fair value of the reporting unit is estimated using future expected cash flows. If the carrying amount of the reporting unit exceeds its fair value, there is impairment of goodwill. Any impairment in goodwill is measured by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and comparing the notional goodwill from the fair value allocation to the carrying value of goodwill. In the fourth quarter of 2005 and 2004, the Company completed its annual impairment test for goodwill and determined that there is no impairment of goodwill.

(j) Revenue recognition

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

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

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

(iii) collection is reasonably assured.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(k) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the determination of percentage of completion and estimated project costs and revenues for contract revenue recognition, recoverability of accounts receivable, the recoverability of deferred permitting costs, property, plant and equipment, goodwill, and other assets, the determination of stock-based compensation, the assessment of realization on future income tax balances, estimates of future obligations related to asset retirement obligations and environmental obligations and amounts accrued for litigation. Actual results could differ from those estimates.

(l) Translation of foreign currency

Monetary items denominated in foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the consolidated statement of operations.

The Company's foreign subsidiary, BEIUS, is an integral part of the Company's operations and has, therefore, been translated using the temporal method. Under the temporal method, revenue and expenses are translated using the average exchange rate during the year, monetary assets and liabilities at the year end exchange rates and non-monetary assets and liabilities at their historical exchange rates. Differences arising from currency translation are adjusted through the consolidated statement of operations.

(m) Financial instruments

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. These estimates, although based on the relevant market information about the financial instrument, are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(i) Fair values

The carrying values of cash and cash equivalents, restricted cash, amounts receivable, accounts payable and accrued liabilities and promissory note payable approximate their fair values because of the short-term nature of these instruments.

The carrying value of note receivable approximates its fair value due to the interest rate on the note receivable being comparable to market rates. The carrying values of long-term liabilities approximate fair values since the interest rates are based on market rates of interest for similar debt securities.

Other financial instruments held or issued by the Company include the cash surrender value of life insurance. The carrying value approximates the fair value.

(ii) Foreign currency risk management

A substantial amount of the Company's revenue is transacted in United States dollars. Fluctuations in the exchange rates between the United States dollar and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company attempts to mitigate some of this risk by denominating many of its payment obligations in United States dollars, and, to a lesser extent, through the use of currency derivative contracts. There were no such derivative contracts in place at December 31, 2005 and 2004.

(iii) Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily amounts receivable. As at December 31, 2005, two customers represented 28% and 27%, respectively, of accounts receivable (2004 - 84% and 7%, respectively).

Management is of the opinion that any risk of loss due to bad debts is significantly reduced due to the financial strength of its customers. The Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

(n) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of assets andliabilities and their respective income tax bases (temporary differences). Changes in the net future tax asset or liability are included in earnings. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which temporary differences

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded to reduce future tax assets to an amount that is anticipated to be realized on a more likely than not basis.

(o) Earnings (loss) per share

Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental number of common shares issuable upon the exercise of stock options and warrants and are calculated using the treasury stock method.

(p) Asset retirement obligations

Effective January 1, 2004, the Company adopted CICA Handbook Section 3110, Asset Retirement Obligations ("HB 3110"). HB 3110 requires an entity to record the fair value of an asset retirement obligation ("ARO") as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. The liability is increased by the passage of time and changes in the amount and timing of estimated future cash flows needed to settle the obligation. The cost is amortized into income subsequently on the same basis as the related asset.

There was no significant impact on the consolidated financial statements as a result of adopting this accounting policy.

(q) Termination benefits

Effective January 1, 2004, the Company adopted the Emerging Issues Committee ("EIC") Abstract 134, Accounting for Severance and Termination Benefits. This abstract addresses the different accounting treatments of the various types of severance and termination benefits related to the termination of employees' services prior to normal retirement. Severance benefits that do not accumulate or vest are accrued and expensed when the benefit is probable and the amount can be reasonably estimated, which is generally when the decision to terminate the employee is made by management of sufficient authority. A liability and expense for contractual termination benefits is recorded based on their fair value when it is probable that employees will be entitled to the benefits, and the amount can be reasonably estimated. This occurs when management approves and commits the Company to the obligation. Management's termination plan specifically identifies all significant actions to be taken. Actions required to fulfill management's plan are expected to begin as soon as proceeded. Significant changes to the plan are not likely. A liability and expense is recorded for special termination benefits based on their fair value when management approves and commits the Company to the obligation, management's termination plan specifically identifies the target level of reduction in number of employees, job classifications and their locations, the benefit arrangement has been communicated to employees in sufficient detail to enable them to determine the type and amount of benefits they will receive upon termination, and the period of time to complete the plan of termination indicates that significant changes to the plan are not likely.

(r) Employee future benefits

The Company accounts for the tenure agreement with the founder of the Company under CICA HB 3461, Employee Future Benefits, which requires that a liability be recorded at the present value of the benefits expected to be paid under the agreement. The discount rate used is based on the market interest rates at the measurement date on high quality debt instruments.

(s) Recently issued pronouncements

(i) Financial Instruments

In January 2005, CICA issued Handbook Sections 3855, Financial Instruments - Recognition and Measurement, Section 1530, Comprehensive Income, and Section 3865, Hedges. The new standards will be effective for interim and annual financial statements commencing in 2007. Earlier adoption is permitted. The adoption of these standards is not expected to have a significant impact on the Company.

(ii) CICA Handbook Section 3831, Non-Monetary Transactions

In June 2005, CICA released this section effective for interim or annual periods beginning on or after January 1, 2006. This standard requires all non-monetary transactions to be measured at fair value unless they meet one of four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. The adoption of this standard is not expected to have a significant impact on the Company.

(iii) EIC-159, Conditional Asset Retirement Obligations

This abstract clarifies that the term conditional asset retirement obligation as used in HB 3110 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. This abstract also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an ARO. This abstract should be applied retroactively, to interim and annual financial statements for fiscal years ending after March 31, 2006. The adoption of this standard is not expected to have a significant impact on the Company.

(t) Comparative figures

Certain 2004 figures have been reclassified to conform with the financial statement presentation adopted in 2005.

3. AMOUNTS RECEIVABLE

	2005	2004
Billed	**$ 10,728,035**	$ 8,139,690
Claims	**4,775,256**	4,900,000
Unbilled	**—**	1,276,958
Insurance refund	**1,313,751**	—
	$ 16,817,042	$ 14,316,648

Included in amounts receivable are amounts outstanding from one customer of $4,775,256 (2004 - $11,996,838) relating to claims for additional work performed pursuant to the contract which are in dispute with the customer.

The ultimate settlement of the claims is expected in 2006 and may result in a change in the estimated amounts of revenues and receivable recorded on this project.

4. NOTE RECEIVABLE

In July 2004, the Company loaned $300,000 to 4003926 Canada Inc., a company operating under the name "Eco-Bois". The shares of Eco-Bois are owned by a member of the Board of Directors of the Company at December 31, 2005. The Company sold its equity investment in Eco-Bois during 2005 (note 12). The note receivable bears interest at 5% annually on the outstanding balance and is repayable in full on July 7, 2007. The note receivable is secured by the investment tax credits receivable by Eco-Bois. In July 2005, the Company received $141,750 in cash as a reduction of the note receivable. As at December 31, 2005, $173,250 (2004 - $315,000) is receivable from Eco-Bois.

5. PROPERTY, PLANT AND EQUIPMENT

2005	Cost	Accumulated amortization	Net book value
Automobiles	**$ 108,598**	**$ 28,128**	**$ 80,470**
Computer equipment	**582,267**	**321,360**	**260,907**
Equipment - ELI	**534,000**	**534,000**	**—**
Furniture and equipment	**1,166,636**	**631,876**	**534,760**
Treatment equipment	**21,586,305**	**4,855,470**	**16,730,835**
Kiln - RSI facility	**12,839,576**	**5,449,680**	**7,389,896**
Land	**88,228**	**—**	**88,228**
Land improvements	**139,577**	**52,227**	**87,350**
Leasehold improvements	**58,322**	**58,322**	**—**
Software	**292,802**	**271,958**	**20,844**
Storage building and pads	**5,984,051**	**1,485,707**	**4,498,344**
Treatment building	**3,883,378**	**408,385**	**3,474,993**
	$ 47,263,740	**$ 14,097,113**	**$ 33,166,627**

At December 31, 2005, property, plant and equipment includes $29,889,918 of assets (2004 - $29,335,313) related to the new remediation site in New Brunswick and no amortization has been recorded on these assets since they are not available for productive use.

2004	Cost	Accumulated amortization	Net book value
Automobiles	$ 180,358	$ 95,450	$ 84,908
Computer equipment	599,862	308,052	291,810
Equipment - ELI	534,000	267,000	267,000
Furniture and equipment	1,077,448	519,698	557,750
Treatment equipment	31,076,295	3,181,752	27,894,543
Kiln - RSI facility	16,312,361	4,704,540	11,607,821
Land	88,228	—	88,228
Land improvements	139,577	41,773	97,804
Leasehold improvements	58,322	58,322	—
Software	301,008	244,753	56,255
Storage building and pads	5,981,467	1,171,468	4,809,999
Treatment building	3,437,471	273,212	3,164,259
	$ 59,786,397	$ 10,866,020	$ 48,920,377

The Company had completed the construction of the new facility in Belledune, New Brunswick in 2004. During 2005, the Company had anticipated that the site would be able to conduct test burns in order to receive its final operating permit to begin commercial operations. However, the Company has not been able to conduct any test burns in 2005 and does not expect to obtain the final operating permit until mid-2006. The Company performed an impairment test on the recoverability of the assets at Belledune and wrote down primarily the treatment equipment by $13,805,583, resulting in a net book value of $16,084,335 at December 31, 2005 (2004 - $29,335,313). No amortization has been recorded on these assets as they are not yet available for productive use.

During 2004, property, plant and equipment related to the Kirkland Lake project were written- off. The application for permitting of this site was postponed indefinitely and, therefore, the related equipment was transferred to other facilities and is being used for alternative purposes. An impairment charge of $921,212 was recorded on this equipment.

6. OTHER ASSETS

	2005	2004
Deferred permitting costs (net of accumulated amortization of nil for 2005 and 2004)	**$ 1,800,606**	$ 3,286,808
Operating permits, licenses and other assets (net of accumulated amortization of $1,798,872; 2004 - $899,436)	**—**	899,436
Cash surrender value of life insurance policy (note 7)	**686,067**	606,825
	$ 2,486,673	$ 4,793,069

Deferred permitting costs included costs of obtaining an operating permit for the New Brunswick facility. As a result of the impairment test performed on the assets of Belledune during 2005 (note 5), the Company wrote down the deferred permitting costs by $1,570,892, resulting in a balance of $1,800,606 at December 31, 2005.

In 2004, the Company wrote-off permitting costs of $3,422,767 related to its bid to acquire a permit in Kirkland Lake as the Kirkland Lake project has been postponed indefinitely.

7. LONG-TERM LIABILITIES

Long-term liabilities comprise the following:

	2005	2004
Promissory note, unsecured non-interest bearing, due December 31, 2005	**$ 300,000**	$ 300,000
Tenure agreement	**645,844**	741,450
Severance payable	**980,899**	1,660,000
	1,926,743	2,701,450
Less current portion	**1,117,747**	1,218,405
	$ 808,996	$ 1,483,045

The Company entered into a tenure agreement with the founder of the Company, Mr. John Bennett, which provides for an annual allowance of $69,500 until age 85. The fair value of this liability at December 31, 2005 is $645,844 (2004 - $741,450). The Company also has cash surrender value of a life insurance policy that it holds on Mr. Bennett. The cash surrender value of this life insurance policy is valued at $686,067 at December 31, 2005 (2004 - $606,825) (note 6). An accretion charge of $26,106 (2004 - $165,000) is included in administration and business development with respect to this tenure allowance.

Subsequent to year end, the Company repaid the promissory note in full.

During 2004, certain executive employment agreements were terminated resulting in severance payments over periods ending December 31, 2007. In 2004, the Company accrued and expensed administration and business development severance costs of $1,660,000 of which none was paid during 2004.

	Promissory note	Tenure agreement	Severance payable	Total
Balance, December 31, 2003	$ 300,000	$ 576,450	$ —	$ 876,450
Addition	—	—	1,660,000	1,660,000
Accretion charge	—	165,000	—	165,000
Balance December 31, 2004	300,000	741,450	1,660,000	2,701,450
Paid during 2005	—	(69,500)	(800,378)	(869,878)
Accretion charge	—	(26,106)	121,277	95,171
Balance December 31, 2005	$ 300,000	$ 645,844	$ 980,899	$ 1,926,743

Principal payments on long-term liabilities as at December 31, 2005 are as follows:

2006	$ 1,117,747
2007	294,593
2008	65,721
2009	65,721
2010	65,721
Thereafter	317,240
	$ 1,926,743

8. SHARE CAPITAL

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

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

	Common shares	Amount
Balance, December 31, 2003	17,145,789	$ 28,397,470
Issued during the year ended December 31, 2004 for:		
Exercise of options	281,651	2,833,364
Private placement (c)	1,000,000	26,000,000
Bought deal (d)	3,000,000	12,000,000
Share issue costs	—	(2,277,027)
Tax benefits related to share issue costs	—	762,753
Total issued shares, December 31, 2004	21,427,440	67,716,560
Shares repurchased in 2004 and held in treasury (e)	(11,500)	(71,879)
Balance, December 31, 2004	21,415,940	$ 67,644,681
Total issued shares, December 31, 2004	21,427,440	$ 67,716,560
Issued during the year ended December 31, 2005 for:		
Exercise of options	157,500	360,675
Share issue costs	—	(7,673)
Total issued shares, December 31, 2005	21,584,940	68,069,562
Shares repurchased in 2004 and held in treasury (e)	(11,500)	(71,879)
Balance, December 31, 2005	21,573,440	$ 67,997,683

(c) On February 3, 2004, the Company completed a financing arrangement with an Underwriter whereby the Underwriter agreed to purchase 1,000,000 Units, each Unit consisting of one common share and one half common share purchase warrant at $26 per Unit for gross proceeds of $26,000,000. Each whole share purchase warrant entitles the holder to purchase one common share of the Company at $30 per share for a period of 18 months following the closing date of February 3, 2004. Net proceeds from this financing transaction were $24,700,000. Additional share issue costs incurred related to this financing agreement were $96,477. As at December 31, 2005, there are nil (2004 - 500,000) warrants outstanding.

(d) On December 30, 2004, the Company completed another financing arrangement with an Underwriter whereby the Underwriter agreed to purchase 3,000,000 common shares at $4 per common share for gross proceeds of $12,000,000. Net proceeds from this financing transaction were $11,329,450. Additional share issue costs incurred related to this financing arrangement were $210,000.

(e) During the year ended December 31, 2004, the Company, pursuant to a Normal Course Issuer Bid, acquired 11,500 of its common shares for consideration totalling $71,879. These shares have not been cancelled and as a result, are reflected as treasury stock in share capital as at December 31, 2005 and 2004.

(f) Stock option plan

The Company has reserved 5,096,325 common shares for issuance under its Stock Option Plan ("Plan"). The Plan provides for the granting of options for the purchase of common shares of the Company at the fair market value of the Company's stock. Stock options are granted to both employees and non-employees. The Company's Board of Directors has discretion as to the number of stock options granted, as well as determining the vesting period and expiry dates.

The weighted average grant date fair value of the options granted for the year was $2.23 per share (2004 - $4.55 per share).

Stock option activity for 2005 and 2004 is presented below:

	2005		2004	
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price
Outstanding, beginning of year	**1,031,451**	**$ 8.07**	1,120,602	$ 9.21
Granted	**470,000**	**3.22**	210,000	5.19
Exercised	**(157,500)**	**2.29**	(281,651)	7.51
Cancelled	**(320,950)**	**16.97**	(17,500)	14.09
Outstanding, end of year	**1,023,001**	**5.67**	1,031,451	8.07
Exercisable, end of year	**549,668**	**$ 7.24**	711,951	$ 8.65

The following table summarizes information relating to outstanding and exercisable options at December 31, 2005:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Number exercisable	Weighted average exercise price per share
$2.67 – 3.55	549,001	3.71	$ 3.13	275,668	$ 3.21
$4.11 – 7.10	243,000	3.45	4.65	89,667	5.28
$7.20 – 9.10	100,000	2.53	7.77	53,333	8.27
$14.29 – 22.05	131,000	2.52	16.66	131,000	16.66
	1,023,001		$ 5.67	549,668	$ 7.24

8. SHARE CAPITAL (continued)

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

	2005	2004
Risk-free interest rate	**3.9%**	2.7%
Dividend yield	**—**	—
Expected option lives	**5 years**	5 years
Expected volatility	**79%**	135.7%

Compensation expense related to employee stock options for the year ended December 31, 2005 is $1,050,098 (2004 - $675,176).

(g) Contributed surplus

	2005	2004
Balance, beginning of year	**$ 1,595,205**	$ 1,201,776
Stock-based compensation charge to earnings	**1,050,098**	675,176
Stock-based compensation to non-employees included in deferred permitting costs	**—**	436,461
Stock-based compensation related to options exercised	**—**	(718,208)
	$ 2,645,303	$ 1,595,205

9. ADMINISTRATION AND BUSINESS DEVELOPMENT

	2005	2004
Insurance	**$ 2,147,018**	$ 1,222,389
Marketing and public relations	**1,835,772**	2,059,459
Office supplies and miscellaneous	**1,430,139**	1,563,602
Wages, salaries and fees	**4,216,999**	2,788,158
Stock-based compensation	**1,050,098**	675,176
Professional fees	**3,409,379**	4,711,548
Severance and termination	**—**	2,760,000
	$ 14,089,405	$ 15,780,332

10. LOSS ON INVESTMENTS

During 2004, the Company determined that there was an impairment that was other than temporary of an investment accounted for under the cost basis, which resulted in a write-off of the investment in the amount of $540,000.

In addition, during 2004, the Company determined that there was an impairment that was other than temporary of its equity investment in Eco-Bois, which resulted in a write off of the investment in the amount of $278,193.

11. INCOME TAXES

	2005	2004
Loss before income taxes	**$ (24,852,369)**	$ (19,638,607)
Combined Canadian federal and provincial income taxes at expected rate	**$ (8,976,675)**	$ (6,991,344)
Provincial tax rate difference	**—**	786,305
Permanent and other differences	**441,380**	521,456
Change in valuation allowance	**8,727,749**	—
	$ 192,454	$ (5,683,583)

The Company has non-capital losses carried forward of approximately $12,007,000, which are available to reduce future years' income for income tax purposes.

Non-capital loss carry forwards expire as follows:

2008	$ 48,000
2009	1,046,000
2010	8,000
2011	3,269,000
2015	7,636,000
	$ 12,007,000

The composition of the future tax assets at December 31 is as follows:

	2005	2004
Future tax assets:		
Loss carryforwards	**$ 4,319,454**	$ 1,458,032
Property, plant and equipment	**4,578,088**	—
Share issue costs	**493,204**	657,605
Tenure/severance	**612,066**	866,923
Capital loss carry forward	**122,089**	—
Other	**11,756**	174,053
	10,136,657	3,156,613
Less valuation allowance	**8,727,749**	—
Total future tax assets	**1,408,908**	3,156,613
Future tax liabilities:		
Property, plant and equipment	**133,725**	710,921
Deferred permitting costs	**650,019**	1,028,975
Other	**30,073**	524,891
Total future tax liabilities	**813,817**	2,264,787
Net future income tax assets	**$ 595,091**	$ 891,826

11. INCOME TAXES (continued)

Management believes that realization of the net future tax assets is more likely than not. The ultimate realization of future tax assets is dependent upon the generation of future taxableincome during the periods in which temporary differences become deductible. Management considered projected future taxable income and tax planning strategies in making their assessment.

12. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2005, the Company paid and expensed management fees of $104,167 (2004 - $336,642) to a company owned by a director and officer of the Company.

During the year ended December 31, 2005, the Company paid and expensed legal fees of $1,712,459 (2004 - $1,733,668) to two legal firms, of which three directors are associated.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.

During the year, the Company sold its 50% investment in Eco-Bois to a related party for $250,000 comprising of cash of $175,000 and land of $75,000. The land portion has not yet been recorded as title has not yet been legally transferred. The gain on sale was $175,000.

13. LOSS PER SHARE

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

	2005		2004	
	Number of shares	**Loss for the year**	Number of shares	Loss for the year
Loss for the year	**21,503,690**	**$ (25,044,823)**	18,272,090	$ (13,955,024)
Dilutive effect of stock options and warrants	**—**	**—**	—	—
Diluted loss per common share	**21,503,690**	**$ (25,044,823)**	18,272,090	$ (13,955,024)

Options aggregating 1,023,001 (2004 - 1,031,451) and common share purchase warrants totalling nil (2004 - 500,000) (note 8(c)) have not been included in the computation of diluted loss per share as they are considered anti-dilutive.

14. COMMITMENTS

Future minimum annual rental payments for operating leases for premises are payable over the next five years and thereafter as follows:

Year ending December 31:	
2006	$ 196,192
2007	174,239
2008	166,936
2009	161,536
2010	161,536
	$ 860,439

Restricted cash includes the amounts on deposit plus accrued interest relating to letters of credit outstanding at December 31, 2005 of $1,292,400 (2004 - $1,141,170), which are held as security for the MRR facility site for the Ministry of the Environment.

15. SEGMENTED INFORMATION

(a) Geographic information

The Company operates in one reportable operating segment, which involves the business of remediating contaminated soil and other waste materials. All significant capital assets and goodwill are located in Canada. Sales during the year to customers domiciled in the United States amounted to $13,582,269 (2004 - $10,214,976) and in Canada amounted to $15,667,980 (2004 - $20,427,076).

(b) Major customers

For the year ended December 31, 2005, revenues from two customers represented approximately 34% and 19%, respectively of total revenues (2004 - two customers represented 24% and 27%, respectively).

16. CONTINGENCIES

(a) Judicial Review of Minister Decision

On May 20, 2004, the Company received a report from the federal Canadian Environment Assessment Agency (the "CEAA") which confirmed that there was no reason to conclude that the Company's facility at Belledune, New Brunswick would likely cause significant adverse transboundary environmental effects. The study team was comprised of experts from Fisheries and Oceans Canada, Environment Canada, Health Canada, Indian and Northern Affairs Canada and the CEAA.

Despite the findings of this report, the former federal Minister of the Environment, the Hon. David Anderson, referred the project to a CEAA federal review panel to assess the potential transboundary environmental effects of the Belledune facility. The Company applied to the Federal Court of Canada for a judicial review of the legality of the Minister's decision to refer this project to a review panel.

16. CONTINGENCIES (continued)

On August 19, 2004, the Federal Court of Canada granted the Company's application and overruled the decision by the former federal Minister of Environment to refer the project to a review panel. The federal Minister of Environment has appealed the Federal Court of Canada decision to the Federal Court of Appeal.

On July 19, 2005, the Federal Court of Appeal upheld the Federal Court Judge Harrington's order to overrule the decision by the former Environment Minister, the Hon. David Anderson, to form a panel to review the Company's thermal oxidizer in Belledune, New Brunswick.

On September 16, 2005, the Minister of the Environment, The Hon. Ste?phane Dion, accepted the July 19, 2005 Federal Court of Appeal decision, and will not be seeking leaveto appeal the Supreme Court of Canada. As a result of this decision, there are no further matters impacting the Company.

There is no impact on the consolidated financial statements relating to this matter.

(b) Manville, New Jersey (Federal Creosote Contracts)

In June 2003, the Company announced that it had been awarded a subcontract (the "2003 Phase III Contract") to treat 300,000 tons (plus or minus 15%) of soil contaminated with wood treatment chemicals such as creosote, from the Federal Creosote Superfund Site (the "FC Site") in Manville, New Jersey. The 2003 Phase III contract is an indefinite delivery/indefinite quantity ("ID/IQ") contract.

Shortly after the award of the 2003 Phase III Contract, an unsuccessful bidder lodged a protest of the award with United States Army Corps of Engineers (the "Corps"), which supervises the contractors on the FC Site and is responsible for the remediation process and consents to the award of subcontracts under U.S. government procurement regulations.

The Corps alleges, and the Company disputes, that the Corps withdrew its consent to the award of the 2003 Phase III Contract to the Company, although the Corps consented to ship up to 10,000 tons of soil to the Company for treatment under the 2003 Phase III Contract. The principal contractor on the FC Site did not take any action to cancel the 2003 Phase III Contract, or otherwise notify the Company of the Corps' actions. The Company began receiving shipments against the 2003 Phase III Contract in August 2003.

After the unsuccessful bidder's protest of the 2003 Phase III Contract, the principal contractor issued an Invitation for Bids ("IFB") in November 2003 for an ID/IQ contract for thermal remediation. The IFB provided for a guaranteed minimum of 1,000 tons and a maximum of 100,000 tons. The Company bid on the IFB in December 2003, and was notified in early 2004 that it was the low bidder. During and after the bidding process, the Company repeatedly asked the principal contractor to state whether the IFB supplemented or replaced the 2003 Phase III Contract. The principal contractor did not respond to these queries. To benefit from deliveries from the FC site, the Company elected to participate in the contract process, while continuing to seek clarification from the principal contractor and the Corps regarding the IFB. Without waiving any of its rights under the 2003 Phase III Contract, on June 3, 2004 the Company entered into an ID/IQ subcontract (the "2004 Phase III Contract") with a guaranteed minimum of 1,000 tons and a maximum of 100,000 tons for the same type of services as were covered by the 2003 Phase III Contract. The 2004 Phase III Contract is on less favourable economic terms than the 2003 Phase III Contract but is consistent with pricing under FC Site contracts concluded before the 2003 Phase III Contract. On July 22, 2004, the Company announced that, based on correspondence received from the Corps, all future shipments from the FC Site will be delivered under the 2004 Phase III Contract.

Currently, a number of agencies ranging from municipal to federal and including the United States Environmental Protection Agency (the "EPA") are conducting studies to determine the extent of excavation required at the FC Site in order to remove soil contaminants including creosote. The extent of the excavation is ultimately expected to be dependent upon a number of factors including a decision by municipal authorities as to the future use of the land and United States federal government funding restrictions imposed on the EPA. The Company is awaiting a definitive design plan from the EPA to better evaluate the prospects for additional contracts for the FC Site. The extent of the excavation will be factored into the definitive design plan for the FC Site and will be a primary factor in determining the tonnage of soil to be treated by the Company.

(c) Class actions

On July 30, 2004, a class action lawsuit was filed in the United States against the Company and certain officers. A total of 12 similar actions have been filed to this date. Plaintiffs filed a Consolidated Amended Complaint on December 23, 2004. That complaint asserts claims under sections 10(b) and 20(a) of the United States Securities Exchange Act of 1934, as amended, and Securities and Exchange Commission Rule 10b-5 based on the Company's public statements concerning the Company's subcontract for Phase III of the Manville, New Jersey federal creosote soil remediation project (note 16(b)).

The consolidated complaint names as defendants the Company, its former Chairman and Chief Executive Officer, John Bennett, its current Chief Executive Officer, Allan Bulckaert, its former Vice President of Engineering and Business Development, Danny Ponn, its former Chief Financial Officer, Richard Stern, and its former Vice President of Sales and Marketing for the United States, Robert Griffiths.

Plaintiffs purport to assert their claims on behalf of a class of purchasers of the Company's securities from June 2, 2003 to July 22, 2004, inclusive, and on behalf of a subclass of purchasers of the Company's securities in a private placement that closed on January 24, 2004. All defendants have filed motions to dismiss the consolidated amended complaint.

Before argument of the motions to dismiss, the Company, its insurance companies and counsel for plaintiffs entered into a memorandum of understanding regarding the proposed settlement of the actions. A stipulation of settlement was entered into among all of the parties to the consolidated action as of October 25, 2005. Under the settlement, the actions would be dismissed with

16. CONTINGENCIES (continued)

prejudice and the defendants and other released parties would receive a release of claims that were or could have been asserted by members of the class in exchange for a cash payment of U.S. $9,750,000, to be paid by the Company and its insurers, of which U.S. $9,000,000 was paid by the Company's insurance providers. The full amount of the settlement payment was paid into an escrow account in September 2005, by the Company and its insurers. Following notice to class members, at a hearing on January 13, 2006, the Court stated that the settlement would be approved on the terms agreed among the parties. The Court entered its order and final judgment to this effect on February 21, 2006. Under the Federal Rules of Civil Procedure, the time to file a notice of appeal from the order and final judgment expired on March 23, 2006 without any further appeal or impact on the 2005 consolidated financial statements, other than the settlement totalling $878,025.

(d) Regulatory investigations

The following regulatory investigations are either ongoing or undergoing investigation. In the opinion of management, the outcome of the various regulatory matters will not have a material adverse financial effect on the consolidated position of the Company. Ongoing legal fees related to these matters are expensed as incurred.

(i) On January 29, 2004, the Company announced that it was in discussions with Ontario Securities Commission (the "OSC") concerning a disclosure issue raised by the OSC staff arising from information disclosed in response to questions posed in a telephone call with a research analyst after the release of the Company's 1999 annual results in March 2000. OSC staff suggested that some of the information conveyed in response to the analyst's questions had not been publicly disclosed and might have been material. The Company has not received any further queries from the OSC staff on this matter since September 30, 2004.

(ii) On July 30, 2004, the Company was informed by the OSC that it was investigating the trading of shares of the Company prior to (i) the disclosure on March 29, 2004 relating to delays in shipments of soil from the two largest customers of the Company which caused an unscheduled shut down of the Company's plant in Saint Ambroise, Que?bec, and (ii) the disclosure on July 22, 2004 regarding the status of the Phase III contracts to treat contaminated soil from the FC Site. The OSC requested a detailed written chronology of the events which resulted in the announcements on March 29, 2004 andJuly 22, 2004.

On August 26, 2004, the OSC requested further information and documents relating to *(i)* the Saglek Labrador project for the Department of National Defense, *(ii)* the timely disclosure of the Federal Court of Canada decision to quash the decision of the formerfederal Minister of Environment to refer the Company's project in Belledune, New Brunswick to a federal review panel, and *(iii)* the Company's customer contract backlog status, projected soil volume to be processed in the third quarter of 2004 and the plans for the Belledune facility.

On August 19, 2004, the Company was advised by the Toronto Stock Exchange ("TSX") that the TSX was also investigating the Company's July 22, 2004 announcement regarding the status of the Phase III contracts to treat contaminated soil from the FC Site. The TSX requested certain information in connection with its investigation.

The Company provided the requested information and documents in respect of each of the above requests to the OSC and the TSX on September 30, 2004. The Company has not received any further queries from the OSC or the TSX on these matters.

(iii) In a letter dated August 23, 2004, the United States Securities and Exchange Commission (the "SEC") advised the Company that the SEC is conducting an informal inquiry of the Company. The SEC requested that the Company voluntarily produce certain records and oral testimony, and the Company is cooperating with the request. According to the notice, "[t]his request is confidential and should not be construed as an indication by the Commission or its staff that any violation of the Federal Securities laws has occurred, nor should it be construed as a reflection upon any security, person or entity." The SEC subsequently obtained a judicial order opening a formal investigation and authorizing it to depose witnesses. This matter is ongoing and the Company is continuing to co-operate with the SEC in this matter.

(iv) In a letter dated September 3, 2004, the Company received notice from the NASD Regulatory Division (the "NASD"), on behalf of the American Stock Exchange (the "AMEX"), that it is conducting a review of certain transactions in the Company's common shares which occurred prior to the Company's announcement on July 22, 2004 of the loss in its second quarter of 2004. According to the notice, "this is a routine review and should not be construed as an indication that any violations of Federal Securities laws or Exchange rules have occurred, on an adverse reflection on the Company, its securities or any individual who effected transactions in such securities." On December 22, 2004, the Company received a request for additional information to which the Company responded on February 11, 2005. The Company has not received any further queries with respect to this matter.

(v) The Company and certain of the current officers and former officers received a letter dated February 11, 2005 from the OSC giving such officers and directors the opportunity to provide written submissions to the OSC before the OSC determines to commence enforcement proceedings. The OSC stated in the letter to the Company that it was of the view that the Company failed to disclose the change in status of the contract at the Federal Creosote Site, and made allegations of illegal insider trading. Submissions were submitted to the OSC by March 17, 2005. This matter is ongoing and the Company is continuing to co-operate with the OSC on this matter.

16. CONTINGENCIES (continued)

(vi) On March 16, 2005, the Company received a letter from the TSX alleging that the Company had breached the TSX's timely disclosure policy by failing to promptly disclose the change of the status of the 2003 Phase III Contract in August 2003 after the Company's original press release of the award of the 2003 Phase III Contract on June 2, 2003. The TSX also alleged in the letter that the Company did not provide balanced disclosure by failing to disclose the removal of the Company from certain indices. The Company's disclosure committee along with key management attended a timely disclosure education session on May 13, 2005.

(vii) On December 22, 2005, the Company received a letter from the OSC inquiring about the revenue recognition of the Company. Specific questions were raised in regards to the compensation program in place at the Cornwall facility. A letter of response was sent dated January 5, 2006. On January 19, 2006, the Company received a response to their January 5, 2006 letter, stating that their review was complete and they had no further comments on the issues discussed.

(viii) In September 2005, the Company received a letter from the SEC as part of their continuous disclosure review. The Company has responded to this initial letter and has received subsequent follow-up letters the latest being in January 2006. The Company has responded to the latest letter and is awaiting the response from the SEC.

(ix) In April 2006, the Company received a letter from the OSC as part of their continuous disclosure review. The Company is in the process of preparing its response to this letter.

(e) *Quebec Order*

On September 17, 2004, RSI received a Preliminary Notice to the issuance of an Order from the Quebec Ministry of Sustainable Development and Parks (formerly the Quebec Ministry of the Environment) concerning the RSI plant in Saint-Ambroise. The Preliminary Notice alleges that increases in levels of dioxins and furans measured in soils near the RSI plant are attributable to RSI. If issued, the Order seeks to require RSI to limit its emissions of dioxins and furans, to install equipment to further monitor the emissions and to transmit the collected data to the Ministry.

On November I, 2004, RSI filed its observations with respect to the allegations contained in the Preliminary Notice. The Company disputes allegations contained in the Preliminary Notice. In support of its position, the Company commissioned several qualified third-party experts to review the allegations contained in the Preliminary Notice. The experts retained support of the Company's position that other sources may have contributed to increases in levels of dioxins and furans in the soil around the RSI plant.

Since the filing of its observations, RSI has exchanged correspondence and has had several discussions with the Ministry. Recently, at a meeting held on February 9, 2005, the Company met with Ministry officials where they asked the Company to develop an action plan to address the concerns raised in the Preliminary Notice. The Company developed an action plan that it believes addresses the Ministry's concerns, while at the same time allows it to remain commercially competitive. The action plan was submitted to the Ministry on February 21, 2005. Subsequently, there was a submission of an amended action plan on March 21, 2005.

On December 5, 2005, the Quebec Ministry of Sustainable Development, Environment and Parks ("MSDEP") issued a new amended Certificate of Authorization to Recupere Sol Inc. for the operations of its facility located in St. Ambroise, Quebec. Bennett Environmental Inc. has been notified by the MSDEP that it will not take further action with respect to the Prior Notice issued on September 16, 2004 and that it will not issue an order against RSI.

(f) *Other*

(i) During the year, the Company was served with a claim by a supplier claiming breach of contract. The matter has gone to arbitration. As of March 31, 2006, the Company was required to pay $45,000 to settle part of the claim. This amount has been accrued in the 2005 financial statements.

The Company has accrued an additional $100,000 in its financial statements in respect of bonus and commission entitlements under the claim, as its best estimate of potential loss. The claimant has claimed an amount of $5,000,000. Management will vigorously defend the claim.

During 2005 a former employee filed a wrongful dismissal suit against the Company claiming damages in the amount of $270,000. The Company has offered an amount of $46,000 to settle the claim. The Company's offer has not yet been accepted. The Company has accrued the settlement offer in its 2005 consolidated financial statements as management's best estimate of the potential loss. Management will vigorously defend the claim.

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

(iii) During a routine audit, the Ministry of Quebec identified in a letter, that our subsidiary in Quebec has incorrectly deducted input tax credits for Quebec sales tax ("QST") related to utilities. QST legislation denies such input tax credits for service-type businesses. A proposed adjustment letter was received by the Company dated December 8, 2005 for $1,086,900.

A letter dated February 7, 2006 has been filed with the Interpretation Department of the Commodity tax services of the Ministry of Revenue of Quebec. The Company believes that they are entitled to input tax credits on electricity, gas, fuel and steam used for soil decontamination. No provision has been made at December 31, 2005, and the Company continues to record input tax credits related to QST.

17. SUBSEQUENT EVENT

(a) On April 13, 2006, the Company entered into an agreement to sell certain assets associated with its odorant business in Midland, Texas, U.S.A. for $322,000 to a former employee. The assets are comprised of a number of miscellaneous items including containers, a fork lift, truck and trailer, tanks, drums and a generator. As consideration, the Company received a three- year promissory note in the amount of $322,000, bearing interest at 5-1/2% per annum, payable in equal, semi-annual payments on January 1 and July 1 of each year, with all accrued and unpaid interest to the date of such payment provided that the first payment of $70,000 was made immediately.

(b) The Company signed a definitive purchase agreement on June 8, 2006, and amended on June 22, 2006 to purchase substantially all of the assets of Trans-Cycle Industries Inc., Kirkland Lake, Ontario. The purchase price will be approximately $2.1 million adjusted for changes in working capital which will be determined as at the closing date, currently scheduled for June 29, 2006.

18. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES RECONCILIATION

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") which differ in certain respects from those principles and practices that the Company would have followed had its consolidated financial statements been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") as summarized below:

(a) Loss for the year and loss per share:

	2005	2004
Loss for the year in accordance with Canadian GAAP	**$ (25,044,823)**	$ (13,955,024)
Compensation expense (d)	**1,013,667**	621,029
Deferred permitting costs (e)	**(84,690)**	(1,730,494)
Write-down of deferred permitting costs (e)	**1,570,892**	3,422,767
Loss on investments (f)	**—**	81,050
Future income tax recovery on U.S. GAAP adjustments (g)	**(536,816)**	(610,911)
Loss for the year in accordance with U.S. GAAP	**$ (23,081,770)**	$ (12,171,583)
Basic loss per share in accordance with U.S. GAAP	**$ (1.07)**	$ (0.67)
Diluted loss per share in accordance with U.S. GAAP	**$ (1.07)**	$ (0.67)
Weighted average shares outstanding (note 13):		
Basic	**21,503,690**	18,272,090
Diluted	**21,503,690**	18,272,090

(b) Consolidated balance sheets

The amounts in the consolidated balance sheets that differ significantly from those reported under Canadian GAAP are as follows:

2005	**Other assets**	**All other**	**Total**
Assets in accordance with Canadian GAAP as at December 31, 2005	**$ 2,486,673**	**$ 63,038,399**	**$ 65,525,072**
Deferred permitting costs (e)	**(1,800,606)**	**—**	**(1,800,606)**
Future income tax recovery on U.S. GAAP adjustments (g)	**—**	**525,240**	**525,240**
Assets in accordance with U.S. GAAP	**$ 686,067**	**$ 63,563,639**	**$ 64,249,706**

2004	Other assets	All other	Total
Assets in accordance with Canadian GAAP as at December 31, 2004	$ 4,793,069	$ 85,219,333	$ 90,012,402
Deferred permitting costs (e)	(3,286,808)	—	(3,286,808)
Future income tax recovery on U.S. GAAP adjustments (g)	—	1,062,057	1,062,057
Assets in accordance with U.S. GAAP	$ 1,506,261	$ 86,281,390	$ 87,787,651

	2005	2004
Liabilities in accordance with Canadian and U.S. GAAP	**$ 9,163,405**	$ 10,009,012
Shareholders' equity in accordance with Canadian GAAP	**$ 56,361,667**	$ 80,003,390
Deferred permitting costs (e)	**(1,800,606)**	(3,286,808)
Future income tax recovery on U.S. GAAP adjustments (g)	**525,240**	1,062,057
Shareholders' equity in accordance with U.S. GAAP	**$ 55,086,301**	$ 77,778,639
Shareholders' equity in accordance with U.S. GAAP is comprised of:		
Share capital	**$ 70,998,025**	$ 70,645,023
Additional paid-in capital (d)	**193,425**	193,425
Deferred compensation expense (d)	**(18,560)**	(54,990)
Retained earnings (deficit)	**(16,086,589)**	6,995,181
Shareholders' equity in accordance with U.S. GAAP	**$ 55,086,301**	$ 77,778,639

18. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES RECONCILIATION (continued)

(c) Consolidated statements of cash flows

Under U.S. GAAP, cash provided by operations would decrease by $84,690 (2004 - decreased by $1,294,033) and cash used in investments would increase by $84,690 (2004 - increased by $1,294,033) for the costs of deferred permitting, which would be expensed as incurred and classified as a component of operating cash flows under U.S. GAAP.

(d) Stock-based compensation

(i) For Canadian GAAP purposes, the Company has accounted for employee stock-based compensation using the fair value method and thus has recorded compensation expense related to the employee options. For U.S. GAAP purposes, the Company accounts for its employee stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations ("APB 25"). As such, compensation expense under fixed plans is recorded on the grant date only if the market price of the Company's stock at that date exceeds the exercise price. The Company has reversed the stock-based compensation recorded under Canadian GAAP and recorded stock-based compensation under APB 25.

(ii) Accounting for employee stock options under U.S. GAAP would result in a reclass to increase share capital and a corresponding decrease in additional paid-in capital of nil (2004 - $9,448 both to additional compensation expense and a corresponding increase to paid-in capital) for those options that have been exercised during the year for which stock-based compensation was recorded under APB 25. There were no such stock options exercised in 2005 (2004 - 14,101).

(e) Deferred permitting costs

Under Canadian GAAP the expenditures relating to the acquisition of operating permits may be deferred and amortized to expense in a rational and systematic manner. Under U.S. GAAP these expenditures are charged to expense when incurred.

(f) Loss on investments

Under Canadian GAAP, certain investments were written off during 2004 and for U.S. GAAP purposes, these investments were written down in prior years. For U.S. GAAP purposes, 2004 write-offs totalling $81,050 have been reduced since they were previously recorded for U.S. GAAP purposes.

(g) Income taxes

Under Canadian GAAP, future tax assets and liabilities are recorded at substantially enacted tax rates. Under U.S. GAAP, deferred tax assets and liabilities are recorded at enacted tax rates. Recording Canadian future income tax assets and liabilities at enacted tax rates would not change recorded (loss) for the year or shareholders' equity under U.S. GAAP. The deferred income tax effect of U.S. GAAP adjustments has been recorded at the enacted tax rate in the period of adjustment.

(h) Comprehensive loss

Under Statement of Financial Accounting Standards 130, Reporting Comprehensive Income, all changes in shareholders' equity other than transactions with shareholders are included in comprehensive income regardless of whether they are considered to be results of operations of the period. There are no transactions to be reported in comprehensive loss.

DIRECTORS AND OFFICERS

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Stewart McInnes (May 2005)
Lawyer

Bernd Christmas (May 2006)
CEO Membertou

Pierre B. Meunier
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Adam Lapointe
President and Chief Executive Officer
Pluri-Capital Inc.

George Ploder
Private Investor

James J. Blanchard
Partner
DLA Piper Rudnick Gray Cary

Corporate Officers

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President and Chief Executive Officer

Andrew Boulanger
Chief Financial Officer and Secretary

Michael McSweeney
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American Stock Exchange "BEL
Frankfurt Stock Exchange "BEW"

THE ANNUAL GENERAL MEETING WILL BE HELD ON:

Tuesday, August 8, 2006
9:00 a.m. (Eastern Standard Time)

TSX Broadcast Gallery
The Exchange Tower
130 King Street West
Toronto, Ontario
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The Earth is our business.

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