



The Earth is our business



recognized leader



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 permanent 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 efficiency fabric filter, an induced draft fan and a continuously monitored emission stack.

HTTO technology routinely achieves high contaminant destruction 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.

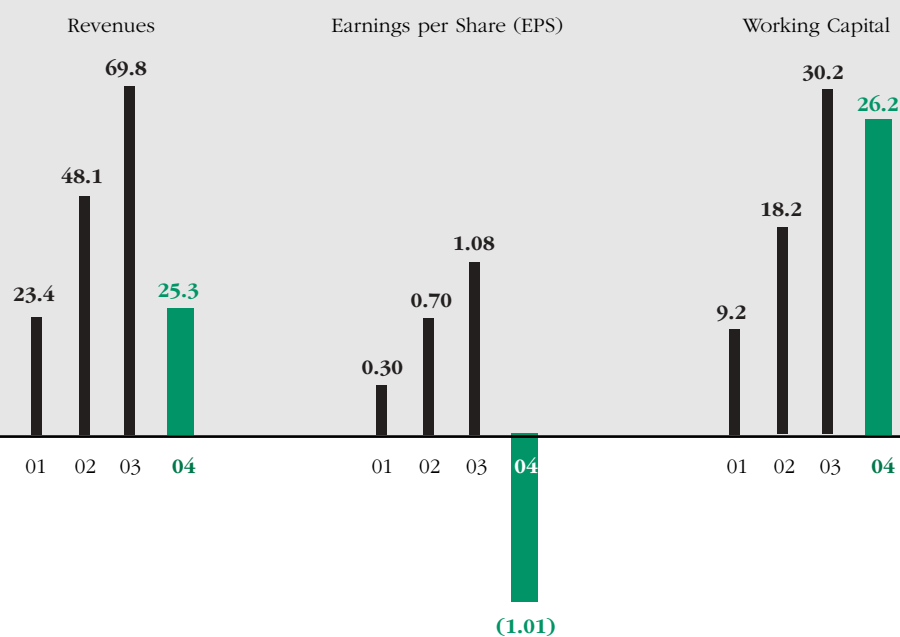
Bennett's facility is designed to be the best demonstrated available technology (BDAT) applicable for the treatment of soils impacted with organic pollutants (POPs).

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Financial Highlights

	2004	2003	2002	2001
Revenues	25,323,203	69,806,526	48,103,845	23,422,574
Net Earnings (loss)	(18,535,239)	18,173,459	12,046,276	4,726,976
Earnings per Share (EPS)	(1.01)	1.08	0.70	0.30
Return of Sales	(73%)	26%	25%	20%
Working Capital	26,234,525	30,159,825	18,206,207	9,168,268
Shareholder's Equity	80,003,390	58,897,989	35,007,285	20,675,431
Total Assets	90,012,402	75,677,572	52,384,674	29,437,090



Fellow Shareholders,

For Bennett Environmental, its Board, management, and shareholders, the 2004 fiscal year was one of intense challenges that we will discuss in the following sections of this Annual Report. I am able to report, however, that as your Board became aware of the problems that we faced, it took a series of significant steps in order to better position the Company going forward.

In February 2004, Allan Bulckaert was brought in to the Company as its new President and Chief Executive Officer. Mr. Bulckaert, who has extensive experience in the environmental sector, has worked tirelessly over the last year to refocus the Company on its core business activities and to strengthen all areas of senior management.

In July, a special committee of independent directors was formed to oversee the Company's review of the New Jersey Federal Creosote project, together with the process by which Bennett monitors contractual arrangements for existing and future work. The review was launched to ensure that the best possible processes are in place so that awards and shipments under our contracts are reported appropriately to investors.

In August 2004, the Board accepted the resignation of John Bennett, the Company's founder, as Chairman, and elected me as Chairman of the Board.

Your Board has also recognized the importance of enhancing representation from Atlantic Canada, in light of the anticipated start-up of our state-of-the-art Belledune plant together with treatment of the hazardous waste from the Sydney, Nova Scotia tar ponds. We are pleased to be bringing forward the nomination of Stewart McInnes, a prominent Halifax-based lawyer and former Federal Cabinet Minister, to the Annual General Meeting. It is important to the success of our Company to have representation on the Board from the areas where we operate and from where our business is secured. We expect to make further changes to the Board in the future.

The Board also took the view that enhancements were required in a number of areas of corporate governance. We asked management to develop and submit to the Board new policies including those dealing with Board practices, employee relations, organizational ethics, whistle blowing, and the treatment and disclosure of confidential information.

“We are determined that integrity, transparency and high ethical standards will characterize Bennett Environmental.”



I am pleased to report that these policies were reviewed and unanimously adopted at Board meeting in early March, 2005. These new corporate governance policies are being implemented and will ensure that the shareholders of our Company are better protected and that the corporation is better managed. We are determined that integrity, transparency and high ethical standards will characterize Bennett Environmental. All business decisions will be implemented with the best long term interest of all shareholders and stakeholders of the Company in mind.

Appreciation

The challenges presented in 2004 have been enormous and required a very significant commitment of time and energy from Board members and the senior management team. I express my thanks to them.

My colleagues at Bennett also wish to express our appreciation to our customers for their confidence, to our employees for their dedication and to our shareholders for their support during this difficult year.

I am pleased to tell you that the Company is focused and well-positioned to compete in this new and burgeoning sector of the environmental industry.

A handwritten signature in black ink that reads "D Williams".

David Williams
Chairman of the Board

Dear Shareholders,

In his report, our Chairman has characterized 2004 as a year of intense challenges. I will comment in more detail on the events of the past year, describe how we met those challenges, and how Bennett has now positioned itself for a turnaround in 2005.

Review

This tough year for our Company began with the unanticipated shut down of the Récupère Sol facility in Saint Ambroise, Quebec because of a lack of soil delivery to the plant. Low processing volumes ultimately led to a second quarter net loss.

In May, the Company received a report from the Canadian Environment Assessment Agency which confirmed that Bennett's new Belledune facility was unlikely to "cause significant adverse trans-boundary environmental effects." We were therefore disappointed to learn of the decision from the federal Minister of the Environment to refer the assessment of these same potential trans-boundary environmental effects to a panel review. The Company subsequently filed an application for judicial review in the Federal Court of Canada challenging the jurisdiction of the Minister. The Court quashed the Minister's decision and prohibited the Canadian Environmental Assessment agency from proceeding with a review of the matter. The government has appealed the decision and the Company is waiting for the outcome. The Company believes that the final decision will ultimately not impact the progress of the new facility.

In July, after an internal review of the Federal Creosote Superfund project in New Jersey, the Company first confirmed, and then announced, that all future shipments would be under a new 100,000 ton purchase order with a 1,000 ton minimum rather than the existing 300,000 ton contract. That news led to regulatory inquiries and the initiation of class action lawsuits against the Company. While Bennett disagrees with these class action allegations and intends to defend itself against those claims vigorously, we are co-operating with the regulators. These matters have been enormously time-consuming for us all.

In September, the Quebec Ministry of the Environment issued a Prior Notice of its intent to issue an Order based on a report alleging that the Récupère Sol plant was the source of elevated dioxin and furan levels in the area around the plant. We immediately set to work to provide the Ministry with science-based information that refutes their claim. The Company has subsequently worked tirelessly with the Quebec Ministry of the Environment, both at the regional level, and with the Ministry staff located in the head office in Quebec City. Our objective is to reach a resolution of these issues in a manner that allows this world class facility to continue to operate profitably and also in a manner that is fully in accordance with the stringent environmental regime in the Province.

In the third and fourth quarters, the Company reported additional losses as a result of low soil deliveries and low margin material; the final accounting for the Saglek Labrador contract, for which revenues were lower and costs significantly higher than had originally been estimated; write down of the costs related to permitting activities; and a significant increase in professional fees related to the class action litigation.

Regeneration

In the last five years, Bennett Environmental has grown rapidly. Over the past year, the Board of Directors and I have taken the necessary steps required to transform the Company from an entrepreneurially-oriented to a more professionally-managed public company.

In July, Bryan Maskell, an industry veteran, was appointed Vice President, Sales and Marketing. In September, Andrew Boulanger, who has considerable public company experience, was brought in as Chief Financial Officer.

“We have begun the process of reinvestment in our sales and marketing group by adding experienced sales personnel to the team.”



Mr. Boulanger is a Chartered Accountant with several years of experience in financial and strategic planning, operations and investor relations. In October, Michael McSweeney was appointed to a newly created position of Vice President, Government Relations and Environmental Affairs. Mr. McSweeney has over 20 years of experience in government and public affairs including service to the Prime Minister of Canada. Subsequent to year end, in order to have a direct impact on plant operations, I took responsibility for the day-to-day operations of the plants and asked Danny Ponn to take on the task of business development, while remaining as Vice President of Engineering.

Next, the Company clearly needed to reduce SG&A expenses. As part of that initiative, we are closing the office in Vancouver, resulting in a number of senior management departures including the former Vice President of Business Development. We have now consolidated all accounting and sales and marketing functions in the Oakville corporate office.

We have begun the process of reinvestment in our sales and marketing group by adding experienced sales personnel to the team. We have also changed strategy to become less dependent on a few large customers, focusing on securing diversified contracts, as well as the larger contracts which have served the Company well over the past years. With these changes and the development of new relationships with key environmental and engineering companies, we will ensure that the Company is able to expand its market penetration in all regions of North America. Our new sales team has identified over 1,000,000 tons of material that could be treated at our facilities.

Under the direction of Andrew Boulanger, our new CFO, the finance and accounting team has been strengthened to ensure quality, timely and transparent disclosure of the Company's financial condition. Many enhanced management controls have been implemented, such as a revised Code of Business Conduct.

The Company operates in a highly regulated industry, and also contends with opposition from various groups who, regrettably, seek to portray our Company in stridently negative tones. Michael McSweeney, Vice President, Government Relations and Environmental Affairs will build positive relationships with governments and stakeholders, at all levels, which are required for the growth of the Company.

I conclude by stating that our new management team, supported by our Board, is committed to the regeneration of the Company by:

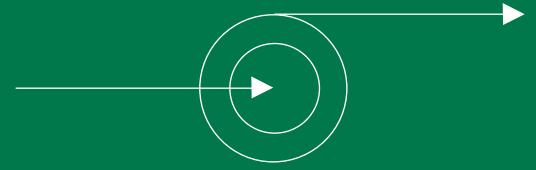
- Providing the best available technology to our customers;
- Being a socially responsible organization;
- Building shareholder value and;
- Working closely with regulators and other stakeholders in support of common environmental objectives.

As a Company, we are committed to bringing the best solutions to a world that for too long has neglected its environmental responsibilities.

A handwritten signature in black ink that reads "Allan Bulckaert". The signature is written in a cursive, flowing style.

Allan Bulckaert.
President and Chief Executive Officer

advanced emission control systems



The Mark IV Thermal Oxidizer Process is recognized as a Best Demonstrated Achievable Technology (BDAT). The main component of the thermal oxidizer process is a high temperature primary combustion chamber (rotary kiln). The kiln is fuelled by propane and is lined with refractory to maximize heat transfer to the soils. Contaminated soils are fed to the direct-fired kiln via enclosed screw conveyor and are then subjected to temperatures in excess of 650°C, in order to volatilize the organic compounds in the soil (release to the gas stream). The volatilized organic compounds from the soil are then treated in downstream emission control units, designed to reduce or remove the gaseous and particulate contaminants in the volatilized gases. These pollution control units include:

- a high temperature secondary combustion chamber (or afterburner) operating at over 1000°C (to destroy organic compounds to greater than 99.9999% destruction removal efficiency (DRE))
- a gas conditioning chamber to rapidly cool the gases from 1000°C to approximately 150°C

- a dry lime scrubber (to neutralize acid gases such as sulphur dioxide);
- an activated carbon dry scrubber (to remove any trace organic compounds that may not have been destroyed in the afterburner as well as to capture any gaseous metals such as mercury)
- a fabric filter baghouse (to capture the lime, activated carbon, and particulate matter from the combustion process).

These air emission control units are some of the most effective treatment technologies for the destruction and treatment of emissions from the process.

The process stack is equipped with continuous emissions monitors (CEM) for 5 compounds. The CEMs are continuously monitored by process operators and process adjustments can be made to ensure the lowest emissions possible.



Environmental Report

It is the policy of Bennett to work proactively with governments and the public in the development of equitable, cost-effective and realistic laws and regulations for the protection of the environment and the enhancement of occupational health and safety. To accomplish this, we will engage with stakeholders, including employees, shareholders, customers, the public, communities, businesses and governments, to improve environmental, health, safety and social concerns and ensure our facilities make an overall positive impact to the communities where we operate.

2004 Report

In order to meet or exceed the operating permits imposed by government regulators, Bennett routinely reviews all of our operations to identify areas for improvement both to the process itself and to our environmental programs. These reviews will ensure the company continues to meet the rigorous regulations that government imposes as well as ensuring that we continue to provide shareholder value by adhering to the principles of continuous improvement and pollution prevention. In 2004 Bennett made a number of improvements to our facilities, these improvements are highlighted below:

Récupère Sol Inc. (RSI)

- achieved its ISO 14001 certification (1996) in December 2004;
- installed a new innovative cooling system which offers improved pollution prevention through increased control over dust emissions during the treatment process;
- RSI won a Health and Safety Award from the Province of Quebec's "Commission Santé et Sécurité du Travail";
- donated over \$100,000 to various community-based activities in the town of St. Ambroise, Quebec;

Belledune

- In late fall, construction was completed at Bennett's newest facility – a \$29.3 million plant located in Belledune, New Brunswick. This state of the art facility has incorporated the best available technology in use today. Much, if not all, of the \$29.3 million was spent in the province of New Brunswick – these expenditures created much needed jobs;

Corporate

- Bennett's Board of Directors expanded and formalized the Environmental and Health and Safety Committee. A formal charter for this Committee was approved by the Board in March of 2005. The Committee will be actively monitoring the environmental activities of Bennett's three facilities over the course of 2005.

Future Plans & Commitments

Over the course of the next several years, Bennett looks forward to the challenge of upgrading RSI's ISO 14001 certification to the 2004 version and beginning the process to achieve ISO 14001 (2004) for both Bennett Environmental New Brunswick Inc. and Material Resource Recovery ("MRR") in Cornwall, Ontario.

MRR will be conducting a five year review of past performance, new advances in technology and systems, and will assess where improvements can be made to facilitate continued compliance and our objective of continuous improvement in operations and emissions. MRR embraces the opportunity to be on the frontline of corporate social responsibility through this review.

our treatment facilities



Récupère Sol Inc.

Récupère Sol Inc. (RSI) is located on approximately 12 acres of land outside the town of Saint-Ambroise, Québec. Since 1998, this facility has been operating a fourth generation Mark IV thermal oxidizer designed and manufactured by Bennett. The facility directly employs 43 people and where feasible purchases raw materials and services in the local community which the Company believes provide additional employment opportunities. Annual operating capacity is approximately 100,000 tonnes.

The RSI treatment facility remediates soil contaminated with hydrocarbons and a wide range of chlorinated material, including PCBs, pesticides, polychlorinated dibenzodioxins and polychlorinated dibenzofurans. A state-of-the-art soil cooling system was installed at RSI in 2004 as a continual improvement measure to reduce fugitive emissions. In 2004, RSI treated approximately 57,000 tonnes of contaminated soil.

Community Development activities are an important aspect of the RSI operation. In 2004 the Company spent over \$100,000 for local projects and community needs.

As part of its focus on continuous improvement RSI was awarded recognition from Quebec's Occupational Health and Safety Commission (CSST) for the newly designed material unloading area which improved employee safety in 2004. In December 2004 the facility received ISO accreditation for its Environmental Management System.



Bennett Environmental New Brunswick Inc.

The Bennett Environmental New Brunswick Inc. (BEN) facility is located on approximately 20 acres of land in the Village of Belledune, New Brunswick. The construction phase of this facility was completed at the end of 2004.

The design and operation of the facility is similar to that of the facility operated by RSI and has a number of additional features such as increased treatment capacity, a wet scrubbing system and an uninterruptible power supply system. In addition the facility was built with a complete enclosure of the entire operation under one roof, enhancing our ability to further minimize potential fugitive emissions. The operation can treat up to 100,000 tonnes per year of non chlorinated hydrocarbon and creosote-impacted soils and solid materials. The facility currently employs 17 people and is expected to increase to approximately 33 when full operations commence.

Management and staff are in place at the BEN facility and are working towards the commercial compliance testing in 2005. In the future, staff will also be focusing efforts on obtaining the ISO 14001 accreditation.

Material Resource Recovery Inc.

Effective October 1, 2002, Material Resource Recovery Inc. (MRR) became part of the Bennett family of companies. The MRR facility is located on approximately 4 acres of land in Cornwall, Ontario. The facility specializes in the thermal destruction of PCB contaminated construction debris (wood, concrete and metal) and other contaminated plastics and metals. In addition, MRR has the mobile equipment and required permits to treat contaminated water. The services offered by MRR are the perfect compliment to Bennett's high temperature soil treatment services described above.

In 2004 about 899 tonnes of material was treated at the Cornwall facility and it employed 27.

MRR will be conducting a five year review. This process will review past performance, examine new advances in technology and systems, and will assess where improvements can be made to facilitate continued compliance and our objective of continuous improvement in operational efficiencies and emissions. MRR embraces the opportunity to be on the frontline of corporate social responsibility through this review.

Management's Discussion and Analysis

The following is management's discussion in respect of the results of operations of Bennett Environmental Inc. ("Bennett" or the "Company") for the year ended December 31, 2004 and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 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 February 28, 2005. Additional Information related to the Company, including its Annual Information Form and Management Information Circular and Proxy form is available on SEDAR at www.sedar.com.

OVERVIEW

Bennett's financial results in 2004 were unacceptable. The primary drivers were the negative impact of the Saglek Contract, now concluded, soil processing volumes from other customers which were below 2003 levels, costs associated with class action litigation, and costs for the closure of the Vancouver office.

In the fourth quarter, low delivered volumes of soil contributed to the decision to shut down the Saint Ambroise plant for the last seven weeks of the year. The Company used this time to install its new \$3.5 million soil cooling process.

2004 can also be characterized as a transition year for Bennett. The Company took a series of important steps to strengthen its management team, to rebuild its sales organization and to forge new business relationships, particularly in the larger US market.

Bennett undertook an extensive recruitment process and installed a new senior team. In the first quarter, Allan Bulckaert was appointed Chief Executive Officer of the Company to replace John Bennett. In July, Bryan Maskell was appointed Vice President, North American Sales. In September, Andrew Boulanger was appointed Chief Financial Officer replacing Richard Stern and in October, Michael McSweeney was appointed to the new post of Vice President Government Relations and Environmental Affairs. In January 2005, following the resignation of Zul Tejpar as Vice President Business Development, Danny Ponn was appointed Vice President, Engineering and Business Development, and Allan Bulckaert assumed line responsibility for Operations.

The Company also encountered other challenges in the year ended December 31, 2004, including a dispute on the New Jersey Federal Creosote contract and the class action in the U.S. as well as related securities regulatory investigations. Details of these developments can be found in the Company's Annual Information Form for the year ended December 31, 2004.

As 2004 drew to a close, Bennett had made rapid strides towards improving all aspects of the business including sales, government relations, business and financial controls, and corporate governance.

SELECTED ANNUAL INFORMATION

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

(Cdn\$)	2004	2003	2002
Revenues	25,323,203	69,806,526	48,103,845
Net Earnings (loss)	(18,535,239)	18,173,459	12,046,276
Earnings per Share	(1.01)	1.08	0.70
Return of Sales	(73%)	26%	25%
Working Capital	26,234,525	30,159,825	18,206,207
Shareholder's Equity	80,003,390	58,897,989	35,007,285
Total Assets	90,012,402	76,254,022	52,384,674

RESULTS OF OPERATIONS

CONSOLIDATED FINANCIAL RESULTS

The Consolidated net loss for the year was \$18.5 million or a loss of \$1.01 per share compared to net earnings of \$18.2 million or \$1.08 per share for the year ended December 31, 2003. The 2003 results have been restated to include the impact of a change in accounting policy for stock based compensation plans, as described in the section "Change in Accounting Policy".

CONTRIBUTION MARGINS

For the year ended December 31, 2004 contribution margins (defined as revenue less operating expenses) were negative \$1.4 million compared to a positive contribution of \$37.4 million a year earlier.

Overall contribution margins for 2004 were negatively impacted by the Saglek Contract. The discussion below analyses margins related to the "Saglek Contract" and "Other Business".

Contribution Margins - Saglek Contract

In late 2002 the Company was awarded a contract to remediate soil in Saglek, Northern Labrador. The contract was a fixed rate contract to excavate and remediate approximately 19,500 cubic meters of soil. The contract was a first for the Company in that it acted as primary contractor on the site rather than as a sub-contractor. Revenue from this contract was accounted for using the "percentage of completion" method. This method is generally used on long-term contracts and requires the Company to estimate its projected revenue and costs for the project on a quarterly basis and recognize revenue in proportion to the costs incurred. In late September 2004 the Company completed field work on the Saglek contract. As of December 2004 Bennett had completed the work related to the project.

Gross margins for the year were reduced by approximately \$15.7 million because of the Saglek contract. At the end of 2003 the Company estimated that total revenue remaining on the contract would be approximately \$10.2 million and remaining estimated costs for the contract would be approximately \$6.8 million. Actual revenue recorded in 2004 was approximately \$2.4 million, which was \$7.8 million below expectations. The shortfall in revenue is primarily attributed to two factors:

1. The Company expected to excavate 3,500 cubic meters in 2004. Actual excavation was approximately 1,200 cubic meters. The variance resulted in approximately \$3.8 million of lower than expected revenue.
2. The Company's original estimates for revenue included revenue from a claim for extra expenses. In the third quarter the Company reduced its expectation of recovery of this claim by approximately \$4.0 million through a reduction of revenue.

Actual expenses in 2004 for the Saglek project were approximately \$18.1 million compared to estimated costs of \$6.8 million. Costs higher than those originally estimated were incurred as a result of:

- Additional processing costs of approximately \$6.7 million due to lower volumes which carried a higher component of fixed costs on a unit basis.
- Higher than estimated site costs, fuel and transportation costs accounted for approximately \$4.5 million.

In summary, the negative impact of Saglek contract was approximately \$15.7 million for the year compared to a positive margin of approximately \$18 million in 2003.

The Company has submitted approximately \$9.2 million of claims for extra expenses to its customer. A net amount of approximately \$4.9 million is included in accounts receivable. Successful collection of the claims is contingent on the Company's ability to prove entitlement either to its customer or to a court of law. While the Company believes that a significant portion of these claims could eventually be recovered the matter may have to be litigated and there is no certainty that the amounts will be recovered. As such the Company has reserved \$4.3 million of these amounts in 2004.

Contribution Margins - Other Business

For the year ended December 31, 2004 business other than the Saglek contract contributed a gross margin of approximately \$14.3 million on revenue of approximately \$22.9 million. This compares to a contribution of \$21.6 million on revenue of \$39.6 million 2003. Total volume processed from other business in 2004 was approximately 24,000 tonnes compared to approximately 57,000 tonnes a year earlier.

OTHER INCOME STATEMENT ITEMS

ADMINISTRATION AND BUSINESS DEVELOPMENT COSTS

Annual Administration and Business Development costs were \$15.8 million in 2004 compared to \$8.5 million a year earlier. Approximately \$3.1 million of this increase relates to severance, pension and costs related to the closure of the Vancouver office. Legal and professional fees were approximately \$3.0 million higher in the year than the year before.

LOSS FROM INVESTMENTS

For the year ended December 31, 2004 the Company recorded \$0.8 million as a charge to its passive investments compared to \$0.1 million for the same period last year.

DEPRECIATION AND LOSS ON ASSET IMPAIRMENT

Depreciation for 2004 was \$3.7 million compared to \$1.8 million in 2003. The increase in depreciation was a result of accelerated depreciation rates on equipment related to the Saglek contract.

During the year the Company recorded a loss from asset impairment of approximately \$4.3 million related to a proposed treatment facility in Kirkland Lake, Ontario. Plans related to a third plant in Kirkland Lake have been postponed indefinitely.

INCOME TAXES

For the year ended December 31, 2004 the consolidated effective tax recovery rate was 28.9%, compared to 36.9% in the year before.

CASH FROM OPERATIONS

For the year ended December 31, 2004 cash used for operating activities before changes in operating working capital amounted to \$11.7 million. Cash generated from operating working capital was approximately \$7.0 million for a net use of cash from operations of approximately \$4.7 million for the year. This compares to cash of \$21.7 million being generated from operations other than non-cash working capital and non-cash working capital using approximately \$17.2 million for a net of \$4.5 million in 2003.

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):

	2004				2003 (restated)*			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net Sales	4.5	8.0	3.9	8.9	21.9	22.4	13.4	12.1
Net Income/(Loss)	(8.3)	(7.8)	(2.2)	(0.3)	6.3	6.8	2.2	2.9
Earnings Per Share – Basic	(0.45)	(0.43)	(0.12)	(0.02)	0.38	0.4	0.13	0.18
Earnings Per Share - Diluted	(0.45)	(0.43)	(0.12)	(0.02)	0.36	0.39	0.13	0.17

*This restatement was a result of a change in stock based compensation. See note 2 a(i) of the 2004 Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

At year end Bennett had cash and equivalents of \$15.2 million and working capital stood at \$26.2 million. The Company believes it has sufficient cash to meet working capital requirements and expects to generate sufficient cash from its accounts receivable and its operations to meet working capital requirements for 2005.

In December 2004, Bennett issued 3,000,000 common shares for gross proceeds of \$12 million. The Company also issued 1,000,000 common shares on February 3, 2004 for gross proceeds of \$26 million. The common shares issued in February 2004 carried 500,000 warrants exercisable at \$30 per share until August 2006. Total gross proceeds from these two share issues were \$38.0 million (\$35.7 million after issue costs). Proceeds from these issues were used to finance the construction of the Belledune, New Brunswick plant and for general working capital purposes.

CAPITAL EXPENDITURE

For the year ended December 31, 2004 the Company invested approximately \$30.2 million in capital assets and permits and other assets in the year compared to \$14.8 million a year earlier. The construction of the new facility in Belledune accounted for approximately \$23.1 million in 2004 compared to \$6.2 million in 2003 bringing the total construction costs to approximately \$29.3 million for this facility. The facility was approximately 30% over budget due to winter construction and scoping changes. This facility is now complete and is in the compliance testing phase which is expected to be completed in the third quarter of 2005. In addition the Company spent approximately \$6.4 million on its facilities in Quebec primarily on a new soil cooling system (\$3.5 million), upgrades to material handling systems (\$1.7 million) and upgrades to its kiln (\$1.1 million). Approximately \$0.47 million was invested at the Company's Cornwall plant primarily for storage capacity. The Company's commitments for capital expenditure are less than \$3.0 million for 2005 and the Company expects to fund these expenditures out of working capital resources.

LONG-TERM DEBT AND OTHER LONG-TERM COMMITMENTS

The Company has approximately \$2.7 million in long term debt. 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
2005	\$ 315,562
2006	188,133
2007	130,806
2008	127,782
2009	127,782
Total:	\$ 890,065

OFF-BALANCE SHEET ARRANGEMENTS

The Company has pledged approximately \$1.1 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. 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, 2004 the Company had no foreign exchange contracts in place.

PROPOSED TRANSACTIONS

The Company currently does not have any proposed transactions.

TRANSACTIONS WITH RELATED PARTIES

JOHN BENNETT

Mr. Bennett was the CEO until February 28, 2004 and Chairman of the Board of Directors until July 2004. In the quarter ended December 31, 2004 the Company expensed management fees to a company owned by Mr. John Bennett of approximately \$48,500. In the fourth quarter of 2003 the Company expensed \$47,170. For the year ended December 31, 2004, the Company expensed management fees of \$0.3 million to a company owned by Mr. John Bennett, compared to \$0.4 million in 2003.

PIERRE MEUNIER

During the fourth quarter of 2004, the Company expensed approximately \$0.1 million compared to \$0.1 million in the same period in 2003 to a law firm of which Mr. Meunier is a partner.

During the year the Company expensed \$0.4 million compared to \$0.1 million in 2003 to a law firm for which Mr. Meunier is a partner. The increase in legal fees in 2004 is related to the Ministry of Environment (Quebec) investigation into elevated levels of furans and dioxins in the vicinity surrounding the St. Ambroise, Quebec plant.

TRANSACTIONS WITH RELATED PARTIES (continued)

JAMES BLANCHARD

During the fourth quarter of 2004, the company expensed \$1.2 million to a law firm of which Mr. Blanchard is a partner. In the fourth quarter of 2003 the Company expensed \$NIL.

During the year the Company expensed \$1.3 million compared to \$NIL in 2003 to a law firm for which Mr. Blanchard is a partner. The increase in 2004 is related to legal defense costs for a shareholder class action lawsuit initiated against the Company.

These transactions were incurred in the normal course of operations and represent fair market value for services rendered.

FOURTH QUARTER RESULTS

Consolidated net loss for the three months ended December 31, 2004 was \$8.3 million or a loss of \$0.45 per share compared to net income of 6.3 million or \$0.38 per share in the 4th quarter of 2003. The primary drivers of this loss were the negative affect of the Saglek contract (see discussion on "Contributions Margins – Saglek Contract" above), low volumes, severance and pension costs related to the closure of the Vancouver office and higher professional fees from on-going litigation related to a shareholder class action lawsuit.

For the quarter ended December 31, 2004 contribution margins (defined as being revenue less operating expenses) were negative \$3.3 million compared to gross margins of \$11.2 million in the same quarter in 2003. Contribution margins in the fourth quarter of 2004 were negatively impacted by approximately \$5.9 million with respect to the Saglek contract (\$3.3 million related to costs on field work and \$2.3 million in processing costs).

During the fourth quarter the Company processed approximately 3,800 tonnes from sources other than the Saglek contract generating revenue of approximately \$4.5 million. Operating costs for other business in the quarter was \$2.0 million or a gross margin of \$2.6 million. In comparison, for the fourth quarter of 2003 contracts other than Saglek, contributed approximately \$6.2 million to gross margins on revenue of approximately \$10.6 million.

Administration and Business Development costs were \$4.5 million compared to \$2.3 million in the fourth quarter of 2003. The increase in costs is because of higher severance and pension costs in the quarter which accounted for \$1.2 million and higher professional fees related to on-going class action litigation accounted for an additional \$1.0 million.

During the fourth quarter of 2004 the Company recorded a write down of certain passive investment the Company held of \$0.7 million compared to \$0.1 million in the fourth quarter of 2003.

The consolidated effective tax recovery rate of 23.4% for the fourth quarter approximates the Company's Canadian manufacturing and processing effective statutory rate of 34%.

In the fourth quarter of 2004, consolidated cash used \$7.0 million from operations before changes in operating working capital. This compares to operations generating \$6.9 million in that same period in 2003. Operating working capital generated \$10.2 million in the quarter compared to using \$0.3 million in the same period last year.

In the fourth quarter of 2004 the Company issued 3,000,000 common shares on December 30, 2004 for gross proceeds of \$12.0 million (\$11.1 million after issue costs of \$0.9 million).

Capital Expenditures in the fourth quarter were \$5.5 million. During the quarter the Company invested an additional \$1.9 million on Belledune and approximately \$2.7 million on equipment upgrades to its kiln, new cooling system and material handling equipment in St. Ambroise, Quebec. Approximately \$0.9 million was invested in permitting costs. In the fourth quarter of 2003 the Company invested approximately \$4.9 million primarily on its facilities in Belledune, New Brunswick.

CRITICAL ACCOUNTING ESTIMATES

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada and makes estimates and assumptions that affect the reporting amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent liabilities. On an on-going basis the Company evaluates its estimates and judgements, including those related to revenue recognition, adequacy of allowance for doubtful accounts, deferred permitting costs, 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:

- Revenue from the Saglek Labrador long-term, fixed price contract is 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 are reviewed on an ongoing basis and adjustments to the revenue recognition ratio are made as required. The Company currently has no other contracts accounted for under the percentage of completion method.
- The Company maintains an allowance for doubtful accounts for estimated losses that may arise if any of its customers are unable to make required payments. The company considers factors such as a customer's credit-worthiness, past transaction history, current economic industry trends and changes in customer payment terms when determining if collection is reasonably assured. If these factors indicate collection is not reasonably assured, revenue is deferred until collection is reasonably assured or the Company may increase its allowance for doubtful accounts.
- 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.
- 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.

CHANGES IN ACCOUNTING POLICIES

The Company issues stock options from time to time to its employees, directors and consultants to the Company. Effective January 1, 2004, the Company adopted the amended recommendations of the Canadian Institute of Chartered Accountants ("CICA") for accounting for stock-based compensation. The amended standard requires recognition of an estimate of the fair value of stock-based awards in earnings. Previously, the Company provided note disclosure of pro forma net income as if a fair value based method had been used.

The amended recommendations have been applied retroactively, with restatement of prior periods. The restatement as January 1, 2004 resulted in an increase to share capital at December 1, 2003 of \$493,601 (2002 - \$4,498), contributed surplus of \$1,201,776 (2002 - \$492,077) and a decrease to retained earnings of \$1,695,377 (2002 - \$496,575). The adjustments represent the total compensation expense which would have been recorded had a fair value based method been used for stock options granted after January 1, 2002 and adjustments for exercised options. Compensation expense related to stock options for the twelve months ended December 31, 2004 is \$675,176 (twelve months ended December 31, 2003 - \$1,198,802).

SHARE CAPITAL

The number of common shares outstanding at December 31, 2004 was 21,427,440, up from 17,145,789 at December 31, 2003 and has increased by 4,000,000 shares in the year due to the share issuance on February 3, 2004 and on December 30, 2004 as noted above in the Liquidity and Capital Resources section. In addition, there were 1,031,451 stock options outstanding as at December 31, 2004 exercisable at prices from \$2.17 to \$22.90 a share. The February 3, 2004 share issue had warrants attached that can be exercised into 500,000 common shares at a price of \$30.00 per share for a period of up to 18 months after the issue date.

The Company announced on April 21, 2004 that it had received Toronto Stock Exchange approval to commence a normal course issuer bid through the facilities of the TSX, permitting the Company to purchase for cancellation up to 900,000 common shares. The earliest the bid can commence was April 26, 2004 and it will run until the earlier of the date on which purchases under the bid have been completed and April 25, 2005. As of February 28, 2005, 11,500 shares have been purchased under the normal course issuer bid. The number of outstanding shares as at February 28, 2005 was 21,427,440 (including 11,500 shares purchased under the normal issuer bid that have not been cancelled).

OUTLOOK

As of February 28, 2005 the Company has not provided updated financial guidance for the full year and will do so once large sustainable volumes of contaminated soil from several of the Company's contracts begin arriving at the Company's facilities in Saint Ambroise, Quebec which is expected the first half of 2005.

RISK FACTORS

Information on "Risk Factors" can be found in the Company's Annual Information Form dated May 1, 2004 and the Annual Information Form for the fiscal year ended December 31, 2004 expected to be filed on or about March 31, 2005.

FORWARD LOOKING STATEMENTS

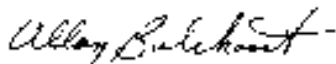
Certain statements in this management's discussion and analysis may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance 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

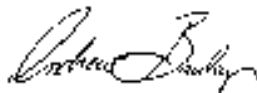
The consolidated financial statements contained in this annual report have been prepared by management in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these financial statements are the responsibility 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. Their examination includes a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the financial statements are, in all material respects, presented fairly and in accordance with accounting principles generally accepted in Canada.



Alan Bulckaert
Chief Executive Officer
February 28, 2005



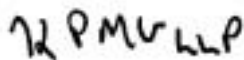
Andrew Boulanger
Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Bennett Environmental Inc. as at December 31, 2004 and 2003 and the consolidated statements of operations and retained earnings and cash flows for each of 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, 2004 and 2003 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.



KPMG LLP
Chartered Accountants

Vancouver, Canada
February 28, 2005, except as to note 16, which is as of March 16, 2005

Consolidated Balance Sheets

(Expressed in Canadian dollars) December 31, 2004 and 2003

	2004	2003
		(Restated – note 2(a)(i))
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,180,060	\$ 12,586,353
Accounts receivable (note 3)	14,316,648	28,839,675
Income tax receivable	3,417,204	—
Note receivable (note 4)	315,000	172,500
Prepaid expenses and other	1,531,580	2,306,876
	34,760,492	43,905,404
Future income tax asset (note 10)	891,826	—
Investments (note 4)	—	568,193
Property, plant and equipment (note 5)	48,920,377	23,779,384
Other assets (note 6)	4,793,069	7,354,403
Goodwill	646,638	646,638
	\$ 90,012,402	\$ 76,254,022
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,646,005	\$ 9,964,937
Income taxes payable	—	2,961,632
Deferred revenue	661,557	814,409
Current portion of long-term debt	1,218,405	4,601
	8,525,967	13,745,579
Future income tax liability (note 10)	—	2,616,861
Long-term debt (note 7)	1,483,045	993,593
Shareholders' equity:		
Share capital (note 8)	67,644,681	28,397,470
Contributed surplus (note 8 (f))	1,595,205	1,201,776
Retained earnings	10,763,504	29,298,743
	80,003,390	58,897,989
	\$ 90,012,402	\$ 76,254,022

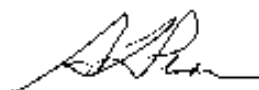
Contingencies (notes 3 and 16)

Related party transactions (note 11)

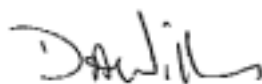
Commitments (note 14)

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, 2004 and 2003

	2004	2003
		(Restated – note 2(a)(i))
Sales	\$ 25,323,203	\$ 69,806,526
Expenses:		
Operating costs	26,736,521	32,419,935
Administration and business development (note 9)	15,780,332	8,542,452
Amortization	3,729,728	1,800,326
Foreign exchange	273,626	544,337
Loss from asset impairment (note 5 and 6)	4,343,979	—
Interest expense	305,313	156,675
	51,169,499	43,463,725
Earnings (loss) before undernoted	(25,846,296)	26,342,801
Gain on debt settlement (note 7)	—	1,316,936
Loss on investments (note 4)	(818,193)	(133,202)
Interest and other income	580,280	1,280,629
Earnings (loss) before income taxes	(26,084,209)	28,807,164
Income tax expense (recoverable) (note 10):		
Current	(4,802,434)	8,912,582
Future	(2,746,536)	1,721,123
	(7,548,970)	10,633,705
Net earnings (loss)	(18,535,239)	18,173,459
Retained earnings, beginning of year (as restated – note 2(a)(i))	29,298,743	11,125,284
Retained earnings, end of year (as restated – note 2(a)(i))	\$ 10,763,504	\$ 29,298,743
Basic earnings (loss) per share (note 12)	\$ (1.01)	\$ 1.08
Fully diluted earnings (loss) per share (note 12)	\$ (1.01)	\$ 1.04

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars) Years ended December 31, 2004 and 2003

	2004	2003
		(Restated – note 2(a)(i))
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ (18,535,239)	\$ 18,173,459
Items not involving cash:		
Gain on debt settlement	—	(1,316,936)
Amortization	3,729,728	1,800,326
Stock-based compensation	675,176	1,198,802
Loss on investments	818,193	133,202
Loss from asset impairment (notes 5 and 6)	4,343,979	—
Future income taxes (recovery)	(2,746,536)	1,721,123
Changes in operating working capital:		
Partial redemption of equity investment	—	150,000
Accounts receivable	14,523,027	(16,506,230)
Prepaid expenses and other	910,523	(718,611)
Accounts payable and accrued liabilities	(3,568,932)	2,082,269
Income taxes receivable/payable	(6,378,836)	(2,900,891)
Deferred revenue	(152,852)	718,981
Severance payable (note 7)	1,660,000	—
	(4,721,769)	4,535,494
Investments:		
Increase in notes receivable	(142,500)	—
Purchase of property, plant and equipment	(28,892,498)	(11,316,302)
Increase in license, permits and other assets	(1,294,032)	(3,516,569)
	(30,329,030)	(14,832,871)
Financing:		
Repayments of long-term debt	(121,744)	(405,777)
Share capital issued for cash net of costs	37,838,129	4,021,868
Shares repurchased and held in treasury	(71,879)	—
	37,644,506	3,616,091
Increase (decrease) in cash and cash equivalents	2,593,707	(6,681,286)
Cash and cash equivalents, beginning of year	12,586,353	19,267,639
Cash and cash equivalents, end of year	\$ 15,180,060	\$ 12,586,353
Supplementary disclosure of cash flow information:		
Cash paid for:		
Interest paid	\$ 20,800	\$ 16,354
Income taxes paid	385,212	11,813,473
Non-cash transactions:		
Stock-based compensation included in deferred permitting	436,461	—

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars) Years ended December 31, 2004 and 2003

1. OPERATIONS

The Company was federally 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 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") 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 construction of a new facility in Belledune, New Brunswick. This remediation site has not yet received its final operating permit and is in the process of performing compliance tests with the Department of Environment. The Company anticipates the compliance test to be completed and the Belledune facility to be operating in the later half of 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Changes in accounting policies:

i. Stock-based compensation:

Effective January 1, 2004, the Company Adopted the amended recommendations of the Canadian Institute of Chartered Accountants ("CICA") for accounting for stock-based compensation to employees. The amended standard requires recognition of an estimate of the fair value of stock-based awards in earnings. Previously, the Company recorded no compensation expense when employee options were issued and consideration paid by the employees was recorded as share capital. The Company provided note disclosure of pro forma net income as if a fair value based method had been used.

The amended recommendations have been applied retroactively, with restatement of prior periods. The restatement at January 1, 2004 resulted in an increase to share capital at December 31, 2003 of \$493,601 (2002 - \$4,498), contributed surplus of \$1,201,776 (2002 - \$492,077) and a decrease to retained earnings of \$1,695,377 (2002 - \$496,575). 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. Compensation expense related to employee stock options for the twelve months ended December 31, 2004 is \$675,176 (twelve months ended December 31, 2003 - \$1,198,802).

	As previously Reported	Adjustment	Restated
As at December 31, 2002:			
Retained earnings	\$ 11,621,859	\$ (496,575)	\$ 11,125,284
Share capital	23,882,001	4,498	23,886,499
Contributed Surplus	—	492,077	492,077
As at December 31, 2003:			
Retained earnings	30,994,120	(1,695,377)	29,298,743
Share capital	27,903,869	493,601	28,397,470
Contributed surplus	—	1,201,776	1,201,776

ii. Asset Retirement Obligation

Effective January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountant's handbook section 3110, *Asset Retirement Obligations*. The new section is for fiscal years beginning on January 1, 2004. S.3110 requires an entity to record the fair value of an asset retirement obligation 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 Company would also record a corresponding increase to the carrying amount of the related long-lived asset and to depreciate that cost over the life of the asset. The liability is changed at the end of each period to reflect the passage of time and changes in the amount and timing of estimated future cash flows underlying the initial fair value measurement. The Company considered each of its three manufacturing plants and individual permit arrangements. Where applicable, letters of credit have been issued to cover potential costs upon ceasing operations. As at December 31, 2004 no legal liability is estimated to exist; therefore, no obligation has been accrued.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars) Years ended December 31, 2004 and 2003

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

iii. Long-lived assets

Effective January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountant's handbook section 3063, *Impairment of Long-Lived Assets*. S.3063 requires an entity to evaluate whether events and circumstances have occurred that may warrant revision of the estimated useful life of property and equipment or whether the remaining balance of property and equipment, or other long-lived assets, should be evaluated for possible impairment. Instances that may lead to an impairment include: (i) a significant decrease in the market price of a long-lived asset group; (ii) a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; (iii) a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset or asset group, including an adverse action or assessment by a regulator; (iv) an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset or asset group; (v) a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; or (vi) a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

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).

iv. Termination benefits

Effective January 1, 2004, the Company adopted the Emerging Issues Committee abstract of issue discussed EIC-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. During 2004, the Company accounted for severance arrangements in accordance with this abstract.

b. 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"), Récupère Sol Inc. ("RSI"), Material Resource Recovery, Inc. ("MRR") and Bennett Environmental New Brunswick Inc. ("BEINB") All material related intercompany transactions and balances have been eliminated on consolidation.

c. 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 relate to the determination of percentage of completion and estimated project costs and revenues for contract revenue recognition, recoverability of accounts receivable, deferred permitting costs, property, plant and equipment and other assets, the assessment of realization on future income tax balances and estimates of future obligations related to asset retirement obligations and environmental obligations. Actual results could differ from those estimates.

d. 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.

e. Work-in-progress:

Work-in-progress related to costs incurred to ship untreated soil to the treatment facility and other treatment costs for soil, for which treatment is not complete, are not significant in 2004 and 2003 and are included in prepaid expenses and other assets. These amounts will be expensed when the related treatment of the related soil is complete.

f. 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, under which the investment is carried at cost, 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 recognized.

g. Property, plant and equipment:

Property, plant and equipment is recorded at cost. Amortization is not taken until the asset has been put into use by the Company. The Company annually evaluates for long-lived asset impairment in accordance with S. 3063, *Impairment of Long-Lived Assets (2(a)(iii))*. Amortization commences on property, plant and equipment under construction once construction has been completed.

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	straight-line	2 years
Kiln – AGT, 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	term of lease
Storage building and pads	straight-line	20 years
Software	declining balance	100%
Treatment building	declining balance	20%

h. Other assets:

The Company defers costs incurred related to securing permits to operate their kilns. Deferred permit 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 up to ten years, being the estimated useful lives of the assets and the expected term of the licenses. Any remaining balance related to these assets is expensed in the event the assets are determined to have no value or the licenses and permits are not renewed.

i. Stock-based compensation:

The Company has a stock-based compensation plan for executives and other key employees. The Company recognizes stock-based compensation expense in accordance with CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*. Beginning January 1, 2004, the Company changed its accounting policy related to employee stock options, and, on a retroactive basis, began to recognize compensation expense for stock or stock option grants to employees, based on the fair value of the stock or stock options issued (see note 2(a)(i)). Consideration paid by employees on the purchase of shares and exercise of stock options is recorded as share capital.

The Company accounts for all stock-based payments to non-employees using the fair value based method. Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the equity instruments issued. The fair value of stock-based payments to non-employees is periodically re-measured during the vesting period, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars) Years ended December 31, 2004 and 2003

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Goodwill and other intangible assets:

The Company accounts for goodwill and intangible assets under the provisions of the new Canadian Institute of Chartered Accountants Handbook Section 3062 ("CICA 3062"), *Goodwill and Other Intangible Assets*. Under CICA 3062, goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations. Goodwill is tested for impairment on a reporting unit basis. In the fourth quarter of 2004 and 2003, the Company completed its annual impairment test for goodwill and determined that no impairment has occurred. The Company has identified one reporting unit.

k. Revenue recognition:

The Company generally recognizes revenues on remediation activities when these services are completed. When the Company performs remediation services on short term contracts with multiple revenue generating activities, the Company recognizes revenue on delivered elements based on their relative fair value to that of the estimated total contract value.

Revenue from long-term fixed price soil remediation contracts is recognized on 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 expended costs to be the best available measure of progress on these contracts. Contract costs include all direct material and labour costs. Changes in estimates of contract price, total estimated costs or estimated losses, if any, are included in the determination of estimated cumulative revenue and expenses in the period the change is determined by management. Each reporting period, the Company recognizes adjustments from previously calculated and reported revenues and contract costs. Included in accounts receivable are unbilled amounts representing the excess of revenue recognized on long-term contracts over the amount billed to date.

l. Translation of foreign currency:

BEIUS, a wholly-owned foreign subsidiary, has a Canadian dollar functional currency since its operations are integrated with those of its parent. The accounts of BEIUS have been translated into Canadian dollars as follows:

- (i) monetary assets and liabilities at the year-end Canadian dollar rate;
- (ii) non-monetary assets and liabilities at the historical rate of exchange; and
- (iii) revenues and expenses at the rate at the time of the transaction.

Translation gains or losses are included in the determination of earnings.

m. Fair value of financial instruments:

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, work-in-progress, prepaid expenses, accounts payable and accrued liabilities and income taxes payable approximate fair values due to their short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of its long-term debt approximates fair value.

n. Income taxes:

The Company follows 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 and liabilities 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 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 substantial enactment date. Future income tax assets are evaluated and if their realization is not considered "more likely than not", a valuation allowance is provided.

o. Net earnings (loss) per share:

Net earnings (loss) per share are calculated based on the weighted average number of common shares outstanding. Fully-diluted earnings per share are calculated using the treasury stock method.

p. Comparative figures:

Certain of the comparative figures have been reclassified to conform with the basis of presentation adopted in the current year.

3. ACCOUNTS RECEIVABLE

	2004	2003
Accounts Receivable - billed	\$ 13,039,690	\$ 11,979,171
- unbilled	1,276,958	16,860,504
	\$ 14,316,648	\$ 28,839,675

Included in accounts receivable are amounts outstanding from one customer of approximately \$12.3 million (2003 - \$20.2 million). Included in this receivable are claims for additional work performed pursuant to the contracts which are in dispute with the customer. Accounts receivable and revenue at December 31, 2004 have been reduced by an estimated provision pending resolution of this matter.

The ultimate settlement of the claim is expected in 2005 and may result in a change in the estimated amounts of revenues and receivable recorded on this project.

4. INVESTMENTS

	2004	2003
Investment accounted for using the cost method	\$ —	\$ 440,000
Investment accounted for using the equity method, net of Company's share of net loss and partial redemption	—	128,193
	\$ —	\$ 568,193

During the year, the value of investments accounted for under the cost method became impaired on an other than temporary basis which resulted in a write off of \$540,000. The Company also wrote off the carrying value of its equity accounted investment together with unsecured receivables in 2004 which resulted in a loss of \$278,193 due to the losses incurred by the investee and the other than temporary impairment in value during the year. Amounts advanced to this investee and accrued interest which are secured have been recorded as note receivable in the amount of \$315,000 (2003 - \$172,500).

5. PROPERTY, PLANT AND EQUIPMENT

	2004			2003		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Automobiles	\$ 180,358	\$ 95,450	\$ 84,908	\$ 177,837	\$ 64,647	\$ 113,190
Computer equipment	599,862	308,052	291,810	440,222	233,019	207,203
Equipment – ELI (note 6)	534,000	267,000	267,000	534,000	—	534,000
Furniture and equipment	1,077,448	519,698	557,750	955,014	404,626	550,388
Kilns	16,312,361	4,704,540	11,607,821	11,361,344	3,965,415	7,395,929
Land	88,228	—	88,228	83,579	—	83,579
Land improvements	139,577	41,773	97,804	90,103	31,845	58,258
Leasehold improvements	58,322	58,322	—	58,322	54,774	3,548
Software	301,008	244,753	56,255	200,671	176,275	24,396
Storage building and pads	5,981,467	1,171,468	4,809,999	5,933,465	791,467	5,141,998
Treatment building	3,437,471	273,212	3,164,259	2,506,008	160,601	2,345,407
Treatment equipment	31,232,312	3,337,769	27,894,543	9,625,650	2,304,162	7,321,488
	\$59,942,414	\$11,022,037	\$48,920,377	\$ 31,966,215	\$ 8,186,831	\$ 23,779,384

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars) Years ended December 31, 2004 and 2003

5. PROPERTY, PLANT AND EQUIPMENT (continued)

At December 31, 2004, property, plant and equipment includes \$33,297,946 of assets under construction (2003 - \$6,205,736) related to the new remediation site in New Brunswick and no depreciation has been recorded on these assets since they are not available for productive use.

During the year, capital assets related to the Kirkland Lake project were written-off. The application for permitting of this site was postponed indefinitely (note 6); therefore, related equipment was transferred to other facilities and are being used for alternative purposes. An impairment charge of \$921,212 was realized on this equipment.

6. OTHER ASSETS

	2004	2003
Other assets:		
Deferred permitting costs (amortization nil for 2004 and 2003) (note 2(h))	\$ 3,286,808	\$ 4,979,081
Operating permits, licenses and other assets – ELI (net of amortization of \$899,436 (2003 - nil))	899,436	1,798,872
Cash surrender value of insurance (note 7)	606,825	576,450
	\$ 4,793,069	\$ 7,354,403

The Company is in the process of obtaining a final operating permit for its New Brunswick facility and will commence amortizing the related permitting costs upon obtaining this approval.

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

The Company acquired certain operating permits, licenses and other assets from ELI Eco Logic Inc. in December 2003 for cash and notes payable (note 7).

7. LONG-TERM DEBT

Long-term debt comprises the following:

	2004	2003
Promissory note, unsecured non-interest bearing, due December 31, 2005 (note 6)	\$ 300,000	\$ 300,000
Promissory note, non-interest bearing, due upon receipt by the Company of license assignment from two specified licensees (note 6)	—	100,000
Capital lease obligation	—	21,744
Tenure agreement	741,450	576,450
Severance payable	1,660,000	—
	\$ 2,701,450	\$ 998,194
Current portion of long-term debt	1,218,405	4,601
	\$ 1,483,045	\$ 993,593

During 2003, the Company concluded a settlement agreement with IT Corp and obtained court approval accepting this settlement in the fourth quarter of 2003. Under the terms of the settlement agreement, the Company's obligation to IT Corp was extinguished. Accordingly, the Company has recorded a gain on debt settlement of \$1,316,936 in 2003.

The Company entered into a tenure agreement with the founder of the Company, Mr. John Bennett, which provides an annual allowance of \$69,500 until age 85. The present value of these payments using an interest rate of 5.75% at December 31, 2004 is approximately \$741,450 which the Company intends to fund from cash flows and, in part, from the cash surrender value of a life insurance policy it holds on Mr. Bennett. The cash surrender value of this life insurance policy is \$606,825 at December 31, 2004 (note 6). An expense of \$134,625 (2003 - \$65,000) is included in administration and business development with respect to this tenure allowance.

During the year ended December 31, 2004, plans were approved to close the Vancouver administrative office in 2005. During this period, certain executive employment agreements were also terminated resulting in severance obligation payments over periods ending December 31, 2008. As a result of these terminations, the Company has accrued and expensed administration and business development severance costs of \$1,660,000, using an interest rate of 5.75% over the payment term, which will be accreted as interest expense over the payment dates.

Principal payments on long-term liabilities as at December 31, 2004 are as follows:

2005	\$ 1,218,405
2006	686,102
2007	256,435
2008	65,721
2009	65,721
Thereafter	409,066
	\$ 2,701,450

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 (none issued).
- b. 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 \$26.00 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 \$30.00 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. No share purchase warrants have been exercised at December 31, 2004.
- c. On December 30, 2004, the Company completed another financing arrangement with an Underwriter whereby the Underwriter agreed to purchase 3.0 million common shares from treasury at \$4 per common share for gross proceeds of \$12,000,000. The common shares issued consist of 2.5 million common shares from the bought deal financing and an additional 500,000 common shares were issued under an option granted to the Underwriter, which the Underwriter has exercised in full. Net proceeds from this financing transaction were \$11,329,450
- d. The issued share capital of the Company is as follows:

(Restated – Note 2(a)(i))	Common	Amount (Restated – note 2(a)(i))
Balance at December 31, 2002	16,508,739	\$ 23,886,499
Issued during the year ended December 31, 2002 for:		
Exercise of options	637,050	4,021,868
Stock-based compensation related to exercise of options	—	489,103
Balance at December 31, 2003	17,145,789	\$ 28,397,470
Issued during the year ended December 31, 2004 for:		
Exercise of options	281,651	2,115,156
Stock-based compensation related to exercise of options	—	718,208
Private Placement	1,000,000	26,000,000
Bought deal	3,000,000	12,000,000
Share issue costs	—	(2,277,027)
Tax benefits related to share issue costs	—	762,753
Total issued shares	21,427,440	67,716,560
Shares repurchased in 2004 and held in treasury	(11,500)	(71,879)
Balance at December 31, 2004	21,415,940	\$ 67,644,681

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars) Years ended December 31, 2004 and 2003

8. SHARE CAPITAL (continued)

e. Stock option plan:

The Company has reserved 5,096,325 common shares for future 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 at the grant date. Stock options are granted to both employees and non-employees. The Company's Board of Directors has discretion as to the number, vesting period, and expiry dates of stock options granted.

The weighted average fair value of the options granted for the year was \$4.55 per share (2003 - \$3.67 per share).

Stock option activity for 2004 and 2003 is presented below:

	2004		2003	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	1,120,602	\$ 9.21	1,419,953	\$ 5.67
Granted	210,000	5.19	564,000	18.02
Exercised	(281,651)	7.51	(636,850)	6.31
Cancelled	(17,500)	14.09	(226,501)	9.95
Outstanding, end of year	1,031,451	8.07	1,120,602	\$ 9.21
Exercisable, end of year	711,951	\$ 8.65	803,500	\$ 6.99

The following table summarizes information concerning outstanding and exercisable options at December 31, 2004:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average contractual life (in years)	Weighted average exercise price per share	Number exercisable	Weighted average exercise price per share
\$ 2.17 – 3.55	296,501	0.76	\$ 2.79	296,501	\$ 2.79
\$ 4.84 – 7.10	350,500	3.10	5.39	125,500	5.54
\$ 9.10 – 14.29	225,450	2.01	12.51	190,450	12.81
\$ 17.43 – 22.90	159,000	3.91	22.06	99,500	22.06
	1,031,451		\$ 8.07	711,951	\$ 8.65

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

	2004	2003
Risk-free interest rate	2.7%	2.6%
Dividend yield	—	—
Expected option lives	5 years	2 years
Volatility	135.7%	42.0%

f. Contributed surplus:

	2004	2003 (Restated - note 2(a)(i))
Balance, beginning of year	\$ 1,201,776	\$ 492,077
Stock-based compensation charge to earnings	675,176	1,198,802
Stock-based compensation to non-employees included in deferred permitting costs	436,461	—
Stock-based compensation related to options exercised	(718,208)	(489,103)
	\$ 1,595,205	\$ 1,201,776

9. ADMINISTRATION AND BUSINESS DEVELOPMENT

	2004	2003
Insurance	\$ 1,222,389	\$ 875,032
Marketing and public relations	2,059,459	2,146,191
Office supplies and miscellaneous	1,563,602	1,151,598
Wages, salaries, fees and stock base compensation	3,463,334	2,783,337
Professional fees	4,711,548	1,586,294
Severance and termination	2,760,000	—
	\$ 15,780,332	\$ 8,542,452

10. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the Canadian federal and provincial statutory tax rate of 35.6% (2003 – 36.60%) to earnings before income taxes as shown in the following table:

	2004	2003
Combined Canadian federal and provincial income taxes at expected rate	\$ (9,285,978)	\$ 10,543,422
Provincial tax rate difference	786,305	(901,356)
Permanent and other differences	950,703	991,639
	\$ (7,548,970)	\$ 10,633,705

The Company has non-capital losses carried forward of approximately \$4,142,000, which are available to reduce future years' income for income tax purposes.

Non-capital loss carry forwards expire as follows:

2011	\$ 3,039,000
2010	31,000
2009	1,046,000
2008	25,000
2007	1,000
	\$ 4,142,000

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars) Years ended December 31, 2004 and 2003

10. INCOME TAXES (continued)

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

	2004	2003
Future tax assets:		
Loss carry forwards	\$ 1,458,032	\$ 363,341
Share issue costs	657,605	—
Tenure/severance	866,923	—
Other	174,053	—
Net future tax assets	3,156,613	363,341
Future tax liabilities:		
Property, plant and equipment	(710,921)	(1,185,787)
Deferred permitting costs	(1,028,975)	(1,672,971)
Other	(524,891)	(121,444)
	(2,264,787)	(2,980,202)
Net future income tax asset (liability)	\$ 891,826	\$ (2,616,861)

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 taxable income during the periods in which temporary differences become deductible. Management considered projected future taxable income and tax planning strategies in making their assessment.

11. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2004, the Company expensed management fees of \$336,642 (2003 - \$446,931) to a company owned by a director and officer of the Company.

During the year ended December 31, 2004, the Company expensed legal fees of \$1,733,668 (2003 - \$23,780) to the Company's legal counsels, of which one of the partners is a director of the Company.

The above transaction 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 ended December 31, 2004, the Company recorded an investment loss of \$278,193 from an investment accounted for under the equity method (note 4).

12. EARNINGS (LOSS) PER SHARE

Basic earnings per share are calculated based upon the weighted average number of voting common shares outstanding during the year, which was 18,272,090 (2003 - 16,790,724).

Fully diluted earnings per share reflects the dilutive effect of the conversion of the stock options and warrants outstanding at the end of the year or those items exercised or converted during the year, as if they had been exercised or converted at the beginning of the year or the date issued, if later. The number of shares used for the calculation of the fully diluted earnings per share is 18,272,090 (2003 - 17,527,801) based on application of the treasury stock method.

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

	2004		2003	
	Net earnings	Number of shares	Net earnings	Number of shares
Net earnings (loss)	\$ (18,535,239)	18,272,090	\$ 18,173,459	16,790,724
Dilutive effect of stock options	—	—	—	737,077
Diluted earnings per common share	\$ (18,535,239)	18,272,090	\$ 18,173,459	17,527,801

Options aggregating 1,031,451 (2003 – 383,525) have not been included in the computation of diluted earnings per common share as they were anti-dilutive.

13. FINANCIAL INSTRUMENTS

a. Foreign currency risk management:

A substantial amount of the Company's revenues have been recognized in currencies other than the Canadian dollar, principally the United States dollar. Fluctuations in the exchange rates between these currencies 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, 2004.

b. Concentration of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable. As at December 31, 2004, two customers represented 80% of accounts receivable (2003 – 81%). Management is of the opinion that any risk of loss 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.

14. COMMITMENTS

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

Year ending December 31:	
2005	\$ 315,562
2006	188,133
2007	130,806
2008	127,782
2009	127,782
	<hr/>
	\$ 890,065

Letters of credit outstanding at December 31, 2004 are \$1,141,170 (2003 - \$1,092,000) held as security for the MRR facility site for the Ministry of the Environment.

15. SEGMENTED INFORMATION

a. Geographic information:

The Company operates and manages its business in a single reporting operating segment, the business of remediating contaminated soil and other waste materials. Sales during the year to customers domiciled in the United States amounted to \$10,214,976 (2003 - \$23,985,810) and in Canada amounted to \$15,108,227 (2003 - \$45,820,716).

b. Major customers:

For the year ended December 31, 2004, revenues from two customers, Customer A and Customer B represented approximately 33% and 29%, respectively of total revenues (2003 – two customers 33% and 43%). A long-term contract in place with 2003 Customer B was completed during 2004.

16. CONTINGENCIES

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 quashed 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. The appeal is pending.

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 and 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 favorable 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.

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 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. At present the claim of the lead plaintiff (not including claims of any other plaintiffs or potential plaintiffs) is approximately US\$3.11 million. The Company disagrees with the allegations and intends to defend against them vigorously.

Regulatory Investigations

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 heard from the OSC staff on this matter since September 30, 2004.

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, Québec, 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 of each of the above requests to the OSC and the TSX on September 30, 2004.

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, if any, are to be submitted to the OSC by March 17, 2005.

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 TSX requested a meeting with the Company and at least one independent director to be held by April 8, 2005, and asked the Company's disclosure committee to attend a timely disclosure education session. The TSX also advised that it intended to pass its findings to the OSC.

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, "this 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.

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 is continuing to cooperate with all regulatory agencies regarding these inquiries and investigations.

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(Expressed in Canadian dollars) Years ended December 31, 2004 and 2003

16. CONTINGENCIES (continued)

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 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 allow it to remain commercially competitive. The action plan was submitted to the Ministry on February 21, 2005. Subsequently, there is a submission of an amended action plan on March 21, 2005. The Company anticipates further discussion with the Ministry.

17. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("U.S. GAAP") 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. Earnings (loss) and earnings (loss) per share:

	2004	2003
Net (loss) earnings in accordance with Canadian GAAP	\$ (18,535,239)	\$ 19,372,261
Compensation expense (d)	621,029	(104,903)
Deferred permitting costs (e)	(1,730,494)	(1,717,697)
Write-down of deferred permitting costs (e)	3,422,767	—
Recovery of deferred business development costs (f)	—	43,950
Loss on investments (g)	81,050	—
Future income tax recovery on U.S. GAAP adjustments (h)	(610,911)	479,302
Net (loss) earnings per share in accordance with U.S. GAAP	\$ (16,751,798)	\$ 18,072,913
Basic earnings per (loss) share in accordance with U.S. GAAP	\$ (0.92)	\$ 1.08
Diluted earnings (loss) per share in accordance with U.S. GAAP	\$ (0.92)	\$ 1.03
	2004	2003
Weighted average shares outstanding (note 12):		
Basic	18,272,090	16,790,724
Fully diluted	18,272,090	17,527,801

b. Balance sheet:

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

	Investments	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
U.S. GAAP adjustments	—	(3,286,808)	—	(3,286,808)
Future income tax recovery on U.S. GAAP adjustment (h)	—	—	1,062,057	1,062,057
	\$ —	\$ 1,506,261	\$ 86,281,390	\$ 87,787,651
Assets in accordance with Canadian				
GAAP as at December 31, 2003	\$ 568,193	\$ 7,354,403	\$ 68,331,426	\$ 76,254,022
U.S. GAAP adjustments	(81,050)	(4,979,081)	—	(5,060,131)
	\$ 487,143	\$ 2,375,322	\$ 68,331,426	\$ 71,193,891
			2004	2003
Liabilities in accordance with Canadian GAAP				
			\$ 10,009,012	\$ 17,356,033
Future income tax recovery on U.S. GAAP adjustments (h)			—	(1,672,971)
			\$ 10,009,012	\$ 15,683,062
Shareholders' equity in accordance with Canadian GAAP				
			\$ 80,003,390	\$ 58,897,989
Deferred permitting and business development costs (f) and (g)			(3,286,808)	(3,387,160)
Future income taxes (h)			1,062,057	—
Shareholders' equity in accordance with U.S. GAAP			\$ 77,778,639	\$ 55,510,829
Shareholders' equity in accordance with U.S. GAAP is comprised of:				
Share capital			\$ 70,974,653	\$ 31,999,745
Additional paid-in capital (e) and (f)			1,395,304	1,356,651
Deferred compensation expense (e)			(54,990)	(61,037)
Retained earnings			5,463,672	22,215,470
			\$ 77,778,639	\$ 55,510,829

c. Statement of cash flows:

Under United States GAAP, cash provided by operations would decrease by \$1,294,032 (2003 - (\$1,194,445)) and cash used in investments would decrease by \$1,294,032 (2003 - (\$1,194,445)) for the costs of deferred permitting and business development, which would be expensed as incurred and classified as a component of operating cash flows under United States GAAP.

d. Stock-based compensation:

i. For United States 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. 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. Variable accounting is required to be applied if the exercise price of outstanding fixed stock options is reduced. Under variable accounting, the compensation expensed is remeasured based on the option's intrinsic value at each reporting date until the date award is exercised, forfeited or expires unexercised with changes in the intrinsic value recorded in the measurement of net income. For Canadian GAAP, the Company has accounted for employee stock based compensation as described in note 2(a)(i).

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars) Years ended December 31, 2004 and 2003

17. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("U.S. GAAP") RECONCILIATION (continued)

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 \$9,448 (2003 - \$104,903; 2002 - \$1,660,246 both to additional compensation expense and a corresponding increase to paid-in capital).

Under United States GAAP, the issue of stock options and warrants to non-employees is accounted for under Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"). The Company recognizes compensation expense for stock options, warrants and other equity instruments issued to non-employees for services received based upon the fair value of the services received or the equity instruments issued, whichever is more reliably determined. Under Canadian GAAP, the Company has applied the fair value method for non-employee awards granted since January 1, 2002. Under this policy, stock options issued to non-employees after December 31, 2002, the only measurement difference for non-employees are those carried forward from previous periods as noted below. The fair value of stock options and warrants granted to non-employees during the year ended December 31, 2001 was estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted-average assumptions:

	2001
Expected volatility	74.1%
Risk-free interest rate	4.0%
Dividend yield	—
Expected life of options	3 to 5 years

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. Deferred business development costs:

Under Canadian GAAP, expenditures relating to the development of new business 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.

g. 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 totaling \$81,050 have been reduced since they were previously recorded for U.S. GAAP purposes.

h. 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 net income (loss) or shareholders' equity under U.S. GAAP. The future income tax effect of U.S. GAAP adjustments has been recorded at the enacted tax rate in the period of adjustment.

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