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Diversified Industries

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Source: BigCharts.com

Recent Price	\$0.60
52-Week Range	\$0.42-\$0.90
S/O basic (MM)	78.6
S/O fully diluted (MM)	142.3
Market Cap (fd, MM)	\$85
Book Value/Share	\$0.37
Avg. Dly Vol. (3 mo.)	32,415
Debt to Capital	78%
Ann Dividend & Yield	Nil
FY End	December 31

Current Estimates

FY	06A	07E	08E
Rev (\$MM)	70.0	↑143.0	↓155.5
WAS		137.0	157.6
EPS (\$/sh)	0.00	↓0.01	↓0.03
WAS		0.04	0.07
P/E (x)	n/m	60x	20x

Company Description

EnGlobe Corporation, formerly Environmental Management Solutions, is an emerging leader in the environmental services sector. The company specializes in the management of organic-based waste streams and contaminated soils, with an emphasis on beneficial reuse.

ENGLOBE CORPORATION

(EG – TSX \$0.60)

Market Capitalization

Risk Profile

Potential ROR

STRONG BUY

12-mo. Target Price: \$1.05

\$85 Million

HIGH

75%

Q2 Continuing Progress

Event – Q2FY07 Results

EnGlobe released its Q2/07 results on August 14. Revenues were dramatically higher at \$42.5 million vs. \$26.8 million in Q1. The comparison to the previous year is meaningless due to the Q4 acquisition of Biogénie. Gross margin for Q2 was 26.8 percent, down from 29.7 percent in Q1. EBITDA was \$4.3 million or 5.5 cents per basic share versus \$1.2 million in Q1. Below the EBITDA line were depreciation and amortization of \$2.2 million, restructuring and other costs associated with the Biogénie acquisition, etc., of \$830,000, interest charges of \$1.4 million, and foreign exchange etc. of \$100,000, which produced a bottom line loss of \$179,000.

Discussion and Analysis

The seasonality of EnGlobe's business is such that, due to freezing weather and unworkable ground conditions, Q1 is noticeably slower than the remaining three quarters. Therefore, the dramatic gain in revenues quarter over quarter was as expected, with the remaining two quarters of the year expected to produce strong results as well, although not to the level of Q2.

The acquisition of Biogénie has been positive for the company, and now combined with the company's GSI division, gives it the presence to be a major competitor in Canada and at the international level in site assessment and soil remediation. Not having access to financial records for Biogénie before EnGlobe acquired it, we cannot make comparisons but we understand that the integration with GSI has gone well, that its performance to date has met expectations, and that the outlook for continuing growth of the business is bright.

Organic Waste Management, as well, continues to improve with additional volumes from source separated organics contracts, increased pulp and paper waste volumes, increased bag and bulk compost sales, and the impact of the City of Toronto biosolid waste management contract that began in August 2006.

As a general comment, we would say that we are 1) encouraged by the level of revenues that were generated during the quarter, and 2) somewhat disappointed with the gross margin, which was lower than we had estimated, and with continuing costs associated with the Biogénie acquisition and personnel costs associated with the accounting side of the business.

The July resignation of the newly recruited CFO, Raymond Castonguay, came as a surprise after only three months with the company, but we are satisfied that it was not for any reason related to the company's performance or its financial reporting. Naturally, senior management has had to restart the process of searching for a properly qualified individual to fill the position, but it should only be a minor diversion and not meaningfully slow the company's progress.

Looking forward we see further revenue gains through the remainder of 2007 and into 2008, although not at the same rate as experienced in Q2. Gross margins should improve due to both better operating practices and a healthier business mix. Management has rebuilt the company to handle a larger volume of revenues, so SG&A costs as a percentage of revenues should decline slightly.

...continued

Our forecast for the second half of the year sees the company earning revenues of \$73.7 million with improved gross margins, producing EBITDA for the year of \$16.5 million. Further charges below the EBITDA line will produce net income of \$1.925 million, or one cent per share on a fully diluted basis.

In fiscal 2008, we believe that revenues will grow 8–9 percent organically, and potentially more with an acquisition during the period. Gross margins are expected to be stable for the year at 30 percent and restructuring expenses should be non-existent. At the EBITDA line, we are forecasting \$19.25 million for the year, or 14 cents per fully diluted share. Net income is expected to be \$4.4 million, or three cents per share fully diluted.

Conclusion and Recommendation

As this early stage in EnGlobe's evolution after just emerging from its previous two years of turmoil while it was engaged in seemingly endless litigation and proxy battles with its former CEO Frank d'Addario, a valuation based on a multiple of stock price to EBITDA seems to be most appropriate. With the company now more than half way through fiscal 2007, investors will be looking to 2008 as a basis for valuation, and we believe that eight times EBITDA of 13.5 cents per fully diluted share, or \$1.05 is a reasonable target. **We maintain our STRONG BUY recommendation and \$1.05 target price.**

Table – Financial Forecast

EnGlobe Corporation (EG – TSX)
CAD\$000 – Canadian GAAP
Year Ending December 31, 2006

Statement of Earnings	FY04A	FY05A	FY06A	Q1FY07A	Q2FY07A	FY07E	FY08E
REVENUE							
Site Assessment & Remediation – Biogenie ¹	-	-	\$6,700	\$17,203	\$20,781	\$82,000	\$90,000
Site Assessment & Remediation – GSI	\$43,112	\$13,785	\$11,958				
Organic Waste Management – GSI		\$36,095	\$47,503	\$8,968	\$20,792	\$57,000	\$61,000
Tank Testing & Caliberation – Tanknology	\$2,852	\$2,807	\$3,760	\$624	\$923	\$4,000	\$4,500
Total Revenue	\$45,964	\$52,687	\$69,921	\$26,794	\$42,496	\$143,000	\$155,500
Cost of Goods Sold	31,990	37,681	50,732	18,848	31,074	100,000	108,750
Gross Margin	13,974	15,006	19,189	7,946	11,422	43,000	46,750
OPERATING EXPENSES							
Selling, general and administrative	10,376	11,245	12,612	6,722	7,101	26,500	27,500
EBITDA	3,599	3,760	6,578	1,223	4,322	16,500	19,250
Amortization of PP & E	2,557	2,203	2,606	1,556	1,568	6,000	6,500
Amortization of intangible assets	-	570	643	535	628	2,000	2,500
Stock-based compensation	3,959	696	548	138	167	750	750
Restructuring and other costs	595	5,303	476	500	668	1,750	500
Total Operating Expenses	7,111	8,772	4,274	2,729	3,031	10,500	10,250
EBIT	(3,512)	(5,012)	2,303	(1,506)	1,290	6,000	9,000
Interest – ST Debt	1,222	4,406	1,596	292	394	1,500	1,500
Interest – LT Debt	-	-	993	962	967	3,500	4,000
Total Interest	1,222	4,406	2,589	1,253	1,362	5,000	5,500
EBT	(4,734)	(9,418)	(285)	(2,759)	(71)	1,000	3,500
Gain (Loss) on FX				29	(231)		
(Gain) Loss on Interest Rate Swap				-	357	1,075	1,430
(Gain) Loss on Disposal of PP&E	38	330	4	(48)	(44)	-	-
Income Taxes	(1,805)	81	61	879	(189)	(150)	(525)
Non-controlling interest	113	(31)	104	-	-	-	-
Net Income from Continuing Operations	(6,389)	(9,038)	(116)	(1,899)	(179)	1,925	4,405
Net Income from discontinued operations	(19,673)	(8,286)	847	-	-	-	-
Net Income	(26,062)	(17,324)	731	(1,899)	(179)	1,925	4,405
Continuing operations:							
EPS – Basic	(0.18)	(0.24)	(0.00)	(0.02)	(0.00)	\$0.02	\$0.06
EPS – Diluted	(0.18)	(0.24)	(0.00)	(0.02)	(0.00)	\$0.01	\$0.03
Discontinued operations:							
EPS – Basic	(0.56)	(0.22)	\$0.02	-	-	-	-
EPS – Diluted	(0.56)	(0.22)	\$0.02	-	-	-	-
S/O – Basic	35,118	37,848	42,235	78,570	78,599	78,800	79,000
S/O – Diluted	35,118	37,848	42,450	78,570	78,599	142,250	142,250
Gross Margin %	30.4%	28.5%	27.4%	29.7%	26.9%	30.1%	30.1%
Operating Expenses (As % of Total Revenue)							
Selling, general and administrative	22.6%	21.3%	18.0%	25.1%	16.7%	18.5%	17.7%
Amortization of PP & E	5.6%	4.2%	3.7%	5.8%	3.7%	4.2%	4.2%
Amortization of intangible assets	0.0%	1.1%	0.9%	2.0%	1.5%	1.4%	1.6%
Stock-based compensation	8.6%	1.3%	0.8%	0.5%	0.4%	0.5%	0.5%
Restructuring and other costs	1.3%	10.1%	0.7%	1.9%	1.6%	1.2%	0.3%
Total Operating Expenses	15.5%	16.6%	6.1%	10.2%	7.1%	7.3%	6.6%
Tax Rate %	37.8%	-0.8%	-21.0%	-32.4%	701.2%	15.0%	15.0%
Net Income from continuing operations margin %	-13.9%	-17.2%	-0.2%	-7.1%	-0.4%	1.3%	2.8%
Net Income margin %	-56.7%	-32.9%	1.0%	-7.1%	-0.4%	1.3%	2.8%

Source: Company Filings and Fraser Mackenzie estimates

August 17, 2007

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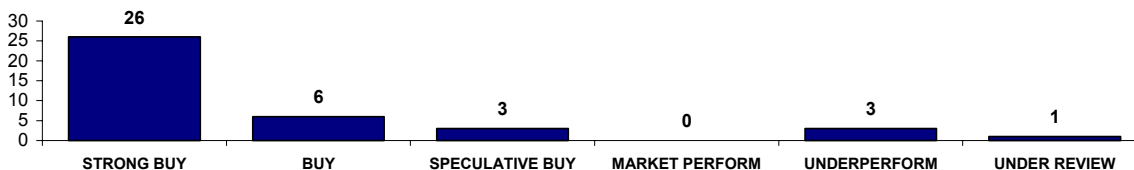
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