

EnGlobe Corp.

(formerly Environmental Management Solutions Inc.)

Consolidated Financial Statements

(Unaudited)

June 30, 2007

EnGlobe Corp.
Consolidated Balance Sheets
(Unaudited)

	June 30, 2007	December 31, 2006
	\$	\$
Assets		
Current assets		
Cash	1,873,225	5,603,877
Accounts receivable	34,828,407	32,918,508
Work in progress and other inventory	17,203,835	16,972,406
Prepaid expenses and advances	2,646,420	1,708,964
Other assets	357,012	170,262
Future income taxes	559,852	394,200
Current assets held for sale	77,570	309,223
	<hr/>	<hr/>
	57,546,321	58,077,440
Property, plant and equipment		
	32,961,299	32,816,673
Intangible assets		
	27,175,684	28,432,496
Deferred financing charges (note 3)	-	3,560,864
Goodwill	14,386,757	14,386,757
Other non-current assets	91,600	140,735
Non-current assets held for sale	2,377	2,376
	<hr/>	<hr/>
	132,164,038	137,417,341
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Liabilities		
Current liabilities		
Bank indebtedness	11,048,088	-
Accounts payable and accrued liabilities	27,381,155	30,249,424
Income taxes payable	-	3,082,947
Deferred revenue	9,183,727	10,727,543
Current portion of capital lease obligations	325,704	352,030
Current portion of long-term debt	4,200,000	4,204,196
Current portion of other long-term obligation	402,371	619,718
Current liabilities of assets held for sale	-	10,673
	<hr/>	<hr/>
	52,541,045	49,246,531
Capital lease obligations		
	85,879	190,333
Long-term debt		
	47,873,883	53,167,368
Other long-term obligation	649,485	775,860
Future income taxes	1,233,825	2,542,339
Preferred shares	936,610	878,707
	<hr/>	<hr/>
	103,320,727	106,801,138
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Shareholders' Equity		
Share capital	61,772,895	61,619,577
Contributed surplus	13,031,906	12,879,912
Deficit	(45,961,490)	(43,883,286)
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	28,843,311	30,616,203
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	132,164,038	137,417,341
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Commitments and contingencies (note 7)		

The accompanying notes are an integral part of these interim consolidated financial statements

EnGlobe Corp.

Consolidated Statements of Operations, Deficit and Comprehensive (Loss) Income (Unaudited)

	For the three month periods ended June 30,		For the six month periods ended June 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
Revenue	42,496,005	17,402,742	69,290,266	26,914,733
Direct costs	31,073,502	12,786,186	49,921,872	19,855,408
Gross operating profit	11,422,503	4,616,556	19,368,394	7,059,325
Expenses				
Selling, general and administrative	7,100,851	3,046,210	13,823,346	5,904,407
Amortization of property, plant and equipment	1,567,940	538,047	3,030,743	1,179,284
Amortization of intangible assets	628,409	90,456	1,256,812	177,636
Stock-based compensation	167,335	128,086	305,034	271,943
Restructuring and other costs (note 5)	667,673	28,067	1,168,108	95,315
Operating income (loss)	1,290,295	785,690	(215,649)	(569,260)
Foreign exchange loss	231,192	-	201,806	-
Interest on long-term debt	967,479	440,073	1,929,200	1,076,597
Other interest and bank charges	394,083	127,691	685,797	316,000
Gain on interest rate swap	(357,012)	-	(357,012)	-
Loss (gain) on disposal of property, plant and equipment	44,300	(3,870)	92,782	(596)
	10,253	221,796	(2,768,222)	(1,961,261)
Income tax expense (recovery)	189,132	240,848	(690,018)	(212,794)
Loss before discontinued operations and non-controlling interest in subsidiary company	(178,879)	(19,052)	(2,078,204)	(1,748,467)
Non-controlling interest in subsidiary company	-	-	-	104,123
Net loss before discontinued operations	(178,879)	(19,052)	(2,078,204)	1,644,344
Net (loss) earnings from discontinued operations	-	442,213	-	621,593
Net and comprehensive (loss) income for the period	(178,879)	423,161	(2,078,204)	(1,022,751)
Deficit – Beginning of period	(45,782,611)	(46,059,751)	(43,883,286)	(44,613,839)
Deficit – End of period	(45,961,490)	(45,636,590)	(45,961,490)	(45,636,590)
Basic and diluted income (loss) per share (note 4)				
From continuing operations	0.00	0.00	(0.03)	(0.04)
From discontinued operations	-	0.01	-	0.02
	0.00	0.01	(0.03)	(0.02)

The accompanying notes are an integral part of these interim consolidated financial statements

EnGlobe Corp.

Consolidated Statements of Cash Flows (Unaudited)

	For the three month periods ended June 30,		For the six month periods ended June 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
Cash provided by (used in)				
Operating activities				
Net(loss) earnings for the period	(178,879)	423,161	(2,078,204)	(1,022,751)
Net earnings from discontinued operations	-	442,213	-	621,593
Net loss from continuing operations	(178,879)	(19,052)	(2,078,204)	(1,644,344)
Items not affecting cash				
Depreciation and amortization	2,196,349	628,503	4,287,555	1,356,920
Non-cash interest charges	270,816	176,038	533,732	176,038
Gain on interest rate swap	(357,012)	-	(357,012)	-
Stock-based compensation	167,335	128,086	305,034	271,943
Unrealized foreign exchange gain	(509,542)	-	(556,661)	-
Loss (gain) on disposal of property, plant and equipment	44,300	(3,870)	92,782	(596)
Future income tax expense (recovery)	266,262	289,297	(1,474,166)	(222,704)
Non-controlling interest in subsidiary company	-	-	-	(104,123)
Change in non-cash working capital (note 9)	1,899,629	1,199,002	753,060	(166,866)
	1,419,886	(2,937,163)	(4,887,991)	(2,872,580)
	3,319,515	(1,738,161)	(4,134,931)	(3,039,446)
Cash provided by (used in) operating activities of discontinued operations	14,568	(454,931)	220,980	(467,124)
	3,334,083	(2,193,092)	(3,913,951)	(3,506,570)
Investing activities				
Purchase of property, plant and equipment	(1,658,873)	(703,030)	(3,480,946)	(1,020,071)
Proceeds on disposal of property, plant and equipment	73,106	-	212,794	-
Deferred consideration on acquisition of company	(5,106,273)	-	(5,106,273)	-
Change in restricted investments	-	1,100,943	-	1,095,000
Acquisition of non-controlling interest in subsidiary	-	-	-	(300,000)
Cash provided by(used) in investing activities of discontinued operations	(6,692,040)	397,913	(8,374,425)	(225,071)
	-	(18,054)	-	(18,054)
	(6,692,040)	(379,859)	(8,374,425)	(243,125)
Financing activities				
Increase in deferred financing charges	-	(218,954)	-	(2,461,786)
Increase in bank indebtedness	3,251,517	-	11,048,088	-
Change in other long-term assets	43,260	183,152	49,135	220,702
Repayment of capital lease obligations	(99,901)	(64,963)	(140,229)	(146,044)
Proceeds from long-term debt	-	-	-	15,338,337
Repayment of long-term debt	(1,090,317)	-	(2,140,918)	(12,596,635)
Repayment of other long-term payables	(406,000)	-	(406,000)	-
Change in amounts due to non-controlling interest in subsidiary	-	-	-	(52,189)
Proceeds from issuance of preferred shares and other equity	-	-	-	4,661,663
Proceeds from issuance of common shares	57,750	-	57,750	-
Cash provided used in financing activities of discontinued operations	1,756,310	(100,765)	8,467,826	4,964,048
	-	-	-	(37,983)
	1,756,310	(100,765)	8,467,826	4,926,065
Foreign exchange gain on cash held in foreign currency	79,029	-	89,898	-
Change in cash for the period	(1,522,618)	(1,913,998)	(3,730,652)	1,176,370
Cash- Beginning of period	3,395,843	3,951,987	5,603,877	861,619
Cash- End of period	1,873,225	2,037,989	1,873,225	2,037,989
Supplemental disclosure of cash flow information				
Interest paid	1,147,423	961,759	2,166,020	279,731
Income taxes paid	265,000	-	3,212,000	-

The accompanying notes are an integral part of these interim consolidated financial statements

EnGlobe Corp.

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(Unaudited)

1 Nature of operations

EnGlobe Corp. (“EG” or the “Company”) was incorporated on August 31, 2000 under the Business Corporations Act (Alberta) and registered under the Canada Business Corporations Act on September 27, 2004. Prior to June 13, 2002, EG was a Capital Pool Company on the TSX Venture Exchange.

On April 20, 2007, the shareholders approved a resolution to change the name of the Company from Environmental Management Solutions Inc. to EnGlobe Corp.

EG is an environmental services company specializing in the management of organic-based waste streams and contaminated soils, with an emphasis on beneficial re-use. EG provides solutions to municipal, commercial and industrial clients in Canada, the northern United States, United Kingdom and France through its subsidiaries, Biogénie S.R.D.C. Inc. (“Biogénie”), GSI Environment Inc. (“GSI”) and Tanknology Canada Inc. (“Tanknology”). The Company operates in three principal business segments: Site Assessment and Remediation (“SAR”), Organic Waste Management (“OWM”) and Tank Testing and Calibration. SAR, provided by Biogénie, encompasses environmental contracting, off-site treatment and recycling of contaminated soil and remediation of contaminated or degraded sites in North America, the United Kingdom and France. OWM, provided by GSI, encompasses environmental services including the land application, composting or disposal of organic wastes and eco-product sales in Quebec and Ontario. Tank Testing and Calibration, provided by Tanknology, encompasses storage tank precision leak testing and statistical inventory reconciliation, compliance testing, and facility compliance and tank system audits across Canada.

Seasonality

EG experiences significant quarterly fluctuations in operating results. Typically EG has experienced its lowest revenue during the first quarter where the lower weather is not favorable for site assessment and remediation activities and eco-product sales.

2 Basis of presentation

The interim consolidated financial statements include the accounts of EG and its subsidiaries, including companies controlled by EG. All material inter-company transactions and balances have been eliminated.

The interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. Accordingly, these financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the Company’s audited consolidated financial statements, and notes thereto, for the year ended December 31, 2006. In the opinion of management, all adjustments considered necessary for fair presentation have been included, and all such adjustments are of a normal, recurring nature. Operating results for the six-month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2007.

EnGlobe Corp.

Notes to Consolidated Financial Statements

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3 Summary of significant accounting policies

Except as follows, the accounting policies followed by the Company are the same as those followed in the Company's consolidated financial statements and notes thereto, for the year ended December 31, 2006.

Recently adopted accounting pronouncements

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530 "Comprehensive Income", 3251 "Equity" and 3855 "Financial instruments".

CICA Section 1530 established standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. There was no impact on the consolidated financial statements as a result of the adoption of this section.

CICA Section 3251 established standards for the presentation of equity and changes in equity during the period. There was no impact on the consolidated financial statements as a result of the adoption of this section.

CICA Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost based measures under different circumstances. The transaction costs are netted against the related financial liability.

Upon transition to CICA Section 3855, Financial Instruments – Recognition and measurement on January 1, 2007, the Company reclassified \$3,560,864 of deferred financing costs against the related debt.

Interest rate swap

The Company entered into an interest rate swap in March 2007 to fix the interest rate on a portion of the Company's variable rate debt. The Company has elected not to use hedge accounting and as a result the interest rate swap is measured at fair value. The resulting gains or losses are recorded in the statement of operations and the fair value of the interest rate swap is recorded on the balance sheet. As a result, the Company has recognized in the statement of operations \$357,012 of unrealized gains on these contracts. At June 30, 2007, there was one interest rate swap outstanding for a notional amount of \$19,950,000 with a fixed interest rate of 4.63%.

Use of estimates

The preparation of 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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from such estimates.

EnGlobe Corp.

Notes to Consolidated Financial Statements

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Recently issued accounting pronouncements

The Canadian Institute of Chartered Accountants (“CICA”) has issued the following accounting standards:

CICA Handbook Section 1535 “Capital Disclosures” establishes standards for disclosing information about a Company’s capital and how it is managed to enable users of the financial statements to evaluate the Company’s objectives, policies and procedures for managing capital. This section is effective for the fiscal years beginning on or after October 1, 2007.

CICA Handbook Section 3862 “Financial Instruments – Disclosures” requires disclosures in the financial statements that will enable users to evaluate: the significance of financial instruments for the company’s financial position and performance; and the nature and extent of risks arising from financial instruments to which the company is exposed during the period and at the balance sheet date, and how the company manages those risks. This accounting standard is effective for fiscal years beginning on or after October 1, 2007.

CICA Handbook Section 3863 “Financial Instruments – Presentation” establishes standards for presentation of financial instruments and non-financial derivatives. This section compliments the existing CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation and is effective for fiscal years beginning on or after October 1, 2007.

CICA Handbook Section 3031 “Inventories” provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and is effective for the fiscal years beginning on or after January 1, 2008.

The Company has not yet determined the impact of adopting the above accounting standards.

4 Earnings (loss) per share

The calculation of earnings (loss) per share is based on the daily weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share assumes that all outstanding options and warrants have been exercised and convertible securities exchanged at the later of the beginning of the fiscal period or the option issuance date, if they have a dilutive effect.

5 Restructuring and other costs

During 2007, the Company incurred \$1,168,108 in restructuring charges, including \$807,702 in severance and recruiting costs, \$135,800 in legal and professional fees and \$224,606 in other costs.

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6 Share Capital

Stock options

During the three and six months periods ended June 30, 2007, 574,999 (2006 – 1,283,333) and 658,332 (2006 – 1,283,333) stock options were granted respectively under the Employee Stock Option Plan.

During the three and six month periods ended June 30, 2007, 179,736 (2006 – 901,079) and 327,938 (2006 – 934,769) stock options were forfeited respectively.

During the three and six month periods ended June 30, 2007, 10,000 (2006 – nil) stock options were exercised for proceeds of \$4,000 (2006 - \$nil).

Optional stock appreciation rights

During the three and six month periods ended June 30, 2007, 2,000,000 (2006 – nil) optional stock appreciation rights were forfeited.

Warrants

During the three and six month periods ended June 30, 2007, 125,000 (2006 – nil) warrants were exercised for proceeds of \$53,750 (2006 - \$nil).

7 Commitments and contingencies

- (a) The Company has renewable letters of credit outstanding in the aggregate of \$3,401,389 which are used, in part, as security for bonding, in place of bonding or in place of cash security.
- (b) Litigation
 - i) A statement of claim has been filed against Wasteco Environmental Services Ltd, a subsidiary of EG, currently discontinued and other parties alleging damages of \$23.8 million. WasteCo and the other co-defendants deny any liability. Other defendants' insurance proceeds have paid for a significant amount of the damages claimed, however, there continues to be ongoing investigation into this matter. WasteCo is named as an additional insured under a co-defendant's policy. The amount of any settlement in excess of insurance coverage cannot be determined at this time and no amount has been recorded. Management believes that any potential loss not covered in the co-defendants policy will be adequately covered by the Company's insurance.
 - ii) During the quarter ended June 30, 2006, a former shareholder of GSI Environmental Inc., a wholly owned subsidiary of the Company, commenced an action against the Company, its former President and CEO and the Company's current and former directors. The Plaintiff claims \$5 million from the Company for alleged breach of contract and misrepresentation, \$5 million from the former President and CEO for alleged misrepresentation and declaratory and compensatory relief for alleged

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oppressive conduct, together with special damages in the amount of \$250,000, from all of the defendants.

The Company has notified its Director and Officer Insurance underwriter and has been advised that this is an insurable claim. The action will not proceed to trial, if at all, for many months. Accordingly, at this point in time, the amount of losses, if any, resulting from the claims made in the action is undeterminable.

- iii) A statement of claim has been filed against the Company by the former President and CEO, a company and a trust controlled by the former President and CEO, alleging a conspiracy by the Company with a third party to the suit with the intention of fraudulently obtaining ownership of the shares owned or controlled by the plaintiff. The amount of the claim is for \$17 million. Management believes this claim is without merit and the final determination will not materially affect the financial position or results of the Company.
- iv) In the normal course of business the Company is threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

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8 Segment information

The Company's operations consist of three operating segments: Site Assessment and Remediation, Organic Waste Management and Tank Testing & Calibration services. Services are provided to customers in Canada, the United States, United Kingdom and France. These segments differ from the reportable segments disclosed in prior years, as a result of the acquisition of Biogénie on November 24, 2006 which operates exclusively in the Site Assessment and Remediation group. Segmented results for the three and six-month periods ended June 30, 2007 and 2006:

	Three-month period ended June 30, 2007			
	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenue				
Canada and other	12,321,239	20,791,586	923,379	34,036,204
France	4,671,544	-	-	4,671,544
United Kingdom	3,788,257	-	-	3,788,257
	<u>20,781,040</u>	<u>20,791,586</u>	<u>923,379</u>	<u>42,496,005</u>
Amortization and depreciation	<u>1,687,945</u>	<u>468,047</u>	<u>40,357</u>	<u>2,196,349</u>
Segment earnings before the under-noted	1,339,541	338,576	171,695	1,849,811
Income tax expense				189,132
Stock-based compensation				167,335
Interest on long-term debt				967,479
Other interest and bank charges				394,083
Gain on interest rate swap				(357,012)
Restructuring and other costs				<u>667,673</u>
Net loss for the period				<u>(178,879)</u>
Goodwill as at June 30, 2007	<u>9,222,879</u>	<u>4,375,601</u>	<u>788,277</u>	<u>14,386,757</u>
Assets of discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,484</u>

Identifiable assets, excluding goodwill and discontinued operations, are not separated into specific segments. Total expenditures for property, plant and equipment for the quarter are \$1,658,873 (2006 - \$703,030) and for the six month period ended June 30, 2007 are \$3,480,946 (2006 - \$1,020,071).

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(Unaudited)

	Six-month period ended June 30, 2007			
	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenue				
Canada and other	19,278,174	29,759,576	1,546,987	50,584,737
France	10,705,524	-	-	10,705,524
United Kingdom	8,000,005	-	-	8,000,005
	<u>37,983,703</u>	<u>29,759,576</u>	<u>1,546,987</u>	<u>69,290,266</u>
Amortization and depreciation	3,265,987	941,078	80,490	4,287,555
Segment earnings (loss) before the under-noted	2,494,361	(1,653,324)	121,868	962,905
Income tax recovery				(690,018)
Stock-based compensation				305,034
Interest on long-term debt				1,929,200
Other interest and bank charges				685,797
Gain on interest rate swap				(357,012)
Restructuring and other costs				<u>1,168,108</u>
Net loss for the period				<u>(2,078,204)</u>
Goodwill as at June 30, 2007	<u>9,222,879</u>	<u>4,375,601</u>	<u>788,277</u>	<u>14,386,757</u>
Assets of discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,484</u>

External revenue by market is attributed to countries based on the location of the Company's subsidiary responsible for the revenue.

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	Three-month period ended June 30, 2006			
	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenue – Canada	1,552,000	14,993,875	856,867	17,402,742
Amortization and depreciation	65,000	533,593	29,910	628,503
Segment earnings before the under-noted	150,412	629,065	166,236	945,713
Income tax expense				240,848
Stock-based compensation				128,086
Interest on long-term debt				440,073
Other interest and bank charges				127,691
Net earnings from discontinued operations				(442,213)
Restructuring and other costs				28,067
Net income for the period				423,161
Goodwill as at June 30, 2006	-	4,375,601	788,277	5,163,880
Assets of discontinued operations	-	-	-	570,658

External revenue by market is attributed to countries based on the location of the Company's subsidiary responsible for the revenue.

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(Unaudited)

	<u>Six-month period ended June 30, 2006</u>			
	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenue – Canada	2,000,000	23,483,890	1,430,843	26,914,733
Amortization and depreciation	129,900	1,178,236	48,784	1,356,920
Segment earnings (loss) before the under-noted	(92,354)	(299,531)	190,479	(201,406)
Income tax recovery				(212,794)
Stock-based compensation				271,943
Interest on long-term debt				1,076,597
Other interest and bank charges				316,000
Non-controlling interest in subsidiary company				(104,123)
Net earnings from discontinued operations				(621,593)
Restructuring and other costs				<u>95,315</u>
Net loss for the period				<u>(1,022,751)</u>
Goodwill as at June 30, 2006	<u>-</u>	<u>4,375,601</u>	<u>788,277</u>	<u>5,163,878</u>
Assets of discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>570,658</u>

External revenue by market is attributed to countries based on the location of the Company's subsidiary responsible for the revenue.

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Geographic segments

The Company's assets, operations and employees are located in Canada, France, the United Kingdom and the United States.

	June 30, 2007			
	Canada and Other	France	United Kingdom	Total
	\$	\$	\$	\$
Property, plant and equipment	27,634,999	3,003,424	2,120,076	32,961,299
Goodwill and intangible assets	31,292,680	7,671,932	2,536,955	41,562,441
Other assets	43,330,992	8,880,508	3,970,789	57,640,298
Total assets	102,258,670	19,555,863	8,627,821	132,164,038

	December 31, 2006			
	Canada and Other	France	United Kingdom	Total
	\$	\$	\$	\$
Property, plant and equipment	26,993,990	3,453,469	2,369,214	32,816,673
Goodwill and intangible assets	32,323,234	7,887,710	2,608,309	42,819,253
Other assets	44,501,228	11,825,848	5,454,339	61,781,415
Total assets	103,818,452	23,167,027	10,431,862	137,417,341

9 Change in non-cash working capital

	For the three month periods ended June 30,		For the six month periods ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Accounts receivable	(5,815,091)	(4,156,664)	(1,443,137)	(3,367,247)
Work in progress and other inventory	(3,816,721)	1,828,785	(231,429)	1,886,496
Prepaid expenses and advances	33,290	247,979	(937,456)	(183,964)
Other assets	171,044	(45,095)	170,262	(105,252)
Accounts payable and accrued liabilities	10,287,496	(633,752)	2,180,532	(950,351)
Income taxes payable	(183,540)	(212,269)	(3,082,947)	(155,905)
Deferred revenue	743,408	33,853	(1,543,816)	3,643
	1,419,886	(2,937,163)	(4,887,991)	(2,872,580)

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10 Comparative figures

Certain of the prior period's comparative figures have been reclassified to conform to the current period's financial statement presentation.