

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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This Management Discussion and Analysis (MD&A) reviews the financial condition and results of operations for EnGlobe Corp. ("EG" or the "Company") for the three and six months ended June 30, 2007. This information is presented as of August 13, 2007. The MD&A should be read in conjunction with our audited consolidated financial statements and the accompanying notes for the year ended December 31, 2006. We also encourage you to read the MD&A for the year ended December 31, 2006.

EnGlobe Corp. was formerly known as Environmental Management Solutions Inc. On April 20, 2007 the Company changed its name to EnGlobe Corp.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts in this MD&A are in Canadian dollars, except as otherwise noted.

Throughout this MD&A, "we", "us", "our", "EG" and "the Company" refer to EnGlobe Corp. and its subsidiaries.

You will find more information about EG, including our Annual Information Form for the year ended December 31, 2006 and recent financial reports filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements about EG's objectives, strategies, financial conditions, results of operations, cash flow and businesses. These statements are "forward-looking" because they are based on our current expectations, estimates and assumptions, including regarding the markets we operate in, the Canadian, US and European economic environment, our ability to attract and retain customers, our relationships with our suppliers, availability and costs of fuels and utilities, the results of our ongoing efforts to improve cost effectiveness, changes in regulatory requirements affecting our business, and the availability and terms of financing.

Canadian securities laws contemplate that companies may disclose forward-looking information so that investors can get a better understanding of the Company's future prospects and make informed investment decisions. A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as "anticipate", "believe", "could", "expect", "goal", "guidance", "intend", "may", "objective", "outlook", "plan", "seek", "strive", "target" and "will".

It is important to know that:

- Forward-looking statements in this MD&A describe our expectations as at August 13, 2007.
- Our actual results could be materially different from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize and, accordingly, you are cautioned not to place undue reliance on these forward-looking statements.
- Forward-looking statements do not take into account the effect of transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. For example, they do not include the effect of sales of assets, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.

- We disclaim any intention and assume no obligation to update any of the forward-looking statements as a result of future events or for any other reason.

Risks that could cause our actual results to differ materially from our current expectations are discussed in this MD&A primarily in the *Risks That Could Affect Our Business* section.

## NON-GAAP FINANCIAL MEASURES

### EBITDA

Within this MD&A we use the term EBITDA (earnings before interest, income taxes, depreciation and amortization, and restructuring and other costs). EBITDA does not have any standardized meaning prescribed under GAAP and is therefore unlikely to be comparable to similar measures presented by other companies.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of restructuring and other costs, stock-based compensation, foreign exchange loss, gain on interest rate swap and goodwill and asset impairment charges. We exclude restructuring and other costs, loss or gain on foreign exchange, gain or loss on interest rate swap and loss or gain on disposal of property, plant and equipment because they are generally not part of our ongoing operations. We exclude stock-based compensation expense and goodwill and asset impairment charges because they all largely depend on the accounting methods and assumptions we use, along with non-operating factors, such as the historical cost of capital assets and the value of our common shares.

EBITDA allows us to compare our operating performance over time on a consistent basis. We believe that certain investors and analysts use EBITDA to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement in the environmental services industry.

Readers are cautioned that EBITDA should not be confused with cash flow from operating activities. The most comparable GAAP financial measure is operating income, which is discussed in the *Results from Operations* section of the MD&A. The table below reconciles EBITDA to operating income for the quarters presented.

\$000's (Unaudited)	Q 2 2006	Q 3 2006	Q 4 2006	Q 1 2007	Q 2 2007
EBITDA	\$ 1,570	\$ 2,296	\$ 3,123	\$ 1,223	\$ 4,322
Depreciation and amortization	628	676	1,216	2,091	2,196
Restructuring and other costs	28	181	200	500	668
Stock-based compensation	128	147	129	138	167
<b>Operating income (loss)</b>	<b>786</b>	<b>1,292</b>	<b>1,578</b>	<b>(1,506)</b>	<b>1,290</b>
Loss (gain) on disposal of property, plant and equipment	(4)	(3)	-	48	44
Gain on interest rate swap					(357)
Foreign exchange (gain) loss	-	-	-	(29)	231
Interest and bank charges	568	450	747	1,253	1,362
Income tax expense (recovery)	241	303	(151)	(879)	189
<b>Income (loss) before discontinued operations</b>	<b>(19)</b>	<b>542</b>	<b>982</b>	<b>(1,899)</b>	<b>(179)</b>

## **ABOUT OUR BUSINESS**

EG is Canada's leading integrated environmental services company specializing in the management of organic-based waste streams and contaminated soils, with an emphasis on beneficial reuse. EG offers cost-effective solutions to municipal, commercial and industrial clients in Canada, the northern United States, United Kingdom and France through our subsidiaries Biogénie S.R.D.C. Inc. ("Biogénie"), GSI Environment Inc. ("GSI") and Tanknology Canada Inc. ("Tanknology").

### ***Site Assessment and Remediation***

Biogénie is the Site Assessment and Remediation ("SAR") business segment for EG. SAR services include environmental contracting, off-site treatment and recycling of contaminated soil, and remediation of contaminated or degraded sites. The Biogénie name has brand recognition, with operating locations in Canada, the U.S., France and the U.K., and has nine soil treatment facilities; six in Québec, one in Ontario, and one in each of the United Kingdom and France. In certain cases Biogénie beneficially reuses GSI's treated organic waste for the reclamation of degraded sites.

### ***Organic Waste Management***

GSI is the Organic Waste Management ("OWM") business segment for EG. OWM services include the provision of environmental services such as land application, composting or disposal of organic wastes and eco-product sales in Québec and Ontario. GSI has operating locations in Ontario and Québec and has eight composting facilities all located in Québec. GSI manages more than 900,000 metric tonnes of organic waste annually through its composting facilities and direct land application.

### ***Tank Testing and Calibration***

Tanknology is the Tank Testing and Calibration business segment for EG. Tanknology provides storage tank and line precision leak testing and statistical inventory reconciliation, compliance testing, meter calibration, and facility compliance and tank system audits across Canada.

## **RESULTS FROM OPERATIONS**

On November 24, 2006, we purchased Biogénie and included in our Results from Operations are the operating results of Biogénie as of November 25, 2006. These operating results, along with those from our similar activities prior to the acquisition, are included in SAR line of business for the three and six months ended June 30, 2007.

### **Six Months**

#### **Revenue**

Revenue was \$69.3 million for the six months ended June 30, 2007, compared with revenue of \$26.9 million for the six months ended June 30, 2006, an increase of 157% primarily as a result of the acquisition of Biogénie.

\$000's (Unaudited)	Six months ended June 30,	
	2007	2006
<b>Revenue</b>		
Site Assessment and Remediation	\$ 37,984	\$ 2,000
Organic Waste Management	29,759	23,484
Tank Testing & Calibration	1,547	1,431
<b>Total</b>	<b>69,290</b>	<b>26,915</b>

The significant growth in SAR is attributable to the Biogénie acquisition. OWM revenues increased by 27% due to the impact of the City of Toronto biosolid waste management contract that began in August 2006, increased bag and bulk compost sales, additional volumes on source separated organics contracts, and increased pulp and paper waste volumes.. The growth in Tank Testing and Calibration was 8% and due to our new line of business in meter calibration that started in June 2006.

### Gross Operating Profit

Gross operating profit for the six months ended June 30, 2007, was \$19.4 million compared with \$7.1 million for the six months ended June 30, 2006. Gross operating profit for the six months ended June 30, 2007 was 28% compared with 26% for the six months ended June 30, 2006. The increase in gross operating profit is largely attributable to higher revenues and gross operating profit from the Biogénie's activities, moderated by reduced margins from the GSI activities.

### EBITDA and Operating Loss

\$000's (Unaudited)	Six months ended June 30,	
	2007	2006
<b>Gross operating profit</b>	<b>\$ 19,368</b>	<b>\$ 7,059</b>
Selling, general and administrative	13,823	5,904
<b>EBITDA</b>	<b>5,545</b>	<b>1,155</b>
Depreciation and amortization	4,288	1,357
Restructuring and other costs	1,168	95
Stock-based compensation	305	272
<b>Operating loss</b>	<b>(216)</b>	<b>(569)</b>

EBITDA for the six months ended June 30, 2007 was \$5.5 million compared with \$1.2 million for the six months ended June 30, 2006.

Selling, general and administrative expenses (SG&A) include salaries and other costs not directly attributable to the generation of revenue, and include selling and marketing, administrative, occupancy, legal, accounting, other professional services and bad debt provisions and other costs. SG&A expenses for the six months ended June 30, 2007 were \$13.8 million compared with \$5.9 million for the six months ended June 30, 2006. This increase is directly attributable to the additional expenses from Biogénie.

As a percentage of revenue, selling general and administrative expenses were 20% for the six months ended June 30, 2007, compared with 22% for the six months ended June 30, 2006. This decrease is primarily attributable to the economies of scale due to the acquisition of Biogénie. We anticipate a further decline as we continue our efforts to fully integrate the administrative functions of our businesses.

Depreciation and amortization for six months ended June 30, 2007, was \$4.3 million compared with \$1.4 million for same period ended June 30, 2006. This increase is attributable to the additional depreciation and amortization resulting from the acquisition of Biogénie.

The operating loss for the six months ended June 30, 2007, was \$0.2 million compared with an operating loss of \$0.6 million for the six months ended June 30, 2006. The decrease in the operating loss is attributable to the improved gross margin and EBITDA resulting from the acquisition of Biogénie. This is offset by an increase in restructuring and other costs to \$1.16 million for the six months ended June 30, 2007 compared with \$0.1 million for the six months ended June 30, 2006. During the six months ended June 30, 2007, the Company incurred an additional \$1.16 million in restructuring charges, including \$0.8 million in severance and recruitment costs, \$0.13 million in legal and professional fees and \$0.23 million of other costs. The restructuring costs were incurred primarily as a result of the changes in the office of the Chief Financial Officer, employee recruitment and employee termination costs related to redundant management roles as a result of the acquisition of Biogénie.

## Net Income (Loss)

\$000's (Unaudited)	Six months ended June 30,	
	2007	2006
<b>Operating loss</b>	\$ (216)	\$ (569)
Interest and bank charges	2,615	1,393
Gain on Interest swap	(357)	
Loss (gain) on disposal of property, plant and equipment	92	(1)
Loss on foreign exchange	202	-
Income tax recovery	(690)	(212)
Non-controlling interest in subsidiary company	-	(104)
<b>Loss before discontinued operations</b>	<b>(2,078)</b>	<b>(1,645)</b>
Income from discontinued operations	-	622
<b>Net loss</b>	<b>(2,078)</b>	<b>(1,023)</b>

Interest expense for six months ended June 30, 2007, was \$2.6 million compared with \$1.4 million for the six months ended June 30, 2006. Of the increase, \$0.8 million is related to the increased debt the Company needed to finance Biogénie acquisition and \$0.4 million is related to the use of the line of credit.

The average cash cost of debt financing was 7% during the six months ended June 30, 2007, compared with 13% for the same period ended June 30, 2006. In addition, deferred financing charges and the deemed interest rate on the convertible debentures increased the effective cost of debt financing to 8%, compared with 18% for the same period ended June 30, 2006.

## Second Quarter

### Revenue

Revenue was \$42.5 million for the quarter ended June 30, 2007 compared with revenue of \$17.4 million for the quarter ended June 30, 2006, an increase of 144% primarily as a result of the acquisition of Biogénie.

\$000's (Unaudited)	Q2 2007	Q2 2006
<b>Revenue</b>		
Site Assessment and Remediation	\$ 20,781	\$ 1,552
Organic Waste Management	20,792	14,994
Tank Testing & Calibration	923	857
<b>Total</b>	<b>42,496</b>	<b>17,403</b>

The significant growth in SAR is attributable to the Biogénie acquisition. OWM revenues increased by 39% due to the impact of the City of Toronto biosolid waste management contract that began in August 2006. The growth in Tank Testing and Calibration was 8% and due to our new line of business in meter calibration that started in June 2006.

## Gross Operating Profit

Gross operating profit for the quarter ended June 30, 2007 was \$11.4 million compared with \$4.6 million for the quarter ended June 30, 2006. Gross margin for the quarter ended June 30, 2007 was 26.9% compared to 26.5% for the quarter ended June 30, 2006.

## EBITDA and Operating Income

EBITDA for the quarter ended June 30, 2007 was \$4.3 million compared with \$1.6 million for the quarter ended June 30, 2006. This increase was attributable to the increased gross operating profit. As a percent of revenues, EBITDA increased to 10.1% for the quarter ended June 30, 2007 compared to 9.0% for the quarter ended June 30, 2006.

\$000's (Unaudited)	Q2 2007	Q2 2006
<b>Gross operating profit</b>	<b>\$ 11,422</b>	<b>\$ 4,617</b>
Selling, general and administrative	7,101	3,046
<b>EBITDA</b>	<b>4,321</b>	<b>1,571</b>
Depreciation and amortization	2,196	629
Restructuring and other costs	668	28
Stock-based compensation	167	128
<b>Operating income</b>	<b>1,290</b>	<b>786</b>

Selling, general and administrative expenses include salaries and other costs not directly attributable to the generation of revenue, and include selling and marketing, general and administrative costs, occupancy, legal, accounting, other professional services and bad debt provisions. Indirect costs for the quarter ended June 30, 2007 were \$7.1 million compared with \$3.0 million for the quarter ended June 30, 2006.

As a percentage of revenue, selling, general and administrative expenses decreased to 16.7% for the quarter ended June 30, 2007 compared with 17.5% for the quarter ended June 30, 2006. This decrease is primarily due to the economies of scales due to the acquisition of Biogénie.

Depreciation and amortization for quarter ended June 30, 2007 was \$2.2 million compared with \$0.6 million for the quarter ended June 30, 2006. The increase is attributable to the additional depreciation and amortization resulting from the acquisition of Biogénie.

Restructuring and other costs for quarter ended June 30, 2007 were \$0.7 million, which includes severance and recruiting costs for \$0.5 million and \$0.2 million in legal and other costs.

The operating income for the quarter ended June 30, 2007 was \$1.3 million compared with \$0.8 million for the quarter ended June 30, 2006. The increase is attributable to the increase in EBITDA, offset by larger depreciation and amortization expense resulting from the Biogénie acquisition and the restructuring and other costs.

Stock-based compensation for the quarter ended June 30, 2007 was \$0.17 million compared to \$0.13 million for the quarter ended June 30, 2006. This increase was primarily due to the additional grants of options during the quarter.

During the quarter, 574,999 employee stock options were granted to employees and directors of the Company, 10,000 options were exercised and 179,736 options were forfeited during the period. Of the options granted, 83,333 were granted to the CFO and have been forfeited subsequent to the end of the second quarter.

## Net Income (Loss)

\$000's (Unaudited)	Q 2 2007	Q 2 2006
<b>Operating loss</b>	<b>\$ 1,290</b>	<b>\$ 786</b>
Interest and bank charges	1,362	568
Gain on Interest swap	(357)	
Loss on disposal of property, plant and equipment	44	(4)
Loss (gain) on foreign exchange	231	-
Income tax expense	189	241
<b>Loss before discontinued operations</b>	<b>(179)</b>	<b>(19)</b>
Loss from discontinued operations	-	442
<b>Net loss</b>	<b>(179)</b>	<b>423</b>

Interest and bank charges for the quarter ended June 30, 2007 was \$1.4 million compared with \$0.6 million for the quarter ended June 30, 2006. The increase in interest expense is a result of the additional debt used in the acquisition of Biogénie, offset by the reduction in expense resulting from the March 31, 2006 refinancing.

## LIQUIDITY AND CAPITAL RESOURCES

The Company entered into an interest rate swap 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 swaps are measured at fair value. The resulting gains or losses are recorded in earnings 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, \$0.4 million of interest rate gains on these contracts. At June 30, 2007, there was one interest rate swap outstanding for a notional amount of \$20 million with a fixed interest rate of 4.63%.

During the six months ended June 30, 2007, we used \$3.7 million of cash in our operating, investing and financing activities compared to \$1.2 million of cash generated for the same period last year. For the six months ended June 30, 2007, cash was primarily used to fund operations, pay for capital expenditures, pay the balance of the purchase price relating to Biogénie's acquisition and to repay long-term debt and other long-term payables. This use of funds was partially offset by an increase in the utilization of our line of credit. For the six months ended June 30, 2006, cash was mainly provided by the issuance of convertible units and the release of restricted cash offset by the repayment of long-term debt and to pay for capital expenditures.

During the quarter ended June 30, 2007, we used \$1.5 million of cash in our operating, investing and financing activities compared to \$1.9 million for the same period last year. For the quarter ended June 30, 2007, cash was primarily used to pay for capital expenditures, the balance of the purchase price on the acquisition of Biogénie and to repay long-term debt and other long-term payables, and was partly offset by cash generated from operations and an increase in bank indebtedness. For the quarter ended June 30, 2006,

cash was mainly used to fund operations, to pay for capital expenditures, and was offset by the release of restricted cash.

We have access to a \$20 million revolver facility for the ongoing cash requirements of the business. This facility is used for, among other things, issuing letters of credit required for security for bonding, in place of bonds or as cash security. At June 30, 2007, \$3.4 million in letters of credit were outstanding and \$10.5 million was drawn to support working capital commitments.

## **CASH FLOW PROVIDED BY / USED IN OPERATING ACTIVITIES**

For the six months ended June 30, 2007, cash used in continuing operations was \$4.1 million compared with cash used in continuing operations of \$3.0 million for the six months ended June 30, 2006. Cash used in operating activities reflects our net loss for the period net of non-cash charges for depreciation and amortization, stock-based compensation, non-cash interest charges, loss on disposal of property, plant and equipment partially offset by an unrealized gain on foreign exchange, gain on interest rate swap and the change in our non-cash working capital.

For the quarter ended June 30, 2007, cash provided in continuing operations was \$3.3 million compared with cash used in continuing operations of \$1.7 million for the three months ended June 30, 2006. Cash provided in operating activities reflects a small net loss for the period net of non-cash charges for depreciation and amortization, stock-based compensation, non-cash interest charges, loss on disposal of property, plant and equipment partially and the change in our non-cash working capital offset by an unrealized gain on foreign exchange and gain on interest rate swap.

## **CASH FLOW PROVIDED BY / USED IN FINANCING ACTIVITIES**

For the six months ended June 30, 2007, cash provided used by financing activities of continuing operations was \$8.5 million, compared with cash provided in financing activities of continuing operations of \$5.0 million for the six months ended June 30, 2006. The cash provided is due to an increase in bank indebtedness of \$11.0 million offset by the funds used to repay long-term debt and other long-term payables. For the six months ended June 30, 2006, \$20 million was raised in a refinancing and issuance of shares, the proceeds of which were used to repay debt and improve working capital.

During the quarter ended June 30, 2007, cash generated by financing activities of continuing operations was \$1.8 million, compared with cash used in financing activities of continuing operations of \$0.1 million for the three months ended June 30, 2006. The cash was used to repay long-term debt and other long-term payables.

## **CASH FLOW PROVIDED BY / USED IN INVESTING ACTIVITIES**

For the six months ended June 30, 2007, cash used in investing activities of continuing operations was \$8.4 million compared with cash used in investing activities of continuing operations of \$0.2 million for the six months ended June 30, 2006. The amount invested was used for the improvement and the expansion of our composting sites and our soil treatment facilities and \$5.1 million is related to the Biogénie acquisition.

During the quarter ended June 30, 2007, cash used in investing activities of continuing operations was \$6.7 million compared with cash used in continuing operations of \$0.4 million for the three months ended June 30, 2006. The amount invested was used for the improvement and the expansion of our composting sites and our soil treatment facilities and \$5.1 million is related to the Biogénie acquisition.

## CONTINGENCIES

In the normal course of business we are party to a number of claims, which individually and in the aggregate, we believe to be immaterial to the financial position or ongoing operations of the business.

One of our subsidiaries WasteCo has been named as a co-defendant, together with unrelated parties, in a \$23.8 million lawsuit by a customer of WasteCo, Dura-Lite Heat Transfer Products Ltd. (“Dura-Lite”). The lawsuit relates to a fire and loss that occurred in November 2001. WasteCo is vigorously defending this action and denies any liability to Dura-Lite and we believe this case is without merit. We understand that the plaintiff in the Dura-Lite lawsuit has already received a significant payment from its insurer in connection with its loss and the amount of any potential costs of settlement cannot readily be determined at this time. We are named as an additional insured party under a general liability policy together with other defendants and our primary insurers have also confirmed that a policy is in place that will provide coverage to a maximum of \$5,000,000 in the event WasteCo is found liable.

In November 2006, EG, our current President and CEO, and a third party, were served with a \$17 million law suit commenced by Mr. Frank D’Addario and certain other parties alleging conspiracy and fraud in the preparation and signing of a Consulting and Share Pledge Agreement dated March 1, 2005 between Mr. D’Addario and such third party. We were not involved in any way with this Consulting and Share Pledge Agreement and we are vigorously defending ourselves from such allegations.

In May 2006, we were named as a defendant in a legal suit for \$5 million by Jean Shoiry, the former majority shareholder of GSI, for alleged breach of contract and intentional or negligent misrepresentation related to the acquisition of GSI. Mr. Frank D’Addario is also named as a defendant for intentional or negligent misrepresentation.

## QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected consolidated financial information derived from our unaudited interim period consolidated financial statements for each of the eight most recently completed quarters.

\$ 000's except per share amounts	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2007	2006	2007	2006	2006	2005	2006	2005
Revenue	\$ 42,496	\$ 17,403	\$ 26,794	\$ 9,512	\$ 25,162	\$ 13,812	\$ 17,844	\$ 13,576
Income (loss) from continuing operations	(179)	(19)	(1,899)	(1,625)	983	(3,102)	542	(759)
Net income (loss)	(179)	423	(1,899)	(1,446)	904	(4,738)	849	1,112
Basic earnings (loss) per share								
From continuing operations	0.00	(0.00)	(0.02)	(0.04)	0.02	(0.08)	0.01	(0.02)
Net income (loss)	(0.00)	0.01	(0.02)	(0.04)	0.02	(0.13)	0.02	0.03
Diluted earnings (loss) per share								
From continuing operations	0.00	0.00	(0.02)	(0.04)	0.02	(0.08)	0.01	(0.02)
Net income (loss)	(0.00)	0.01	(0.02)	(0.04)	0.01	(0.13)	0.01	0.03
Total assets	132,164	44,244	120,639	65,602	137,417	42,291	47,475	47,048
Total long-term financial liabilities	50,780	16,444	50,623	16,443	55,012	6,877	16,479	5,790
Weighted Average number of shares (in 000's)								
Basic	78,599	38,012	78,570	38,012	54,764	37,848	38,012	37,655
Diluted	78,599	38,306	78,570	38,012	118,908	37,848	101,860	37,655

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. We continually evaluate the estimates and assumptions we use. These estimates and assumptions are based on our historical experience, best knowledge of current events, and conditions and activities that we may undertake in the future. Actual results could differ from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain. Changes in these estimates and assumptions could materially affect the consolidated financial statements.

## Goodwill and Intangible Assets

Goodwill is not amortized and is assessed for impairment at the business unit level at least annually. Comparing the fair value of a business unit/segment to its carrying value identifies any potential goodwill impairment. If the fair value of the business unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the business unit exceeds its fair value, this indicates potential goodwill impairment and must be quantified by comparing the estimated fair value of the business unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of

goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

We determine the fair value of our business units using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these fair values requires management to make estimates and assumptions including, but not limited to projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to our Board of Directors. Discount rates are based on an industry weighted average cost of capital. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

We expect to complete our annual impairment test in the third quarter of 2007.

## **Income Taxes**

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to recover or settle.

## **Stock-Based Compensation**

Stock-based compensation expenses are recognized based on numerous estimates. The aggregate amount of expense in a particular period is the proportion of the expense relating to that period based on the expected life of each stock-based instrument multiplied by the fair value of each instrument at the time of grant. The fair value of each instrument granted is estimated on the date of grant using the Black-Scholes model taking into consideration the estimated expected life, the estimated volatility rate and the estimated risk free interest rate and dividend yield.

## **Bad Debt Expense**

We routinely review accounts receivable and set up a reserve for bad debts on a customer-by-customer basis. This is an estimate since some of the reserved accounts may be collected and we may subsequently find that some accounts currently deemed collectible become non-collectible.

## **Revenue Recognition**

Revenue is generated under fee for services contracts, cost based contracts and fixed price contracts. For the fee for services contracts, revenue is recognized when the services are provided. For cost based contracts, revenue is recorded when costs are incurred. Fixed price contracts are recorded using the percentage-of-completion method. This requires an estimate of the amount of costs that are anticipated to be incurred as the services are performed. Some of these costs change due to the nature of the treatment or disposal of the residual products. The estimate of the costs and associated margins can change during the year.

## CHANGES IN ACCOUNT POLICIES

### a) Accounting standards adopted in 2007

#### *Financial Instruments – Recognition and Measurement, Handbook Section 3855*

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 – in certain instances using fair value and in others using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.

The Company adopted this standard effective January 1, 2007. As a result of adoption, \$3,560,864 of deferred financing costs were reclassified on the balance sheet net against the related long-term debt.

#### *Comprehensive Income, Handbook Section 1530*

Section 1530 introduces a new requirement to temporarily present certain gains and losses outside net income.

The Company adopted this standard effective January 1, 2007. There was no impact on the interim consolidated financial statements as a result of adoption of this standard.

#### *Hedges – Handbook Section 3865*

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. This Section applies for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Retroactive application is not permitted.

The Company will adopted this standard effective January 1, 2007. There was no impact on the interim consolidated financial statements as a result of adoption of this standard.

### b) Recently issued accounting pronouncements not yet adopted

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.

### **Shares Outstanding**

As August 13, 2007 there are 78,705,160 common shares and 29,859,125 preferred shares outstanding.

## **RISKS THAT COULD AFFECT OUR BUSINESS**

As stated above, risks that could cause our actual results to materially differ from our current expectations include, but are not limited to:

- General industry and economic conditions;
- Changes in our relationships with suppliers;
- Pricing pressures and other competitive factors;
- The availability and costs of fuels and utilities;
- The results of our ongoing efforts to improve cost effectiveness;
- Changes in legislative and regulatory requirements affecting our business;
- General uncertainty associated with operating in a highly regulated environment;
- Costs and risks associated with litigation;
- Potential changes to the mix of businesses we operate;
- Reliance on key personnel;
- The availability of future financing and the variability of interest rates, and
- Changes in exchange rates between the Canadian dollar, the U.S. dollar, British Sterling and the Euro.

Should one or more of these risks materialize, or should our underlying assumptions prove incorrect, our actual results may materially differ from our current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause our actual results to materially differ from such forward-looking statements. No change occurred in the last quarter, please refer to the Risk Factors section of our Annual Information Form for a more detailed description for risks that could affect our business.

## **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

### **Disclosure controls and procedures**

Multilateral Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings”, issued by the Canadian Securities Administrators (“CSA”) requires Chief Executive Officers (“CEOs”) and Chief Financial Officers (“CFOs”) to certify that they are responsible for establishing and maintaining disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer’s disclosure controls and procedures, and that their conclusions about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

EnGlobe's CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as at June 30, 2007 and the current controls and procedures provide reasonable assurance that material information relating to the issuer is made known to them. The Company is also committed on continuing to improve the design of its disclosure controls and in particular through the formalization of EnGlobe's disclosure controls and procedures into a disclosure policy that clarifies the authority, responsibility and accountability of all employees of the Company for various disclosure and reporting requirements. Other than this codification of practice, we have concluded that the Company's disclosure controls and procedures were effective for the interim period then ended.

### **Internal controls over financial reporting**

Multilateral Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the issuer, that those internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP, and that the issuer has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

The Company has experienced significant transformational changes during fiscal year 2007, in particular since the acquisition of Biogénie on November 24, 2006. Since the acquisition of Biogénie, the Company has experienced significant turnover of employees in the finance area, many of which employees support our organic waste management business which has experienced a disproportionate share of such turnover. Management has taken steps to address this issue, including the appointment of a new CFO who subsequently resigned. Due to these unforeseen circumstances, the Company was unable to design or cause to be designed any additional or new internal controls over financial reporting. Currently, risks are mitigated as these operations are similar to EnGlobe's other subsidiaries' operations, and the Company was fully apprised of any material events affecting it. To mitigate the risk, management relies heavily on manual procedures and detective controls, weekly management meetings, monthly reviews of financial statements by the operating divisions.

Our plan of action is currently focused on addressing the following areas:

- Implementation of new standards for segregation of duty and software access for all finance employees; and
- Implementation of additional transaction level controls related to our invoicing and purchasing processes.

Based upon the existing internal controls of the Company and evaluations conducted to date by the Company, the Company can provide reasonable assurance regarding the preparation of its financial statements in accordance with GAAP. The Company is committed to improving its internal control environment in line with its organizational changes.

## **OTHER**

Additional information relating to the Company financial statements is available in the Annual Information Form at [www.sedar.com](http://www.sedar.com).