

EnGlobe Corp.

Interim Consolidated Financial Statements
(Unaudited)
For the six-month periods ended
June 30, 2008 and 2007

EnGlobe Corp.
Interim Consolidated Balance Sheets
(Unaudited)

	June 30, 2008	December 31, 2007
	\$	\$
Assets		
Current assets		
Cash	1,402,458	902,239
Accounts receivable	33,580,685	36,583,137
Inventory	2,968,358	7,628,289
Work in progress	8,617,166	7,781,766
Prepaid expenses and advances	2,738,750	1,421,372
Other assets	126,179	386,160
Future income taxes (notes 4 and 9)	1,183,759	1,180,566
Current assets held for sale	36,406	36,593
	<u>50,653,761</u>	<u>55,920,122</u>
Property, plant and equipment (note 9)	28,593,543	32,318,592
Intangible assets (notes 4 and 9)	30,776,123	25,982,081
Goodwill (notes 4 and 9)	17,243,524	14,547,323
Future income taxes (note 9)	5,447,336	6,676,000
	<u>132,714,287</u>	<u>135,444,118</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	9,487,469	15,774,863
Accounts payable and accrued liabilities	24,941,408	22,420,383
Income taxes payable	-	1,625,728
Deferred revenue	6,928,485	9,042,558
Current portion of capital lease obligations	561,783	310,341
Current portion of long-term debt (note 5)	71,349,685	4,450,000
Current portion of other long-term obligation (note 10)	548,227	531,955
Other current liabilities	227,910	-
Future income taxes (notes 4 and 9)	143,261	143,000
	<u>114,188,228</u>	<u>54,298,828</u>
Capital lease obligations	440,120	244,593
Long-term debt (note 5)	-	46,275,739
Other long term obligation (note 10)	1,921,300	-
Future income taxes (note 4)	6,918,087	5,502,785
Preferred shares	1,060,438	997,147
	<u>124,528,173</u>	<u>107,319,092</u>
Shareholders' Equity		
Common shares (note 6)	65,318,209	61,772,815
Preferred shares (note 6)	2,859,447	-
Contributed surplus	13,354,426	13,213,162
Deficit	(73,345,968)	(46,860,951)
	<u>8,186,114</u>	<u>28,125,026</u>
	<u>132,714,287</u>	<u>135,444,118</u>
Commitments and contingencies (notes 5 and 10)		

The accompanying notes are an integral part of these interim unaudited consolidated financial statement:

EnGlobe Corp.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue	38,208,956	42,496,005	62,490,283	69,290,266
Direct costs	34,232,059	31,073,502	53,075,668	49,921,872
Gross profit	3,976,897	11,422,503	9,414,615	19,368,394
Expenses				
Selling, general and administrative	7,977,888	7,100,851	14,607,171	13,823,346
Amortization of property, plant and equipment	1,536,396	1,567,940	2,921,267	3,030,743
Loss on disposal of property, plant and equipment	186,299	44,300	178,443	92,782
Income (Loss) before the undernoted items	(5,723,686)	2,709,412	(8,292,266)	2,421,523
Amortization of intangible assets	1,273,614	628,409	1,913,734	1,256,812
Stock-based compensation	65,568	167,335	152,733	305,034
Restructuring and other costs (note 8)	1,725,319	667,673	2,636,997	1,168,108
Foreign exchange loss (gain)	109,414	231,192	(225,945)	201,806
Interest on long-term debt	1,048,196	967,479	1,981,173	1,929,200
Other interest and bank charges	926,928	394,083	1,448,458	685,797
Other non-cash charges (note 9)	9,553,399	-	9,553,399	-
Unrealized (gain) loss on interest rate swap	(201,152)	(357,012)	230,993	(357,012)
	(20,224,972)	10,253	(25,983,808)	(2,768,222)
Income tax (recovery) expense (note 9 vi)	2,324,156	189,132	501,209	(690,018)
Net and comprehensive loss for the period	(22,549,128)	(178,879)	(26,485,017)	(2,078,204)
Deficit – Beginning of period	(50,796,840)	(45,782,611)	(46,860,951)	(43,883,286)
Deficit – End of period	(73,345,968)	(45,961,490)	(73,345,968)	(45,961,490)
Basic and diluted loss per share (note 7)	(0.26)	(0.00)	(0.32)	(0.03)

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

EnGlobe Corp.

Interim Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008 \$	2007 \$	2008 \$	2007 \$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(22,549,128)	(178,879)	(26,485,017)	(2,078,204)
Items not affecting cash				
Depreciation and amortization	2,810,010	2,196,349	4,835,001	4,287,555
Non cash interest accretion on debentures, preferred shares and other long-term obligation	515,722	270,816	777,954	533,732
Unrealized (gain) loss on interest rate swap	(201,152)	(357,012)	230,993	(357,012)
Stock-based compensation	65,568	167,335	152,733	305,034
Unrealized foreign exchange loss (gain)	20,048	(509,542)	78,896	(556,661)
Loss on disposal of property, plant and equipment	186,299	44,300	178,443	92,782
Other non-cash charges (note 9)	9,553,399	-	9,553,399	-
Other	(25,001)	-	(25,001)	-
Provision for future income tax	2,400,460	266,262	468,780	(1,474,166)
	(7,223,775)	1,899,629	(10,233,819)	753,060
Change in non-cash working capital (note 14)	(1,866,892)	(3,686,387)	5,867,005	(9,994,264)
Cash used in operating activities of continuing operations	(9,090,667)	(1,786,758)	(4,366,814)	(9,241,204)
Cash provided by operating activities of discontinued operations	-	14,568	187	220,980
	(9,090,667)	(1,772,190)	(4,366,627)	(9,020,224)
Investing activities				
Purchase of property, plant and equipment	(782,649)	(1,658,873)	(1,443,213)	(3,480,946)
Proceeds on disposal of property, plant, equipment	185,100	73,106	198,100	212,794
Acquisition of company, net of cash acquired (note 4)	(1,150,946)	-	(10,068,976)	-
Other investing activities	-	-	(603,606)	-
Cash used in investing activities	(1,748,495)	(1,585,767)	(11,917,695)	(3,268,152)
Financing activities				
Increase (decrease) in bank indebtedness	9,487,469	3,251,517	(6,287,394)	11,048,088
Change in other long-term assets	-	43,260	-	49,135
Repayment of capital lease obligations	(170,613)	(99,900)	(274,726)	(140,229)
Proceeds from long-term debt	-	-	21,975,500	-
Repayment of long-term debt and other long term payables	(1,325,000)	(1,496,317)	(1,575,000)	(2,546,918)
Proceeds from issuance of preferred shares	-	-	2,950,000	-
Proceeds from issuance of common shares	-	57,750	18,000	57,750
Cash provided by financing activities	7,991,856	1,756,310	16,806,380	8,467,826
Change in cash for the period	(2,847,306)	(1,601,647)	522,058	(3,820,550)
Foreign exchange loss (gain) on cash held in foreign currency	15,277	79,029	(21,839)	89,898
Cash – Beginning of period	4,234,487	3,395,843	902,239	5,603,877
Cash – End of period	1,402,458	1,873,225	1,402,458	1,873,225
Supplemental disclosure of cash flow information				
Interest paid	1,398,801	1,147,423	2,541,897	2,166,020
Income taxes paid	1,891,038	265,000	2,092,377	3,212,000

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

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Notes to Interim Consolidated Financial Statements (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, England and France through its subsidiaries, Biogénie S.R.D.C. Inc. ("Biogénie"), Celtic Technologies Limited ("Celtic"), 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 and Celtic, 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

The Company experiences significant quarterly fluctuations in quarterly operating results. Typically, it has experienced its lowest revenue during the first quarter where low temperatures are not favorable for site assessment and remediation activities and eco-product sales.

2 Basis of presentation

The interim unaudited 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 unaudited consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. 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, 2007. 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 three- and six-month periods ended June 30, 2008 may not necessarily be indicative of the results that may be expected for the full year ending December 31, 2008.

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Notes to Interim Consolidated Financial Statements (Unaudited)

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, 2007.

The Celtic intangible assets are amortized over their estimated life in a straight line basis as follows:

- Back-log 1 year
- Non-compete agreement 3.5 years
- Customer relationship 5 – 10 years
- Technology and other 1 – 25 years

Asset retirement obligation

The Company recognizes an estimate of the liabilities associated with an asset retirement obligation ('ARO') in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as another long-term obligation, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depreciated on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

Recently adopted accounting pronouncements

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1535 "Capital Disclosures", 3862 "Financial Instruments – Disclosures", 3863 "Financial Instruments – Presentation", and 3031 "Inventories".

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.

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.

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.

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Notes to Interim Consolidated Financial Statements (Unaudited)

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. There was no material impact as a result of the adoption of this new policy.

Recently issued accounting pronouncements

Goodwill and Intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," which replaces Section 3062, "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This accounting standard is effective for annual and interim periods beginning on or after October 1, 2008. The Company is currently evaluating the impact of adopting this standard.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting IFRS.

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Notes to Interim Consolidated Financial Statements (Unaudited)

4 Acquisitions

(a) Acquisition of Celtic

On March 25, 2008, the Company purchased all of the issued and outstanding shares of Celtic. Celtic was founded in 1992 and is a ground remediation contractor with operating locations in Wales, Northern England and the Midlands in the United Kingdom. The purchase price paid for Celtic was \$15,304,504 and is comprised of the following:

	\$
Base consideration	
Cash	11,215,677
Common shares (note 6)	3,515,925
Acquisition costs	542,902
Accrued acquisition costs	<u>30,000</u>
	<u>\$15,304,504</u>

Contingent consideration, in a ratio of 75% cash and 25% common shares of the Company, may be paid up to a maximum of £2,000,000 if Celtic achieves certain profitability levels for the period ending November 30, 2008.

The purchase price was allocated on a preliminary basis and is subject to certain subsequent adjustments once all the expenses related to the transactions are known and a final valuation of property, plant and equipment, including their remaining useful lives has been completed. This preliminary purchase price allocation is summarized as follows:

	\$
Cash	1,689,603
Current assets	5,261,503
Property, plant and equipment	1,229,222
Intangible assets	
Back-log	545,535
Non-complete agreements	2,101,320
Customer relationships	2,768,085
Technology and others	<u>2,495,318</u>
	7,910,258
Goodwill	5,719,948
Current liabilities	(3,572,680)
Capital lease obligations	(718,478)
Future income taxes liability	<u>(2,214,872)</u>
Total consideration	<u>\$15,304,504</u>

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The goodwill was assigned to the Company's Site Assessment and Remediation operating segment and is not deductible for tax purposes.

The results of Celtic were consolidated with those of the Company effective March 25, 2008.

(b) Acquisition of a 49% equity interest in Sila Remediation Inc.

The Company has a 49% interest in Sila Remediation Inc. ("Sila"), a company providing remediation services in Nunavut. Sila began its operations at the beginning of 2008. The results of Sila are required to be consolidated with those of the Company and included as part of the SAR segment as the Company is the primary beneficiary of Sila as defined in Accounting Guideline 15 – Consolidation of Variable Interest Entities.

5 Long-term debt and going concern

	June 30, 2008	December 31, 2007
Term Loan (a)	51,838,023	38,050,000
Class A Convertible Debentures (b)	15,866,022	15,690,525
Class B Debentures (c)	7,271,112	-
	74,975,157	53,740,525
Less: Deferred financing charges	3,625,472	3,014,786
	71,349,685	50,725,739
Less: Current portion of long-term debt	71,349,685	4,450,000
Long-term portion of long-term debt	-	46,275,739

(a) Term loan and revolving facility

On March 25, 2008, the Company amended its credit agreement to arrange a 5-year term loan of \$15,200,000 denominated in pounds sterling (£7,565,577), for net proceeds of \$14,902,773. This term loan was used, in part, for the acquisition of Celtic (note 4) with the remainder used for transaction expenses and the reduction of the revolver facility. Repayment of principal and interest are due quarterly and excess cash flow, as defined in the agreement, is to be used to repay the term loan. In addition, the term of the prior \$42,000,000 November 2006 term loan and the revolving facility were extended to 2013.

As a result of the Company's delayed filing of the second quarter 2008 financial statements, and the Company's losses in the second quarter of 2008, the Company breached various financial and non-financial covenants under its credit agreement. The Company obtained a waiver that waived the various breaches under the agreement until October 31, 2008. Under the terms of the waiver, EnGlobe paid a waiver fee of 0.25% of amounts available and borrowing costs were increased by 1.00%. Due to the breach of covenants, the Company has recorded all indebtedness related to the term loan as current. The Company is currently in discussions with the lenders of the term loan to modify its terms and covenants and expects this to be completed shortly.

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If the Company were unsuccessful in renegotiating the debt facilities there is significant doubt on their ability to continue as a going concern. The company has also taken certain operational measures to address the current operating results (note 9 iv).

(b) Class A Convertible Debentures

Class A convertible debentures bear interest at interest rate of 5% per annum, payable quarterly. The debentures are due in 2014 and are convertible into common shares at the option of the holder at a rate of \$0.323 per common share.

At June 30, 2008, the Company breached certain covenants under the Class A convertible debenture agreement. However, under an intercreditor agreement with the holders of the term loan, the term of the debentures cannot be accelerated until such time as the term loan is repaid. The Class A convertible debentures are subordinate to the term loan. As the term loan is currently recorded as current, the Class A convertible debentures would also become due and payable and therefore have also been recorded as current.

(c) Class B Debentures

On March 25, 2008, the Company issued \$7,046,000 in Class B debentures, for net proceeds of \$6,427,173, after deducting financing fees of \$618,827, including \$271,000 in financing fees paid to the holders. The Class B debentures have a term of 6 years. They are secured, non-convertible and, subject to certain exceptions, bear interest on the principal amount at 15% per annum, compounded and payable quarterly with 3% per annum payable in cash on each applicable interest payment date and 12% per annum capitalized on each applicable interest payment date and added to the principal amount, all in accordance with the terms of such debentures. The Company may repay all or a portion of the principal amount of the Class B debentures at any time without penalty after March 25, 2009. These debentures were issued to certain shareholders of the Company.

At June 30, 2008, the Company breached certain covenants under the Class B debenture agreement. However, under an intercreditor agreement with the holders of the term loan, the term of the debentures cannot be accelerated until such time as the term loan is repaid. The Class B debentures are subordinate to the term loan. As the term loan is currently recorded as current, the Class B debentures would also become due and payable and therefore have also been recorded as current.

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Notes to Interim Consolidated Financial Statements (Unaudited)

6 Share capital

Authorized

Unlimited number of common shares with no par value

Unlimited number of preferred shares issuable in series

	Number of Shares	Amount \$
Common Shares		
Balance at December 31, 2007	78,705,160	61,772,815
Acquisition of Celtic	7,960,645	3,515,925
Shares issued on exercise of stock options	45,000	29,469
Balance at June 30, 2008	86,710,805	65,318,209

Share issuances and cancellations

On March 25, 2008, the Company issued 7,960,645 common shares with a fair value of \$3,515,925 (\$0.44 per share) as consideration for the acquisition of Celtic (see note 4).

On January 9, 2008, 45,000 options were exercised for proceeds of \$18,000.

On March 25, 2008, the Company completed a private placement of 7,845,745 Series 2 preferred shares at \$0.40 per share, including 470,745 preferred shares issued in consideration for financing fees. Consideration received for the preferred shares was \$2,859,447 after deducting \$90,553 in issuance costs and \$188,298 in financing fees paid to the holders of the preferred shares. The Series 2 preferred shares are voting and convertible at any time by the holders on the basis of one preferred share for each common share. Holders are entitled to receive, subject to certain exceptions, a fixed, cumulative dividend per preferred share equal to 3% of the issue price per annum and are redeemable by the Company, at its option, on or after March 31, 2014 at the issue price plus all accrued and unpaid dividends.

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Stock options

During the three and six months periods ended June 30, 2008, 408,333 (2007 - 574,999) and 491,666 (2007 - 658,332) stock options were granted respectively under the Employee Stock Option Plan.

During the three and six months periods ended June 30, 2008, 1,238,000 (2007 - 179,736) and 1,381,353 (2007 - 327,938) stock options were forfeited respectively.

During the three month period ended June 30, 2008, no options (2007 - 10,000) were exercised for nil proceeds (2007 - \$4,000).

During the six month period ending June 30, 2008, 45,000 options (2007 - 10,000) were exercised for proceeds of \$18,000 (2007 - \$4,000).

Tandem option and stock appreciation rights

During the three and six months periods ended June 30, 2008, 5,000,000 Option and Stock Appreciation Rights ("OSARs") were granted (2007 - 2,000,000).

During the three and six months periods ended June 30, 2008, 2,500,000 (2007- nil) and 12,500,000 (2007 - 2,000,000) OSARs were forfeited respectively.

7 Loss per share

The weighted average number of common shares for the purpose of the loss per share calculations was as follows:

	Six month period ended June 30,2008	Six month period ended June 30,2007
Weighted average number of shares outstanding		
Basic and diluted	82,990,696	78,584,497

8 Restructuring and other costs

During the three-month period ended June, 2008, the Company incurred \$1,725,319 (2007 - \$667,673), including \$197,492 in severance and recruiting costs, (2007 - \$357,892), \$123,536 in

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legal costs, (2007 - \$81,795), \$561,300 in settlement of a litigation claim as disclosed in note 10 and \$842,991 in other costs (2007 - \$227,986).

For the six-month period ended June, 2008, the Company incurred \$2,636,997 (2007 - \$1,168,108), including \$561,992 in severance and recruiting costs, (2007 - \$807,702), \$314,038 in legal costs, (2007 - \$132,419), \$561,300 in settlement of a litigation as disclosed in note 10 and \$1,199,667 in other costs (2007 - \$227,987).

Subsequent to June 30, 2008 the Company finalized its plan to relocate the corporate offices from Burlington, Ontario to Quebec City, Quebec. As a result, further restructuring charges are expected in the third quarter.

9 Other non-cash charges

- i) The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062, *Goodwill and Other Intangible Assets*, requires goodwill be tested for impairment annually or earlier if there are indications of impairment. EG performs its annual test of goodwill for impairment in the third quarter. However the current strategic review resulted in the Company performing an impairment test on the goodwill of its OWM segment in the second quarter.
- ii) The impairment test for goodwill is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value of a reporting unit is based on one or more fair value measures including present value techniques of estimated future cash flows and estimated amounts at which the unit as a whole could be bought or sold in a current transaction between willing parties. If the carrying amount of the reporting unit exceeds the fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net earnings (loss).
- iii) In testing for impairment of long-lived assets, the Company assessed recoverability of the carrying amounts by reference to expected undiscounted cash flows. An impairment charge is recognized when the carrying amount is not fully recoverable and when it exceeds the fair values determined by reference to discounted cash flows and independent appraisals.
- iv) During the second quarter of 2008, EG's management performed a comprehensive review of current performance and the strategic orientation of its reporting units. This strategic review revealed that, several factors have severely and persistently caused the recalibration of some key assumptions in EnGlobe's strategic planning. The value of compost also significantly decreased during 2008. This unforeseen decrease has resulted in a change in management's estimate of the expected realizable value of its compost. In response to this unexpected turn of events, the Company is completing corrective actions in order to minimize the negative impact over the entire business and analyzing options to return to a profitable OWM business model in the near future. The strategic review included a review of

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the carrying amount of certain assets including; inventory, property plant and equipment, intangible assets and goodwill in the OWM segment.

- v) Based on this review, the Company recorded a charge of \$9,553,399, virtually all related to its OWM segment, detailed as follows:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Property, plant and equipment	3,206,399	-	3,206,399	-
Intangible assets	1,203,000	-	1,203,000	-
Goodwill	5,144,000	-	5,144,000	-
Total	9,553,399	-	9,553,399	-

- vi) In addition, as a result of the review described above check, and the associated uncertainties, the Company has recorded a valuation allowance of approximately \$6.6 million in respect of the operating losses incurred in 2008. The Company also because of delays in its restructuring and integration plans, no longer expects to realize the benefit of the operating losses expiring in 2009 and 2010 and recorded a valuation allowance of \$0.3 million against these losses.
- vii) The Company also recorded inventory write-downs of \$2.3 million which are recorded in cost of sales.

10 Commitments and Contingencies

- (a) Letter of credit

The Company has renewable letters of credit outstanding in the aggregate of \$5,146,355 (2007 - \$3,401,389) which are used, in part, as security for bonding, in place of bonding or in place of cash security. The letters of credit are issued under the credit agreement under which the Company has breached certain covenants, as described in note 5.

- (b) Litigation

- i) A statement of claim had been filed, on November 5, 2003, against Wasteco Environmental Services Ltd, ("WasteCo") a subsidiary of EnGlobe, currently discontinued, and other parties alleging damages of \$23.8 million. This claim was dismissed in August 2008.
- 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. This claim was settled in July 2008 under which, the Company will pay \$350,000 on each of July 15, 2009 and July 15, 2010. These payment obligations, which have been recorded on a

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discounted basis, are secured by a general security agreement which is subordinated to the security held by the Company's secured lenders.

- iii) A statement of claim has been filed against the Company by a former President and CEO, a company and a trust controlled by a 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.

(c) Asset retirement obligations

During 2008, the Company recognized an asset retirement obligation of approximately \$1.7 million in respect of the expected costs to remediate one of its facilities.

11 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, the United Kingdom and France. Segmented results for the three-month and six-month periods ended June 30, 2008 and 2007 are as follows:

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Three months ended June 30, 2008	Site Assessment & Remediation	Organic Waste Management	Tank Testing and Calibration	Total
	\$	\$	\$	\$
Revenue				
Canada	10,584,320	15,044,944	878,094	26,507,358
USA	427,103			427,103
France	3,973,326			3,973,326
United Kingdom	7,301,169			7,301,169
	<u>22,285,918</u>	<u>15,044,944</u>	<u>878,094</u>	<u>38,208,956</u>
Amortization and depreciation	1,634,134	1,134,628	41,248	2,810,010
Segment (loss) earnings before the under-noted	557,767	(7,783,306)	118,825	(7,106,714)
Income tax expense				2,324,156
Stock-based compensation				65,568
Interest on long term debt				1,048,196
Other interest and bank charges				926,928
Unrealized gain on interest rate swap				(201,152)
Restructuring & other costs				1,725,319
Other non-cash charges				9,553,399
Net loss for the period				<u>(22,549,128)</u>
Three months ended June 30, 2007	Site Assessment & 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	1,687,945	468,047	40,357	2,196,349
Segment earnings before the under-noted	1,339,540	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
Unrealized loss on interest rate swap				(357,012)
Restructuring & other costs				667,673
Net loss for the period				<u>(178,879)</u>

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Six months ended June 30, 2008	Site Assessment & Remediation	Organic Waste Management	Tank Testing and Calibration	Total
	\$	\$	\$	\$
Revenue				
Canada	15,759,791	23,838,693	1,503,954	41,102,438
USA	1,181,026			1,181,026
France	10,241,890			10,241,890
United Kingdom	9,964,929			9,964,929
	<u>37,147,636</u>	<u>23,838,693</u>	<u>1,503,954</u>	<u>62,490,283</u>
Amortization and depreciation	3,779,973	974,559	80,469	4,835,001
Segment (loss) earnings before the under-noted	(210,300)	(9,811,849)	42,094	(9,980,055)
Income tax expense				501,209
Stock-based compensation				152,733
Interest on long term debt				1,981,173
Other interest and bank charges				1,448,458
Unrealized loss on interest rate swap				230,993
Restructuring & other costs				2,636,997
Other non-cash charges				9,553,399
Net loss for the period				<u>(26,485,017)</u>
Goodwill	<u>16,455,247</u>	-	<u>788,277</u>	<u>17,243,524</u>
Six months ended June 30, 2007	Site Assessment & 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
Unrealized loss/(gain) on interest rate swap				(357,012)
Restructuring & other costs				1,168,108
Net loss for the period				<u>(2,078,204)</u>
Goodwill	<u>10,583,879</u>	<u>3,014,601</u>	<u>788,277</u>	<u>14,386,757</u>

Certain assets are not separated into specific segments. External revenue by market is attributed to countries based on the location of the Company's subsidiary responsible for the revenue. Total

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expenditures for property, plant and equipment for the quarter are \$782,649 (2007 - \$1,658,873) and for the six month period ended June 30, 2008 are \$1,443,213 (2007-\$3,480,946).

Geographic segments

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

June 30,2008

	Canada \$	France \$	United Kingdom \$	United States \$	Total \$
Property, plant and equipment	22,536,346	2,390,544	3,582,211	84,442	28,593,543
Goodwill and intangible assets	25,393,566	7,207,937	15,341,116	77,027	48,019,646
Other assets	23,475,553	7,442,408	24,457,431	725,706	56,101,098
	71,405,465	17,040,889	43,380,758	887,175	132,714,287

December 31,2007

	Canada \$	France \$	United Kingdom \$	United States \$	Total \$
Property, plant and equipment	26,958,757	2,593,949	2,676,144	89,742	32,318,592
Goodwill and intangible assets	30,514,898	7,465,898	2,468,824	79,784	40,529,404
Other assets	48,927,249	10,413,582	2,989,204	266,087	62,596,122
	106,400,904	20,473,429	8,134,172	435,613	135,444,118

12 Capital management

The Company's objective when managing capital is to generate a superior return for its shareholders by making an optimal use of debt and equity while maintaining flexibility and liquidity in its sources of financing. The Company defines its capital as

- Cash and cash equivalents;
- Amounts available under the Company's credit facility, including term loans and a revolving facility;
- Other long-term debt including Class A Convertible Debentures and the Class B Debentures, and;
- Total shareholders' equity, including common shares, preferred shares, contributed surplus and deficit.

The Company's objective is to maintain a reasonable level of debt and the Company is using the net debt to earnings before interest, income taxes, depreciation and amortization, and restructuring and other non-cash charges ("EBITDA") ratio to define and manage the risk of its capital structure. Net debt, a non-GAAP measure, is calculated as the sum of the long-term debt (including the current portion and Series B Debentures) and bank indebtedness less cash and cash equivalents. The

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Class A convertible Debentures and the Series 1 and Series 2 Preferred Shares are excluded from this calculation as they are held by a significant shareholder of the Company and can be converted into common shares. EBITDA, a non-GAAP measure, is calculated as net earnings plus depreciation and amortization, interest and taxes, restructuring costs and non-cash charges.

The Company uses the trailing twelve-month EBITDA to reflect the seasonal nature of its activities. The following table below reconciles EBITDA to net loss for the periods used in the calculation of the trailing twelve-month EBITDA.

(in 000's)	Twelve month period ended June 30, 2008	Twelve month period ended December 31, 2007
Net loss	(27,386)	(2,979)
Depreciation, amortization and loss on disposal of property, plant and equipment	6,240	6,264
Amortization of intangibles	3,197	2,540
Restructuring and other costs	5,185	3,716
Other non-cash charges	9,553	-
Stock-based compensation	276	429
Interest and bank charges	6,640	5,794
Unrealized loss on interest swap	623	35
Foreign exchange loss	213	641
Income tax recovery	(530)	(1,721)
EBITDA	<u>4,011</u>	<u>14,719</u>

The following table presents this ratio, as calculated as at June 30, 2008 and December 31, 2007. This ratio increased from 3.4 to 15.8, mainly because of the increase in long-term debt following the acquisition of Celtic and a reduction in the trailing twelve-month EBITDA. As at June 30, 2008, Celtic's EBITDA has contributed in the trailing twelve-month since March 25, 2008 and consequently the ratio is inflated in that it reflects the full impact of the debt from the Celtic acquisition with only one quarter of Celtic's earnings. Celtic's EBITDA for the previous three quarters, which is not included in the EBITDA above, is \$2.7 million. Including the full year of Celtic's EBITDA, the rate declines to 9.5.

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(in 000's)	As at June 30, 2008	As at December 31, 2007
Trailing Twelve Month EBITDA	4,011	14,719
Net Debt		
Bank indebtedness	9,487	15,775
Long-term debt	-	46,286
Current portion of long-term debt	71,350	4,450
Class A Convertible Debentures	(15,866)	(15,691)
Cash	(1,402)	(902)
Total Net Debt	63,569	49,918
Capital Management Ratio	16	3

EG is also subject to certain financial covenants in its credit agreement, which include a measurement on a quarterly basis using the trailing twelve-month EBITDA. As a result of the lower trailing twelve-month EBITDA, EG breached its financial covenants prescribed in its credit facilities as at June 30, 2008. Accordingly, the Company initiated discussions with its lenders in order to readdress its financial covenants for the current and subsequent quarters. On September 5, 2008, EG executed a waiver and an amendment to its credit agreement allowing the Company to complete its strategic review and restructuring plan (see note 5). This waiver currently extends to October 31, 2008.

As part of those amendments the annual interest rate margins on the revolving facilities and senior term loans were increased by 1.0%. Other than the covenants required by its credit facilities, EG is not subject to any externally imposed capital requirements.

13 Financial instruments

Financial Risk Management

The Company is exposed to a variety of financial risks, which include foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Company does not have a practice of trading derivatives. Use of derivatives is based on established practices and parameters, which are subject to the oversight of the Board of Directors.

Foreign Exchange Risk

The Company operates on an international basis and therefore, foreign exchange risk exposures arise from transactions denominated in a foreign currency. Foreign exchange risk arises primarily with respect to the Euro and the U.K. pound. The Company, on occasion, enters into derivative contracts to manage this risk. To partially hedge its risk against the pound, the Company has some

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pound-denominated debt, used mainly for its recent Celtic acquisition. The Company also has access to funds for its operations through its pound-denominated revolver facility.

Impact of foreign exchange risk on financial instruments	In UK pounds	In Euros
Net working capital	3.3 M	2.1 M
Long-term debt and revolver facility	7.6 M	-

As at June 30, 2008, with other variables unchanged, a \$0.01 strengthening (weakening) of the Canadian dollar against the Euro and the UK pound sterling would have an effect of \$0.1 million and (\$0.1) million on annual earnings before taxes for the net working capital portion and \$0.3 million and (\$0.3) million for the long-term debt portion and revolver facility.

Interest rate risk

The Company's principal exposure to interest rate fluctuations is limited to its long-term debt (as described in note 5) which bears interest at both fixed and floating interest rates, some of which are LIBOR-based, others are based on the Canadian Bankers' Acceptance Rate. The Company has entered into an interest rate swap to mitigate the exposure to variable interest rates for an amount of \$18.4 M of its long-term debt with a fixed interest rate of 4.315%.

As at June 30, 2008, with other variables unchanged and considering the outstanding interest swap agreement for \$18.4 million, a 1% change in the LIBOR rate and the Canadian Banker's Acceptance Rate would have an annual impact on earnings before taxes of \$0.4 million and \$0.4 million respectively. There would be no effect on other comprehensive income.

Credit risk

The Company's financial instruments that are exposed to credit risk include cash and accounts receivable. The Company places its cash with institutions of high credit worthiness. The Company provides a wide variety of environmental services for a broad public and private sector customers and which spans numerous industries. Long-term contracts are with large well-established customers. The Company monitors its credit exposure to its customers on a regular basis. The Company's accounts receivable are not subject to a high concentration of credit risk. The following table provides further details on the aging of trade account receivables.

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Accounts receivable (in millions of dollars)	As at June 30, 2008 \$
Trade accounts receivable	
Trade accounts receivable not past due	17.7
Trade accounts receivable past due	
Under 30 days	4.8
30 to 60 days	2.3
Over 60 days	5.6
	<u>12.7</u>
	30.4
Allowance for doubtful accounts	(0.7)
Other accounts receivable	3.9
	<u>33.6</u>

During the three month period ended June 30, 2008, the provision for doubtful accounts was unchanged. For the six month period ended June 30, 2008, the provision for doubtful accounts was increased by \$0.1 million. The provision for doubtful accounts results from analysis of each past due account over 60 days.

Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances, managing its account payables and by appropriately utilizing the revolver facility. The Company continuously monitors and reviews both actual and forecasted cash flows. Long-term debt's maturity and repayment schedules are designed to give the Company, the flexibility it needs. The following table provides further details regarding the maturity of each short-term and long-term obligations. The Company is currently in discussion with its lenders to develop a longer term financing package. As discussed in note 5, the Company breached certain financial and non financial covenants during the second quarter of 2008, and accordingly, the terms loans and debentures are classified as current obligations.

(in millions of dollars)	2008	2009	2010	2011	balance after 2011
Account payables, accrued liabilities, other payables	22.5	2.4	-	-	-
Term loans	51.8	-	-	-	-
Capital lease obligations	0.4	0.4	0.2	-	-
Debentures	23.1	-	-	-	-
Other long term obligation	0.5	0.6	0.5	0.3	0.5
Series 1 Preferred Shares	-	-	-	-	1.1
	<u>98.3</u>	<u>3.4</u>	<u>0.7</u>	<u>0.3</u>	<u>1.6</u>

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14 Change in non-cash working capital and significant non-cash transactions

	Three Months Ended June 30		Six Months Ended June 30	
	2008 \$	2007 \$	2008 \$	2007 \$
Accounts receivable trade	(5,003,296)	(5,815,091)	6,623,254	(1,443,137)
Inventory	4,423,498	1,763,751	4,081,931	1,061,054
Work in Progress	(205,064)	(5,580,472)	1,032,548	(1,292,483)
Prepaid expenses and advances	(1,140,345)	33,290	(1,178,570)	(937,456)
Other current assets	761,325	171,044	821,281	170,262
Accounts payable and accruals	2,182,243	5,181,223	(1,186,565)	(2,925,741)
Deferred revenue	(773,505)	743,408	(2,167,936)	(1,543,816)
Income taxes payable	(2,111,748)	(183,540)	(2,158,938)	(3,082,947)
Change in non-cash working capital	(1,866,892)	(3,686,387)	5,867,005	(9,994,264)

15 Related Party

The Company has convertible units, Class B debentures and Series 2 Preferred shares that are held by a shareholder.

16 Comparative figures

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