

EnGlobe Corp.

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

EnGlobe Corp.
Interim Consolidated Balance Sheets
(Unaudited)

	September 30, 2008 \$	December 31, 2007 \$
Assets		
Current assets		
Cash and cash equivalents	1,293,291	902,239
Accounts receivable	41,903,322	36,583,137
Inventory (note 9 vii)	2,579,946	7,628,289
Work in progress	10,221,603	7,781,766
Prepaid expenses and advances	1,732,347	1,421,372
Income taxes receivable	66,794	-
Other assets	177,254	386,160
Future income taxes (note 9 vi)	1,025,877	1,180,566
Current assets held for sale	36,406	36,593
	<u>59,036,840</u>	<u>55,920,122</u>
Property, plant and equipment (note 9 v)	28,249,521	32,318,592
Intangible assets (notes 4 and 9 v)	29,736,200	25,982,081
Goodwill (notes 4 and 9)	17,320,601	14,547,323
Future income taxes (note 9 vi)	4,871,154	6,676,000
	<u>139,214,316</u>	<u>135,444,118</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	13,398,148	15,774,863
Accounts payable and accrued liabilities	28,635,951	22,420,383
Income taxes payable	-	1,625,728
Deferred revenue	8,292,810	9,042,558
Current portion of capital lease obligations	448,638	310,341
Current portion of long-term debt (note 5)	14,158,238	4,450,000
Current portion of other long-term obligation (note 10)	1,108,383	531,955
Other current liabilities	385,577	-
Future income taxes	143,261	143,000
	<u>66,571,006</u>	<u>54,298,828</u>
Capital lease obligations	379,270	244,593
Long-term debt (note 5)	55,194,930	46,275,739
Other long-term obligation (note 10)	1,629,641	-
Future income taxes (note 4)	6,006,585	5,502,785
Preferred shares	1,082,250	997,147
	<u>130,863,682</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	13,413,843	13,213,162
Deficit	(73,240,865)	(46,860,951)
	<u>8,350,634</u>	<u>28,125,026</u>
	<u>139,214,316</u>	<u>135,444,118</u>
Commitments and contingencies (note 10)		
Subsequent events (note 16)		

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

EnGlobe Corp.

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenues	45,759,702	39,956,692	108,249,985	109,246,958
Direct costs	32,185,683	27,712,810	85,261,351	77,634,682
Gross profit (note 9 vii)	13,574,019	12,243,882	22,988,634	31,612,276
Expenses				
Selling, general and administrative	7,186,018	6,887,167	21,793,189	20,710,513
Depreciation of property, plant and equipment	1,270,469	1,597,956	4,191,735	4,628,699
(Gain) loss on disposal of property, plant and equipment	(89,882)	4,724	88,561	97,506
Earnings (loss) before the undernoted items	5,207,414	3,754,035	(3,084,851)	6,175,558
Amortization of intangible assets	991,273	628,659	2,905,007	1,885,471
Stock-based compensation	59,417	53,238	212,150	358,272
Restructuring and other costs (note 8)	933,828	932,220	3,570,825	2,100,328
Foreign exchange loss (gain)	(292,310)	178,065	(518,255)	379,871
Interest on long-term debt	1,181,422	1,099,843	3,162,595	3,029,043
Other interest and bank charges	1,379,028	302,991	2,827,487	988,788
Other non-cash charges (note 9)	-	-	9,553,399	-
Unrealized (gain) loss on interest rate swap	154,584	198,846	385,577	(158,166)
	800,172	360,173	(25,183,636)	(2,408,049)
Income tax expense (recovery) (note 9 vi)	695,069	267,749	1,196,278	(422,269)
Net earnings (loss) and comprehensive earnings (loss)	105,103	92,424	(26,379,914)	(1,985,780)
Deficit – Beginning of period	(73,345,968)	(45,961,490)	(46,860,951)	(43,883,286)
Deficit – End of period	(73,240,865)	(45,869,066)	(73,240,865)	(45,869,066)
Basic and diluted earnings (loss) per share (note 7)	0.00	0.00	(0.31)	(0.03)

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

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Interim Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period	105,103	92,424	(26,379,914)	(1,985,780)
Items not affecting cash and cash equivalents				
Depreciation and amortization	2,261,742	2,226,615	7,096,742	6,514,170
Non cash interest accretion on debentures, preferred shares and other long-term obligation	823,264	243,049	1,601,219	776,781
Unrealized (gain) loss on interest rate swap	154,584	198,846	385,577	(158,166)
Stock-based compensation	59,417	53,238	212,150	358,272
Unrealized foreign exchange gain	(784,514)	(168,352)	(705,618)	(372,903)
(Gain) loss on disposal of property, plant and equipment	(89,882)	4,724	88,561	97,506
Other non-cash charges (note 9 v)	-	-	9,553,399	-
Other	25,001	-	-	-
Provision for future income tax	(177,438)	(412,893)	291,342	(1,887,059)
	2,377,277	2,237,651	(7,856,542)	3,342,821
Net change in non-cash working capital items (note 14)	(3,233,090)	(4,291,456)	2,633,915	(9,474,743)
Cash used in operating activities of continuing operations	(855,813)	(2,053,805)	(5,222,627)	(6,131,922)
Cash provided by operating activities of discontinued operations	-	26,624	187	247,606
	(855,813)	(2,027,181)	(5,222,440)	(5,884,316)
Investing activities				
Purchase of property, plant and equipment	(1,486,780)	(1,311,297)	(2,929,993)	(4,792,243)
Proceeds from disposal of property, plant, equipment	239,038	9,508	437,138	165,508
Deferred consideration on acquisition of company	-	(317,842)	-	(5,424,115)
Acquisition of company, net of cash acquired (note 4 a)	(77,684)	-	(10,146,660)	-
Other investing activities	(140,071)	-	(743,677)	-
Cash used in investing activities	(1,465,497)	(1,619,631)	(13,383,192)	(10,050,850)
Financing activities				
Increase (decrease) in bank indebtedness	3,910,679	4,503,499	(2,376,715)	15,551,587
Change in other long-term assets	-	(15,644)	-	33,491
Repayment of capital lease obligations	(165,028)	(66,147)	(439,754)	(206,380)
Repayment of other long-term payables	(100,000)	-	(100,000)	-
Proceeds from long-term debt	-	-	21,975,500	-
Repayment of long-term debt and other long term payables	(1,325,000)	(1,016,978)	(2,900,000)	(3,563,896)
Preferred shares issue charges	(133,171)	-	(133,171)	-
Proceeds from issuance of preferred shares	-	-	2,950,000	-
Proceeds from issuance of common shares	-	-	18,000	57,750
Cash provided by financing activities	2,187,480	3,404,730	18,993,860	11,872,552
Change in cash and cash equivalents for the period	(133,830)	(242,082)	388,228	(4,062,614)
Foreign exchange loss (gain) on cash held in foreign currency	24,663	3,131	2,824	93,011
Cash and cash equivalents – Beginning of period	1,402,458	1,873,225	902,239	5,603,877
Cash and cash equivalents – End of period	1,293,291	1,634,274	1,293,291	1,634,274
Supplemental disclosure of cash flow information				
Interest paid	2,228,566	1,162,384	4,770,463	3,328,404
Income taxes paid (recovered)	583,547	(2,214,896)	2,675,924	997,104

The accompanying notes are an integral part of these unaudited interim 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 nine-month periods ended September 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 on a straight line basis as follows:

- Backlog 1 year
- Non-compete agreement 3.5 years
- Customer relationships 5 – 10 years
- Technology and others 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 at 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 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 the 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 complements the existing CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation.

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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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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 £5,559,437. Including the common shares and the acquisition costs the purchase price is the following:

	\$
Base consideration	
Cash	11,215,677
Common shares (note 6)	3,515,925
Acquisition costs	620,586
Accrued acquisition costs	<u>30,000</u>
	<u>\$15,382,188</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	
Backlog	545,535
Non-compete agreements	2,101,320
Customer relationships	2,768,085
Technology and others	2,495,318
	<u>7,910,258</u>
Goodwill	5,797,632
Current liabilities	(3,572,680)
Capital lease obligations	(718,478)
Future income tax liabilities	<u>(2,214,872)</u>
Total consideration	<u>\$15,382,188</u>

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

The results of Celtic have been 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

	September 30, 2008 \$	December 31, 2007 \$
Term Loan (a)	49,489,839	38,050,000
Class A Convertible Debentures (b)	15,926,502	15,690,525
Class B Debentures (c)	7,491,042	-
	72,907,383	53,740,525
Less: Deferred financing charges	3,554,215	3,014,786
	69,353,168	50,725,739
Less: Current portion of long-term debt	14,158,238	4,450,000
Long-term portion of long-term debt	55,194,930	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 a) 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 November 2006 term loan of \$42,000,000 and the revolving facility were extended to 2013.

Subsequent to September 30, 2008, the Company entered into a waiver and amendment agreement to its existing credit facility. The terms of this waiver and amendment are discussed in note 16.

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(b) Class A Convertible Debentures

Class A convertible debentures bear interest at an 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.

(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 September 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.

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6 Share capital

Authorized

Unlimited number of common shares with no par value

Unlimited number of preferred shares issuable in series

	<u>Number of Shares</u>	<u>Amount \$</u>
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 September 30, 2008	<u>86,710,805</u>	<u>65,318,209</u>

Share issuances

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 a).

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 nine month periods ended September 30, 2008, nil (2007 - 316,666) and 491,666 (2007 - 974,998) stock options were granted respectively under the Employee Stock Option Plan.

During the three and nine month periods ended September 30, 2008, 465,019 (2007 - 142,833) and 1,846,372 (2007 - 565,771) stock options were forfeited respectively.

During the three month period ended September 30, 2008, nil (2007 – nil) were exercised.

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

Tandem option and stock appreciation rights

During the three and nine month periods ended September 30, 2008, nil (2007 – 2,000,000) and 5,000,000 Option and Stock Appreciation Rights (“OSARs”) were granted (2007 – 4,000,000).

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

7 Earnings (loss) per share

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

	Nine-month period ended September 30,2008	Nine-month period ended September 30,2007
Weighted average number of shares outstanding		
Basic and diluted	84,239,784	78,625,160

The weighted average number of shares for the purpose of the diluted earnings per share for the nine month period ended September 30, 2008 is 89,651,630.

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8 Restructuring and other costs

During the three-month period ended September, 2008, the Company incurred \$933,828 (2007 - \$932,220), including \$655,477 in severance and recruiting costs, (2007 - \$181,100), \$172,476 in legal costs, (2007 - \$728,688) and \$105,875 in other costs (2007 - \$22,432).

For the nine-month period ended September 30, 2008, the Company incurred \$3,570,825 (2007 - \$2,100,328), including \$1,021,836 in severance and recruiting costs, (2007 - \$988,803), \$486,513 in legal costs, (2007 - \$988,091), \$561,300 in settlement of a litigation as disclosed in note 10 b ii) and \$1,501,176 in other costs (2007 - \$123,434).

The Company finalized its plan to relocate the corporate offices from Burlington, Ontario to Quebec City, Quebec in the quarter ended September, 2008. As a result, further restructuring charges are expected in the fourth quarter.

9 Other non-cash charges

- i) 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 fourth quarter. However the current strategic review discussed below 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

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profitable OWM business model in the near future. The strategic review included a review of 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, in the second quarter, a charge of \$9,553,399, virtually all related to its OWM segment, detailed as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008 \$	2007 \$	2008 \$	2007 \$
Property, plant and equipment	-	-	3,151,183	-
Intangible assets	-	-	1,258,216	-
Goodwill	-	-	5,144,000	-
Total	-	-	9,553,399	-

- vi) In addition, as a result of the review described above, 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 future tax benefits relating to 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 in the second quarter inventory write-downs of \$2.3 million which are recorded in cost of sales.

10 Commitments and Contingencies

(a) Letters of credit

The Company has renewable letters of credit outstanding in the aggregate of \$5,174,894 (2007 - \$3,651,000) 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.

(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, but the other parties decided to file an appeal. The management believes that this appeal has no merit.
- 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

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settled in July 2008 under which, the Company would pay \$1,200,000 in accordance with the settlement between the parties. The insurance (AIG) disbursed \$500,000 on July 15, 2008 and 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 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 Kingdom, France and the United States. Segmented results for the three-month and nine-month periods ended September 30, 2008 and 2007 are as follows:

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Three months ended September 30, 2008	<u>Site Assessment & Remediation</u>	<u>Organic Waste Management</u>	<u>Tank Testing and Calibration</u>	<u>Total</u>
	\$	\$	\$	\$
Revenues by geographic region				
Canada	18,944,986	11,884,016	1,031,521	31,860,523
United Kingdom	7,411,810			7,411,810
France	5,055,068			5,055,068
United States of America	1,432,301			1,432,301
	<u>32,844,165</u>	<u>11,884,016</u>	<u>1,031,521</u>	<u>45,759,702</u>
Amortization and depreciation	1,894,371	326,070	41,301	2,261,742
Segment (loss) earnings				
before the undernoted items	4,599,491	(371,160)	280,120	4,508,451
Income tax expense				695,069
Stock-based compensation				59,417
Interest on long-term debt				1,181,422
Other interest and bank charges				1,379,028
Unrealized loss on interest rate swap				154,584
Restructuring & other costs				933,828
Net earnings for the period				<u>105,103</u>
Three months ended September 30, 2007	<u>Site Assessment & Remediation</u>	<u>Organic Waste Management</u>	<u>Tank Testing and Calibration</u>	<u>Total</u>
	\$	\$	\$	\$
Revenues by geographic region				
Canada	18,102,499	12,800,037	898,419	31,800,955
United Kingdom	2,939,787			2,939,787
France	5,215,950			5,215,950
	<u>26,258,236</u>	<u>12,800,037</u>	<u>898,419</u>	<u>39,956,692</u>
Amortization and depreciation	1,685,128	501,834	39,653	2,226,615
Segment (loss) earnings				
before the undernoted items	3,305,771	(606,665)	248,205	2,947,311
Income tax expense				267,749
Stock-based compensation				53,238
Interest on long-term debt				1,099,843
Other interest and bank charges				302,991
Unrealized loss on interest rate swap				198,846
Restructuring & other costs				932,220
Net earnings for the period				<u>92,424</u>

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Nine months ended September 30, 2008	Site Assessment & Remediation	Organic Waste Management	Tank Testing and Calibration	Total
	\$	\$	\$	\$
Revenues by geographic region				
Canada	34,704,771	35,722,709	2,535,475	72,962,955
United Kingdom	17,376,740			17,376,740
France	15,296,958			15,296,958
United States of America	2,613,332			2,613,332
	<u>69,991,801</u>	<u>35,722,709</u>	<u>2,535,475</u>	<u>108,249,985</u>
Amortization and depreciation	5,584,999	1,389,972	121,771	7,096,742
Segment (loss) earnings				
before the undernoted items	4,896,762	(10,690,578)	322,213	(5,471,603)
Income tax expense				1,196,278
Stock-based compensation				212,150
Interest on long-term debt				3,162,595
Other interest and bank charges				2,827,487
Unrealized loss on interest rate swap				385,577
Restructuring & other costs				3,570,825
Other non-cash charges				9,553,399
Net loss for the period				<u>(26,379,914)</u>
Goodwill as at September 30, 2008	<u>16,532,324</u>	<u>-</u>	<u>788,277</u>	<u>17,320,601</u>
Nine months ended September 30, 2007	Site Assessment & Remediation	Organic Waste Management	Tank Testing and Calibration	Total
	\$	\$	\$	\$
Revenues by geographic region				
Canada	37,380,571	42,559,714	2,445,406	82,385,691
United Kingdom	10,939,793			10,939,793
France	15,921,474			15,921,474
	<u>64,241,838</u>	<u>42,559,714</u>	<u>2,445,406</u>	<u>109,246,958</u>
Amortization and depreciation	4,976,438	1,417,589	120,143	6,514,170
Segment (loss) earnings				
before the undernoted items	5,738,499	(2,198,358)	370,075	3,910,216
Income tax recovery				(422,269)
Stock-based compensation				358,272
Interest on long-term debt				3,029,043
Other interest and bank charges				988,788
Unrealized gain on interest rate swap				(158,166)
Restructuring & other costs				2,100,328
Net loss for the period				<u>(1,985,780)</u>

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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 expenditures for property, plant and equipment for the quarter are \$1,486,780 (2007 - \$1,311,297) and for the nine month period ended September 30, 2008 are \$4,159,215 (2007-\$4,792,243).

Geographic segments

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

	September 30, 2008				
	Canada	United Kingdom	France	United States	Total
	\$	\$	\$	\$	\$
Property, plant and equipment	22,574,582	3,305,320	2,291,104	78,515	28,249,521
Goodwill and intangible assets	24,071,931	15,994,896	6,916,067	73,908	47,056,801
Other assets	41,890,579	10,921,722	9,108,315	1,987,378	63,907,994
	88,537,092	30,221,938	18,315,486	2,139,801	139,214,316

	December 31, 2007				
	Canada	United Kingdom	France	United States	Total
	\$	\$	\$	\$	\$
Property, plant and equipment	26,958,757	2,676,144	2,593,949	89,742	32,318,592
Goodwill and intangible assets	30,514,898	2,468,824	7,465,898	79,784	40,529,404
Other assets	48,927,249	2,989,204	10,413,582	266,087	62,596,122
	106,400,904	8,134,172	20,473,429	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.

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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, other non-cash charges, stock-based compensation and foreign exchange ("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 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.

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 September 30, 2008 \$	Twelve-month period ended December 31, 2007 \$
Net loss	(27,372)	(2,978)
Depreciation, amortization and loss (gain) on disposal of property, plant and equipment	5,818	6,264
Amortization of intangible assets	3,560	2,540
Restructuring and other costs	5,187	3,716
Other non-cash charges	9,553	-
Stock-based compensation	283	429
Interest and bank charges	7,796	5,826
Unrealized loss on interest swap	547	3
Foreign exchange loss (gain)	(257)	641
Income tax recovery	(103)	(1,721)
EBITDA	5,012	14,720

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(in 000's)	As at September 30, 2008 \$	As at December 31, 2007 \$
Trailing Twelve Month EBITDA	5,012	14,720
Net Debt		
Bank indebtedness	13,398	15,775
Long-term debt	56,984	46,276
Current portion of long-term debt	12,369	4,450
Class A Convertible Debentures	(15,927)	(15,691)
Cash and cash equivalents	(1,293)	(902)
Total Net Debt	65,531	49,908
Capital Management Ratio	13.1	3.4

This table presents this ratio, as calculated as at September 30, 2008 and December 31, 2007. This ratio increased 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 September 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 two quarters of Celtic's earnings. Celtic's EBITDA for the previous two quarters, which is not included in the EBITDA above, is \$1.5 million. Including the full year of Celtic's EBITDA, the rate declines to 10.0.

Subsequent to September 30, 2008, the Company entered into a waiver and amendment agreement to its existing credit facility. The terms of this waiver and amendment are discussed in note 16.

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, US dollars and the U.K. pound sterling. The Company, on occasion, enters into derivative contracts to manage this risk. To partially hedge its risk against the pound sterling, the

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

Impact of foreign exchange risk on financial instruments	In UK pounds	In Euros
Net working capital	3.2 M	2.5 M
Long-term debt and revolver facility	7.2 M	-

As at September 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 negative or positive on annual earnings before income taxes for the net working capital portion and \$0.3 million negative or positive 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 and revolving facilities (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 \$17.3 M of its long-term debt with a fixed interest rate of 4.315%.

As at September 30, 2008, with other variables unchanged and considering the outstanding interest swap agreement for \$17.3 million, a 1% change in the LIBOR rate and the Canadian Banker's Acceptance Rate would have an annual impact on earnings before income 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 cash equivalents 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 accounts receivable.

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	As at September 30, 2008
Accounts receivable (in millions of dollars)	\$
Trade accounts receivable	
Trade accounts receivable not past due	25.8
Trade accounts receivable past due	
Under 30 days	2.5
30 to 60 days	5.2
Over 60 days	5.4
	<u>13.1</u>
	38.9
Allowance for doubtful accounts	(0.8)
Other accounts receivable	<u>3.8</u>
	<u>41.9</u>

During the three-month period ended September 30, 2008, the provision for doubtful accounts was increased by \$0.1 million. For the nine month period ended September 30, 2008, the provision for doubtful accounts was increased by \$0.2 million. The provision for doubtful accounts results from analysis of each past due account over 60 days.

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Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances, managing its accounts payable 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 obligation.

**The following are the contractual maturities of financial liabilities
as at September 30, 2008**

(in millions of dollars)	Carrying amount	2008	2009	2010	2011	balance after 2011
Accounts payable and accrued liabilities	28.6	25.8	2.8	-	-	-
Term loans	49.5	14.2	4.2	6.3	6.3	18.5
Other current liabilities	0.4	-	-	-	-	-
Capital lease obligations	0.8	0.1	0.5	0.2	-	-
Debentures	23.4	-	-	-	-	23.4
Other long-term obligation	2.7	0.4	0.7	0.6	0.3	0.7
Series 1 Preferred Shares	1.1	-	-	-	-	1.1
	106.5	40.5	8.2	7.1	6.6	43.7

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14 Net change in non-cash working capital items

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accounts receivable	(8,521,129)	(1,395,703)	(1,897,875)	(3,134,136)
Inventory	388,412	(941,056)	4,470,343	1,775,746
Work in progress	(1,669,082)	(2,578,470)	(636,534)	(5,526,701)
Prepaid expenses and advances	1,004,585	89,234	(173,985)	(848,222)
Other current assets	(50,812)	-	770,469	170,262
Accounts payable and accrued liabilities	4,265,816	2,829,643	3,079,251	5,010,175
Deferred revenue	1,415,914	(2,726,738)	(752,022)	(4,270,554)
Income taxes	(66,794)	431,634	(2,225,732)	(2,651,313)
Net change in non-cash working capital items	(3,233,090)	(4,291,456)	2,633,915	(9,474,743)

15 Related Party

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

16 Subsequent events

On November 14, 2008, the Corporation announced that it is proceeding with a nonbrokered, non-arms' length private placement (the "Offering") consisting of the issuance of Series 3 convertible preferred shares (the "Preferred Shares") to ONCAP II, L.P. and/or its affiliates (collectively "ONCAP") on a private placement basis. Although the final details of the Offering have not yet been confirmed, it is conceivable that Preferred Shares may also be issued to the President and Chief Executive Officer of the Corporation and the Chief Financial Officer of the Corporation (collectively, the "Management Purchasers"). ONCAP and the Management Purchasers are collectively referred to herein as the "Purchasers". The proceeds of the Offering will be used to repay existing indebtedness, to recapitalize the Corporation and to pay the costs associated with the Offering.

As previously announced, the Company's financial difficulties resulted in the breach of the Company's financial covenants in its senior credit agreement. The Company received two waivers of these breaches in order to provide the Company the required time to renegotiate its credit

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agreements. Following negotiations with its senior lenders, the Company has been requested to refinance its balance sheet with at least \$15,000,000 of additional capital. With this additional capital the Banks have agreed to suspend the Company's financial covenants until the third quarter of 2009 and adjust the financial covenants for the third and fourth quarter of 2009. Following this investment the prime loan shall be repaid by \$10,000,000 and the revolving activities shall be repaid by at least \$5,000,000. Until the fiscal quarter ending September 2009, the financial covenants will be suspended, but the Company shall maintain a minimum EBITDA. Subsequent to this period, a Senior Funded Debt to EBITDA ratio shall be maintained.

To meet the additional capital required by the Company's senior lenders, the Corporation plans to issue to the Purchasers an aggregate maximum of \$18,000,000 of Preferred Shares. To the extent Preferred Shares are issued to Purchasers other than ONCAP, ONCAP will backstop the Offering with a minimum total investment of \$17,000,000. Preferred Shares will not be issued to non-insiders of the Corporation. The definitive terms of the Offering remain subject to negotiation and approval of the final form of Offering documentation.

The Preferred Shares will be non-voting securities and convertible at any time by the holders thereof on the basis of one Preferred Share for each common share of the Corporation ("Common Shares"). Holders of the Preferred Shares are entitled to receive, subject to certain exceptions, an annual dividend of 6% per annum calculated on a daily basis and payable quarterly at the Corporation's option in cash or additional equivalent value Preferred Shares. All Preferred Shares will be convertible at ONCAP's option at any time into freely tradable Common Shares at a conversion price of \$0.10 per Common Share (subject to customary anti-dilution adjustments)

The Offering is being made on a non-arms' length basis and will constitute a related party transaction under securities laws. ONCAP II, L.P., the President and Chief Executive Officer and the Chief Financial Officer are currently insiders of the Corporation. The Corporation does not intend to obtain a valuation or majority of the minority shareholder approval but will instead rely on exemptions from such requirements available under Multilateral Instrument 61-101 and from the security holder approval requirements of the TSX in Subsection 604(e) of the TSX Company Manual available in situations of financial hardship. In this regard, the Corporation's board of directors, and a committee of its independent directors, acting in good faith, have determined that (i) the Corporation is in serious financial difficulty; (ii) the proposed transaction has been designed to improve the Corporation's financial situation; (iii) the terms of the Offering are reasonable in the circumstances.

The TSX has accepted notice of this private placement subject to receiving customary documentation. The transaction is expected to close prior to December 31, 2008 but no sooner than ten days from dissemination of this press release. The securities issuable pursuant to the Offering will be subject to applicable regulatory hold periods.

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17 Comparative figures

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.