

# MANAGEMENT'S DISCUSSION AND ANALYSIS

---

This Management Discussion and Analysis (MD&A) reviews the financial condition and results of operations for EnGlobe Corp. ("EG" or the "Company") for the three and six months ended June 30, 2008. This information is presented as of October 15, 2008.

On August 12, 2008 EnGlobe Corp announced that, as a result of increased time required to complete its interim unaudited financial statements and management discussion and analysis for the quarter ended June 30, 2008, due to non-cash accounting issues that arose in the second quarter of 2008, there would be a delay of the filing of the Statements as required by National Instrument 51-102 Continuous Disclosure Obligations.

The MD&A should be read in conjunction with our audited consolidated financial statements and the accompanying notes for the years ended December 31, 2007 and 2006. You are also encouraged to read the MD&A for the year ended December 31, 2007.

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts in this MD&A are in Canadian dollars, except as otherwise noted.

Throughout this MD&A, "we", "us", "our", "EG" and "the Company" refer to EnGlobe Corp. and its subsidiaries. More information is available about EG, including our Annual Information Form for the year ended December 31, 2007 and recent financial reports filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

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

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

It is important to know that:

- Forward-looking statements in this MD&A describe our expectations as at October 15, 2008.
- Our actual results could be materially different from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize and,

accordingly, you are cautioned not to place undue reliance on these forward-looking statements.

- Forward-looking statements do not take into account the effect of transactions, or non-recurring or other special items announced or occurring after the statements are made, may have on our business. For example, they do not include the effect of sales of assets, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.
- We disclaim any intention and assume no obligation to update any of the forward-looking statements as a result of future events or for any other reason.
- The quarterly MD&A schedules have been prepared in thousands which may results in rounding differences when compared to the annual consolidated financial statements.

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

## **NON-GAAP FINANCIAL MEASURES**

### **EBITDA**

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

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

EBITDA allows us to compare our operating performance over time on a consistent basis. We believe that certain investors and analysts use EBITDA to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement in the environmental services industry. Readers are cautioned that EBITDA should not be confused with cash flow from operating activities. The most comparable GAAP financial measure is operating income, which is discussed in the *Results from Operations* section of the MD&A. The table below reconciles EBITDA to operating income for the periods presented.

\$000's (Unaudited)	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
<b>EBITDA</b>	\$ 4,322	\$ 5,356	\$ 3,818	\$ (1,191)	(4,002)
Depreciation and amortization of property, plant and equipment	1,568	1,598	1,500	1,385	1,536
Loss (gain) on disposal of property, plant and equipment	44	5	38	(7)	186
<b>Earnings (loss) before the undemoted items</b>	<b>2,710</b>	<b>3,753</b>	<b>2,280</b>	<b>(2,569)</b>	<b>(5,724)</b>
Amortization of intangibles	628	629	655	640	1,274
Restructuring and other costs	668	932	1,616	911	1,725
Stock-based compensation	167	53	70	87	66
Interest and bank charges	1,362	1,403	1,808	1,455	1,975
Unrealized loss (gain) on interest swap	(357)	199	161	432	(201)
Foreign exchange loss (gain)	231	178	261	(335)	109
Other non-cash charges	-	-	-	-	9,553
Income tax expense (recovery)	189	268	(1,299)	(1,823)	2,324
<b>Net (loss) earnings</b>	<b>(178)</b>	<b>91</b>	<b>(992)</b>	<b>(3,936)</b>	<b>(22,549)</b>

## ABOUT OUR BUSINESS

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

### **Site Assessment and Remediation**

Biogénie and Celtic comprise the Site Assessment and Remediation ("SAR") business units of EnGlobe, specializing in environmental contracting, off-site treatment and recycling of contaminated soil as well as the remediation of contaminated or degraded sites. Our SAR division has operating locations in Canada, the United States, France and the United Kingdom including 14 off-site treatment facilities; eleven in Canada, two in the United Kingdom, and one in France as well as many on-site treatment units where almost one million metric tons of contaminated soils were treated in 2007. Celtic has three office locations in the United Kingdom which provide integrated services for the design and construction of sustainable remedial schemes for brownfield sites.

### **Organic Waste Management**

GSI is the Organic Waste Management ("OWM") business unit for EnGlobe, providing environmental services such as composting, direct land application and biomass cogeneration, in addition to the commercialization of eco-products, in both bulk and bags. GSI has operating locations in Québec and Ontario including six composting and transfer facilities, all located in Québec. GSI manages almost one million metric tons of organic waste annually through its various beneficial reuse outlets.

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

Tanknology is the Tank Testing and Calibration business unit of EnGlobe. Its services, which are provided across Canada, include storage tank and line precision leak testing and statistical inventory reconciliation, compliance testing, meter calibration and facility compliance as well as tank system audits.

## **RESULTS OF OPERATIONS**

### **Six Months**

#### **Revenue**

Revenue was \$62.5 million for the six months ended June 30, 2008 compared with revenue of \$69.3 million for the six months ended June 30, 2007, a decrease of \$6.8 million or 9.8% year to date. The Celtic acquisition on March 25, 2008 contributed \$5.7 million in SAR division revenue. This increase has been offset by lower revenue from existing operations mainly due to a reduction in revenue from the OWM Ontario and SAR United Kingdom markets. The OWM division has lower revenues resulting mainly from a contract that was not renewed in 2008 and a decrease in sales compost resulting from a vigorous competitive market. Revenue for the Tank Testing & Calibration division was comparable to the same period in 2007.

\$000's (Unaudited)	Six months ended June 30,	
	2008	2007
<b>Revenue</b>		
Site Assessment and Remediation	\$ 37,147	\$ 37,984
Organic Waste Management	23,839	29,759
Tank Testing & Calibration	1,504	1,547
<b>Total</b>	<b>62,490</b>	<b>69,290</b>

#### **Gross Operating Profit**

Gross operating profit for the six months ended June 30, 2008 was \$9.4 million, compared to gross operating profit of \$19.4 million for the six months ended June 30, 2007, a decrease of \$10.0 million or 51.5%. Gross operating profit margin for the six months ended June 30, 2008 was 15.1% compared to 27.9% for the six months ended June 30, 2007. The reduction in gross operating profit is primarily attributable to the OWM division, where treatment and disposal costs increased significantly, as well as the lower margin earned on sales compost due to the more competitive market. Further, the value of compost also significantly decreased during 2008. The Company recorded an inventory non-cash charges write-down of \$2.3 million during the second quarter. Two of the OWM division competitors went into bankruptcy in the Quebec marketplace during 2008. This unforeseen decrease has resulted in a change of 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 this negative impact over the entire business and analyzing options to return to a profitable OWM business model in the near future. As part of this initiative, starting in the third quarter, the Company has renegotiated certain contracts, reduced its compost sales to products that generate an acceptable contribution, and substantially reduced its fixed and variable staffing levels.

Selling, general and administrative (“SG&A”) expenses for the six months ended June 30, 2008 were \$14.6 million compared with \$13.8 million for the six months ended June 30, 2007 an increase of \$0.8 million or 5.7%. The increase reflects higher costs for indirect headcount and fees paid for professional services. Beginning in the third quarter, the company implemented a restructuring plan to reduce the company’s SG&A and corporate costs.

### EBITDA and loss before the undernoted items

\$000's (Unaudited)	Six months ended June 30,	
	2008	2007
<b>Gross operating profit</b>	<b>\$ 9,415</b>	<b>\$ 19,368</b>
Selling, general and administrative	14,607	13,823
<b>EBITDA</b>	<b>(5,192)</b>	<b>5,545</b>
Depreciation and amortization, on property, plant, equipment	2,921	3,031
Loss on disposal of property, plant and equipment	179	92
<b>(Loss) gain before the undernoted items</b>	<b>(8,292)</b>	<b>2,422</b>

EBITDA for the six months ended June 30, 2008 was negative \$ 5.2 million compared with \$5.5 million for the six months ended June 30, 2007, a decrease of \$10.7 million. Year over year, the acquisition of Celtic generated EBITDA of \$0.8 million while the existing SAR operations realized lower EBITDA mainly due to a reduction in revenues, primarily in the U.K. market. All OWM activities have experienced a significant decline as described in the preceding section. Unsatisfied with these recent results, the Company is conducting a detailed review of all operations of the Company to return to positive performance. This action plan may temporarily involve additional future non-recurring expenses.

Depreciation and amortization combined with the loss on disposal of property, plant and equipment for the six months ended June 30, 2008 was \$3.1 million compared with \$ 3.1 million for the six months ended June 30, 2007. The change includes a reduction in the carrying value of certain assets, offset by the increase in the depreciation of the assets related to the acquisition of Celtic.

Loss before the undernoted items for the six months ended June 30, 2008 was \$8.3 million compared with an operating income before the undernoted items of \$2.4 million for the six months ended June 30, 2007, a decrease of \$10.7 million. This decrease is mainly due to the reduction in the OWM gross operating profit as explained above, while the SAR operation after including the new acquisition had a slightly negative impact.

## Net Loss

\$000's (Unaudited)	Six months ended June 30,	
	2008	2007
<b>(Loss) gain before the undernoted items</b>	<b>\$ (8,292)</b>	<b>\$ 2,422</b>
Depreciation and amortization of intangibles	1,914	1,257
Restructuring and other costs	2,637	1,168
Stock-based compensation	153	305
Interest and bank charges	3,430	2,615
Unrealized loss (gain) on interest swap	231	(357)
Loss (gain) on foreign exchange	(226)	202
Other non-cash charges	9,553	-
Income tax expense (recovery)	501	(690)
<b>Net loss</b>	<b>(26,485)</b>	<b>(2,078)</b>

Amortization of intangibles for the six months ended June 30, 2008 was \$1.9 million, an increase of \$ 0.7 million compared to the six months ended June 30, 2007, mainly due to the Celtic acquisition. Restructuring and other costs for the six months ended June 30, 2008 were \$2.6 million or \$1.5 million higher than the same period of last year, mainly due to the settlement of a litigation case and professional fees related to Bill 198 and other public reporting requirements.

Interest and bank charges for the six months ended June 30, 2008 were \$3.4 million compared with \$2.6 million for the six months ended June 30, 2007, as a result of increased borrowings.

The average cash cost of debt financing was 7.4% during the six months ended June 30, 2008, compared with 7.0% for the six months ended June 30, 2007. In addition, deferred financing charges and the deemed interest rate on the convertible debentures increased the effective cost of debt financing to 9.1%, compared with 8.0% for the six months ended June 30, 2007.

## Second Quarter

### Revenue

Revenue was \$38.2 million for the quarter ended June 30, 2008 compared with revenue of \$42.5 million for the quarter ended June 30, 2007 a decrease of \$4.3 million or 10.1%. In the OWM division, a reduction in volumes of waste managed was experienced, mainly due to one contract not renewed in 2008 and competitive conditions across the compost market. The contribution of the acquisition of Celtic in the SAR division was \$5.5 million, offset by lower revenue in the existing operations. Revenue for the Tank Testing & Calibration division was comparable to the same period in 2007 with no significant difference in the level of activity.

\$000's (Unaudited)	Q2 2008	Q2 2007
<b>Revenue</b>		
Site Assessment and Remediation	\$ 22,286	\$ 20,781
Organic Waste Management	15,045	20,792
Tank Testing & Calibration	878	923
<b>Total</b>	<b>38,209</b>	<b>42,496</b>

## Gross Operating Profit

Gross operating profit for the quarter ended June 30, 2008 was \$4.0 million compared with \$11.4 million for the quarter ended June 30, 2007, a reduction of \$7.4 million or 65.2%. Gross operating profit margin for the quarter ended June 30, 2008 was 10.4% compared to 26.9% for the quarter ended June 30, 2007. The reduction in gross operating profit is primarily attributable to the OWM division, where treatment and disposal costs increased significantly, as well as the lower margin earned on sales of compost due to the more competitive market. Further, the value of compost also significantly decreased during 2008. The Company recorded an inventory non-cash charges write-down of \$2.3 million during the second quarter. Two of the OWM division competitors went into bankruptcy in the Quebec marketplace during 2008. This unforeseen decrease has resulted in a change of 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 this negative impact over the entire business and analyzing options to return to a profitable OWM business model in the near future. As part of this initiative, starting in the third quarter, the Company has renegotiated certain contracts, reduced its compost sales to products that generate an acceptable contribution, and substantially reduced its fixed and variable staffing levels.

Selling, general and administrative ("SG&A") expenses for the quarter ended June 30, 2008 were \$8.0 million compared with \$7.1 million for the quarter ended June 30, 2007 an increase of \$0.9 million or 12.7% mainly due to higher corporate costs. As previously mentioned, in the third quarter the company implemented a restructuring plan to reduce the Company's SG&A and corporate costs.

## EBITDA and loss before the undernoted items

\$000's (Unaudited)	Q2 2008	Q2 2007
<b>Gross operating profit</b>	<b>\$ 3,977</b>	<b>\$ 11,423</b>
Selling, general and administrative	7,978	7,101
<b>EBITDA</b>	<b>(4,002)</b>	<b>4,322</b>
Depreciation and amortization, on property, plant, equipment	1,536	1,568
Loss on disposal of property, plant and equipment	186	44
<b>(Loss) gain before the undernoted items</b>	<b>(5,724)</b>	<b>2,710</b>

EBITDA for the quarter ended June 30, 2008 was negative \$ 4.0 million compared with positive \$ 4.3 million for the quarter ended June 30, 2007, a decrease of \$ 8.3 million. This decrease in EBITDA is mainly attributable to the reduction in gross operating profit for the OWM division as discussed previously.

Depreciation and amortization combined with the loss on disposal of property, plant and equipment for the quarter ended June 30, 2008 was \$ 1.7 million compared with \$ 1.6 million for the quarter ended June 30, 2007, an increase of \$ 0.1 million.

The loss before the undernoted items for the quarter ended June 30, 2008 was \$ 5.7 million compared with an operating gain before the undernoted items of \$2.7 million for the quarter ended June 30, 2007, a decrease of \$ 8.4 million. This decrease is mainly due to the reduction in gross operating profit from the OWM division as previously stated.

## Net Loss

\$000's (Unaudited)	Q2 2008	Q2 2007
<b>(Loss) gain before the undernoted items</b>	<b>\$ (5,724)</b>	<b>\$ 2,710</b>
Depreciation and amortization of intangibles	1,274	628
Restructuring and other costs	1,725	668
Stock-based compensation	66	167
Interest and bank charges	1,975	1,362
Gain on Interest swap	(201)	(357)
Loss on foreign exchange	109	231
Other non-cash charges	9,553	-
Income tax expense (recovery)	2,324	189
<b>Net loss</b>	<b>(22,549)</b>	<b>(178)</b>

Depreciation and amortization of intangibles for the quarter end June 30, 2008 was \$1.3 million, an increase of \$ 0.6 million compared to the quarter ended June 30, 2007, mainly due to the Celtic acquisition. Restructuring and other costs for the quarter ended June 30, 2008 were \$ 1.7 million, an increase of \$ 1.1 million with the same period of last year, mainly due to the settlement of a litigation case and professional fees related to Bill 198 and other public reporting requirements.

Interest and bank charges for the quarter ended June 30, 2008 were \$2.0 million compared with \$1.4 million for the quarter ended June 30, 2007. The increase in interest expense is the result of increased borrowings.

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)

Also, 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.

## Other non-cash charges

During the second quarter of fiscal 2008, EG's management performed a comprehensive review of current performance and the strategic orientation of its business units. This review revealed that, several factors have changed some of the key assumptions, which led to the review of the carrying amount of certain accounts including; property plant and equipment, intangible assets, goodwill, deferred revenue and accruals, primarily in the OWM segment.

Management performed a test of goodwill for its OWM business unit. The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062, *Goodwill and Other Intangible Assets*, requires that goodwill is no longer amortized but instead, be tested for impairment at least once a year.

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).

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.

Based on the above, the Company recorded a charge of \$9,553,399, all related to its OWM segment, detailed as follows:

\$000's (Unaudited)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Property, plant and equipment	3,206	-	3,206	-
Intangible assets	1,203	-	1,203	-
Goodwill	5,144	-	5,144	-
<b>Total</b>	<b>9,553</b>	<b>-</b>	<b>9,553</b>	<b>-</b>

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.

## **LIQUIDITY AND CAPITAL RESOURCES**

During the six month period ended June 30, 2008, there was a cash inflow of \$0.5 million generated by our operating, investing and financing activities compared to an outflow of \$3.8 million for the same period last year. For the six month period which ended June 30, 2008, cash was primarily generated by our financing activities of \$16.8 million offset by \$11.9 million of cash used for investing activities, mainly for the Celtic acquisition, and \$4.4 million by our operating activities. For the six month ended June 30, 2007, operating activities required \$9.0 million, regular investing activities \$3.3 million, while financing activities generated \$8.5 million.

During the first quarter of 2008, the Company raised a total of \$24.7 million in new funds, \$3.0 million through the issuance of preferred shares and \$21.7 million by way of a net increase in its long-term debt.

During the three month period ended June 30, 2008, there was a cash outflow of \$2.8 million generated by our operating, investing and financing activities which compared to an outflow of \$1.6 million for the same period last year. For the quarter ended June 30, 2008, cash was primarily generated by our financing activities of \$8.0 million, offset by operating activities of \$9.1 million and by investing activities for \$1.7 million. For the quarter ended June 30, 2007, the financing activities generated \$1.8 million while the investing activities required \$1.6 million and operating activities \$1.8 million.

The Company has access to a \$20.0 million revolver facility for the ongoing cash requirements of the business. This facility is used for, among other things, issuing letters of credit required for security for bonding or similar requirements for projects, in place of bonds or as cash security. As at June 30, 2008, \$5.1 million in letters of credit were outstanding and \$6.5 million of the revolver was utilized to support working capital commitments.

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.

As part of this amendment the annual interest rate margins on the revolving facilities and senior term loans were increased by 1.0%.

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

For the six month period ended June 30, 2008, cash used in operations was \$4.4 million compared with cash used in operations of \$9.0 million for the six month period ended June 30, 2007. Cash used in operating activities reflected the change in non-cash working capital items that generated \$5.9 million, offset by \$10.2 million derived from our net loss, less items not affecting cash. In comparison, the six month period ended June 30 2007, the change in non-cash working capital items required \$10.0 million.

For the three month period ended June 30, 2008, cash used in operations was \$9.1 million compared with cash used in operations of \$1.8 million for the three month period ended June 30, 2007. Cash used in operating activities reflects the change in non-cash working capital items for \$1.9 million and \$7.2 million derived from our net loss less items not affecting cash.

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

For the six month period ended June 30, 2008, cash provided by financing activities was \$16.8 million, compared with cash provided by financing activities of \$8.5 million for the six month period ended June 30, 2007.

For the three month period ended June 30, 2008, cash provided by financing activities was \$8.0 million, compared with cash provided by financing activities of \$1.8 million for the three month period ended June 30, 2007, mainly due to the increase in bank indebtedness.

To raise funds, on March 25, 2008, the Company completed the following financing transactions which provided a total of \$24.7 million of funding. The amount raised was used in part to repay bank indebtedness and partially fund the acquisition of Celtic:

- the Company amended its credit agreement to arrange a new 5 year term loan of \$15.2 million, denominated in pounds sterling (£7.6M) which were used in part for the acquisition of Celtic and to increase its working capital. The Company also extended to 5 years the maturity of its existing term loan.
- the Company issued an amount of \$7.0 million in Class B Debentures, for net proceeds of \$6.4 million after deducting financing fees of \$0.6 million, including \$0.3 million 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.
- 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. Net proceeds received from the issuance of the preferred shares was \$2.9 million after deducting \$0.1 million in issuance costs and \$0.2 million in financing fees paid to the holders of the Series 2 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. These Preferred shares were issued to certain shareholders of the Company.

## CASH FLOW PROVIDED BY / USED IN INVESTING ACTIVITIES

For the six month period ended June 30, 2008, cash used in investing activities was \$11.9 million compared with cash used in investing activities of \$3.3 million for the six month period ended June 30, 2007. The cash used in investing activities was mainly due to the Celtic acquisition for \$10.1 million and \$1.4 million for the purchase of property, plant and equipment. For the same period in 2007, the cash used for investing activities was attributable to the payment of \$3.5 million for regular purchases of property, plant and equipment.

For the three month period ended June 30, 2008, cash used in investing activities was \$1.7 million compared with cash used in investing activities of \$1.6 million for the three month period ended June 30, 2007. The cash used in investing activities was mainly due to the Celtic acquisition, costs for \$1.2 million and \$0.8 million for the purchase of property, plant and equipment. For the same period in 2007, the cash used for investing activities was attributable to the payment of \$1.7 million for purchase of property, plant and equipment.

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

### *Contractual obligations*

The Company is currently required to make payments on its contractual obligations as follows:

\$000's (Unaudited)	Remainder of				balance after 2011
	2008	2009	2010	2011	
Term loans	2,650	5,300	7,950	7,950	27,988
Debentures	-	-	-	-	26,983
Other long term obligations	548	640	740	340	340
Capital lease obligations	400	400	202	-	-
Operating leases	1,469	2,832	2,299	1,886	4,196
<b>Total contractual obligations</b>	<b>5,067</b>	<b>9,172</b>	<b>11,191</b>	<b>10,176</b>	<b>59,507</b>

As a result of the covenant breach the term loan and debentures are shown as current for financial reporting purposes.

### *Litigation*

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

- i) A statement of claim had been filed against Wasteco Environmental Services Ltd, a subsidiary of EnGlobe, currently discontinued and other parties alleging damages of \$23.8 million. WasteCo and the other co-defendants denied any liability.

Management believed that any potential loss not covered in the co-defendants policy will be adequately covered by the Company's insurance. The case has been dismissed by the Courts.

- ii) During the quarter ended June 30, 2006, a former shareholder of GSI Environmental Inc., a wholly owned subsidiary of the Company, commenced an action against the Company, its former President and CEO and the Company's current and former directors. The Plaintiff claims \$5 million from the Company for alleged breach of contract and misrepresentation, \$5 million from the former President and CEO for alleged misrepresentation and declaratory and compensatory relief for alleged oppressive conduct, together with special damages in the amount of \$250,000, from all of the defendants.

The Company has notified its Director and Officer Insurance underwriter and has been advised that this is an insurable claim. The action will not proceed to trial. The parties entered into a settlement agreement in July which includes certain terms which are to be implemented over the next two years. The settlement agreement will result in the full dismissal of all proceedings against the Company by on or about July 15, 2010. An amount of \$0.6 million has been included in this second quarter results.

- 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.

#### *Environmental contingencies*

The Company operates soil treatment facilities and also composting sites. As such, the Company is subject to environmental regulations and is required to operate its facilities within the conditions of permits, authorization certificates and other regulations. Failure to meet these conditions could result in financial penalties and/or site closure which could result in material charge against our operating results. Also, because of the nature of our operations, we are subject to third-party reclamations due to potential contamination of soils, underground water and processed water.

## **SUMMARY OF QUARTERLY RESULTS**

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

\$ 000's except per share amounts	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2008	2007	2008	2007	2007	2006	2007	2006
Revenue	38,209	42,496	24,281	26,794	39,857	25,162	39,957	17,844
Income (loss) from continuing operations	(22,549)	(178)	(3,936)	(1,899)	(992)	983	92	541
Net income (loss)	(22,549)	(178)	(3,936)	(1,899)	(992)	904	92	849
Basic earnings (loss) per								
From continuing operations	(0.26)	0.00	(0.05)	(0.02)	(0.01)	0.02	0.00	0.01
Net income (loss)	(0.26)	(0.00)	(0.05)	(0.02)	(0.01)	0.02	0.00	0.02
Diluted earnings (loss)								
From continuing operations	(0.26)	0.00	(0.05)	(0.02)	(0.01)	0.02	0.00	0.01
Net income (loss)	(0.26)	(0.00)	(0.05)	(0.02)	(0.01)	0.01	0.00	0.01
Total assets	132,714	132,164	146,490	120,639	135,444	137,417	136,095	47,475
Total long-term financial liabilities	3,422	50,780	68,557	50,623	47,517	55,012	49,456	16,479
Weighted Average number of shares (in 000's)								
Basic	86,711	78,599	79,271	78,570	78,705	54,764	78,705	38,012
Diluted	86,711	78,599	79,271	78,570	78,705	118,908	79,423	101,860

Results have fluctuated over the each of the quarters due to the seasonality of our business. Due to the fact that our main business is soil remediation and organic waste management it is quite common for our business to have increased volumes and revenue in the spring and summer months.

## TRANSACTIONS WITH RELATED PARTIES

During the six month period ended June 30, 2008, the Company completed financing operations with certain nominees of ONCAP Management Partners L.P. and its affiliates, a significant shareholder of the Company. The private placement financing, for an aggregate of \$9.725 million, was comprised of:

- The issuance of 7,375,000 Series 2 Preferred Shares of the Company at \$0.40 per share for gross proceeds of \$2,950,000;
- \$6,775,000 in Series B debentures.

Certain financing fees associated with the private placement were satisfied through the issuance of 470,745 preferred shares and \$271,000 added to the principal amount of the debentures.

The preferred shares are voting securities and convertible at any time by the holders thereof on the basis of one Series 2 Preferred Share for each common share. Holders of the Series 2

Preferred Shares are entitled to receive, subject to certain exceptions, a fixed, cumulative dividend per preferred shares 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.

The Series B Debentures 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 debenture. The Company may repay all or a portion of the principal amount of the debenture at any time without penalty after the first anniversary of closing.

The proceeds from this financing were used to pay the acquisition of Celtic, to reduce the indebtedness and for working capital purposes.

## **CRITICAL ACCOUNTING ESTIMATES**

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

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

## **Goodwill and Intangible Assets**

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

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

## **Income Taxes**

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

## **Stock-Based Compensation**

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

## **Stock Appreciation Rights**

Compensation expense is recognized for increases or decreases between the strike price of these options and the quoted market value of the Company's shares between the grant date and the reporting date, subject to the cumulative expense recognized not being less than zero.

## **Bad Debt Expense**

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

## **Revenue Recognition**

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

## CHANGES IN 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.

### a) 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.

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.

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

#### 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.

## Financial instruments

Our activities expose us to a variety of financial risks, which include foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Except for the following, we do not have a practice of trading derivatives. Our use of derivatives is based on established practices and parameters, which are subject to the oversight of the Board of Directors.

### Interest swap agreement

The Company's principal exposure to interest rate fluctuations is limited to its long-term debt 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 an interest rate swap to mitigate the exposure to variable interest rates for an amount of \$18.4 million of its long-term debt with a fixed interest rate of 4.315% expiring on November 24, 2011.

## NUMBER OF SHARES OUTSTANDING

### Shares Outstanding

<u>Shares outstanding</u>	<u>June 30,2008</u>	<u>Dec 31,2007</u>
Common Shares	86,710,805	78,705,160
Series 1 Preferred Shares	10,296,250	10,296,250
Series 2 Preferred Shares	7,845,745	-

### Number os Options/SAR's outstanding

Stock Option Plan	3,011,780	4,218,133
Option/SAR Plan	7,000,000	14,500,000

### Class A Debentures

The Company has \$19.6 million of Class A convertible debentures outstanding. The Class A Debentures was issued as a unit consisting of a \$950 debenture and 500 convertible preferred shares. Each Class A Debenture has a term of 8 years (starting March 31, 2006), annual interest rate of 5%, paid yearly, and is convertible at \$0.323 per common share of the Company at the discretion of the debenture holders, if certain minimal earnings levels are achieved.

Certain events, such as litigation or damages arising after March 31, 2006 and before March 31, 2010 that have a financial impact on the Company, will result in an adjustment to the price at which the Class A debentures or preferred shares are converted. The adjustment will reduce the price by \$0.0263 for every \$1 million in excess of \$0.25 million.

### **Preferred Shares**

The Series 1 Preferred Shares are convertible and redeemable at \$0.323 per common share, which will result in 3,187,693 common shares being issued upon conversion. The Series 1 Preferred Shares can be redeemed at the option of the holder after the Class A Debentures become due and payable or at the option of the holders and the Company if the Class A Debentures has been repaid.

The Series 2 Preferred Shares are voting securities and convertible at any time by the holders thereof on the basis of one Series 2 Preferred Shares for each common share. Holders of the Series 2 Preferred Shares 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.

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

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

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

Should one or more of these risks materialize, or should our underlying assumptions prove incorrect, our actual results may materially differ from our current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause our actual results to materially differ from such forward-looking statements. No change occurred during the period, please refer to the Risk Factors section of our Annual Information Form for the year ended December 31, 2007 for a more detailed description for risks that could affect our business.

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

### **Disclosure controls and procedures**

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

EnGlobe's CEO and CFO has evaluated the effectiveness of the Company's disclosure controls and procedures as at June 30, 2008 and the current controls and procedures provide reasonable assurance that material information relating to the issuer is made known. The Company is also committed on continuing to improve the design of its disclosure controls through the formalization of a disclosure policy that clarifies the authority, responsibility and accountability of all employees of the Company for various disclosures and reporting requirements. Other than this codification of practice, we have concluded that the Company's disclosure controls and procedures were designed effectively for the interim period then ended.

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

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

The Company has experienced significant transformational changes during fiscal year 2007. Since the acquisition of Biogénie in November 2006, the Company's finance area has been reorganized and the integration of financial reporting and transition to new systems has been ongoing. The OWM division, due to operational challenges it currently faces, will be subject to detailed review in the upcoming months to improve the effectiveness of the internal control. Through the transition, management has mitigated the risk, by parallel manual procedures and detective controls, weekly management meetings and monthly reviews of financial statements by the operating divisions.

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

### **OTHER**

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