

EnGlobe Corp.

**Interim Consolidated Financial Statements
(Unaudited)**

**For the three-month periods ended March 31, 2009
and 2008**

EnGlobe Corp.

Interim Consolidated Balance Sheets

(In thousands of dollars)

	As at March 31 2009 \$ (Unaudited)	As at December 31 2008 \$
Assets		
Current assets		
Cash and cash equivalents (note 13)	4,523	3,157
Accounts receivable	24,061	34,749
Inventory (note 4)	2,152	2,141
Unbilled revenue	8,450	9,233
Prepaid expenses and advances	1,783	1,563
Income taxes receivable	1,658	967
Future income taxes	742	883
	43,369	52,693
Property, plant and equipment	26,686	27,646
Intangible assets	28,224	29,116
Goodwill	21,133	21,133
Tax credits recoverable	838	838
Future income taxes	877	858
	121,127	132,284
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	7,508	5,676
Accounts payable and accrued liabilities	17,720	24,166
Additional consideration payable (note 15)	2,714	2,663
Deferred revenue	7,604	9,808
Current portion of capital lease obligations	402	394
Current portion of long-term debt (note 5)	4,758	4,070
Current portion of other long-term obligations (note 9c and d)	670	665
Other current liabilities	1,065	1,108
	42,441	48,550
Capital lease obligations	240	296
Long-term debt (note 5)	52,311	53,638
Other long-term obligations (note 9c and d)	1,651	1,640
Future income taxes	2,553	2,626
Preferred shares (note 5b)	1,161	1,127
	100,357	107,877
Shareholders' Equity		
Share capital (note 6)		
Common shares	66,271	66,271
Preferred shares	20,705	20,474
Contributed surplus (note 6)	13,445	13,386
Deficit	(79,651)	(75,724)
	20,770	24,407
	121,127	132,284
Commitments and contingencies (note 9)		
Subsequent event (note 15)		

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

Signed on behalf of the Board of Directors:

, Director

, Director

EnGlobe Corp.

Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except per share data)

	2009	2008
	\$	\$
Revenues	24,806	24,281
Direct costs (note 4)	18,411	18,843
Gross profit	6,395	5,438
Expenses		
Selling, general and administrative	5,701	6,629
Depreciation of property, plant and equipment	1,287	1,385
Gain on disposal of property, plant and equipment	(13)	(7)
Loss before the undernoted items	(580)	(2,569)
Amortization of intangible assets	923	640
Stock-based compensation	59	87
Restructuring and other costs (note 7)	232	911
Foreign exchange loss (gain)	210	(335)
Interest on long-term debt	1,503	933
Other interest and bank charges	328	522
Unrealized (gain) loss on interest rate swap	(43)	432
Loss before income taxes	(3,792)	(5,759)
Income tax recovery	(167)	(1,823)
Net loss and comprehensive loss for the period	(3,625)	(3,936)
Deficit – Beginning of period	(75,724)	(46,861)
Dividends – Preferred shares	(302)	-
Deficit – End of period	(79,651)	(50,797)
Basic and diluted net loss per common share (note 8)	(0.05)	(0.05)

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

EnGlobe Corp.

Interim Consolidated Statements of Cash Flows (Unaudited) For the three-month periods ended March 31

(In thousands of dollars)

	2009 \$	2008 \$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(3,625)	(3,936)
Items not affecting cash and cash equivalents		
Depreciation and amortization	2,210	2,025
Non-cash interest accretion on debentures, preferred shares and other long-term obligation	561	262
Unrealized (gain) loss on interest rate swap	(43)	432
Stock-based compensation	59	87
Unrealized foreign exchange loss	171	22
Gain on disposal of property, plant and equipment	(13)	(8)
Provision for future income taxes	49	(1,932)
	(631)	(3,048)
Net change in non-cash working capital items (note 13)	3,093	7,734
Cash provided by operating activities	2,462	4,686
Investing activities		
Purchase of property, plant and equipment	(1,452)	(660)
Proceeds from disposal of property, plant, equipment	16	13
Business acquisition, net of cash acquired	-	(8,918)
Other investing activities	-	(604)
Cash used in investing activities	(1,436)	(10,169)
Financing activities		
Increase (decrease) in bank indebtedness	1,832	(15,775)
Repayment of capital lease obligations	(118)	(104)
Repayment of other long-term obligation	(7)	-
Proceeds from long-term debt	-	21,976
Repayment of long-term debt	(1,320)	(250)
Proceeds from issuance of preferred shares	-	2,950
Preferred shares issuance costs	(47)	-
Proceeds from issuance of common shares	-	18
Cash provided by financing activities	340	8,815
Net change in cash and cash equivalents for the period	1,366	3,332
Cash and cash equivalents – Beginning of period	3,157	902
Cash and cash equivalents – End of period	4,523	4,234
Supplemental disclosure of cash flow information		
Interest paid	1,269	1,143
Income taxes paid	635	201

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

EnGlobe Corp.

Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

1 Nature of operations

EnGlobe Corp. ("EG", "EnGlobe" 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.

EG is an environmental services company specializing in the management of contaminated soils and organic-based waste streams, with an emphasis on beneficial re-use. EG provides solutions to municipal, commercial and industrial clients in Canada, the United Kingdom, France and the northern United States, 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 on-site and 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 Interim financial information

The financial information as at March 31, 2009, and for the three-month periods ended March 31, 2008 and March 31, 2009, is unaudited. In the opinion of management, all adjustments necessary to present fairly the results of these periods in accordance with generally accepted accounting principles (GAAP) in Canada have been included. The adjustments made were of a normal and recurring nature.

These interim unaudited consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and use the same accounting policies and methods used in the preparation of the company's most recent annual consolidated financial statements, except for changes described in note 3. However, all disclosures required for annual financial statements have not been included in these financial statements. Consequently, these unaudited interim consolidated financial statements should be read in conjunction with the company's most recent annual consolidated financial statements.

Revenue recognition

The Company has included its revenue recognition policy in this document for further clarity. This revenue recognition policy has not changed since the December 31, 2008.

The Company's recognizes revenue in each of its three operating segments; Site Assessment and Remediation ("SAR"), Organic Waste Management ("OWM") and Tank Testing and Calibration.

1) SAR Segment

The majority of the SAR segment's revenues are generated by "fixed-price" contracts with the balance of revenue generated under "cost-plus" contracts.

EnGlobe Corp.

Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

Under the "fixed-price" contracts, services are to be provided for a fixed price. In general, the contracts provide for payments to the Company throughout the period in which service is being provided. Under these "fixed-price" contracts, revenue is recognized using the percentage of completion method. At inception of the contract, the total costs to complete the contract are estimated. The revenue is recognized proportionately to the costs incurred of the contract. The Company revises these estimates periodically and reflects any changes in estimates using the cumulative catch-up method. At any point, if the estimate for the remaining costs exceeds the revenue under the contract, a loss is recorded.

Cost-plus contracts are contracts under which the customer agrees to pay EnGlobe the cost of the services provided, plus a margin. Under these "cost-plus" contracts, revenue is recognized as the services are provided.

II) OWM Segment

The majority of the OWM segment's revenues are derived from fees charged to customers for the transport and receipt of organic waste. Customers (often municipalities) pay a fee based on the amount of metric tonnage of organic waste. OWM recognizes revenues upon receipt of the organic waste as the performance requirements under the contract have been met and all other revenue recognition criteria have been satisfied.

The balance of the OWM segment's revenues is derived from the sale of compost materials. Sales are made primarily based on a price list that is reviewed by management periodically. Revenue is recognized when upon delivery (or-pick-up) of the compost by the customer as the risk and rewards of ownership are passed at this time and all other revenue recognition criteria have been satisfied.

III) Tank Testing and Calibration Segment

The Tank Testing and Calibration segment provides testing and calibration services primarily to the petroleum industry, usually gas stations. Revenue is recognized as the service is rendered.

3 New accounting standards

Effective October 1, 2008, the company adopted Section 3064, "Goodwill and intangible assets", which supersedes Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs" issued by the Canadian Institute of Chartered Accountants ("CICA").

Section 3064, "Goodwill and intangible assets" establishes standards for the recognition, measurement, presentation and disclosure of intangible assets. These changes clarify that costs may only be deferred when they relate to an item that meets the definition of an asset. The concept of matching revenues and expenses remains appropriate only for allocating the cost of an asset that is consumed in generating revenue over multiple reporting periods. Standards relating to goodwill are unchanged from those included in Section 3062.

The CICA issued Abstract EIC-173 "Credit Risk and the Fair Value of Financial Assets and Liabilities", which apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. This standard clarifies the application of Section 3855 "Financial Instruments – Recognition and Measurement".

The Company has applied these new accounting standards prospectively and they had no effect on its consolidated financial statements.

New accounting Standards Not Yet Adopted

In January 2009, the CICA issued Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests".

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Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

Section 1582 will be converged with IFRS 3, "Business Combinations". Section 1602 will be converged with the requirements of IAS 27, "Consolidated and Separate Financial Statements", for non-controlling interests. Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests.

Section 1582 applies to a transaction in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. Net income will be calculated without deduction for the non-controlling interest. Rather, net income will be allocated between the controlling and non-controlling interests.

The new standards will become effective in 2011. The Company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

4 Inventory

For the three-month period ended March 31, 2009, \$4,921 of inventory was expensed in the consolidated earnings (\$8,798 for the same three-month periods in 2008) and presented in direct costs.

5 Long-term debt

	March 31 2009 \$	December 31 2008 \$
Term Loan (a)	36,126	37,268
Class A Convertible Debentures (b)	16,144	16,050
Class B Debentures (c)	7,943	7,714
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	60,213	61,032
Less: Deferred financing charges	3,144	3,324
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	57,069	57,708
Less: Current portion of long-term debt	4,758	4,070
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Long-term portion of long-term debt	52,311	53,638
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Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

(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 denominated in pounds sterling (£7,566), for net proceeds of \$14,815. This term loan was used, in part, for the acquisition of Celtic with the remainder used for transaction expenses and the reduction of the revolving facility. This loan bears interest at the LIBOR plus 2.5%. In addition, the term of the November 2006 term loan of \$42,000, bearing interest at the banker's acceptance rate plus 2%, was extended to 2013. The loans are collateralized by all assets of the operating companies. The interest rate is adjustable based on achieving certain financial measures and for the November 2006 term loan, the base rate can be changed from prime rate to banker's acceptance or LIBOR at the discretion of the Company.

As at March 31, 2009, the Company also has a \$20,000 (as at December 31, 2008 - \$20,000) revolving facility bearing interest at the prime rate or banker's acceptance rate plus 2.0%. The facility is collateralized by all assets of the operating companies. As at March 31, 2009, \$9,589 (as at December 31, 2008 - \$11,166) was available under the revolving facility. On March 25, 2008, the term of the revolving facility was extended to 2013.

On November 14, 2008, the Company entered into an amendment agreement to this existing credit facility following repayment of portions of the term loan and the revolving facility. With this amendment, the Banks have agreed to suspend the Company's current financial covenants until the third quarter of 2009 and adjusted the financial covenants for the third and fourth quarter of 2009. Also, until the fiscal quarter ending September 2009, the Company shall maintain a cumulative minimum adjusted EBITDA, as defined in note 11. As at March 31, 2009, this condition has been met. During the period not exceeding November 29, 2009, applicable interest rates for all advances shall be LIBOR plus 5.75%.

Adjusted EBITDA is a non-GAAP measure related to the credit facilities. This measure does not have standardized meaning under GAAP.

(b) Class A convertible debentures and convertible preferred shares

Class A convertible debentures bear interest at a 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. Starting in 2010, the debentures are convertible into common shares at the option of the Company at a rate of \$0.323 per common share if certain minimum earnings levels are achieved.

A total of 10,296,250 convertible preferred shares were issued concurrently with the debentures. The convertible preferred shares pay a cumulative 5% dividend and are convertible and redeemable at \$0.323 per common share. The preferred shares have been issued contemporaneously with the debenture and may only be assigned or transferred on the basis of 500 preferred shares with each debenture. The preferred shares can be redeemed at the option of the holders after the debentures become due or at the option of the holders and the Company if the debentures have been repaid.

Because the units have elements of both debt and equity, they necessitate the recording of separate equity and two debt components. Management used the residual method to establish the fair value of the components. Using 9%, which is management's estimate of the effective interest rate on March 31, 2006, the debt component, representing the redemption feature of the debenture units, was valued at \$15,134. The other debt component, representing the redemption feature of the preferred shares units, was valued at \$797. Finally, the equity component, representing the conversion feature of the units, was valued at \$4,662. This equity component has been allocated to contributed surplus.

Since June 2008 and following the November 14, 2008 amendment to the credit agreement, neither the Borrowers nor any of their respective Subsidiaries shall be permitted to make any payments on account of any Subordinated Debt until September 2009. The unpaid interest shall accrue and be capitalized.

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Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

(c) Class B Debentures

On March 25, 2008, the Company issued \$7,046 in Class B debentures, for net proceeds of \$6,374, after deducting financing fees of \$672, including \$271 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.

Since June 2008 and following the November 14, 2008 amendment agreement, neither the Borrowers nor any of their respective Subsidiaries shall be permitted to make any payments on account of any Subordinated Debt until September 2009. The unpaid interest shall accrue and be capitalized.

In 2008, the Company breached certain covenants under the Class B debenture agreement. On November 13, 2008, the Company obtained a waiver that waived the various breaches under the agreement until September 30, 2009.

The minimum annual payments, including accrued and capitalized interest, related to the long-term debt are as follow:

	\$
2009 (remainder of the year)	3,172
2010	6,344
2011	6,344
2012	8,458
2013	11,808
Thereafter	24,087
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	60,213
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EnGlobe Corp.

Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

6 Share capital

Common shares

Authorized

Unlimited number of common shares with no par value

	Number	Amount \$
Balance as at December 31, 2007	78,705,160	61,773
Acquisition of Celtic	7,960,645	3,516
Exercise of stock options	45,000	29
	<hr/>	<hr/>
Total issued and fully paid as at December 31, 2008 and March 31, 2009	86 710 805	65,318
To be issued:		
Common shares issuable as additional consideration	10,589,000	953
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Total common shares including common shares to be issued as at December 31, 2008 and March 31, 2009	97,299,805	66,271
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On March 25, 2008, the Company issued 7,960,645 common shares with a fair value of \$3,516 (\$0.44 per share) as consideration for the acquisition of Celtic. Part of this acquisition is an additional consideration of £2,000 payable in a ratio of 75% cash and 25% in common shares of the Company (note 15). The Company will issue an estimate of 10,589,000 common shares with a fair value of \$953 (\$0.09 per share) in the second quarter of 2009.

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

EnGlobe Corp.

Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

Preferred shares

Authorized

Unlimited number of preferred shares issuable in series

	Number	Amount \$
Issued and fully paid		
Balance as at December 31, 2007	-	-
Series 2 preferred shares	7,375,000	2,950
Series 2 preferred shares in consideration of financing fees	470,745	188
Series 3 preferred shares	177,700,000	17,770
Series 3 preferred shares in consideration of financing fees	10,662,000	1,066
Less financing fees and issue expenses	-	(1,562)
Total issued and fully paid as at December 31, 2008 and March 31, 2009	196,207,745	20,412
To be issued		
Series 3 preferred shares issuable as dividends	617,580	62
Total preferred shares as at December 31, 2008	196,825,325	20,474
To be issued		
Series 3 preferred shares issuable as dividends	2,786,725	278
Less issue expenses	-	(47)
Total preferred shares as at March 31, 2009	199,612,050	20,705

Preferred share issuances

On December 12, 2008, the Company completed a private placement of 188,362,000 Series 3 preferred shares at \$0.10 per share, including 10,662,000 preferred shares issued in consideration for financing fees. Consideration received for the preferred shares was \$17,595 after deducting \$175 in issue expenses and \$1,066 in financing fees paid to the holders of the preferred shares. The Series 3 preferred shares are convertible at any time by the holders into freely tradable common shares of the Company at a conversion of \$0.10 per common share. Holders of the Series 3 Preferred Shares are entitled to receive, subject to certain exceptions, a fixed, cumulative dividend per preferred share equal to 6% of the issue price per annum. These dividends are payable quarterly at the Company's option in cash or additional equivalent value preferred shares. As a result, the Company will issue 3,404,305 Series 3 preferred shares valued at \$340 as dividends for the period from December 12, 2008 to March 31, 2009.

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 of financing fees. Consideration received for the preferred shares was \$2,859 after deducting \$133 in issue expenses and \$188 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 quarterly dividend of 3% of the issue price per annum. The preferred shares are redeemable by the Company, at its option, on or after March 31, 2014 at the issue price plus all accrued and unpaid dividends

EnGlobe Corp.

Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

Stock options

The Company has an employee and consultant stock option plan (the "ESOP"). On August 24, 2004, the Company's shareholders approved an increase in the maximum number of shares that may be reserved and set aside under options to eligible persons pursuant to the ESOP to 7,243,768 common shares from 5,000,000. In addition, the Board of Directors adopted a policy to limit the number of shares outstanding under the ESOP to a maximum of 15% of the number of common shares outstanding at the time. The maximum number of common shares at any time available for issuance under the ESOP, or pursuant to other outstanding options, to any one person may not exceed 2% of the common shares then issued and outstanding. Under the terms of the ESOP, the option exercise price for all options issued under the ESOP must be based on the market value of the common shares on the date of grant, have a 5-year term, and generally vest annually in portions of 30%, 30% and 40% over a three-year period. A committee appointed by the Board of Directors administers the ESOP.

The following tables present the option activity during 2009 and 2008 and the number and weighted average exercise price of stock options outstanding as at March 31, 2009.

	Number	Weighted average exercise price \$
Balance as at December 31, 2007	4,218,133	0.92
Granted	908,332	0.27
Forfeited	(2,360,707)	0.86
Exercised	(45,000)	0.40
Balance as at December 31, 2008	2,720,758	0.76
Granted	3,475,000	0.08
Forfeited	(460,759)	1.33
Balance as at March 31, 2009	5,734,999	0.30

The option exercise price is based on the closing market price of common shares on the date immediately prior to the grant date.

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Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

Range of exercise prices \$	Options outstanding as at March 31, 2009			Options exercisable as at March 31, 2009	
	Number	Weighted average remaining life in years	Weighted average price \$	Number	Weighted average exercise price \$
0.08	3,891,666	4.90	0.08	-	-
0.36 – 0.63	1,258,333	3.05	0.46	639,167	0.47
0.64 – 0.91	100,000	3.25	0.67	30,000	0.67
0.92 – 1.19	335,000	1.13	1.00	335,000	1.00
2.04 – 2.32	150,000	0.05	2.32	150,000	2.32
	5,734,999	4.12	0.30	1,154,167	0.87

Stock-based compensation

The fair value of each option is estimated on the date of the grant using the Black-Scholes model with the following weighted average assumptions:

	Three-month period ended March 31, 2009	Three-month period ended March 31, 2008
Expected option life in years	5	5
Volatility	132%	84%
Risk-free interest rate	1.81%	3.9%
Dividend yield	-	-
Fair value of options granted during the period	\$0.07	\$0.31

Tandem option and stock appreciation rights

In 2006, the Company adopted an Option and Stock Appreciation Rights (“OSAR”) plan which is intended to align the interests of key employees and directors with that of the Company. The Corporate Governance and Compensation Committee of the Board of Directors administers the OSAR plan. The OSARs have a term of 10 years and vest on a straight-line basis over five years or fully in the event of a change in control. Upon exercise the employee may, at his/her option, requires the Company to issue common shares or require the Company to pay the incremental market value of the common shares compared with the exercise price. The Company will expense the compensation based on the amount by which the market value of the Company’s common shares exceeds the exercise price of the OSAR on a grading vesting basis.

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(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

	Number outstanding
Balance as at December 31, 2007	14,500,000
Granted	7,000,000
Forfeited	(14,100,000)
Balance as at December 31, 2008	7,400,000
Granted at an average exercise price of \$0.24	4,000,000
Forfeited	(400,000)
Balance as at March 31, 2009	11,000,000

As at March 31, 2009

Range of exercise prices \$	Number outstanding	Number exercisable	Weighted average remaining life in years
0.10 – 0.38	5,714,286	-	9.8
0.39 – 0.67	1,476,190	-	9.2
0.68 – 0.96	2,142,857	-	9.1
0.97 – 1.25	1,666,667	-	9.1
	11,000,000	-	9.5

Warrants

The following table present the number of warrants outstanding and weighted average exercise price of warrants outstanding as at December 31, 2008 and March 31, 2009:

	Number outstanding	Weighted average exercise price \$
Balance as at December 31, 2008 and March 31, 2009	1,982,134	0.82

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(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

Information in respect of the outstanding warrants as at March 31, 2009 is as follows:

Exercise price \$	Number outstanding and exercisable	Weighted average remaining life in years
0.43	375,000	0.70
0.71	633,800	0.96
0.90	833,334	0.70
1.90	140,000	1.02
	1,982,134	0.81

7 Restructuring and other costs

Restructuring and other costs are typically to provide for the costs of facility consolidations, workforce reductions, transition costs or non-recurrent costs resulting from specific situations that occurred.

The Company records restructuring charges relating to employee terminations and recruiting costs, professional fees and legal costs, facility exit and other costs when the liability is incurred. The recognition of these charges requires management to make certain judgements regarding the nature, timing and amounts associated with planned restructuring activities.

The tables below provide a summary of restructuring and other costs undertaken by the Company detailing the components of the expenses and the movement in accrued liabilities. This summary is presented by the year in which the restructuring activities were initiated.

	Employee terminations and recruiting costs \$	Professional fees and legal costs \$	Facility exit and other costs \$	Total \$
Expenses recorded in the 1st quarter 2008	430	191	290	911
Expenses recorded in the 1st quarter 2009:				
For activities initiated and expenses recorded in 2009	50	163	19	232
Accrued expenses reconciliation:				
Accrued liabilities – December 31, 2008	1,629	300	125	2,054
Expenses in 2009	50	163	19	232
Cash payments in 2009	(1,299)	(433)	(144)	(1,876)
Accrued liabilities – March 31, 2009	380	30	-	410

EnGlobe Corp.

Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

8 Loss per common share

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

The following table reconciles the net loss and the number of shares for the basic and diluted loss per share calculations for the three month periods ended March 31:

	2009		
	Net loss attributable to common shareholders	Weighted average number of shares	Per share amount
	\$		\$
Basic net loss per share	(3,927)	86,710,805	(0.05)
Dilutive effect of stock options	-	166,115	-
Diluted net loss per share	(3,927)	86,876,920	(0.05)

Stock-based awards are excluded from the calculation of the diluted weighted average number of shares outstanding when their exercise price is greater than the average market price of common shares. The number of excluded stock-based awards is presented below.

Stock options	2,259,999
Option and Stock Appreciation Rights	11,000,000
Warrants	1,982,134
Preferred shares	199,395,438
Convertible debentures	60,566,176

	2008		
	Net loss attributable to common shareholders	Weighted average number of shares	Per share amount
	\$		\$
Basic net loss per share	(3,936)	79,270,587	(0.05)
Dilutive effect of warrants	-	47,256	-
Dilutive effect of stock options	-	121,545	-
Dilutive effect of preferred shares	-	450,403	-
Dilutive effect of convertible debentures	-	20,804,235	-
Diluted net loss per share	(3,936)	100,694,026	(0.05)

Stocks-based awards are excluded from the calculation of the diluted weighted average number of shares outstanding when their exercise price is greater than the average market price of common shares. The number of excluded stocks-based awards is presented below.

Stock options	3,191,447
Option and Stock Appreciation Rights	4,500,000
Warrants	1,607,134

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(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

9 Commitments and contingencies

(a) Letters of credit

The Company has renewable letters of credit outstanding in the aggregate of \$5,735 (December 31, 2008 - \$5,180) 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 on August 12, 2008, but on October 21, 2008, the plaintiff decided to file a civil notice of appeal. Management believes that this appeal has no merit.

ii) 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 \$17 million. Management believes this claim has no merit and the final determination will not materially affect the financial position or results of the Company.

iii) 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 obligation

The Company recognized an asset retirement obligation of approximately \$1,700 in respect of the expected costs to remediate one of its facilities. The key assumptions on which the fair value of the asset retirement obligations are based include the estimated future cash flows, the timing of those cash flows, and the credit-adjusted risk-free rate at which the estimated cash flows have been discounted. The Company used a discount rate of 6 %. As at March 31, 2009, undiscounted cash outflows approximating \$1,693 (December 31, 2008 - \$1,700) are expected to occur over a five-year period.

(d) Other obligations

In 2008, the Company settled a case with a former shareholder of GSI, a wholly-owned subsidiary of the Company. This claim was settled in July 2008 under which the Company would pay \$1,200 in accordance with the settlement between the parties. The insurance company disbursed \$500 on July 15, 2008 and the Company will pay \$350 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.

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(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

10 Segment information

The Company's operations consist of three operating segments: Site Assessment and Remediation, Organic Waste Management and Tank Testing and Calibration services. Services are provided to customers in Canada, the United Kingdom, France and the United States. Segmented results for the three-month periods ended March 31, 2009 and 2008 are as follows:

	March 31, 2009			
	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenues				
Canada	8,195	5,188	493	13,876
United Kingdom	4,850	-	-	4,850
France	5,478	-	-	5,478
United States	602	-	-	602
	<u>19,125</u>	<u>5,188</u>	<u>493</u>	<u>24,806</u>
Depreciation and amortization	1,894	274	42	2,210
Segment earnings (loss) before the undernoted items	(399)	(1,170)	(144)	(1,713)
Stock-based compensation				59
Restructuring and other costs				232
Interest on long-term debt				1,503
Other interest and bank charges				328
Unrealized gain on interest rate swap				(43)
Income tax recovery				<u>(167)</u>
Net loss and comprehensive loss				<u>(3,625)</u>
Segmented Assets	101,186	18,039	1,902	121,127
Capital expenditures	1,452	-	-	1,452
Goodwill expenditures	-	-	-	-

EnGlobe Corp.

Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

	March 31, 2008			
	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenues				
Canada	5,175	8,794	626	14,595
United Kingdom	2,664	-	-	2,664
France	6,269	-	-	6,269
United States	753	-	-	753
	<u>14,861</u>	<u>8,794</u>	<u>626</u>	<u>24,281</u>
Depreciation and amortization	<u>940</u>	<u>1,048</u>	<u>37</u>	<u>2,025</u>
Segment earnings (loss) before the undernoted items	395	(3,192)	(77)	(2,874)
Stock-based compensation				87
Restructuring and other costs				911
Interest on long-term debt				933
Other interest and bank charges				522
Unrealized loss on interest rate swap				432
Income tax recovery				<u>(1,823)</u>
Net loss and comprehensive loss				<u><u>(3,936)</u></u>
Segmented Assets	110,580	19,605	2,099	132,284
Capital expenditures	474	115	71	660
Goodwill expenditures	5,519	-	-	5,519

EnGlobe Corp.

Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

Geographic segments

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

	March 31, 2009				
	Canada	United Kingdom	France	United States	Total
	\$	\$	\$	\$	\$
Property, plant and equipment	20,297	2,610	3,712	67	26,686
Goodwill and intangible assets	23,781	18,940	6,566	70	49,357
Other assets	25,442	9,141	9,762	739	45,084
Total assets	69,520	30,691	20,040	876	121,127

	December 31, 2008				
	Canada	United Kingdom	France	United States	Total
	\$	\$	\$	\$	\$
Property, plant and equipment	20,980	2,903	3,690	73	27,646
Goodwill and intangible assets	24,017	19,472	6,689	71	50,249
Other assets	44,264	4,864	3,855	1,406	54,389
Total assets	89,261	27,239	14,234	1,550	132,284

Revenue is allocated to geographic regions based on where the services are performed. Premises and equipment are allocated based upon physical location. Goodwill and intangible assets are allocated based on the location of the related operations.

11 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 loan and a revolving facility;
- Other long-term debt including Class A convertible debentures and Class B debentures, and;
- Total shareholders' equity, including common shares, preferred shares, contributed surplus and deficit.

The Company's objective is to maintain a reasonable level of debt and the Company is using the net debt to earnings before interest and bank charges, tax, depreciation and amortization, restructuring and other costs, other non-cash charges, stock-based compensation, foreign exchange loss (gain), unrealized loss (gain) on interest rate swap ("adjusted 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 bank indebtedness less cash and cash equivalents. The Class A convertible debentures are excluded from this calculation as they are held by a significant shareholder of the Company and can be converted into common shares.

EnGlobe Corp.

Notes to Interim Consolidated Financial Statements (Unaudited) For the three-month periods ended March 31

(In thousands of dollars, except the number of shares, options, warrants and per share data as otherwise noted)

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

	Twelve-month period ended March 31, 2009 \$	Twelve-month period ended December 31, 2008 \$
Net loss	(28,418)	(28,729)
Depreciation and loss (gain) on disposal of property, plant and equipment	5,283	5,387
Amortization of intangible assets	4,341	4,058
Stock-based compensation	157	185
Restructuring and other costs	4,709	5,388
Other non-cash charges	9,553	9,553
Foreign exchange loss	(1,619)	(2,164)
Interest on long-term debt	7,397	6,828
Other interest and bank charges	1,799	1,992
Unrealized loss on interest swap	632	1,107
Income tax expense	3,127	1,471
Adjusted EBITDA	6,961	5,076
	As at March 31, 2009 \$	As at December 31, 2008 \$
Trailing twelve-month Adjusted EBITDA	6,961	5,076
Net debt		
Bank indebtedness	7,508	5,676
Long-term debt	52,311	53,638
Current portion of long-term debt	4,758	4,070
Class A convertible debentures	(16,144)	(16,050)
Cash and cash equivalents	(4,523)	(3,157)
Total net debt	43,910	44,177
Bank indebtedness ratio	6.3	8.7

As at March 31, 2008, Celtic's adjusted EBITDA only contributed to the twelve-month consolidated EBITDA since March 25, 2008 and consequently the bank indebtedness ratio is inflated as it reflects the full impact of the debt from the Celtic acquisition with only approximately three quarters of Celtic's earnings. Celtic's adjusted EBITDA for the previous quarter, which was not included in the adjusted EBITDA above, is \$0.7 million. Including the full year of Celtic's adjusted EBITDA, the bank indebtedness ratio as at March 31, 2008 declines to 7.7.

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12 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 U.K. pound sterling, the euro, and the US dollar. The Company occasionally enters into derivative contracts to manage this risk. To partially hedge its risk against the pound sterling, the 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 revolving facility.

Impact of foreign exchange risk on financial statements	In UK pounds sterling	In Euros
Net working capital (a non GAAP measure)	1,279	2,415
Long-term debt	5,181	-

As at March 31, 2009, with other variables unchanged, a \$0.01 strengthening (weakening) of the Canadian dollar against the U.K. pound sterling and the Euro would have an effect of \$0.1 million negative or positive on annual earnings before income taxes for the net working capital portion and \$0.2 million and \$0.2 million negative or positive for the long-term debt portion respectively.

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 \$16.8 million of its long-term debt with a fixed interest rate of 4.315%.

As at March 31, 2009, with other variables unchanged and considering the outstanding interest swap agreement for \$16.8 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 \$0.2 million and \$0.2 million respectively. There would be no effect on other comprehensive loss.

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 and cash equivalents with institutions of high creditworthiness. 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 March 31, 2009	
		\$
Trade accounts receivable:		
Trade accounts receivable not past due		10,110
Trade accounts receivable past due		
For less than 30 days	4,793	
For 30 to 60 days	2,506	
For over 60 days	6,083	13,382
		23,492
Allowance for doubtful accounts		(1,945)
Other accounts receivable		2,514
		<u>24,061</u>

During the three-month periods ended March 31, 2009, the provision for doubtful accounts was increased by \$0.2 million. The provision for doubtful accounts results from an analysis of each past due account over 60 days.

Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances, managing its accounts payable and by appropriately utilizing the revolving 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 financial liabilities.

	Carrying amount	Contract ual Cash Flow	2009	2010	2011	2012	2013 and after
Accounts payable and accrued liabilities	17,720	17,720	17,720	-	-	-	-
Term loan	36,126	36,126	3,172	6,344	6,344	8,458	11,808
Additional consideration payable	2,714	2,714	2,714	-	-	-	-
Capital lease obligations	642	705	348	302	41	14	-
Debentures	24,087	32,906	-	-	-	-	32,906
Other long-term obligation	2,321	2,321	670	631	340	340	340
Series 1 preferred shares	1,161	2,032	-	-	-	-	2,032
	84,771	94,524	24,624	7,277	6,725	6,725	55,898

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13 Additional disclosures

Net change in non-cash working capital items:

	Three-month period ended March 31, 2009 \$	Three-month period ended March 31, 2008 \$
Accounts receivable	10,662	11,626
Inventory	(11)	(341)
Unbilled revenue	783	1,237
Prepaid expenses and advances	(220)	(38)
Other current assets	0	60
Accounts payable and accrued liabilities	(5,250)	(3,369)
Deferred revenue	(2,180)	(1,394)
Income taxes	(691)	(47)
Net change in non-cash working capital items	3,093	7,734

	2009 \$	2008 \$
Cash and cash equivalents consist of the following:		
Cash	4,523	1,382
Short-term investment	-	1,775
	4,523	3,157

14 Related party transactions

The Company has convertible units and Class B debentures that are held by shareholders (see note 5). Associated to those items, the Company has recorded \$771 of interest on long-term debt (\$457 in 2008) and has accrued interest of \$933 as at March 31, 2009 (\$664 as at December 31, 2008) included in accounts payable and accrued liabilities.

15 Subsequent event

On April 3, 2009, an amendment to the original share sale agreement, dated of March 25, 2008 related to the acquisition of Celtic and concerning the additional consideration payable in cash has been made. The cash payment to the Sellers will be done in two instalments instead of one. Following this agreement, 850 £ (\$1,538) has been paid on April 15, 2009 and 650 £ (\$1,176) will be paid in April 15, 2010. The second instalment bears interest at 8% per annum.