

# **EnGlobe Corp.**

**Interim Consolidated Financial Statements  
(Unaudited)**

**For the nine-month periods ended  
September 30, 2009 and 2008**

# EnGlobe Corp.

## Interim Consolidated Balance Sheet

(In thousands of dollars)

	As at September 30 2009 \$ (Unaudited)	As at December 31 2008 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 12)	916	3,157
Accounts receivable	28,842	34,749
Inventories	1,257	2,141
Unbilled revenue	14,010	9,233
Prepaid expenses and advances	2,653	1,563
Income taxes receivable	895	967
Future income taxes	516	883
	49,089	52,693
<b>Property, plant and equipment</b>	25,856	27,646
<b>Intangible assets</b>	26,844	29,116
<b>Goodwill</b> (note 4)	21,078	21,133
<b>Tax credits recoverable</b>	614	838
<b>Future income taxes</b>	758	858
	124,239	132,284
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 5)	11,146	5,676
Accounts payable and accrued liabilities	21,961	24,166
Additional consideration payable (note 6)	1,112	2,663
Deferred revenue	6,955	9,808
Current portion of capital lease obligations	310	394
Current portion of long-term debt (note 5)	5,725	4,070
Current portion of other long-term obligations (note 10c and d)	646	665
Other current liabilities	720	1,108
	48,575	48,550
<b>Capital lease obligations</b>	107	296
<b>Long-term debt</b> (note 5)	49,685	53,638
<b>Other long-term obligations</b> (note 10c and d)	1,360	1,640
<b>Future income taxes</b>	2,485	2,626
<b>Preferred shares</b> (note 5b)	1,232	1,127
	103,444	107,877
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 6)		
Common shares	66,216	66,271
Preferred shares	21,272	20,474
<b>Contributed surplus</b>	13,546	13,386
<b>Deficit</b>	(80,239)	(75,724)
	20,795	24,407
	124,239	132,284
<b>Commitments and contingencies</b> (note 10)		

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 Income (Loss) and Deficit (Unaudited)

(In thousands of dollars, except per share data)

	Three-month period ended September 30		Nine-month period ended September 30	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Revenues</b>	39,275	45,760	96,248	108,250
<b>Direct costs</b>	28,346	32,186	70,372	85,261
<b>Gross profit</b>	10,929	13,574	25,876	22,989
<b>Expenses</b>				
Selling, general and administrative	4,828	7,186	15,978	21,793
Depreciation of property, plant and equipment	1,307	1,271	3,716	4,192
Loss (gain) on disposal of property, plant and equipment	(5)	(90)	(83)	89
<b>Earnings (loss) before the undernoted items</b>	4,799	5,207	6,265	(3,085)
Amortization of intangible assets	571	991	2,284	2,905
Stock-based compensation	51	59	161	212
Restructuring and other costs (note 7)	492	934	1,025	3,571
Foreign exchange gain	(995)	(292)	(17)	(518)
Interest on long-term debt	1,457	1,712	4,425	4,627
Other interest and bank charges	491	848	920	1,363
Other non-cash charges (note 9)	--	--	--	9,553
Unrealized loss (gain) on interest rate swap	(126)	155	(387)	386
<b>Earnings (loss) before income taxes</b>	2,858	800	(2,146)	(25,184)
<b>Income tax expense</b>	1,007	695	1,453	1,196
<b>Net earnings (loss) and comprehensive income (loss) for the period</b>	1,851	105	(3,599)	(26,380)
<b>Deficit – Beginning of period</b>	(81,781)	(73,346)	(75,724)	(46,861)
<b>Dividends – Preferred shares</b>	(309)	--	(916)	--
<b>Deficit – End of period</b>	(80,239)	(73,241)	(80,239)	(73,241)
<b>Basic and diluted net earnings (loss) per common share (note 8)</b>	0.02	0.00	(0.05)	(0.31)

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

# EnGlobe Corp.

## Interim Consolidated Statements of Cash Flows (Unaudited)

(In thousands of dollars)

	Three-month period ended September 30		Nine-month period ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings (loss) for the period	1,851	105	(3,599)	(26,380)
Items not affecting cash and cash equivalents				
Depreciation and amortization	1,878	2,262	6,000	7,097
Non-cash interest accretion on debentures, preferred shares and other long-term obligation	573	823	1,709	1,601
Unrealized loss (gain) on interest rate swap	(126)	155	(387)	386
Stock-based compensation	51	59	161	212
Unrealized foreign exchange gain	(1,162)	(760)	(129)	(703)
Loss (gain) on disposal of property, plant and equipment	(5)	(90)	(83)	89
Other non-cash charges (note 9)	--	--	--	9,553
Other	--	25	--	--
Future income taxes	173	(177)	335	291
	3,233	2,402	4,007	(7,854)
Net change in non-cash working capital items (note 12)	(6,412)	(3,233)	(2,770)	2,634
Cash provided by (used in) operating activities	(3,179)	(831)	1,237	(5,220)
<b>Investing activities</b>				
Purchase of property, plant and equipment	(795)	(1,365)	(3,504)	(2,808)
Purchase of intangible assets	--	(122)	(12)	(122)
Proceeds from disposal of property, plant and equipment	190	239	365	437
Business acquisition, net of cash acquired (note 6)	--	(78)	(1,531)	(10,146)
Other investing activities	--	(140)	--	(744)
Cash used in investing activities	(605)	(1,466)	(4,682)	(13,383)
<b>Financing activities</b>				
Increase (decrease) in bank indebtedness	4,329	3,911	5,470	(2,377)
Repayment of capital lease obligations	(100)	(165)	(330)	(440)
Repayment of other long-term obligations	(350)	(100)	(357)	(100)
Proceeds from long-term debt	--	--	--	21,976
Repayment of long-term debt	(1,044)	(1,325)	(3,532)	(2,900)
Proceeds from issuance of preferred shares	--	--	--	2,950
Preferred shares issuance costs	--	(133)	(47)	(133)
Proceeds from issuance of common shares	--	--	--	18
Cash provided by financing activities	2,835	2,188	1,204	18,994
<b>Net change in cash and cash equivalents for the period</b>	(949)	(109)	(2,241)	391
<b>Cash and cash equivalents – Beginning of period</b>	1,865	1,402	3,157	902
<b>Cash and cash equivalents – End of period</b>	916	1,293	916	1,293
<b>Supplemental disclosure of cash flow information</b>				
Interest paid	1,055	1,439	2,686	4,075
Income taxes paid	367	584	678	2,676

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

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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(In thousands of dollars, except the number of shares, options, warrants and per share data and 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 September 30, 2009, and for the three-month and nine-month periods ended September 30, 2009 and 2008, 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 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.

##### I) 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)

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(In thousands of dollars, except the number of shares, options, warrants and per share data and 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 upon delivery (or-pick-up) of the compost by the customer as the risk and rewards of ownership are transferred 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

On January 1, 2009, 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 Company has applied this new accounting standard prospectively and it had no effect on its consolidated financial statements.

### *Credit risk and the fair value of financial assets and liabilities*

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 abstract clarifies the application of Section 3855 "Financial Instruments – Recognition and Measurement".

The adoption of these guidelines did not have any material effect on the Company’s result, financial position or cash flows.

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

### ***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".

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. Any interest in the acquiree owned prior to obtaining control will be remeasured 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.

In July 2009, the CICA issued amendments to CICA Handbook section 1506, which exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. Amendments apply to interim and annual financial statements relating to years beginning on or after July 1, 2009.

### ***Financial Instruments – Disclosures***

In June 2009, the CICA issued amendments to *CICA Handbook* Section 3862, "Financial instruments – disclosures", which requires enhanced disclosures on liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. This amendment is effective for EnGlobe Corp. 2009 annual consolidated financial statements. The impact of adopting this amendment is currently being evaluated.

## **4 Goodwill**

In July 2009, in conformity with the amendment to the share sale agreement entered into with the shareholders of Celtic Technologies Limited, it was determined that an adjustment had to be made to the number of shares to be issued (reduction of 2,423,542) and to the amount of share capital issued (reduction of \$55). Consequently, goodwill and share capital were reduced by an amount of \$55 (note 6).

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

### 5 Long-term debt

	September 30 2009 \$	December 31 2008 \$
Term Loan (a)	33,425	37,268
Class A Convertible Debentures (b)	16,340	16,050
Class B Debentures (c)	8,428	7,714
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	58,193	61,032
Less: Deferred financing charges	2,783	3,324
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	55,410	57,708
Less: Current portion of long-term debt	5,725	4,070
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Long-term portion of long-term debt	49,685	53,638
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#### (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 rate 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 September 30, 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 September 30, 2009, \$4,489 (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. As at September 30, 2009, the Company is now required to respect certain financial covenants, which have been met at that date. During the period not exceeding November 29, 2009, applicable interest rates for all advances shall be LIBOR plus 5.75%.

#### 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

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

preferred shares have been issued contemporaneously with the debentures 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 were permitted to make any payments on account of any Subordinated Debt before October 2009. The unpaid interest shall accrue and be capitalized.

### (b) 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 were permitted to make any payments on account of any Subordinated Debt before October 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. As at September 30, 2009, the Company is required to respect financial covenants which have been met at that date.

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

	\$
2009 (remainder of the year)	1,041
2010	6,246
2011	6,246
2012	8,328
2013	11,564
Thereafter	24,768
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	58,193

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

(In thousands of dollars, except the number of shares, options, warrants and per share data and 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
<b>Total issued and fully paid as at December 31, 2008 and June 30, 2009</b>	<b>86,710,805</b>	<b>65,318</b>
<b>To be issued:</b>		
Common shares issuable as additional consideration	10,589,000	953
<b>Total common shares including common shares to be issued as at December 31, 2008 and June 30, 2009</b>	<b>97,299,805</b>	<b>66,271</b>
Adjustment upon finalization of the issuance of common shares (note 4)	(2,423,542)	(55)
<b>Total common shares issued as at September 30, 2009</b>	<b>94,876,263</b>	<b>66,216</b>

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. On April 3, 2009, an amendment to the original share sale agreement 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 (\$1,531) has been paid on April 15, 2009 and £650 (\$1,112) will be paid on April 15, 2010. The second instalment bears interest at 8% per annum.

In July 2009, the Company has issued 8,165,458 common shares with a fair value of \$898 (\$0.11 per share) in conformity with the amendment (note 4).

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

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

### Preferred shares

#### Authorized

Unlimited number of preferred shares issuable in series

Issued and fully paid	Nine-month period ended September 30, 2009		Year ended December 31, 2008	
	Number	Amount \$	Number	Amount \$
<b>Balance - Beginning of period</b>	196,207,745	20,412	--	--
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
	196,207,745	20,412	196,207,745	21,974
Issue costs	--	(47)	--	(1,562)
<b>Balance - End of period</b>	<b>196,207,745</b>	<b>20,365</b>	<b>196,207,745</b>	<b>20,412</b>
<b>To be issued</b>				
Series 3 preferred shares issuable as dividends	9,070,648	907	617,580	62
<b>Total preferred shares - End of period</b>	<b>205,278,393</b>	<b>21,272</b>	<b>196,825,325</b>	<b>20,474</b>

#### 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 9,070,648 Series 3 preferred shares valued at \$907 as dividends for the period from December 12, 2008 to September 30, 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 \$2,817 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

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## Notes to Interim Consolidated Financial Statements (Unaudited)

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

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.

### 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 period in which the restructuring activities were initiated.

	Employee terminations and recruiting costs \$	Professional fees and legal costs \$	Facility exit and other costs \$	Non-cash items \$	Total \$
<b>Expenses recorded in the 3rd quarter of 2008</b>	665	173	96	--	934
<b>Expenses recorded in the 3rd quarter of 2009:</b>					
For activities initiated during 2008	--	1	11	--	12
For activities initiated during 2009	478	2	--	--	480
	478	3	11	--	492
	Employee terminations and recruiting costs \$	Professional fees and legal costs \$	Facility exit and other costs \$	Non-cash items \$	Total \$
<b>Expenses recorded in the nine-month period ended September 30, 2008</b>	1,788	487	1,279	17	3,571
<b>Expenses recorded in the nine-month period ended September 30, 2009:</b>					
For activities initiated prior to 2008	--	83	--	--	83
For activities initiated during 2008	73	283	38	5	399
For activities initiated during 2009	494	4	45	--	543
	567	370	83	5	1,025

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## Notes to Interim Consolidated Financial Statements (Unaudited)

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

### Accrued expenses reconciliation:

Accrued liabilities – December 31, 2008	1,629	300	125	--	2,054
Expenses in 2009	567	370	83	5	1,025
Cash payments in 2009	(1,769)	(662)	(208)	(5)	(2,644)
Accrued liabilities – September 30, 2009	427	8	--	--	435

## 8 Earnings (loss) per common share

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 and nine-month periods ended September 30:

	For the three-month period ended September 30, 2009		
	Net earnings attributable to common shareholders	Weighted average number of shares	Per share amount
Basic and diluted net earnings per share	\$ 1,542	94,876,263	\$ 0.02

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	6,106,666
Option and Stock Appreciation Rights	11,350,000
Warrants	1,982,134
Preferred shares	206,503,995
Convertible debentures	\$19,563

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

	<b>For the three-month period ended September 30, 2008</b>		
	<b>Net earnings attributable to common shareholders</b>	<b>Weighted average number of shares</b>	<b>Per share amount</b>
	\$		\$
Basic and diluted net earnings per share	105	86,710,805	0.00

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	3,003,427
Option and Stock Appreciation Rights	7,000,000
Warrants	1,982,134
Preferred shares	206,503,995
Convertible debentures	\$19,563

	<b>For the nine-month period ended September 30, 2009</b>		
	<b>Net loss attributable to common shareholders</b>	<b>Weighted average number of shares</b>	<b>Per share amount</b>
	\$		\$
Basic net loss per share	(4,515)	94,876,263	(0.05)
Dilutive effect of stock options	--	55,372	--
Dilutive effect of option and stock appreciation rights	--	8,418	--
Diluted net loss per share	(4,515)	94,940,053	(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	4,993,333
Option and Stock Appreciation Rights	11,211,903
Warrants	1,982,134
Preferred shares	206,503,995
Convertible debentures	\$19,563

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

	<b>For the nine-month period ended September 30, 2008</b>		
	<b>Net loss attributable to common shareholders</b>	<b>Weighted average number of shares</b>	<b>Per share amount</b>
	\$		\$
Basic and diluted net loss per share	(26,380)	84,239,784	(0.31)

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	3,003,427
Option and Stock Appreciation Rights	7,000,000
Warrants	1,982,134
Preferred shares	206,503,995
Convertible debentures	\$19,563

## 9 Other non-cash charges

- i) CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, requires goodwill be tested for impairment annually or earlier if there are indications of impairment. The Company performs its annual test of goodwill for impairment in the fourth quarter. However, the current strategic review resulted in the Company performing an impairment test on the goodwill of its OWM segment in the second quarter of fiscal year 2008.
- ii) The impairment test for goodwill is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value of a reporting unit is based on one or more fair value measures including present value techniques of estimated future cash flows and estimated amounts at which the unit as a whole could be bought or sold in a current transaction between willing parties. If the carrying amount of the reporting unit exceeds the fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net loss.
- iii) In testing for impairment of long-lived assets, the Company assessed recoverability of the carrying amounts by reference to expected undiscounted cash flows. An impairment charge is recognized when the carrying amount is not fully recoverable and when it exceeds the fair values determined by reference to discounted cash flows and independent appraisals.
- iv) During the second quarter of 2008, the Company's management performed a comprehensive review of current performance and the strategic orientation of its reporting units. This strategic review revealed that, several factors have severely and persistently caused the recalibration of some key assumptions in EnGlobe's strategic planning. The value of compost also significantly decreased during 2008. This unforeseen decrease has resulted in a change in management's estimate of the expected realizable value of its compost. In response to this unexpected turn of events, the Company is completing corrective actions in order to minimize the negative impact over the entire business and analysing options to return to a profitable OWM business model in the near future. The strategic review included a review of the carrying amount of certain assets including inventory, property, plant and equipment, intangible assets and goodwill in the OWM segment.
- v) Based on this review, the Company recorded, in the second quarter of 2008, a charge of \$9,553, virtually all related to its OWM segment, detailed as follows:

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

	Three-month period ended		Nine-month period ended	
	September 30		September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Property, plant and equipment	--	--	--	3,206
Intangible assets	--	--	--	1,203
Goodwill	--	--	--	5,144
<b>Total</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>9,553</b>

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

## 10 Commitments and contingencies

- (a) Letters of credit

The Company has renewable letters of credit outstanding in the aggregate of \$5,759 (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

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 September 30, 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, the Company has paid \$350 on July 15, 2009 and will pay \$500 on 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.

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

### 11 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 and nine-month periods ended September 30, 2009 and 2008 are as follows:

				<b>Three-month period ended September 30, 2009</b>
	<b>Site Assessment and Remediation</b>	<b>Organic Waste Management</b>	<b>Tank Testing and Calibration</b>	<b>Total</b>
	\$	\$	\$	\$
Revenues	31,167	7,140	968	39,275
Segment earnings before the undernoted items	4,994	109	120	5,223
Stock-based compensation				51
Restructuring and other costs				492
Interest on long-term debt				1,457
Other interest and bank charges				491
Unrealized gain on interest rate swap				(126)
Income tax expense				1,007
Net earnings and comprehensive income				<u>1,851</u>
				<b>Three-month period ended September 30, 2008</b>
	<b>Site Assessment and Remediation</b>	<b>Organic Waste Management</b>	<b>Tank Testing and Calibration</b>	<b>Total</b>
	\$	\$	\$	\$
Revenues	32,844	11,884	1,032	45,760
Segment earnings (loss) before the undernoted items	4,599	(371)	280	4,508
Stock-based compensation				59
Restructuring and other costs				934
Interest on long-term debt				1,181
Other interest and bank charges				1,379
Unrealized loss on interest rate swap				155
Income tax expense				695
Net earnings and comprehensive income				<u>105</u>

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

				<b>Nine-month period ended September 30, 2009</b>
	<b>Site Assessment and Remediation \$</b>	<b>Organic Waste Management \$</b>	<b>Tank Testing and Calibration \$</b>	<b>Total \$</b>
Revenues	73,886	20,020	2,342	96,248
Segment earnings (loss) before the undernoted items	5,244	(1,260)	14	3,998
Stock-based compensation				161
Restructuring and other costs				1,025
Interest on long-term debt				4,425
Other interest and bank charges				920
Unrealized gain on interest rate swap				(387)
Income tax expense				1,453
Net loss and comprehensive loss				<u>(3,599)</u>

				<b>Nine-month period ended September 30, 2008</b>
	<b>Site Assessment and Remediation \$</b>	<b>Organic Waste Management \$</b>	<b>Tank Testing and Calibration \$</b>	<b>Total \$</b>
Revenues	69,992	35,723	2,535	108,250
Segment earnings (loss) before the undernoted items	4,897	(10,691)	322	(5,472)
Stock-based compensation				212
Restructuring and other costs				3,571
Interest on long-term debt				3,163
Other interest and bank charges				2,827
Other non-cash charges				9,553
Unrealized loss on interest rate swap				386
Income tax expense				1,196
Net loss and comprehensive loss				<u>(26,380)</u>

# EnGlobe Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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

Total assets by reportable segment are detailed as follows:

	September 30 2009 \$	December 31 2008 \$
<b>Total assets</b>		
Site Assessment and Remediation	104,590	110,580
Organic Waste Management	17,398	19,605
Tank Testing and Calibration	2,251	2,099
	<u>124,239</u>	<u>132,284</u>

## 12 Additional disclosures

Net change in non-cash working capital items:

	Three-month period ended September 30		Nine-month period ended September 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Accounts receivable	(2,472)	(8,521)	5,556	(1,898)
Inventory	228	388	884	4,471
Unbilled revenue	(4,381)	(1,669)	(4,777)	(636)
Prepaid expenses and advances	293	1,005	(1,095)	(174)
Income taxes and tax credits receivable	416	(67)	295	(2,226)
Other current assets	--	(51)	--	770
Accounts payable and accrued liabilities	867	4,266	(780)	3,079
Deferred revenue	(1,363)	1,416	(2,853)	(752)
<b>Net change in non-cash working capital items</b>	<u>(6,412)</u>	<u>(3,233)</u>	<u>(2,770)</u>	<u>2,634</u>

	September 30 2009 \$	December 31 2008 \$
<b>Cash and cash equivalents consist of the following:</b>		
Cash	916	1,382
Short-term investment	--	1,775
	<u>916</u>	<u>3,157</u>

# **EnGlobe Corp.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

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

### **13 Related party transactions**

The Company has convertible units and Class B debentures that are held by shareholders (see note 4). Associated to those items, the Company has recorded \$2,361 of interest on long-term debt (\$1,902 in 2008) and has accrued interest of \$1,569 as at September 30, 2009 (\$664 as at December 31, 2008) included in accounts payable and accrued liabilities.

### **14 Comparative figures**

Certain comparative figures in the Statements of Operations, Comprehensive Income (Loss) and Deficit and Cash Flows have been reclassified to conform with the current period presentation.