

# **EnGlobe Corp.**

**Consolidated Financial Statements  
December 31, 2009 and 2008**

# EnGlobe Corp.

## Consolidated Balance Sheets

As at December 31, 2009 and 2008

(In thousands of dollars)

	2009 \$	2008 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 21c)	1,936	3,157
Accounts receivable	31,323	34,749
Inventories (note 4)	1,261	2,141
Unbilled revenues	13,236	9,233
Income taxes receivable	-	967
Tax credits recoverable	1,694	-
Prepaid expenses and advances	1,596	1,213
Future income taxes (note 14)	1,326	883
	<hr/> 52,372	<hr/> 52,343
<b>Long-term deposits</b>	350	350
<b>Property, plant and equipment</b> (notes 5 and 13)	24,369	27,646
<b>Intangible assets</b> (notes 6 and 13)	26,292	29,116
<b>Goodwill</b> (notes 7 and 13)	21,078	21,133
<b>Tax credits recoverable</b>	-	838
<b>Future income taxes</b> (note 14)	11,014	858
	<hr/> 135,475	<hr/> 132,284
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	5,252	5,676
Accounts payable and accrued liabilities	22,532	23,540
Additional consideration payable (note 3a)	1,104	2,663
Income taxes payable	1,338	-
Deferred revenue	7,713	9,808
Future income taxes (note 14)	169	-
Current portion of capital lease obligations (note 8)	303	394
Current portion of long-term debt (note 9)	6,183	4,070
Current portion of other long-term obligations (note 17)	510	665
Other current liabilities (note 2)	606	1,108
	<hr/> 45,710	<hr/> 47,924
<b>Capital lease obligations</b> (note 8)	162	296
<b>Long-term debt</b> (note 9)	50,508	54,264
<b>Other long-term obligations</b> (note 17)	3,843	1,640
<b>Future income taxes</b> (note 14)	4,669	2,626
<b>Preferred shares</b> (note 9b)	1,268	1,127
	<hr/> 106,160	<hr/> 107,877
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 10)		
Common shares	66,216	66,271
Preferred shares	21,557	20,474
<b>Contributed surplus</b> (note 11)	13,593	13,386
<b>Deficit</b>	(72,051)	(75,724)
	<hr/> 29,315	<hr/> 24,407
	<hr/> 135,475	<hr/> 132,284
<b>Commitments and contingencies</b> (note 17)		

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

Signed on behalf of the Board of Directors:

\_\_\_\_\_, Director

\_\_\_\_\_, Director

# EnGlobe Corp.

## Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

For the years ended December 31, 2009 and 2008

(In thousands of dollars)

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	131,635	149,202
<b>Direct costs</b> (note 4)	93,338	115,084
<b>Gross profit</b>	38,297	34,118
<b>Expenses</b>		
Selling, general and administrative	21,806	29,043
Depreciation of property, plant and equipment	5,012	5,541
Gain on disposal of property, plant and equipment	(83)	(155)
<b>Earnings (loss) before the undernoted items</b>	11,562	(311)
Amortization of intangible assets	2,860	4,058
Stock-based compensation	207	185
Restructuring and other costs (note 12)	2,381	5,388
Other non-cash charges (note 13)	-	9,553
Foreign exchange loss (gain)	14	(2,164)
Interest on long-term debt	5,824	6,828
Other interest and bank charges	1,519	1,995
Unrealized loss (gain) on interest rate swap (note 2)	(502)	1,104
<b>Loss before income taxes</b>	(741)	(27,258)
<b>Income tax expense (recovery)</b> (note 14)	(5,638)	1,471
<b>Net earnings (loss) and comprehensive income (loss)</b>	4,897	(28,729)
<b>Deficit – Beginning of year</b>	(75,724)	(46,861)
<b>Dividends – Preferred shares</b>	(1,224)	(134)
<b>Deficit – End of year</b>	(72,051)	(75,724)
<b>Net earnings (loss) per share</b> (note 16)		
Basic	0.04	(0.34)
Diluted	0.01	(0.34)

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

# EnGlobe Corp.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

(In thousands of dollars)

	2009	2008
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings (loss) for the year	4,897	(28,729)
Items not affecting cash and cash equivalents		
Depreciation and amortization	7,872	9,599
Non-cash interest accretion on debentures, preferred shares and other long-term obligations	2,289	2,269
Interests capitalized on debentures	1,271	626
Non-cash restructuring and other costs	846	193
Unrealized loss (gain) on interest rate swap	(502)	1,104
Stock-based compensation	207	185
Unrealized foreign exchange gain	(309)	(1,921)
Gain on disposal of property, plant and equipment	(83)	(155)
Other non-cash charges (note 13)	-	9,553
Tax credits recoverable	(856)	(196)
Future income taxes	(8,391)	240
	7,241	(7,232)
Net change in non-cash working capital items (note 21)	2,252	6,144
Cash provided by (used in) operating activities	9,493	(1,088)
<b>Investing activities</b>		
Purchase of property, plant and equipment	(3,631)	(3,233)
Increase in intangible assets	(36)	(232)
Proceeds from disposal of property, plant and equipment	387	1,305
Business acquisition, net of cash acquired (note 3a)	(1,531)	(10,176)
Cash used in investing activities	(4,811)	(12,336)
<b>Financing activities</b>		
Decrease in bank indebtedness	(424)	(10,099)
Increase in deferred financing charges	-	(1,057)
Repayment of capital lease obligations	(440)	(567)
Repayment of other long-term obligations	(357)	(532)
Proceeds from long-term debt	69	22,246
Repayment of long-term debt	(4,704)	(14,732)
Dividends paid	-	(10)
Proceeds from issuance of preferred shares	-	20,720
Preferred shares issuance costs	(47)	(308)
Proceeds from issuance of common shares	-	18
Cash provided by (used in) financing activities	(5,903)	15,679
<b>Net change in cash and cash equivalents for the year</b>	(1,221)	2,255
<b>Cash and cash equivalents – Beginning of year</b>	3,157	902
<b>Cash and cash equivalents – End of year (note 21)</b>	1,936	3,157
<b>Supplementary information</b>		
Interest paid	3,784	5,875
Income taxes paid	820	4,033

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

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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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") 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, Biogenie S.R.D.C. Inc. ("Biogenie"), 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 Biogenie 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.

### 2 Summary of Significant Accounting Policies

#### Basis of preparation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These consolidated financial statements include the accounts of the Company and its domestic and international subsidiaries. All significant intercompany accounts and transactions have been eliminated.

#### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Significant estimates include the fair value of financial instruments, the allowance for doubtful accounts receivable, the amount of tax credits recoverable, the provision for excess and obsolete inventories, the percentage-of-completion of contracts, the useful lives of capital assets, the valuation of long-lived assets, the impairment of goodwill, the valuation allowance for future income taxes, the amount of certain accrued liabilities and deferred revenues as well as the amount of other long-term obligations. Actual results could differ from those estimates.

#### Consolidation and joint venture

These consolidated financial statements include all companies in which EnGlobe, directly or indirectly, has more than 50% of voting rights or over which it exercises control. Companies are included in the consolidation from the date that control is transferred to the Company. The purchase method of accounting is used to account for acquisitions. Fair value of common shares issued as part of acquisitions is determined based on the market price of shares over a reasonable period of time preceding and following the announcement date of the consideration in shares.

The Company conducts certain activities in a joint venture with another party. The interests in such a joint venture are accounted for using the proportionate consolidation method, which results in the Company recording its pro rata share of the assets, liabilities, revenues, costs and cash flows of this joint venture.

Intercompany transactions, balances and unrealized gains and losses on transactions between the companies included in the basis of consolidation are eliminated.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### Variable interest entity

Entities that are subject to control on a basis other than ownership of voting interests are accounted for using the accounting requirement on the consolidation of variable interest entities (VIEs) under Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities". VIEs are characterized as entities in which the equity is not sufficient to permit them to finance their activities without external support, or equity investors lack either voting control, an obligation to absorb expected losses or the right to receive expected residual returns.

Where a reporting entity is determined to have a variable interest in such an entity, and where that interest will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected returns, or both at the end of the VIE's existence, the reporting entity is deemed to be the primary beneficiary and must consolidate the VIE. The VIE controlled by the Company, otherwise than by voting control, and for which the Company is the primary beneficiary, is consolidated.

### Foreign currency translation

#### *Foreign currency transactions*

Transactions denominated in currencies other than the functional currency are translated into the functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average rate for the year. Non-monetary assets and liabilities are translated at historical rates. Gains and losses arising from such translation are reflected in the consolidated statements of operations.

#### *Integrated foreign operations*

The Company's operations conducted in foreign countries are considered to be integrated foreign operations and are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at exchange rates in effect at year-end and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses, other than depreciation and amortization which are translated at the same exchange rate as the assets to which they relate, are translated at the average exchange rate for the year. Gains and losses arising from such translation are reflected in the consolidated statements of operations.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks and investments in liquid instruments with original maturities of three months or less. They are accounted for at their estimated fair value which approximates cost.

### Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method and includes raw materials, direct labour and manufacturing overhead costs.

### Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives using the following annual rates and methods:

Buildings	5% declining balance or 10 - 20 years straight-line
Heavy equipment, automotive and trailers	2 - 10 years straight-line or 3 - 5 years or 15% - 30% declining balance
Testing vehicles	1 - 5 years straight-line

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

Furniture and equipment	20% - 33% declining balance or 3 - 10 years straight-line
Computer equipment	30% declining balance or 1 - 3 years straight-line
Leasehold improvements	Over the term of the lease on a straight-line basis
Soil recycling and composting facilities	5 - 20 years straight-line

### Assets under capital lease obligations

Leases that transfer substantially all of the benefits and risks of ownership of the assets to the Company are accounted for as capital lease obligations. At the time a capital lease obligation is entered into, an asset is recorded together with the related obligation. Assets under capital lease obligations are depreciated over their estimated useful lives at the same rates as other similar assets.

### Intangible assets

Intangible assets are recorded at cost. Intangible assets, with a finite life, are amortized over their estimated life on a straight-line or declining balance basis as follows:

Backlog	1 or 2.5 years
Non-compete agreements	3.5 or 5 years
Contracts to manage soil treatment facilities	10 years
Customer relationships	5 – 10 years
Technology and others	1 – 25 years
Licenses	5 years
Software	20% declining balance or 3 years straight-line

The Company acquired certain permits in conjunction with the acquisition of Biogenie in 2006. These are intangible assets with indefinite lives, and accordingly, are not subject to amortization. Intangible assets with indefinite lives are tested for impairment annually or whenever events or circumstances indicate that the asset might be impaired. The amount of the impairment loss, if any, is the excess of the carrying value over its fair value.

### Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable. Impairment exists when the carrying value of the asset is greater than the pre-tax undiscounted future cash flows expected to be provided by the asset. The amount of the impairment loss, if any, is the excess of the carrying value over its fair value.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

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

### **Goodwill**

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired. Goodwill is not subject to amortization but is tested for impairment on an annual basis or more frequently if events or circumstances indicate that it might be impaired. The impairment test is accomplished mainly by determining whether the fair value of a reporting unit, based upon an accepted valuation method, exceeds the carrying amount of that reporting unit. If the fair value exceeds the carrying amount of the reporting unit, no impairment is necessary. If the carrying amount of the reporting unit exceeds its fair value, a second test must be performed whereby the fair value of the reporting unit's goodwill must be compared with its carrying value to measure the amount of the impairment loss, if any. Fair value of goodwill is estimated in the same way as it was determined at the date of acquisition. When the carrying amount of the reporting unit's goodwill exceeds the fair value of the goodwill, an impairment loss equal to the excess is recognized.

### **Asset retirement obligation**

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

### **Deferred financing charges**

Deferred financing charges consist of costs incurred by the operating companies relating to the issuance of debt and are deferred and amortized using the effective interest rate method over the term of the related debt or as the debt is extinguished, if earlier. These deferred financing charges are recorded against the carrying value of the long-term debt, as described in note 9.

### **Research and development expenses**

All expenses related to research, as well as development activities that do not meet generally accepted criteria for deferral, are expensed as incurred, net of related tax credits and government grants. Development expenses that meet generally accepted criteria for deferral, in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064, "Goodwill and Intangible Assets", are capitalized, net of related tax credits and government grants, and are amortized against operations over the estimated benefit period. The Company has not deferred any development expenses to date.

### **Financial instruments**

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: held-for-trading, loans and receivables or other financial liabilities. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as held-for-trading unless they are designated within an effective hedging relationship.

#### *Held-for-trading*

Financial assets, financial liabilities and derivative financial instruments classified as held-for-trading are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are reflected in the consolidated statement of operations as they occur.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### *Loans and receivables and other financial liabilities*

Financial assets classified as loans and receivables and financial liabilities classified as other liabilities are recorded at amortized cost using the effective interest method.

### *Transaction costs*

Transaction costs related to held-for-trading financial assets and financial liabilities are expensed as incurred. Transaction costs related to financial assets classified as loans and receivables or to financial liabilities classified as other financial liabilities are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest method.

### *Fair value hierarchy*

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>CAN \$</b>	<b>CAN \$</b>	<b>CAN \$</b>	<b>CAN \$</b>
<b>Assets</b>				
Cash	1,936	-	-	1,936
<b>Liabilities</b>				
Other current liabilities	-	606	-	606

For fiscal year ended December 31, 2008, the Company had no Level 3 financial instruments.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### Revenue recognition

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 as follows:

#### 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. 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. 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 (i.e. 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.

### Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. Changes in the net future income tax assets or liabilities are included in operations. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to be in effect for the year in which the assets are expected to be realized or the liabilities to be settled.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

### Investment tax credits

Investment tax credits, which arise as a result of qualifying research and development expenditures, are recognized and applied to reduce research and development expenses in the year in which their realization is reasonably assured. During fiscal 2009, \$677 (2008 - \$260) in investment tax credits were recorded.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### Stock-based compensation

The Company has two types of stock-based compensation plans. The first is the Company's employee and consultant stock option plan. The Company uses the fair value-based method of accounting for stock options granted to employees and non-employees. The fair value of stock options is determined using the Black-Scholes option pricing model and stock-based compensation expense is recognized over the vesting period of the options and credited to the contributed surplus. Any consideration received by the Company on the exercise of stock options is credited to share capital and the contributed surplus component of the stock-based compensation is transferred to share capital upon the issuance of shares.

The second plan is the Company's tandem option and stock appreciation rights plan. Under this plan, the employee may, at his/her discretion, require the Company to issue common shares or require the Company to pay the incremental market value of the stock appreciation right over the exercise price of the option. The Company has recorded a liability for the potential future settlement of vested options at the balance sheet date by reference to the value of the Company's shares and the strike price of the option. Compensation costs are recognized for increases or decreases between the strike price of these options and the quoted market value of the Company's shares between the grant date and the reporting date, subject to the cumulative expense recognized not being less than zero.

### Earnings per share

Basic earnings per share are determined using the weighted average number of common shares outstanding during the year.

Diluted earnings per share are determined using the weighted average number of common shares outstanding during the year, plus the effect of dilutive potential common shares outstanding during the year. This method requires that diluted earnings per share be calculated (using the treasury stock method) as if all dilutive potential common shares had been exercised at the latest at the beginning of the year or on the date of issuance, as the case may be, and that the funds obtained thereby (plus an amount equivalent to the unamortized portion of related stock-based compensation costs) be used to purchase common shares of the Company at the average market price of the common shares during the year.

### Warrants

Warrants are recorded at fair value as a credit to contributed surplus and as a reduction of the long-term debt or common shares amount, depending on the type of financing to which they relate. When warrants are exercised, the proceeds received on exercise plus the amount previously credited to contributed surplus are credited to common shares.

### Interest rate swap

The Company entered into an interest rate swap in March 2007 to fix the interest rate on a portion of the Company's variable rate debt. The Company has elected not to use hedge accounting and as a result, the interest rate swap is measured at fair value. The resulting gains or losses are recorded in the statement of operations and the fair value of the interest rate swap amounting to \$606 (\$1,104 as at December 31, 2008) is recorded on the consolidated balance sheet under "Other current liabilities". As a result, the Company has recognized an unrealized gain of \$502 on these contracts (loss of \$1,104 in 2008) in the consolidated statement of operations. As at December 31, 2009, there was one interest rate swap outstanding for a notional amount of \$13,650 with a fixed interest rate of 4.315% expiring on November 24, 2011.

### New accounting standards adopted

#### *Goodwill and Intangible Assets*

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 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

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

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

are unchanged from those included in Section 3062. The adoption of this new standard had no effect on our consolidated financial statements.

### *Financial Instruments*

The CICA issued Abstract EIC-173 "Credit Risk and the Fair Value of Financial Assets and Liabilities", which applies 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". An entity's own credit risk and the credit risk of its counterparty should be taken into account in determining the fair value of financial assets and liabilities. The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

### *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. The effects of the adoption of this amendment have been reflected in the "Financial instruments" section of our significant accounting policies.

## **New accounting standards not yet adopted**

### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interest*

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 earnings will be calculated without deduction for the non-controlling interest. Rather, net earnings 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.

## **3 Business acquisitions**

### **(a) Acquisition of Celtic**

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

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

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

		\$
Base consideration		
Cash		11,216
Common shares (note 10)		3,516
Additional consideration		
Payable in cash (1,500 £)	2,859	
Common shares to be issued (note 10)	<u>953</u>	3,812
Acquisition cost		<u>650</u>
		<u>\$19,194</u>

The purchase price allocation related to this acquisition was completed with the assistance of an independent valuation firm. This purchase price allocation is summarized as follows:

		\$
Cash		1,690
Other current assets		5,262
Property, plant and equipment		1,229
Intangible assets		
Backlog	546	
Non-compete agreements	2,101	
Customer relationships	2,768	
Technology and others	<u>2,495</u>	
		7,910
Goodwill		9,609
Current liabilities		(3,573)
Capital lease obligations		(718)
Future income tax liabilities		<u>(2,215)</u>
Total consideration		<u>\$19,194</u>

In the fourth quarter of 2008, goodwill increased due to the additional consideration of 2,000 £ (\$3,812 on transaction date), which had been contingent upon meeting performance targets. Celtic intangible assets are amortized over their estimated life on a straight-line basis as follows:

Backlog	1 year
Non-compete agreements	3.5 years
Customer relationships	5 – 10 years
Technology and others	1 – 25 years

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

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

### (b) Equity interest in Sila Remediation Inc.

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

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 4 Inventories

	2009 \$	2008 \$
Raw materials	907	1,362
Material in process	104	120
Finished goods	250	659
	<hr/> 1,261	<hr/> 2,141

In 2009, \$2,646 of inventories were expensed in the consolidated operations (\$11,089 in 2008 including a write-down of \$2,600) and presented in direct costs.

### 5 Property, plant and equipment

	2009		
	Cost \$	Accumulated depreciation \$	Net \$
Land	2,828	-	2,828
Buildings	5,091	1,579	3,512
Heavy equipment, automotive and trailers	15,054	5,996	9,058
Testing vehicles	218	152	66
Furniture and equipment	4,278	3,413	865
Computer equipment	1,606	1,245	361
Leasehold improvements	260	195	65
Soil recycling and composting facilities	18,401	10,787	7,614
	<hr/> 47,736	<hr/> 23,367	<hr/> 24,369

# EnGlobe Corp.

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

	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>depreciation</b>	<b>\$</b>
		<b>\$</b>	
Land	2,896	-	2,896
Buildings	5,235	1,452	3,783
Heavy equipment, automotive and trailers	17,509	5,710	11,799
Testing vehicles	230	126	104
Furniture and equipment	4,210	2,986	1,224
Computer equipment	1,531	1,054	477
Leasehold improvements	400	302	98
Soil recycling and composting facilities	17,263	9,998	7,265
	<b>49,274</b>	<b>21,628</b>	<b>27,646</b>

The cost of assets held under capital lease obligations and the related depreciation included in property, plant and equipment are as follows:

	<b>2009</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>depreciation</b>	<b>\$</b>
		<b>\$</b>	
Heavy equipment	1,282	715	567

	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>depreciation</b>	<b>\$</b>
		<b>\$</b>	
Heavy equipment	1,110	470	640

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

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

### 6 Intangible assets

	<b>2009</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Permits	18,300	-	18,300
Backlog	3,946	3,946	-
Non-compete agreements	4,801	2,727	2,074
Contracts to manage soil treatment facilities	2,400	745	1,655
Customer relationships	2,768	679	2,089
Technology and others	2,495	570	1,925
Licences	221	185	36
Software	1,036	823	213
	<b>35,967</b>	<b>9,675</b>	<b>26,292</b>

During the year, the Company acquired \$36 (\$8,143 in 2008) of intangible assets, which are subject to amortization.

	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Permits	18,300	-	18,300
Backlog	3,946	3,385	561
Non-compete agreements	4,801	1,586	3,215
Contracts to manage soil treatment facilities	2,400	505	1,895
Customer relationships	2,768	291	2,477
Technology and others	2,495	254	2,241
Licences	221	152	69
Software	1,000	642	358
	<b>35,931</b>	<b>6,815</b>	<b>29,116</b>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 7 Goodwill

During the quarter ended December 31, 2009, the Company performed its annual test for impairment of goodwill by discounting future cash flows based on the most recent financial forecasts of its reporting units, and no impairment was identified.

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Balance – Beginning of year</b>	21,133	14,548
Adjustments to purchase price allocation	-	2,120
Acquisition of Celtic (note 3a)	-	9,609
Amendment to the share sale agreement of Celtic	(55)	-
Impairment – OWM segment (note 13)	-	(5,144)
<b>Balance – End of year</b>	<u>21,078</u>	<u>21,133</u>

In July 2009, in conformity with the amendment to the share sale agreement entered into with the shareholders of Celtic, 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 10).

### 8 Capital lease obligations

Future minimum annual lease payments under capital lease obligations for the rental of heavy equipment are as follows:

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Years ending December 31, 2009	-	452
2010	331	276
2011	80	17
2012	53	-
2013	46	-
	<u>510</u>	<u>745</u>
Less: Interest	45	55
	<u>465</u>	<u>690</u>
Less: Current portion of capital lease obligations	303	394
Long-term portion of capital lease obligations	<u>162</u>	<u>296</u>

Capital leases bear interest at rates varying between 3.9% and 20.12%.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 9 Long-term debt

	2009	2008
	\$	\$
Term Loans (a)	32,208	37,269
Class A Convertible Debentures (b)	17,987	16,565
Class B Debentures (c)	9,036	7,825
Loans bearing interest at 6.99%, payable in monthly instalments totalling \$2, maturing in December 2012, secured by automotive equipment	69	-
	<u>59,300</u>	<u>61,659</u>
Less: Deferred financing charges	2,609	3,325
	56,691	58,334
Less: Current portion of long-term debt	6,183	4,070
Long-term portion of long-term debt	<u>50,508</u>	<u>54,264</u>

#### (a) Term loans and revolving facility

On March 25, 2008, the Company entered into an amended 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 (note 3a) with the remainder used for transaction expenses and the reduction of the revolving facility. The term loan bore interest at LIBOR plus 2.5%. In addition, as part of the amendment of the credit agreement on March 25, 2008 the term of the November 2006 term loan of \$42,000, which bore interest at the banker's acceptance rate plus 2%, was extended to 2013. Both term loans are collateralized by all assets of the operating companies. The interest rate on both term loans was adjustable based on achieving certain financial measures and for the November 2006 term loan, the base rate could be changed from prime rate to banker's acceptance or LIBOR at the discretion of the Company.

The Company also has a \$20,000 (2008 - \$20,000) revolving facility which bore interest at prime rate or banker's acceptance rate plus 2%. The facility is collateralized by all assets of the operating companies. On March 25, 2008 as part of the amendment of the credit facility, the term of the revolving facility was extended to 2013. As at December 31, 2009, \$8,567 (2008 - \$11,166) was available under the revolving facility.

On November 14, 2008, the Company entered into an amendment agreement to this existing amended credit facility following the repayment of a portion of the term loans and the revolving facility. With this amendment, the lenders of the term loans and revolving facility agreed to suspend the Company's financial covenants until the third quarter of 2009 and adjust the financial covenants for all remaining quarters including the final maturity date. As part of the November 2008 amendment to the credit facility, pricing of the loans was revised to a flat spread above the applicable borrowing base. During 2009, applicable margins for all advances were at LIBOR plus 5.75%.

On January 28, 2010, the Company entered into a new amendment to its existing amended credit facility. Following the amendment, the interest spread on the term loans and revolving facility will be adjustable based on achieving certain financial measures and the base borrowing rate can be changed from prime rate to Banker's Acceptance or LIBOR at the discretion of the Company.

As at December 31, 2009 the Company met all covenants for its term loans and revolving facility.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### **(b) Class A convertible debentures and convertible preferred shares**

Class A convertible debentures were issued as at March 31, 2006 and 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. As at December 31, 2009 the Company had not achieved these minimum earnings levels.

A total of 10,296,250 convertible preferred shares were issued concurrently with the debentures. The convertible preferred shares are voting and 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 Class A convertible 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 the contributed surplus.

From June 2008 to September 30, 2009, under the terms of the November 2008 amended credit facility, neither the Borrowers nor any of their respective Subsidiaries were permitted to make any cash payments on account of any Subordinated Debt. The unpaid interest shall be accrued and capitalized. The Company and its subordinated debtholders have agreed to continue to have cash interest accrue and be capitalized until further notice.

### **(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 since March 25, 2009. These debentures were issued to certain shareholders of the Company.

From June 2008 to September 30, 2009, under the terms of the November 2008 amended credit facility, neither the Borrowers nor any of their respective Subsidiaries shall be permitted to make any cash payments on account of any Subordinated Debt. The unpaid interest shall accrue and be capitalized. The Company and its subordinated debtholders have agreed to continue to have cash interest accrue and be capitalized until further notice.

In 2008, the Company breached certain covenants under the Class B debenture agreement. On November 14, 2008, the Company obtained a waiver that waived the various breaches under the agreement until September 30, 2009. As at December 31, 2009 the Company met all covenants related to the Class B debentures.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

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

Annual minimum repayments for the next five years on long-term debt are as follows:

	\$
2010	6,255
2011	6,256
2012	8,336
2013	11,430
2014	27,023
	<u>59,300</u>

## 10 Share capital

### Common shares

#### Authorized

Unlimited number of common shares with no par value

	Number	Amount \$
<b>Issued and fully paid</b>		
<b>Balance as at December 31, 2007</b>	78,705,160	61,773
Acquisition of Celtic	7,960,645	3,516
Exercise of stock options	45,000	29
	<u>86,710,805</u>	<u>65,318</u>
<b>Balance as at December 31, 2008</b>	86,710,805	65,318
<b>To be issued:</b>		
Common shares issuable as additional consideration (note 3a)	<u>10,589,000</u>	953
<b>Total common shares including common shares to be issued as at December 31, 2008</b>	97,299,805	66,271
Adjustment upon finalization of the issuance of common shares (note 7)	<u>(2,423,542)</u>	(55)
<b>Total common shares issued and fully paid as at December 31, 2009</b>	<u>94,876,263</u>	<u>66,216</u>

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 (see note 3a). Part of this acquisition was additional consideration of £2,000

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

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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 was made. The cash payment to the Sellers will now be done in two instalments instead of one. Following this amendment, £850 (\$1,531) was paid on April 15, 2009 and £650 (\$1,104) 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 7).

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

### Preferred shares

#### Authorized

Unlimited number of preferred shares issuable in series

#### Issued and fully paid

	Year ended December 31, 2009		Year ended December 31, 2008	
	Number	Amount \$	Number	Amount \$
<b>Balance - Beginning of year</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 year</b>	<b>196,207,745</b>	<b>20,365</b>	<b>196,207,745</b>	<b>20,412</b>

#### To be issued

Series 3 preferred shares issuable as dividends	11,919,300	1,192	617,580	62
<b>Total preferred shares - End of year</b>	<b>208,127,045</b>	<b>21,557</b>	<b>196,825,325</b>	<b>20,474</b>

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## Notes to Consolidated Financial Statements

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### 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 of 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 Series 3 Preferred Shares. As a result, the Company will issue 11,919,300 Series 3 preferred shares valued at \$1,192 as dividends for the period from December 12, 2008 to December 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 \$2,817 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 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.

### 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 trading date prior to 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 December 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
	<hr/>	
Balance as at December 31, 2008	2,720,758	0.76
Granted	4,150,001	0.09
Forfeited	(645,150)	0.79
Expired	(225,609)	2.64
	<hr/>	
<b>Balance as at December 31, 2009</b>	<b>6,000,000</b>	<b>0.21</b>

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

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

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

Range of exercise prices \$	Options outstanding as at December 31, 2009			Options exercisable as at December 31, 2009	
	Number	Weighted average remaining life in years	Weighted average exercise price \$	Number	Weighted average exercise price \$
0.08 – 0.14	4,566,667	4.19	0.09	-	-
0.40 – 0.60	1,033,333	2.43	0.46	581,667	0.46
0.61 – 1.00	400,000	0.90	0.92	345,000	0.96
	<b>6,000,000</b>	<b>3.67</b>	<b>0.21</b>	<b>926,667</b>	<b>0.64</b>

### 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:

	2009	2008
Expected option life in years	5	5
Volatility	133.6%	99.7%
Risk-free interest rate	1.88%	2.96%
Dividend yield	-	-
Fair value of options granted during the year	\$0.08	\$0.20

### 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, require 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.

# EnGlobe Corp.

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	<b>Number outstanding</b>
Balance as at December 31, 2007	14,500,000
Granted	7,000,000
Forfeited	<u>(14,100,000)</u>
Balance as at December 31, 2008	7,400,000
Granted	4,350,000
Forfeited	<u>(400,000)</u>
<b>Balance as at December 31, 2009</b>	<b><u>11,350,000</u></b>

### As at December 31, 2009

<b>Range of exercise prices \$</b>	<b>Number outstanding</b>	<b>Number exercisable</b>	<b>Weighted average remaining life in years</b>
0.10 – 0.25	3,090,480	38,096	9.20
0.28 – 0.37	2,973,806	209,524	9.10
0.40 – 0.60	1,476,190	295,238	8.46
0.72 – 0.86	2,142,857	428,571	8.37
1.04 – 1.24	<u>1,666,667</u>	<u>333,333</u>	<u>8.37</u>
	<b><u>11,350,000</u></b>	<b><u>1,304,762</u></b>	<b><u>8.80</u></b>

### Warrants

The following tables present the warrant activity during 2009 and the number of warrants outstanding and weighted average exercise price of warrants outstanding as at December 31, 2009:

	<b>Number outstanding</b>	<b>Weighted average exercise price \$</b>
Balance as at December 31, 2007 and 2008	1,982,134	0.82
Expired	<u>(1,208,334)</u>	<u>0.75</u>
Balance as at December 31, 2009	<b><u>773,800</u></b>	<b><u>0.93</u></b>

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

<b>Exercise price</b> <b>\$</b>	<b>Number outstanding</b> <b>and exercisable</b>	<b>Weighted average</b> <b>remaining life in years</b>
0.71	633,800	0.20
1.90	140,000	0.27
	<b>773,800</b>	<b>0.22</b>

## 11 Contributed surplus

The movement in contributed surplus is as follows:

	<b>\$</b>
Balance as at December 31, 2007	13,213
Stock-based compensation costs	185
Stock options exercised	<u>(12)</u>
Balance as at December 31, 2008	13,386
Stock-based compensation costs	<u>207</u>
<b>Balance as at December 31, 2009</b>	<b><u>13,593</u></b>

## 12 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.

# EnGlobe Corp.

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

	<b>Employee terminations and recruiting costs</b>	<b>Professional fees and legal costs</b>	<b>Facility exit and other costs</b>	<b>Non-cash items</b>	<b>2009 Total</b>
	\$	\$	\$	\$	\$
<b>Expenses recorded in 2008</b>	2,942	591	1,662	193	5,388
<b>Expenses recorded in 2009:</b>					
For activities initiated prior to 2008	-	137	9	-	146
For activities initiated during 2008	85	275	42	-	402
For activities initiated during 2009	553	7	427	846	1,833
<b>Total expenses recorded in 2009</b>	<b>638</b>	<b>419</b>	<b>478</b>	<b>846</b>	<b>2,381</b>

### Accrued expenses reconciliation:

Accrued liabilities – December 31, 2008	1,629	300	125	-	2,054
Expenses in 2009	638	419	478	-	1,535
Cash payments in 2009	(2,267)	(678)	(168)	-	(3,113)
Accrued liabilities – December 31, 2009	-	41	138	-	179
Other long-term obligations (note 17e)	-	-	297	-	297
	-	41	435	-	476

	<b>Employee terminations and recruiting costs</b>	<b>Professional fees and legal costs</b>	<b>Facility exit and other costs</b>	<b>Non-cash items</b>	<b>2008 Total</b>
	\$	\$	\$	\$	\$
<b>Expenses recorded in 2007</b>	2,068	458	1,190	-	3,716
<b>Expenses recorded in 2008:</b>					
For activities initiated prior to 2007	-	405	58	-	463
For activities initiated during 2007	60	44	-	-	104
For activities initiated during 2008	2,882	142	1,604	193	4,821
<b>Total expenses recorded in 2008</b>	<b>2,942</b>	<b>591</b>	<b>1,662</b>	<b>193</b>	<b>5,388</b>

### Accrued expenses reconciliation:

Accrued liabilities – December 31, 2007	700	-	-	-	700
Expenses in 2008	2,943	1,589	663	-	5,195
Cash payments in 2008	(2,014)	(1,289)	(538)	-	(3,841)
Accrued liabilities – December 31, 2008	1,629	300	125	-	2,054

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 13 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 strategic review undertaken in the second quarter of fiscal year 2008 resulted in the Company performing an impairment test on the goodwill of its OWM segment in the same quarter.
- ii) The impairment test for goodwill is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value of a reporting unit is based on one or more fair value measures including present value techniques of estimated future cash flows and estimated amounts at which the unit as a whole could be bought or sold in a current transaction between willing parties. If the carrying amount of the reporting unit exceeds the fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net 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. In response to this unexpected turn of events, the Company has completed corrective actions in order to minimize the negative impact over the entire business and analyzing options to return to a profitable OWM business model in the near future. The strategic review included a review of the carrying amount of certain assets including inventories, 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:

	2009	2008
	\$	\$
Property, plant and equipment	-	3,151
Intangible assets	-	1,258
Goodwill	-	5,144
	-	9,553

- vi) In addition, as a result of the review described above, and the associated uncertainties, the Company recorded a valuation allowance of approximately \$6.6 million in respect of the operating losses incurred in 2008. The Company, also because of delays in its restructuring and integration plans, no longer expects to realize the benefit of the operating losses expiring in 2009 and 2010 and recorded a valuation allowance of \$0.3 million against these losses.
- vii) The Company also recorded an inventory write-down of \$2.6 million, which was recorded in direct costs.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 14 Income taxes

During fiscal 2008, following a review of its operations, the Company has recorded a valuation allowance due to some delays in the implementation of its restructuring and integration plans. This has led to an inability to realize future tax benefits mainly related to the operating losses.

On an ongoing basis, the Company reviews available positive and negative evidences to evaluate the recoverability of its future income tax assets and deferred non-refundable research and development tax credits.

During fiscal 2009, the Company has completed the planning of a corporate reorganization, where EnGlobe amalgamated with some of its subsidiaries. As a matter of fact, during the last quarter of 2009, after reviewing positive and negative evidences, and because the restructuring activities described above gave rise to forecasted taxable income, Management concluded that it was more likely than not that future income tax assets of the Company and deferred non-refundable research and development tax credits of Biogenie and GSI would be realizable. Consequently, it reversed a portion of its valuation allowance against future income tax assets in the amount of \$7,249.

The reconciliation of the income tax provision calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the financial statements is as follows:

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Expected recovery based on combined Federal and Provincial statutory tax rate of 30.9% (2008: 33.5%)	(229)	(9,131)
Non-deductible expenses	694	824
Goodwill impairment	-	725
Change in tax rates	393	1,213
Foreign exchange effect of translation of foreign integrated subsidiaries	54	(834)
Foreign income taxes at different rates	102	-
Other	597	(75)
Change in valuation allowance	(7,249)	8,749
	<hr/>	<hr/>
	(5,638)	1,471
	<hr/>	<hr/>

The components of the provision for income taxes are as follows:

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Current	2,753	1,231
Future	(8,391)	240
	<hr/>	<hr/>
	(5,638)	1,471
	<hr/>	<hr/>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

Significant components of the Company's future income tax assets and liabilities are as follows:

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Future income tax assets		
Non-capital loss carry-forwards	15,250	14,009
Property, plant and equipment	1,039	643
Deferred revenue	1,264	1,368
Provision and accruals	725	1,278
Other current liabilities	163	321
Other	29	39
	<u>18,470</u>	<u>17,658</u>
Valuation allowance	(5,892)	(13,141)
	<u>12,578</u>	<u>4,517</u>
Future income tax liabilities		
Research and development tax credits	(342)	(130)
Deferred financing charges	(314)	(242)
Intangible assets	(4,420)	(5,031)
	<u>(5,076)</u>	<u>(5,403)</u>
Future income tax assets (liabilities), net	<u>7,502</u>	<u>(885)</u>
Reported as		
Future income tax assets - current	1,326	883
Future income tax assets – long-term	11,014	858
Future income tax liabilities - current	(169)	-
Future income tax liabilities – long-term	(4,669)	(2,626)
	<u>7,502</u>	<u>(885)</u>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

As at December 31, 2009, the Company had available operating losses in Canada, in the United States and in the United Kingdom. The following table summarizes the year of expiry of these losses by tax jurisdiction:

	Canada	United States	United Kingdom
	CAN \$	CAN \$	CAN \$
2010	1,494	-	-
2014	11,684	-	-
2015	10,569	-	-
2026	2,526	-	-
2027	7,627	202	-
2028	15,847	-	-
2029	3,727	-	-
Indefinite	-	-	677
	<u>53,474</u>	<u>202</u>	<u>677</u>

## 15 Joint venture

A subsidiary of the Company, Biogenie, has a 50% joint venture interest with Biffa Waste Services Ltd. This joint venture involves the joint control by the venturers of the assets related to the exploitation of two soil treatment facilities and the Company's share of the assets and items on the statements of operations and cash flows included in the consolidated financial statements is as follows:

	2009	2008
	\$	\$
<b>Statement of Operations</b>		
Revenues	1,586	2,214
Direct costs	821	723
Depreciation of property, plant and equipment and other costs	467	381
Net income	<u>298</u>	<u>1,110</u>
<b>Statement of Cash flows</b>		
Net cash provided by operating activities	<u>776</u>	<u>1,512</u>
<b>Assets</b>		
Property, plant and equipment	<u>427</u>	<u>881</u>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 16 Earnings (loss) per common share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted net earnings (loss) per share calculations:

	<u>2009</u>
Basic weighted average of number of shares outstanding	94,876,263
Dilutive effect of stock options	41,529
Dilutive effect of option and stock appreciation rights	6,313
Dilutive effect of preferred shares	214,047,451
Dilutive effect of convertible debentures	60,566,176
Diluted weighted average of number of shares outstanding	<u>369,537,733</u>

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 stock-based awards is presented below.

Stock options	5,131,250
Option and Stock Appreciation Rights	11,246,427
Warrants	773,800

	<u>2008</u>
Basic weighted average of number of shares outstanding	84,860,915
Dilutive effect of stock options	29,481
Dilutive effect of Series 3 preferred shares	10,293,005
Diluted weighted average of number of shares outstanding	<u>95,183,401</u>

Convertible debentures and 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. Convertible debentures and the number of stock-based awards are presented below.

Stock options	2,304,092
Option and Stock Appreciation Rights	7,400,000
Warrants	1,982,134
Preferred shares	207,121,575
Convertible debentures	\$19,563

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 17 Commitments and contingencies

(a) Leases

The Company leases office premises and vehicles and equipment with minimum annual payments as follows:

	Vehicles and equipment \$	Premises \$
Years ending December 31, 2010	1,644	1,334
2011	1,142	1,295
2012	181	1,008
2013	67	621
2014 and thereafter	-	3,751
	3,034	8,009

(b) Letters of credit

The Company has renewable letters of credit outstanding in the aggregate of \$6,944 (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.

(c) 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. The appeal was heard on October 8, 2009 and on January 29, 2010, the Court of Appeal of Alberta saw no reason to overturn the trial judge's analysis and the appeal was dismissed.
- 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 and by the former President and CEO with a third party to the suit with the intention of fraudulently obtaining ownership of the shares owned or controlled by the plaintiff. On October 9, 2009, a Notice of Discontinuance was served against one of the party. 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) On September 24, 2009, a Statement of Claim was filed in the Province of Ontario against the Company and other defendants in connection with alleged defamatory statements. The plaintiff is claiming general damages and also seeking for special damages and punitive and exemplary damages. The hearing has not been scheduled yet. Although it is not possible as of the date of these financial statements to determine with reasonable degree of certainty the outcome of this legal proceeding, Management believes that the suit is without merit and intends to defend its position.
- iv) In the normal course of business, the Company is threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

(d) Asset retirement obligation ("ARO")

During fiscal 2008, 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 obligation is 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 %. The ARO value as at December 31, 2009 amounts to \$1,693 (\$1,700 in 2008).

(e) 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 paid \$350 on July 15, 2009 and will pay \$350 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.

During the year, following a reassessment of the situation in one of its facilities, the Company has decided to reclass a provision for site rehabilitation amounting to \$2,038 from accounts payable and accrued liabilities to long-term liabilities since it no longer expects to settle the provision within the next twelve months.

The Company has also recorded in 2009 other long-term obligations amounting to \$297 representing costs that the Company will continue to incur under certain contracts for their remaining terms without economic benefit for the Company.

Finally, the Company has purchase commitments amounting to \$711 related to the expansion of one of its soil treatment facility.

## 18 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 years ended December 31, 2009 and 2008 are as follows:

	<b>2009</b>			
	<b>Site Assessment and Remediation</b>	<b>Organic Waste Management</b>	<b>Tank Testing and Calibration</b>	<b>Total</b>
	\$	\$	\$	\$
Revenues				
Canada	57,696	27,431	3,276	88,403
United Kingdom	18,974	-	-	18,974
France	23,377	-	-	23,377
United States	881	-	-	881
	<u>100,928</u>	<u>27,431</u>	<u>3,276</u>	<u>131,635</u>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

Depreciation and amortization	6,874	845	153	7,872
Segment earnings before the undernoted items	8,186	382	120	8,688
Stock-based compensation				207
Restructuring and other costs				2,381
Interest on long-term debt				5,824
Other interest and bank charges				1,519
Unrealized gain on interest rate swap				(502)
Income tax recovery				(5,638)
Net earnings and comprehensive income				4,897

Property, plant and equipment additions	2,459	34	115	2,608
Goodwill additions	-	-	-	-
Goodwill as at December 31, 2009	20,290	-	788	21,078

### 2008

	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenues				
Canada	52,879	43,334	3,399	99,612
United Kingdom	25,429	-	-	25,429
France	20,571	-	-	20,571
United States	3,590	-	-	3,590
	102,469	43,334	3,399	149,202
Depreciation and amortization	7,706	1,732	161	9,599
Other non-cash charges	-	9,553	-	9,553
Segment earnings (loss) before the undernoted items	8,957	(21,030)	315	(11,758)
Stock-based compensation				185
Restructuring and other costs				5,388

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

Interest on long-term debt				6,828
Other interest and bank charges				1,995
Unrealized loss on interest rate swap				1,104
Income tax expense				1,471
Net loss and comprehensive loss				(28,729)

Property, plant and equipment additions	11,010	285	81	11,376
Goodwill additions	9,609	2,120	-	11,729
Goodwill as at December 31, 2008	20,345	-	788	21,133

### Geographic segments

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

**2009**

	<b>Canada</b>	<b>United Kingdom</b>	<b>France</b>	<b>United States</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Property, plant and equipment	17,624	1,600	5,096	49	24,369
Goodwill and intangible assets	23,278	17,638	6,386	68	47,370
	40,902	19,238	11,482	117	71,739

**2008**

	<b>Canada</b>	<b>United Kingdom</b>	<b>France</b>	<b>United States</b>	<b>Total</b>
	\$	\$	\$	\$	\$
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
	44,997	22,375	10,379	144	77,895

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.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 19 Capital disclosures

The Company's objectives when managing capital are as follows:

- To maintain the most optimal capitalization possible;
- To sustain future development of the Company, including research and development activities, market development and potential acquisitions of businesses or products;
- To provide the Company's shareholders with an appropriate return on their investment.

The Company defines its capital as

- Cash and cash equivalents;
- Amounts available under the Company's credit facility, including term loans and the revolving facility;
- Other long-term debt including Class A convertible debentures and preferred shares 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. Adjusted EBITDA is a non-GAAP measure to evaluate the Company's performance, capital structure and the financial condition related to credit facilities. This measure does not have standardized meaning under GAAP and is unlikely to be comparable to similar measures used by other companies. Net debt, also 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. As at December 31, 2009, the net debt to adjusted EBITDA ratio was 2.5 (8.7 as at December 31, 2008). Management's target is to keep the ratio under 3.75:1.

The Company is subject to financial covenants in its term loans and revolving facility agreement, which are measured on a quarterly basis. The Company is in compliance with all financial covenants.

Finally, the Company is not subject to any external requirements arising from regulatory or similar authorities.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 20 Financial instruments

#### Fair value

The fair value of financial instruments as at December 31, 2009 and 2008 is summarized as follows:

	Held-for-trading	Loans and receivables	Financial liabilities	As at December 31, 2009	
				Carrying value	Fair value
				Total	Total
	\$	\$	\$	\$	\$
<b>Financial assets</b>					
Cash and cash equivalents	1,936	-	-	1,936	1,936
Accounts receivable	-	31,323	-	31,323	31,323
Unbilled revenues	-	13,236	-	13,236	13,236
Long-term deposits	-	350	-	350	320
<b>Total financial assets</b>	<b>1,936</b>	<b>44,909</b>	<b>-</b>	<b>46,845</b>	<b>46,815</b>
<b>Financial liabilities</b>					
Bank indebtedness	-	-	5,252	5,252	5,252
Accounts payable and accrued liabilities	-	-	22,532	22,532	22,532
Other current liabilities	606	-	-	606	606
Capital lease obligations	-	-	465	465	465
Term loans and loans	-	-	31,652	31,652	31,652
Debentures	-	-	25,039	25,039	17,408
Other long-term obligations	-	-	622	622	622
Series 1 preferred shares	-	-	1,268	1,268	529
<b>Total financial liabilities</b>	<b>606</b>	<b>-</b>	<b>86,830</b>	<b>87,436</b>	<b>79,066</b>
	Held-for-trading	Loans and receivables	Financial liabilities	As at December 31, 2008	
				Carrying value	Fair value
				Total	Total
	\$	\$	\$	\$	\$
<b>Financial assets</b>					
Cash and cash equivalents	3,157	-	-	3,157	3,157
Accounts receivable	-	34,749	-	34,749	34,749
Unbilled revenues	-	9,233	-	9,233	9,233
Long-term deposits	-	350	-	350	301
<b>Total financial assets</b>	<b>3,157</b>	<b>44,332</b>	<b>-</b>	<b>47,489</b>	<b>47,440</b>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

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

<b>Financial liabilities</b>					
Bank indebtedness	-	-	5,676	5,676	5,676
Accounts payable and accrued liabilities	-	-	23,540	23,540	23,540
Other current liabilities	1,108	-	-	1,108	1,108
Capital lease obligations	-	-	690	690	690
Term loans	-	-	36,332	36,332	36,332
Debentures	-	-	22,002	22,002	14,880
Other long-term obligations	-	-	605	605	605
Series 1 preferred shares	-	-	1,127	1,127	452
<b>Total financial liabilities</b>	<b>1,108</b>	<b>-</b>	<b>89,972</b>	<b>91,080</b>	<b>83,283</b>

Accounts receivable, unbilled revenues, bank indebtedness and accounts payable and accrued liabilities are financial instruments whose carrying value approximates their fair value due to their short-term maturity. Cash and cash equivalents and other current liabilities are valued at fair value. Cash equivalents were made of a short-term investment of \$1,775 in 2008.

To estimate the fair value of capital lease obligations, the Company compares existing lease contracts with comparable transactions in the market. The fair value of capital lease obligations approximates the carrying value.

The fair value of the term loans and loans is equivalent to their carrying value since part of the interest rate is based on LIBOR or banker's acceptance rate.

The fair value of long-term deposits and other long-term obligations is estimated using a discounted cash flow analysis using current market rates for similar instruments. Long-term deposits are non-interest bearing and will mature in July 2011.

The fair value of Class A Convertible Debentures, Series 1 preferred shares and Class B Convertible Debentures is estimated by the discounting of cash flows at current market rates for similar loans.

### 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 Euros and the U.S. dollars. 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 Celtic acquisition in fiscal 2008. The Company also has access to funds for its operations through its pound sterling-denominated revolving facility.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

The following table summarizes significant financial assets and liabilities that are subject to currency risk as at December 31, 2009:

	Carrying /nominal amount (in UK pound sterling)	Carrying /nominal amount (in US dollars)	Carrying /nominal amount (in euros)
	£	\$	€
<b>Financial assets</b>			
Cash and cash equivalents	211	129	1,003
Accounts receivable	2,450	128	4,122
	<u>2,661</u>	<u>257</u>	<u>5,125</u>
<b>Financial liabilities</b>			
Bank indebtedness	80	-	-
Accounts payable and accrued liabilities	1,850	136	3,684
Additional consideration payable	650	-	-
Capital lease obligations	80	-	94
Term loan	4,600	-	-
	<u>7,260</u>	<u>136</u>	<u>3,778</u>
Net exposure	<u>(4,599)</u>	<u>121</u>	<u>1,347</u>

The period-end value of the Canadian dollar compared to the UK pound sterling was CA\$1.6986 = £1.00 as at December 31, 2009.

The period-end value of the Canadian dollar compared to the US dollar was CA\$1.0510 = US\$1.00 as at December 31, 2009.

The period-end value of the Canadian dollar compared to the euros was CA\$1.5046 = €1.00 as at December 31, 2009.

The following sensitivity analysis summarizes the effect that a change in the value of the Canadian dollar (compared to UK pound sterling, US dollar and euros) on financial assets and liabilities denominated in UK pound sterling, US dollars and euros, would have on net earnings and comprehensive income based on the foreign exchange rates as at December 31, 2009:

- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the UK pound sterling would increase (decrease) net earnings by \$710 (\$781).
- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the euros would decrease (increase) net earnings by \$184 (\$203).
- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would decrease (increase) net earnings by \$12 (\$13).

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 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 9) 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 \$13,650 of its long-term debt with a fixed interest rate of 4.315% expiring on November 24, 2011.

As at December 31, 2009, with other variables unchanged and considering the outstanding interest swap agreement for \$13.7 million, a 1% change in the LIBOR rate and the Canadian banker's acceptance rate would have an annual impact on net earnings of \$138. There would be no effect on other comprehensive income.

### Credit risk

The Company's financial instruments that are exposed to credit risk include cash and cash equivalents and accounts receivable.

The Company places its cash and cash equivalents with institutions of high creditworthiness. Therefore, the Company considers the risk of non-performance on these instruments to be remote.

The Company's credit risk is principally attributable to its trade receivables. The amounts presented in the balance sheet are net of an allowance for doubtful accounts, estimated by the Company's management based on prior experience and their assessment of the current economy. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- 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.

	<b>As at December 31, 2009</b>
	<b>\$</b>
<b>Trade accounts receivable:</b>	
Current	15,035
Trade accounts receivable past due	
For less than 30 days	5,914
For 30 to 60 days	2,953
For over 60 days	5,917
	29,819
Allowance for doubtful accounts	(2,054)
Other accounts receivable	3,558
	<u>31,323</u>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

Changes in the allowance for doubtful accounts are as follows:

	Years ended December 31,	
	2009 \$	2008 \$
Balance - Beginning of year	1,774	620
Addition charged to earnings	1,201	1,182
Write-off of uncollectible accounts	(919)	(28)
Recovery of uncollectible accounts	(2)	-
Balance - End of year	<u>2,054</u>	<u>1,774</u>

### Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalents 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 \$	Contractual cash flows \$	0 to 12 months \$	12 to 24 months \$	Over 24 months \$
Bank indebtedness	5,252	5,252	5,252	-	-
Accounts payable and accrued liabilities	22,532	22,532	22,532	-	-
Other current liabilities	606	606	-	606	-
Term loans	31,652	32,277	6,255	6,256	19,766
Capital lease obligations	465	510	331	80	99
Debentures	25,039	40,595	-	-	40,595
Other long-term obligations	622	622	509	113	-
Series 1 preferred shares	1,268	2,032	-	-	2,032
	<b>87,436</b>	<b>104,426</b>	<b>34,879</b>	<b>7,055</b>	<b>62,492</b>

As at December 31, 2009, \$8,567 was available under the revolving facility (2008 - \$11,166) and as per the November 2006 term loan.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

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

### 21 Additional disclosures

(a) <b>Net change in non-cash working capital items:</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable	3,127	6,039
Inventories	880	4,909
Unbilled revenues	(4,002)	408
Prepaid expenses and advances	(388)	(9)
Accounts payable and accrued liabilities	2,424	(2,737)
Deferred revenue	(2,094)	659
Income taxes	2,305	(3,125)
<b>Net change in non-cash working capital items</b>	<b>2,252</b>	<b>6,144</b>
(b) <b>Financing and investing activities not affecting cash and cash equivalents:</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Purchase of property, plant and equipment under capital leases	226	-
Purchase of property, plant and equipment unpaid	49	1,298
Provision for site rehabilitation reclassified from accounts payable and accrued liabilities to other long-term obligations	2,038	-
Dividends on Series 2 preferred shares unpaid	157	62
(c) <b>Cash and cash equivalents consist of the following:</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Cash	1,936	1,382
Short-term investment	-	1,775
	<b>1,936</b>	<b>3,157</b>

### 22 Related party transactions

The Company has convertible units and Class B debentures that are held by shareholders (see note 9). Associated to those items, the Company has recorded \$2,774 of interest on long-term debt (\$2,354 in 2008).

### 23 Comparative figures

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