

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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This Management Discussion and Analysis (MD&A) reviews the financial condition and results of operations for EnGlobe Corp. ("EG" or the "Company") for the three-month period ended March 31, 2009 and 2008. This information is presented as of May 7, 2009.

The MD&A should be read in conjunction with our audited consolidated financial statements and the accompanying notes for the years ended December 31, 2008 and 2007. We also encourage you to read the MD&A for the year ended December 31, 2008.

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

Throughout this MD&A, "we", "us", "our", "EG" and "the Company" refer to EnGlobe Corp. and its subsidiaries. More information is available about EG, including our Annual Information Form for the year ended December 31, 2008 and recent financial reports filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws; such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our Annual Information Form ("AIF") and in this MD&A. Those risks and uncertainties include general economic conditions, pricing pressures and other competitive factors, the availability of future financing and the variability of interest rates, environmental industry and waste management industry regulations and potential regulatory changes, results of the ongoing efforts to improve our cost effectiveness, adverse factors generally encountered in an environmental services company such as our ability to attract and retain customers, our relationships with our suppliers and availability and costs of utilities. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of EnGlobe, its financial or operating results or its securities. Additional information, including the Company's AIF, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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

It is important to know that:

- Forward-looking statements in this MD&A describe our expectations as at May 7, 2009.
- Our actual results could be materially different from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize and, accordingly, you are cautioned not to place undue reliance on these forward-looking statements.
- Forward-looking statements do not take into account the effect of transactions, or non-recurring or other special items announced or occurring after the statements are made, may have on our business. For example, they do not include the effect of sales of assets, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.
- The quarterly MD&A schedules have been prepared in thousands.

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

## NON-GAAP FINANCIAL MEASURES

### Adjusted EBITDA

Adjusted EBITDA does not have any standardized meaning prescribed under GAAP and is therefore unlikely to be comparable to similar measures presented by other companies.

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

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

\$000's (Unaudited)	Q1 2009	Q1 2008	Q2 2008	Q3 2008	Q4 2008
<b>Adjusted EBITDA</b>	694	(1 191)	(4 001)	6 387	3 881
Depreciation of property, plant and equipment	1 287	1 385	1 537	1 270	1 350
Loss (gain) on disposal of property, plant and equipment	(13)	(7)	186	(90)	(243)
<b>Earnings (loss) before the undernoted items</b>	(580)	(2 569)	(5 724)	5 207	2 774
Amortization of intangibles	923	640	1 274	991	1 153
Stock-based compensation	59	87	66	59	(28)
Restructuring and other costs	232	911	1 725	934	1 817
Other non-cash charges	-	-	9 553	-	-
Foreign exchange loss (gain)	210	(335)	109	(292)	(1 646)
Interest and bank charges	1 831	1 455	1 975	2 560	2 830
Unrealized loss (gain) on interest swap	(43)	432	(201)	155	722
Income tax expense (recovery)	(167)	(1 823)	2 324	695	275
<b>Net earnings (loss)</b>	<b>(3 625)</b>	<b>(3 936)</b>	<b>(22 549)</b>	<b>105</b>	<b>(2 349)</b>

## ABOUT OUR BUSINESS

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

### Site Assessment and Remediation

Biogénie and Celtic comprise the Site Assessment and Remediation ("SAR") business unit of EnGlobe, specializing in on-site and off-site treatment and recycling of contaminated soil as well as the remediation of contaminated or degraded sites. Our SAR division has operating locations in Canada, the United Kingdom, France and the United States including fourteen off-site treatment facilities; eleven in Canada, two in the United Kingdom, and one in France as well as approximately 50 on-site treatment units where contaminated soils are treated.

### Organic Waste Management

GSI is the Organic Waste Management ("OWM") business unit for EnGlobe, providing environmental services such as composting, direct land application and biomass cogeneration, in addition to the commercialization of eco-products in bulk. GSI has operating locations in Québec and Ontario including eight composting and transfer facilities, all located in Québec.

### Tank Testing and Calibration

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

## RESULTS OF OPERATIONS

### First Quarter

#### Revenues

Revenues were \$24.8 million for the quarter ended March 31, 2009 compared with revenue of \$24.3 million for the quarter ended March 31, 2008, an increase of \$0.5 million. The increase in revenue was primarily driven by higher revenue from the SAR division, partially offset by lower revenue from the OWM division.

The SAR division contributed \$19.1 million in revenue in the first quarter compared to \$14.9 million in the same period last year. Higher SAR revenue was generated due to new contracts in Northern Canada (additional \$1.1 million versus the first quarter 2008) and Alberta, primarily related to the Station Meter Project, (additional \$1.5 million versus the first quarter 2008). In the U.K., the SAR division contributed an additional \$2.2 million of revenue for the first quarter of 2009 versus the first quarter of 2008 due to the inclusion of revenue from Celtic, which was acquired in March 2008. The Company is in the process of integrating its existing Biogénie U.K. operations and Celtic, which the Company believes will lead to a more effective sales generation process to help mitigate the effect of the sluggish U.K. economy. In France, the SAR division's revenue decreased by \$0.8 million in the first quarter of 2009 compared to the same period last year. Two major SAR France contracts that were active during the first quarter last year (Guyancourt and Nalacoff) have since been completed and did not contribute any revenue in the first quarter. EnGlobe is pursuing further expansion in France including a second soil treatment facility which is currently under construction and is expected to be operational in the second quarter of 2009.

OWM's revenues were \$5.2 million for the first quarter of 2009 compared to \$8.8 million for the same period last year. As previously mentioned, in mid 2008, the Company undertook a detailed review of the OWM operations that has resulted in major changes to its strategy. The Company has largely cancelled or restructured unprofitable activities and now concentrates its operations on contracts and activities that generate positive returns. This strategy has led to lower sales for the OWM business unit to the benefit of higher gross profit and adjusted EBITDA as discussed in the next section.

Revenues for the Tank Testing and Calibration division were slightly lower compared to the same period in 2008.

\$000's (Unaudited)	Q1 2009	Q1 2008
<b>Revenues</b>		
Site Assessment and Remediation	\$ 19 125	\$ 14 861
Organic Waste Management	5 188	8 794
Tank Testing and Calibration	493	626
<b>Total</b>	<b>24 806</b>	<b>24 281</b>

#### Gross Profit

Gross profit for the quarter ended March 31, 2009 was \$6.4 million, compared to gross profit of \$5.4 million for the quarter ended March 31, 2008, an increase of \$1.0 million or 17.5%. As a percentage of sales, gross profit margin for the quarter ended March 31, 2009 was 25.8% compared to 22.4% for the quarter ended March 31, 2008.

The SAR division generated an additional \$0.6 million in gross profit in the first quarter of 2009 versus the same period in 2008. This increase in gross profit was primarily attributable to increased SAR activities in Northern Canada and from the realization of lower cost related to the Montreal STF operations.

The OWM division improved with an increase of \$0.3 million of gross profit. Last year's initiative to perform corrective actions is now coming to fruition. Starting in the third quarter 2008, the Company has renegotiated certain contracts, rationalized its compost sales to include only products that generate a good return, and substantially reduced its fixed and variable staffing levels.

***Adjusted EBITDA and earnings (loss) before the undernoted items***

\$000's (Unaudited)	Q1 2009	Q1 2008
<b>Gross profit</b>	<b>\$ 6 395</b>	<b>\$ 5 438</b>
Selling, general and administrative	5 701	6 629
<b>Adjusted EBITDA</b>	<b>694</b>	<b>(1 191)</b>
Depreciation of property, plant, equipment	1 287	1 385
Gain on disposal of property, plant and equipment	(13)	(7)
<b>Loss before the undernoted items</b>	<b>(580)</b>	<b>(2 569)</b>

Adjusted EBITDA for the quarter ended March 31, 2009 was \$0.7 million compared to a loss of \$1.2 million for the quarter ended March 31, 2008, an increase of \$1.9 million.

The SAR division generated an additional \$0.3 million in Adjusted EBITDA in the first quarter versus the same period last year. The increase in SAR Adjusted EBITDA was primarily from the contribution of Celtic, which was acquired in March 2008; however, this gain was offset by lower realized Adjusted EBITDA from SAR's other European operations.

The OWM division generated an additional \$1.0 million in Adjusted EBITDA in the first quarter versus the same period last year. Higher OWM Adjusted EBITDA was the result of the review and restructuring of the OWM division, as described in the preceding sections.

Selling, general and administrative ("SG&A") expenses for the quarter ended March 31, 2009 were \$5.7 million compared with \$6.6 million for the quarter ended March 31, 2008. Excluding Celtic, the decrease in SG&A would have been \$1.5 million or 22%. This decrease in SG&A is the result of the success of the Company's SG&A and operating cost restructuring initiatives which began in the third quarter of 2008.

Depreciation of property, plant and equipment for the quarter ended March 31, 2009 was \$1.3 million compared to \$1.4 million for the quarter ended March 31, 2008. The lower depreciation was the result of a reduction in the carrying value of certain fixed assets in the OWM division, partially offset by an increase in the depreciation of the assets related to the acquisition of Celtic and an increase in depreciation of the assets related to equipment acquisitions for the Company's Northern Canadian projects.

Loss before the undernoted items for the quarter ended March 31, 2009 was \$0.6 million compared with a loss before the undernoted items of \$2.6 million for the quarter ended March 31, 2008, a decrease of \$2.1 million. This decrease is mainly due to the improvement of OWM Adjusted EBITDA as explained above, and a reduction of expenses at the Company's corporate level.

## Net Loss

\$000's (Unaudited)	Q1 2009	Q1 2008
<b>Loss before the undernoted items</b>	<b>\$ (580)</b>	<b>\$ (2 569)</b>
Amortization of intangible assets	923	640
Stock-based compensation	59	87
Restructuring and other costs	232	911
Foreign exchange loss (gain)	210	(335)
Interest and bank charges	1 831	1 455
Unrealized loss (gain) on interest swap	(43)	432
Income tax recovery	(167)	(1 823)
<b>Net loss</b>	<b>(3 625)</b>	<b>(3 936)</b>

Amortization of intangible assets for the quarter ended March 31, 2009 was \$0.9 million, an increase of \$0.3 million compared to the quarter ended March 31, 2008, mainly due to new intangible assets of \$7.9 million from the Celtic acquisition at the end of March 2008. Restructuring and other costs for the quarter ended March 31, 2009 were \$0.2 million which is \$ 0.7 million lower than the same period of last year. In 2008, the Company implemented an intensive restructuring program.

Interest and bank charges for the quarter ended March 31, 2009 were \$1.8 million compared with \$1.5 million for the quarter ended March 31, 2008, as a result of increased borrowings (primarily related to the acquisition of Celtic) and higher cost of debt financing, as described below.

The average cost of debt financing was 9.2% during the quarter ended March 31, 2009 and 6.8% for the quarter ended March 31, 2008. In addition, deferred financing charges increased the effective cost of debt financing to 9.9% compared with 8.3% for the quarter ended March 31, 2008. The average cost of debt financing is calculated using total annualized interest on long term debt, other interest, bank charges and unrealized gain on interest rate swap divided by total interest-bearing debt. Total debt includes bank loans and overdrafts, term loans, debentures, privileged shares that are included in debt and other interest bearing obligations, plus outstanding letters of credit.

The unrealized gain on the interest swap was \$0.04 million in the first quarter of 2009 vs. a loss of \$0.4 million in the first quarter of 2008. Last year's loss was attributable to steadily declining interest rates, thus creating the unrealized loss, whereas this year has seen relatively stable rates so far

In the first quarter of 2009, we recorded a foreign exchange loss of \$0.2 million, compared to a gain of \$0.3 million in 2008. In 2009, the loss was mainly due to a stronger Pound Sterling currency compared to Canadian dollars, applicable on items such as long term debt and additional consideration payable. In the first quarter of 2008 the foreign exchange gain was driven by a stronger Euro currency.

Income tax recovery was \$1.7 million less in 2009 compared to the same quarter in 2008. At the end of 2008, the Company started recording income tax valuation allowances and has continued this practice in 2009.

## STOCK OPTIONS, TANDEM OPTION AND STOCK APPRECIATION RIGHTS

During the quarter ended March 31, 2009, 3,475,000 (2008 – 83,333) stock options were granted under the Employee Stock Option Plan.

During the quarter ended March 31, 2009, 460,759 (2008 – 143,353) stock options were forfeited. During the quarter ended March 31, 2009, no options (2008 – 0) were exercised.

During quarter ended March 31, 2009, 4,000,000 Option and Stock Appreciation Rights (“OSARs”) were granted (2008 – 0). During the quarter ended March 31, 2009, 400,000 (2008 – 10,000,000) OSARs were forfeited.

## LIQUIDITY AND CAPITAL RESOURCES

During the quarter ended March 31, 2009, there was a cash inflow of \$1.4 million generated by operating, investing and financing activities compared to a cash inflow of \$3.3 million for the same period last year. For the quarter ended March 31, 2009, cash generated by operating activities was \$2.5 million, by financing activities was \$0.3 million and cash used in investing activities was \$1.5 million. Cash used in investing activities was primarily to fund the Company's new soil treatment facility under construction in France. For the quarter ended March 31, 2008, operating activities generated \$4.7 million and financing activities generated \$8.8 million while investing activities required \$10.2 million, mainly due to Celtic acquisition.

The Company has access to a \$20.0 million revolving facility for the ongoing cash requirements of the business. This facility is used for, among other things, issuing letters of credit required for security, bonding or similar requirements for projects, and to fund working capital of the Company. As at March 31, 2009, \$5.7 million in letters of credit were outstanding and \$4.7 million of the revolving facility was utilized to support working capital commitments. The Company is focused on optimizing working capital by reviewing its management processes, including accelerating the collection of accounts receivable.

On November 14, 2008, the Company entered into an amendment to the existing credit agreement related to the credit facility following repayment of a portion of the term loan and the revolving facility. Under the amendment to the credit agreement, the Lenders agreed to suspend the Company's financial covenants until the third quarter of fiscal year 2009 and adjust the financial covenants for the third and fourth quarter of 2009. Accordingly, during the covenant relief period, the Company must maintain a minimum cumulative EBITDA level. EBITDA calculation excludes all extraordinary, unusual and all other non-recurring items and foreign exchange losses or gains resulting from the exchange of foreign assets and liabilities denominated in a foreign currency into Canadian Dollars and losses or gains on the repurchase or redemption of any securities and some particularities on cash dividend received. As at March 31, 2009, the cumulative minimum EBITDA covenant had been met. Additionally, the Company is subject to a maximum annual capital expenditure limit, which the Company believes is sufficient to meet the capital requirements associated with the maintenance of current capital assets and the execution the growth plan. During the covenant relief period, applicable interest rates for all advances shall be the reference rate plus 5.75%.

Based on its financial forecasts, the Company expects to meet the financial ratios and covenants set by the lenders.

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

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

For the three month period ended March 31, 2009, cash generated by operations was \$2.5 million compared with cash generated of \$4.7 million for the three month period ended March 31, 2008. Cash provided by operating activities reflected the change in non-cash working capital items that generated \$3.1 million, offset by \$0.6 million derived from our net loss, less items not affecting cash and cash equivalents. This last amount is an improvement of \$2.4 million from the equivalent quarter of last year, resulting of the Company's performance as discussed in the preceding sections. For the quarter ended March 31, 2008, the cash used by operating activities before working capital charges was \$3 million, offset by non-cash working capital items which generated \$7.7 million.

The Company believes that cash flows related to operating activities should be sufficient to cover its capital expenditures and satisfy the principal repayment requirements of its long-term debt for at least the next twelve months while seasonal cash requirements, mostly required during the summer months, will be financed by the revolving facility.

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

For the three month period ended March 31, 2009, cash used in investing activities was \$1.4 million compared with cash used in investing activities of \$10.2 million for the quarter ended March 31, 2008. The cash used in investing activities was mainly due to the purchase of property, plant and equipment related to the construction of a soil treatment facility in France. For the same period in 2008, the cash used for investing activities was mostly attributable to the \$8.9 million cash requirement for the acquisition of Celtic.

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

For the three month period ended March 31, 2009, cash provided by financing activities was \$0.3 million, compared with cash provided by financing activities of \$8.8 million for the three month period ended March 31, 2008. In 2009, the Company made its scheduled principal repayment related to the term loan and increased its bank indebtedness to cover its investing activities. During the first quarter in 2008, the cash provided by financing activities was primarily generated by an increase in long-term debt and issuance of preferred shares related to the acquisition of Celtic.

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

### Contractual obligations

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

\$000's (Unaudited)	2009	2010	2011	2012	2013 and after
Term loan	3,172	6,344	6,344	8,458	11,808
Debentures	-	-	-	-	32,906
Other long term obligations	670	631	340	340	340
Capital lease obligations	348	302	41	14	-
Operating leases	4,060	3,072	2,441	1,084	2,880
Series 1 preferred shares				-	2,032
<b>Total contractual obligations</b>	<b>8,250</b>	<b>10,349</b>	<b>9,166</b>	<b>9,896</b>	<b>49,966</b>

The Company has renewable letters of credit outstanding in aggregate of \$5.7 million (Dec 2008 - \$5.2 million) 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.

### Litigation

In the normal course of business we are party to a number of claims, which individually and in the aggregate, we believe to be immaterial to the financial position or ongoing operations of the business. We are also threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

- i) A statement of claim had been filed, on November 5, 2003, against Wasteco Environmental Services Ltd, ("WasteCo"), a subsidiary of EnGlobe, currently discontinued, and other parties alleging damages of \$23.8 million. This claim was dismissed in August 2008; however, on October 21, 2008, the plaintiff decided to file a civil notice of appeal. Management believes that this appeal has no merit.
- ii) A statement of claim has been filed against the Company by a former President and CEO, a company and a trust controlled by a former President and CEO, alleging a conspiracy by the Company with a third party to the suit with the intention of fraudulently obtaining ownership of the shares owned or controlled by the plaintiff. The amount of the claim is for \$17 million. Management believes this claim is without merit and the final determination will not materially affect the financial position or results of the Company.

### Asset retirement obligation

The Company recognized an asset retirement obligation of approximately \$1.7 million to remediate one of its facilities. The key assumptions on which the fair value of the asset retirement obligations are based include the estimated future cash flows, the timing of those cash flows, and the credit-adjusted risk-free rate at which the estimated cash flows have been discounted. The Company used a discount rate of 6 %. As at March 31, 2009, undiscounted cash outflows approximating \$1.7 million (December 31, 2008 - \$1.7 million) are expected to occur over a five-year period.

## 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 \$1.2 million in accordance with the settlement between the parties. The insurance company disbursed \$0.5 million on July 15, 2008 and the Company will pay \$0.35 million on each of July 15, 2009 and July 15, 2010. These payment obligations, which have been recorded on a discounted basis, are secured by a general security agreement which is subordinated to the security held by the Company's secured lenders.

## Environmental contingencies

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

## SUMMARY OF QUARTERLY RESULTS

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

\$ 000's except per share amounts	First Quarter		Fourth Quarter		Third Quarter		Second Quarter	
	2009	2008	2008	2007	2008	2007	2008	2007
Revenues	24 806	24 281	40 953	39 858	45 760	39 957	38 209	42 496
Net earnings (loss)	(3 625)	(3 936)	(2 349)	(992)	105	92	(22 549)	(178)
Basic net earnings (loss) per share	(0,05)	(0,05)	(0,03)	(0,01)	0,00	0,00	(0,26)	(0,00)
Diluted net earnings (loss) per share	(0,05)	(0,05)	(0,03)	(0,01)	0,00	0,00	(0,26)	(0,00)
Total assets	121 127	146 490	132 284	130 414	139 214	136 095	132 714	132 164
Total long-term financial liabilities	55 363	68 557	56 701	47 517	58 286	48 635	3 422	50 780
Weighted Average number of shares (in 000's)								
Basic	86 711	79 271	84 861	78 645	86 711	78 705	86 711	78 599
Diluted	86 877	100 694	95 183	79 116	94 557	79 423	94 557	78 599

Results have fluctuated over each of the quarters due to the seasonality of our business. Due to the fact that our main business is soil remediation and organic waste management, it is quite common for our business to have decreased volumes and revenues in the winter months reflected mainly in the first quarter.

Basic earnings per share are determined using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method.

## TRANSACTIONS WITH RELATED PARTIES

The Company has convertible units and Class B debentures that are held by shareholders. Associated to those items, the Company has recorded \$0.8 million of interest on long-term debt (\$0.5 million in 2008) and has accrued interest of \$0.9 million as at March 31, 2009 (\$0.7 million as at December 31, 2008) included in accounts payable and accrued liabilities.

During the year ended December 31, 2008, the Company completed private placement financing activities in aggregate of \$27.2 million with certain nominees of ONCAP Management Partners L.P. and its affiliates, ("ONCAP") comprised of:

- The issuance of 7,375,000 Series 2 Preferred Shares of the Company at \$0.40 per share for gross proceeds of \$2,950,000. Additionally, ONCAP was issued 470,745 preferred shares to cover certain financing fees associated with the private placement.
- \$6,775,000 in Series B debentures, excluding an additional \$271,000 Series B debentures issued to the principal amount of the debentures to cover for certain financing fees associated with the private placement.
- The issuance of 175,000,000 Series 3 preferred shares at \$0.10 per share for gross proceeds of \$17.5 million. Additionally, ONCAP was issued 10,662,000 Series 3 preferred shares in consideration for financing fees.

The Series 2 preferred shares are voting securities and convertible at any time by the holders thereof on the basis of one Series 2 Preferred Share for each common share. Holders of the Series 2 Preferred Shares are entitled to receive, subject to certain exceptions, a fixed, cumulative dividend per preferred shares equal to 3% of the issue price per annum and are redeemable by the Company, at its option, on or after March 31, 2014 at the issue price plus all accrued and unpaid dividends.

The Series B Debentures are secured, non convertible and, subject to certain exceptions, bear interest on the principal amount at 15% per annum, compounded and payable quarterly with 3% per annum payable in cash on each applicable interest payment date and 12% per annum capitalized on each applicable interest payment date and added to the principal amount, all in accordance with the terms of such debenture. The Company may repay all or a portion of the principal amount of the debenture at any time without penalty after March 2009.

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 shares equal to 6% of the issue price per annum and are payable quarterly at the Company's option in cash or additional equivalent value preferred shares. As a result, the Company will issue 617,580 series 3 preferred shares valued at \$61,758 as dividends for the period from December 12 to December 31, 2008.

The proceeds from these financings were used to fund the acquisition of Celtic, to reduce indebtedness and for working capital purposes.

## **CRITICAL ACCOUNTING POLICIES**

### **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 allowance for doubtful accounts, future income tax assets, the useful lives of property, plant and equipment and intangible assets, the valuation of identifiable intangible assets and goodwill, the fair value of options granted and certain accrued liabilities. Actual results could differ from those estimates.

### **Goodwill and Intangible Assets**

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

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

### **Income Taxes**

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

Following a review of its operations and starting in the four quarter of 2008, the Company has recorded a valuation allowance due to some delays in the implementation of its restructuring and integration plans. This may lead to an inability to realize future tax benefits mainly related to the operating losses.

### **Bad Debt Expense**

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

## Revenue Recognition

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.

### ***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. The revenue is recognized proportionately to the costs incurred of the contract. The Company revises these estimates periodically and reflects any changes in estimates using the cumulative catch-up method. At any point, if the estimate for the remaining costs exceeds the revenue under the contract, a loss is recorded.

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

### ***OWM Segment***

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

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

### ***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.

## Financial Instruments

The Company is exposed to a variety of financial risks, which include foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Except for the following, 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.

### ***Interest swap agreement***

The Company's principal exposure to interest rate fluctuations is limited to its long-term debt which bears interest at both fixed and floating interest rates, some of which are LIBOR-based and others are based on the Canadian Bankers' Acceptance Rate. The Company has an interest rate swap to mitigate the exposure to variable interest rates for a notional amount of \$16.8 million of its long-term debt with a fixed interest rate of 4.315% expiring on November 24, 2011.

## NEW ACCOUNTING STANDARDS

Except as follows, the accounting policies followed by the Company are the same as those followed in the Company's consolidated financial statements and notes thereto, for the quarter ended March 31, 2009.

### a) Recently Adopted Accounting Pronouncements

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

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

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

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

### b) New accounting Standards Not Yet Adopted

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

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

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

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

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

## **SUBSEQUENT EVENT**

On April 3, 2009, an amendment to the original share sale agreement dated of March 25, 2008 related to the acquisition of Celtic and concerning the additional consideration payable in cash was made. The cash payment to the Sellers will be done in two instalments instead of one. Following this agreement, £0.9 million (\$1.5 million) was paid on April 15, 2009 and £0.6 million (\$1.2 million) will be paid in April 15, 2010. The second instalment bears interest at 8% per annum.

## **DISCLOSURE CONTROLS AND PROCEDURES (DC&P) AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICFR)**

Our DC&P are designed to provide reasonable assurance that material information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. Management is also responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The control framework used to design ICFR is COSO (*Committee of Sponsoring Organizations*) and COBIT (Control Objectives for Information and related Technology).

In 2008, the Company hired external consultants to assist in the documentation of the Company's ICFR. Management completed this activity by the end of the 2nd quarter of 2008 having identified deficiencies in control design that required remediation. In an effort to strengthen controls, the Company appointed a new CFO at the beginning of the 4th quarter of 2008.

The Company's reorganization, restructuring, refinancing activities and the recent acquisition required the dedication and efforts of management, as well as several key financial resources, that would have normally been involved in remediating internal control design deficiencies and evaluating the effectiveness of internal controls. As such, delays were encountered in remediating internal control weaknesses, and confirming the design and operating effectiveness of these controls.

In 2009, the Company has put in place the appropriate organizational structure, management team, adjusted its cost structure and has now sufficient cash flow to successfully achieve its strategic objectives. Management understands its responsibilities with regard to ensuring an appropriate structure of internal controls and is committed to resolving the issues identified and will ensure implementation in 2009.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2008, management evaluated the design of our DC&P and ICFR, with the exception of our recent acquisition in Europe, as defined under National Instrument 52-109, but has not yet been able to assess the operating effectiveness of the Company's DC&P and ICFR. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the design of our DC&P is effective as at December 31, 2008. However, based on the evaluation of the design of ICFR, management determined that certain aspects of ICFR were not designed effectively. The control deficiencies identified by the Company did not result in adjustments to our annual or any interim consolidated financial statements for 2008.

In the first quarter of 2009, we have initiated and/or taken the following actions to remediate the material weaknesses in ICFR identified as of December 31, 2008. In addition, the Company intends to include its overseas subsidiaries and joint venture as part of this assessment. Management and the Audit Committee have taken an active role in responding to the deficiencies identified, including overseeing management's implementation of the remedial measures. Management's assessment identified the following material weaknesses along with related remediation:

## Entity Level Controls

The Company did not maintain an effective control environment as defined in accordance with the COSO control framework. Specifically:

- Although the Board of Directors follows the corporate governance guidelines established for public companies, the Company lacks certain formal policies and governance charters. In the first quarter, we have drafted a management override policy, a capitalization policy as well as charters for our Board of Directors and Governance and Compensation committee.
- The organic waste management business did not have in place a written authority policy. In the first quarter, we have drafted a written authority policy for our organic waste management business
- Although informal procedures are in place, the Company does not have comprehensive procedures to communicate management's and employees' roles and responsibilities in the Company's ICFR and lacks formal training in this matter. We will improve awareness and understanding of the importance of maintaining a strong control environment and sound internal controls over financial reporting. Furthermore, we will put into practice formal written policies and procedures informing employees of the importance of keeping adequate documentation demonstrating the performance of the key controls.
- The Company did not implement continuous monitoring of existing control activities over financial reporting. We have assigned a permanent project manager to monitor the compliance efforts and testing will be performed in the coming year to ensure the effectiveness of the existing control activities.

## Information Technology (IT) General Controls

The Company did not adequately implement certain controls over information systems and data used in financial reporting. These areas include controls over change management, computer operations and security and access to systems and data. In addition, the Company has deficient controls over segregation of duties within the IT department, has no formal documented policies and procedures and has no auditors report on internal controls over the external service provider which hosts the Company's servers. We did not perform alternative procedures to test controls at the service organization or request the service organization auditor to perform agreed upon procedures.

During the fourth quarter of 2008, the Company hired a new director of Information Technology. The new director was assigned the responsibility of implementing Information Technology control procedures in response to the control weaknesses noted above.

- Information Technology organization and Segregation of Duties: We will update documentation regarding the roles and responsibilities of the IT function. We will implement appropriate measures to assign job roles and responsibilities to information technology employees to ensure the proper segregation of duties where feasible, otherwise compensating controls will be put into place.
- Operations: We will develop a procedure to manage incidents, implement a backup policy and a business continuity plan. We will also perform periodic review of back-up tapes to ensure their accuracy and will have them stored in a secured environment.
- Security: We will develop a security policy and establish monitoring mechanisms and procedures such as periodic review of the security logs to properly detect unauthorized system access.
- Access: We will implement stricter controls over granting, maintenance and monitoring of access to systems and data. Additional controls to ensure terminated employees access is removed on a timely manner will also be put into place. Administrative access will be restricted or monitored. A password policy which considers confidentiality, complexity and periodic changes will be developed.
- Service provider: We will ensure controls at the service organization are at a satisfactory level.

## **Period-end Financial Reporting Process**

The Company did not maintain consistent effective controls over the period-end financial reporting process. Specifically:

- Although journal entries are reviewed, there is no evidence of such review.
- Although controls are performed, adequate evidence does not always exist demonstrating the performance of controls such as review of account reconciliations, spreadsheets and significant account balances requiring the use of accounting estimates.

We have begun to develop a more comprehensive and disciplined financial reporting process emphasizing the review and approval of journal entries and consistent and thorough use of period-end checklists. In addition, we will perform an in-depth review of system access to journal entries.

## Revenue Recognition

The Company did not have consistent effective controls over the completeness and accuracy of revenue for its organic waste management business. In certain cases, the Company lacked adequate controls to validate the quantity of organic waste received from customers. In addition, effective controls were not consistently in place subsequent to the input of customer profiles, sales terms and data entry.

We plan to continue to improve procedures at our organic waste management division to validate quantities of organic waste received from customers by implementing more thorough controls at our receiving premises. Furthermore, we will implement monitoring controls over the input of customer profiles, sales terms and data entry.

## Income Taxes

The Company did not consistently maintain effective controls over the recording of income taxes payable, future income tax assets and liabilities and the income tax provision. The absence of certain formal written policies and procedures resulted in the lack of review and reconciliation of certain tax calculations and income tax returns. In addition, there was no formal documentation demonstrating the performance of key controls associated with the tax function such as the review and reconciliation of spreadsheets.

We have recently hired a tax director. We have also begun to develop a more comprehensive and disciplined process emphasizing the review and approval of income tax returns and tax calculations relating to income taxes payable, future income tax assets and liabilities and the income tax provision.

## Segregation of Duties

The Company had deficient controls within its accounting and finance department over segregation of duties. Specifically, certain financial personnel were able to create, review and process certain financial data without independent review and authorization.

To mitigate the risk, management relies heavily on manual procedures and detection controls, weekly management meetings, monthly reviews of financial statements by the operating divisions and quarterly reviews of financial statements by the Audit Committee. These manual procedures were performed throughout the year.

The Company is in the process of hiring additional key employees in its finance and accounting department. We will continue to employ appropriate measures to restrict access and properly assign job roles and responsibilities to employees to ensure the proper segregation of duties where feasible and we will independently monitor system access.

We believe in and are committed to establishing rigorous DC&P and ICFR. Our management will continue to evaluate the effectiveness of our overall control environment and will continue to refine existing controls as they, in conjunction with the Audit Committee, Board of Directors, Chief Executive Officer and Chief Financial Officer, deem necessary. It should be noted that the control deficiencies identified by the Company did not result in adjustments to our annual or any interim consolidated financial statements for 2008.

Other than the remediation efforts discussed above, there have been no other changes in our ICFR that occurred since the beginning of fiscal year 2008 that have materially affected or are reasonably likely to materially affect our ICFR. Our management, including our Chief Executive Officer and our Chief Financial Officer, have discussed these issues and remediation efforts in detail with the Audit Committee.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

The CICA’s Accounting Standards Board has also announced that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board effective January 1, 2011. IFRS will require increased financial statement disclosures. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. The Company is currently in the stage of planning its approach for evaluating and assessing the impact the adoption of IFRS will have on its financial position, financial statement disclosure requirements, accounting processes and internal controls over financial reporting.

## RISKS THAT COULD AFFECT OUR BUSINESS

Risks that could cause our actual results to materially differ from our current expectations include, but are not limited to:

- General industry and economic conditions; the Company’s business is affected by general industry and economic conditions, including seasonal fluctuations, which could result in decreased revenues in winter months. Any unfavorable industry or economic conditions, such as general economic slowdowns, could adversely impact the Company’s business, results of operations and cash flows.
- Pricing pressures and other competitive factors; the Company encounters competition from a range of sources that vary widely by region and division. For SAR division, competition comes from a number of large and diverse companies offering a broad range of soil decontamination services. For the organic waste management division, competition is primarily from a number of small regional based companies and municipalities. For Tank testing and calibration division, competition is limited to a few services providers including in-house providers for larger petroleum companies.
- Changes in legislative and regulatory requirements affecting our business;
- The availability of future financing and the variability of interest rates;
- General uncertainty associated with operating in a highly regulated environment;
- The results of EnGlobe’s ongoing efforts to improve cost effectiveness;
- Changes in our relationships with suppliers;
- Potential changes to the mix of businesses we operate;
- The availability and costs of fuel and utility services;
- Costs and risks associated with litigation and;
- Changes in exchange rates between the Canadian dollar, the U.S. dollar, British Pound Sterling and the Euro.

Should one or more of these risks materialize, or should our underlying assumptions prove incorrect, our actual results may materially differ from our current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause our actual results to materially differ from such forward-looking statements. No change occurred during the period. Please refer to the Risk Factors section of our Annual Information Form for the year ended December 31, 2008 for a more detailed description of risks that could affect our business.

## OTHER

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