

# MANAGEMENT'S DISCUSSION AND ANALYSIS

---

This Management Discussion and Analysis (MD&A) reviews the financial condition and results of operations for EnGlobe Corp. ("EG" or the "Company") for the three and nine-month periods ended September 30, 2009. This information is presented as of November 11, 2009.

This 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. You are also encouraged 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 about EG, including our Annual Information Form for the year ended December 31, 2008 and recent financial reports, may be found 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"). 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 EG, 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 November 11, 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 of dollars.

## **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 rate 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 rate 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 gross profit, which is discussed in the *Results of Operations* section of the MD&A.

## **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 Corporation, Biogénie Europe SAS, Biogénie Site Remediation Limited (collectively "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 EG, 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 15 off-site treatment facilities; 11 in Canada, 2 in the United Kingdom, and 2 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 EG, 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 composting and transfer facilities, all located in Québec.

### **Tank Testing and Calibration**

Tanknology is the Tank Testing and Calibration business unit of EG. 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.

## KEY DEVELOPMENTS OF THE LAST FIFTEEN MONTHS

In May 2008, the Company hired a new experienced leader in the CEO position. Upon his arrival, he set four short term priorities to successfully realign and refocus the Company and set the basis for future success.

The four priorities were :

- i) The operational and financial turnaround of the OWM division.
- ii) Improve the efficiency of finance and administration functions to support EG's operations.
- iii) Reduce corporate costs to reflect EG's size.
- iv) Pursue aggressively SAR division's growth plan.

Here is a summary of the main initiatives undertaken in order to deliver concrete results.

### Operational and financial turnaround of the OWM division

1. Renegotiation of several contracts in the OWM segment, increasing their profitability while reducing risks for the Company.
2. Selling redundant assets thus improving cash position of the company.
3. Elimination of non-profitable activities and products in the OWM segment.
4. Optimization of the staffing level in accordance to the volume of activities.

### Improve efficiency of finance and administration functions to support EG's operations

1. Appointment of an experienced CFO in November 2008.
2. Centralization of administrative functions into one location, increasing efficiency and improving internal communications.
3. Implementation of a common information system in North America.
4. Transformation of the finance team increasing core competencies.

### Reduce corporate costs to reflect EG's size

1. Annualized reduction of corporate cost by more than \$3.0 million.
2. Outsourcing of non-core activities.
3. Optimization of office space by closing underutilized offices.
4. Optimization of staffing level at the corporate level.

### Pursue aggressively SAR division's growth plan

1. Integration of Celtic within SAR Europe is going according to plan.
2. Successful opening of new Soil Treatment Facility ("STF") in Lyon, France in May 2009 accelerating our growth potential within Europe.

These realized and completed initiatives led to annualised savings of more than \$12.0 million. The success of these initiatives enabled EG to raise \$17.7 million of capital in the fourth quarter of 2008, strengthening the balance sheet of the Company and demonstrating the strong confidence of the largest shareholders towards the future, the strategy and the management of the Company.

Despite a challenging economy, especially in the UK, the actions taken by the new leadership team in the last fifteen months have set the foundation for future growth. Other strategic initiatives are currently underway to ensure the continuous success of EG.

EG's continuous efforts toward excellence has started to give impressive results as the Company has had its best quarter of its history with net earnings of \$1.9 million for the third quarter of 2009.

## RESULTS OF OPERATIONS

### Nine-month period

### Highlights of the period

- \$96.2 million in revenues;
- Adjusted EBITDA increased by \$8.7 million to reach \$9.9 million;
- Gross profit margin was 26.9% compared to 21.2% for the same period last year;
- Gross profit increased by 12.6% to reach \$25.9 million;

### Revenues

Revenues were \$96.2 million for the nine-month period ended September 30, 2009 compared with revenue of \$108.3 million for the nine-month period ended September 30, 2008, a decrease of \$12.1 million. This decrease in revenue was primarily explained by restructuring activities in OWM division as explained below.

SAR division contributed \$73.9 million in revenue for the nine-month period ended September 30, 2009 compared to \$70.0 million for the same period last year, an increase of \$3.9 million. Higher SAR Canada revenue was generated by new contracts in Northern Canada (additional \$1.0 million versus the first nine-month period of 2008) and Alberta (additional \$2.4 million). In France, there was an increase of \$2.5 million compared to the same period last year, which is partially explained by the opening in May 2009 of the new soil treatment facility in Lyon. The UK and USA divisions have seen a decrease of activities mostly explained by the sluggish economy in both countries. Additionally, the Sterling Pound has lost value since last year for the same period, which also contributed to the lower revenues in Canadian dollars (decrease of \$1.5 million versus the first nine-month period of 2008).

OWM's revenues were \$20.0 million for the nine-month period ended September 30, 2009 compared to \$35.7 million for the same period last year. As previously mentioned, in mid 2008, the Company undertook a detailed review of the OWM operations that 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 division, but higher gross profit and adjusted EBITDA as discussed in the next section.

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

\$000's (Unaudited)	Nine-month period ended September 30	
	2009	2008
<b>Revenues</b>		
Site Assessment and Remediation	\$ 73,886	\$ 69,992
Organic Waste Management	20,020	35,723
Tank Testing and Calibration	2,342	2,535
<b>Total</b>	<b>96,248</b>	<b>108,250</b>

### Gross Profit

Gross profit for the nine-month period ended September 30, 2009 was \$25.9 million, compared to gross profit of \$23.0 million for the nine-month period ended September 30, 2008, an increase of \$2.9 million or 12.6%. As a percentage of revenues, gross profit margin for the nine-month period ended September 30, 2009 was 26.9% compared to 21.2% for the nine-month period ended September 30, 2008.

OWM division increased its gross profit by \$3.8 million compared to last year for the same period. Last year's initiative to perform corrective actions is now coming to fruition. Starting in the third quarter of 2008, the Company has renegotiated certain unprofitable contracts, rationalized its compost sales to include only products that generate a good return, and substantially reduced its staffing levels.

SAR division has seen a decrease in gross profit of \$1.1 million for the nine-month period ended September 30, 2009 versus the same period in 2008. This decrease was attributable to reduced activities in UK and USA mostly explained

by the sluggish economy in both these countries. This decrease was partly offset by an higher level of activities in France where the performance for the nine-month period ended September 30, 2009 was outstanding.

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

\$000's (Unaudited)	Nine-month period ended September 30	
	2009	2008
<b>Gross profit</b>	<b>\$ 25,876</b>	<b>\$ 22,989</b>
Selling, general and administrative	15,978	21,793
<b>Adjusted EBITDA</b>	<b>9,898</b>	<b>1,196</b>
Depreciation of property, plant and equipment	3,716	4,192
Loss (gain) on disposal of property, plant and equipment	(83)	89
<b>Earnings (loss) before the undernoted items</b>	<b>6,265</b>	<b>(3,085)</b>

Adjusted EBITDA for the nine-month period ended September 30, 2009 was \$9.9 million compared to \$1.2 million for the nine-month period ended September 30, 2008, an increase of \$8.7 million.

SAR division generated an additional \$1.8 million in Adjusted EBITDA during the nine-month period ended September 30, 2009 versus the same period last year. This increase in Adjusted EBITDA was attributable to tremendous performance of the Écharcon (France) Soil Treatment Facility and, to a lesser extent, to the opening of the new soil treatment facility in Lyon (France) in May 2009.

OWM division generated an additional \$7.1 million in Adjusted EBITDA during the nine-month period ended September 30, 2009 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 nine-month period ended September 30, 2009 were \$16.0 million compared with \$21.8 million for the nine-month period ended September 30, 2008, a decrease of \$5.8 million. 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 nine-month period ended September 30, 2009 was \$3.7 million compared to \$4.2 million for the nine-month period ended September 30, 2008. The lower depreciation is the result of a reduction in the carrying value of fixed assets due to cost control measures taken by the Company and also by the write-off of \$3.2 million of property, plant and equipment in the second quarter of 2008.

As a result of the foregoing, the earnings before the undernoted items for the nine-month period ended September 30, 2009 were \$6.3 million compared with a loss before the undernoted items of \$3.1 million for the nine-month period ended September 30, 2008, an increase of \$9.4 million.

## Net Loss

\$000's (Unaudited)	Nine-month period ended September 30	
	2009	2008
<b>Earnings (loss) before the undernoted items</b>	<b>\$ 6,265</b>	<b>\$ (3,085)</b>
Amortization of intangible assets	2,284	2,905
Stock-based compensation	161	212
Restructuring and other costs	1,025	3,571
Other non-cash charges	-	9,553
Foreign exchange gain	(17)	(518)
Interest and bank charges	5,345	5,990
Unrealized loss (gain) on interest rate swap	(387)	386
Income tax expense	1,453	1,196
<b>Net loss</b>	<b>(3,599)</b>	<b>(26,380)</b>

Amortization of intangible assets for the nine-month period ended September 30, 2009 was \$2.3 million, a decrease of \$0.6 million compared to the nine-month period ended September 30, 2008, mainly due to a lower carrying value of intangible assets originating from the write-off of intangible assets that occurred in the second quarter of 2008. Restructuring and other costs for the nine-month period ended September 30, 2009 were \$1.0 million which is \$2.6 million lower than the same period of last year. In 2008, costs were incurred for the settlement of a litigation case and for professional fees to assess internal controls and for other public reporting requirements.

Interest and bank charges for the nine-month period ended September 30, 2009 was \$5.3 million, a decrease of \$0.7 million compared to the nine-month period ended September 30, 2008. The decrease in interest and bank charges is the result of lower average of capital lease obligations, long-term debt and other long-term obligations balances compared to the same period of last year, following a \$10.0 million repayment on long-term debt in December 2008. This decrease was slightly offset by the increase in the average cost of debt financing, as explained in the next paragraph.

The average cost of debt financing was 8.6% during the nine-month period ended September 30, 2009 and 8.8% for the nine-month period ended September 30, 2008. In addition, deferred financing charges increased the effective cost of debt financing to 9.7% compared to 9.6% for the nine-month period ended September 30, 2008. The average cost of debt financing is calculated using total annualized interest on long-term debt and other interest and bank charges divided by total interest-bearing debt. Total debt includes bank indebtedness, term loan, debentures, preferred shares that are included in debt and other interest bearing obligations, plus outstanding letters of credit.

The unrealized gain on the interest rate swap was \$0.4 million during the nine-month period ended September 30, 2009 compared with a loss of \$0.4 million in the nine-month period ended September 30, 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 nine-month period ended September 30, 2009, no foreign exchange gain was recorded, compared to a gain of \$0.5 million in 2008. In 2008, the foreign exchange gain was mainly due to a weaker Pound Sterling currency compared to Canadian dollars, applicable on items such as long-term debt and additional consideration payable.

Income tax expense for the nine-month period ended September 30, 2009 was \$1.5 million compared with \$1.2 million for the nine-month period ended September 30, 2008. The income tax expense in 2009 is related to our profitable SAR activities in France and in Canada. We recorded a valuation allowance against future tax assets because it is more likely than not that these assets will not be recovered. The valuation allowance will be reversed once we have concluded that the realization of future income tax assets is more likely than not. Consequently, income tax rates are distorted compared to statutory rates.

## Third Quarter

### Highlights of the period

- \$39.3 million in revenues;
- Adjusted EBITDA reached \$6.1 million;
- Gross profit of \$10.9 million;
- Gross profit margin reached 27.8%;
- Net earnings increased by \$1.8 million to reach \$1.9 million;
- Best quarter of the history of the Company in terms of earnings before income taxes and net earnings;

## Revenues

Revenues were \$39.3 million for the quarter ended September 30, 2009 compared with revenues of \$45.8 million for the quarter ended September 30, 2008, a decrease of \$6.5 million. The decrease in revenues is primarily explained by the corrective actions and restructuring activities in the OWM division as explained below.

SAR division contributed \$31.2 million in revenues in the third quarter compared to \$32.8 million in the same period last year. The UK and USA divisions have seen a decrease of activities (decrease of \$2.3 million versus the third quarter of 2008) mostly explained by the sluggish economy in these countries. However, this decrease in the USA and the UK divisions is offset by the French Operations, which have seen an increase of \$1.5 million compared to the same period last year which is mostly explained by the opening in May 2009 of the new soil treatment facility in Lyon and increased activities at the Echarcon Soil Treatment Facility. Additionally, the Sterling Pound has lost value since last year for the same period, which also contributed to the lower revenues in Canadian dollars (decrease of \$0.6 million versus the third quarter of 2008).

OWM's revenues were \$7.1 million for the third quarter of 2009 compared to \$11.9 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 renegotiated less profitable contracts and now concentrates its operations on contracts and activities that generate positive returns. This strategy has led to lower sales for the OWM division, but a higher Adjusted EBITDA, as discussed in the next section.

\$000's (Unaudited)	Three-month period ended September 30	
	2009	2008
<b>Revenues</b>		
Site Assessment and Remediation	\$ 31,167	\$ 32,844
Organic Waste Management	7,140	11,884
Tank Testing and Calibration	968	1,032
<b>Total</b>	<b>39,275</b>	<b>45,760</b>

## Gross Profit

Gross profit for the quarter ended September 30, 2009 was \$10.9 million, compared to gross profit of \$13.6 million for the quarter ended September 30, 2008, a decrease of \$2.7 million or 19.9%. As a percentage of revenues, gross profit margin for the quarter ended September 30, 2009 was 27.8% compared to 29.7% for the quarter ended September 30, 2008.

OWM division gross profit decreased by \$0.4 million compared to last year's third quarter. However, as a percentage of revenues, the gross margin increased from 15.7% for the quarter ended September 30, 2008 to 20.3% for the quarter ended September 30, 2009. Starting in the third quarter of 2008, the Company has renegotiated certain unprofitable contracts, rationalized its compost sales to include only products that generate a good return, and substantially reduced its fixed and variable staffing levels. Last year's initiative to perform corrective actions is now giving concrete results.

SAR division gross profit decreased by \$1.8 million in the third quarter of 2009 versus the same period in 2008. This decrease was primarily attributable to decrease in activities in UK and USA (decrease of \$1.7 million versus the third

quarter of 2008) mostly explained by the sluggish economy in both these countries. This was partially offset by the outstanding performance in France (increase of \$1.2 million versus the third quarter of 2008).

**Adjusted EBITDA and earnings before the undernoted items**

\$000's (Unaudited)	Three-month period ended September 30	
	2009	2008
<b>Gross profit</b>	<b>\$ 10,929</b>	<b>\$ 13,574</b>
Selling, general and administrative	4,828	7,186
<b>Adjusted EBITDA</b>	<b>6,101</b>	<b>6,388</b>
Depreciation of property, plant, equipment	1,307	1,271
Gain on disposal of property, plant and equipment	(5)	(90)
<b>Earnings before the undernoted items</b>	<b>4,799</b>	<b>5,207</b>

Adjusted EBITDA for the quarter ended September 30, 2009 was \$6.1 million compared to an Adjusted EBITDA of \$6.4 million for the quarter ended September 30, 2008, a decrease of \$0.3 million.

SAR division's Adjusted EBITDA was \$0.6 million lower in the third quarter of 2009 versus the same period last year. This decrease is explained by the reduction of the gross profit by \$1.8 million, as explained previously, offset by a reduction of the operating expenses by \$1.2 million in the third quarter of 2009 versus the same period last year, resulting from continuous focus on controlling costs throughout the organization.

OWM division generated an additional \$0.4 million in Adjusted EBITDA in the third 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 September 30, 2009 were \$4.8 million compared with \$7.2 million for the quarter ended September 30, 2008. This decrease in SG&A was the result of the success of the Company's SG&A and operating cost restructuring initiatives, which began in the third quarter of 2008 and that are still ongoing, as well as significant reduction in expenses at the corporate level.

Depreciation of property, plant and equipment for the quarter ended September 30, 2009 remained steady at \$1.3 million period over period.

As a result of the foregoing, earnings before the undernoted items for the quarter ended September 30, 2009 was \$4.8 million compared with earnings before the undernoted items of \$5.2 million for the quarter ended September 30, 2008, a decrease of \$0.4 million.

## Net Earnings

\$000's (Unaudited)	Three-month period ended September 30	
	2009	2008
<b>Earnings before the undernoted items</b>	<b>\$ 4,799</b>	<b>\$ 5,207</b>
Amortization of intangible assets	571	991
Stock-based compensation	51	59
Restructuring and other costs	492	934
Foreign exchange gain	(995)	(292)
Interest and bank charges	1,948	2,560
Unrealized loss (gain) on interest rate swap	(126)	155
Income tax expense	1,007	695
<b>Net earnings</b>	<b>1,851</b>	<b>105</b>

Amortization of intangible assets for the quarter ended September 30, 2009 was \$0.6 million, a decrease of \$0.4 million compared to the quarter ended September 30, 2008, mainly due to a lower carrying value of intangible assets. Intangible assets from Biogenie's acquisition in 2006 became fully amortized during the second quarter of fiscal 2009. Restructuring and other costs for the quarter ended September 30, 2009 were \$0.5 million which is \$0.4 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 September 30, 2009 were \$1.9 million compared with \$2.6 million for the quarter ended September 30, 2008. The decrease in interest and bank charges is the result of lower average of capital lease obligations, long-term debt and other long-term obligations balances compared to the same quarter last year as a result of a \$10.0 million repayment on long-term debt in December 2008.

Average cost of debt financing was 9.3% during the quarter ended September 30, 2009 and 9.0% for the quarter ended September 30, 2008. In addition, deferred financing charges increased the effective cost of debt financing to 10.3% compared with 9.8% for the quarter ended September 30, 2008. The average cost of debt financing is calculated using total annualized interest on long-term debt and other interest and bank charges divided by total interest-bearing debt. Total debt includes bank indebtedness, term loan, debentures, preferred shares that are included in debt and other interest bearing obligations, plus outstanding letters of credit.

Unrealized gain on the interest rate swap was \$0.1 million during the quarter ended September 30, 2009 compared with a loss of \$0.2 million in the quarter ended September 30, 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 third quarter of 2009, we recorded a foreign exchange gain of \$1.0 million compared to a gain of \$0.3 million in 2008. In 2009, the gain was mainly due to the devaluation of the Pound Sterling currency compared to Canadian dollars, applicable on items such as long-term debt and additional consideration payable.

Income tax expense was \$0.3 million more in 2009 compared to the same quarter in 2008. During the quarter, we recorded a valuation allowance against future tax assets because it is more likely than not that these assets will not be recovered. The valuation allowance will be reversed once we have concluded that the realization of future income tax assets is more likely than not. Consequently, income tax rates are distorted compared to statutory rates.

## OUTSTANDING SHARE DATA

As of November 11, 2009, the following shares of the Company were outstanding:

Common shares issued	<u>94,876,263</u>
Preferred shares issued	196,207,745
Issuable as dividends	<u>9,070,648</u>
	<u>205,278,393</u>

As of November 11, 2009, there were 6,000,000 stock options and 11,350,000 option and stock appreciation rights outstanding.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2009, cash and cash equivalents totaled \$0.9 million, while bank indebtedness amounted to \$11.1 million. Cash and cash equivalents decreased by \$2.2 million in the nine-month period ended September 30, 2009. During that period, operating activities generated \$1.2 million and we drew on an additional \$5.5 million on the revolving loan facility during the nine-month period ended September 30, 2009. On the other hand, we made cash payments of \$3.5 million for the purchase of property, plant and equipment, \$1.5 million as a cash payment for an additional consideration for the acquisition of Celtic and \$3.5 million as repayments on long-term debt.

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 September 30, 2009, \$6.5 million in letters of credit were outstanding and \$8.2 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 agreement to this existing credit facility following repayment of portions of the term loan and the revolving facility. With this amendment, the Banks have agreed to suspend the Company's current financial covenants until the third quarter of 2009 and adjusted the financial covenants for the third and fourth quarter of 2009. As at September 30, 2009, the Company is now required to respect certain financial covenants. The financial covenants the Company must respect include a Fixed Charge Coverage Ratio and a Senior Funded Debt to EBITDA Ratio. As at September 30, 2009, those ratios were met by the Company.

Additionally, the Company is subject to a maximum annual capital expenditure limit, which it believes is sufficient to meet the capital requirements associated with the maintenance of current capital assets and the execution of growth plan. During the period not exceeding November 29, 2009, applicable interest rates for all advances shall be LIBOR 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.

The Company believes that cash flows related to operating activities should be sufficient to cover its capital expenditures and satisfy the principal repayments 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 OPERATING ACTIVITIES**

For the nine-month period ended September 30, 2009, cash flows from operating activities increased by \$6.4 million compared to the same period last year to reach \$1.2 million. This increase is due to a major reduction of the net loss of \$22.8 million compared to the same period last year. The reduction of the net loss was partially offset by non-cash charges in 2008 of \$9.6 million. The net change in non-cash working capital items decreased by an amount of \$5.4 million.

For the three-month period ended September 30, 2009, cash flows from operating activities decreased by \$2.4 million compared to the same period last year. This reduction is due to a decrease of the net change in the non-cash working capital items of \$3.2 million. The decrease in the net change in the non-cash working capital items was partially offset

by an increase in net earnings for the period for an amount of \$1.7 million.

### **CASH FLOW USED IN INVESTING ACTIVITIES**

For the nine-month period ended September 30, 2009, cash used in investing activities was \$4.7 million. During the period, the Company used an amount of \$3.5 million for the acquisition of property, plant and equipment, mainly related to the construction of a soil treatment facility in France. The Company also used \$1.5 million to make a cash payment as part of the additional consideration for the acquisition of Celtic. The Company received \$0.4 million as proceeds from disposal of property, plant and equipment.

For the three-month period ended September 30, 2009, cash used in investing activities was \$0.6 million. During the period, the Company used an amount of \$0.8 million for the acquisition of property, plant and equipment. The Company received \$0.2 million as proceeds from disposal of property, plant and equipment.

### **CASH FLOW PROVIDED BY FINANCING ACTIVITIES**

For the nine-month period ended September 30, 2009, cash provided by financing activities amounted to \$1.2 million. The Company used an amount of \$4.2 million to make payments on its long-term debt, capital lease obligations and other long-term obligations. On the other hand, the bank indebtedness increased by \$5.5 million.

For the three-month period ended September 30, 2009, cash provided by financing activities amounted to \$2.8 million. The Company used an amount of \$1.5 million to make payments on its long-term debt, capital lease obligations and other long-term obligations and the bank indebtedness increased by \$4.3 million.

## **CONTRACTUAL OBLIGATIONS AND CONTINGENCIES**

### **Contractual obligations**

The Company's contractual obligations have not materially changed from those described in the Company's 2008 audited consolidated financial statements.

### **Legal proceedings**

In the normal conduct of business, there are pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these litigation are not expected to materially affect the Company's consolidated financial position or results of operations

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 this MD&A to determine with reasonable degree of certainty the outcome of this legal proceeding, the Company's Management believes that the suit is without merit and intends to defend its position.

### **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 operating results. Also, because of the nature of the Company's 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 the unaudited interim consolidated financial statements for each of the eight most recently completed quarters.

\$ 000's except per share amounts	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2009	2008	2009	2008	2009	2008	2008	2007
Revenues	39,275	45,760	32,167	38,209	24,806	24,281	40,953	39,858
Net earnings (loss)	1,851	105	(1,825)	(22,549)	(3,625)	(3,936)	(2,349)	(992)
Basic net earnings (loss) per share	0.02	0.00	(0.02)	(0.26)	(0.05)	(0.05)	(0.03)	(0.01)
Diluted net earnings (loss) per share	0.02	0.00	(0.02)	(0.26)	(0.05)	(0.05)	(0.03)	(0.01)
Total assets	124,294	139,214	121,700	132,714	121,127	146,490	132,284	130,414
Total long-term financial liabilities	52,384	58,286	54,718	3,422	55,363	68,557	56,701	47,517
Weighted Average number of shares (in 000's)								
Basic	97,300	86,711	97,300	86,711	86,711	79,271	84,861	78,645
Diluted	97,300	86,711	97,325	86,711	86,877	100,694	95,183	79,116

Results have fluctuated over each of the quarters due to the seasonality of the business of the Company. Due to the fact that main business of the Company is soil remediation and organic waste management, it is quite common for the 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 period. 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 \$2,361 of interest on long-term debt (\$1,902 in 2008) and has accrued interest of \$1,569 as at September 30, 2009 (\$664 as at December 31, 2008) included in accounts payable and accrued liabilities.

## 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, asset retirement obligation 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 fourth 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 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 EG 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 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 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.

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

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 \$16.0 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 for the nine-month period ended September 30, 2009 are the same as those followed in the Company’s audited consolidated financial statements for the year ended December 31, 2008 and notes thereto.

## **Recently Adopted Accounting Pronouncements**

On January 1, 2009, the Company adopted Section 3064, “Goodwill and intangible assets”, which supersedes Section 3062, “Goodwill and other intangible assets” and Section 3450, “Research and development costs” issued by the Canadian Institute of Chartered Accountants (“CICA”).

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

The Company has applied this new accounting standard prospectively and it had no effect on its consolidated financial statements.

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

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

## **New Accounting Standards Not Yet Adopted**

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

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 acquired entity owned prior to obtaining control will be revaluated 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.

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

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

## **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 currently resolving the main issues identified.

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 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.

In 2009, we have initiated and/or taken different actions to remediate the material weaknesses in ICFR identified as of December 31, 2008. These actions are progressively implemented during year 2009 and will be assessed for their operating effectiveness in year 2010. Subsequently, the Company will reassess its overseas subsidiaries and joint venture in order to include its new acquisition. 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 the COSO control framework. Specifically:

- Although the Board of Directors follows the corporate governance guidelines established for public companies, it was identified that the Company lacked certain formal policies and governance charters. In the second quarter, written policies and charters for our Board of Directors, Governance and Compensation, Audit, Disclosure and Executive Committees have been approved by the Board of Directors and communicated throughout the organization. Furthermore, a management override policy and the other required policies has been also implemented.
- It was identified that the Company should complete some comprehensive procedures to communicate management's and employees' roles and responsibilities in the Company's ICFR and lacked formal training in this matter. While the company is completing the relevant procedures, a written policy informing our employees of the importance of respecting controls has been communicated through our organization. The new appointed Director of Process Improvement is preparing a testing program to assess the effectiveness of our controls.

#### **Information Technology (IT) General Controls**

Following the hiring of a new director of Information technology in the fourth quarter of 2008, the Company is completing its implementation of controls over information systems and data used in financial reporting. These areas include controls over change management, computer operations and security and to access systems and data. Regarding segregation deficiency, the Company reassigned duties within the IT Department. Formal documented policies and procedures will be completed by the end of the year. Auditors report on internal controls over the external service providers is no more required since we have reoriented the contribution of those providers in our information treatment. It was identified that we did not perform alternative procedures to test controls at the service organization or request the service organization's auditor to perform agreed upon procedures. An IT testing program will be included in the general ICFR testing program.

- We have developed a preliminary procedure to manage incidents, implement a backup policy and a disaster recovery plan.
- We have now to perform periodic review of back-up tapes to ensure their accuracy. and proper storage environment.
- We are finishing a security policy and establish monitoring mechanisms and procedures such as periodic review of the security logs to properly detect unauthorized system access.
- We have implemented 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 is in place. Administrative access is now restricted and will be monitored shortly. A password policy which considers confidentiality, complexity and periodic changes will be developed and implemented by the end of the year.

We will ensure controls at the service organization are at a satisfactory level. Meanwhile, a Helpdesk Access Line has been set up and gives us the opportunity to control the quality of services provided by the members of the IT department.

#### **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.

With the involvement of the new Director of Process Improvement, the Company will continue to develop and maintain a more comprehensive and disciplined financial reporting process, with emphasis on the review and approval of journal entries and consistent and thorough use of period-end checklists. Also, we have successfully completed the implementation of the unified Financial systems in our North American divisions. This will allow us to establish better controls of system access to journal entries.

In 2009, we have developed a Financial Period-end Planner Tool that describes all the steps and controls that must be performed during this process. This tool will be used to improve the performance of the period-end closing process as well as providing a check list of required controls at each step of the process.

#### **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 have prepared some specific procedures at our organic waste management division that will allow us to validate quantities of organic waste received from customers by implementing more thorough controls at our receiving premises. Specific monitoring will be performed shortly to ensure the effectiveness of this control.

In May 2009, we hired a new Director of Financial Performance who has the responsibility to monitor controls over the input of customer profiles, sales terms and data entry.

#### **Income Taxes**

In 2008, it was identified that 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.

In the first half of 2009, The Company hired a tax director and a new Corporate Controller. Since then, the Company is implementing effective controls over the recording of income taxes payable, future income tax assets and liabilities and the income tax provision. The review and reconciliation of tax calculations and income tax returns are in place and the related formal written policies and procedures will be completed by the end of the year. Specific improvement regarding the sales tax of the group of companies has been identified and this should be in place in the second half of the 2009 taxation year. The assessment of the performance of key controls associated with tax function will be also included in the general ICFR testing program.

#### **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. However, The new Director of Process Improvement, with the collaboration of the new Corporate Controller and the Financial Performance Director, have performed an in-depth review of all duties to ensure the proper segregation of duties where feasible, including independent monitoring of system access. The result of this review is actually conducting to proper modification in the system access and tasks reassignment.

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 consolidated financial statements.

Other than the remediation efforts discussed above, there have been no other changes in our ICFR that occurred since the beginning of fiscal year 2009 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, has discussed these issues and remediation efforts in detail with the Audit Committee.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures.

During 2008, the Company proceeded with the assistance of external experts to establish a stage 1 diagnosis for the adoption of IFRS. This diagnosis has identified the main differences between the accounting treatments applied by the Company under Canadian GAAP and the IFRS as well as the practical implications related to the measure. The differences were further classified according to their degree of complexity and by the amount of work to implement with respect to the measure.

The Company has completed the planning and high level diagnosis activities of its transition plan. The Company is currently in the analysis and accounting policy design phase and is assessing the impact of these policies on its consolidated financial statements, information systems, processes and controls. As the implementation process evolves, the Company expects to adapt its transition plan based on the new information available.

The key elements of the transition plan are as follows:

#### *Project Structure*

The Company has appointed a project manager to lead the conversion to IFRS. The project manager is working with other members of the finance team to execute the implementation plan. An implementation team is working closely with senior management in a number of different business areas to ensure that the impacts of the conversion throughout the business are managed in a timely and efficient manner. A steering committee has been established to oversee the project.

#### *Process and Timing*

The process of converting to IFRS has been divided into a number of different stages, many of which will run concurrently. A detailed analysis is substantively complete and a number of areas identified for further consideration before the date of transition. The Company continues to monitor standards development as issued by the International Accounting Standards Board (IASB) and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company's adoption of IFRS.

A draft opening balance sheet prepared under IFRS at the date of transition (January 1, 2010) is currently planned to be completed in the first half of 2010. Draft financial statements and disclosure information will be prepared for each quarter in 2010 (to be used for comparative purposes in 2011) and reporting under IFRS will commence for interim and annual periods in 2011.

#### *Progress to Date*

At September 30, 2009, the Company is close to completing a detailed diagnostic of the impact of IFRS on the Company's financial statements. A number of issues had been identified for discussion by senior management before final decisions are made with respect to accounting policy choices and elections. The Company has identified a number of key areas where it is likely to be impacted by changes in accounting policy. These include:

- Business combinations and goodwill
- Impairment of assets
- Consolidation and joint ventures
- Financial instruments
- Property, plant and equipment
- Translation of foreign currencies

As the Company has not yet selected its accounting policy choices and IFRS 1 exemptions, the Company is unable to quantify the impact of IFRS on its financial statements. The areas of significance identified above are based on available information and the Company's expectations as of the date of this disclosure and thus, are subject to change for new facts and circumstances. Additional disclosure on the progress of our IFRS conversion project will be provided in the year-end MD&A.

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

The Company's risks and uncertainties have not materially changed from those described in the Company's 2008 AIF.

## **OTHER**

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