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## Diversified Industries

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Source: BigCharts.com

Recent Price	\$0.67
52-Week Range	\$0.35-\$0.90
S/O basic (MM)	78.6
S/O fully diluted (MM)	142.3
Market Cap (fd, MM)	\$95
Book Value/Share	\$0.21
Avg. Dly Vol. (3 mo.)	95,037
Debt to Capital	40%
Ann Dividend & Yield	Nil
FY End	December 31

### Current Estimates

FY	06A	07E	08E
Rev (\$MM)	70.0	137.0	157.5
EPS (\$/sh)	0.00	0.04	0.07
P/E (x)	n/m	16.8x	9.6x

### Company Description

*EnGlobe Corporation, formerly Environmental Management Solutions, is an emerging leader in the environmental services sector. The company specializes in the management of organic-based waste streams and contaminated soils, with an emphasis on beneficial reuse.*

## ENGLOBE CORPORATION

(EG – TSX \$0.67)

Market Capitalization

Risk Profile

## STRONG BUY

12-mo. Target Price: \$1.05

\$95 Million

HIGH

### Q1/07 Results – Moving Ahead

#### Event – Q1FY07 Results

EnGlobe reported its Q1FY07 results on Friday. The company has made considerable progress in its operations and reported a positive EBITDA in a quarter when, due to the seasonal characteristics of the business, it traditionally operates at a loss. EBITDA was a positive \$1.2 million vs. a loss of \$0.4 million in Q1FY06. The improvement was also a function of Biogénie (site assessment and remediation) being included for the full quarter for the first time. On a full accounting basis, the company lost \$1.9 million in the quarter against \$1.4 million in Q1/06, the increase coming from higher depreciation and amortization of \$1.4 million from the Biogénie acquisition, restructuring and other costs higher by \$0.4 million, and interest charges up \$0.4 million.

#### Discussion and Analysis

EnGlobe is extremely well positioned to take advantage of the growing trend of diverting waste from landfills. With the general population already diverting much of its solid waste through the Blue Box program, the only opportunity to reduce substantially further landfill inputs will be through organic waste diversion. And it is here that EnGlobe is in the premier position in Ontario and Quebec to take advantage of the opportunity. The two keys to this market are the sites to process organic waste and the outlets to dispose of the finished product on the most favourable terms. With eight sites presently in Quebec, EnGlobe is uniquely positioned with the majority of the total capacity currently available. For the finished product, the company has numerous relationships with end users ranging from Canadian Tire for bagged horticultural compost to mine sites for tailings coverage. The company earns revenues for disposing of the waste and for selling the finished product.

Its recently acquired soil remediation division, Biogénie, is a world scale company that provides solutions for sites with degraded ground conditions that require rehabilitation. With a presence in Canada, the United Kingdom and France, Biogénie will be able to take advantage of the rapidly growing demand to turn brownfield sites into usable spaces. Its scientific and engineering team is well qualified to examine the problem, and to propose, quote and execute the solution.

Given the troubled history of the company, investors have been understandably slow to react to its improving prospects. As well, the results released on Friday are not comparable to anything previously released, making it difficult for investors to measure progress. However, we had the opportunity to spend some time with CEO Tony Busseri on Monday as he presented to a number of institutional clients. We came away from these meetings even more positive about the prospects for the company.

It should be noted that the Q1 results were for a period that is seasonally very slow. The end markets for compost products are virtually non-existent until the gardening season starts in April, and therefore the inventory of saleable product grows during this quarter. As well, very little soil is treated during the winter months, and Biogénie's business slows considerably. Management's opinion is that, all other things being equal, Q1 revenues will typically represent 16 or 17 percent of the total year's revenues, with the remaining three quarters being approximately equal.

*...continued*

On this basis, Q1 revenues would indicate that our estimate for revenues of \$137 million for the year will be a little light. Management would also like to affect more economies on the Cost of Goods and SG&A lines, which would have the effect of improving the EBITDA margin. We believe that, as revenues increase, our estimate of 12.8 percent EBITDA margin for fiscal 2007 will also be light.

### Conclusion and Recommendation

However, until we see the results from Q2/07 we will maintain our estimates of \$137 million of revenues, \$17.5 million of EBITDA, and fully diluted earnings per share of \$0.04 in 2007. We are also maintaining our 2008 forecast of EBITDA of \$22.5 million (16 cents per share) and earnings per share of \$0.07. **At a 15 times multiple we maintain our \$1.05 per share target price and recommend the stock as a STRONG BUY.**

### Financial Forecast

EnGlobe Corporation (EG - TSX)  
CAD\$000 - Canadian GAAP  
Year Ending December 31, 2006

Statement of Earnings	FY04A	FY05A	Q1-Q3 FY06A	Q4 FY06A	FY06A	Q1FY07A	FY07E	FY08E
<b>REVENUE</b>								
Site Assessment & Remediation - Biogenie <sup>1</sup>	-	-	-	\$6,700	\$6,700	\$17,203	\$76,000	\$87,500
Site Assessment & Remediation - GSI		\$13,785	\$8,033	\$3,925	\$11,958			
Organic Waste Management - GSI	\$43,112	\$36,095	\$34,151	\$13,352	\$47,503	\$8,968	\$57,000	\$65,500
Tank Testing & Calibration - Tanknology	\$2,852	\$2,807	\$2,575	\$1,185	\$3,760	\$624	\$4,000	\$4,500
Total Revenue	\$45,964	\$52,687	\$44,759	\$25,162	\$69,921	\$26,794	\$137,000	\$157,500
Cost of Goods Sold	31,990	37,681	32,549	18,183	50,732	18,848	102,000	116,500
<b>Gross Margin</b>	<b>13,974</b>	<b>15,006</b>	<b>12,210</b>	<b>6,979</b>	<b>19,189</b>	<b>7,946</b>	<b>35,000</b>	<b>41,000</b>
<b>OPERATING EXPENSES</b>								
Selling, general and administrative	10,376	11,245	8,756	3,856	12,612	6,722	17,500	18,500
<b>EBITDA</b>	<b>3,599</b>	<b>3,760</b>	<b>3,454</b>	<b>3,123</b>	<b>6,578</b>	<b>1,223</b>	<b>17,500</b>	<b>22,500</b>
Amortization of PP & E	2,557	2,203	2,033	1,216	2,606	1,556	4,500	5,200
Amortization of intangible assets	-	570	-	-	643	535	1,400	1,350
Stock-based compensation	3,959	696	419	129	548	138	1,250	1,400
Restructuring and other costs	595	5,303	277	200	476	500	550	300
Total Operating Expenses	7,111	8,772	2,729	1,545	4,274	2,729	7,700	8,250
<b>EBIT</b>	<b>(3,512)</b>	<b>(5,012)</b>	<b>725</b>	<b>1,579</b>	<b>2,303</b>	<b>(1,506)</b>	<b>9,800</b>	<b>14,250</b>
Interest - ST Debt	1,222	4,406	1,841	747	1,596	292	1,500	1,300
Interest - LT Debt	-	-	-	-	993	962	2,300	2,000
Total Interest	1,222	4,406	1,841	747	2,589	1,253	3,800	3,300
<b>EBT</b>	<b>(4,734)</b>	<b>(9,418)</b>	<b>(1,116)</b>	<b>832</b>	<b>(285)</b>	<b>(2,759)</b>	<b>6,000</b>	<b>10,950</b>
Gain (Loss) on FX						29		
Gain/(Loss) on Disposal of PP&E	38	330	4	-	4	(48)	-	-
Income Taxes	(1,805)	81	(91)	151	61	879	(900)	(1,643)
Non-controlling interest	113	(31)	104	-	104	-	-	-
<b>Net Income from Continuing Operations</b>	<b>(6,389)</b>	<b>(9,038)</b>	<b>(1,099)</b>	<b>983</b>	<b>(116)</b>	<b>(1,899)</b>	<b>5,100</b>	<b>9,308</b>
<b>Net Income from discontinued operations</b>	<b>(19,673)</b>	<b>(8,286)</b>	<b>926</b>	<b>(79)</b>	<b>847</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income</b>	<b>(26,062)</b>	<b>(17,324)</b>	<b>(173)</b>	<b>904</b>	<b>731</b>	<b>(1,899)</b>	<b>5,100</b>	<b>9,308</b>
<b>Continuing operations:</b>								
EPS - Basic	(0.18)	(0.24)	(0.03)	\$0.02	(0.00)	(0.02)	\$0.06	\$0.12
EPS - Diluted	(0.18)	(0.24)	(0.03)	\$0.02	(0.00)	(0.02)	\$0.04	\$0.07
<b>Discontinued operations:</b>								
EPS - Basic	(0.56)	(0.22)	\$0.02	-	\$0.02	-	-	-
EPS - Diluted	(0.56)	(0.22)	\$0.02	-	\$0.02	-	-	-
S/O - Basic	35,118	37,848	38,012		42,235	78,570	78,800	79,000
S/O - Diluted	35,118	37,848	38,012		42,450	78,570	142,250	142,250
<b>Gross Margin %</b>	<b>30.4%</b>	<b>28.5%</b>	<b>27.3%</b>	<b>27.7%</b>	<b>27.4%</b>	<b>29.7%</b>	<b>25.5%</b>	<b>26.0%</b>
<b>Operating Expenses (As % of Total Revenue)</b>								
Selling, general and administrative	22.6%	21.3%	19.6%	15.3%	18.0%	25.1%	12.8%	11.7%
Amortization of PP & E	5.6%	4.2%	4.5%	4.8%	3.7%	5.8%	3.3%	3.3%
Amortization of intangible assets	0.0%	1.1%	0.0%	0.0%	0.9%	2.0%	1.0%	0.9%
Stock-based compensation	8.6%	1.3%	0.9%	0.5%	0.8%	0.5%	0.9%	0.9%
Restructuring and other costs	1.3%	10.1%	0.6%	0.8%	0.7%	1.9%	0.4%	0.2%
Total Operating Expenses	15.5%	16.6%	6.1%	6.1%	6.1%	10.2%	5.6%	5.2%
Tax Rate %	37.8%	-0.8%	8.1%	18.1%	-21.0%	-32.4%	15.0%	15.0%
Net Income from continuing operations margin %	-13.9%	-17.2%	-2.5%	3.9%	-0.2%	-7.1%	3.7%	5.9%
Net Income margin %	-56.7%	-32.9%	-0.4%	3.6%	1.0%	-7.1%	3.7%	5.9%

<sup>1</sup> Biogenie was acquired by EMS on November 24, 2006. The company's Q4FY06 sales from Biogenie represent 6 weeks of sales following the acquisition.

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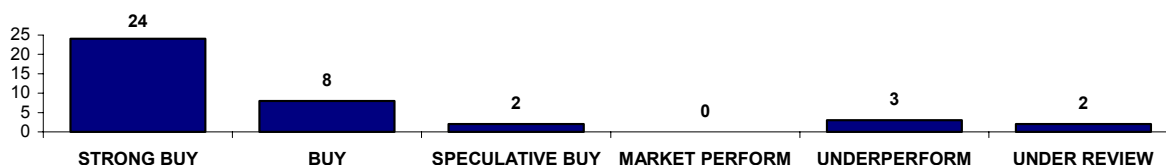
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