

# **Environmental Management Solutions Inc.**

Unaudited Consolidated Financial Statements  
**For the three and nine month periods ended September 30, 2006  
and 2005**

# Environmental Management Solutions Inc.

Unaudited Consolidated Balance Sheets

As at September 30, 2006 and December 31, 2005

	September 30, 2006	December 31, 2005
	\$	\$
<b>ASSETS</b>		
Current Assets		
Cash	-	861,619
Restricted investments	146,000	1,241,000
Accounts receivable	14,873,701	9,298,438
Inventory	4,452,887	5,202,001
Prepaid expenses and advances	1,032,370	682,317
Other assets	1,735,108	1,683,029
Current assets held for sale (Note 10)	354,207	742,002
	<u>22,594,273</u>	<u>19,710,407</u>
Property, plant, and equipment	15,166,419	13,791,669
Purchased intangibles	1,834,616	2,986,388
Deferred financing charges (Note 2)	2,486,335	250,000
Goodwill	5,163,878	5,163,878
Other non-current assets	136,661	362,827
Non-current assets held for sale (Note 10)	92,772	25,828
	<u>47,474,954</u>	<u>42,290,997</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Bank Indebtedness (Note 3)	50,510	-
Accounts payable and accrued liabilities	17,054,143	15,358,197
Income taxes payable	222,635	170,105
Deferred revenue	875,438	1,221,060
Current portion of capital lease obligations	262,579	276,921
Current portion of long-term debt (Note 4)	-	6,299,508
Current liabilities on assets held for sale (Note 10)	258,868	2,076,712
	<u>18,724,173</u>	<u>25,402,502</u>
Capital lease obligations	344,719	542,363
Long-term debt (Note 4)	15,284,478	6,297,127
Future income tax liability	764,549	832,840
Non-controlling interest in subsidiary company	-	1,871,395
Non-current liabilities on assets held for sale (Note 10)	-	37,983
Preferred Shares (Note 4)	850,708	-
	<u>35,968,627</u>	<u>34,984,210</u>
Shareholders' Equity		
Share capital (Note 5)	43,542,252	43,542,252
Contributed surplus (Note 4)	12,751,259	8,378,373
Accumulated deficit	(44,787,184)	(44,613,839)
	<u>11,506,327</u>	<u>7,306,787</u>
	<u>47,474,954</u>	<u>42,290,997</u>

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

# Environmental Management Solutions Inc.

Unaudited Consolidated Statement of Operations & Deficit

For the three and nine months ended September 30, 2006 and 2005

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue	17,844,471	13,575,675	44,759,206	38,874,174
Direct costs	12,706,885	9,407,229	32,548,996	28,021,463
	5,137,586	4,168,446	12,210,210	10,852,711
Expenses				
Indirect salaries	1,580,748	1,580,533	5,100,774	4,668,118
Selling and marketing	80,220	80,389	284,197	367,361
General and administrative	1,180,081	1,079,246	3,371,267	3,171,038
Stock -based compensation	147,400	146,328	419,343	549,824
Restructuring and other costs (Note 9)	181,297	281,270	276,612	3,293,089
Operating income (loss)	1,967,840	1,000,680	2,758,017	(1,196,719)
Loss (gain) on sale of property, plant and equipment	(3,164)	2,173	(3,760)	(308,988)
Interest and bank charges	449,353	1,149,211	1,841,086	3,017,428
Depreciation and amortization	676,497	705,619	2,033,417	2,173,441
	845,154	(856,323)	(1,112,726)	(6,078,600)
Income tax expense (recovery)	303,451	(108,313)	90,657	(169,842)
Income (loss) before discontinued operations and non-controlling interest in subsidiary company	541,703	(748,010)	(1,203,383)	(5,908,758)
Non-controlling interest in subsidiary company (Note 8)	-	(10,746)	104,123	(27,349)
Net income (loss) from discontinued operations (Note 10)	307,703	1,870,690	925,915	(6,649,832)
Net income (loss)	849,406	1,111,934	(173,345)	(12,585,939)
Deficit - Beginning of period	(45,636,590)	(40,987,436)	(44,613,839)	(27,289,563)
Deficit - End of period	(44,787,184)	(39,875,502)	(44,787,184)	(39,875,502)
Basic income (loss) per share (Note 7)				
From continuing operations	0.01	(0.02)	(0.03)	(0.16)
From discontinued operations	0.01	0.05	0.02	(0.18)
	0.02	0.03	(0.00)	(0.33)
Diluted income (loss) per share				
From continuing operations	0.01	(0.02)	(0.03)	(0.16)
From discontinued operations	0.00	0.05	0.02	(0.18)
	0.01	0.03	(0.00)	(0.33)
Weighted average shares				
Basic	38,012,247	37,654,725	38,012,247	37,666,236
Diluted	101,860,041	37,654,725	38,012,247	37,666,236

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

# Environmental Management Solutions Inc.

Unaudited Consolidated Statement of Cashflows

For the three and nine month periods ended September 30, 2006 and 2005

	Three Months Ended September 30		Nine Months Ended September 30	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss before discontinued operations	541,703	(758,756)	(1,099,260)	(5,936,107)
Non-cash items:				
Non-controlling interest in subsidiary company	-	10,746	(104,123)	27,349
Non-cash interest charges	178,311	632,773	354,349	1,504,018
Depreciation and amortization	676,497	705,619	2,033,417	2,173,441
Loss (gain) on sale of property, plant and equipment	(3,164)	2,173	(3,760)	(308,988)
Stock-based compensation	147,400	146,328	419,343	549,824
Shares issued pursuant to debt repayment	-	64,000	-	64,000
Provision for future income tax	154,413	-	(68,291)	185,971
Change in non-cash working capital	(962,523)	(343,705)	(3,835,103)	(2,460,532)
	<u>732,637</u>	<u>459,178</u>	<u>(2,303,428)</u>	<u>(4,201,024)</u>
Cash provided by (used in) operating activities of discontinued operations	<u>(33,629)</u>	<u>1,977,191</u>	<u>(504,133)</u>	<u>(3,489,846)</u>
	<u>699,008</u>	<u>2,436,370</u>	<u>(2,807,561)</u>	<u>(7,690,870)</u>
<b>Financing activities</b>				
Changes in capital lease obligations	(65,942)	(98,968)	(211,986)	(196,375)
Repayment of long-term debt	-	(3,133,763)	(12,596,635)	(4,399,581)
Increase in deferred financing charges	(30,495)	-	(2,492,282)	(391,689)
Change in amounts due to non-controlling interest in subsidiary	-	(502,154)	(52,189)	170,225
Proceeds from issuance of preferred shares and other equity	-	-	4,661,663	-
Proceeds from term borrowings	-	-	15,338,337	1,500,000
	<u>(96,437)</u>	<u>(3,734,885)</u>	<u>4,646,908</u>	<u>(3,317,419)</u>
Cash used in financing activities of discontinued operations	<u>-</u>	<u>(2,769,137)</u>	<u>(37,983)</u>	<u>(3,790,940)</u>
	<u>(96,437)</u>	<u>(6,504,022)</u>	<u>4,608,925</u>	<u>(7,108,359)</u>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(2,646,196)	(28,349)	(3,667,715)	(298,914)
Change in other long-term assets	4,016	-	226,166	106,603
Change in purchased intangibles	-	-	-	(43,601)
Change in restricted investments	-	254,990	1,095,000	254,990
Acquisition of non-controlling interest	-	-	(300,000)	-
	<u>(2,642,180)</u>	<u>226,641</u>	<u>(2,646,549)</u>	<u>19,078</u>
Cash provided by (used in) investing activities of discontinued operations	<u>(48,890)</u>	<u>4,960,375</u>	<u>(66,944)</u>	<u>12,863,391</u>
	<u>(2,691,070)</u>	<u>5,187,016</u>	<u>(2,713,493)</u>	<u>12,882,469</u>
<b>Net increase (decrease) in cash for the period</b>	<u>(2,088,499)</u>	<u>1,119,364</u>	<u>(912,129)</u>	<u>(1,916,760)</u>
<b>Cash (Bank indebtedness) – Beginning of period</b>	<u>2,037,989</u>	<u>(1,820,818)</u>	<u>861,619</u>	<u>1,215,307</u>
<b>Cash (Bank indebtedness) – End of period</b>	<u>(50,510)</u>	<u>(701,453)</u>	<u>(50,510)</u>	<u>(701,453)</u>

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

# Environmental Management Solutions Inc.

Unaudited Notes to the Consolidated Financial Statements

For the three and nine months periods ended September 30, 2006 and 2005

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## 1. Summary of Significant Accounting Policies

### Nature of Operations

Environmental Management Solutions Inc. (the "Company") is an environmental services company specializing in the management, treatment, re-use and disposal of organic wastes and contaminated soils, with an emphasis on beneficial re-use. Facilities and knowledge based, the Company provides solutions to industries across Canada and in strategic markets in the northern United States. Services include: Facilities; soil treatment, composting, industrial waste landfills and transfer stations; Waste Management; Environmental Contracting; Eco-Products Sales; and, Tank Testing and Calibration. The Company operates through two principal business segments: Integrated Environmental Services and Tank Testing and Calibration.

The unaudited interim consolidated financial statements have been prepared in accordance with the accounting principles generally acceptable in Canada on a basis consistent with those followed in the most recently audited consolidated financial statements except as follows:

Under Accounting Guideline 15 ("AcG-15"), "Consolidation of Variable Interest Entities", companies are required to identify variable interest entities in which they have an interest to determine whether they are the primary beneficiary of such entities and, if so, to consolidate them. A variable interest entity is defined as an entity in which the equity is not sufficient to permit that entity to finance its activities without external support, or the equity investors lack either voting control and the obligation to absorb future losses or the right to receive future returns.

In management's opinion all adjustments necessary for the fair presentation have been reflected in the unaudited interim consolidated financial statements. All adjustments made are normal and recurring in nature. These unaudited interim consolidated financial statements do not include all the information and disclosures required by generally accepted accounting principles for annual consolidated financial statements and therefore should be read in conjunction with the December 31, 2005 audited consolidated financial statements and the notes thereto.

## 2. Deferred Financing Charges

On December 19, 2005, the Company paid a \$250,000 fee in connection with the convertible debenture financing that closed March 31, 2006. The Company capitalized additional financing fees of \$2,386,334 for a total of \$2,636,334 in costs associated with the debt component of the convertible units issuance. The deferred financing charge will be amortized over the 8 year term of the convertible debenture.

## 3. Bank Indebtedness

During the quarter ended June 30, 2006, the Company arranged a \$3,000,000 operating line facility bearing interest at a rate of prime plus a quarter percent collateralized by a first charge over the trade accounts receivable of the Company. As at September 30, 2006, this line of credit was used for operating needs and to support letters of credit granted as security for bonding, certificates of approval and operating or property security.

# Environmental Management Solutions Inc.

Unaudited Notes to the Consolidated Financial Statements

For the three and nine months periods ended September 30, 2006 and 2005

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## 4. Long-Term Debt

On March 31, 2006, the Company issued convertible units with each unit consisting of a \$950 convertible debenture and 500 convertible preferred shares at \$0.10. The total value of the convertible units issued was \$20,592,500 with net proceeds to the Company of \$20,000,000 cash after financing fees paid to the holders.

Each debenture has a term of 8 years, annual rate of 5%, paid quarterly, and is convertible at \$0.323 per common share at the discretion of the holders or the Company if certain minimum earnings level are achieved.

A total of 10,296,250 convertible preferred shares were issued concurrently with the debentures. The convertible preferred shares are voting and pay a cumulative 5% dividend and are convertible and redeemable at \$0.323 per common share. The preferred shares have been issued contemporaneously with the debenture and may only be assigned or transferred on the basis of 500 preferred shares with each debenture. The preferred shares can be redeemed at the option of the holder after the debentures become due and payable or at the option of the holders and Company if the debentures have been repaid.

Certain events, such as litigation or damages arising after March 31, 2006 that have a financial impact on the Company, will result in an adjustment to the price the debentures or preferred shares are converted. The adjustment will reduce the price by \$0.0263 for every \$1 million in excess of \$250,000.

Because the units have elements of both debt and equity, they necessitate the recording of separate equity and debt components. Management used the residual method to fair value the components. Using 9%, which is management's estimate of the effective interest rate on March 31, 2006, the debt component, representing the redemption feature of the units, was valued at \$15,930,837 and the equity component, representing the conversion feature of the units, was valued at \$4,661,663. The equity component has been allocated to contributed surplus.

The proceeds of the issuance were used to pay all outstanding third party debt of the Company as at March 31, 2006, except capital leases, to settle outstanding litigation with the former President and CEO, to acquire the remaining 29.1% interest in Les Composts du Québec, and pay associated financing fees of \$3,085,333. An amount of \$2,268,082 for the costs of issuance has been allocated to the debt component and recorded as a deferred financing charge and \$698,447 has been allocated to contributed surplus.

## 5. Capital Stock

### Stock Option Plan

No options were granted in the three month period ended September 30, 2006. During the nine month period ended September 30, 2006, there were 1,283,333 options granted under the Employee Stock Option Plan with a fair value of \$548,535 (2005 – 12,500 and 2,077,500 options with a value of \$3,488 and \$788,862 respectively). For the three and nine month periods ended September 30, 2006 – 191,431 and 1,126,200 options were forfeited respectively.

The following table presents the number and weighted exercise price of options outstanding as at September 30, 2006:

# Environmental Management Solutions Inc.

Unaudited Notes to the Consolidated Financial Statements

For the three and nine months periods ended September 30, 2006 and 2005

Exercise Price \$	Number outstanding	Number exercisable	Weighted average remaining life in years
0.40 - 1.00	2,668,833	460,650	3.90
1.01 - 1.75	192,000	184,000	1.52
1.76 - 3.00	205,000	123,000	2.55
3.01 - 3.65	210,186	126,112	2.44
	3,276,019	893,762	3.58

## Tandem Option and Stock Appreciation Rights

During the three months ended March 31, 2006, the Company adopted an Option and Stock Appreciation Rights (OSAR) plan which is intended to align the interests of key employees and directors with that of the Company. The Corporate Governance and Compensation Committee of the Board of Directors administer the OSAR Plan. The OSARs have a term of 10 years and vest on a straight-line basis over five years or fully in the event of a change in control. Upon exercise the employee may, at their option require the Company to issue common shares, or require the Company to pay the incremental market value of the common shares compared with the exercise price. The Company will expense the compensation based on the amount by which the market value of the Company's common shares exceed the exercise price of the OSAR on a graded vesting basis.

On March 31, 2006, the Company issued 14,500,000 OSARs with various exercise prices.

The following table presents the number and weighted exercise price of OSAR outstanding as at September 30, 2006.

Exercise Price \$	Number outstanding	Number exercisable	Weighted average remaining life in years
0.635	1,600,000	-	9.50
0.750	2,200,000	-	9.50
1.000	2,700,000	-	9.50
1.250	3,200,000	-	9.50
1.500	2,700,000	-	9.50
1.750	2,100,000	-	9.50
	14,500,000	-	9.50

## Warrants

The following table presents the number and weighted exercise price of warrants outstanding as at September 30, 2006.

Exercise Price \$	Number outstanding	Number exercisable	Weighted average remaining life in years
0.43	500,000	500,000	3.21
0.71	633,800	633,800	3.46
0.90	833,334	833,334	3.21
1.65	250,000	250,000	0.18
1.90	140,000	140,000	3.53
2.00	5,712,896	5,712,896	0.18
	8,070,030	8,070,030	0.99

# Environmental Management Solutions Inc.

Unaudited Notes to the Consolidated Financial Statements

For the three and nine months periods ended September 30, 2006 and 2005

## 6. Change in non-cash working capital

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Accounts receivable trade	(2,217,298)	581,233	(5,583,936)	(3,185,733)
Inventory	(1,137,382)	(417,061)	749,114	1,585,037
Prepaid	(166,089)	106,040	(350,053)	(52,494)
Income tax receivable	-	-	-	106,581
Other current assets	52,171	(730,977)	(53,081)	50,525
Accounts payable and accruals	2,646,906	1,097,667	1,695,947	494,580
Deferred revenue	(189,717)	(832,583)	(345,622)	(1,022,103)
Income taxes payable	48,887	(148,023)	52,530	(436,924)
<b>Change in non-cash working capital</b>	<b>(962,523)</b>	<b>(343,705)</b>	<b>(3,835,103)</b>	<b>(2,460,532)</b>

## 7. Earnings Per Share

The calculation of basic earnings per share is based on the daily weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method.

For the quarter ended September 30, 2006 and 2005, the exercise of outstanding stock options, convertible debentures and warrants would be anti-dilutive. For the nine months ended September 30, 2006 and 2005 the exercise of the outstanding stock options, convertible debentures and warrants would be anti-dilutive.

## 8. Acquisitions

### a) Acquisition of non-controlling interest

On March 31, 2006, the Company acquired the remaining 29.1% of interest in Les Composts du Québec for cash of \$200,000 and transaction costs estimated at \$100,000. The purchase price was applied to non-controlling interest in subsidiary, a reduction in the portion of purchased intangibles attributable to Les Composts du Quebec and a reduction in fixed assets as follows:

	\$
Non-controlling interest in subsidiary	1,715,082
Less: Purchased intangibles	835,023
Property plant and equipment	<u>580,059</u>
Total	<u>300,000</u>

### b) Land and building

During the quarter, land and buildings adjacent to one of its composting facilities was acquired for \$500,000. The land and building was acquired in a company wholly owned by an employee of EMS. Agreements exist between EMS and the employee which provide EMS with the right and ability to control the expected losses or expected residual returns through a contractual interest in the property. Accordingly, EMS has consolidated the company owned by the employee under the accounting requirements of AcG-15. This was acquired for the purposes of additional office space and land for composting support functions such as a weigh scale and maintenance.

# Environmental Management Solutions Inc.

Unaudited Notes to the Consolidated Financial Statements

For the three and nine months periods ended September 30, 2006 and 2005

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## 9. Restructuring

In September 2004, the Board of Directors decided to reorganize the Company's management as well to close down an Alberta transfer station and a facility in Manitoba. In the fourth quarter of 2004, management continued the restructuring with further downsizing of staff and the relocation of the Company's corporate office to Burlington, Ontario.

As a result, during the three and nine months ended September 30, 2006, the Company recorded restructuring charges in the amount of \$181,297 and \$276,612 respectively related to severance costs, settling outstanding lawsuits and settling other legal matters associated with the restructuring. During the three and nine months ended September 30, 2005, restructuring charges of \$281,270 and \$3,293,089 respectively comprised of severance expenses, reorganization of the office of the CEO, premises closure costs and special meeting of shareholders.

## 10. Discontinued Operations

Summarized below is selected financial information for the discontinued operations for the quarters:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues from discontinued operations	68,453	5,635,746	311,805	19,878,487
Net income (loss) from discontinued operations (net of income taxes of \$nil)	307,703	1,870,690	925,915	(6,649,832)
Assets and liabilities of discontinued operations:				
Current assets held for sale	354,207	3,687,788	354,207	3,687,788
Non-current assets held for sale	92,772	882,760	92,772	882,760
	446,979	4,570,548	446,979	4,570,548
Current liabilities on assets held for sale	258,868	4,161,308	258,868	4,161,308
Non-current liabilities	-	49,312	-	49,312
Net assets from discontinued operations	188,111	359,928	188,111	359,928
Net cash used in operating activities	(33,629)	1,977,191	(504,133)	(3,489,846)
Net cash used in financing activities	-	(2,769,137)	(37,983)	(3,790,940)
Net cash provided by (used in) investing activities	(48,890)	4,960,375	(66,944)	12,863,391
Net cash provided by (used in) discontinued operations	(82,519)	4,168,429	(609,060)	5,582,605

# Environmental Management Solutions Inc.

Unaudited Notes to the Consolidated Financial Statements

For the three and nine months periods ended September 30, 2006 and 2005

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## 11. Litigation

On March 31, 2006, concurrent with the closing of the re-financing of the Company, litigation with the former CEO, an associated company and other associated parties was settled with the payment of \$1,700,000.

During the quarter ended June 30, 2006, a former shareholder of GSI Environmental Inc., a wholly owned subsidiary of the Company, commenced an action against the Company, its former President and CEO and the Company's current and former directors. The Plaintiff claims: \$5,000,000 from the Company for alleged breach of contract and misrepresentation; \$5,000,000 from the former President and CEO for alleged misrepresentation; and declaratory and compensatory relief for alleged oppressive conduct, together with special damages in amount of \$250,000, from all of the Defendants. The Company has notified its Director and Officer Insurance underwriter and has been advised that this is an insurable claim. The action will not proceed to trial, if at all, for many months. Accordingly, at this point in time, the amount of losses, if any, resulting from the claims made in the action is undeterminable.

## 12. Segment Information

The Company's operations consist of two operating segments: Integrated Environmental Services providing environmental services, to customers primarily in Québec and Ontario; and the Testing & Calibration segment performs precision testing and evaluation of storage tank systems. Segmented results for the three months and nine ended September 30, 2006 and 2005 are as follows:

Three months ended September 30, 2006	Integrated	Testing and	Total
	Environmental Services	Calibration	
	\$	\$	\$
Revenue	16,699,915	1,144,556	17,844,471
Depreciation and amortization	641,201	35,296	676,497
Income tax expense	207,036	96,415	303,451
Contribution before the under-noted	1,786,539	174,328	1,960,867
Stock-based compensation			147,400
Interest and bank charges			449,353
Corporate expenses			641,114
Non-controlling interest in subsidiary company			-
Income from discontinued operations			(307,703)
Restructuring & other costs			181,297
Net Income			<u>849,406</u>
Identifiable assets excluding the under noted	41,127,258	736,837	41,864,095
Goodwill	4,375,602	788,278	5,163,880
Discontinued Operations	-	-	446,979
	<u>45,502,860</u>	<u>1,525,115</u>	<u>47,474,954</u>

# Environmental Management Solutions Inc.

Unaudited Notes to the Consolidated Financial Statements

For the three and nine months periods ended September 30, 2006 and 2005

Nine months ended September 30, 2006	Integrated	Testing and	Total
	Environmental	Calibration	
	Services		
	\$	\$	\$
Revenue	42,183,807	2,575,399	44,759,206
Depreciation and amortization	1,949,337	84,080	2,033,417
Income tax expense (recovery)	(30,030)	120,687	90,657
Contribution before the under-noted	3,287,156	218,679	3,505,835
Stock-based compensation			419,343
Interest and bank charges			1,841,086
Corporate expenses			1,963,844
Non-controlling interest in subsidiary company			104,123
Income from discontinued operations			(925,915)
Restructuring & other costs			276,612
Net Loss			(173,258)
Identifiable assets excluding the under noted	41,127,258	736,837	41,864,095
Goodwill	4,375,602	788,278	5,163,880
Discontinued Operations	-	-	446,979
	<u>45,502,860</u>	<u>1,525,115</u>	<u>47,474,954</u>

Three months ended September 30, 2005	Integrated	Testing and	Total
	Environmental	Calibration	
	Services		
	\$	\$	\$
Revenue	12,795,590	780,085	13,575,675
Depreciation and amortization	693,144	12,475	705,619
Income tax expense	(157,010)	48,697	(108,313)
Contribution before the under-noted	1,262,564	89,222	1,351,786
Stock-based compensation			146,328
Interest and bank charges			1,149,211
Corporate expenses			522,987
Non-controlling interest in subsidiary company			10,746
Income from discontinued operations			(1,870,690)
Restructuring & other costs			281,270
Net Income			1,111,934
Identifiable assets excluding the under noted	35,961,008	1,352,318	37,313,326
Goodwill	4,375,601	788,277	5,163,878
Discontinued Operations	-	-	4,570,548
	<u>40,336,609</u>	<u>2,140,595</u>	<u>47,047,752</u>

# Environmental Management Solutions Inc.

Unaudited Notes to the Consolidated Financial Statements

For the three and nine months periods ended September 30, 2006 and 2005

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Nine months ended September 30, 2005	Integrated	Testing and	Total
	Environmental Services	Calibration	
	\$	\$	\$
Revenue	36,840,049	2,034,125	38,874,174
Depreciation and amortization	2,127,057	46,384	2,173,441
Income tax expense	(240,611)	70,769	(169,842)
Contribution before the under-noted	2,608,340	120,242	2,728,582
Stock-based compensation			549,824
Interest and bank charges			3,017,428
Corporate expenses			1,776,998
Non-controlling interest in subsidiary company			27,349
Loss from discontinued operations			6,649,832
Restructuring & other costs			3,293,089
Net Loss			<u>(12,585,939)</u>
Identifiable assets excluding the under noted	35,961,008	1,352,318	37,313,326
Goodwill	4,375,601	788,277	5,163,878
Discontinued Operations	-	-	4,570,548
	<u>40,336,609</u>	<u>2,140,595</u>	<u>47,047,752</u>

## 12. Seasonality of Operations

Historically demand for services of the Company is lower in the first quarter of the year.