

EnGlobe Corp.

(formerly Environmental Management Solutions Inc.)

Consolidated Financial Statements

(Unaudited)

March 31, 2007

EnGlobe Corp.
Consolidated Balance Sheets
(Unaudited)

	March 31, 2007	December 31, 2006
	\$	\$
Assets		
Current assets		
Cash	-	5,603,877
Accounts receivable	28,582,803	32,918,508
Work in progress and other inventory	13,387,114	16,972,406
Prepaid expenses and advances	2,679,710	1,708,964
Other assets	171,044	170,262
Future income taxes	394,385	394,200
Current assets held for sale	108,251	309,223
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	45,323,307	58,077,440
Property, plant and equipment	32,987,772	32,816,673
Intangible assets	27,804,093	28,432,496
Deferred financing charges (note 3)	-	3,560,864
Goodwill	14,386,757	14,386,757
Other non-current assets	134,860	140,735
Non-current assets held for sale	2,377	2,376
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	120,639,166	137,417,341
Liabilities		
Current liabilities		
Bank indebtedness	4,400,727	-
Accounts payable and accrued liabilities	22,142,460	30,249,424
Income taxes payable	183,540	3,082,947
Deferred revenue	8,440,319	10,727,543
Current portion of capital lease obligations	344,170	352,030
Current portion of long-term debt	4,200,000	4,204,196
Current portion of other long-term obligation	630,763	619,718
Current liabilities of assets held for sale	16,113	10,673
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	40,358,092	49,246,531
Capital lease obligations	167,314	190,333
Long-term debt	48,756,032	53,167,368
Other long-term obligation	793,719	775,860
Future income taxes	802,096	2,542,339
Preferred shares	907,336	878,707
	<hr/>	<hr/>
	91,784,589	106,801,138
Shareholders' Equity		
Share capital	61,619,577	61,619,577
Contributed surplus	13,017,611	12,879,912
Deficit	(45,782,611)	(43,883,286)
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	28,854,577	30,616,203
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	120,639,166	137,417,341
Commitments and contingencies (note 6)		

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

Approved by the Board of Directors

(signed) "Michael Harris", Chairman

(signed) "Allen Clarke", Director

EnGlobe Corp.

Consolidated Statements of Operations, Deficit and Comprehensive Loss (Unaudited)

For the three-month periods ended March 31, 2007 and 2006

	2007 \$	2006 \$
Revenue	26,794,261	9,511,991
Direct costs	18,848,370	7,069,222
Gross profit	7,945,891	2,442,769
Expenses		
Selling, general and administrative	6,722,495	2,858,197
Amortization of property, plant and equipment	1,556,207	641,237
Amortization of intangible assets	534,999	87,180
Stock-based compensation	137,699	143,857
Restructuring and other costs (note 5)	500,435	67,248
Operating income (loss)	(1,505,944)	(1,354,950)
Loss (gain) on foreign exchange	(29,386)	-
Interest on long-term debt	961,721	188,309
Other interest and bank charges	291,714	636,524
Loss on disposal of property, plant and equipment	48,482	3,274
	(2,778,475)	(2,183,057)
Income tax recovery	(879,150)	(453,642)
Loss before discontinued operations and non-controlling interest in subsidiary company	(1,899,325)	(1,729,415)
Non-controlling interest in subsidiary company	-	104,123
Net loss before discontinued operations	(1,899,325)	(1,625,292)
Net earnings from discontinued operations	-	179,380
Net and comprehensive loss for the period	(1,899,325)	(1,445,912)
Deficit – Beginning of period	(43,883,286)	(44,613,839)
Deficit – End of period	(45,782,611)	(46,059,751)
Basic and diluted earnings (loss) per share (note 4)		
From continuing operations	(0.02)	(0.04)
From discontinued operations	0.00	0.00
	(0.02)	(0.04)

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

EnGlobe Corp.

Consolidated Statements of Cash Flows

(Unaudited)

For the three-month periods ended March 31, 2007 and 2006

	2007 \$	2006 \$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,899,325)	(1,445,912)
Net loss from discontinued operations	-	(179,380)
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Net loss from continuing operations	(1,899,325)	(1,625,292)
Items not affecting cash		
Depreciation and amortization	2,091,206	728,417
Non-cash interest charges	267,323	-
Stock-based compensation	137,699	143,857
Unrealized gain (loss) on foreign exchange	(28,737)	-
Loss on disposal of property, plant and equipment	48,482	3,274
Future income tax recovery	(1,740,428)	(782,181)
Non-controlling interest in subsidiary company	-	(104,123)
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Change in non-cash working capital (note 8)	(1,123,780)	(1,636,048)
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Cash used in operating activities of continuing operations	(2,343,756)	(1,301,286)
Cash provided by (used in) operating activities of discontinued operations	206,412	(12,193)
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	(2,137,344)	(1,313,479)
Investing activities		
Purchase of property, plant and equipment	(1,822,073)	(317,041)
Proceeds on disposal of property, plant and equipment	139,689	-
Deferred consideration on acquisition of company	(5,106,273)	-
Change in restricted investments	-	(5,943)
Acquisition of non-controlling interest in subsidiary	-	(300,000)
	<hr/>	<hr/>
Cash used in investing activities of continuing operations	(6,788,657)	(622,984)
Financing activities		
Increase in deferred financing charges	(10,262)	(2,242,833)
Change in other long-term assets	5,875	37,550
Repayment of capital lease obligations	(35,075)	(81,081)
Proceeds from long-term debt	-	15,338,337
Repayment of long-term debt	(1,050,000)	(12,596,635)
Change in amounts due to non-controlling interest in subsidiary	-	(52,189)
Proceeds from issuance of preferred shares and other equity	-	4,661,663
	<hr/>	<hr/>
Cash (used in) provided by financing activities of continuing operations	(1,089,462)	5,064,812
Cash used in financing activities of discontinued operations	-	(37,983)
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	(1,089,462)	5,064,812
Foreign exchange gain (loss) on cash held in foreign currency	<hr/>	<hr/>
	10,859	-
Change in cash for the period	<hr/>	<hr/>
	(10,004,604)	3,128,349
Cash – Beginning of period	<hr/>	<hr/>
	5,603,877	861,619
Cash (bank indebtedness) – End of period	<hr/>	<hr/>
	(4,400,727)	3,989,968
Supplemental disclosure of cash flow information		
Interest paid	1,018,597	682,028
Income taxes paid	250,000	-

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

EnGlobe Corp.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2007 and 2006

1 Nature of operations

EnGlobe Corp. (“EG” or the “Company”) was incorporated on August 31, 2000 under the Business Corporations Act (Alberta) and registered under the Canada Business Corporations Act on September 27, 2004. Prior to June 13, 2002, EG was a Capital Pool Company on the TSX Venture Exchange.

EG is an environmental services company specializing in the management of organic-based waste streams and contaminated soils, with an emphasis on beneficial re-use. EG provides solutions to municipal, commercial and industrial clients in Canada, the northern United States, England and France through its subsidiaries, Biogénie S.R.D.C. Inc. (“Biogénie”), GSI Environment Inc. (“GSI”) and Tanknology Canada Inc. (“Tanknology”). The Company operates in three principal business segments: Site Assessment and Remediation (“SAR”), Organic Waste Management and Tank Testing and Calibration. SAR, provided by Biogénie, encompasses environmental contracting, off-site treatment and recycling of contaminated soil and remediation of contaminated or degraded sites in North America, the United Kingdom and France. Organic Waste Management, provided by GSI, encompasses environmental services including the land application, composting or disposal of organic wastes and eco-product sales in Quebec and Ontario. Tank Testing and Calibration, provided by Tanknology, encompasses storage tank precision leak testing and statistical inventory reconciliation, compliance testing, and facility compliance and tank system audits across Canada.

2 Basis of presentation

The interim consolidated financial statements include the accounts of EG and its subsidiaries, including companies controlled by EG. All material inter-company transactions and balances have been eliminated.

The interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. Accordingly, these financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the Company’s audited consolidated financial statements, and notes thereto, for the year ended December 31, 2006. In the opinion of management, all adjustments considered necessary for fair presentation have been included, and all such adjustments are of a normal, recurring nature. Operating results for the three-month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2007.

EnGlobe Corp.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2007 and 2006

3 Summary of significant accounting policies

Except as follows, the accounting policies followed by the Company are the same as those followed in the Company's consolidated financial statements and notes thereto, for the year ended December 31, 2006.

Recently adopted accounting pronouncements

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530 "Comprehensive Income", 3251 "Equity" and 3855 "Financial instruments".

CICA Section 1530 established standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. There was no impact on the consolidated financial statements as a result of the adoption of this section.

CICA Section 3251 established standards for the presentation of equity and changes in equity during the period. There was no impact on the consolidated financial statements as a result of the adoption of this section.

CICA Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost based measures under different circumstances. The transaction costs are netted against the related financial liability.

Upon transition to CICA Section 3855, Financial Instruments – Recognition and measurement on January 1, 2007, the Company reclassified \$3,560,864 of deferred financing costs against the related debt.

Interest rate swap

The Company entered into an interest rate swap in March 2007 to fix the interest rate on a portion of the Company's variable rate debt. The Company has elected not to use hedge accounting and as a result the interest rate swap is measured at fair value. The resulting gains or losses are recorded in the statement of operations and the fair value of the interest rate swap is recorded on the balance sheet. As a result, the Company has recognized in the statement of operations, \$32,551 of unrealized losses on these contracts. At March 31, 2007, there was one interest rate swap outstanding for a notional amount of \$21 million with a fixed interest rate of 4.315%.

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 revenue and expenses during the reporting periods. Actual results could differ from such estimates.

EnGlobe Corp.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2007 and 2006

4 Earnings (loss) per share

The calculation of earnings per share is based on the daily weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share assumes that all outstanding options and warrants have been exercised at the later of the beginning of the fiscal period or the option issuance date, if they have a dilutive effect.

5 Restructuring and other costs

During 2007, the Company incurred an additional \$500,435 in restructuring charges, including \$339,147 in severance costs, \$50,624 in legal and professional fees and \$110,665 in other costs.

6 Commitments and contingencies

(a) The Company has renewable letters of credit outstanding in the aggregate of \$3,941,389, which are used, in part, as security for bonding, in place of bonding or in place of cash security.

(b) Litigation

- i) A statement of claim has been filed against Wasteco Environmental Services Ltd, a subsidiary of EG, currently discontinued and other parties alleging damages of \$23.8 million. WasteCo and the other co-defendants deny any liability. Other defendants' insurance proceeds have paid for a significant amount of the damages claimed, however, there continues to be ongoing investigation into this matter. WasteCo is named as an additional insured under a co-defendant's policy. The amount of any settlement in excess of insurance coverage cannot be determined at this time and no amount has been recorded. Management believes that any potential loss not covered in the co-defendants policy will be adequately covered by the Company's insurance.
- ii) 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 million from the Company for alleged breach of contract and misrepresentation, \$5 million from the former President and CEO for alleged misrepresentation and declaratory and compensatory relief for alleged oppressive conduct, together with special damages in the 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.

EnGlobe Corp.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2007 and 2006

- iii) A statement of claim has been filed against the Company by the former President and CEO, a company and a trust controlled by the former President and CEO, alleging a conspiracy by the Company with a third party to the suit with the intention of fraudulently obtaining ownership of the shares owned or controlled by the plaintiff. The amount of the claim is for \$17 million. Management believes this claim is without merit and the final determination will not materially affect the financial position or results of the Company.

- iv) In the normal course of business the Company is threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

EnGlobe Corp.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2007 and 2006

7 Segment information

The Company's operations consist of three operating segments: Site Assessment and Remediation, Organic Waste Management and Tank Testing & Calibration services. Services are provided to customers in Canada, the United States, United Kingdom and France. These segments differ from the reportable segments disclosed in prior years, as a result of the acquisition of Biogénie on November 24, 2006 which operates exclusively in the Site Assessment and Remediation group. Segmented results for the three-month periods ended March 31, 2007 and 2006:

	March 31, 2007			
	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenue				
Canada and other	6,956,831	8,968,092	623,608	16,548,531
France	6,033,981	-	-	6,033,981
United Kingdom	4,211,749	-	-	4,211,749
	<u>17,202,561</u>	<u>8,968,092</u>	<u>623,608</u>	<u>26,794,261</u>
Amortization and depreciation	<u>1,604,957</u>	<u>446,116</u>	<u>40,133</u>	<u>2,091,206</u>
Segment earnings (losses) before the under-noted	1,141,751	(1,978,832)	(49,825)	(886,906)
Income tax recovery				(879,150)
Stock-based compensation				137,699
Interest on long-term debt				961,721
Other interest and bank charges				291,714
Restructuring and other costs				<u>500,435</u>
Net loss for the period				<u>(1,899,325)</u>
Goodwill as at March 31, 2007	<u>9,222,879</u>	<u>4,375,601</u>	<u>788,277</u>	<u>14,386,757</u>
Assets of discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>110,628</u>

Identifiable assets, excluding goodwill and discontinued operations, are not separated into specific segments. Total expenditures for property, plant and equipment for the quarter are \$1,822,073 (2006 - \$317,041).

EnGlobe Corp.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2007 and 2006

	March 31, 2006			
	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenue – Canada	449,479	8,488,536	573,976	9,511,991
Amortization and depreciation	67,248	642,295	18,874	728,417
Segment earnings before the under-noted	(112,536)	(997,903)	(36,680)	(1,147,119)
Income tax recovery				(453,642)
Stock-based compensation				143,857
Interest on long-term debt				188,309
Other interest and bank charges				636,524
Non-controlling interest in subsidiary company				(104,123)
Net earnings from discontinued operations				(179,380)
Restructuring and other costs				67,248
Net loss				(1,445,912)
Goodwill as at March 31, 2006	-	4,375,601	788,277	5,163,878
Assets of discontinued operations	-	-	-	718,257

External revenue by market is attributed to countries based on the location of the Company's subsidiary responsible for the revenue.

EnGlobe Corp.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2007 and 2006

Geographic segments

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

	March 31, 2007			
	Canada and Other \$	France \$	United Kingdom \$	Total \$
Property, plant and equipment	27,524,808	3,208,064	2,254,900	32,987,772
Goodwill and intangible assets	31,848,868	7,771,952	2,570,030	42,190,850
Other assets	29,072,982	12,405,957	3,981,605	45,460,544
Total assets	88,446,658	23,385,973	8,806,535	120,639,166

	December 31, 2006			
	Canada and Other \$	France \$	United Kingdom \$	Total \$
Property, plant and equipment	26,903,990	3,453,469	2,369,214	32,726,673
Goodwill and intangible assets	32,323,234	7,887,710	2,608,309	42,819,253
Other assets	44,591,228	11,825,848	5,454,339	61,871,415
Total assets	103,818,452	23,167,027	10,431,862	137,417,341

8 Change in non-cash working capital

	2007 \$	2006 \$
Accounts receivable	4,353,582	798,698
Work in progress and other inventory	3,585,292	252,196
Prepaid expenses and advances	(970,746)	(431,943)
Other assets	(702)	(254,642)
Accounts payable and accrued liabilities	(3,000,771)	(325,881)
Income taxes payable	(2,899,407)	239,970
Deferred revenue	(2,287,224)	56,364
	(1,219,976)	334,762

EnGlobe Corp.

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2007 and 2006

9 Comparative figures

Certain of the prior period's comparative figures have been reclassified to conform to the current period's financial statement presentation.

10 Subsequent event

Effective April 20, 2007, the shareholders approved a resolution to change the name of the Company from Environmental Management Solutions Inc. to EnGlobe Corp.