

# **EnGlobe Corp.**

**Consolidated Financial Statements  
December 31, 2008 and 2007**



**PricewaterhouseCoopers LLP Chartered Accountants**

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**Auditors' Report**

**To the Shareholders of  
EnGlobe Corp.**

We have audited the consolidated balance sheets of **EnGlobe Corp.** as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Quebec March 5, 2009

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

<sup>1</sup> Chartered accountant auditor permit No 7871

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# EnGlobe Corp.

## Consolidated Balance Sheets

As at December 31, 2008 and 2007

	2008 \$	2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,157,301	902,239
Accounts receivable	34,748,991	37,008,919
Inventory (note 4)	2,141,095	7,628,289
Work in progress	9,233,458	7,781,766
Prepaid expenses and advances	1,563,264	1,421,372
Income taxes receivable	966,529	-
Future income taxes (note 14)	883,000	1,038,432
	<u>52,693,638</u>	<u>55,781,017</u>
<b>Property, plant and equipment</b> (notes 5 and 13)	27,645,624	32,009,109
<b>Intangible assets</b> (notes 6 and 13)	29,116,455	26,291,564
<b>Goodwill</b> (notes 7 and 13)	21,132,544	14,547,323
<b>Tax credits recoverable</b>	838,239	642,311
<b>Future income taxes</b> (note 14)	857,532	1,142,558
	<u>132,284,032</u>	<u>130,413,882</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	5,675,840	15,774,863
Accounts payable and accrued liabilities	24,166,136	22,420,383
Additional consideration payable (note 3a)	2,663,100	-
Income taxes payable	-	1,625,728
Deferred revenue	9,808,239	9,042,558
Current portion of capital lease obligations (note 8)	394,109	310,341
Current portion of long-term debt (note 9)	4,070,066	4,450,000
Current portion of other long-term obligation (note 17)	664,856	531,955
Other current liabilities (note 2)	1,107,486	3,029
	<u>48,549,832</u>	<u>54,158,857</u>
<b>Capital lease obligations</b> (note 8)	296,451	244,593
<b>Long-term debt</b> (note 9)	53,637,670	46,275,739
<b>Other long-term obligation</b> (note 17)	1,639,880	-
<b>Future income taxes</b> (note 14)	2,626,430	612,520
<b>Preferred shares</b> (note 9b)	1,126,612	997,147
	<u>107,876,875</u>	<u>102,288,856</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 10)		
Common shares	66,271,209	61,772,815
Preferred shares	20,473,589	-
<b>Contributed surplus</b> (note 11)	13,386,280	13,213,162
<b>Deficit</b>	(75,723,921)	(46,860,951)
	<u>24,407,157</u>	<u>28,125,026</u>
	<u>132,284,032</u>	<u>130,413,882</u>

### Commitments and contingencies (note 17)

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

Signed on behalf of the Board of Directors:

, Director

, Director

# EnGlobe Corp.

## Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended December 31, 2008 and 2007

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	149,202,475	149,103,993
<b>Direct costs</b> (note 4)	115,084,387	105,232,571
<b>Gross profit</b>	34,118,088	43,871,422
<b>Expenses</b>		
Selling, general and administrative	29,042,061	29,151,261
Depreciation of property, plant and equipment	5,541,455	6,128,555
Loss (gain) on disposal of property, plant and equipment	(154,694)	135,645
<b>Earnings (loss) before the undernoted items</b>	(310,734)	8,455,961
Amortization of intangible assets	4,057,860	2,540,157
Stock-based compensation	184,587	428,738
Restructuring and other costs (note 12)	5,388,132	3,716,307
Other non-cash charges (note 13)	9,553,399	-
Foreign exchange loss (gain)	(2,164,124)	640,879
Interest on long-term debt	6,827,668	4,396,383
Other interest and bank charges	1,995,326	1,429,419
Unrealized loss on interest rate swap (note 2)	1,104,457	3,029
<b>Loss before income taxes</b>	(27,258,039)	(4,698,951)
<b>Income tax expense (recovery)</b> (note 14)	1,470,886	(1,721,286)
<b>Net loss and comprehensive loss</b>	(28,728,925)	(2,977,665)
<b>Deficit – Beginning of year</b>	(46,860,951)	(43,883,286)
<b>Dividends – Preferred shares</b>	(134,045)	-
<b>Deficit – End of year</b>	(75,723,921)	(46,860,951)
<b>Basic and diluted net loss per common share</b> (note 16)		

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

# EnGlobe Corp.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	2008	2007
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	(28,728,925)	(2,977,665)
Items not affecting cash and cash equivalents		
Depreciation and amortization	9,599,315	8,668,712
Non-cash interest accretion on debentures, preferred shares and other long-term obligation	2,269,188	1,050,224
Non-cash restructuring and other costs	193,525	-
Unrealized loss on interest rate swap	1,104,457	3,029
Stock-based compensation	184,587	428,738
Unrealized foreign exchange loss (gain)	(1,922,163)	90,829
Loss (gain) on disposal of property, plant and equipment	(154,694)	135,645
Other non-cash charges (note 13)	9,553,399	-
Tax credits recoverable	(195,928)	(642,311)
Provision for future income taxes	239,496	(3,716,609)
	(7,857,743)	3,040,592
Net change in non-cash working capital items (note 21)	6,769,573	(8,970,000)
Cash used in operating activities	(1,088,170)	(5,929,408)
<b>Investing activities</b>		
Purchase of property, plant and equipment	(3,232,771)	(5,393,004)
Purchase of intangible assets	(232,506)	(231,949)
Proceeds from disposal of property, plant, equipment	1,305,137	300,069
Business acquisition, net of cash acquired (note 3a)	(10,176,123)	(2,010,566)
Other investing activities	-	(3,073,803)
Cash used in investing activities	(12,336,263)	(10,409,253)
<b>Financing activities</b>		
Increase (decrease) in bank indebtedness	(10,099,023)	15,774,863
Increase in deferred financing charges	(1,056,807)	(40,919)
Change in other long-term assets	-	50,993
Repayment of capital lease obligations	(567,419)	(255,664)
Repayment of other long-term obligation	(531,955)	-
Proceeds from long-term debt	22,246,000	-
Repayment of long-term debt	(14,731,378)	(3,950,000)
Dividends paid	(9,754)	-
Proceeds from issuance of preferred shares	20,720,000	-
Preferred shares issuance costs	(308,169)	-
Proceeds from issuance of common shares	18,000	57,750
Cash provided by financing activities	15,679,495	11,637,023
<b>Net change in cash and cash equivalents for the year</b>	<b>2,255,062</b>	<b>(4,701,638)</b>
<b>Cash and cash equivalents – Beginning of year</b>	<b>902,239</b>	<b>5,603,877</b>
<b>Cash and cash equivalents – End of year (note 21)</b>	<b>3,157,301</b>	<b>902,239</b>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	5,875,129	4,968,351
Income taxes paid	4,032,729	4,008,876

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

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 1 Nature of operations

EnGlobe Corp. ("EG", "EnGlobe" 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.

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

EG is an environmental services company specializing in the management of contaminated soils and organic-based waste streams, with an emphasis on beneficial re-use. EG provides solutions to municipal, commercial and industrial clients in Canada, the United Kingdom, France and the northern United States, through its subsidiaries, Biogénie S.R.D.C. Inc. ("Biogénie"), Celtic Technologies Limited ("Celtic"), 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 ("OWM") and Tank Testing and Calibration. SAR, provided by Biogénie and Celtic, encompasses on-site and off-site treatment and recycling of contaminated soil and remediation of contaminated or degraded sites in North America, the United Kingdom and France. OWM, 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 Summary of Significant Accounting Policies

#### Basis of Preparation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The Canadian dollar is the functional and reporting currency of the Company and its Canadian controlled entities. Consequently, results of these entities are translated into Canadian dollars for presentation in the Company's consolidated financial statements.

#### 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, percentage of completion of work in progress, 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.

#### Consolidation and Joint Venture

These consolidated financial statements include all companies in which EnGlobe, directly or indirectly, has more than 50% of voting rights or over which it exercises control. Companies are included in the consolidation from the date that control is transferred to the Company. The purchase method of accounting is used to account for acquisitions. Fair value of common shares issued as part of acquisitions is determined based on the market price of shares over a reasonable period of time preceding and following the announcement date of the consideration in shares.

The Company conducts certain activities in a joint venture with another party. The interests in such a joint venture are accounted for using the proportionate consolidation method, which results in the Company recording its pro rata share of the assets, liabilities, revenues, costs and cash flows of this joint venture.

Intercompany transactions, balances and unrealized gains and losses on transactions between the companies included in the basis of consolidation are eliminated.

# **EnGlobe Corp.**

## **Notes to Consolidated Financial Statements**

For the years ended December 31, 2008 and 2007

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### **Variable interest entity**

Entities that are subject to control on a basis other than ownership of voting interests are accounted for using the accounting requirement on the consolidation of variable interest entities (VIEs) under Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities". VIEs are characterized as entities in which the equity is not sufficient to permit them to finance their activities without external support, or equity investors lack either voting control, an obligation to absorb expected losses or the right to received expected residual returns.

Where a reporting entity is determined to have a variable interest in such an entity, and where that interest will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected returns, or both at the end of the VIE's existence, the reporting entity is deemed to be the primary beneficiary, and must consolidate the VIE. The VIE controlled by the Company, otherwise than by voting control, and of which the Company is the primary beneficiary, is consolidated.

### **Foreign currency translation**

The Company's operations conducted in foreign countries are considered to be integrated foreign operations and are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at exchange rates in effect at year-end and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses, other than depreciation and amortization which are translated at the same exchange rate as the assets to which they relate, are translated at the average exchange rate for the year. Gains and losses resulting from foreign currency translations are included in the consolidated statements of operations.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, deposits with banks and investments in liquid instruments with original maturities of three months or less. They are accounted for at their estimated fair value which approximates cost.

### **Inventory**

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method and includes raw material, direct labour and manufacturing overhead costs.

### **Work in progress**

Work in progress consists principally of costs incurred in providing services to clients. Such amounts are generally billed to clients at various times over the course of the production process.

### **Property, plant and equipment**

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives using the following annual rates and methods:

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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Buildings	5% declining balance or 10 - 20 years straight-line
Heavy equipment, automotive and trailers	2 - 10 years straight-line or 3 - 5 years straight-line or 15% - 30 % declining balance
Testing vehicles	1 - 5 years straight-line
Furniture and equipment	20% - 33% declining balance or 3 - 10 years straight-line
Computer equipment	30% declining balance or 1 - 3 years straight-line
Leasehold improvements	Over the term of the lease on a straight-line basis
Soil recycling and composting facilities	5 - 20 years straight-line

### Assets under capital leases

Leases that transfer substantially all of the benefits and risks of ownership of the asset to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with the related obligation. Assets under capital leases are depreciated over the shorter of term lease or their estimated useful lives at the same rates for other similar assets.

### Intangible assets

Intangible assets are recorded at cost. Intangible assets, with a finite life, are amortized over their estimated life on a straight-line or declining balance basis as follows:

Backlog	1 or 2.5 years
Non-compete agreements	3.5 or 5 years
Contracts to manage soil treatment facilities	10 years
Customer relationships	5 – 10 years
Technology and others	1 – 25 years
Licences	5 years
Software	20% declining balance or 3 years straight-line

The Company acquired certain permits in conjunction with the acquisition of Biogénie in 2006. These are intangible assets with indefinite lives, and accordingly, are not subject to amortization. Intangible assets with indefinite lives are tested for impairment annually or whenever events or circumstances indicate that the asset might be impaired. When the carrying amount of the asset exceeds its fair value an impairment loss is recognized.

### Impairment and long-lived assets

An impairment charge is recognized on long-lived assets, including intangible assets with finite lives, when events or changes in circumstances cause the assets carrying value to exceed the total undiscounted future cash flows from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the asset and its carrying value.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### **Goodwill**

Goodwill represents the excess of the purchase price of an acquired business over the estimated fair value of the identifiable tangible and intangible assets acquired. The Company assesses the carrying value of its goodwill for impairment annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. In evaluating whether there is an impairment of goodwill, management compares the carrying amount of the reporting unit with its fair value. In the event impairment exists, an impairment charge would be determined by comparing the fair value of goodwill to its carrying amount.

### **Asset retirement obligation**

The Company recognizes an estimate of the liabilities associated with an asset retirement obligation ('ARO') in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as another long-term obligation, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depreciated on a straight-line basis over the estimated life of the asset. The liability amount is increased at each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

### **Deferred financing charges**

Deferred financing charges consists of costs incurred by the operating companies relating to the issuance of debt and are deferred and amortized using the effective interest rate method over the term of the related debt or as the debt is retired, if earlier. These deferred financing charges are recorded against the carrying value of the long-term debt, as described in note 9.

### **Research and development**

Development expenses are charged to earnings as incurred unless a development project meets the criteria for deferral and amortization. The Company has not deferred any development expenses to date. Research expenses are charged to earnings as incurred. During 2008, \$659,800 (2007 - \$1,383,700) in research and development costs were expensed.

### **Revenue recognition**

The Company provides professional services under fee for service, cost-based and fixed price contracts. Under fee for service contracts, revenue is recognized as services are provided. For cost-based contracts, revenue is recorded as reimbursable costs are incurred. Revenue from fixed price contracts is recorded using the percentage-of-completion method whereby revenue and profit are based on a ratio of costs incurred to total estimated costs of the projects. Losses, if any, on fixed price contracts are recognized during the period they are identified.

The Company recognizes revenue on product sales when persuasive evidence of an agreement exists, the terms are fixed or determinable, services are performed and collection is probable.

Deferred revenue represents services that are billed in advance.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### Income taxes

Income taxes are recorded using the asset and liability method of income tax allocations. Under this method, assets and liabilities are recorded for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. These future income tax assets and liabilities are recorded using substantively enacted income tax rates. The effect of a change in income tax rates on these future income tax assets or liabilities is included in income in the period in which the rate change occurs. Some of the differences are estimated based on the current tax legislation and the Company's interpretation thereof. The Company records a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future tax assets will not be realized.

### Investment tax credits

Investment tax credits, which arise as a result of qualifying research and development expenditures, are recognized and applied to reduce research and development expenses in the period in which their realization is reasonably assured. During 2008, \$260,355 (2007 - \$197,226) in investment tax credits were recorded.

### Stock-based compensation

The Company has two types of stock-based compensation plans. The first is the Company's employee and consultant stock option plan. Awards made to employees and consultants are measured and recognized using a fair value-based model whereby the fair value of stock-based awards is measured at the date of grant and is charged to expense on a straight-line basis over the award's vesting period with an offsetting amount recorded to contributed surplus. When the options are exercised, the proceeds received on exercise plus the amount previously credited to contributed surplus are credited to common shares.

The second plan is the Company's tandem option and stock appreciation rights plan. Under this plan, the employee may, at his/her discretion, require the Company to issue common shares or require the Company to pay the incremental market value of the stock appreciation right over the exercise price of the option. The Company has recorded a liability for the potential future settlement of vested options at the balance sheet date by reference to the value of the Company's shares and the strike price of the option. Compensation costs are recognized for increases or decreases between the strike price of these options and the quoted market value of the Company's shares between the grant date and the reporting date, subject to the cumulative expense recognized not being less than zero.

### Earnings per share

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

### Warrants

Warrants are recorded at fair value as a credit to contributed surplus and expensed over the associated service period or, if related to equity financing, as a reduction of the common shares amount. When warrants are exercised, the proceeds received on exercise plus the amount previously credited to contributed surplus are credited to common shares.

### 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 consolidated balance sheet under "Other current liabilities". As a result, the Company has recognized an unrealized loss of \$1,104,457 (\$3,029 in 2007) in the statement of operations on these contracts. As at December 31, 2008, there was one interest rate swap outstanding for a notional amount of \$16,800,000 with a fixed interest rate of 4.315% expiring on November 24, 2011.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### **New accounting standards adopted**

On January 1, 2008, the Company adopted Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections 1535 “Capital Disclosures”, 3862 “Financial Instruments – Disclosures”, 3863 “Financial Instruments – Presentation”, and 3031 “Inventories”.

CICA Handbook Section 1535 “Capital Disclosures” establishes standards for disclosing information about the Company’s capital and how it is managed to enable users of the financial statements to evaluate the Company’s objectives, policies and procedures for managing capital. The Company presents its capital management objective and approach in note 19.

CICA Handbook Section 3862 “Financial Instruments – Disclosures” requires disclosures in the financial statements that will enable users to evaluate: the significance of financial instruments for the Company’s financial position and performance; and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks. The Company presents its position in note 20.

CICA Handbook Section 3863 “Financial Instruments – Presentation” establishes standards for presentation of financial instruments and non-financial derivatives. This section complements the existing CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation. The Company presents its position in note 20.

Effective July 1, 2008, the Canadian Accounting Standards Board (“AcSB”) approved amendments to CICA Section 3855, “Financial Instruments – Recognition and Management”, and Section 3862, “Financial Instruments – Disclosures”. These amendments focus on the ability to reclassify, under rare circumstances, financial assets out of trading. The Company has not reclassified any of its financial instruments.

CICA Handbook Section 3031 “Inventories” provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. There was no material impact as a result of the adoption of this new standard.

The CICA amended Section 1400, “General Standards of Financial Statement Presentation” to include requirements to assess and disclose an entity’s ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. This amended section had no effect on the Company’s consolidated financial statements.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### **New accounting standards not yet adopted**

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," supersedes Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This accounting standard is effective for annual and interim periods beginning on or after October 1, 2008. The Company is currently evaluating the impact of adopting this standard.

In February 2008, the AcSB confirmed that Canadian generally accepted accounting principles for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption possible under specific conditions. 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 and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS2 "Inventories" and IAS 38 "Intangible assets", thus mitigating the impact of adopting IFRS at the mandatory transition date. The Company is currently evaluating the impact of adopting IFRS.

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of adopting this standard.

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements" and Section 1601, "Non-Controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements". The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of adopting this standard.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 3 Business acquisitions

#### (a) Acquisition of Celtic

On March 25, 2008, the Company purchased all of the issued and outstanding shares of Celtic. Celtic was founded in 1992 and is a ground remediation contractor with operating locations in Wales, Northern England and the Midlands in the United Kingdom. The purchase price paid for Celtic is the following:

		\$
Base consideration		
Cash		11,215,677
Common shares (note 10)		3,515,925
Additional consideration		
Payable in cash (1,500,000 £)	2,859,000	
Common shares to be issued (note 10)	<u>953,000</u>	3,812,000
Acquisition cost		<u>650,049</u>
		<u>\$19,193,651</u>

The purchase price allocation related to this acquisition was completed with the assistance of an independent valuation firm. This purchase price allocation is summarized as follows:

		\$
Cash		1,689,603
Other current assets		5,261,503
Property, plant and equipment		1,229,222
Intangible assets		
Backlog	545,535	
Non-compete agreements	2,101,320	
Customer relationships	2,768,085	
Technology and others	<u>2,495,318</u>	
		7,910,258
Goodwill		9,609,095
Current liabilities		(3,572,680)
Capital lease obligations		(718,478)
Future income tax liabilities		<u>(2,214,872)</u>
Total consideration		<u>\$19,193,651</u>

In the fourth quarter of 2008, goodwill increased due to the additional consideration of 2,000,000 £ (\$3,812,000 on transaction date), which had been contingent upon meeting performance targets. Celtic intangible assets are amortized over their estimated life on a straight-line basis as follows:

Backlog	1 year
Non-compete agreements	3.5 years
Customer relationships	5 – 10 years
Technology and others	1 – 25 years

The goodwill was assigned to the Company's Site Assessment and Remediation ("SAR") operating segment and is not deductible for income tax purposes.

The results of Celtic have been consolidated with those of the Company effective March 25, 2008.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### (b) Acquisition of a 49% equity interest in Sila Remediation Inc.

The Company has a 49% interest in Sila Remediation Inc. ("Sila"), a company providing remediation services in Nunavut. Sila began its operations at the beginning of 2008. The results of Sila are required to be consolidated with those of the Company and included as part of the SAR segment as the Company is the primary beneficiary of Sila, as defined in Accounting Guideline 15 – "Consolidation of Variable Interest Entities". All losses are supported by the Company.

## 4 Inventory

	2008 \$	2007 \$
Raw materials	1,361,821	2,899,656
Material in process	119,870	1,460,115
Finished goods	659,404	3,268,518
	2,141,095	7,628,289

In 2008, \$13,544,612 of inventory was expensed in the consolidated earnings (\$15,863,806 in 2007) and presented in direct costs, including an inventory write-down of \$2.6 million.

## 5 Property, plant and equipment

	2008		
	Cost \$	Accumulated depreciation \$	Net \$
Land	2,896,280	-	2,896,280
Buildings	5,235,509	1,451,974	3,783,535
Heavy equipment, automotive and trailers	17,508,811	5,709,750	11,799,061
Testing vehicles	229,808	126,593	103,215
Furniture and equipment	4,210,110	2,986,535	1,223,575
Computer equipment	1,531,201	1,053,996	477,205
Leasehold improvements	399,883	301,661	98,222
Soil recycling and composting facilities	17,262,633	9,998,101	7,264,532
	49,274,234	21,628,610	27,645,624

As at December 31, 2008 there is a construction in progress included in soil recycling and composting facilities with a net book value of \$1,364,175 (2007 - \$180,000) (note 17b). Part of the 2008 addition, being \$1,349,723, was included in accounts payable and accrued liabilities (\$173,000 in 2007).

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

	<b>2007</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>depreciation</b>	<b>\$</b>
		<b>\$</b>	
Land	3,121,530	-	3,121,530
Buildings	5,258,866	1,067,735	4,191,131
Heavy equipment, automotive and trailers	21,079,486	8,166,393	12,913,093
Testing vehicles	193,904	124,773	69,131
Furniture and equipment	4,742,795	2,810,828	1,931,967
Computer equipment	2,459,437	1,621,092	838,345
Leasehold improvements	890,710	502,617	388,093
Soil recycling and composting facilities	17,271,991	8,716,172	8,555,819
	<b>55,018,719</b>	<b>23,009,610</b>	<b>32,009,109</b>

The cost of assets held under capital lease and the related depreciation included in property, plant and equipment are as follows:

	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>depreciation</b>	<b>\$</b>
		<b>\$</b>	
Heavy equipment	1,109,623	469,900	639,723

	<b>2007</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>depreciation</b>	<b>\$</b>
		<b>\$</b>	
Heavy equipment	1,727,528	1,148,471	579,057

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 6 Intangible assets

	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Permits	18,300,000	-	18,300,000
Backlog	3,945,535	3,384,612	560,923
Non-compete agreements	4,801,320	1,255,283	3,546,037
Contracts to manage soil treatment facilities	2,400,000	836,250	1,563,750
Customer relationships	2,768,085	290,952	2,477,133
Technology and others	2,495,318	253,978	2,241,340
Licences	221,298	151,939	69,359
Software	1,000,280	642,367	357,913
	<b>35,931,836</b>	<b>6,815,381</b>	<b>29,116,455</b>

During the year, the Company acquired \$8,142,764 (\$231,949 in 2007) of intangible assets, which are subject to amortization.

	<b>2007</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Permits	18,300,000	-	18,300,000
Backlog	3,400,000	1,501,666	1,898,334
Non-compete agreements	2,700,000	265,000	2,435,000
Contracts to manage soil treatment facilities	2,400,000	596,250	1,803,750
Customer relationships	2,735,476	1,375,338	1,360,138
Licences	388,809	203,950	184,859
Software	767,774	458,291	309,483
	<b>30,692,059</b>	<b>4,400,495</b>	<b>26,291,564</b>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 7 Goodwill

Goodwill is subject to an annual impairment test. In the second quarter of 2008, the Company completed the analysis for the OWM segment. This analysis indicated that the fair value of the OWM reporting unit was lower than its carrying amount. In the fourth quarter, the Company completed the analysis for the SAR and Tank Testing and Calibration segments. No impairment adjustment was required for these segments.

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Balance – Beginning of year</b>	14,547,323	14,386,757
Adjustments to purchase price allocations	2,120,126	160,566
Acquisition of Celtic (note 3a)	9,609,095	-
Impairment – OWM segment (note 13)	(5,144,000)	-
<b>Balance – End of year</b>	<b>21,132,544</b>	<b>14,547,323</b>

### 8 Capital lease obligations

Future minimum annual lease payments under capital leases for the rental of heavy equipment are as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Years ending December 31, 2008	-	340,762
2009	452,383	159,641
2010	275,811	107,607
2011	16,883	-
	<b>745,077</b>	<b>608,010</b>
Less: Interest	54,517	53,076
	<b>690,560</b>	<b>554,934</b>
Less: Current portion of capital lease obligations	394,109	310,341
Long-term portion of capital lease obligations	<b>296,451</b>	<b>244,593</b>

Capital leases bear interest at rates varying between 3.9% and 11%.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 9 Long-term debt

	2008	2007
	\$	\$
Term Loan (a)	37,268,446	38,050,000
Class A Convertible Debentures (b)	16,049,500	15,690,525
Class B Debentures (c)	7,714,493	-
	<hr/>	<hr/>
	61,032,439	53,740,525
Less: Deferred financing charges	3,324,703	3,014,786
	<hr/>	<hr/>
	57,707,736	50,725,739
Less: Current portion of long-term debt	4,070,066	4,450,000
	<hr/>	<hr/>
Long-term portion of long-term debt	53,637,670	46,275,739
	<hr/>	<hr/>

#### (a) Term loan and revolving facility

On March 25, 2008, the Company amended its credit agreement to arrange a 5-year term loan of \$15,200,000 denominated in pounds sterling (£7,565,577), for net proceeds of \$14,815,011. This term loan was used, in part, for the acquisition of Celtic (note 3a) with the remainder used for transaction expenses and the reduction of the revolving facility. This loan bears interest at the LIBOR rate plus 2.5%. In addition, the term of the November 2006 term loan of \$42,000,000, bearing interest at the banker's acceptance rate plus 2%, was extended to 2013. The loans are collateralized by all assets of the operating companies. The interest rate is adjustable based on achieving certain financial measures and for the November 2006 term loan, the base rate can be changed from prime rate to banker's acceptance or LIBOR at the discretion of the Company.

As at December 31, 2008, the Company also has a \$20,000,000 (2007 - \$20,000,000) revolving facility bearing interest at prime rate or banker's acceptance rate plus 2%. The facility is collateralized by all assets of the operating companies. As at December 31, 2008, \$11,165,649 (2007 - \$1,588,748) was available under the revolving facility and as per the November 2006 term loan. On March 25, 2008, the term of the revolving facility was extended to 2013.

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. Also, until the fiscal quarter ending September 2009, the Company shall maintain a cumulative minimum adjusted EBITDA, as defined in note 19. As at December 31, 2008, this condition has been met. During the period not exceeding November 29, 2009, applicable margins for all advances shall be plus 5.75%.

Adjusted EBITDA is a non-GAAP measure to evaluate the Company's performance, capital structure and the financial condition related to credit facilities. This measure does not have standardized meaning under GAAP and is unlikely to be comparable to similar measures used by other companies.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### **(b) Class A convertible debentures and convertible preferred shares**

Class A convertible debentures bear interest at a rate of 5% per annum, payable quarterly. The debentures are due in 2014 and are convertible into common shares at the option of the holder at a rate of \$0.323 per common share. Starting in 2010, the debentures are convertible into common shares at the option of the Company at a rate of \$0.323 per common share if certain minimum earnings levels 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 holders after the debentures become due or at the option of the holders and the Company if the debentures have been repaid.

Because the units have elements of both debt and equity, they necessitate the recording of separate equity and two debt components. Management used the residual method to establish the fair value of 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 debenture units, was valued at \$15,134,295. The other debt component, representing the redemption feature of the preferred shares units, was valued at \$796,542. Finally, the equity component, representing the conversion feature of the units, was valued at \$4,661,663. This equity component has been allocated to contributed surplus.

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 and be capitalized.

### **(c) Class B Debentures**

On March 25, 2008, the Company issued \$7,046,000 in Class B debentures, for net proceeds of \$6,374,182, after deducting financing fees of \$671,817, including \$271,000 in financing fees paid to the holders. The Class B debentures have a term of 6 years. They are secured, non-convertible and, subject to certain exceptions, bear interest on the principal amount at 15% per annum, compounded and payable quarterly with 3% per annum payable in cash on each applicable interest payment date and 12% per annum capitalized on each applicable interest payment date and added to the principal amount, all in accordance with the terms of such debentures. The Company may repay all or a portion of the principal amount of the Class B debentures at any time without penalty after March 25, 2009. These debentures were issued to certain shareholders of the Company.

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 and be capitalized.

In 2008, the Company breached certain covenants under the Class B debenture agreement. On November 13, 2008, the Company obtained a waiver that waived the various breaches under the agreement until September 30, 2009.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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The long-term detailed above minimum payments as follows:

	\$
2009	4,070,066
2010	6,105,093
2011	6,105,094
2012	8,140,130
2013	12,848,064
Thereafter	23,763,992
	<hr/>
	61,032,439
	<hr/>

## 10 Share capital

### Common shares

#### Authorized

Unlimited number of common shares with no par value

	Number	Amount \$
<b>Issued and fully paid</b>		
Balance as at December 31, 2006	78,570,160	61,619,577
Exercise of stock options	10,000	8,749
Exercise of warrants	125,000	144,489
	<hr/>	<hr/>
Balance as at December 31, 2007	78,705,160	61,772,815
Acquisition of Celtic (note 3a)	7,960,645	3,515,925
Exercise of stock options	45,000	29,469
	<hr/>	<hr/>
<b>Total issued and fully paid</b>	86 710 805	65,318,209
<b>To be issued</b>		
Common shares issuable as additional consideration (note 3a)	10,589,000	953,000
	<hr/>	<hr/>
<b>Total common shares as at December 31, 2008</b>	97,299,805	66,271,209
	<hr/>	<hr/>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

On March 25, 2008, the Company issued 7,960,645 common shares with a fair value of \$3,515,925 (\$0.44 per share) as consideration for the acquisition of Celtic (see note 3a). Part of this acquisition is an additional consideration of £2,000,000 payable in a ratio of 75% cash and 25% in common shares of the Company. The Company may issue 10,589,000 common shares with a fair value of \$953,000 (\$0.09 per share).

On January 9, 2008, 45,000 stock options were exercised for proceeds of \$18,000.

On April 19, 2007, 10,000 stock options were exercised for proceeds of \$4,000, when on June 15, 2007, 125,000 warrants were exercised for proceeds of \$53,750.

### Preferred shares

#### Authorized

Unlimited number of preferred shares issuable in series

	Number	Amount \$
<b>Issued and fully paid</b>		
Balance as at December 31, 2007	-	-
Series 2 preferred shares	7,375,000	2,950,000
Series 2 preferred shares in consideration of financing fees	470,745	188,298
Series 3 preferred shares	177,700,000	17,770,000
Series 3 preferred shares in consideration of financing fees	10,662,000	1,066,200
Less financing fees and issue expenses	-	(1,562,667)
<b>Total issued and fully paid</b>	<b>196,207,745</b>	<b>20,411,831</b>
<b>To be issued</b>		
Series 3 preferred shares issuable as dividends	617,580	61,758
<b>Total preferred shares as at December 31, 2008</b>	<b>196,825,325</b>	<b>20,473,589</b>

### Preferred share issuances

On March 25, 2008, the Company completed a private placement of 7,845,745 Series 2 preferred shares at \$0.40 per share, including 470,745 preferred shares issued in consideration of financing fees. Consideration received for the preferred shares was \$2,859,447 after deducting \$133,169 in issue expenses and \$188,298 in financing fees paid to the holders of the preferred shares. The Series 2 preferred shares are voting and convertible at any time by the holders on the basis of one preferred share for each common share. Holders are entitled to receive, subject to certain exceptions, a fixed, cumulative quarterly dividend of 3% of the issue price per annum. The preferred shares are redeemable by the Company, at its option, on or after March 31, 2014 at the issue price plus all accrued and unpaid dividends.

On December 12, 2008, the Company completed a private placement of 188,362,000 Series 3 preferred shares at \$0.10 per share, including 10,662,000 preferred shares issued in consideration for financing fees. Consideration received for the preferred shares was \$17,595,000 after deducting \$175,000 in issue expenses and \$1,066,200 in financing fees paid to the holders of the preferred shares. The Series 3 preferred shares are convertible at any time by the holders into freely tradable

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

common shares of the Company at a conversion of \$0.10 per common share. Holders of the Series 3 Preferred Shares are entitled to receive, subject to certain exceptions, a fixed, cumulative dividend per preferred share equal to 6% of the issue price per annum. These dividends are payable quarterly at the Company's option in cash or additional equivalent value preferred shares. As a result, the Company will issue 617,580 Series 3 preferred shares valued at \$61,758 as dividends for the period from December 12 to December 31, 2008.

### Stock options

The Company has an employee and consultant stock option plan (the "ESOP"). On August 24, 2004, the Company's shareholders approved an increase in the maximum number of shares that may be reserved and set aside under options to eligible persons pursuant to the ESOP to 7,243,768 common shares from 5,000,000. In addition, the Board of Directors adopted a policy to limit the number of shares outstanding under the ESOP to a maximum of 15% of the number of common shares outstanding at the time. The maximum number of common shares at any time available for issuance under the ESOP, or pursuant to other outstanding options, to any one person may not exceed 2% of the common shares then issued and outstanding. Under the terms of the ESOP, the option exercise price for all options issued under the ESOP must be based on the market value of the common shares on the date of grant, have a 5-year term, and generally vest annually in portions of 30%, 30% and 40% over a three-year period. A committee appointed by the Board of Directors administers the ESOP.

The following tables present the option activity during 2008 and 2007 and the number and weighted average exercise price of stock options outstanding as at December 31, 2008.

	Number	Weighted average exercise price \$
Balance as at December 31, 2006	3,627,238	1.00
Granted	1,166,666	0.61
Forfeited	(565,771)	0.77
Exercised	(10,000)	0.40
	<hr/>	
Balance as at December 31, 2007	4,218,133	0.92
Granted	908,332	0.27
Forfeited	(2,360,707)	0.86
Exercised	(45,000)	0.40
	<hr/>	
<b>Balance as at December 31, 2008</b>	<b>2,720,758</b>	<b>0.76</b>

The option exercise price is based on the closing market price of common shares on the date immediately prior to the grant date.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

Range of exercise prices \$	Options outstanding as at December 31, 2008			Options exercisable as at December 31, 2008	
	Number	Weighted average remaining life in years	Weighted average price \$	Number	Weighted average exercise price \$
0.10 – 0.39	416,666	4.86	0.11	-	-
0.40 – 0.60	1,483,333	3.23	0.47	652,500	0.49
0.61 – 0.90	100,000	3.49	0.67	30,000	0.67
0.91 – 1.35	435,000	1.37	1.00	435,000	1.00
2.20 – 3.24	200,000	0.30	2.32	200,000	2.32
3.25 – 3.65	85,759	0.19	3.28	85,759	3.28
	<b>2,720,758</b>	<b>2.88</b>	<b>0.76</b>	<b>1,403,259</b>	<b>1.08</b>

### Stock-based compensation

The fair value of each option is estimated on the date of the grant using the Black-Scholes model with the following weighted average assumptions:

	2008	2007
Expected option life in years	5	5
Volatility	99.7%	77%
Risk-free interest rate	2.96%	4.3%
Dividend yield	-	-
Fair value of options granted during the year	\$0.20	\$0.33

### Tandem option and stock appreciation rights

In 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 administers 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 his/her option, requires 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 exceeds the exercise price of the OSAR on a grading vesting basis.

An additional 400,000 OSARs will expire on January 19, 2009.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

	<b>Number outstanding</b>
Balance as at December 31, 2006	14,500,000
Granted	4,000,000
Forfeited	(4,000,000)
	<hr/>
Balance as at December 31, 2007	14,500,000
Granted	7,000,000
Forfeited	(14,100,000)
	<hr/>
<b>Balance as at December 31, 2008</b>	<b>7,400,000</b>

### As at December 31, 2008

<b>Range of exercise prices \$</b>	<b>Number outstanding</b>	<b>Number exercisable</b>	<b>Weighted average remaining life in years</b>
0.25 – 0.50	2,476,190	-	9.8
0.51 – 0.75	1,796,667	130,000	9.2
0.76 – 1.00	1,260,476	70,000	9.2
1.01 – 1.25	1,736,667	70,000	9.3
1.26 – 1.50	70,000	70,000	6.7
1.51 – 1.75	60,000	60,000	6.7
	<hr/>		
	7,400,000	400,000	9.4

## Warrants

The following tables present the warrant activity during 2008 and 2007 and the number of warrants outstanding and weighted average exercise price of warrants outstanding as at December 31, 2008:

	<b>Number outstanding</b>	<b>Weighted average exercise price \$</b>
Balance as at December 31, 2006	2,107,134	0.75
Exercised	(125,000)	0.43
	<hr/>	
Balance as at December 31, 2007 and 2008	1,982,134	0.82

On June 15, 2007, 125,000 warrants were exercised for proceeds of \$53,750. Upon exercise cash warrants outstanding can be converted into one common share of the Company.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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Information in respect of the outstanding warrants as at December 31, 2008 is as follows:

<b>Exercise price \$</b>	<b>Number outstanding and exercisable</b>	<b>Weighted average remaining life in years</b>
0.43	375,000	0.95
0.71	633,800	1.21
0.90	833,334	0.95
1.90	140,000	1.27
	<b>1,982,134</b>	<b>1.05</b>

## 11 Contributed surplus

The movement in contributed surplus is as follows:

	<b>\$</b>
Balance as at December 31, 2006	12,879,912
Stock-based compensation costs	428,738
Stock options exercised	(4,749)
Warrants exercised	(90,739)
	<hr/>
Balance as at December 31, 2007	13,213,162
Stock-based compensation costs	184,587
Stock options exercised	(11,469)
	<hr/>
<b>Balance as at December 31, 2008</b>	<b>13,386,280</b>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 12 Restructuring and other costs

Restructuring and other costs are typically to provide for the costs of facility consolidations, workforce reductions, transition costs or non-recurrent costs resulting from specific situations that occurred.

The Company records restructuring charges relating to employee terminations and recruiting costs, professional fees and legal costs, facility exit and other costs when the liability is incurred. The recognition of these charges requires management to make certain judgements regarding the nature, timing and amounts associated with planned restructuring activities.

The tables below provide a summary of restructuring and other costs undertaken by the Company detailing the components of the expenses and the movement in accrued liabilities. This summary is presented by the year in which the restructuring activities were initiated.

	<b>Employee terminations and recruiting costs</b>	<b>Professional fees and legal costs</b>	<b>Facility exit and other costs</b>	<b>Non-cash items</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Expenses recorded in 2007</b>	2,068,616	457,925	1,189,766	-	3,716,307
<b>Expenses recorded in 2008:</b>					
For activities initiated prior to 2007	-	404,638	57,993	-	462,631
For activities initiated during 2007	59,659	44,000	-	-	103,659
For activities initiated during 2008	2,882,895	1,140,334	605,088	193,525	4,821,843
Total expenses recorded in 2008	2,942,554	1,588,972	663,081	193,525	5,388,132
<b>Accrued expenses reconciliation:</b>					
Accrued liabilities – December 31, 2007	700,000	-	-	-	700,000
Expenses in 2008	2,942,554	1,588,972	663,081	-	5,194,607
Cash payments in 2008	(2,013,623)	(1,288,972)	(537,856)	-	(3,840,451)
Accrued liabilities – December 31, 2008	1,628,931	300,000	125,225	-	2,054,156

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 13 Other non-cash charges

- i) CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, requires goodwill be tested for impairment annually or earlier if there are indications of impairment. The Company performs its annual test of goodwill for impairment in the fourth quarter. However the current strategic review discussed below resulted in the Company performing an impairment test on the goodwill of its OWM segment in the second quarter.
- ii) The impairment test for goodwill is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value of a reporting unit is based on one or more fair value measures including present value techniques of estimated future cash flows and estimated amounts at which the unit as a whole could be bought or sold in a current transaction between willing parties. If the carrying amount of the reporting unit exceeds the fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net loss.
- iii) In testing for impairment of long-lived assets, the Company assessed recoverability of the carrying amounts by reference to expected undiscounted cash flows. An impairment charge is recognized when the carrying amount is not fully recoverable and when it exceeds the fair values determined by reference to discounted cash flows and independent appraisals.
- iv) During the second quarter of 2008, the Company's management performed a comprehensive review of current performance and the strategic orientation of its reporting units. This strategic review revealed that, several factors have severely and persistently caused the recalibration of some key assumptions in EnGlobe's strategic planning. The value of compost also significantly decreased during 2008. This unforeseen decrease has resulted in a change in management's estimate of the expected realizable value of its compost. In response to this unexpected turn of events, the Company is completing corrective actions in order to minimize the negative impact over the entire business and analyzing options to return to a profitable OWM business model in the near future. The strategic review included a review of the carrying amount of certain assets including, inventory, property, plant and equipment, intangible assets and goodwill in the OWM segment.
- v) Based on this review, the Company recorded, in the second quarter, a charge of \$9,553,399, virtually all related to its OWM segment, detailed as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Property, plant and equipment	3,151,183	-
Intangible assets	1,258,216	-
Goodwill	5,144,000	-
	<hr/>	
	9,553,399	-
	<hr/>	

- vi) Also, as mentioned in note 4, the Company recorded an inventory write-down of \$2.6 million, which is recorded in direct costs.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 14 Income taxes

The reconciliation of the income tax provision calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the financial statements is as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Expected recovery based on combined Federal and Provincial tax rate of 33.5% (2007: 36.1%)	(9,131,443)	(1,697,261)
Non-deductible expenses	579,761	48,611
Non-deductible interest accretion	182,500	161,000
Stock-based compensation costs	62,000	172,000
Goodwill impairment	725,486	-
Change in tax rate	1,212,688	747,459
Foreign exchange effect of translation of foreign integrated subsidiaries	(834,338)	-
Utilization of tax loss carry-forwards for which a benefit had not been recognized	-	(446,799)
Recognition of SR&ED claims not previously recognized	-	(357,287)
Other	(74,989)	(468,013)
Change in valuation allowance	8,749,221	119,004
	<hr/>	<hr/>
	1,470,886	(1,721,286)
	<hr/>	<hr/>

The components of the provision for income taxes are as follows:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Current	1,231,390	1,995,323
Future	239,496	(3,716,609)
	<hr/>	<hr/>
	1,470,886	(1,721,286)
	<hr/>	<hr/>

Following a review of its operations, 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.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

Significant components of the Company's future income tax assets and liabilities are as follows:

	2008 \$	2007 \$
Future income tax assets		
Non-capital loss carry-forwards	9,616,620	6,859,297
Property, plant and equipment	643,280	-
Deferred revenue	1,367,845	699,000
Provision and accruals	1,278,566	-
Other current liabilities	321,171	-
Other	39,203	206,062
	<hr/> 13,266,685	<hr/> 7,764,359
Valuation allowance	(8,749,221)	-
	<hr/> 4,517,464	<hr/> 7,764,359
Future income tax liabilities		
Research and development tax credits	(130,336)	(207,641)
Deferred financing charges	(241,871)	(227,801)
Intangible assets	(5,031,155)	(5,325,867)
Property, plant and equipment	-	(434,580)
	<hr/> (5,403,362)	<hr/> (6,195,889)
Future income tax assets (liabilities), net	<hr/> (885,898)	<hr/> 1,568,470
Reported as		
Future income tax assets - current	883,000	1,038,432
Future income tax assets – long-term	857,532	1,142,558
Future income tax liabilities – long-term	(2,626,430)	(612,520)
	<hr/> (885,898)	<hr/> 1,568,470

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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As at December 31, 2008, the Company and its Canadian subsidiaries have available non-capital losses of \$34,726,000 for income tax purposes which expire as follows:

	\$
2009	644,000
2010	281,000
2014	1,976,000
2015	7,683,000
2026	2,305,000
2027	6,902,000
2028	14,935,000
	<u>34,726,000</u>

## 15 Joint venture

A subsidiary of the Company, Biogénie, has a 50% joint venture interest with Biffa Waste Services Ltd. Biogénie has joint control over this joint venture and its share of the assets and liabilities and items on the statements of operations and cash flows are included in the consolidated financial statements as follows:

	2008 \$	2007 \$
<b>Statement of Operations</b>		
Revenues	2,214,102	1,266,245
Direct costs	722,984	461,039
Depreciation of property, plant and equipment and other costs	381,252	202,320
	<u>1,109,866</u>	<u>602,886</u>
<b>Statement of Cash flows</b>		
Net cash provided by operating activities	<u>1,511,750</u>	<u>627,080</u>
<b>Assets</b>		
Accounts receivable	197,060	224,502
Work in progress	97,804	142,143
Property, plant and equipment	881,334	1,085,065
	<u>1,176,198</u>	<u>1,451,710</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	213,245	6,591
Deferred revenue	100,035	-
	<u>313,280</u>	<u>6,591</u>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 16 Loss per common share

The calculation of net loss per share is based on the daily weighted average number of common shares outstanding during the year. The calculation of diluted net loss 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.

The following table reconciles the net loss and the number of shares for the basic and diluted loss per share calculations:

	<b>2008</b>		
	<b>Net loss attributable to common shareholders</b>	<b>Weighted average number of shares</b>	<b>Per share amount</b>
	\$		\$
Basic net loss per share	(28,862,967)	84,860,915	(0.34)
Dilutive effect of stock options	-	29,481	-
Dilutive effect of Series 3 preferred shares	-	10,293,005	-
Diluted net loss per share	<u>(28,862,967)</u>	<u>95,183,401</u>	<u>(0.34)</u>

Stock-based awards are excluded from the calculation of the diluted weighted average number of shares outstanding when their exercise price is greater than the average market price of common shares. The number of excluded stock-based awards is presented below.

Stock options	2,304,092
Option and Stock Appreciation Rights	7,400,000
Warrants	1,982,134
Preferred shares	11,033,438
Convertible debentures	60,566,176

	<b>2007</b>		
	<b>Net loss attributable to common shareholders</b>	<b>Weighted average number of shares</b>	<b>Per share amount</b>
	\$		\$
Basic net loss per share	(2,977,665)	78,645,324	(0.04)
Dilutive effect of warrants	-	122,357	-
Dilutive effect of stock options	-	348,124	-
Dilutive effect of preferred shares		11,033,438	
Dilutive effect of convertible debentures		60,566,176	
Diluted net loss per share	<u>(2,977,665)</u>	<u>150,715,419</u>	<u>(0.04)</u>

Stocks-based awards are excluded from the calculation of the diluted weighted average number of shares outstanding when their exercise price is greater than the average market price of common shares. The number of excluded stocks-based awards is presented below.

Stock options	2,284,801
Option and Stock Appreciation Rights	14,500,000
Warrants	1,607,134

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 17 Commitments and contingencies

(a) Leases

The Company leases office premises and vehicles and equipment from related parties with minimum annual payments as follows

	Vehicles and equipment \$	Premises \$
Years ending December 31, 2009	1,964,674	1,364,479
2010	1,819,352	1,253,331
2011	1,221,490	1,219,831
2012	115,962	967,861
2013 and thereafter	40,631	2,838,666
	<hr/> 5,162,109	<hr/> 7,644,168

(b) Construction in progress

As at December 31, 2008, there is a construction in progress included in soil recycling and composting facilities with orders totalling \$1,780,291 to complete the project (note 5).

(c) Letters of credit

The Company has renewable letters of credit outstanding in the aggregate of \$5,180,341 (2007 - \$2,636,389) which are used, in part, as security for bonding, in place of bonding or in place of cash security. The letters of credit are issued under the credit agreement.

(d) Litigation

- i) A statement of claim had been filed, on November 5, 2003, against Wasteco Environmental Services Ltd, ("WasteCo") a subsidiary of EnGlobe, currently discontinued, and other parties alleging damages of \$23.8 million. This claim was dismissed on August 12, 2008, but on October 21, 2008, the plaintiff decided to file a civil notice of appeal. Management believes that this appeal has no merit.
- ii) A statement of claim has been filed against the Company by a former President and CEO, a company and a trust controlled by a former President and CEO, alleging a conspiracy by the Company with a third party to the suit with the intention of fraudulently obtaining ownership of the shares owned or controlled by the plaintiff. The amount of the claim is \$17 million. Management believes this claim has no merit and the final determination will not materially affect the financial position or results of the Company.
- iii) 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

For the years ended December 31, 2008 and 2007

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(e) Asset retirement obligation

During the year, the Company recognized an asset retirement obligation of approximately \$1,700,000 in respect of the expected costs to remediate one of its facilities. The key assumptions on which the fair value of the asset retirement obligations are based include the estimated future cash flows, the timing of those cash flows, and the credit-adjusted risk-free rate at which the estimated cash flows have been discounted. The Company used a discount rate of 6 %. As at December 31, 2008, undiscounted cash outflows approximating \$1,700,000 are expected to occur over a five-year period.

(f) Other obligations

During the year, the Company settled a case with a former shareholder of GSI, a wholly-owned subsidiary of the Company. This claim was settled in July 2008 under which the Company would pay \$1,200,000 in accordance with the settlement between the parties. The insurance company disbursed \$500,000 on July 15, 2008 and the Company will pay \$350,000 on each of July 15, 2009 and July 15, 2010. These payment obligations, which have been recorded on a discounted basis, are secured by a general security agreement which is subordinated to the security held by the Company's secured lenders.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 18 Segment information

The Company's operations consist of three operating segments: Site Assessment and Remediation, Organic Waste Management and Tank Testing and Calibration services. Services are provided to customers in Canada, the United Kingdom, France and the United States. Segmented results for the years ended December 31, 2008 and 2007 are as follows:

	<b>2008</b>			
	<b>Site Assessment and Remediation \$</b>	<b>Organic Waste Management \$</b>	<b>Tank Testing and Calibration \$</b>	<b>Total \$</b>
Revenues				
Canada	52,879,313	43,334,613	3,398,770	99,612,696
United Kingdom	25,428,643	-	-	25,428,643
France	20,571,185	-	-	20,571,185
United States	3,589,951	-	-	3,589,951
	<u>102,469,092</u>	<u>43,334,613</u>	<u>3,398,770</u>	<u>149,202,475</u>
Depreciation and amortization	7,706,115	1,732,083	161,117	9,599,315
Other non-cash charges		9,553,399		9,553,399
Segment earnings (loss) before the undernoted items	8,957,588	(21,030,315)	314,858	(11,757,869)
Stock-based compensation				184,587
Restructuring and other costs				5,388,132
Interest on long-term debt				6,827,668
Other interest and bank charges				1,995,326
Unrealized loss on interest rate swap				1,104,457
Income tax expense				<u>1,470,886</u>
Net loss and comprehensive loss				<u>(28,728,925)</u>
Capital and intangible expenditures	11,009,913	284,852	80,770	11,375,535
Goodwill as at December 31, 2008	20,344,267	-	788,277	21,132,544

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2007

	Site Assessment and Remediation \$	Organic Waste Management \$	Tank Testing and Calibration \$	Total \$
Revenues				
Canada	50,463,069	56,545,952	3,295,488	110,304,509
United Kingdom	13,477,140	-	-	13,477,140
France	23,304,484	-	-	23,304,484
United States	2,017,860	-	-	2,017,860
	89,262,553	56,545,952	3,295,488	149,103,993
Depreciation and amortization	6,825,519	1,684,365	158,828	8,668,712
Segment earnings (loss) before the undernoted items	8,804,754	(4,103,842)	574,013	5,274,925
Stock-based compensation				428,738
Restructuring and other costs				3,716,307
Interest on long-term debt				4,396,383
Other interest and bank charges				1,429,419
Unrealized loss on interest rate swap				3,029
Income tax recovery				(1,721,286)
Net loss and comprehensive loss				(2,977,665)
Capital and intangibles expenditures	3,680,413	1,916,630	27,910	5,624,953
Goodwill as at December 31, 2007	9,383,445	4,375,601	788,277	14,547,323

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### Geographic segments

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

2008

	Canada \$	United Kingdom \$	France \$	United States \$	Total \$
Property, plant and equipment	20,979,541	2,903,182	3,690,313	72,588	27,645,624
Goodwill and intangible assets	24,017,223	19,471,615	6,688,683	71,478	50,248,999
Other assets	44,263,875	4,863,814	3,855,477	1,406,244	54,389,409
Total assets	89,260,639	27,238,611	14,234,473	1,550,310	132,284,032

2007

	Canada \$	United Kingdom \$	France \$	United States \$	Total \$
Property, plant and equipment	26,649,274	2,676,144	2,593,949	89,742	32,009,109
Goodwill and intangible assets	30,824,381	2,468,824	7,465,898	79,784	40,838,887
Other assets	43,897,013	2,989,204	10,413,582	266,087	57,565,886
Total assets	101,370,668	8,134,172	20,473,429	435,613	130,413,882

Revenue is allocated to geographic regions based on where the services are performed. Premises and equipment are allocated based upon physical location. Goodwill and intangible assets are allocated based on the location of the related operations.

### 19 Capital management

The Company's objective when managing capital is to generate a superior return for its shareholders by making an optimal use of debt and equity while maintaining flexibility and liquidity in its sources of financing. The Company defines its capital as

- Cash and cash equivalents;
- Amounts available under the Company's credit facility, including term loan and a revolving facility;
- Other long-term debt including Class A convertible debentures and Class B debentures, and;
- Total shareholders' equity, including common shares, preferred shares, contributed surplus and deficit.

The Company's objective is to maintain a reasonable level of debt and the Company is using the net debt to earnings before interest and bank charges, tax, depreciation and amortization, restructuring and other costs, other non-cash charges, stock-based compensation, foreign exchange loss (gain), unrealized loss (gain) on interest rate swap ("adjusted EBITDA") ratio to define and manage the risk of its capital structure. Net debt, a non-GAAP measure, is calculated as the sum of the long-term debt (including the current portion) and bank indebtedness less cash and cash equivalents. The Class A convertible debentures are excluded from this calculation as they are held by a significant shareholder of the Company and can be converted into common shares.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

The following table below reconciles the adjusted EBITDA to net loss.

	2008 \$	2007 \$
Net loss	(28,728,925)	(2,977,665)
Depreciation and loss (gain) on disposal of property, plant and equipment	5,386,761	6,264,200
Amortization of intangible assets	4,057,860	2,540,157
Stock-based compensation	184,587	428,738
Restructuring and other costs	5,388,132	3,716,307
Other non-cash charges	9,553,399	-
Foreign exchange loss (gain)	(2,164,124)	640,879
Interest on long-term debt	6,827,668	4,396,383
Other interest and bank charges	1,995,326	1,429,419
Unrealized loss on interest swap	1,104,457	3,029
Income tax expense (recovery)	1,470,886	(1,721,286)
<b>Adjusted EBITDA</b>	<b>5,076,027</b>	<b>14,720,161</b>
	<b>2008 \$</b>	<b>2007 \$</b>
Adjusted EBITDA	5,076,027	14,720,161
Net debt		
Bank indebtedness	5,675,840	15,774,863
Long-term debt	53,637,670	46,275,739
Current portion of long-term debt	4,070,066	4,450,000
Class A convertible debentures	(16,049,500)	(15,690,525)
Cash and cash equivalents	(3,157,301)	(902,239)
Total net debt	44,176,775	49,907,838
Bank indebtedness ratio	8.7	3.4

For 2008, Celtic's adjusted EBITDA has contributed to the twelve-month consolidated EBITDA only since March 25, 2008 and consequently the ratio is inflated in that it reflects the full impact of the debt from the Celtic acquisition with only three quarters of Celtic's earnings. Celtic's adjusted EBITDA for the previous quarter, which is not included in the adjusted EBITDA above, is \$0.7 million. Including the full year of Celtic's adjusted EBITDA, the ratio declines to 7.7.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

### 20 Financial instruments

#### Fair value

The fair value of financial instruments as at December 31, 2008 and 2007 is summarized as follows:

	As at December 31, 2008			
	Held for trading	Loans and receivable	Financial liabilities	
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	3,157,301			3,157,301
Accounts receivable		35,587,230		35,587,230
Work in progress		9,233,458		9,233,458
<b>Total financial assets</b>	<b>3,157,301</b>	<b>44,820,688</b>		<b>47,977,989</b>
<b>Financial liabilities</b>				
Bank indebtedness			5,675,840	5,675,840
Accounts payable and accrued liabilities			24,166,136	24,166,136
Additional consideration payable			2,663,100	2,663,100
Capital lease obligations			690,560	690,560
Term loan			37,268,446	37,268,446
Debentures			23,763,993	14,880,132
Other long-term obligation			2,304,736	2,304,736
Series 1 preferred shares			1,126,612	451,834
<b>Total financial liabilities</b>			<b>97,659,423</b>	<b>88,100,784</b>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

	<b>As at December 31, 2007</b>				
				<b>Carrying value</b>	<b>Fair value</b>
	<b>Held for trading</b>	<b>Loans and receivable</b>	<b>Financial liabilities</b>	<b>Total</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Financial assets</b>					
Cash and cash equivalents	902,239			902,239	902,239
Accounts receivable		37,651,230		37,651,230	37,651,230
Work in progress		7,781,766		7,781,766	7,781,766
<b>Total financial assets</b>	<b>902,239</b>	<b>45,432,996</b>		<b>46,335,235</b>	<b>46,335,235</b>
<b>Financial liabilities</b>					
Bank indebtedness			15,774,863	15,774,863	15,774,863
Accounts payable and accrued liabilities			22,420,383	22,420,383	22,420,383
Capital lease obligations			554,934	554,934	554,934
Term loan			38,050,000	38,050,000	38,050,000
Debentures			15,690,525	15,690,525	15,690,525
Other long-term obligation			531,955	531,955	531,955
Series 1 preferred shares			997,147	997,147	997,147
<b>Total financial liabilities</b>			<b>94,019,807</b>	<b>94,019,807</b>	<b>94,019,807</b>

Accounts receivable, bank indebtedness, accounts payable and accrued liabilities and additional consideration payable are financial instruments whose carrying value approximates their fair value due to their short-term maturity. Cash and cash equivalents are valued at fair value. Cash equivalents are made of a short-term investment of \$1,775,400 (nil in 2007).

The fair value of work in progress approximates its carrying value due to the short-term period before being invoiced and the continuous revision made by the Company to assure that the value respects the contractual settlement with clients.

To estimate the fair value of capital lease obligations, the Company compares existing lease contracts with the most recent transactions realized. The fair value of Capital lease obligations approximates the carrying value.

The fair value of the term loan is equivalent to its carrying value since part of the interest rate is based on LIBOR or banker's acceptance rate.

The fair value of Class A Convertible Debentures, Series 1 preferred shares and Class B Convertible Debentures is estimated by the discounting of cash flows at current market rates for similar loans.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### Financial Risk Management

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

### Foreign Exchange Risk

The Company operates on an international basis and therefore, foreign exchange risk exposures arise from transactions denominated in a foreign currency. Foreign exchange risk arises primarily with respect to the U.K. pound sterling, the euro, and the US dollar. The Company occasionally enters into derivative contracts to manage this risk. To partially hedge its risk against the pound sterling, the Company has some pound sterling-denominated debt, used mainly for its recent Celtic acquisition. The Company also has access to funds for its operations through its pound sterling-denominated revolving facility.

Impact of foreign exchange risk on financial statements	In UK pounds sterling	In Euros
Net working capital (a non GAAP measure)	1,477,239	1,548,440
Long-term debt	5,349,476	-

As at December 31, 2008, with other variables unchanged, a \$0.01 strengthening (weakening) of the Canadian dollar against the U.K. pound sterling and the Euro would have an effect of \$0.1 million negative or positive on annual earnings before income taxes for the net working capital portion and \$0.1 and \$0.2 million negative or positive for the long-term debt portion respectively.

### Interest rate risk

The Company's principal exposure to interest rate fluctuations is limited to its long-term debt and revolving facilities (as described in note 9) which bears interest at both fixed and floating interest rates, some of which are LIBOR-based, others are based on the Canadian bankers' acceptance rate. The Company has entered into an interest rate swap to mitigate the exposure to variable interest rates for an amount of \$16,800,000 of its long-term debt with a fixed interest rate of 4.315%.

As at December 31, 2008, with other variables unchanged and considering the outstanding interest swap agreement for \$17.3 million, a 1% change in the LIBOR rate and the Canadian banker's acceptance rate would have an annual impact on earnings before income taxes of \$0.2 million and \$0.2 million respectively. There would be no effect on other comprehensive loss.

### Credit risk

The Company's financial instruments that are exposed to credit risk include cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with institutions of high creditworthiness. The Company provides a wide variety of environmental services for a broad public and private sector customers and which spans numerous industries. Long-term contracts are with large well-established customers. The Company monitors its credit exposure to its customers on a regular basis. The Company's accounts receivable are not subject to a high concentration of credit risk. The following table provides further details on the aging of trade accounts receivable.

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

	<b>As at December 31, 2008</b>	
	<b>\$</b>	
<b>Trade accounts receivable:</b>		
Trade accounts receivable not past due		18,005,301
Trade accounts receivable past due		
For less than 30 days	8,825,997	
For 30 to 60 days	4,177,905	
For over 60 days	2,931,968	15,935,870
		33,941,171
Allowance for doubtful accounts		(1,773,427)
Other accounts receivable		2,581,247
		<u>34,748,991</u>

During the year ended December 31, 2008, the provision for doubtful accounts was increased by \$1.2 million. The provision for doubtful accounts results from an analysis of each past due account over 60 days.

### Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances, managing its accounts payable and by appropriately utilizing the revolving facility. The Company continuously monitors and reviews both actual and forecasted cash flows. Long-term debt's maturity and repayment schedules are designed to give the Company the flexibility it needs. The following table provides further details regarding the maturity of financial liabilities.

	<b>Carrying amount</b>	<b>Contractual Cash Flow</b>	<b>0 to 12 months</b>	<b>12 to 24 months</b>	<b>Over 24 months</b>
Accounts payable and accrued liabilities	24,166,136	24,166,136	24,166,136	-	-
Term loan	37,268,446	37,268,446	4,070,065	6,105,094	27,093,287
Additional consideration payable	2,663,100	2,663,100	2,663,100	-	-
Capital lease obligations	690,560	745,077	452,383	275,811	16,883
Debentures	23,763,993	32,905,843	-	-	32,905,843
Other long-term obligation	2,304,736	2,304,736	664,856	619,880	1,020,000
Series 1 preferred shares	1,126,612	2,032,152	-	-	2,032,152
	<u>91,983,583</u>	<u>102,085,490</u>	<u>32,016,540</u>	<u>7,000,785</u>	<u>63,068,165</u>

# EnGlobe Corp.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

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### 21 Additional disclosures

#### Net change in non-cash working capital items:

	2008 \$	2007 \$
Accounts receivable	6,039,214	(3,872,694)
Inventory	4,909,194	(1,655,748)
Work in progress	408,188	3,162,080
Prepaid expenses and advances	(9,134)	287,592
Other current assets	-	(218,925)
Accounts payable and accrued liabilities	(2,111,621)	(3,562,248)
Deferred revenue	659,199	(1,652,838)
Income taxes	(3,125,467)	(1,457,219)
<b>Net change in non-cash working capital items</b>	<b>6,769,573</b>	<b>(8,970,000)</b>

	2008 \$	2007 \$
<b>Cash and cash equivalents consist of the following:</b>		
Cash	1,381,901	902,239
Short-term investment	1,775,400	-
	<b>3,157,301</b>	<b>902,239</b>

### 22 Related party transactions

The Company has convertible units and Class B debentures that are held by shareholders (see note 9). Associated to those items, the Company has recorded \$2,353,995 of interest on long-term debt (\$1,476,475 in 2007) and has accrued interest of \$663,975 as at December 31, 2008 (nil in 2007) included in accounts payable and accrued liabilities.

### 23 Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.