

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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This Management Discussion and Analysis (MD&A) reviews the financial condition and results of operations for EnGlobe Corp. ("EG" or the "Company") for the years ended December 31, 2008 and 2007. This information is presented as of February 17, 2009.

The MD&A should be read in conjunction with our audited consolidated financial statements and the accompanying notes for the years ended December 31, 2008 and 2007.

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts in this MD&A are in Canadian dollars, except as otherwise noted.

Throughout this MD&A, "we", "us", "our", "EG" and "the Company" refer to EnGlobe Corp. and its subsidiaries. More information is available about EG, including our Annual Information Form for the year ended December 31, 2008 and recent financial reports filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements about EG's objectives, strategies, financial condition, results of operations, cash flow and businesses. These statements are "forward-looking" because they are based on our current expectations, estimates and assumptions, regarding the markets we operate in, the Canadian, U.S. and European economic environment, our ability to attract and retain customers, our relationships with our suppliers, availability and costs of fuels and utilities, the results of our ongoing efforts to improve cost effectiveness, changes in regulatory requirements affecting our business, and the availability and terms of financing.

Canadian Securities Laws contemplate that companies may disclose forward-looking information so that investors can get a better understanding of the Company's future prospects and make informed investment decisions. A statement is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as "anticipate", "believe", "could", "expect", "goal", "guidance", "intend", "may", "objective", "outlook", "plan", "seek", "strive", "target" and "will".

It is important to know that:

- Forward-looking statements in this MD&A describe our expectations as at March 25, 2009.
- Our actual results could be materially different from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize and, accordingly, you are cautioned not to place undue reliance on these forward-looking statements.
- Forward-looking statements do not take into account the effect of transactions, or non-recurring or other special items announced or occurring after the statements are made, may have on our business. For example, they do not include the effect of sales of assets, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.
- We disclaim any intention and assume no obligation to update any of the forward-looking statements as a result of future events or for any other reason.
- The quarterly MD&A schedules have been prepared in thousands which may result in rounding differences when compared to the annual consolidated financial statements.

Risks that could cause our actual results to differ materially from our current expectations are discussed in this MD&A primarily in the *Risks That Could Affect Our Business* section.

## SELECTED ANNUAL INFORMATION

### Results of operations from Consolidated Statements

\$000's (except per share amounts)

	2008	2007	2006
	\$	\$	\$
<b>Revenues</b>	149,202	149,104	69,921
<b>Net loss before discontinued operations</b>	(28,729)	(2,978)	(116)
<b>Net earnings from discontinued operations</b>	-	-	847
<b>Net and comprehensive (loss) earnings</b>	(28,729)	(2,978)	731
<b>Basic and diluted (loss) earnings per share</b>			
From continuing operations	(0.34)	(0.04)	-
From discontinuing operations	-	-	0.02
	(0.34)	(0.04)	0.02
<b>Assets</b>	132,284	130,414	137,417
<b>Liabilities</b>	107,877	102,289	49,247
<b>Cash dividend on Preferred shares Series II</b>	72	-	-

## NON-GAAP FINANCIAL MEASURES

### Adjusted EBITDA

Adjusted EBITDA does not have any standardized meaning prescribed under GAAP and is therefore unlikely to be comparable to similar measures presented by other companies.

We use Adjusted EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of depreciation of property, plant and equipment, loss (gain) on disposal of property, plant and equipment, amortization of intangible assets, restructuring and other costs, stock-based compensation, interest and bank charges, unrealized loss (gain) on interest swap, foreign exchange loss (gain), other non-cash charges and income tax expense (recovery). We exclude loss (gain) on disposal of property, plant and equipment, restructuring and other costs, unrealized loss (gain) on interest swap and foreign exchange loss (gain) because they are generally not part of our ongoing operations. We also exclude stock-based compensation and other non-cash charges because they all largely depend on the accounting methods and assumptions we use, along with non-operating factors, such as the historical cost of capital assets and the value of our common shares.

Adjusted EBITDA allows us to compare our operating performance over time on a consistent basis. We believe that certain investors and analysts use Adjusted EBITDA to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement in the environmental services industry. Readers are cautioned that Adjusted EBITDA should not be confused with cash flow from operating activities. The most comparable GAAP financial measure is operating income, which is discussed in the *Results of Operations* section of the MD&A. The table below reconciles Adjusted EBITDA to net earnings (loss) for the periods presented.

\$000's (Unaudited)	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
<b>Adjusted EBITDA</b>	3,818	-1,192	-4,001	6,387	3,881
Depreciation of property, plant and equipment	1,500	1,385	1,537	1,270	1,350
Loss (gain) on disposal of property, plant and equipment	38	-8	186	-90	-243
<b>Earnings (loss) before the undernoted items</b>	2,280	-2,569	-5,724	5,207	2,774
Amortization of intangibles	655	640	1,274	991	1,153
Stock-based compensation	70	88	66	59	-28
Restructuring and other costs	1,616	912	1,725	934	1,817
Other non-cash charges	0	0	9,553	0	0
Foreign exchange loss (gain)	261	-335	109	-292	-1,646
Interest and bank charges	1,808	1,453	1,975	2,560	2,830
Unrealized loss (gain) on interest swap	161	432	-201	155	722
Income tax expense (recovery)	-1,299	-1,823	2,324	695	275
<b>Net earnings (loss)</b>	<b>-992</b>	<b>-3,936</b>	<b>-22,549</b>	<b>105</b>	<b>-2,349</b>

## **ABOUT OUR BUSINESS**

EnGlobe Corp. (EG) is a leading international integrated environmental services company specializing in the management of contaminated soils and organic-based waste streams, with an emphasis on beneficial reuse. EG offers cost-effective solutions to municipal, commercial and industrial clients in Canada, the United Kingdom, France and the north eastern United States through our subsidiaries Biogénie S.R.D.C. Inc. (“Biogénie”), Celtic Technologies Limited (“Celtic”), GSI Environment Inc. (“GSI”) and Tanknology Canada Inc. (“Tanknology”).

### ***Site Assessment and Remediation***

Biogénie and Celtic comprise the Site Assessment and Remediation (“SAR”) business units of EnGlobe, specializing in on-site and off-site treatment and recycling of contaminated soil as well as the remediation of contaminated or degraded sites. Our SAR division has operating locations in Canada, the United Kingdom, France and the United States including 13 off-site treatment facilities; ten in Canada, two in the United Kingdom, and one in France as well as many on-site treatment units where almost one million metric tons of contaminated soils were treated in 2008.

### ***Organic Waste Management***

GSI is the Organic Waste Management (“OWM”) business unit for EnGlobe, providing environmental services such as composting, direct land application and biomass cogeneration, in addition to the commercialization of eco-products in bulk. GSI has operating locations in Québec and Ontario including eight composting and transfer facilities, all located in Québec. GSI manages almost one million metric tons of organic waste annually through its various beneficial reuse outlets.

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

Tanknology is the Tank Testing and Calibration business unit of EnGlobe. Its services, which are provided across Canada, include storage tank and line precision leak testing and statistical inventory reconciliation, compliance testing, meter calibration and facility compliance as well as tank system audits.

## **RESULTS OF OPERATIONS**

### **Twelve Months**

#### **Revenues**

Revenues were \$149.2 million for the year ended December 31, 2008 compared with revenue of \$149.1 million for the year ended December 31, 2007, an increase of \$0.1 million. The Celtic acquisition on March 25, 2008 contributed \$18.8 million in SAR division revenue. This increase has been offset by lower revenue from existing operations mainly due to a reduction in revenue from the SAR United Kingdom markets and the OWM division. In 2008, the Company undertook a detailed review of its OWM operation that has resulted in major changes to its strategy. The Company now concentrates its operation on contracts and activities that generate acceptable positive contribution and is progressively phasing out of those operations not reaching these expectations. This strategy has led to lower sales for the OWM business unit. Revenues for the Tank Testing and Calibration division were comparable to the same period in 2007.

\$000's (Unaudited)	Years ended December 31,	
	2008	2007
<b>Revenues</b>		
Site Assessment and Remediation	\$ 102,469	\$ 89,263
Organic Waste Management	43,335	56,545
Tank Testing and Calibration	3,399	3,296
<b>Total</b>	<b>149,203</b>	<b>149,104</b>

## Gross Profit

Gross profit for the year ended December 31, 2008 was \$34.1 million, compared to gross profit of \$43.9 million for the year ended December 31, 2007, a decrease of \$9.8 million or 22.3%. As a percentage of sales, gross profit for the year ended December 31, 2008 was 22.9% compared to 29.4% for the year ended December 31, 2007. The SAR division achieved comparable results in 2008 vs 2007. The reduction in gross profit is primarily attributable to the negative margin of \$1.4 million for the OWM division, where treatment and disposal costs increased significantly, as well as the lower margin earned on compost sales due to a more competitive market. Further, the value of compost also significantly decreased during 2008 and the Company recorded an inventory non-cash write-down of \$2.6 million. This unforeseen decrease has resulted in a change of management's estimate of the expected realizable value of its compost. Two of the OWM division's competitors went into bankruptcy protection in the Quebec marketplace during 2008. In response to this unexpected turn of events, the Company is initiating corrective actions in order to minimize this negative impact and is implementing concrete actions to return the OWM division to a profitable business model. As part of this initiative, starting in the third quarter 2008, the Company has renegotiated certain contracts, rationalized its compost sales to include only products that generate an acceptable contribution, and substantially reduced its fixed and variable staffing levels.

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

\$000's (Unaudited)	Years ended December 31,	
	2008	2007
<b>Gross profit</b>	<b>\$ 34,118</b>	<b>\$ 43,871</b>
Selling, general and administrative	29,042	29,151
<b>Adjusted EBITDA</b>	<b>5,076</b>	<b>14,720</b>
Depreciation of property, plant, equipment	5,541	6,128
Loss (gain) on disposal of property, plant and equipment	(154)	136
<b>Earnings (loss) before the undernoted items</b>	<b>(311)</b>	<b>8,456</b>

Adjusted EBITDA for the year ended December 31, 2008 was \$5.1 million compared to \$14.7 million for the year ended December 31, 2007, a decrease of \$9.6 million. Year over year, the acquisition of Celtic generated Adjusted EBITDA of \$3.9 million while the existing SAR operations realized lower Adjusted EBITDA mainly due to the European operations generating lower revenues and as a result, lower profit. All OWM activities have experienced a significant decline as described in the preceding section. Unsatisfied with these consolidated results, the Company has reviewed all operations and has put in place an action plan to enhance performance.

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2008 were \$29.0 million compared with \$29.1 million for the year ended December 31, 2007. Excluding Celtic, the decrease would have been \$1.8 million or 5.8%. This decrease is explained by initial success of the Company's SG&A and operating cost restructuring initiatives, which began to be implemented in the third quarter.

Depreciation combined with the gain on disposal of property, plant and equipment for the year ended December 31, 2008 was \$5.4 million compared to \$6.3 million for the year ended December 31, 2007. The change includes a reduction in the carrying value of certain fixed assets in the OWM division, partially offset by an increase in the depreciation of the assets related to the acquisition of Celtic as well as an increase following additional equipment acquisitions for the Northern Canadian projects.

Loss before the undernoted items for the year ended December 31, 2008 was \$0.3 million compared with an earnings before the undernoted items of \$8.5 million for the year ended December 31, 2007, a decrease of \$8.8 million. This decrease is mainly due to the reduction in the OWM gross profit as explained above, while the SAR operation, after including the Celtic acquisition, only experienced a slight negative impact.

## Net Loss

\$000's (Unaudited)	Years ended December 31,	
	2008	2007
<b>Earnings (loss) before the undernoted items</b>	<b>\$ (311)</b>	<b>\$ 8,456</b>
Amortization of intangibles	4,058	2,540
Stock-based compensation	185	429
Restructuring and other costs	5,388	3,716
Other non-cash charges	9,553	-
Foreign exchange loss (gain)	(2,164)	641
Interest and bank charges	8,820	5,826
Unrealized loss (gain) on interest swap	1,107	3
Income tax expense (recovery)	1,471	(1,721)
<b>Net loss</b>	<b>(28,729)</b>	<b>(2,978)</b>

Amortization of intangible assets for the year ended December 31, 2008 was \$4.1 million, an increase of \$1.6 million compared to the year ended December 31, 2007, mainly due to new intangible assets of \$7.9 million from the Celtic acquisition. Restructuring and other costs for the year ended December 31, 2008 were \$5.4 million or \$1.7 million higher than the same period of last year, mainly due to the settlement of a litigation case, professional fees and severance packages related to the implementation of actions to increase the profitability of the business.

Interest and bank charges for the year ended December 31, 2008 were \$8.8 million compared with \$5.8 million for the year ended December 31, 2007, as a result of increased borrowings (especially for the Celtic acquisition). The Company also incurred additional bank charges related to negotiations with its borrowers.

The average cash cost of debt financing was 7.7% during for the year ended December 31, 2008 and 7.0% for the year ended December 31, 2007. In addition, deferred financing charges and the deemed interest rates on the convertible debentures increased the effective cost of debt financing to 10.5%, compared with 9.0% for the year ended December 31, 2007.

Unrealized loss on interest swap of \$1.1 million is the result of expected lower interest rates in the future.

The foreign exchange gain of \$2.2 million, compared to a loss of \$0.6 million in 2007, is mainly explained by the lower value of the pound sterling as at December 31, 2008, applicable on items such as long term debt and additional consideration payable.

Income tax expense is \$1.5 million in 2008. The Company's net loss of \$27.3 million should have generated an income tax recovery of \$9.1 million; however, this amount was offset by an income tax valuation allowance of \$8.7 (following a review of the Company's operations) and other adjustments such as an additional \$1.2 million to consider the impact of the tax rate change in 2008. Some delays in the implementation of its restructuring and integration plan, including aspects related to legal entities, may lead to an inability to realize future tax benefits mostly related to the operating losses accumulated in the preceding years. All efforts will be made to optimize the Company's fiscal policies in the following years.

## Other non-cash charges

During the second quarter of fiscal 2008, EG's management performed a comprehensive review of its current performance and the strategic orientation of its business units. This review revealed that several factors have changed, which has negatively impacted some of the key assumptions. As a result, the Company undertook a detailed review of the carrying amount of certain assets and liabilities including; property plant and equipment, intangible assets, goodwill and deferred revenue and accruals, primarily in the OWM segment.

Management performed a test of goodwill impairment for its OWM business unit. The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3062, *Goodwill and Other Intangible Assets*, requires that goodwill is no longer amortized but instead, be tested for impairment at least once a year.

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's goodwill exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net earnings (loss).

In testing for impairment of long-lived assets, the Company assesses 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.

Based on the above, the Company recorded a charge of \$9,553,399 in the second quarter, all related to its OWM segment, detailed as follows:

\$000's (Unaudited)	Years Ended December 31	
	2008 \$	2007 \$
Property, plant and equipment	3,151	-
Intangible assets	1,258	-
Goodwill	5,144	-
<b>Total</b>	<b>9,553</b>	<b>-</b>

## Fourth Quarter

### Revenues

Revenues were \$41 million for the quarter ended December 31, 2008 compared to revenues of \$39.9 million for the quarter ended December 31, 2007 an increase of \$1.1 million or 2.8%. The significant growth in SAR division's revenue is attributable to Celtic, which contributed an additional \$7.3 million of revenue. In the OWM division, there was a decrease of revenues of \$6.4 million. As mentioned before, this division now concentrates its operation on activities with acceptable positive contribution. As a result, certain business activities have been progressively phased out. This strategy translated to lower revenues. Revenue for the Tank Testing and Calibration division was comparable to the same period in 2007 with no significant difference in the level of activity.

\$000's (Unaudited)	Three months ended December 31,	
	2008	2007
<b>Revenues</b>		
Site Assessment and Remediation	\$ 32,477	\$ 25,022
Organic Waste Management	7,612	13,986
Tank Testing and Calibration	864	850
<b>Total</b>	<b>40,953</b>	<b>39,858</b>

### Gross Profit

Gross profit for the quarter ended December 31, 2008 was \$11.1 million compared with \$12.3 million for the quarter ended December 31, 2007, a decrease of \$1.2 million or 9.8%. As a percentage of sales, gross profit for the quarter ended December 31, 2008 was 27.2% compared to 30.7% for the quarter ended December 31, 2007. The decrease in gross profit is primarily attributable to the OWM division, where treatment and disposal costs increased significantly, as well as the lower margin earned on the sale of compost due to a more competitive market.

### Adjusted EBITDA and earnings before the undernoted items

Adjusted EBITDA for the quarter ended December 31, 2008 was \$3.9 million compared with \$3.8 million for the quarter ended December 31, 2007, an increase of \$0.1 million. This increase in Adjusted EBITDA is mainly attributable to Celtic's contribution of \$1.9 million, which was offset by a decrease in OWM and SAR's other European operations.

Selling, general and administrative ("SG&A") expenses for the quarter ended December 31, 2008 were \$7.2 million compared with \$8.4 million for the quarter ended December 31, 2007 a decrease of \$1.2 million or 14.3% mainly explained by the initial implementation of the Company's restructuring plan.

Depreciation combined with the gain on disposal of property, plant and equipment for the quarter ended December 31, 2008 was \$1.1 million compared with \$1.5 million for the quarter ended December 31, 2007, a decrease of \$0.4 million. This decrease results from the second quarter's reduction in the carrying value of certain fixed assets in the OWM division.

The earnings before the undernoted items for the quarter ended December 31, 2008 was \$2.8 million compared to \$2.3 million for the quarter ended December 31, 2007, an increase of \$0.5 million mostly attributable the gain on disposal of various equipment.

\$000's (Unaudited)	Three months ended December 31,	
	2008	2007
<b>Gross profit</b>	\$ 11,129	\$ 12,259
Selling, general and administrative	7,249	8,441
<b>Adjusted EBITDA</b>	<b>3,881</b>	<b>3,818</b>
Depreciation of property, plant, equipment	1,350	1,500
Loss (gain) on disposal of property, plant and equipment	(243)	38
<b>Earnings before the undernoted items</b>	<b>2,774</b>	<b>2,280</b>

## Net loss

Amortization of intangible assets for the quarter ended December 31, 2008 was \$1.2 million, an increase of \$0.5 million compared to the quarter ended December 31, 2007, mainly due to the Celtic acquisition. Restructuring and other costs for the quarter ended December 31, 2008 were \$1.8 million, which is comparable with the same period of last year.

Interest and bank charges for the quarter ended December 31, 2008 were \$2.8 million compared to \$1.8 million for the quarter ended December 31, 2007. The increase in interest expense is the result of increased borrowings as well as an increase in the interest rate and additional bank charges related to a waiver obtained from the Company's lenders in the fourth quarter and the refinancing obtained in December.

The unrealized loss on the interest rate swap of \$0.7 million is the result of expected lower interest rates in the future.

The foreign exchange gain of \$1.6 million is explained by the lower exchange rate of the pound sterling as at December 31, 2008.

For income tax expense (recovery), a valuation allowance has been taken in 2008 following the Company's review of its operations.

\$000's (Unaudited)	Three months ended December 31,	
	2008	2007
<b>Loss before the undernoted items</b>	\$ 2,774	\$ 2,280
Amortization of intangible assets	1,153	655
Stock-based compensation	(27)	70
Restructuring and other costs	1,816	1,616
Foreign exchange loss (gain)	(1,646)	261
Interest and bank charges	2,830	1,808
Unrealized loss on interest swap	722	161
Income tax expense (recovery)	275	(1,299)
<b>Net loss</b>	<b>(2,349)</b>	<b>(992)</b>

## Stock Options, Tandem option and stock appreciation rights

During the year ended December 31, 2008, 908,332 (2007 – 1,166,666) stock options were granted under the Employee Stock Option Plan.

During the year ended December 31, 2008, 2,360,707 (2007 - 565,771) stock options were forfeited.

During the year ended December 31, 2008, 45,000 (2007 – 10,000) were exercised for proceeds of \$18,000 (2007-\$4,000).

During year ended December 31, 2008, 7,000,000 Option and Stock Appreciation Rights (“OSARs”) were granted (2007 – 4,000,000).

During the year ended December 31, 2008, 14,100,000 (2007 – 4,000,000) OSARs were forfeited.

## LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2008, there was a cash inflow of \$2.3 million generated by our operating, investing and financing activities compared to an outflow of \$4.7 million for the same period last year. For the year ended December 31, 2008, cash was primarily generated by our financing activities of \$15.7 million partially offset by \$12.3 million of cash used for investing activities (mainly for the Celtic acquisition) and \$1.1 million by our operating activities. For the year ended December 31, 2007, operating activities required \$5.9 million, investing activities \$10.4 million, while financing activities generated \$11.6 million.

During 2008, the Company raised a total of \$43.0 million in new funds, \$21.0 million through the issuance of preferred shares and \$22.0 million by way of a net increase in its long-term debt.

During the three month period ended December 31, 2008, there was a cash inflow of \$1.9 million generated by our operating, investing and financing activities, which compared to an outflow of \$0.6 million for the same period last year. For the quarter ended December 31, 2008, cash was primarily generated by our operating activities for \$4.1 million and by our investing activities for \$1 million, offset by financing activities for \$3.3 million. For the quarter ended December 31, 2007, the financing activities required \$0.2 million, investing activities required \$0.4 million and operating activities \$0.04 million.

The Company has access to a \$20.0 million revolving facility for the ongoing cash requirements of the business. This facility is used for, among other things, issuing letters of credit required for security, for bonding or similar requirements for projects. As at December 31, 2008, \$5.2 million in letters of credit were outstanding and \$3.7 million of the revolving facility was utilized to support working capital commitments.

As a result of the Company’s delayed filing of the second quarter 2008 financial statements, and the Company’s losses in the second quarter of 2008, the Company breached various financial and non-financial covenants under its credit agreement. The Company obtained waivers in relation to the various breaches under the agreement until November 14, 2008. 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 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 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%.

Based on its financial forecasts, the Company expects to meet the financial ratios and covenants set by the lenders.

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.

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.

## **CASH FLOW PROVIDED BY / USED IN OPERATING ACTIVITIES**

For the year ended December 31, 2008, cash used in operations was \$1.1 million compared with cash used in operations of \$5.9 million for the year ended December 31, 2007. Cash used in operating activities reflected the change in non-cash working capital items that generated \$6.8 million, offset by \$7.9 million derived from our net loss, less items not affecting cash and cash equivalents. In comparison, for the year ended December 31, 2007, the cash provided by operating activities before working capital charges was \$3 million, offset by non-cash working capital items which used \$9 million.

For the three month period ended December 31, 2008, cash generated in operations was \$4.1 million compared with cash used by operations of \$0.04 million for the three month period ended December 31, 2007. Cash generated in operating activities reflects the change in non-cash working capital items of \$4.1 million.

## **CASH FLOW PROVIDED BY / USED IN INVESTING ACTIVITIES**

For the year ended December 31, 2008, cash used in investing activities was \$12.3 million compared with cash used in investing activities of \$10.4 million for the year ended December 31, 2007. The cash used in investing activities was mainly due to the Celtic acquisition for \$10.2 million and \$3.2 million for the purchase of property, plant and equipment. For the same period in 2007, the cash used for investing activities was attributable to the payment of \$5.4 million for regular purchases of property, plant and equipment, and \$2 million related to the acquisition of Biogenie.

For the three month period ended December 31, 2008, cash generated by investing activities was \$1.0 million compared with cash used in investing activities of \$0.4 million for the three month period ended December 31, 2007. This surplus stems from the proceeds of the disposal of property, plant and equipment.

## **CASH FLOW PROVIDED BY / USED IN FINANCING ACTIVITIES**

For the year ended December 31, 2008, cash provided by financing activities was \$15.7 million, compared with cash provided by financing activities of \$11.6 million for the year ended December 31, 2007.

For the three month period ended December 31, 2008, cash used by financing activities was \$3.3 million, compared with cash used by financing activities of \$0.2 million for the three month period ended December 31, 2007, due to a repayment on the long term debt partially offset by proceeds from issuance of preferred shares.

On March 25, 2008, the Company completed the following financing transactions which provided a total of \$25.0 million of funding. The amount raised was used in part to repay bank indebtedness and partially fund the acquisition of Celtic:

- The Company amended its credit agreement to arrange a new 5 year term loan of \$15.2 million, denominated in pounds sterling (£7.6M), which was used in part for the acquisition of Celtic and to increase its working capital. The Company also extended the maturity of its existing term loan to five years.
- The Company issued an amount of \$7.0 million in Class B Debentures, for net proceeds of \$6.4 million after deducting financing fees of \$0.6 million, including \$0.3 million 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.

- 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 for financing fees. Net proceeds received from the issuance of the preferred shares was \$2.9 million after deducting \$0.1 million in issuance costs and \$0.2 million in financing fees paid to the holders of the Series 2 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 dividend per preferred share equal to 3% of the issue price per annum and are redeemable by the Company, at its option, on or after March 31, 2014 at the issue price plus all accrued and unpaid dividends. These Preferred shares were issued to certain shareholders of the Company.

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 issuance costs 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 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 shares equal to 6% of the issue price per annum and 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.

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

### *Contractual obligations*

The Company is currently required to make payments on its contractual obligations as follows:

\$000's (Unaudited)	2009	2010	2011	balance after 2011
Term loan	4,070	6,105	6,105	20,988
Debentures	-	-	-	32,906
Other long term obligations	665	620	573	447
Capital lease obligations	452	276	17	-
Operating leases	3,329	3,072	2,441	3,964
Additional consideration payable	2,663	-	-	-
Series 1 preferred shares				2,033
<b>Total contractual obligations</b>	<b>11,179</b>	<b>10,073</b>	<b>9,136</b>	<b>60,338</b>

As at December 31, 2008, there is construction in progress for additional soil recycling and composting facilities with orders totalling \$1,780,291 to complete the project.

The Company has renewable letters of credit outstanding in 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.

In second quarter of 2008, the Company recognized an asset retirement obligation of approximately \$1.7 million in respect to the expected costs to remediate one of its facilities.

#### *Litigation*

In the normal course of business we are party to a number of claims, which individually and in the aggregate, we believe to be immaterial to the financial position or ongoing operations of the business. We are also 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.

- 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 in August 2008; however, 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 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.

#### *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.

#### *Environmental contingencies*

The Company operates soil treatment facilities and also composting sites. As such, the Company is subject to environmental regulations and is required to operate its facilities within the conditions of permits, authorization certificates and other regulations. Failure to meet these conditions could result in financial penalties and/or site closure which could result in material charge against our operating results. Also, because of the nature of our operations, we are subject to third-party reclamations due to potential contamination of soils, underground water and processed water.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected consolidated financial information derived from our unaudited interim consolidated financial statements for each of the eight most recently completed quarters.

\$ 000's except per share amounts	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues	40,953	39,858	45,760	39,957	38,209	42,496	24,281	26,794
Net earnings (loss)	(2,349)	(992)	105	92	(22,549)	(178)	(3,936)	(1,899)
Basic net earnings (loss) per share	(0.03)	(0.01)	0.00	0.00	(0.26)	(0.00)	(0.05)	(0.02)
Diluted net earnings (loss) per share	(0.03)	(0.01)	0.00	0.00	(0.26)	(0.00)	(0.05)	(0.02)
Total assets	132,284	130,414	139,214	136,095	132,714	132,164	146,490	120,639
Total long-term financial liabilities	56,701	47,517	58,286	48,635	3,422	50,780	68,557	50,623
Weighted Average number of shares (in 000's)								
Basic	84,861	78,645	86,711	78,705	86,711	78,599	79,271	78,570
Diluted	95,183	79,116	94,557	79,423	94,557	78,599	79,788	78,570

Results have fluctuated over each of the quarters due to the seasonality of our business, new acquisitions in Q4 2006 and Q1 2008 and the major non-cash charges in Q2 2008. Due to the fact that our main business is soil remediation and organic waste management, it is quite common for our business to have decreased volumes and revenues in the winter months reflected mainly in the first quarter.

## TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2008, the Company completed financing activities with certain nominees of ONCAP Management Partners L.P. and its affiliates, a significant shareholder of the Company. The private placement financing, for an aggregate of \$27.05 million, was comprised of:

- The issuance of 7,375,000 Series 2 Preferred Shares of the Company at \$0.40 per share for gross proceeds of \$2,950,000; added to this are 470,745 preferred shares issued to cover certain financing fees associated with the private placement.
- \$6,775,000 in Series B debentures, excluding \$271,000 added to the principal amount of the debentures to cover for certain financing fees associated with the private placement.
- The issuance of 175,000,000 Series 3 preferred shares at \$0.10 per share and added to this are 10,662,000 preferred shares issued in consideration for financing fees. Consideration received for the preferred shares was \$17,325,000 after deducting \$175,000 in issuance costs and \$1,066,200 in financing fees paid to the holders of the preferred shares.

The Series 2 preferred shares are voting securities and convertible at any time by the holders thereof on the basis of one Series 2 Preferred Share for each common share. Holders of the Series 2 Preferred Shares are entitled to receive, subject to certain exceptions, a fixed, cumulative dividend per preferred shares equal to 3% of the issue price per annum and are redeemable by the Company, at its option, on or after March 31, 2014 at the issue price plus all accrued and unpaid dividends.

The Series B Debentures 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 debenture. The Company may repay all or a portion of the principal amount of the debenture at any time without penalty after March 2009.

The series 3 preferred shares are convertible at any time by the holders into freely tradable 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 shares equal to 6% of the issue price per annum and 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.

The proceeds from this financing were used to pay the acquisition of Celtic, to reduce indebtedness and for working capital purposes.

## **CRITICAL ACCOUNTING POLICIES**

### **Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Significant estimates include the allowance for doubtful accounts, future income tax assets, the useful lives of property, plant and equipment and intangible assets, the valuation of identifiable intangible assets and goodwill, the fair value of options granted and employee future benefits and certain accrued liabilities. Actual results could differ from those estimates.

### **Goodwill and Intangible Assets**

Goodwill is not amortized and is assessed for impairment at the business unit level at least annually. Comparing the fair value of a business unit/segment to its carrying value identifies any potential goodwill impairment. If the fair value of the business unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the business unit exceeds its fair value, this indicates potential goodwill impairment and must be quantified by comparing the estimated fair value of the business unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

We determine the fair value of our business units using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these fair values requires management to make estimates and assumptions including, but not limited to, projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to our Board of Directors. Discount rates are based on an industry weighted average cost of capital. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

## **Income Taxes**

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to recover or settle.

Following a review of its operations, the Company has recorded a valuation allowance of \$8.7 million due to some delays in the implementation of its restructuring and integration plans. This may lead to an inability to realize future tax benefits mainly related to the operating losses.

## **Bad Debt Expense**

We routinely review accounts receivable and set up a reserve for bad debts on a customer-by-customer basis. This is an estimate since some of the reserved accounts may be collected and we may subsequently find that some accounts currently deemed collectible become non-collectible.

## **Revenue Recognition**

Revenue is generated under fee for services contracts, cost based contracts and fixed price contracts. For the fee for services contracts, revenue is recognized when the services are provided. For cost based contracts, revenue is recorded when costs are incurred. Fixed price contracts are recorded using the percentage-of-completion method. This requires an estimate of the amount of costs that are anticipated to be incurred as the services are performed. Some of these costs change due to the nature of the treatment or disposal of the residual products. The estimate of the costs and associated margins can change during the year.

## **Financial instruments**

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

Except for the following, the Company does not have a practice of trading derivatives. Use of derivatives is based on established practices and parameters, which are subject to the oversight of the Board of Directors.

### **Interest swap agreement**

The Company's principal exposure to interest rate fluctuations is limited to its long-term debt which bears interest at both fixed and floating interest rates, some of which are LIBOR-based, others are based on the Canadian Bankers' Acceptance Rate. The Company has an interest rate swap to mitigate the exposure to variable interest rates for an amount of \$16.8 million of its long-term debt with a fixed interest rate of 4.315% expiring on November 24, 2011.

## NEW ACCOUNTING STANDARDS

Except as follows, the accounting policies followed by the Company are the same as those followed in the Company's consolidated financial statements and notes thereto, for the year ended December 31, 2008.

### a) Recently adopted accounting pronouncements

On January 1, 2008, the Company adopted the 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 a 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.

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.

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.

Effective July 1, 2008, the Canadian Accounting Standards Board approved amendments to CICA Sections 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.

### b) Recently issued accounting standards not yet adopted

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," which replaces Section 3062, "Goodwill and Other Intangible Assets." 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 Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. 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.

## NUMBER OF SHARES OUTSTANDING

Shares outstanding	March 25 2009	December 31 2008	December 31 2007
Common Shares	86,710,805	86,710,805	78,705,160
Common shares issuable as additional consideration	10,589,000	10,589,000	
Series 1 Preferred Shares	10,296,250	10,296,250	10,296,250
Series 2 Preferred Shares	7,845,745	7,845,745	-
Series 3 Preferred Shares	188,362,000	188,362,000	
Series 3 Preferred Shares issuable as dividend	617,180	617,180	
<b>Options/SAR's outstanding</b>			
Stock Option Plan	2,720,758	2,720,758	4,218,133
Option/SAR Plan	7,400,000	7,400,000	14,500,000

## **Common Shares**

In 2008, the Company issued 7,960,645 common shares for the acquisition of Celtic. In the fourth quarter, an additional 10,589,000 common shares are issuable resulting of the achievement of certain performance targets.

## **Class A Debentures**

The Company has \$16 million of face value Class A convertible debentures outstanding. The Class A Debentures was issued as a unit consisting of a \$950 debenture and 500 convertible preferred shares. Each Class A Debenture has a term of 8 years (starting March 31, 2006), annual interest rate of 5%, paid yearly, and is convertible at \$0.323 per common share of the Company at the discretion of the debenture holders, if certain minimal earnings levels are achieved.

## **Preferred Shares**

The Series 1 Preferred Shares are convertible and redeemable at \$0.323 per common share, which will result in 3,187,693 common shares being issued upon conversion. The Series 1 Preferred Shares can be redeemed at the option of the holder after the Class A Debentures become due and payable or at the option of the holders and the Company if the Class A Debentures has been repaid.

The Series 2 Preferred Shares are voting securities and convertible at any time by the holders thereof on the basis of one Series 2 Preferred Shares for each common share. Holders of the Series 2 Preferred Shares are entitled to receive, subject to certain exceptions, a fixed, cumulative dividend per preferred share equal to 3% of the issue price per annum and are redeemable by the Company, at its option, on or after March 31, 2014 at the issue price plus all accrued and unpaid dividends.

The series 3 preferred shares are convertible at any time by the holders into freely tradable 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 shares equal to 6% of the issue price per annum and 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.

## **DISCLOSURE CONTROLS AND PROCEDURES (DC&P) AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICFR)**

Our DC&P are designed to provide reasonable assurance that material information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. Management is also responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The control framework used to design ICFR is COSO (*Committee of Sponsoring Organizations*) and COBIT (*Control Objectives for Information and related Technology*).

The Company has limited the scope of the design of DC&P and ICFR to exclude controls, policies and procedures of Celtic Technologies Limited, a ground remediation contractor acquired on March 25, 2008. The chart below presents the summary financial information of Celtic Technologies Limited:

FINANCIAL INFORMATION	AMOUNT \$000's
Revenues	18,772
Net income for the period	1,468
Current assets	7,717
Non-current assets	1,091
Current liabilities	3,309
Non-current liabilities	143
Contingencies and commitments	3,253

The scope limitation is in accordance with National Instrument 52-109 section 3.3 (1)(b), which allows for an issuer to limit scope for a business it acquired not more than 365 days prior to the end of the fiscal period. In the upcoming quarters, management will review ICFR for this newly acquired business.

In 2008, the Company hired external consultants to assist in the documentation of the Company's ICFR. Management completed this activity by the end of the 2nd quarter of 2008 having identified deficiencies in control design that required remediation. In an effort to strengthen controls, the Company appointed a new CFO at the beginning of the 4th quarter of 2008.

The Company's reorganization, restructuring, refinancing activities and the recent acquisition required the dedication and efforts of management, as well as several key financial resources, that would have normally been involved in remediating internal control design deficiencies and evaluating the effectiveness of internal controls. As such, delays were encountered in remediating internal control weaknesses, and confirming the design and operating effectiveness of these controls.

In 2009, the Company has put in place the appropriate organizational structure, management team, adjusted its cost structure and has now sufficient cash flow to successfully achieve its strategic objectives. Management understands its responsibilities with regard to ensuring an appropriate structure of internal controls and is committed to resolving issues identified and will ensure implementation in 2009.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2008, management evaluated the design of our DC&P and ICFR, with the exception of our recent acquisition in Europe, as defined under National Instrument 52-109, but has not yet been able to assess the operating effectiveness of the Company's DC&P and ICFR. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the design of our DC&P is effective as at December 31, 2008. However, based on the evaluation of the design of ICFR, management determined that certain aspects of ICFR were not designed effectively. The control deficiencies identified by the Company did not result in adjustments to our annual or any interim consolidated financial statements for 2008.

Subsequent to December 31, 2008, we have initiated and/or taken the following actions to remediate the material weaknesses in ICFR identified as of December 31, 2008. In addition, the Company intends to include its overseas subsidiaries and joint venture as part of this assessment. Management and the Audit Committee have taken an active role in responding to the deficiencies identified, including overseeing management's implementation of the remedial measures. Management's assessment identified the following material weaknesses along with related remediation:

▪ Entity Level Controls

The Company did not maintain an effective control environment as defined in accordance with COSO control framework. Specifically:

- Although the Board of Directors follows the corporate governance guidelines established for public companies, the Company lacks certain formal policies and governance charters. Subsequent to year end, we have drafted a management override policy, a capitalization policy as well as updating charters for our Board of Directors and Governance and Compensation committee.
- The organic waste management business did not have in place a written authority policy. Subsequent to year end, we have drafted a written authority policy for our organic waste management business
- Although informal procedures are in place, the Company does not have comprehensive procedures to communicate management's and employees' roles and responsibilities in the Company's ICFR and lacks formal training in this matter. We will improve awareness and understanding of the importance of maintaining a strong control environment and sound internal controls over financial reporting. Furthermore, we will put into practice formal written policies and procedures informing employees of the importance of keeping adequate documentation demonstrating the performance of the key controls.
- The Company did not implement continuous monitoring of existing control activities over financial reporting. We have assigned a permanent project manager to monitor the compliance efforts and testing will be performed in the coming year to ensure the effectiveness of the existing control activities.

▪ Information Technology (IT) General Controls

The Company did not adequately implement certain controls over information systems and data used in financial reporting. These areas include controls over change management, computer operations and security and access to systems and data. In addition, the Company has deficient controls over segregation of duties within the IT department, has no formal documented policies and procedures and has no auditors report on internal controls over the external service provider which hosts the Company's servers. We did not perform alternative procedures to test controls at the service organization or request the service organization auditor to perform agreed upon procedures.

During the fourth quarter of 2008, the Company hired a new director of Information Technology. The new director was assigned the responsibility of implementing Information Technology control procedures in response to the control weaknesses noted above.

- Information Technology organization and Segregation of Duties: We will update documentation regarding the roles and responsibilities of the IT function. We will implement appropriate measures to assign job roles and responsibilities to information technology employees to ensure the proper segregation of duties where feasible, otherwise compensating controls will be put into place.

- Change Management: We will implement enhanced information technology policies and procedures with regard to change management.
- Operations: We will develop a procedure to manage incidents, implement a backup policy and a business continuity plan. We will also perform periodic review of back-up tapes to ensure their accuracy and will have them stored in a secured environment.
- Security: We will develop a security policy and establish monitoring mechanisms and procedures such as periodic review of the security logs to properly detect unauthorized system access.
- Access: We will implement stricter controls over granting, maintenance and monitoring of access to systems and data. Additional controls to ensure terminated employees access is removed on a timely manner will also be put into place. Administrative access will be restricted or monitored. A password policy which considers confidentiality, complexity and periodic changes will be developed.
- Service provider: We will ensure controls at the service organization are at a satisfactory level.

▪ Period-end Financial Reporting Process

The Company did not maintain consistent effective controls over the period-end financial reporting process. Specifically:

- Although journal entries are reviewed, there is no evidence of such review.
- Although controls are performed, adequate evidence does not always exist demonstrating the performance of controls such as review of account reconciliations, spreadsheets and significant account balances requiring the use of accounting estimates.

We have begun to develop a more comprehensive and disciplined financial reporting process emphasizing the review and approval of journal entries and consistent and thorough use of period-end checklists. In addition, we will perform an in-depth review of system access to journal entries.

▪ Revenue Recognition

The Company did not have consistent effective controls over the completeness and accuracy of revenue for its organic waste management business. In certain cases, the Company lacked adequate controls to validate the quantity of organic waste received from customers. In addition, effective controls were not consistently in place subsequent to the input of customer profiles, sales terms and data entry.

We plan to continue to improve procedures at our organic waste management division to validate quantities of organic waste received from customers by implementing more thorough controls at our receiving premises. Furthermore, we will implement monitoring controls over the input of customer profiles, sales terms and data entry.

▪ Income Taxes

The Company did not consistently maintain effective controls over the recording of income taxes payable, future income tax assets and liabilities and the income tax provision. The absence of certain formal written policies and procedures resulted in the lack of review and reconciliation of certain tax calculations and income tax returns. In

addition, there was no formal documentation demonstrating the performance of key controls associated with the tax function such as the review and reconciliation of spreadsheets.

We have recently hired a tax director. We have also begun to develop a more comprehensive and disciplined process emphasizing the review and approval of income tax returns and tax calculations relating to income taxes payable, future income tax assets and liabilities and the income tax provision.

- Segregation of Duties

The Company had deficient controls within its accounting and finance department over segregation of duties. Specifically, certain financial personnel were able to create, review and process certain financial data without independent review and authorization.

To mitigate the risk, management relies heavily on manual procedures and detection controls, weekly management meetings, monthly reviews of financial statements by the operating divisions and quarterly reviews of financial statements by the Audit Committee. These manual procedures were performed throughout the year.

The Company is in the process of hiring additional key employees in its finance and accounting department. We will continue to employ appropriate measures to restrict access and properly assign job roles and responsibilities to employees to ensure the proper segregation of duties where feasible and we will independently monitor system access.

We believe in and are committed to establishing rigorous DC&P and ICFR. Our management will continue to evaluate the effectiveness of our overall control environment and will continue to refine existing controls as they, in conjunction with the Audit Committee, Board of Directors, Chief Executive Officer and Chief Financial Officer, deem necessary. It should be noted that the control deficiencies identified by the Company did not result in adjustments to our annual or any interim consolidated financial statements for 2008.

Other than the remediation efforts discussed above, there have been no other changes in our ICFR that occurred since the beginning of fiscal year 2008 that have materially affected or are reasonably likely to materially affect our ICFR. Our management, including our Chief Executive Officer and our Chief Financial Officer, have discussed these issues and remediation efforts in detail with the Audit Committee.

The Company will provide updates on the remediation plan in its quarterly reports and its annual MD&A.

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

In February 2008, the Accounting Standards Board (“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 October 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 IAS 2 “Inventories” and IAS 38 “Intangible Assets”, thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company developed an IFRS changeover plan during the fourth quarter based on the regulatory timeline. In its first phase, the Company is currently analysing the impact of IFRS on Canadian GAAP as well as on other standards used in its foreign subsidiaries. This analysis takes into account any potential impact on the Company’s accounting

policies, on additional financial disclosures, on information technology and also takes into account possible changes to the Company's internal controls.

At the current stage, the Company is unable to indicate the consequences of this transition on its consolidated financial statements.

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

As stated above, risks that could cause our actual results to materially differ from our current expectations include, but are not limited to:

- Term loan negotiations with lenders may change the terms and covenants;
- General industry and economic conditions;
- Changes in our relationships with suppliers;
- Pricing pressures and other competitive factors;
- The availability and costs of fuels and utilities;
- The results of our ongoing efforts to improve cost effectiveness;
- Changes in legislative and regulatory requirements affecting our business;
- General uncertainty associated with operating in a highly regulated environment;
- Costs and risks associated with litigation;
- Potential changes to the mix of businesses we operate;
- Reliance on key personnel;
- The availability of future financing and the variability of interest rates, and
- Changes in exchange rates between the Canadian dollar, the U.S. dollar, British Sterling and the Euro.

Should one or more of these risks materialize, or should our underlying assumptions prove incorrect, our actual results may materially differ from our current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause our actual results to materially differ from such forward-looking statements. No change occurred during the period. Please refer to the Risk Factors section of our Annual Information Form for the year ended December 31, 2008 for a more detailed description for risks that could affect our business.

## **OTHER**

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