

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2009 and 2008. This information is presented as of February 17, 2010.

This MD&A should be read in conjunction with our audited consolidated financial statements and the accompanying notes for the years ended December 31, 2009 and 2008.

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 about EG, including our Annual Information Form for the year ended December 31, 2009 and recent financial reports may be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws; such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our Annual Information Form ("AIF"). Those risks and uncertainties include general economic conditions, pricing pressures and other competitive factors, the availability of future financing and the variability of interest rates, environmental industry and waste management industry regulations and potential regulatory changes, results of the ongoing efforts to improve our cost effectiveness, adverse factors generally encountered in an environmental services company such as our ability to attract and retain customers, our relationships with our suppliers and availability and costs of utilities. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of EG, its financial or operating results or its securities. Additional information, including the Company's AIF, can be found on SEDAR at www.sedar.com.

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 February 17, 2010.
- 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.

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, 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 rate swap, foreign exchange loss (gain), other non-cash charges and income tax expense (recovery). We exclude gain on disposal of property, plant and equipment, restructuring and other costs, unrealized loss (gain) on interest rate 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 gross profit, which is discussed in the *Results of Operations* section of the MD&A.

ABOUT OUR BUSINESS

EnGlobe Corp. 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 division Biogenie and through our subsidiaries Biogenie Corporation, Biogenie Europe SAS, Biogenie Site Remediation Limited (collectively "Biogenie"), Celtic Technologies Limited ("Celtic"), GSI Environment Inc. ("GSI") and Tanknology Canada Inc. ("Tanknology").

Site Assessment and Remediation

The Site Assessment and Remediation ("SAR") business unit of EG specializes in on-site and off-site treatment and recycling of contaminated soil as well as the remediation of contaminated or degraded sites. The SAR division has operating locations in Canada, the United Kingdom, France and the United States including 15 off-site treatment facilities; 11 in Canada, 2 in the United Kingdom, and 2 in France as well as approximately 50 on-site treatment units where contaminated soils are treated.

Organic Waste Management

The Organic Waste Management (“OWM”) business unit of EG provides environmental services such as composting, direct land application and biomass cogeneration, in addition to the commercialization of eco-products in bulk. The OWM business unit has operating locations in Québec and Ontario including composting and transfer facilities, all located in Québec.

Tank Testing and Calibration

Tanknology is the Tank Testing and Calibration business unit of EG. 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.

KEY DEVELOPMENTS OF THE LAST EIGHTEEN MONTHS AND OUTLOOK

In May 2008, the Company hired a new experienced leader in the CEO position. Upon his arrival, he set four short-term priorities to successfully realign and refocus the Company and set the basis for future success.

The four priorities were :

- i) The operational and financial turnaround of the OWM division.
- ii) Improve the efficiency of finance and administration functions to support EG's operations.
- iii) Reduce corporate costs to reflect EG's size.
- iv) Pursue aggressively SAR division's growth plan.

Here is a summary of the main initiatives undertaken in order to deliver concrete results.

Operational and financial turnaround of the OWM division

1. Renegotiation of several contracts in the OWM segment, increasing their profitability while reducing risks for the Company.
2. Selling redundant assets, thus improving cash position of the Company.
3. Elimination of non-profitable activities and products in the OWM segment.
4. Optimization of the staffing level according to the volume of activities.

Improve the efficiency of finance and administration functions to support EG's operations

1. Appointment of an experienced CFO in November 2008.
2. Centralization of administrative functions into one location, increasing efficiency and improving internal communications.
3. Implementation of a common information system in North America.
4. Transformation of the finance team with the aim of increasing core competencies.

Reduce corporate costs to reflect EG's size

1. Annualized reduction of corporate costs by more than \$3.0 million.
2. Outsourcing of non-core activities.
3. Optimization of office space by closing underutilized offices.
4. Optimization of staffing level at the corporate level.

Pursue aggressively SAR division's growth plan

1. Integration of Celtic within SAR Europe is going according to plan.
2. Successful opening of new Soil Treatment Facility ("STF") in Lyon, France in May 2009 accelerating our growth potential within Europe.

These realized and completed initiatives led to annualized savings of more than \$12.0 million. The success of these initiatives enabled EG to raise \$17.7 million of capital in the fourth quarter of 2008, strengthening the balance sheet of the Company and demonstrating the strong confidence of the largest shareholders towards the future, the strategy and the management of the Company.

Despite a challenging economy, especially in the UK, the actions taken by the new leadership team in the last eighteen months have set the foundation for future growth. Other strategic initiatives are currently underway to ensure the continuous success of EG.

RESULTS OF OPERATIONS

For the year ended December 31, 2009

Highlights of the year

- \$131.6 million in revenues;
- Adjusted EBITDA increased by \$11.4 million to reach \$16.5 million;
- Gross profit margin was 29.1% compared to 22.9% last year;
- Gross profit increased by 12.2% to reach \$38.3 million;

Revenues

Revenues were \$131.6 million for the year ended December 31, 2009 compared with revenues of \$149.2 million for the year ended December 31, 2008, a decrease of \$17.6 million. This decrease in revenues was primarily explained by restructuring activities in the OWM division as explained below.

The SAR division contributed \$100.9 million in revenues for the year ended December 31, 2009 compared to \$102.5 million last year, a decrease of \$1.6 million. Higher SAR Canada revenues were generated by new contracts in Montreal and Alberta (additional \$3.9 million versus 2008). In France, there was an increase of \$2.8 million compared to last year, which was partially explained by the opening in May 2009 of the new soil treatment facility in Lyon. The UK and USA divisions have seen a decrease of activities mostly explained by the sluggish economy in both countries. Additionally, the Pound Sterling has lost value since last year, which also contributed to the lower revenues in Canadian dollars. The total impact of the above was a decrease of \$9.2 million versus the twelve-month period of 2008.

The OWM's revenues were \$27.4 million for the year ended December 31, 2009 compared to \$43.3 million last year. As previously mentioned, in mid 2008, the Company undertook a detailed review of the OWM operations that resulted in major changes to its strategy. The Company has largely cancelled or restructured unprofitable activities and now concentrates its operations on contracts and activities that generate positive returns. This strategy has led to lower sales for the OWM division, but higher gross profit and adjusted EBITDA as discussed in the next section.

Revenues for Tank Testing and Calibration division were just slightly lower compared to the year ended December 31, 2008.

\$000's	Fiscal years ended December 31,	
	2009	2008
Revenues		
Site Assessment and Remediation	\$ 100,928	\$ 102,469
Organic Waste Management	27,431	43,334
Tank Testing and Calibration	3,276	3,399
Total	131,635	149,202

Gross Profit

Gross profit for the year ended December 31, 2009 was \$38.3 million, compared to gross profit of \$34.1 million for the year ended December 31, 2008, an increase of \$4.2 million or 12.3%. As a percentage of revenues, gross profit margin for the year ended December 31, 2009 was 29.1% compared to 22.9% for the year ended December 31, 2008.

The OWM division increased its gross profit by \$6.6 million compared to last year. Last year's corrective actions initiative have generated excellent results. Starting in the third quarter of 2008, the Company has renegotiated certain unprofitable contracts, rationalized its compost sales to include only products that generate a good return, and substantially reduced its staffing levels.

The SAR division has seen a decrease in gross profit of \$2.9 million for the year ended December 31, 2009 versus 2008. This decrease was attributable to reduced activities in the UK and the USA, primarily the result of a sluggish economy in both countries. The combined reduction of gross profit for these two business units was \$4.9 million. This decrease was partly offset by a higher level of activities in France where the performance for the year ended December 31, 2009 was outstanding.

Adjusted EBITDA and earnings (loss) before the undernoted items

\$000's	Fiscal years ended December 31,	
	2009	2008
Gross profit	\$ 38,297	\$ 34,118
Selling, general and administrative	21,806	29,043
Adjusted EBITDA	16,491	5,075
Depreciation of property, plant and equipment	5,012	5,541
Gain on disposal of property, plant and equipment	(83)	(155)
Earnings (loss) before the undernoted items	11,562	(311)

Adjusted EBITDA for the year ended December 31, 2009 was \$16.5 million compared to \$5.1 million for the year ended December 31, 2008, an increase of \$11.4 million.

The SAR division generated an additional \$1.0 million in Adjusted EBITDA during the year ended December 31, 2009 versus the same period last year. This increase in Adjusted EBITDA was attributable to strong performance of the Écharcon (France) Soil Treatment Facility and, to a lesser extent, the opening of the new soil treatment facility in Lyon (France) in May 2009 and to our activities in Canada.

The OWM division generated an additional \$10.6 million in Adjusted EBITDA during the year ended December 31, 2009 versus last year. Higher OWM Adjusted EBITDA was the result of the review and restructuring of the OWM division, as described in the preceding sections that generated positive results in terms of Adjusted EBITDA.

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2009 were \$21.8 million compared with \$29.0 million for the year ended December 31, 2008, a decrease of \$7.2 million. This decrease in SG&A was the result of the success of the Company's SG&A and operating cost restructuring initiatives, which began in the third quarter of 2008.

Depreciation of property, plant and equipment for the year ended December 31, 2009 was \$5.0 million compared to \$5.5 million for the year ended December 31, 2008. The lower depreciation was the result of a reduction in the carrying value of fixed assets due to cost control measures taken by the Company and of the write-off of \$3.2 million of property, plant and equipment in the second quarter of 2008.

As a result of the foregoing, the earnings before the undernoted items for the year ended December 31, 2009 were \$11.6 million compared with a loss before the undernoted items of \$0.3 million for the year ended December 31, 2008, an increase of \$11.9 million.

Net Earnings (Loss)

\$000's	Fiscal years ended December 31,	
	2009	2008
Earnings (loss) before the undernoted items	\$ 11,562	\$ (311)
Amortization of intangible assets	2,860	4,058
Stock-based compensation	207	185
Restructuring and other costs	2,381	5,388
Other non-cash charges	-	9,553
Foreign exchange loss (gain)	14	(2,164)
Interest and bank charges	7,343	8,823
Unrealized loss (gain) on interest swap	(502)	1,104
Income tax expense (recovery)	(5,638)	1,471
Net earnings (loss)	4,897	(28,729)

Amortization of intangible assets for the year ended December 31, 2009 was \$2.9 million, a decrease of \$1.2 million compared to the year ended December 31, 2008, mainly due to a lower carrying value of intangible assets originating from the write-off of intangible assets that occurred in the second quarter of 2008. Restructuring and other costs for the year ended December 31, 2009 were \$2.4 million, which was \$3.0 million lower than last year. In 2008, costs were incurred for the settlement of a litigation case, for professional fees to assess internal controls and for other public reporting requirements.

Interest and bank charges for the year ended December 31, 2009 were \$7.3 million, a decrease of \$1.5 million compared to the year ended December 31, 2008. The decrease in interest and bank charges was the result of a lower average of capital lease obligations, long-term debt and other long-term obligations balances compared to last year, following a \$10.0 million repayment on long-term debt in December 2008. This decrease was also explained by a lower average cost of debt financing compared to last year, as explained in the next paragraph.

The average cost of debt financing (excluding deferred financing charges) was 8.9% during the year ended December 31, 2009 and 9.6% for the year ended December 31, 2008. When including deferred financing charges, the effective cost of debt financing for the year ended December 31, 2009 was 10.0% compared to 10.5% for the year ended December 31, 2008. The average cost of debt financing was calculated using total interest on long-term debt and other interest and bank charges divided by the total interest-bearing debt. Total debt includes bank indebtedness, term loans, loans, debentures, preferred shares that are included in debt and other interest-bearing obligations, plus outstanding letters of credit.

The unrealized gain on the interest rate swap was \$0.5 million during the year ended December 31, 2009 compared with a loss of \$1.1 million for the year ended December 31, 2008. 2008's loss was attributable to steadily declining interest rates, thus creating the unrealized loss, whereas 2009 saw relatively stable rates .

For the year ended December 31, 2009, no foreign exchange gain was recorded, compared to a gain of \$2.2 million in 2008. In 2009, the Company recorded a foreign exchange gain due to a weaker Pound Sterling currency compared to Canadian dollars since the Company's net exposure in Pound Sterling is negative because of items such as long-term debt and additional consideration payable. This gain on exchange was offset by a loss on exchange due to a weaker Euro on as the Company has a positive net exposure, as disclosed in Note 20 to the audited consolidated financial statements.

Income tax recovery for the year ended December 31, 2009 was \$5.6 million compared with a \$1.5 million expense for the year ended December 31, 2008. During fiscal 2009, the Company completed the planning of a corporate reorganization, where EnGlobe amalgamated with some of its subsidiaries. As a matter of fact, during the last quarter of 2009, a variety of facts, and because the restructuring activities described above gave rise to forecasted taxable income, Management concluded that it was more likely than not that future income tax assets of the Company and deferred non-refundable research and development tax credits of Biogenie and GSI would be realizable. Consequently, the Company reversed a portion of its valuation allowance against future income tax assets in the amount of \$7,249. The income tax recovery was partially offset by an income tax expense of \$2.8 million related to the Company's profitable SAR activities in Canada and in France.

Fourth Quarter

Highlights of the period

- \$35.4 million in revenues;
- Adjusted EBITDA reached \$6.6 million;
- Gross profit of \$12.0 million;
- Gross profit margin increased from 27.2% to reach 35.1%;
- Net earnings increased by \$10.8 million to reach \$8.5 million;

Revenues

Revenues were \$35.4 million for the quarter ended December 31, 2009 compared with revenues of \$41.0 million for the quarter ended December 31, 2008, a decrease of \$5.6 million.

The SAR division contributed \$27.0 million in revenues in the fourth quarter compared to \$32.5 million in the same period last year. The UK and USA divisions have seen a decrease of activities (decrease of \$5.8 million versus the fourth quarter of 2008), mostly explained by the sluggish economy in these countries. However, the decrease in the USA and the UK divisions was offset by strong performance by the French operations, which saw an increase of \$0.4 million compared to the same period last year, mostly explained by the opening in May 2009 of the new soil treatment facility in Lyon.

The OWM's revenues were \$7.4 million for the fourth quarter of 2009 compared to \$7.6 million for the same period last year. As previously mentioned, in mid 2008, the Company undertook a detailed review of the OWM operations that resulted in major changes to its strategy. The Company has largely cancelled or restructured unprofitable activities and renegotiated less profitable contracts and now concentrates its operations on contracts and activities that generate positive returns. This strategy has led to lower sales for the OWM division, but higher Adjusted EBITDA, as discussed in the next section.

\$000's	Three-month periods ended December 31,			
	2009		2008	
Revenues				
Site Assessment and Remediation	\$	27,042	\$	32,477
Organic Waste Management		7,411		7,612
Tank Testing and Calibration		934		864
Total		35,387		40,953

Gross Profit

Gross profit for the quarter ended December 31, 2009 was \$12.4 million, compared to gross profit of \$11.1 million for the quarter ended December 31, 2008, an increase of \$1.3 million or 11.7%. As a percentage of revenues, gross profit margin for the quarter ended December 31, 2009 was 35.1% compared to 27.2% for the quarter ended December 31, 2008.

The OWM division's gross profit increased by \$2.8 million compared to last year's fourth quarter. As a percentage of revenues, the gross margin increased from negative 3.4% for the quarter ended December 31, 2008 to 34.1% for the quarter ended December 31, 2009. Starting in the third quarter of 2008, the Company renegotiated certain unprofitable contracts, rationalized its compost sales to include only products that generate a good return, and substantially reduced its fixed and variable staffing levels. Last year's initiatives to perform corrective actions are now generating concrete results.

The SAR division's gross profit decreased by \$1.6 million in the fourth quarter of 2009 versus the same period in 2008. This decrease was primarily attributable to a decrease in activities in the UK and the USA (decrease of \$2.4 million versus the fourth quarter of 2008), mostly explained by the sluggish economy in both countries.

Adjusted EBITDA and earnings before the undernoted items

\$000's	Three-month periods ended December 31,			
	2009		2008	
Gross profit	\$	12,421	\$	11,129
Selling, general and administrative		5,828		7,250
Adjusted EBITDA		6,593		3,879
Depreciation of property, plant, equipment		1,296		1,349
Loss on disposal of property, plant and equipment		-		(244)
Earnings before the undernoted items		5,297		2,774

Adjusted EBITDA for the quarter ended December 31, 2009 was \$6.6 million compared to an Adjusted EBITDA of \$3.9 million for the quarter ended December 31, 2008, an increase of \$2.7 million.

The SAR division's Adjusted EBITDA was \$1.1 million lower in the fourth quarter of 2009 versus the same period last year. This decrease is explained by the reduction of the gross profit by \$1.6 million, as explained previously, offset by a reduction of the operating expenses by \$0.5 million in the fourth quarter of 2009 versus the same period last year, resulting from management's continuous focus on controlling costs throughout the organization.

The OWM division generated an additional \$3.9 million in Adjusted EBITDA in the fourth quarter versus the same period last year. Higher OWM Adjusted EBITDA was the result of the review and restructuring of the OWM division, as described in the preceding sections.

Selling, general and administrative ("SG&A") expenses for the quarter ended December 31, 2009 were \$5.8 million compared to \$7.2 million for the quarter ended December 31, 2008. This decrease in SG&A was the result of the success of the Company's SG&A and operating cost restructuring initiatives, which began in the third quarter of 2008 and that are still ongoing, as well as significant reduction in expenses at the corporate level.

Depreciation of property, plant and equipment for the quarter ended December 31, 2009 remained steady at approximately \$1.3 million.

As a result of the foregoing, earnings before the undernoted items for the quarter ended December 31, 2009 was \$5.3 million compared with earnings before the undernoted items of \$2.8 million for the quarter ended December 31, 2008, an increase of \$2.5 million.

Net Earnings (Loss)

\$000's	Three-month periods ended December 31,			
	2009		2008	
Earnings before the undernoted items	\$	5,297	\$	2,774
Amortization of intangible assets		576		1,153
Stock-based compensation		46		(27)
Restructuring and other costs		1,356		1,817
Foreign exchange loss (gain)		31		(1,646)
Interest and bank charges		1,998		2,833
Unrealized loss (gain) on interest rate swap		(115)		718
Income tax expense (recovery)		(7,091)		275
Net earnings (loss)		8,496		(2,349)

Amortization of intangible assets for the quarter ended December 31, 2009 was \$0.6 million, a decrease of \$0.6 million compared to the quarter ended December 31, 2008, mainly due to a lower carrying value of intangible assets. Intangible assets from the acquisition of Biogenie in 2006 became fully amortized during the second quarter of fiscal 2009. Restructuring and other costs for the quarter ended December 31, 2009 were \$1.4 million, which is \$0.4 million lower than the same period of last year. In 2008, the Company implemented an intensive restructuring program as described previously. As a result, additional costs had to be incurred accordingly in 2008.

Interest and bank charges for the quarter ended December 31, 2009 were \$2.0 million compared with \$2.8 million for the quarter ended December 31, 2008. The decrease in interest and bank charges was the result of lower average capital lease obligations, long-term debt and other long-term obligations balances compared to the same quarter last due to a \$10.0 million repayment of long-term debt in December 2008.

Average cost of debt financing (excluding deferred financing charges) was 9.5% during the quarter ended December 31, 2009 and 12.6% for the quarter ended December 31, 2008. When including deferred financing charges, the effective cost of debt financing for the quarter ended December 31, 2009 was 10.6% compared with 14.4% for the quarter ended December 31, 2008. The average cost of debt financing was calculated using total interest on long-term debt and other interest and bank charges divided by total interest-bearing debt. Total debt includes bank indebtedness, term loans, loans, debentures, preferred shares that are included in debt and other interest-bearing obligations, plus outstanding letters of credit.

The unrealized gain on the interest rate swap was \$0.1 million during the quarter ended December 31, 2009 compared with a loss of \$0.7 million in the quarter ended December 31, 2008. 2008's loss was attributable to steadily declining interest rates, thus creating the unrealized loss, whereas 2009 saw relatively stable rates.

In the fourth quarter of 2009, the Company recorded no foreign exchange gain or loss compared to a gain of \$1.6 million in 2008. In 2009, the Company recorded a foreign exchange gain due to a weaker Pound Sterling currency compared to Canadian dollars since the Company's net exposure in Pound Sterling is negative because of items such as long-term debt and additional consideration payable. This gain on exchange was offset by a loss on exchange due to a weaker Euro as the Company has a positive net exposure, as disclosed in note 20 of the consolidated financial statements.

Income tax recovery was \$7.1 million in 2009 compared to an expense of \$0.3 million for the same quarter in 2008. During fiscal 2009, the Company completed the planning of a corporate reorganization, where EnGlobe amalgamated with some of its subsidiaries. As a matter of fact, during the last quarter of 2009, after reviewing a variety of facts, and because the restructuring activities described above gave rise to forecasted taxable income, Management concluded that it was more likely than not that future income tax assets of the Company and deferred non-refundable research and development tax credits of Biogenie and GSI would be realizable. Consequently, it reversed a portion of its valuation allowance against future income tax assets in the amount of \$7.2 million.

OUTSTANDING SHARE DATA

As of February 17, 2010, the following shares of the Company were outstanding:

Common shares issued	<u>94,876,263</u>
Preferred shares issued	196,207,745
Issuable as dividends	<u>11,919,300</u>
	<u>208,127,045</u>

As of February 17, 2010, there were 6,000,000 stock options and 11,350,000 option and stock appreciation rights outstanding.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2009, cash and cash equivalents totalled \$1.9 million, while bank indebtedness amounted to \$5.3 million. Cash and cash equivalents decreased by \$1.2 million for the year ended December 31, 2009. During the year, operating activities generated \$9.5 million and the Company reimbursed an additional \$0.4 million on the revolving loan facility during the year ended December 31, 2009. On the other hand, EG made cash payments of \$3.6 million for the purchase of property, plant and equipment, \$1.5 million as a cash payment for an additional consideration for the acquisition of Celtic and \$4.7 million as repayments on long-term debt.

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, bonding or similar requirements for projects, and to fund working capital of the Company. As at December 31, 2009, \$6.9 million in letters of credit were outstanding and \$4.2 million of the revolving facility was utilized to support working capital commitments. The Company is focused on optimizing working capital by reviewing its management processes, including accelerating the collection of accounts receivable.

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 agreed to suspend the Company's financial covenants until the third quarter of 2009 and adjusted the financial covenants quarters thereafter, including the final maturity date. The financial covenants the Company must respect include a Fixed Charge Coverage Ratio and a Senior Funded Debt to EBITDA Ratio. As at December 31, 2009, both ratios were met by the Company.

Additionally, the Company is subject to a maximum annual capital expenditure limit, which it believes is sufficient to meet the capital requirements associated with the maintenance of current capital assets and the execution of growth plan. During the year, applicable interest rates for all advances have been LIBOR plus 5.75%.

On January 28, 2010, the Company entered into a new amendment to its existing credit facility. From that date, interest rate will now be adjustable based on achieving certain financial measures and the base rate can be changed from prime rate to Banker's Acceptance or LIBOR at the discretion of the Company.

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

From June 2008 to September 30, 2009, under the terms of the November 2008 amended credit facility,, neither the Borrowers nor any of their respective Subsidiaries were permitted to make any cash payments on account of any Subordinated Debt. The unpaid interest shall be accrued and capitalized. The Company and its subordinated debtholders have agreed to continue to have cash interest accrue and be capitalized until further notice.

The Company believes that cash flows related to operating activities should be sufficient to cover its capital expenditures and satisfy the principal repayments requirements of its long-term debt for at least the next twelve months while seasonal cash requirements, mostly required during the summer months, will be financed by the revolving facility.

CASH FLOW PROVIDED BY / USED IN OPERATING ACTIVITIES

For the year ended December 31, 2009, cash flows from operating activities increased by \$10.6 million compared to last year to reach \$9.5 million. This increase is due to a major increase of net earnings shifting from a net loss position of \$28.7 million in 2008 to net earnings of \$4.9 million in 2009. This increase was partially offset by future income taxes of \$8.4 million in 2009 and non-cash charges of \$9.6 million in 2008. The net change in non-cash working capital items decreased by an amount of \$3.9 million.

CASH FLOW USED IN INVESTING ACTIVITIES

For the year ended December 31, 2009, cash used in investing activities was \$4.8 million. During the year, the Company used an amount of \$3.6 million for the acquisition of property, plant and equipment, mainly related to the construction of a soil treatment facility in France. The Company also used \$1.5 million to make a cash payment as part of the additional consideration for the acquisition of Celtic. The Company received \$0.4 million as proceeds from the disposal of property, plant and equipment.

CASH FLOW PROVIDED BY / USED IN FINANCING ACTIVITIES

For the year ended December 31, 2009, cash used by financing activities amounted to \$5.9 million. The Company used an amount of \$5.5 million to make payments on its long-term debt, capital lease obligations and other long-term obligations. Also, the bank indebtedness decreased by \$0.4 million.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Legal proceedings

In the normal conduct of business, there are pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, final determination of these litigation matters is not expected to materially affect the Company's consolidated financial position or results of operations.

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. The appeal was heard on October 8 and on January 29, 2010, the Court of Appeal of Alberta saw no reason to overturn the trial judge's analysis and the appeal was dismissed.

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 and by the former President and CEO with a third party to the suit with the intention of fraudulently obtaining ownership of the shares owned or controlled by the plaintiff. On October 9, 2009 a Notice of Discontinuance was served against one of the party. 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.

On September 24, 2009, a Statement of Claim was filed in the Province of Ontario against the Company and other defendants in connection with alleged defamatory statements. The plaintiff is claiming general damages and also seeking for special damages and punitive and exemplary damages. The hearing has not been scheduled yet. Although it is not possible as of the date of the December 31, 2009 consolidated financial statements to determine with reasonable degree of certainty the outcome of this legal proceeding, Management believes that the suit is without merit and intends to defend its position.

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.

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 operating results. Also, because of the nature of the Company's 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 the 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	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenues	35,387	40,953	39,275	45,760	32,167	38,209	24,806	24,281
Net earnings (loss)	8,496	(2,349)	1,851	105	(1,825)	(22,549)	(3,625)	(3,936)
Basic net earnings (loss) per share	0,09	(0,03)	0,02	0,00	(0,02)	(0,26)	(0,05)	(0,05)
Diluted net earnings (loss) per share	0,09	(0,03)	0,02	0,00	(0,02)	(0,26)	(0,05)	(0,05)
Total assets	135,475	132,284	124,294	139,214	121,700	132,714	121,127	146,490
Total long-term financial liabilities	55,781	57,327	52,384	58,286	54,718	3,422	55,363	68,557
Weighted Average number of shares (in 000's)								
Basic	94,876	84,861	97,300	86,711	97,300	86,711	86,711	79,271
Diluted	94,876	95,183	97,300	86,711	97,325	86,711	86,877	100,694

Results have fluctuated over each of the quarters due to the seasonality of the business. Due to the fact that the main business of the Company is soil remediation and organic waste management, it is quite common for the business to have decreased soil volumes and revenues in the winter months reflected mainly in the first quarter.

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

TRANSACTIONS WITH RELATED PARTIES

The Company has convertible units and Class B debentures that are held by shareholders. Associated to those items, the Company has recorded \$2.8 million of interest on long-term debt (\$2.4 million in 2008).

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 fair value of financial instruments, the allowance for doubtful accounts receivable, the amount of tax credits recoverable, the provision for excess and obsolete inventories, the percentage-of-completion of contracts, the useful lives of capital assets, the valuation of long-lived assets, the impairment of goodwill, the valuation allowance for future income taxes, the amount of certain accrued liabilities and deferred revenues as well as the amount of other long-term obligations. Actual results could differ from those estimates.

Goodwill and Intangible Assets

Goodwill is not amortized and is assessed for impairment at the reporting unit level at least annually. Comparing the fair value of a reporting unit to its carrying value identifies any potential goodwill impairment. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, this indicates potential goodwill impairment and must be quantified by comparing the estimated fair value of the reporting 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 reporting 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

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. Changes in the net future income tax assets or liabilities are included in operations. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to be in effect for the year in which the assets are expected to be realized or the liabilities to be settled.

The Company establishes 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 income tax assets will not be realized.

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

The Company's recognizes revenue in each of its three operating segments; Site Assessment and Remediation ("SAR"), Organic Waste Management ("OWM") and Tank Testing and Calibration as follows:

SAR Segment

The majority of SAR segment's revenues are generated by "fixed-price" contracts with the balance of revenue generated under "cost-plus" contracts. Under the "fixed-price" contracts, services are to be provided for a fixed price. In general, the contracts provide for payments to the Company throughout the period in which service is being provided. Under these "fixed-price" contracts, revenue is recognized using the percentage-of-completion method. At inception of the contract, the total costs to complete the contract are estimated. Revenue is recognized proportionately to the costs incurred of the contract. The Company revises these estimates periodically and reflects any changes in estimates

using the cumulative catch-up method. At any point, if the estimate for the remaining costs exceeds the revenue under the contract, a loss is recorded.

Cost-plus contracts are contracts under which the customer agrees to pay EG the cost of the services provided, plus a margin. Under these "cost-plus" contracts, revenue is recognized as the services are provided.

OWM Segment

The majority of OWM segment's revenues are derived from fees charged to customers for the transport and receipt of organic waste. Customers (often municipalities) pay a fee based on the amount of metric tonnage of organic waste. OWM recognizes revenues upon receipt of the organic waste as the performance requirements under the contract have been met and all other revenue recognition criteria have been satisfied.

The balance of OWM segment's revenues is derived from the sale of compost materials. Sales are made primarily based on a price list that is reviewed by management periodically. Revenue is recognized upon delivery (or-pick-up) of the compost by the customer as the risk and rewards of ownership are transferred at this time and all other revenue recognition criteria have been satisfied.

Tank Testing and Calibration Segment

Tank Testing and Calibration segment provides testing and calibration services primarily to the petroleum industry, usually gas stations. Revenue is recognized as the service is rendered.

Financial Instruments

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: held-for-trading, loans and receivables or other financial liabilities. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as held-for-trading unless they are designated within an effective hedging relationship.

Held-for-trading

Financial assets, financial liabilities and derivative financial instruments classified as held-for-trading are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are reflected in the consolidated statement of operations as they occur.

Loans and receivables and other financial liabilities

Financial assets classified as loans and receivables and financial liabilities classified as other liabilities are recorded at amortized cost using the effective interest method.

Transaction costs

Transaction costs related to held-for-trading financial assets and financial liabilities are expensed as incurred. Transaction costs related to financial assets classified as loans and receivables or to financial liabilities classified as other financial liabilities are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest method.

Fair value hierarchy

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value.

	Level 1	Level 2	Level 3	Total
	CAN \$	CAN \$	CAN \$	CAN \$
Assets				
Cash	1,936	-	-	1,936
Liabilities				
Other current liabilities	-	606	-	606

For fiscal year ended December 31, 2009, the Company had no Level 3 financial instruments.

Fair value

The fair value of financial instruments as at December 31, 2009 is summarized as follows:

	As at December 31, 2009				
	Held-for-trading	Loans and receivables	Financial liabilities	Carrying value	Fair value
				Total	Total
	\$	\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	1,936	-	-	1,936	1,936
Accounts receivable	-	31,323	-	31,323	31,323
Unbilled revenues	-	13,236	-	13,236	13,236
Long-term deposits	-	350	-	350	320
Total financial assets	1,936	44,909	-	46,845	46,815
Financial liabilities					
Bank indebtedness	-	-	5,252	5,252	5,252
Accounts payable and accrued liabilities	-	-	22,532	22,532	22,532
Other current liabilities	606	-	-	606	606
Capital lease obligations	-	-	465	465	465
Term loans and loans	-	-	31,652	31,652	31,652
Debentures	-	-	25,039	25,039	17,408
Other long-term obligations	-	-	622	622	622
Series 1 preferred shares	-	-	1,268	1,268	529
Total financial liabilities	606	-	86,830	87,436	79,066

Accounts receivable, unbilled revenues, bank indebtedness and accounts payable and accrued liabilities are financial instruments whose carrying value approximates their fair value due to their short-term maturity. Cash and cash equivalents and other current liabilities are valued at fair value.

To estimate the fair value of capital lease obligations, the Company compares existing lease contracts with comparable transactions in the market. The fair value of capital lease obligations approximates the carrying value.

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

The fair value of long-term deposits and other long-term obligations are estimated using a discounted cash flow analysis using current market rates for similar instruments. Long-term deposits are non-interest bearing and will mature in July 2011.

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

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 Euros and the U.S. dollars. 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 Celtic acquisition in fiscal 2008. The Company also has access to funds for its operations through its pound sterling-denominated revolving facility.

The following table summarizes significant financial assets and liabilities that are subject to currency risk as at December 31, 2009:

	Carrying /nominal amount (in UK pound sterling)	Carrying /nominal amount (in US dollars)	Carrying /nominal amount (in euros)
	£	US\$	€
Financial assets			
Cash and cash equivalents	211	129	1,003

Accounts receivable	2,450	128	4,122
	<u>2,661</u>	<u>257</u>	<u>5,125</u>
Financial liabilities			
Bank indebtedness	80	-	-
Accounts payable and accrued liabilities	1,850	136	3,684
Additional consideration payable	650	-	-
Capital lease obligations	80	-	94
Term loan	4,600	-	-
	<u>7,260</u>	<u>136</u>	<u>3,778</u>
Net exposure	<u>(4,599)</u>	<u>121</u>	<u>1,347</u>

The period-end value of the Canadian dollar compared to the UK pound sterling was CA\$1.6986 = £1.00 as at December 31, 2009.

The period-end value of the Canadian dollar compared to the US dollar was CA\$1.0510 = US\$1.00 as at December 31, 2009.

The period-end value of the Canadian dollar compared to the euro was CA\$1.5046 = €1.00 as at December 31, 2009.

The following sensitivity analysis summarizes the effect that a change in the value of the Canadian dollar (compared to UK pound sterling, US dollar and euros) on financial assets and liabilities denominated in UK pounds sterling, US dollars and euros, would have on net earnings and comprehensive income based on the foreign exchange rates as at December 31, 2009:

- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the UK pound sterling would increase (decrease) net earnings by \$710 (\$781).
- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the euros would decrease (increase) net earnings by \$184 (\$203).
- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would decrease (increase) net earnings by \$12 (\$13).

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 to the Company's annual consolidated financial statements) 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 \$13.7 million of its long-term debt with a fixed interest rate of 4.315% expiring on November 24, 2011.

As at December 31, 2009, with other variables unchanged and considering the outstanding interest swap agreement for \$13.7 million, a 1% change in the LIBOR rate and the Canadian banker's acceptance rate would have an annual impact on net earnings of \$138. There would be no effect on other comprehensive income.

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. Therefore, the Company considers the risk of non-performance on these instruments to be remote.

The Company's credit risk is principally attributable to its trade receivables. The amounts presented in the balance sheet are net of an allowance for doubtful accounts, estimated by the Company's management based on prior experience and their assessment of the current economy. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- 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.

	As at December 31, 2009
	\$
Trade accounts receivable:	
Current	15,035
Trade accounts receivable past due	
For less than 30 days	5,914
For 30 to 60 days	2,953
For over 60 days	5,917
	29,819
Allowance for doubtful accounts	(2,054)
Other accounts receivable	3,558
	<u>31,323</u>

Changes in the allowance for doubtful accounts are as follows:

	Years ended December 31,	
	2009	2008
	\$	\$
Balance - Beginning of year	1,774	620
Addition charged to earnings	1,201	1,182
Write-off of uncollectible accounts	(919)	(28)
Recovery of uncollectible accounts	(2)	-
Balance - End of year	2,054	1,774

Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalents 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 non-derivative financial liabilities. Contractual maturity of the interest rate swap is presented in note 2 "Summary of significant accounting policies" to our audited consolidated financial statements.

	Carrying amount	Contractual cash flows	0 to 12 months	12 to 24 months	Over 24 months
	\$	\$	\$	\$	\$
Bank indebtedness	5,252	5,252	5,252	-	-
Accounts payable and accrued liabilities	22,532	22,532	22,532	-	-
Other current liabilities	606	606	-	606	-
Term loans	31,652	32,277	6,255	6,256	19,766
Capital lease obligations	465	510	331	80	99
Debentures	25,039	40,595	-	-	40,595
Other long-term obligations	622	622	509	113	-
Series 1 preferred shares	1,268	2,032	-	-	2,032
	87,436	104,426	34,879	7,055	62,492

As at December 31, 2009, \$8,567 was available under the revolving facility (2008 - \$11,166) and as per the November 2006 term loan.

NEW ACCOUNTING STANDARDS

We provide a summary of significant accounting policies in note 2 to our audited consolidated financial statements.

New accounting standards adopted

Goodwill and Intangible Assets

On January 1, 2009, the Company adopted Section 3064, "Goodwill and Intangible Assets", which supersedes Section 3062, "Goodwill and other Intangible Assets" and Section 3450, "Research and Development Costs" issued by the Canadian Institute of Chartered Accountants ("CICA").

Section 3064, "Goodwill and Intangible Assets", establishes standards for the recognition, measurement, presentation and disclosure of intangible assets. These changes clarify that costs may only be deferred when they relate to an item that meets the definition of an asset. The concept of matching revenues and expenses remains appropriate only for allocating the cost of an asset that is consumed in generating revenue over multiple reporting periods. Standards relating to goodwill are unchanged from those included in Section 3062. The adoption of this new standard had no effect on our consolidated financial statements (note 2 to our audited consolidated financial statements).

Financial Instruments

The CICA issued Abstract EIC-173 "Credit Risk and the Fair Value of Financial Assets and Liabilities", which applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. This abstract clarifies the application of Section 3855 "Financial Instruments – Recognition and Measurement". An entity's own credit risk and the credit risk of its counterparty should be taken into account in determining the fair value of financial assets and liabilities. The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

Financial Instruments – Disclosures

In June 2009, the CICA issued amendments to *CICA Handbook* Section 3862, "Financial instruments – Disclosures", which requires enhanced disclosures on liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. The effects of the adoption of this amendment have been reflected in the "Financial instruments" section of our significant accounting policies.

New Accounting Standards Not Yet Adopted

Business Combinations, Consolidated Financial Statements and Non-Controlling Interest

In January 2009, the CICA issued Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests".

Section 1582 will be converged with IFRS 3, "Business Combinations". Section 1602 will be converged with the requirements of IAS 27, "Consolidated and Separate Financial Statements", for non-controlling interests. Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests.

Section 1582 applies to a transaction in which the acquirer obtains control of one or more businesses. The term “business” is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value at the acquisition date. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders’ equity. Net earnings will be calculated without deduction for the non-controlling interest. Rather, net earnings will be allocated between the controlling and non-controlling interests.

The new standards will become effective in 2011. The Company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

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).

In 2008, the Company hired external consultants to assist in the documentation of the Company’s ICFR. Management identified deficiencies in control design that required remediation. During the same period, intense activities related to the Company’s reorganization, restructuring, refinancing and new 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. With the appointment of a new CFO in the 4th quarter of 2008, a plan has been prepared to remediate internal control weaknesses over a period of time, and eventually confirm the design and operating effectiveness of these controls accordingly with new resources progressively available.

In 2009, the Company put in place the appropriate organizational structure, management team and adjusted cost structure. This has resulted in an improved financial condition which allows the Company to successfully achieve its strategic objectives, including the implementation of its 2008 plan to remediate the deficiencies of the Company’s ICFR. Management understands its responsibilities with regard to ensuring an appropriate structure of internal controls and is currently resolving the main issues as identified below.

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, 2009, Management evaluated the design of our DC&P and ICFR for the North America operations as defined under National Instrument 52-109, but has not assessed the operating effectiveness of the Company's ICFR considering the implementation of corrections throughout the year. For the European operations, some specificity exists and a preliminary evaluation has been performed resulting in the appointment of two financial directors in the UK and France operations and the implementation of the Company's financial software at the entity acquired in 2008. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that our DC&P and ICFR were well designed as at December 31, 2009 for the North America operations.

In 2009, we initiated and/or took different actions to remediate the material weaknesses in ICFR identified as of December 31, 2008. These actions were progressively implemented during 2009 and will be assessed for their operating effectiveness in year 2010. The Company will evaluate in detail, in 2010, the design and the efficiency of the DC&P and ICFR for its overseas subsidiaries. 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. Here are the initiatives implemented in 2009 to remediate the 2008 identified material weaknesses:

Entity Level Controls

As the Company identified some weaknesses to meet the effective control environment as defined in the COSO control framework, those actions have been taken:

- Although the Board of Directors follows the corporate governance guidelines established for public companies, it was identified that the Company lacked certain formal policies and governance charters. In the second quarter, written policies and charters for our Board of Directors, Governance and Compensation, Audit, Disclosure and Executive Committees have been approved by the Board of Directors and communicated throughout the organization. Furthermore, a management override policy and the other required policies have also been implemented.
- It was identified that the Company should complete some comprehensive procedures to communicate management's and employees' roles and responsibilities in the Company's ICFR and lacked formal training in this matter. The Company has completed the relevant procedures and a written policy informing our employees of the importance of respecting controls has been communicated through our organization.

Information Technology (IT) General Controls

Following the hiring of a new director of Information Technology in the fourth quarter of 2008, the Company completed its implementation of controls over information systems and data used in financial reporting, including those identified in 2008.

These areas include controls over change management, computer operations and security and the ability to access systems and data. Regarding segregation deficiency, the Company reassigned duties within the IT Department. Formal documented policies and procedures have been completed. An auditor's report on internal controls over the external service providers is no longer required since we have changed the nature of their responsibilities and services. An IT testing program will be included in the general ICFR testing program.

We have developed a preliminary procedure to manage incidents, implement a backup policy and a disaster recovery plan. We have a security policy and have established mechanisms and procedures such as periodic reviews of the security logs to properly detect unauthorized access to the system. We have implemented stricter controls over granting, maintenance and monitoring of access to systems and data.

Period-end Financial Reporting Process

To remediate the lack of maintaining consistent effective controls over the period-end financial reporting process, the Company developed and maintained a more comprehensive and disciplined financial reporting process, with emphasis on the review and approval of journal entries and consistent and thorough use of period-end checklists. Also, we have successfully completed the implementation of the unified financial systems in our North American divisions. This will allow us to establish better controls of system access to journal entries.

Revenue Recognition

The Company previously identified that it 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 handled from customers. In addition, effective controls were not consistently in place subsequent to the input of customer profiles, sales terms and data entry.

In 2009, we analyzed the detailed process of this application and put in place specific procedures that will allow us to have an adequate control of quantities of organic waste handled from customers. Specific monitoring will be performed shortly to ensure the effectiveness of this control.

Income Taxes

In 2008, it was identified that 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.

In the first half of 2009, the Company hired a Tax Director and a new Corporate Controller. Since then, the Company has been implementing effective controls over the recording of income taxes payable, future income tax assets and liabilities, the income tax provision and the sales tax. The review and reconciliation of tax calculations and income tax returns are in place and the related formal written policies and procedures have been completed.

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.

The Company took charge of this situation by performing an in-depth review of all duties to ensure the proper segregation of duties where feasible, including an independent monitoring of system access.

We believe in and are committed to establishing rigorous DC&P and ICFR in all our units. Considering our global control environment, the Company confirmed that our consolidated financial statements do not require any adjustments. Management will continue to evaluate the effectiveness of our overall control environment and refine existing controls as they, in conjunction with the Audit Committee, Board of Directors, Chief Executive Officer and Chief Financial Officer, seem sufficient.

Other than the remediation efforts discussed above, there have been no other changes in our ICFR that occurred since the beginning of fiscal year 2009 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, has discussed these issues and remediation efforts in detail with the Audit Committee. Note that the Board is still searching for an independent and qualified third member for this Audit Committee.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. 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, presentation and disclosures.

During 2008, the Company proceeded with the assistance of external experts to establish a stage 1 diagnosis for the adoption of IFRS. This diagnosis has identified the main differences between the accounting treatments applied by the Company under Canadian GAAP and the IFRS as well as the practical implications related to the measure. The differences were further classified according to their degree of complexity and by the amount of work to implement with respect to the measure.

The Company has completed the planning and high level diagnosis activities of its transition plan. The Company is currently in the analysis and accounting policy design phase and is assessing the impact of these policies on its consolidated financial statements, information systems, processes and controls. As the implementation process evolves, the Company expects to adapt its transition plan based on the new information available.

The key elements of the transition plan are as follows:

Project Structure

The Company has appointed a project manager to lead the conversion to IFRS. The project manager is working with other members of the finance team to execute the implementation plan. An implementation team is working closely with senior management in a number of different business areas to ensure that the impacts of the conversion throughout the business are managed in a timely and efficient manner. A steering committee has been established to oversee the project.

Process and Timing

The process of converting to IFRS has been divided into a number of different stages, many of which will run concurrently. A detailed analysis is substantively complete and a number of areas have been identified for further consideration before the date of transition. The Company continues to monitor standards development as issued by the International Accounting Standards Board (IASB) and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company’s adoption of IFRS.

A draft opening balance sheet prepared under IFRS at the date of transition (January 1, 2010) is currently planned to be completed in the first half of 2010. Draft financial statements and disclosure information will be prepared for each quarter in 2010 (to be used for comparative purposes in 2011) and reporting under IFRS will commence for interim and annual periods in 2011.

Impact of Adoption of IFRS

IFRS is premised on a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. The following paragraphs outline the significant accounting policies, which are required or are currently expected to be applied by the Company upon its adoption of IFRS that will be significantly different than its Canadian GAAP accounting policies. As the Company continues to evaluate the impact of adoption on its processes and accounting policies, it will provide updated disclosure where

appropriate. This summary description, presented below, should not be seen as an exhaustive list of all potential or actual differences between IFRS and Canadian GAAP that will or could impact the Company's consolidated financial statements.

Property, Plant and Equipment

Consistent with Canadian GAAP, under IFRS, separable components of property, plant and equipment are recognized initially at cost. Under International Accounting Standard (IAS) 16, *Property, Plant and Equipment*, an entity is required to choose, for each class of property, plant and equipment, to account for each class using either the cost model or the revaluation model. The cost model is generally consistent with Canadian GAAP where an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Under the revaluation model, an item of property, plant and equipment is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. The Company expects to use the cost model to account for each class of property, plant and equipment.

Impairment of assets

Canadian GAAP generally use a two-step approach to impairment testing: first, comparing asset carrying values with undiscounted cash flows to determine whether impairment exists; and then, measuring any impairment by comparing asset carrying values with fair values. IAS 36 – *Impairment of Assets*, uses a one-step approach for both testing and for measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in more write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. However, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have been reduced. Canadian GAAP prohibits reversal of impairment losses.

Joint Venture

The Company has a 50% interest in a joint venture with Biffa Waste Services Ltd. Under Canadian GAAP, EnGlobe proportionately consolidates its 50% interest in the joint venture in the consolidated financial statements. Under current IFRS, IAS 31, *Interests in Joint Ventures*, a choice can be made between the proportionate consolidation and equity methods. Proposed changes to IFRS as outlined in Exposure Draft 9, *Joint Arrangements*, would eliminate the choice and would require the equity method.

Provisions

IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*, requires a provision to be recognized when there is a present obligation as a result of a past transaction or event and it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. Probability is based on a "more likely than not" threshold. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold. Therefore, it is possible that there may be some contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP.

Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-point of the range, whereas Canadian GAAP uses the low end of the range), and the requirements under IFRS for provisions to be discounted where material.

First-Time Adoption of International Financial Reporting Standards

EnGlobe's adoption of IFRS will require the application of IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. The following are the optional exemptions available under IFRS 1, significant to EnGlobe that the Company expects to apply in preparing its first financial statements under IFRS.

Cumulative Translation Differences

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires a company to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from prior to the date of transition to IFRS. We expect to reset all cumulative translation differences to zero on transition to IFRS.

Business Combinations

For business combinations that occurred before the transition date, being January 1, 2010, the Company has the choice to restate all of these business combinations to IFRS standards, restate all business combinations after a particular date, or not restate any of the business combinations. Assets and liabilities acquired in an un-restated business combination that were recognized under Canadian GAAP and not qualify for recognition under IFRS are then de-recognized.

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, Pound 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, 2009 for a more detailed description for risks that could affect our business.

OTHER

Additional information relating to the Company's financial statements is available in the Annual Information Form at www.sedar.com.