

## **ORGANIC RESOURCE MANAGEMENT INC.**

### **Management Discussion and Analysis for the nine months ended March 31, 2009**

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#### **Introduction**

The following Management Discussion and Analysis (“MD&A”) is a discussion of the consolidated financial condition and results of operations of Organic Resource Management Inc. (the “Company” or “ORMI”) for the nine months ended March 31, 2009. This discussion should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of the Company and notes thereto for the nine months ended March 31, 2009, the MD&A for the year ended June 30, 2008 and the Audited Consolidated Financial Statements and notes thereto for the year ended June 30, 2008. This MD&A is prepared as at May 13, 2009.

#### **Forward-Looking Information**

Certain statements made or incorporated by reference in this MD&A are forward-looking and relate to, among other things, anticipated financial performance, business projects, strategies, regulatory developments, new services, market forces, commitments and technological developments. By its nature, such forward-looking information is subject to various risks and uncertainties, including those discussed in this MD&A or in documents incorporated by reference in this MD&A, which could cause the Company’s actual results and experience to differ materially from the anticipated results or expectations expressed. Readers are cautioned not to place undue reliance on this forward-looking information, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

#### **Non-GAAP Measures**

Adjusted net earnings excluding non-cash expenses is not a recognized measure under Canadian generally accepted accounting principles (“GAAP”). Management believes that this is a useful supplemental measure of the Company’s ability to generate cash from operations necessary to fund future reinvestment and is more indicative of actual performance. The Company’s method of calculating this measure may differ from other issuers and accordingly, it may not be comparable to measures used by other issuers. (See further discussion under “Quarterly Review - Adjusted Net Earnings Excluding Non-Cash Expenses”.)

#### **Corporate Overview**

ORMI is Canada’s largest provider of vacuum truck services for the collection, processing and recycling of food-related organic residuals. The residuals the Company collects are from customers in the food service, processing, production or retail business and include industrial, commercial and institutional operations. ORMI services more than 6,000 customers in Ontario, Quebec and British Columbia.

At the heart of the Company are sophisticated, proprietary logistics and operational management software and systems, specifically designed for the Company’s business, vision and growth plans. These systems allow it to schedule and deliver complex customer services from a centralized call and logistics center. Map-based GIS (Geographic Information System) routing and dispatch software, coupled with GPS (Global Positioning System) tracking and live, real-time handheld work order and data collection capabilities, allow the Company to deliver superior customer service at extremely high productivity levels.

On October 31, 2008, the Company sold the non-core assets of its wholly-owned subsidiary, A&A Anderson Tank Service Ltd. ("A&A"), based in Vancouver, to McRae's Environmental Services Ltd. ("McRae's") for \$2,075,000. Under the terms of the agreement, McRae's purchased 17 trucks and trailers, parts inventory, A&A's customer list for its non-core business and the rights to A&A's name. Conversely, the Company acquired McRae's list of customers that relate to the Company's core area of business. The purchase price was comprised of a cash payment of \$1,245,000, a note receivable for \$575,000 and the assumption of capital lease debt for \$255,000. The asset sale generated a net gain on disposal of \$1,708,000.

Management believes that the net reduction in Company revenue and the lower earnings resulting from this transaction will be partially offset by the acquisition of McRae's customer list in ORMI's core business (approximately \$300,000 per year) as well as interest savings from the reduction of the Company's debt and other measures that will be undertaken to reduce overhead. Total revenue generated from A&A's non-core customers was approximately \$3.1 million in fiscal 2008 and contributed to earnings

On November 5, 2008, A&A's name was changed to Organic Resource Management (BC) Inc. ("ORMI BC").

## **Results of Operations**

### **Revenue**

Total revenue was \$2,948,000 for the third quarter of fiscal 2009, a decrease of 23% or \$880,000 from \$3,828,000 for the same period last year. Most of this decrease was due to the sale of the Company's non-core business to McRae's, as noted above. Excluding non-core revenues sold to McRae's, comparative core business revenue for the quarter was 2% less than the same period last year.

During the third quarter the Company was successful in obtaining new grease trap customer accounts that are expected to generate annual revenues of between \$1 and \$1.5 million mostly beginning in the fourth quarter of this year.

For the first nine months of the year, total revenue was \$10,213,000, a decrease of 10% or \$1,138,000 from \$11,351,000 for the first nine months of last year. Excluding non-core business revenues, which also includes last year's compactor rental revenue of \$132,000 following the Company's decision to exit the compactor rental business in January 2008, comparative core business revenue for the first nine months of the year was 2% greater than the same period last year.

While the Company's grease interceptor revenues were 11% greater than last year for the first nine months of the year, all of which can be attributed to higher volumes, revenues from industrial organics services were down 28% as limited cost effective disposal capacity in Ontario continues to affect the Company's ability to service the industrial food processing accounts. The lost revenue from the industrial organics services was very competitively priced and therefore did not have a significant impact on the gross margin of the Company.

### **Gross Margin and Operating Expenses**

The gross margin for the quarter was \$989,000, an increase of 2% or \$23,000 from \$966,000 for the same period last year. For the nine months ended March 31, 2009, gross margin was \$3,544,000, 3% or \$116,000 greater than the \$3,428,000 recorded last year. As a percentage of revenue, gross margin was 34% for the quarter and 35% for the year to date, compared to 25% and 30% for the same periods last year.

During the quarter, the Company continued to utilize the disposal sites in Ontario and New York that it sourced earlier in the year, which contributed to higher margins in the Company's Ontario market. Additional rent and one-time costs relating to the relocation of the Company's facilities in Vancouver reduced gross margin by \$23,000 in the quarter and \$121,000 for the nine months ended March 31, 2009.

Selling, general and administrative expenses were \$767,000 in the third quarter of fiscal 2009, a decrease of 10% or \$85,000 from \$852,000 in the third quarter of fiscal 2008. The decrease in the quarter reflects the downsizing of the Company's Vancouver operations as well lower travel and bad debt expenses. For the nine months ending March 31, 2009, selling, general and administrative expenses were \$2,601,000, an increase of 2% or \$44,000 from \$2,557,000 last year. One-time costs relating to the sale of the Company's non-core assets and the re-branding of assets from A&A to ORMI were \$13,000 in the quarter and \$129,000 for the year to date.

Amortization of property, plant and equipment was \$282,000 in the third quarter of fiscal 2009, an increase of 24% or \$55,000 from \$227,000 in the third quarter of fiscal 2008. For the year to date, amortization was \$758,000, an increase of 34% or \$192,000 from \$566,000 last year. These increases were due to the purchase of four new trucks in the quarter, as well as the acquisition of ORMI Information Systems Inc., new handheld equipment and four new trucks during the latter part of fiscal 2008.

Interest expenses were \$52,000 in the third quarter of fiscal 2009, a decrease of 44% or \$41,000 from \$93,000 in the third quarter of fiscal 2008. This decrease was mainly due to the transfer of leased debt related to the sale of certain trucks to McRae's, as well as using the cash from the sale to pay down the Company's revolving loan. For the year to date, these costs were \$190,000, a decrease of 21% or \$49,000 from \$239,000 last year.

### Net Income and Income Taxes

The net loss before taxes was \$118,000 for the quarter, a decrease of 43% or \$89,000 from a net loss of \$207,000 last year. For the year to date, net income before taxes was \$1,700,000, an increase of \$1,610,000 from \$90,000 last year. The year to date increase was due to the gain on disposal of ORMI BC's non-core assets of \$1,708,000 realized in the second quarter, partially offset by approximately \$243,000 of one-time costs incurred in the sale process, the rebranding of the Company's BC assets from A&A to ORMI, and the relocation to the new Vancouver facility.

The Company has future income tax assets which are subject to periodic recoverability assessments. There was no change in the valuation of these assets during the third quarter of fiscal 2009. Future income tax expense was \$38,000 for the third quarter of 2009 compared to a recovery of \$69,000 for the same period last year. For the year to date, future income tax expense was \$211,000, compared to \$33,000 last year. The Company has not established a provision for income taxes payable on the sale of ORMI BC's non-core assets as it has sufficient non-capital losses available to apply against taxable income.

## Quarterly Review

### FINANCIAL INFORMATION - EIGHT QUARTER SUMMARY

Quarter Ending:	Fiscal 2009			Fiscal 2008			Fiscal 2007	
	Mar. 31 2009	Dec. 31 2008	Sep. 30 2008	Jun. 30 2008	Mar. 31 2008	Dec. 31 2007	Sep. 30 2007	Jun. 30 2007
(in 000's except income (loss) per share)								
Revenue	\$ 2,948	\$ 3,217	\$ 4,048	\$ 3,855	\$ 3,828	\$ 3,800	\$ 3,723	\$ 3,834
Net income (loss)	(157)	1,471	175	(1,286)	(139)	82	114	(836)
Cash flows from operating activities	77	338	382	83	510	(162)	101	132
Income (loss) per share:								
Basic	\$ (0.04)	\$ 0.33	\$ 0.04	\$ (0.29)	\$ (0.03)	\$ 0.02	\$ 0.03	\$ (0.30)
Diluted	(0.03)	0.31	0.04	(0.28)	(0.03)	0.02	0.02	(0.30)

Total revenue levels were relatively constant from the last quarter of fiscal 2007 through the first quarter of fiscal 2009 as the Company replaced its compactor revenues and large volume, low margin industrial

organics business with smaller volume, higher margin core grease interceptor business. The decrease in revenues for the second quarter of fiscal 2009 reflects the partial impact of the sale of the ORMI BC's non-core business on October 31, 2009. The current quarter reflects the full quarterly impact of the sale. During the eight quarter interval, the Company's core grease interceptor revenues increased by 28%.

The net loss of \$836,000 for the fourth quarter of 2007 included a number of one-time costs and provisions, in particular, severance expenses of \$280,000, legal fees of \$173,000 related to restructuring and a \$125,000 Ministry of the Environment ("MOE") fine, as well as several non-cash items described below. During the third quarter of 2008, the Company incurred higher fuel, fleet repair and maintenance, waste disposal and labour costs, including a \$45,000 severance payment related to a former employee. During the fourth quarter of 2008, the Company recognized an impairment loss of \$1,383,000 which represented 100% of the remaining goodwill relating to the acquisition of A&A in 2002.

The net income of \$175,000 in the first quarter of 2009 was mainly due to the higher margins realized as a result of the Company's shift away from Quebec recycling facilities to alternative sites in Ontario and New York. The net income of \$1,471,000 in the second quarter was due to the \$1,708,000 gain on the sale of non-core assets to McRae's, partially offset by approximately \$180,000 of one-time costs incurred in the quarter.

The net loss for the current quarter reflects a period of transition as the Company adapts to a lower revenue base following the sale of its non-core assets and moves towards reducing disposal costs through on-farm anaerobic digestion.

Cash flows from operating activities are a function of net income or loss, changes in operating assets and liabilities, and non-cash expenses. These non-cash items are summarized in the following table.

#### NON-CASH EXPENSES

Quarter Ending:	Fiscal 2009			Fiscal 2008			Fiscal 2007	
	Mar. 31 2009	Dec. 31 2008	Sep. 30 2008	Jun. 30 2008	Mar. 31 2008	Dec. 31 2007	Sep. 30 2007	Jun. 30 2007
(in 000's)								
Amortization of property, plant & equipment	\$ 282	\$ 237	\$ 239	\$ 346	\$ 227	\$ 193	\$ 147	\$ 213
Amortization of intangibles	-	-	-	-	-	-	-	171
Accretion of interest expense	-	-	-	8	7	7	7	-
Share based compensation	7	6	7	91	8	9	2	-
(Gain) loss on disposal of property, plant & equipment	-	(1,219)	(6)	(10)	(8)	(16)	(20)	(18)
Gain on disposal of intangible assets	-	(500)	-	-	-	-	-	-
Write down of property, plant & equipment	-	-	-	-	-	-	-	235
Write-down of intangibles	-	-	-	-	-	-	-	992
Write-down of goodwill	-	-	-	1,383	-	-	-	-
Dividends accrued on preferred shares	-	-	-	-	-	-	-	62
Future income taxes	35	68	98	(136)	(69)	41	60	(1,135)
	<b>\$ 324</b>	<b>\$ (1,408)</b>	<b>\$ 338</b>	\$1,682	\$ 165	\$ 234	\$ 196	\$ 520

The amortization of intangibles in 2007 related to the Company's software license agreement, customer relationships and patent license agreements. These intangible assets resulted from the acquisition of ORMI and A&A in 2002 and became fully amortized in 2007, following the write-off of the \$992,000 remaining on the direct land application patent ("DLAP"). Also in the fourth quarter, rental compactors were written down by \$235,000 and a future income tax recovery of \$1,135,000 was realized on the basis of an assessment of tax recoverability.

The fourth quarter of fiscal 2008 includes the impairment loss of \$1,383,000 on the goodwill relating to the acquisition of A&A by the Company in 2002. The credit balance in non-cash expenses for the second quarter of 2009 was due to the gain on the sale of the ORMI BC's non-core assets.

Adjusted net earnings excluding non-cash expenses as displayed in the table below is a non-GAAP measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. It should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP.

#### ADJUSTED NET EARNINGS EXCLUDING NON-CASH EXPENSES

Quarter Ending:	Fiscal 2009			Fiscal 2008			Fiscal 2007	
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
(in 000's)	2009	2008	2008	2008	2008	2007	2007	2007
Net income (loss)	\$ (157)	\$ 1,471	\$ 175	\$(1,286)	\$ (139)	\$ 82	\$ 114	\$ (836)
Non-cash expenses	324	(1,408)	338	1,682	165	234	196	520
Adjusted net earnings excluding non-cash expenses	167	63	513	396	26	316	310	(316)
Changes in operating assets and liabilities	(90)	275	(131)	(313)	484	(478)	(209)	448
Cash flows from operating activities	\$ 77	\$ 338	\$ 382	\$ 83	\$ 510	\$ (162)	\$ 101	\$ 132

### Liquidity and Capital Resources

Cash flows from operating activities were \$77,000 for the three months ended March 31, 2009 compared to \$510,000 for the same quarter last year. The higher cash flows last year were largely a result of the combined effect of a decrease in accounts receivable and an increase in accounts payable.

During the current quarter, the Company added four vacuum trucks to its fleet, one under capital lease and three financed, for a total cost of \$511,000. In addition, assets acquired and funded with cash was \$186,000 and consisted of software development, upgrading the Toronto facility and purchasing new machinery and equipment for the new leased facility in Vancouver. During the third quarter last year, no trucks were added to the fleet and a total of \$124,000 was invested in new equipment and software development.

On January 30, 2009 the Company terminated its relationship with Textron Financial Canada Ltd. and paid off the balance owing on its revolving loan. On February 6, 2009, the Company established a line of credit with the Royal Bank of Canada ("RBC") consisting of:

- (i) a \$2,000,000 revolving demand facility based on 75% of eligible accounts receivable at an annual interest rate of RBC prime plus 1.5%;
- (ii) a \$500,000 term facility at an annual interest rate of RBC prime plus 1.25%, repayable over 60 months.

Security on the RBC line was provided by a general security agreement constituting a first ranking security interest in all personal property of ORMI and ORMI BC; a security agreement (chattel mortgage) constituting a first ranking security interest in all equipment; and a guarantee and postponement of claim in the amount of \$2,000,000 by ORMI BC.

The Company has provided covenants whereby it will maintain on a consolidated basis, to be measured as at the end of each fiscal quarter, the debt service coverage calculated on a rolling four quarter basis of not less than 1.25:1 and a ratio of total liabilities to tangible net worth of not greater than 2.75:1. As at March 31, 2009, the Company has not drawn on the facility.

The mortgage on the Company's Toronto facility is held by the Business Development Bank of Canada ("BDC"). As at March 31, 2009, the balance of the mortgage was \$558,000. Under the terms of the loan, the Company can draw up to \$850,000. The Company plans to utilize the full amount available in order to upgrade the facility. The 25 year mortgage is based on BDC's floating base rate, which on March 31, 2009 was 4.25%.

The Company's cash and cash equivalents decreased by \$472,000 during the quarter, from \$863,000 at December 31, 2008 to \$391,000 at March 31, 2009. This decrease was due to the repayment of the revolving loan and the capital investments funded with cash.

## **Management of Capital**

The Company's objectives in its management of capital are to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk, to maintain investor, creditor and market confidence in order to sustain the future development of the business, and to deliver value to its shareholders.

The capital structure of the Company consists of revolving bank loans, short and long-term debt facilities, and shareholders' equity. The basis for the Company's capital structure is dependent on the Company's expected business growth, reinvestment in plant, property and equipment, and changes in the business environment. Management is responsible for ensuring that financing is structured under the most favourable terms and conditions in light of current and expected economic conditions. Capital transactions are subject to the approval of the Company's Board of Directors.

The Company monitors its capital structure and financial leverage based on a number of key ratios. The Company's Board of Directors reviews these ratios and other key measurements on a quarterly basis and as part of the Company's strategic planning and budgeting process.

The Company is subject to two financial ratios under its new banking covenants with RBC, however the Company has not drawn on its credit facility as at March 31, 2009.

## **Financial Instruments and Financial Risk Management**

The Company's financial instruments include cash and cash equivalents, accounts receivable, revolving loans, accounts payable and accrued liabilities, and long term debt. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

Information on the Company's financial instruments and financial risk management is discussed in Note 15 to the unaudited interim consolidated financial statements for the nine months ended March 31, 2009.

## **Strategy and Corporate Outlook**

The sale of A&A's non-core assets on October 31, 2008 has strengthened the Company's balance sheet and will allow the Company to focus on its core business of servicing grease interceptors and collecting and recycling food-related organic residuals. In addition, the BC operations moved during the second quarter to a new Vancouver area service hub located on Annacis Island, which will allow the Company to expand its grease interceptor and organics collection business. The new facility provides the necessary infrastructure required to establish an organic residuals processing facility similar to ORMI's Ontario facilities that will produce the same type of high-energy feedstock for anaerobic digestion. The facility is properly zoned for commercial organics collection and recycling and the Company is in the process of obtaining the necessary MOE and sewerage permits.

During the third quarter the Ontario government announced the intent to pass the Green Energy Act in the legislature by midyear. This act positions Ontario as the North American leader in renewable energy policy. If passed, it will stimulate Ontario AD development ([www.ontariogreenenergyact.ca/index.html](http://www.ontariogreenenergyact.ca/index.html)) and could further enhance the value of ORMI's feedstock for Ontario ADs.

In July 2007, the Company signed the first exclusive, twenty year contract to supply organic residuals as feedstock to an on-farm anaerobic digester ("AD") for the production of renewable biogas energy. The

Klaesi AD, located west of Ottawa, was the first Ontario on-farm AD to obtain all the necessary permits, including the MOE Certificate of Approval for the use of off-farm organic residuals as a feedstock.

Under the first stage of the contract, ORMI has been delivering small quantities of feedstock to the Klaesi AD for the past eighteen months. On April 15, 2009, the Company announced that the expansion of the Klaesi AD had been completed, including the connection to the hydro grid. The newly expanded AD should reach maximum capacity some time in June and once fully operational is expected to generate approximately 500 kW, 24 hours per day, 7 days per week.

In August and September 2008 the Company signed three more exclusive, twenty year agreements to supply organic residuals to the following Ontario farm-based ADs:

- (i) Ledgecroft Farms Inc., located north of Kingston at Seeley's Bay;
- (ii) Donnandale Farms Inc., located north of Belleville at Stirling;
- (iii) Clearydale Farms Inc., located north of Prescott at Spencerville.

Two of these ADs are expected to be fully operational in the first quarter of fiscal 2010 and the third AD should be fully operational during the second quarter of fiscal 2010. Each AD is expected to generate approximately the same level of energy output as the Klaesi AD.

During the term of the agreements, ORMI will deliver a minimum of 5,000 cubic metres per year of organic residuals to each facility. ORMI will pay a "Tip Fee" that will be adjusted downward based on the actual performance of biogas renewable energy produced from ORMI's high-energy organic feedstock, which is expected to generate in excess of 75% of the energy produced by the ADs. The resulting net Tip Fee is expected to be significantly more competitive than other organic residual recycling options currently available. In effect, ORMI will share the power generation revenue that its residuals produce. By the end of fiscal 2010, with the above four farms in full production, the Company expects to be the major feedstock source for the generation of approximately 2.0 MW of electricity, enough energy to supply 1600 homes.

The Company is working on securing additional AD contracts to increase recycling capacity for the residuals the Company collects. This additional capacity will allow the Company to pursue a number of long-term contracts that it is unable to acquire today because of a lack of secure and competitively priced recycling options.

In September 2008, the Company commenced transporting some of its residuals to New York based ADs. The total cost of this method of disposal is approximately equal to the combined Tip Fee and transport costs related to non-AD Ontario recycling sites.

## **Risks and Uncertainties**

### **Technology and Competition**

The Company's success depends on remaining competitive in the development of systems, technologies and services in its area of expertise. Competition in the food-related organic residuals waste services industry is intense and expected to increase, both from within the industry and from those diversifying into the field. Some of the Company's competitors and potential competitors may have greater development, financial or personnel resources.

The Company is subject to the risks generally associated with new systems development and deployment, including lack of acceptance, delays in development and failure of systems to function properly. The market growth potential is subject to certain risks, including costs to develop and deploy such systems, the cost and feasibility of development, introduction of competing technologies and regulatory forces.

### **Government Regulation**

The movement of residuals across the border to New York ADs is subject to government regulations that stipulate the nature and content of the residuals that can be transported. These regulations are subject to change, which could impact the Company's ability to continue transporting residuals to these ADs. By

the second quarter of 2010, the Company expects to have adequate Ontario based AD capacity to eliminate any negative impacts associated with changing regulations regarding the New York ADs.

Over the past few years the Company has been impacted by a number of government regulatory changes that directly affect the way liquid organic waste is handled and processed in Ontario. As a result of these changes, most of the third-party recycling facilities in Ontario that receive and process liquid organic waste significantly reduced their capacity, or closed down altogether. This had a major impact on the cost of disposing the Company's residuals since it has had to transport a large portion of its residuals to alternative third-party recycling sites located in Quebec.

During the first quarter of this year, the Quebec disposal site which received some of the Company's residuals ceased operation. Although the Company was able to source an alternate disposal site in Ontario, currently there is only a small amount of long-term contracted AD disposal capacity available. Until the other Ontario ADs come on-stream, the Company cannot predict with certainty the volume of material that can be recycled. The Company's profitability can be materially impacted by the volume of residuals that can be processed.

The development of AD sites is subject to regulatory requirements that could have an impact on the Company's recycling options.

### **Environmental Protection**

The Company provides vacuum truck services for the collection and recycling of organic and other food-related organic residuals. The Company does not believe it has any significant risks or exposures with respect to environmental protection, as the residuals it collects and transports are non-hazardous.

The Company stopped using the last of its DLAP sites in 2007 and now transports its food-related organic residuals to third-party disposal sites. The Company has not experienced any significant environmental issues relating to the closure of its DLAP sites.

### **Financial Risk**

Although the Company does not have any significant exposure to credit, liquidity or market risk as a result of its use of financial instruments based on management's assessment, there can be no absolute assurance that operating levels will not change over the ensuing fiscal year such that the Company would be unable to meet its current working capital and debt service requirements. In addition, other factors, not presently known to management, could materially and adversely affect the Company's future cash flow. In such events, the Company would be required to obtain additional capital as is necessary to satisfy working capital and debt service requirements from other sources. Alternative sources of capital could result in increased dilution to shareholders and may be on terms that are not favourable to the Company.

### **Acquisitions**

The Company is seeking acquisitions that are a good fit for its strategic direction. The Company does not have control over the market conditions prevailing or likely to prevail in the future, which may impact the ability to finance and execute this strategy. These variables include market valuations of potential targets and the Company's stock price volatility. There can be no assurances that the Company will be able to identify suitable acquisition candidates available for sale at reasonable valuations, consummate any acquisition or successfully integrate any acquired business into its operations. However, the Company continues to believe that with its technologies, systems and experienced management team, it is uniquely positioned to capitalize on a substantial opportunity.

### **Labour**

ORMI's hourly employees at its Toronto operation are represented by the Universal Workers Union Local 183 under a three year contract that runs from October 1, 2006 to September 30, 2009. The hourly employees at ORMI BC are under a three year collective agreement with the Service Employees Union from May 1, 2007 to April 30, 2010.

### **Dependence on Key Personnel**

The Company's success will depend to a significant extent upon its management group. The loss of the services of key executive personnel could have a material adverse effect on the Company.

### **Contingencies**

On February 3, 2009 the Company received a statement of claim in the amount of \$31 million pertaining to a traffic accident which occurred in September 2008. The claim by the injured party exceeds the combined limit of the Company's insurance coverage of \$10 million. The outcome of this claim is not determinable at this time and accordingly, no provision has been established in the consolidated financial statements ending March 31, 2009.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions include those related to: the valuation of goodwill; property, plant and equipment; share based compensation; and recoverability of future income tax assets. Actual results could differ from these estimates.

### **Changes in Accounting Policies**

Effective July 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

- (i) Handbook Section 1400, "General Standards of Financial Statement Presentation". This section was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this section did not result in any changes in disclosure within the Company's interim consolidated financial statements.
- (ii) Handbook Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's objectives, policies, and processes for managing capital, including quantitative data. The additional disclosure required as a result of this section is included in Note 11 of the interim consolidated financial statements.
- (iii) Handbook Section 3031, "Inventories". This section establishes new standards for the measurement and disclosure of inventories. The adoption of this standard did not affect the presentation of the financial statements. The additional disclosure required as a result of this section is included in Note 4 of the interim consolidated financial statements.
- (iv) Handbook Section 3862, "Financial Instruments' Disclosure" and Handbook Section 3863, "Financial Instruments' Presentation". These sections revise and enhance the disclosure requirements and carry forward, substantially unchanged, the presentation requirements. These standards also emphasize the significance of financial instruments for the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how these risks are managed. The additional disclosure required as a result of this section is included in Note 15 of the interim consolidated financial statements.

The above sections have been applied prospectively, with the exception of Section 3031 which is required to be applied retrospectively, although it had no impact on the interim consolidated financial statements.

## **Pending Accounting Pronouncements**

### **Goodwill and Intangible Assets**

CICA Handbook Section 3064, “Goodwill and Intangible Assets” intends to reduce the differences with International Financial Reporting Standards (“IFRS”) in the accounting for intangible assets. Under current Canadian standards, more items are recognized as assets than under IFRS. These changes are effective for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the effects of adopting this standard which is expected to enhance current note disclosure.

### **International Financial Reporting Standards**

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises, replacing Canada’s current GAAP for those enterprises. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to provide financial statements on the new basis, with comparative information for the previous fiscal year, effective July 1, 2011. As of the date of these financial statements, the financial reporting impact of the transition to IFRS cannot be reasonably determined.

### **Business Combinations, Consolidated Financial Statements and Non-controlling Interests**

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests”. Handbook Section 1582 replaces Handbook Section 1581, “Business Combinations” and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Handbook Section 1582 is applicable 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, with early adoption permitted. Handbook Section 1601 together with Handbook Section 1602 replaces Handbook Section 1600, “Consolidated Financial Statements”. Handbook Section 1601 establishes standards for the preparation of consolidated financial statements and Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Handbook Sections 1601 and 1602 are applicable for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted. An entity must adopt Handbook Section 1582, 1601 and 1602 at the same time. The Company is evaluating the new standards but does not expect their adoption will impact the financial statements as currently presented, although accounting for future acquisitions may be affected.

## **Disclosure Controls and Procedures and Internal Control Over Financial Reporting**

In accordance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Company has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting.

The Company has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer, particularly during the period in which the interim filings are being prepared.

The Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No change in the Company’s internal control over financial reporting occurred during the third quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **Subsequent Event**

On April 7, 2009 the Company was advised that the Toronto Stock Exchange (“TSX”) was reviewing the eligibility for continued listing on the TSX of the common shares of the Company pursuant to Part VII of The Toronto Stock Exchange Company Manual. The Company is being reviewed under the Remedial Review Process and has been granted 210 days to comply with all requirements for continued listing. If the Company cannot demonstrate that it meets all TSX requirements set out in Part VII of The Toronto Stock Exchange Company Manual on or before November 3, 2009, the Company’s common shares will be de-listed 30 days from such date.

The delisting review was precipitated by the value of the Company’s listed securities falling below \$3,000,000 for thirty consecutive trading days prior to the review; and the value of ORMI’s publicly-traded securities falling below \$2,000,000 over the same period.

Management is currently reviewing its options, including listing on an alternative recognized exchange.

## **Additional Information**

Further information about ORMI may be obtained at the Company’s web site at [www.ormi.com](http://www.ormi.com).

Interim Consolidated Financial Statements of  
**ORGANIC RESOURCE MANAGEMENT INC.**

(Unaudited)

For the three and nine months ended March 31, 2009

*The accompanying unaudited interim financial statements of the Company for the three and nine months ended March 31, 2009 have been prepared by and are the responsibility of the Company's management.*

*The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.*

**ORGANIC RESOURCE MANAGEMENT INC.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**

	<b>MARCH 31 2009 (UNAUDITED)</b>	<b>JUNE 30 2008 (AUDITED)</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 391,018	\$ 33,269
Accounts receivable	1,774,623	2,240,715
Inventory (Note 4)	92,443	132,388
Prepaid expenses	307,041	206,367
Current portion of long-term notes receivable	115,000	-
Current portion of future income tax asset	444,000	444,000
	<b>3,124,125</b>	<b>3,056,739</b>
LONG-TERM NOTES RECEIVABLE (Note 5)	418,182	-
PROPERTY PLANT AND EQUIPMENT (Note 6)	4,244,145	4,130,740
GOODWILL	2,434,793	2,434,793
FUTURE INCOME TAX ASSET	1,032,602	1,267,000
	<b>\$ 11,253,847</b>	<b>\$ 10,889,272</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Revolving loan (Note 8)	\$ -	\$ 765,795
Accounts payable and accrued liabilities	1,389,998	1,740,598
Current portion of long-term debt	274,184	169,886
Current portion of obligations under capital lease	346,415	338,527
Current portion of future income tax liability	44,561	44,561
	<b>2,055,158</b>	<b>3,059,367</b>
LONG-TERM DEBT (Note 9 and Note 16)	1,236,281	1,238,457
OBLIGATIONS UNDER CAPITAL LEASE (Note 10)	960,901	1,065,373
FUTURE INCOME TAX LIABILITY	111,401	144,821
	<b>4,363,741</b>	<b>5,508,018</b>
<b>SHAREHOLDERS' EQUITY</b>		
COMMON SHARES	8,250,051	8,250,052
CONTRIBUTED SURPLUS	341,328	321,254
DEFICIT	(1,701,273)	(3,190,052)
	<b>6,890,106</b>	<b>5,381,254</b>
	<b>\$ 11,253,847</b>	<b>\$ 10,889,272</b>

Contingency (Note 11)

Subsequent event (Note 18)

*See accompanying notes to the consolidated financial statements. These interim financial statements should be read in conjunction with the 2008 annual consolidated financial statements.*

On behalf of the Board of Directors:



Charles H. Buehler, Director



Matthew Gaasenbeek, Director

**ORGANIC RESOURCE MANAGEMENT INC.**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND DEFICIT  
UNAUDITED**

	9 Months Ended March 31		3 Months Ended March 31	
	2009	2008	2009	2008
<b>REVENUES</b>				
Non hazardous vacuum services	\$ 10,213,019	\$ 11,218,593	\$ 2,947,793	\$ 3,820,550
Compactor sales, service & rental income	-	132,154	-	7,170
	<b>10,213,019</b>	11,350,747	<b>2,947,793</b>	3,827,720
<b>COST OF SALES</b>	<b>6,669,002</b>	7,922,878	<b>1,958,386</b>	2,861,962
<b>GROSS MARGIN</b>	<b>3,544,017</b>	3,427,869	<b>989,407</b>	965,758
<b>OPERATING EXPENSE</b>				
Selling, general and administrative	2,601,250	2,557,466	766,758	852,375
Amortization of property, plant and equipment	758,117	565,969	281,936	227,001
Share based compensation	20,074	18,781	6,691	7,982
	<b>3,379,441</b>	3,142,216	<b>1,055,385</b>	1,087,358
<b>INCOME (LOSS) BEFORE THE UNDERNOTED</b>	<b>164,576</b>	285,653	<b>(65,978)</b>	(121,600)
<b>OTHER EXPENSE (INCOME)</b>				
Gain on disposal of property, plant and equipment	(1,225,498)	(43,648)	-	(7,862)
Gain on disposal of intangible assets (Note 7)	(500,000)	-	-	-
Interest on long-term debt and obligations under capital lease	158,650	148,823	50,037	63,018
Other interest	31,176	90,357	2,024	30,388
	<b>(1,535,672)</b>	195,532	<b>52,061</b>	85,544
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>1,700,248</b>	90,121	<b>(118,039)</b>	(207,144)
<b>INCOME TAXES</b>				
Current income tax expense	10,491	-	3,499	-
Future income tax expense (recovery)	200,978	32,677	34,877	(68,512)
	<b>211,469</b>	32,677	<b>38,376</b>	(68,512)
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (Note 13)</b>	<b>\$ 1,488,779</b>	\$ 57,444	<b>\$ (156,415)</b>	\$ (138,632)
<b>DEFICIT, BEGINNING OF YEAR / QUARTER</b>	<b>\$ (3,190,052)</b>	\$ (9,541,600)	<b>\$ (1,544,858)</b>	\$ (1,764,994)
Net income (loss)	1,488,779	57,444	(156,415)	(138,632)
Reduction of stated value of common shares	-	7,580,530	-	-
<b>DEFICIT, END OF QUARTER</b>	<b>\$ (1,701,273)</b>	\$ (1,903,626)	<b>\$ (1,701,273)</b>	\$ (1,903,626)
<b>INCOME (LOSS) PER SHARE (Note 14)</b>				
Basic	\$ 0.34	\$ 0.01	\$ (0.04)	\$ (0.03)
Diluted	0.32	0.01	(0.03)	(0.03)

*See accompanying notes to the consolidated financial statements. These interim financial statements should be read in conjunction with the 2008 annual consolidated financial statements.*

**ORGANIC RESOURCE MANAGEMENT INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**UNAUDITED**

	9 Months Ended March 31		3 Months Ended March 31	
	2009	2008	2009	2008
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>				
Net income (loss)	\$ 1,488,779	\$ 57,444	\$ (156,415)	\$ (138,632)
Add (deduct) items not involving cash:				
Amortization of property, plant and equipment	758,117	565,969	281,936	227,001
Accretion of interest expense	29	21,889	29	7,296
Share based compensation	20,074	18,781	6,691	7,982
Gain on disposal of property, plant and equipment	(1,725,498)	(43,648)	-	(7,862)
Future income tax expense (recovery)	200,978	32,677	34,877	(68,512)
	<b>742,479</b>	<b>653,112</b>	<b>167,118</b>	<b>27,273</b>
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable, net	466,093	335,207	(75,118)	229,233
Decrease (increase) in inventory	39,945	(238)	(12,133)	(103)
(Increase) decrease in prepaid expenses	(100,676)	8,774	10,911	19,884
(Decrease) increase in accounts payable and accrued liabilities	(350,599)	(546,883)	(13,642)	234,664
	<b>797,242</b>	<b>449,972</b>	<b>77,136</b>	<b>510,951</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>				
Acquisition of property, plant and equipment	(790,201)	(463,627)	(494,160)	(41,419)
Acquisition of OIS software and NCS ESL patents	-	(119,663)	-	-
Proceeds on disposal of property, plant and equipment	1,205,947	78,768	-	11,750
	<b>415,746</b>	<b>(504,522)</b>	<b>(494,160)</b>	<b>(29,669)</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>				
Repayment of notes receivable	41,818	-	31,364	-
(Repayment) advance of revolving loan	(765,795)	38,490	(256,078)	(438,694)
Advance of long-term debt	398,068	331,724	302,538	-
Repayment of long-term debt	(295,975)	(225,203)	(55,540)	(73,778)
Repayment of capital lease obligations	(233,355)	(200,416)	(77,158)	(75,817)
	<b>(855,239)</b>	<b>(55,405)</b>	<b>(54,874)</b>	<b>(588,289)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>357,749</b>	<b>(109,955)</b>	<b>(471,898)</b>	<b>(107,007)</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR / QUARTER</b>	<b>33,269</b>	<b>206,771</b>	<b>862,916</b>	<b>203,823</b>
<b>CASH AND CASH EQUIVALENTS END OF QUARTER</b>	<b>\$ 391,018</b>	<b>\$ 96,816</b>	<b>\$ 391,018</b>	<b>\$ 96,816</b>
Supplemental cash flow information:				
Interest paid	\$ 189,798	\$ 217,291	\$ 52,032	\$ 86,109
Non-cash transactions:				
Note receivable on sale of non-core assets (Note 5)	\$ 575,000	\$ -	\$ -	\$ -
Refinancing of mortgage (Note 9)	555,460	-	-	-
Transfer of capital leases on sale of non-core assets (Note 10)	272,133	-	-	-
Capital assets acquired through capital leases	408,904	483,105	202,945	82,815
Acquisition of OIS software through notes payable	-	600,000	-	-

*See accompanying notes to the consolidated financial statements. These interim financial statements should be read in conjunction with the 2008 annual consolidated financial statements.*

**ORGANIC RESOURCE MANAGEMENT INC.**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2009

## **1. NATURE OF OPERATIONS**

Organic Resource Management Inc. (the “Company” or “ORMI”) is incorporated under the Canada Business Corporations Act. The primary operations of the Company consist of providing vacuum truck services for the collection, processing and recycling of food-related organic residuals. The Company’s shares are listed on the Toronto Stock Exchange under the symbol “ORI”.

On September 29, 2008, the Company completed a voluntary wind-up of its two wholly-owned and inactive Bermuda companies, NCS Holdings Ltd. and NCS Environmental Services Ltd.

On October 31, 2008, the Company sold the non-core assets of its wholly-owned subsidiary, A&A Anderson Tank Services Ltd. (“A&A”), based in British Columbia, to McRae’s Environmental Services Ltd. (“McRae’s”) for \$2,075,000. Under the terms of the agreement, McRae’s purchased 17 trucks and trailers, parts inventory, A&A’s customer list for its non-core business and the rights to A&A’s name. Conversely, ORMI acquired McRae’s list of customers that relate to the Company’s core area of business. The purchase price was comprised of a cash payment of \$1,245,366, a note receivable for \$575,000 and the assumption of capital lease debt for \$254,634. The asset sale generated a net gain on disposal of \$1,707,742.

On November 5, 2008, A&A’s name was changed to Organic Resource Management (BC) Inc. (“ORMI BC”).

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **A. Basis of presentation**

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements and follow the same accounting policies and methods outlined in the Company’s audited financial statements for the year ended June 30, 2008, except for the changes to the accounting policies noted below. The results of operations for the interim period are not necessarily indicative of the operating results for the full year. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations for the interim period are reflected in these financial statements.

The unaudited interim consolidated financial statements do not include all the disclosures required according to GAAP for annual financial statements and should therefore be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended June 30, 2008 found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company’s website at [www.ormi.com](http://www.ormi.com).

### **B. Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, ORMI BC (active) and ORMI Information Systems Inc. (“OIS”, inactive), after the elimination of all material inter-company transactions and balances.

### **C. Changes in accounting policies**

On July 1, 2008, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”):

- (i) Handbook Section 1400, “General Standards of Financial Statement Presentation”, was amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. This assessment takes into account all available information, which is at least but not limited to twelve months from the balance sheet date, and should disclose material uncertainties related to events or conditions that may cast doubt on the entity’s ability to continue as a going concern. The adoption of this section did not result in any changes in disclosure within the Company’s interim consolidated financial statements.

## **2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

- (ii) Handbook Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's objectives, policies, and processes for managing capital, the quantitative data relating to what the entity regards as capital, and whether the entity has complied with externally imposed capital requirements, and if it has not complied, the consequences of such non-compliance. The additional disclosure required as a result of this section is included in Note 12.
- (iii) Handbook Section 3031, "Inventories", establishes new standards for the measurement and disclosure of inventories, replacing the old Section 3030, "Inventories". Under the new section, inventories are required to be measured at the lower of cost and net realizable value, which is different from the existing guidance of the lower of cost and market. This section also requires, where applicable, the reversal of any write-downs previously recognized. The standard requires retrospective application with no restatement of prior year results. The adoption of this standard did not require re-statement of deficit or comparative figures, and does not effect the presentation of the financial statements. The additional disclosure required as a result of this section is included in Note 4.
- (iv) Handbook Section 3862, "Financial Instruments' Disclosure" and Handbook Section 3863, "Financial Instruments' Presentation" replace Handbook Section 3861, "Financial Instruments' Disclosure and Presentation". These new standards revise and enhance the disclosure requirements and carry forward, substantially unchanged, the presentation requirements. These standards also emphasize the significance of financial instruments for the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how these risks are managed. The additional disclosure required as a result of this section is included in Note 15.

The above sections have been applied prospectively, with the exception of Section 3031 which is required to be applied retrospectively, although it had no impact on these financial statements.

### **D. Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions include those related to: the valuation of goodwill and intangibles; estimated useful lives of intangibles, property, plant and equipment; share based compensation; and recoverability of future income tax assets. Actual results could differ from these estimates.

## **3. NEW ACCOUNTING PRONOUNCEMENTS**

### **A. Goodwill and intangible assets**

CICA Handbook Section 3064, "Goodwill and Intangible Assets", will replace CICA Handbook Section 3062, "Goodwill and Other Intangible Assets", and results in withdrawal of CICA Handbook Section 3450, "Research and Development Costs", and amendments to Accounting Guideline 11, "Enterprises in the Development Stage" and CICA Handbook Section 1000, "Financial Statement Concepts". Handbook Section 3064 intends to reduce the differences with International Financial Reporting Standards ("IFRS") in the accounting for intangible assets. Under current Canadian standards, more items are recognized as assets than under IFRS. The objectives of Handbook Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. These changes are effective for fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the effects of adopting this standard, which is expected to enhance current note disclosure.

### **3. NEW ACCOUNTING PRONOUNCEMENTS (cont'd)**

#### **B. International Financial Reporting Standards**

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises, replacing Canada's current GAAP for those enterprises. This includes listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to provide financial statements on the new basis, with comparative information for the previous fiscal year, effective July 1, 2011. As of the date of these financial statements, the financial reporting impact of the transition to IFRS cannot be reasonably determined.

#### **C. Business combinations, Consolidated financial statements and Non-controlling interests**

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests". Handbook Section 1582 replaces Handbook Section 1581, "Business Combinations" and establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Handbook Section 1582 is applicable 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, with early adoption permitted. Handbook Section 1601 together with Handbook Section 1602 replaces Handbook Section 1600, "Consolidated Financial Statements". Handbook Section 1601 establishes standards for the preparation of consolidated financial statements and Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Handbook Sections 1601 and 1602 are applicable for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted. An entity must adopt Handbook Section 1582, 1601 and 1602 at the same time. The Company is evaluating the new standards but does not expect their adoption will impact the financial statements as currently presented, although accounting for future acquisitions may be affected.

### **4. INVENTORY**

The Company's inventory is comprised of costs related to the manufacturing of grease traps, the purchase of spare parts for its fleet of trucks, the purchase for resale of Organic Resource Recovery System ("ORRS") machines and the purchase of diesel fuel. Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first out ("FIFO") basis and net realizable value is considered to be the amount the Company expects to realize from the sale of its inventory in the ordinary course of business. Inventory is not pledged as security for the Company's credit facilities.

On October 31, 2008, the Company sold \$40,000 of its truck parts inventory to McRae's as part of the non-core asset sale described in Note 1, for proceeds of \$40,000.

### **5. NOTES RECEIVABLE**

On October 31, 2008, the Company received a note from McRae's in the amount of \$575,000 as part of the non-core asset sale described in Note 1. The note is secured by a first charge on certain trucks and is repayable in 55 equal monthly installments of principal with interest at prime plus 0.25%. On March 31, 2009, the effective rate of interest on the note was 2.75%.

## 6. PROPERTY, PLANT AND EQUIPMENT

On October 31, 2008, the Company sold its non-core property, plant and equipment to McRae's as described in Note 1, comprised of the following:

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Vehicles (owned)	\$ 1,759,145	\$ 1,709,260	\$ 49,885
Vehicles under capital lease	435,262	196,619	238,643
Machinery and equipment	50,852	32,529	18,323
Office furniture, equipment and computers	25,379	10,973	14,406
	<b>\$ 2,270,638</b>	<b>\$ 1,949,381</b>	<b>\$ 321,257</b>

The net proceeds of the sale allocated to property, plant and equipment was \$1,511,500 resulting in a gain on disposal of \$1,190,243.

## 7. INTANGIBLE ASSETS

The sale of the Company's customer list relating to its non-core business to McRae's on October 31, 2008 for proceeds of \$500,000, as described in Note 1, generated a gain on disposal of intangible assets of \$500,000.

As part of the sale, the Company acquired McRae's list of customers that related to the Company's core area of business, which the Company estimated could generate approximately \$300,000 in revenue per year. The Company did not establish any asset value for these prospective customer relationships since the Company did not have control of the asset as there were no contracts in force, and since the costs that would have to be incurred to secure the relationships could not be reliably measured. In addition, the impact of these customer relationships on incremental revenues was estimated to be less than 3% of the Company's total revenue.

## 8. REVOLVING LOAN

On January 30, 2009 the Company terminated its relationship with Textron Financial Canada Ltd. and paid off the balance owing on its revolving loan. On February 6, 2009, the Company established the following lines of credit with the Royal Bank of Canada ("RBC"):

- (i) \$2,000,000 revolving demand facility based on 75% of eligible accounts receivable at an annual interest rate of RBC prime plus 1.5%;
- (ii) \$500,000 term facility at an annual interest rate of RBC prime plus 1.25%, repayable over 60 months.

Security is provided by:

- (i) a general security agreement constituting a first ranking security interest in all personal property of ORMI and ORMI BC;
- (ii) a security agreement (chattel mortgage) constituting a first ranking security interest in all equipment; and
- (iii) a guarantee and postponement of claim in the amount of \$2,000,000 by ORMI BC.

The Company has provided covenants whereby it will maintain on a consolidated basis, to be measured as at the end of each fiscal quarter:

- (i) debt service coverage, calculated on a rolling four quarter basis, of not less than 1.25:1;
- (ii) a ratio of total liabilities to tangible net worth of not greater than 2.75:1.

The Company has not drawn on the new facility as at March 31, 2009.

## **9. LONG-TERM DEBT**

On December 29, 2008, the Company replaced the privately held mortgage on its Toronto facility, in the amount of \$555,460, with a mortgage held by the Business Development Bank of Canada (“BDC”). Under the terms of the BDC loan, the Company can draw up to \$850,000. The Company plans to utilize the full amount available in order to upgrade the facility. The 25 year mortgage is based on BDC’s floating base rate, which on March 31, 2009 was 4.25%.

The BDC loan is secured by the Toronto facility and a general security agreement that provides security in all present and future assets that are not subject to prior charges, and by a guarantee of the Company’s subsidiary, ORMI BC, for 25% of the total loan commitment. The loan is not subject to any specific financial covenants.

## **10. OBLIGATIONS UNDER CAPITAL LEASE**

On October 31, 2008, McRae’s assumed the face value of obligations under capital lease relating to three trucks that it acquired, as described in Note 1, in the amount of \$254,634. The book value of these obligations was \$272,133 resulting in a gain on disposal of \$17,499.

## **11. CONTINGENCY**

On February 3, 2009 the Company received a statement of claim in the amount of \$31 million pertaining to a traffic accident which occurred in September 2008. The claim by the injured party exceeds the combined limit of the Company’s insurance coverage of \$10 million. The outcome of this claim is not determinable at this time and accordingly, no provision has been established in these consolidated financial statements.

## **12. MANAGEMENT OF CAPITAL**

The Company’s objectives in its management of capital are to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk, to maintain investor, creditor and market confidence in order to sustain the future development of the business, and to deliver value to its shareholders. The capital structure of the Company consists of revolving bank loans, short and long-term debt facilities, and shareholders’ equity. The basis for the Company’s capital structure is dependent on the Company’s expected business growth, reinvestment in plant, property and equipment, and changes in the business environment. Management is responsible for ensuring that financing is structured under the most favourable terms and conditions in light of current and expected economic conditions. Capital transactions are subject to the approval of the Company’s Board of Directors.

The Company monitors its financial leverage based on the ratio of total debt (net of future tax liabilities) to tangible net worth, which is defined as shareholders’ equity less goodwill, intangible assets, future tax assets and deferred charges. The Company’s objective is to maintain a total debt to tangible net worth ratio of less than 5.0:1. As at March 31, 2009, the Company’s total debt to tangible net worth was 1.3:1 compared to a ratio of 3.7:1 as at June 30, 2008. The Company is subject to two financial ratios under its banking covenant, as described in Note 8.

The Company also monitors its capital structure based on the ratio of net debt to annualized cash flow (before changes in non-cash working capital from operating activities). Net debt is defined as long-term debt, long-term obligations under capital lease and net working capital, excluding future tax assets and liabilities. The Company’s objective is to maintain a net debt to annualized cash flow from operations ratio of less than 3.0:1. As at March 31, 2009, the Company’s net debt to annualized cash flow from operations was 1.5:1 compared to a ratio of 2.6:1 as at June 30, 2008.

The Company’s Board of Directors reviews these ratios and other key measurements on a quarterly basis and as part of the Company’s strategic planning and budgeting process.

### 13. COMPREHENSIVE INCOME

Comprehensive income is defined as the change in net assets of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in net assets during a period except those resulting from investments by owners and distributions to owners. A separate statement of comprehensive income has not been presented as there is no difference between net income and comprehensive income.

### 14. INCOME PER SHARE

The following table sets forth the number of shares used in the computation of basic and fully diluted income per share:

	9 Months ended March 31		3 Months ended March 31	
	2009	2008	2009	2008
Weighted average shares for basic income per share	4,404,935	4,404,935	4,404,935	4,404,935
Weighted average of stock options	283,330	245,655	280,000	236,000
Adjusted weighted average shares for diluted income per share	4,688,265	4,650,590	4,684,935	4,640,935

### 15. FINANCIAL INSTRUMENTS

#### A. Fair value

The Company classifies its financial instruments into one of the following categories:

- cash and cash equivalents as “assets held-for-trading” - measured at fair value;
- trade and other accounts receivable and notes receivable as “loans and receivables” - measured at amortized cost;
- revolving loans, accounts payable and accrued liabilities, and long-term debt as “other financial liabilities” - measured at amortized cost.

All financial instruments are initially recognized at fair value on the balance sheet date. Subsequent measurement of financial instruments is based on their classification. Assets held-for-trading are measured at fair value with changes recognized in net income. Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method. The carrying values of current financial instruments approximate their fair values due to the relatively short period to maturity. The carrying values of long-term debt and obligations under capital lease also approximate their fair values since the terms and interest rates are consistent with current market terms and rates for such borrowings.

#### B. Risk Management

The Company is exposed to financial risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company’s risk management process are to ensure that risks are properly identified and that measures are taken to mitigate the risks whenever possible.

##### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risks on its revolving loan and a portion of its long-term debt which bear variable interest rates. Management does not believe that the impact of interest rate fluctuations on the current level of borrowings bearing variable rates will be material and therefore, has not provided a sensitivity analysis of the impact of fluctuations on net earnings and comprehensive income.

##### Credit risk

Credit risk is the risk that a customer will be unable to pay the Company in full when amounts become due. Management considers accounts not paid within 60 days to be past due. As at March 31, 2009, the portion of receivables aged over 60 days represented 14% of total receivables, down from 20% at December 31, 2008.

## 15. FINANCIAL INSTRUMENTS (cont'd)

An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. The Company updates its estimate of the allowance for doubtful accounts on a monthly basis, based on a customer-by-customer review of past due balances. As at March 31, 2009, the allowance for doubtful accounts was \$21,035 compared to \$11,815 at June 30, 2008. During the three months ending March 31, 2009, \$9,663 was expensed to bad debts for a total nine month expense of \$22,478 (2008 - \$29,267).

Considering that historically, bad debt expense has been less than 1% of total revenue, management does not believe the Company is subject to any material credit risk corresponding to accounts receivable.

The Company's exposure to credit risk is limited to the total carrying value of its accounts receivable recognized on the balance sheet.

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial obligations as they become due. The Company's growth is financed through a combination of the cash flow from operations, borrowing under the existing credit facilities and potentially, the issuance of equity. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities, and maintaining credit facilities to ensure it has sufficient funds available to meet current and foreseeable financial requirements.

As at March 31, 2009, the following are the contractual maturities of the Company's liabilities:

	Carrying Amount	Less Than 1 Year	1 to 2 Years	More Than 2 Years
Accounts payable and accrued liabilities	1,389,998	1,389,998	-	-
Long-term debt	1,510,465	274,184	242,158	994,123
Obligations under capital lease	1,307,316	346,415	365,094	595,807
Total	4,207,779	2,010,597	607,252	1,589,930

Cash and cash equivalents, accounts receivable and the current portion of notes receivable were \$2,280,641 on this date. The Company generated a positive cash flow from operating activities, before changes in operating assets and liabilities, of \$742,479 for the first nine months of the year (2008 - \$653,112).

Based on the Company's positive cash flows and liquid resources as compared to the timing of the payments of its liabilities, management assesses the Company's current liquidity risk to be minimal.

### Currency risk

The foreign exchange risk is the risk to the Company's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not have a material exposure to these risks as the extent of business transactions in foreign currencies is minimal.

## 16. RELATED PARTY TRANSACTIONS

During the quarter, the Company made regular scheduled blended payments of \$30,688 on the 7.0% notes held directly or indirectly by one of the Company's directors. These notes relate to the purchase of the outstanding shares of OIS on September 19, 2007. As at March 31, 2009, the balance of the notes payable was \$319,321, down from \$538,003 on June 30, 2008. These amounts are included in long-term debt.

## 17. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. This reclassification includes transaction costs which were accounted for as deferred financing costs in the first three quarters of fiscal 2008.

## **18. SUBSEQUENT EVENT**

On April 7, 2009 the Company was advised that the Toronto Stock Exchange (“TSX”) was reviewing the eligibility for continued listing on the TSX of the common shares of the Company pursuant to Part VII of The Toronto Stock Exchange Company Manual. The Company is being reviewed under the Remedial Review Process and has been granted 210 days to comply with all requirements for continued listing. If the Company cannot demonstrate that it meets all TSX requirements set out in Part VII of The Toronto Stock Exchange Company Manual on or before November 3, 2009, the Company’s common shares will be de-listed 30 days from such date.

The delisting review was precipitated by the value of the Company’s listed securities falling below \$3,000,000 for thirty consecutive trading days prior to the review; and the value of ORMI’s publicly-traded securities falling below \$2,000,000 over the same period.

Management is currently reviewing its options, including listing on an alternative recognized exchange.