

Organic Resource Management Inc.

Management's Discussion and Analysis for the three months ended September 30, 2011

Introduction

This Management's Discussion and Analysis ("MD&A") of the consolidated financial position and results of operations of Organic Resource Management Inc. (the "Company" or "ORMI") for the three months ended September 30, 2011 has been prepared based upon information available to the Company as at December 13, 2011. This discussion should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of the Company and notes thereto for the three months ended September 30, 2011 (the "Interim Financial Statements"), the MD&A for the year ended June 30, 2011 and the Audited Consolidated Financial Statements and notes thereto for the year ended June 30, 2011 (the "Annual Financial Statements").

These Interim Financial Statements, including comparative figures, have been prepared in accordance with International Financial Reporting Standards ("IFRS") 1, *First Time Adoption of International Financial Reporting Standards*, and International Accounting Standard 34 ("IAS 34"), *Interim Financial Reporting*. The Annual Financial Statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). An explanation of how the transition from GAAP to IFRS has affected the statements of financial position, statements of comprehensive income/(loss) and statements of cash flows of the Company is provided in Note 18 of the Interim Financial Statements. All amounts in the Interim Financial Statements and Annual Financial Statements are shown in Canadian dollars.

This MD&A and the related Interim Financial Statements have been filed and can be accessed on the SEDAR website at www.sedar.com or the Company's website at www.ormi.com.

Forward-Looking Statements

Certain statements made or incorporated by reference in this MD&A are forward-looking and relate to, among other things, anticipated financial performance, business prospects, strategies, regulatory developments, new services, market forces, technological developments and opportunities. Forward-looking statements may include such words as anticipate, believe, could, expect, intend, may, outlook, plan, strive, target and will. By its nature, 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 the forward-looking statements and assumptions in this MD&A as the Company's management cannot provide assurance that actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or revise any forward-looking statements and assumptions, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

Strategic Alternatives Review

On December 10, 2010, the Company announced that its Board of Directors formed a Special Committee of its independent Directors to examine and explore matters relating to a number of expressions of interest received from third parties to acquire the Company. The Special Committee was empowered to retain legal counsel and a financial advisor to explore strategic alternatives to maximize shareholder value, including the possible sale of the Company. Duff & Phelps Canada Limited were retained as financial advisor and this process is still ongoing.

The Company cautions its shareholders and others considering trading in its securities that the Board of Directors has not received any binding proposals to acquire the Company's shares or assets and that no decisions have been made by the Board of Directors or the Special Committee with respect to selling the shares or assets of the Company. There can be no assurance that any definitive offer will be received or accepted, that any agreement will be executed, or that any transaction will be consummated. The Company does not intend to provide updates or make any further comment until the outcome of the process is determined.

Non-IFRS Measures

This MD&A contains references to certain non-IFRS financial measures such as EBITDA and EBITDA Margin. Non-IFRS financial measures are used by management to evaluate the performance of the Company. These measures do not have any meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Non-IFRS financial measures used herein have been applied on a consistent basis.

"EBITDA" means net income or loss before income taxes, interest, amortization, share based compensation and gains or losses on disposal of property, plant and equipment and intangible assets. EBITDA is a measure used by investors to compare issuers on the basis of their ability to generate cash from operations and is representative of a Company's operating performance. Management believes that EBITDA provides useful supplemental information on the results of the Company's business activities before taking into consideration how these activities are financed and taxed, before amortization, and otherwise excluding the impact of non-recurring gains and losses. In effect, EBITDA is equal to cash flows from operating activities before changes in non-cash operating assets and liabilities and appears on the Consolidated Statements of Cash Flows as a subtotal. "EBITDA Margin" means the percentage obtained by dividing EBITDA by revenue.

Investors are cautioned that non-IFRS measures should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating activities as a measure of liquidity and cash flow.

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Corporate Overview

ORMI is Canada's largest national provider of vacuum truck services for the collection, processing and recycling of grease interceptor and other liquid food-related organic residuals. The organic residuals that ORMI collects are primarily generated from grease interceptors and other wastewater pre-treatment devices that capture and prevent fats, oils and grease ("FOG") and other food particles from entering the sewer system, as required by sewer-use bylaws. ORMI also collects liquefied solid food residuals, primarily from a small number of grocery stores in Ontario, using the Company's patented Organic Residuals Recovery System ("ORRS"). Most of the residuals collected are processed at the Company's four transfer stations to produce a clean high-energy feedstock, which is then delivered to anaerobic digesters ("AD"s) where it is used to produce biogas. The ADs use the biogas to generate renewable electricity which is sold to the power grid.

ORMI services in excess of 10,000 grease interceptors for industrial, commercial and institutional ("IC&I") food industry customers across Canada on a regularly-scheduled basis. The Company has been servicing customers in Ontario, the lower mainland of British Columbia and parts of Quebec for over 25 years. Customers in other provinces are serviced through the use of subcontractors. ORMI also provides ancillary services such as drain flushing, grease interceptor and ORRS equipment repairs, and fabrication and installation of its Duratrap brand grease interceptors.

The Company is federally incorporated under the Canada Business Corporations Act and its shares trade on the TSX Venture Exchange under the symbol "ORI". The Company has two wholly-owned and inactive subsidiaries, ORMI Information Systems Inc. ("OIS") and GI Compliance USA Inc. ("GIC"). OIS was acquired in fiscal 2008 so that the Company could secure the operational software used as the platform for its operations. GIC is a Delaware-based corporation established on December 23, 2010, as a vehicle for the eventual rollout of the Company's proprietary on-line grease interceptor registry and automated bylaw enforcement system in the USA.

Operating Overview

There were no major developments during the three months ended September 30, 2011.

The Company completed the sale and/or refurbishing of 32 ORRS mills for a major national account during the quarter which is expected to more than double current ORRS volumes once fully operational.

Gross margin and EBITDA margin for the quarter were both down from the same period last year; however, relative to the prior quarter they increased from 36% to 38% and 5% to 10%, respectively.

Overall Performance

Q1 2012 Highlights

- Total revenues of \$3,573,000, a decrease of \$20,000 or 1% from \$3,593,000 last year.
- Total gross margin of \$1,352,000 or 38% of revenue, down \$227,000 or 14% from \$1,579,000 or 44% of revenue last year.
- Net loss of \$43,000, a decrease of \$207,000 from net income of \$164,000 last year.
- Loss per share of \$0.01 compared to net income per share of \$0.04 last year.
- EBITDA of \$357,000, down \$208,000 or 37% from \$565,000 last year.

Results of Operations

The Company's consolidated revenues for the quarter ended September 30, 2011 were \$3,573,000, a decrease of \$20,000 or 1% from \$3,593,000 for the same period last year. Total food-related organic residuals collected in the quarter were 4% greater than for the same period last year, largely on the strength of a 38% increase in ORRS services as a result of an agreement entered into in May 2011 with a national account for the sale and refurbishment of ORRS mills, as noted above.

Total gross margin was \$1,352,000 for the quarter, a decrease of \$227,000 or 14% from \$1,579,000 for the same period last year. As a percentage of revenue, gross margin was 38% for the current quarter, down from 44% for the same period last year. The decrease in gross margin was mainly due to higher waste treatment costs related to the City of Toronto's wastewater discharge fees and higher truck operating costs due to a significant increase in feedstock volumes shipped to ADs.

Total operating expense was \$1,331,000 for the quarter, a decrease of \$24,000 or 2% from \$1,355,000 for the same period last year. Selling, general and administrative expense, which comprises the majority of operating expense, was \$995,000 for the quarter, a decrease of \$19,000 or 2% from \$1,014,000 last year. The decrease was mainly due to a 20% reduction in advertising, travel and office expenses, which more than offset the impact of a net 3% increase in salaries, wages and benefits. Total amortization expense was \$326,000 for the quarter, down \$6,000 or 2% from \$332,000 last year.

Income before interest and income taxes was \$21,000 for the quarter, down \$202,000 from \$223,000 for the same period last year. Interest expense was \$65,000 for the quarter, an increase of \$16,000 or 32% from \$49,000 last year, mainly due to a year-over-year increase in finance lease obligations. Income tax expense was \$nil for the quarter compared to an expense of \$10,000 last year. The net loss for the quarter was \$43,000 compared to net income of \$164,000 last year, a decrease of \$207,000.

Diluted loss per share was \$0.01 for the quarter, compared to diluted income per share of \$0.04 for the same period last year.

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EBITDA

Total EBITDA was \$357,000 for the quarter, a decrease of \$208,000 or 37% from \$565,000 for the same period last year. EBITDA margin was 10% for the quarter, down from 16% last year.

The following table reconciles the net (loss) income to EBITDA for the comparative eight-quarter period ended September 30, 2011. Investors are cautioned that this non-IFRS measure should not be construed as an alternative to the net income or loss determined in accordance with IFRS as an indicator of the Company's performance.

EBITDA Reconciliation

Quarter Ending: ⁽¹⁾ (in 000's except margins)	Fiscal 2012		Fiscal 2011			Fiscal 2010		
	Sep. 30 2011	Jun. 30 2011	Mar. 31 2011	Dec. 31 2010	Sep. 30 2010	Jun. 30 2010	Mar. 31 2010	Dec. 31 2009
Revenues	\$ 3,573	\$ 3,538	\$ 3,354	\$ 3,500	\$ 3,593	\$ 3,486	\$ 3,452	\$ 3,352
Net (loss) income	\$ (43)	\$ (2,648)	\$ (335)	\$ (39)	\$ 164	\$ 144	\$ 166	\$ 163
Write-down of goodwill	-	2,435	-	-	-	-	-	-
Amortization of property, plant and equipment	256	270	272	261	281	301	236	164
Loss (gain) on disposal of property, plant and equipment	-	4	-	-	(1)	-	-	(2)
Amortization of intangible assets	70	71	68	64	52	63	63	63
Interest expense	64	63	62	60	49	63	56	51
Share based compensation	10	18	16	11	10	13	11	10
Income tax (recovery) expense	-	(26)	(41)	10	10	(37)	(3)	(3)
EBITDA	\$ 357	\$ 187	\$ 42	\$ 367	\$ 565	\$ 547	\$ 529	\$ 446
EBITDA Margin	10%	5%	1%	10%	16%	16%	15%	13%

⁽¹⁾ Fiscal 2012 and comparatives for 2011 have been prepared using IFRS and fiscal 2010 using GAAP. The transition has had no material impact on revenues or EBITDA, but other amounts may not be comparable.

Financial Position

As at September 30, 2011 and compared to June 30, 2011:

- Accounts receivable were \$2,708,000, a decrease of \$26,000 or 1% from \$2,734,000;
- Inventory was \$140,000, a decrease of \$72,000 or 34% from \$212,000, due to the sale of ORRS machines that were purchased for a customer at the end of last year;
- Prepaid expenses were \$139,000, decreasing \$33,000 or 19% from \$172,000, through normal payment activity;
- Property, plant and equipment was \$5,792,000, a decrease of \$196,000 or 3% from \$5,988,000;
- Intangible assets, comprised of software and patents, were \$943,000, a decrease of \$8,000 from \$951,000;
- The deferred income tax asset of \$1,478,000 did not change during the period;
- The revolving loan improved during the quarter, ending at \$354,000, down \$79,000 or 18% from \$433,000;
- Accounts payable and accrued liabilities were \$1,453,000, a decrease of \$71,000 or 5% from \$1,524,000;
- Total long-term debt was \$1,573,000, a decrease of \$58,000 or 4% from \$1,631,000;
- Total obligations under finance lease were \$2,436,000, a decrease of \$94,000 or 4% from \$2,530,000;
- Shareholders' equity ended lower at \$5,396,000, a decrease of \$33,000 or 1% from \$5,429,000.

Total capital expenditures for the quarter were \$122,000 (2011 - \$915,000), mainly relating to wastewater and feedstock process improvements at the Company's Ottawa transfer station and software development. During the quarter, fully amortized assets with a cost and accumulated amortization of \$969,000 were decommissioned and written off.

The deferred income tax asset is based on management's recoverability assessment as at September 30, 2011. Although prior year tax returns have been re-filed for the purpose of claiming a scientific research and experimental development ("SR&ED") investment tax credit, the amount has not been included in the determination of deferred income tax assets since the claim is still subject to assessment.

Liquidity and Capital Resources

The Company's main sources of capital are cash flows generated from operations, a revolving loan, finance leases and long-term debt. Cash flows from operating activities were \$418,000 for the three month period ending September 30, 2011 compared to \$684,000 for the same period last year, a decrease of \$266,000 or 39%. For the quarter, decreases in accounts receivable, inventories and prepaid expenses more than offset a decrease in accounts payable, which added to cash flows. Similarly, last year's cash flows for the quarter were supplemented to an even greater extent by an increase in accounts payable which more than offset the increase in accounts receivable.

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The Company's line of credit with the Royal Bank of Canada ("RBC") is comprised of a \$1,500,000 revolving demand facility, based on 75% of eligible accounts receivable at an annual interest rate of RBC prime plus 1.5%, and a \$2,500,000 lease facility which is governed under separate agreements. As at September 30, 2011, the Company's revolving loan under the credit facility was \$295,000, exclusive of outstanding cheques, compared to \$290,000 at June 30, 2011. The balance payable on the lease facility as at September 30, 2011 was \$771,000 compared to a balance of \$713,000 at June 30, 2011.

The Company is subject to two financial ratios under its banking covenants. As at June 30, 2011, the Company was not in compliance with the debt service coverage covenant. On September 20, 2011, the RBC while not waiving its rights in respect of the breach, agreed to tolerate the default and revised its measurement of the debt service coverage ratio. As at September 30, 2011, the Company was in compliance with the revised covenant.

The financing of trucks and trailers is through both long-term debt and finance leases whereas the funding of software development is typically through cash generated from operations. The funding of machinery and equipment is generally accomplished through both methods. For the quarter ended September 30, 2011, total capital expenditures were \$122,000 of which \$82,000 was funded through cash and \$40,000 through finance leases. Cash proceeds of \$65,000 relating to the leasing of equipment purchased last year reduced cash flows used in investing activities.

As at September 30, 2011, the Company had a working capital surplus of \$226,000 compared to \$217,000 as at June 30, 2011. Management assesses the Company's current liquidity risk to be minimal based on its current level of cash flows from operations and its positive net working capital. However, the Company is reviewing its financing options, including negotiating satisfactory terms with RBC and/or another institution, which may be on different credit terms than currently with RBC.

Quarterly Review

Quarter Ending: ⁽¹⁾ (in 000's except per share data)	Fiscal 2012	Fiscal 2011				Fiscal 2010		
	Sep. 30 2011	Jun. 30 2011	Mar. 31 2011	Dec. 31 2010	Sep. 30 2010	Jun. 30 2010	Mar. 31 2010	Dec. 31 2010
Revenues	\$ 3,573	\$ 3,538	\$ 3,354	\$ 3,500	\$ 3,593	\$ 3,486	\$ 3,452	\$ 3,352
Net (loss) income ⁽²⁾	(43)	(2,648)	(335)	(39)	164	144	166	163
EBITDA ⁽³⁾	357	187	42	367	565	547	529	446
Cash flows from operating activities	418	91	(76)	268	684	286	365	562
(Loss) income per share:								
Basic and diluted	(0.01)	(0.60)	(0.08)	(0.01)	0.04	0.03	0.04	0.04

⁽¹⁾ Fiscal 2012 and 2011 have been prepared using IFRS and fiscal 2010 has been prepared using GAAP. Reported amounts may not be comparable.

⁽²⁾ Net loss for the fourth quarter of fiscal 2011 includes a \$2,435 write-down of goodwill.

⁽³⁾ See Non-GAAP Measures

Revenues have been reasonably consistent throughout the eight quarters. In the third quarter of fiscal 2011, revenues were negatively impacted by the actions of two national customer accounts, one reducing its service frequency and the other re-priced due to increased volumes. Revenues recovered in the fourth quarter of fiscal 2011 and first quarter of fiscal 2012 due to higher volumes and a general price increase.

Reported net income was consistent during fiscal 2010, averaging 4% to 5% of revenues. Net income was negatively impacted in the fourth quarter of fiscal 2010 due to the creation of two new senior management positions and higher amortization costs, but the impact was largely offset by a recovery of income taxes. Although not entirely comparable to fiscal 2010 which was prepared using GAAP, net income for the first quarter of fiscal 2011 was restored to earlier fiscal 2010 levels, with improved margins offsetting higher selling, general and administrative expenses. Profitability for the second

quarter was impacted by a new R&D feedstock testing program, one-time trucking costs related to an evaluation of a potential customer's residuals for AD processing, and one-time transitional costs related to the startup of the Company's own facility in southwestern Ontario to replace a major subcontractor. The net loss increased in the third quarter of fiscal 2011, mainly due to lower revenues in conjunction with higher selling, general and administrative expenses related to consulting fees, the addition of a Director of Biogas Development and a significant bad debt write-off following the bankruptcy of a major national account. Excluding the write-down of goodwill, the net loss improved for the fourth quarter of fiscal 2011 on the strength of higher revenues, but was impacted by a provision for the City of Toronto's wastewater discharge fines and by higher waste treatment costs. Profitability for the first quarter of fiscal 2012 continued to improve due to higher revenues and improved gross margins.

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Cash flows from operating activities represent cash flows from operations adjusted for changes in non-cash operating assets and liabilities. During fiscal 2010, cash flows from operations increased on a quarterly basis mainly due to higher revenues and improving margins, although increasing amortization costs held net income constant. Although not entirely comparable to fiscal 2010 which was prepared using GAAP, cash flows in fiscal

2011 decreased due to the new strategic initiatives and one-time costs noted above. The third quarter of fiscal 2011 was further impacted by lower revenues. Cash flows from operating activities increased in the first quarter of fiscal 2012 due to higher revenues and gross margins; the latter reflecting management's initiatives to reduce operating costs.

Contractual Obligations

Contractual obligations as at September 30, 2011 are as follows:

(in 000s)	Less than 1 Year	1 to 5 Years	After 5 Years	Total
Long-term debt	\$ 234	\$ 411	\$ 928	\$ 1,573
Finance lease obligations	730	1,706	-	2,436
Operating leases	208	313	108	629
	\$ 1,172	\$ 2,430	\$ 1,036	\$ 4,638

The Company also has capital commitments of \$1,017,000 with respect to new leased vehicles that have been ordered.

Based on current operating levels, management expects cash flows from operations along with the available borrowing capacity under the Company's credit facility to be sufficient to meet its working capital needs and debt service requirements for the next twelve month period. The Company has the ability to reduce development and capital spending to fund debt requirements if necessary; however, a long-term decline in these expenditures may negatively impact its growth strategy.

Off Balance Sheet Arrangements

As at September 30, 2011, the Company did not have any off balance sheet arrangements.

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, as described in Note 17 of the Interim Financial Statements. 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.

Outlook

Increased efforts by municipalities to prevent FOG from entering municipal sewer systems and the continued desire of corporations, and society in general, to mitigate greenhouse gas emissions by recycling food waste, are providing the Company with significant opportunities for growth in both existing and new markets. As municipalities increase enforcement of sewer-use compliance and mandate minimum grease interceptor servicing levels, waste generators will be required to enter into contracts with service providers such as ORMI.

In addition, during the last two years, the Company has been addressing the emerging municipal opportunity to enforce sewer use bylaws with the development of its new GI Compliance System ("GCS"). GCS is designed to automate and simplify the bylaw compliance process through a web-based registry and manifest system that requires waste generators, or their service providers, to report all grease interceptor services. GCS will allow bylaw officers to focus their efforts on locations that are reported as being out-of-compliance and ensures that all waste generators are subject to the same compliance standard. User transaction fees can also be assessed to help the municipality defray operational and enforcement costs. The Company is in the initial stages of marketing GCS to municipalities.

Although the degree to which regulatory enforcement will take hold cannot be determined, the Company believes that aggressive enforcement activity by the municipalities in its core markets will have a positive and material impact on the Company's results.

The Company also believes that processing organic residuals into an AD feedstock that generates renewable energy is the long sought-after sustainable solution for diverting the bulk of food related organics from landfill. This would make the Company's patented ORRS process a more financially viable organic residuals handling technology. As a result, in addition

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to the Company's on-site ORRS program, the Company plans to develop large scale ORRS systems located at centralized transfer stations which would receive IC&I source-separated food waste from third party bulk and green bin collection services, as well as from industrial processors who generate solid food residual streams such as excess and off-spec organics.

To capitalize on the above opportunities, the Company has and will continue to make significant investments in capital assets, human resources and new technologies and processes in order to attract and retain new business.

Outstanding Share Data

As at October 24, 2011, the outstanding share data was as follows:

	Issued	Stated Capital
Common shares	4,404,935	\$ 6,639,792

For additional detail, see Note 13A to the Interim Financial Statements.

Options Expiry Date	Number of Options	Weighted Average Exercise Price
February 25, 2012	21,000	2.20
June 25, 2012	142,500	2.00
June 25, 2013	84,000	1.10
November 12, 2014	155,000	0.91
March 28, 2015	30,000	1.46
December 7, 2015	91,500	1.90
May 11, 2016	15,000	2.10
	539,000	\$ 1.51

No options were granted or exercised during the first three months of fiscal 2012. During fiscal 2011, 106,500 options were granted. 91,500 of these options vest over three years commencing in the third year and 15,000 vest in December 2011 based on the attainment of certain performance requirements. Average fair values of these options were \$0.92 and \$0.89 per share respectively, based on the Black-Scholes options pricing model. No options were exercised during fiscal 2011.

Key Management Personnel Expenses

The Company did not have any related party transactions other than personnel expenses with its key management, which is comprised of senior management (the Chief Executive Officer, President, Senior Vice President of Corporate Development, Chief Financial Officer, Vice President of Sales & Marketing and the independent directors of the Company). The remuneration of the key management, as defined above, is described in Note 14 of the Interim Financial Statements.

Risk Management

The Company is exposed to financial and operating 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, in order to protect earnings, cash flow and ultimately, shareholder value.

Risk management strategies, policies and limits are designed to ensure that ORMI's risks and related exposures are consistent with the Company's business objectives and risk tolerance. Risks are managed within limits ultimately established by the Company's Board of Directors and implemented by senior management. The Company's Audit Committee oversees management's review of the adequacy of the risk management framework and assesses how management monitors compliance with risk management policies and procedures.

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, reported contingencies could potentially further hinder the Company's ability to fund future growth plans. Other factors, not presently known to management, could also 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.

Financial Risk

The Company's financial instruments include trade and other accounts receivable, revolving loans, accounts payable and accrued liabilities, and long-term debt. The carrying values of these financial instruments are carried at amortized cost and approximate their fair values due to their relatively short periods to maturity and/or quoted market rates of interest. Fair value estimates are made at a specific point in time, using available information about the instrument. These estimates are subjective in nature and often cannot be determined with precision.

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.

Credit risk

Credit risk is the risk that a customer will be unable to pay the Company in full when amounts become due. This risk is managed through established credit management techniques, including financial and other assessments to establish and monitor a customer's credit worthiness. The Company believes these measures minimize its credit risk, but there is no absolute certainty that these processes will protect it against all losses.

During the downturn of the economy in the latter half of 2008 through 2010, the Company was not exposed to any major

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credit losses, principally due to the nature of the Company's business, its internal controls and credit management policies and the credit risk being spread over a very large number of customers. Regardless, in fiscal 2011, the bankruptcy of a national restaurant chain resulted in a bad debt loss of \$67,000. As noted, although the Company's risk is minimized because of its limited exposure to any one customer, there is no assurance that another large customer chain could not also declare bankruptcy and adversely impact the Company's cash flows.

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 flows 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. The Company's Board of Directors approves the annual operating and capital budgets as well as any material transactions outside the ordinary course of business. The Company's liquidity and cash flow management is discussed in the "Liquidity and Capital Resources" section of this MD&A.

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 a portion of its long-term debt that bears 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 (loss) income and comprehensive (loss) income.

Other 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. Environmental technology is an evolving field in which new developments are expected to continue at a rapid pace. Competition in the collection and recycling of food-related organic residuals 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.

The Company believes the major constraint to advancement of its patented on-site ORRS program is the capital cost of equipment compared to containerized collection alternatives.

Reliance on Third-Party Recycling

The Company relies on third-parties for recycling the residuals it collects. Currently, the Company has agreements with five ADs in Ontario for recycling its residuals. Once fully operational, these five ADs will have the capacity to process significantly greater volumes of residuals than what the company collects today. The Company expects to enter into additional agreements as more ADs come into production and as it increases the volumes of residuals it collects. The Company's risk related to the disposal of the residuals it collects is reduced as it enters into new AD recycling agreements. However, with the exception of its AD contracts, the Company has no other long-term contracts with third-party recycling facilities.

Environmental Protection

The Company provides vacuum truck services for the collection and recycling of 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, processes and transports are non-hazardous.

Government Regulation

The development and operation of ADs is subject to government regulations for bringing off-farm residuals onto a farm for co-digestion, as well as the ability of the AD to access the power transmission grid. To date, the growth of ADs in Ontario has been positively impacted by the two Ontario government programs, the Green Energy Act and the Ontario Biogas Systems Financial Assistance Program. The construction of new ADs is dependent on many factors that are not under the Company's control, including but not limited to continued favourable regulatory treatment.

The Company discharges decanted water from raw material into sewer systems under Sewer Use Agreements with local municipalities. These municipalities may change discharge standards or modify enforcement practices that could materially hamper the ability of the Company to produce a processed feedstock.

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 this substantial opportunity.

Organic Resource Management Inc.

Management's Discussion and Analysis for the three months ended September 30, 2011

Labour

ORMI's hourly employees at the Company's Toronto facility are represented by the Universal Workers Union, Local 183 under a four year collective agreement expiring September 30, 2013. Employees at the Company's Vancouver facility are represented by the Service Employees Union under a three year collective agreement expiring May 1, 2013.

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. The Company does not carry any key person insurance.

Operating Risk and Insurance

The Company's transportation operations are subject to risks normally inherent in the transportation industry, including potential liability which could result from, among other things, personal injury or property damage arising from motor vehicle accidents. Although the Company has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially affected. The company currently has general liability umbrella coverage of \$25 million.

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 exceeded the combined limit of the Company's insurance coverage at that time of \$10 million. The final outcome of this claim and the amount of any loss to the Company, if any, is not determinable at this time and accordingly, no provision has been established in the Interim Financial Statements ending September 30, 2011.

During fiscal 2011, the Company received a number of summonses issued by the City of Toronto for certain wastewater discharge infractions. The Company has established a provision for these fines based on legal opinion and an assessment of likely outcomes based on a range of probabilities. However, the outcome of these proceedings and the amount the fines which ultimately may be imposed on the Company, if any, could be significantly different than the estimated provision.

Critical Accounting Policies and Estimates

The Company's Interim Financial Statements are prepared in conformity with IFRS. The preparation of these Interim Financial Statements requires the Company to make estimates

and assumptions that affect the reported amount of assets and liabilities, which are inherently uncertain and subject to change in subsequent periods. These estimates and assumptions can affect the reported amounts of assets, liabilities, revenues, expenses, income taxes and shareholders' equity. The Company bases its estimates and related assumptions on past experience and other factors which it believes to be relevant in the circumstances. Actual results could differ from these estimates. The application of these estimates and assumptions are described more fully in Note 3 of the Interim Financial Statements, *Significant Accounting Policies*.

The following items in the Interim Financial Statements involve significant estimation or judgments:

Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts for estimated credit losses based on a monthly analysis of the credit risk relating to specific customers, historical payment trends, and other information gathered on the financial condition of its customers. The Company makes a number of assumptions in interpreting this data to arrive at the overall estimated allowance it considers reasonable under the circumstances.

Property, Plant and Equipment

The Company has made significant investments in property, plant and equipment, primarily consisting of the Company's land, buildings and truck fleet. The recorded value of these capital assets is based on historical cost, with the exception of land, which the Company elected to measure at fair value upon transition to IFRS. The assumptions underlying the estimation of the useful lives of these assets are reviewed by management at each reporting date and are based upon history, experience, technological advances, competitive pressures and future infrastructure utilization plans.

Goodwill and Intangible Assets

The Company accounts for all business combinations using the purchase method, under which it allocates the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired to intangibles and goodwill. Purchase price allocations are derived from a formal valuation by an independent third-party valuation expert. Any goodwill or intangible assets with indefinite useful lives acquired in a business combination are not amortized to income over their useful lives but are assessed annually, or whenever indicators of impairment exist, for any potential impairment in value. All other intangible assets are amortized over their estimated useful life.

The Company makes assumptions regarding estimated future cash flows, market conditions and other factors in determining the fair value of its intangible assets, which are comprised of software and patents. The assumptions underlying the estimation of the useful lives of these assets are based upon history, experience, technological advances, competitive pressures and future infrastructure utilization plans.

Organic Resource Management Inc.

Management's Discussion and Analysis for the three months ended September 30, 2011

Impairment of Goodwill and Non-Financial Assets

Goodwill and non-financial assets held and used by the Company are reviewed for possible impairment annually or when indicators of impairment exist that suggest the carrying amount of an asset, or its cash-generating unit, may not be recoverable. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows expected to result from the use of the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized.

For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets. A cash-generating unit to which goodwill has been allocated reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Impairment losses recognized in respect of the cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

During fiscal 2011, goodwill related to the fiscal 2002 acquisition of the Company's Ontario-based subsidiary was determined to be fully impaired, as described in Note 8 of the Interim Financial Statements.

Share Based Compensation

The Company's compensation philosophy includes providing share purchase options to senior management as a form of long term incentive to better align the interests and actions of management with the Company's shareholders. The fair value of each share purchase option granted is estimated on the date of the grant using the Black-Scholes option pricing model, which includes assumptions on volatility, dividend yield, risk-free interest rates, forfeiture rate and expected option life.

Leases

The terms of a lease transaction may not conclusively define a lease as operating or finance. Management uses judgment to determine if the lease should be classified as a finance lease, transferring substantially all the risks and rewards of ownership to the Company.

Research and Development Costs

Significant judgment is required to distinguish between research and the development costs. Development costs are capitalized if management determines that they meet certain criteria. All other costs are considered research costs and are expensed as incurred.

Income Taxes

Income tax expense is recognized in net income except to the extent that it relates to items recognized directly in equity, in which case the related tax is recognized directly in equity or in other comprehensive income. Current income taxes are recognized for the estimated income taxes payable or recoverable for the current year based on substantively enacted tax rates at the reporting date. Deferred income tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences") and loss carryforwards that are probable, and for which taxable profit will be available.

Realization of the Company's deferred income tax assets is largely dependent upon the achievement of projected future taxable income and the continued applicability of ongoing tax planning strategies. The Company's judgments regarding future earnings or losses may change due to future market conditions, changes in tax legislation and any other factors that could adversely affect the ongoing value of deferred income tax assets. Deferred income taxes are reviewed at each reporting date and to the extent that the Company does not consider it probable that a deferred income tax asset will be recovered, a valuation allowance is provided.

Investment Tax Credits

The Company believes it is entitled to SR&ED investment tax credits granted by the Canadian federal government. SR&ED expenses consist primarily of personnel and associated costs related to the Company's research and development efforts on software systems, the development of new processes and enhancements to existing processes. Management makes a number of estimates and assumptions in determining the expenditures eligible for an investment tax credit claim and has no assurance that its claim will be accepted as submitted.

Investment tax credits for SR&ED activities are recorded as a reduction of the related expenses or capital expenditures in the year in which the expenses are incurred, provided there is reasonable assurance that the tax credits will be realized. Currently, this assurance can only be established when the related tax filing is assessed.

Contingencies

Contingencies, by their nature, are subject to measurement uncertainty as the financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies involves a significant amount of judgement including assessing whether a present obligation exists and providing a reliable estimate of the amount of cash outflow

Organic Resource Management Inc.

Management's Discussion and Analysis for the three months ended September 30, 2011

required to settle the obligation. The uncertainty involved with the timing and amount at which a contingency will be settled may have a material impact on the consolidated financial statements of future periods to the extent that the amount provided differs from the actual outcome. The Company's determination as to whether to provide for certain contingencies is described above in the "Risks and Uncertainties" section of this MD&A.

Financial Instruments

The estimated fair values of financial assets and liabilities are subject to measurement uncertainty due to their exposure to currency, credit, liquidity and market risks. Management's assumptions rely on external observable market data including interest rates and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty. The Company's risks related to financial instruments are described above in the "Financial Instruments" section of this MD&A.

Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

The accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises changed to IFRS effective for fiscal years beginning on January 1, 2011. As a result, the Company commenced reporting on the new basis, with comparative information for the previous fiscal year, on July 1, 2011. The Interim Financial Statements for the three month period ending September 30, 2011 represent the first financial statements prepared in accordance with IFRS and the consolidated financial statements for the year ended June 30, 2012 will be the first annual financial statements prepared on the new basis. The Interim Financial Statements include a balance sheet as at July 1, 2010, reconciled from GAAP to IFRS.

The Company developed and implemented a five-phase implementation plan for the transition to IFRS consisting of the following: (1) planning and scoping; (2) detailed evaluation and design; (3) solution development and preliminary policy choices; (4) integration and assessment of the impact on the Company's financial and reporting systems; and (5) post-implementation review. The Company has completed the first four phases and the fifth phase will continue throughout fiscal 2012. The Company's progress in the transition to IFRS has been and will continue to be reviewed by the independent auditors and the Audit Committee on a quarterly basis.

The Company has applied IFRS 1 First-time Adoption of International Financial Reporting Standard in preparing the initial consolidated financial statements and accordingly, IFRS has been applied retrospectively as of July 1, 2010, subject to certain mandatory exceptions and optional exemptions available to the Company. The effects of the transition to IFRS on the consolidated statements of financial position, comprehensive (loss) income, equity and cash flows are presented below. The Company's annual financial statements as at June 20, 2012 may be impacted by further International

Accounting Standards Board ("IASB") pronouncements during the fiscal year.

The following optional exemptions under IFRS 1 have been considered by the Company:

- *Fair value as deemed cost* - An entity is allowed to initially measure an item of property, plant and equipment upon transition to IFRS at fair value. The Company has applied this exemption by measuring the value of its land at fair market value. The land was valued at \$520,000 as at the transition date by an independent valuator resulting in a \$256,000 increase in cost.
- *Share based payments* - The Company has not applied this exemption which allows an entity to not retrospectively restate liabilities for share-based payments that have vested or settled prior to the IFRS transition date.
- *Business combinations* - The Company has applied this exemption which allows an entity to not apply IFRS 3 retrospectively to past business combinations entered into prior to the IFRS transition date.
- *Borrowing costs* - The Company has elected this exemption which allows an entity to not apply restatement of borrowing costs directly attributable to the acquisition or construction of qualifying assets retroactively prior to the IFRS transition date.

In addition to the transitional impacts described above, there are several accounting policy changes that have had an impact on the Company's consolidated financial statements. This is not an exhaustive list; rather these items represent the main policy choices under IFRS that apply to the Company. The full financial impact of these policy choices is described in Note 18 of the Interim Financial Statements.

- *IFRS 2 Share based payments* - Under GAAP the fair value of share based awards with graded vesting and service only conditions may be treated as one grant by the Company, with the resulting expense recognized on a straight line basis over the vesting period. Under IFRS, each tranche of a share based award with graded vesting is considered a separate grant for the calculation of fair value, and the related expense is attributed to the vesting period of each tranche of the award. As a result, recognition of share based expenses is accelerated. The expected forfeiture of options also has to be considered in evaluating the fair value of the stock options issued. The impact of this adjustment as at the transition date was to increase the contributed surplus account by \$22,000, with a corresponding reduction in future share based compensation expenses.
- *IAS 12 Income Taxes* - Deferred income tax balances have changed as a result of the other adjustments required to transition from Canadian GAAP to IFRS. The impact of these adjustments on the deferred income tax asset as at the transition date was \$nil, however, the excess of capital cost for tax purposes over net book value of capital assets

Organic Resource Management Inc.

Management's Discussion and Analysis for the three months ended September 30, 2011

at the expected future tax rate decreased by \$90,000 with a corresponding offsetting decrease in the valuation allowance. In addition, as required under IFRS, the Company reversed the capitalized assumed tax liability recorded in fiscal 2008 relating to the purchase price of OIS software, resulting in a \$100,000 decrease in the cost of intangible assets as at the transition date, with a largely offsetting reduction in deferred tax liabilities. Current deferred income taxes have also been reclassified as non-current assets.

- *IAS 16 Property, Plant and Equipment* - International Accounting Standard ("IAS") 16 provides options to record property, plant and equipment using a cost or a revaluation model. Currently, the Company uses a cost model to record its property, plant and equipment and it will continue to use this method after transition. IAS 16 also contains detailed guidance on the componentization of property, plant and equipment. The Company has reviewed this guidance to determine which assets, if any, required componentization. In addition, prior to transition most of these assets were amortized on a declining balance basis. The Company believes the straight line amortization of these assets provides a more accurate and consistent basis for the determination of useful life under IFRS and accordingly changed its policy, resulting in a \$344,000 increase to the net book value of property, plant and equipment as at the transition date.
- *IAS 17 Leases* - Guidelines under this standard do not provide the quantitative guidance provided under GAAP on determining classification criteria between operating leases and finance leases. Under IFRS, the emphasis is on substance over form of lease contracts and focus is on the right to use, which could result in operating leases being reclassified as finance leases. These changes have not had an impact on the treatment of long-term property leases currently reported as rent expense, however the Company will continue to monitor IFRS guidance as it becomes available.
- *IAS 36 Impairment of Assets* - Under GAAP, a two step approach to impairment testing is used. First, the asset carrying values are compared to the undiscounted future cash flows to determine the existence of impairment and second, the impairment is measured by comparing asset carrying values with fair values. Under IFRS, an impairment loss is recognized when the carrying amount of an asset or cash generating unit is greater than its recoverable amount. This recoverable amount is based on estimated future cash flows discounted by a current market risk free rate of interest. IFRS also requires reversal of impairment losses, excluding goodwill, where circumstances leading to the impairment have changed, which is not allowed under GAAP. This change in determining impairment did not have an impact on the write-down of goodwill recorded in fiscal 2011.

The transition to IFRS has also had an effect on the Company's existing controls structure. As a result, controls and procedures have been modified where necessary to comply with the new reporting and data requirements under IFRS. As IFRS evolves, additional changes in the controls structure may be necessary.

Pending Accounting Pronouncements

A number of new standards, interpretations and amendments to existing standards were issued by the IASB and International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the period ended September 30, 2011, and have not been applied in preparing the Interim Financial Statements. Many of these are not applicable or are inconsequential to the Company and have been excluded from the discussion below.

The following standards and interpretations have been issued by the IASB and the IFRIC and the Company is currently assessing their impact on the financial statements:

International Accounting Standards

Effective in the annual period beginning on or after:

IAS 1	Presentation of financial statements	July 1, 2012
IFRS 9	Financial Instruments	January 1, 2013
IFRS 13	Fair Value Measurement	January 1, 2013

IAS 1 Presentation of Financial Statements is amended to require the presentation of items of other comprehensive income, classified by nature, to be grouped into items that will not be reclassified subsequently to profit or loss; and items that will be reclassified subsequently to profit or loss when specific conditions are met.

IFRS 9 Financial Instruments replaces *IAS 39 Financial Instruments: Recognition and Measurement*. This replacement is a three phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of the first phase of the IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities.

IFRS 13 Fair Value Measurements provides new guidance on fair value measurement and disclosure requirements.

Certification of Interim Filings

In accordance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Company has filed venture issuer basic certificates signed by the Chief Executive Officer and the Chief Financial Officer.

Interim Consolidated Financial Statements of
ORGANIC RESOURCE MANAGEMENT INC.

(Unaudited)

For the three months ended September 30, 2011

The accompanying unaudited interim consolidated financial statements of the Company for the three months ended September 30, 2011 have been prepared by and are the responsibility of the Company's management.

ORGANIC RESOURCE MANAGEMENT INC.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

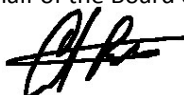
(UNAUDITED)

AS AT: (in Canadian dollars)	September 30 2011	June 30 2011	July 1 2010
ASSETS			
Current assets			
Cash and cash equivalents	\$ 11,100	\$ 11,100	\$ 630,700
Accounts receivable (Note 4B)	2,707,867	2,734,492	2,321,000
Inventory (Note 5)	140,188	211,574	109,131
Prepaid expenses	139,394	172,365	256,506
	2,998,549	3,129,531	3,317,337
Non-current assets			
Property, plant and equipment (Note 6)	5,792,343	5,987,961	4,963,320
Intangible assets (Note 7)	943,280	951,028	883,461
Goodwill (Note 8)	-	-	2,434,793
Deferred income tax asset (Note 9)	1,478,000	1,478,000	1,431,000
	\$ 11,212,172	\$ 11,546,520	\$ 13,029,911
LIABILITIES			
Current liabilities			
Revolving loan (Note 10)	\$ 353,937	\$ 433,140	\$ -
Accounts payable and accrued liabilities (Note 4B)	1,453,423	1,523,511	1,285,533
Long-term debt (Note 11)	234,390	233,167	198,010
Obligations under finance lease (Note 12)	730,450	722,641	640,434
	2,772,200	2,912,459	2,123,977
Non-current liabilities			
Long-term debt (Note 11)	1,338,708	1,397,670	1,131,118
Obligations under finance lease (Note 12)	1,705,492	1,807,148	1,542,264
	5,816,400	6,117,277	4,797,359
SHAREHOLDERS' EQUITY			
Common shares (Note 13)	6,639,792	6,639,792	6,639,792
Contributed surplus	476,264	466,387	411,347
(Deficit) retained earnings	(1,720,284)	(1,676,936)	1,181,413
	5,395,772	5,429,243	8,232,552
	\$ 11,212,172	\$ 11,546,520	\$ 13,029,911

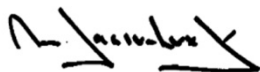
Commitments and contingencies (Note 15)

See accompanying Notes to Interim 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 COMPREHENSIVE (LOSS) INCOME

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 (UNAUDITED)

(in Canadian dollars)	2011	2010
REVENUES	\$ 3,573,159	\$ 3,593,293
COST OF SALES	2,221,159	2,014,443
GROSS MARGIN	1,352,000	1,578,850
OPERATING EXPENSE		
Selling, general and administrative (Note 14)	995,093	1,014,192
Amortization of property, plant and equipment	255,760	280,797
Gain on disposal of property, plant and equipment	-	(800)
Amortization of intangible assets	70,096	51,403
Share based compensation	9,877	9,786
	1,330,826	1,355,378
INCOME BEFORE INTEREST AND INCOME TAXES	21,174	223,472
Interest expense (Note 14)	64,522	48,883
(LOSS) INCOME BEFORE INCOME TAXES	(43,348)	174,589
Income tax expense (Note 9)	-	10,408
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME	\$ (43,348)	\$ 164,181
(LOSS) INCOME PER SHARE (Note 16)		
Basic and diluted	\$ (0.01)	\$ 0.04

See accompanying Notes to Interim Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 (UNAUDITED)

(in Canadian dollars)	Number of Shares	Share Capital	Contributed Surplus	(Deficit) Retained Earnings	Total
BALANCE AT JUNE 30, 2011	4,404,935	\$ 6,639,792	\$ 466,387	\$ (1,676,936)	\$ 5,429,243
Net income for the period				(43,348)	(43,348)
Share based compensation			9,877		9,877
BALANCE AT SEPTEMBER 30, 2011	4,404,935	\$ 6,639,792	\$ 476,264	\$ (1,720,284)	\$ 5,395,772
BALANCE AT JULY 1, 2010	4,404,935	\$ 6,639,792	\$ 411,347	\$ 1,181,413	\$ 8,232,552
Net income for the period				164,181	164,181
Share based compensation			9,786		9,786
BALANCE AT SEPTEMBER 30, 2010	4,404,935	\$ 6,639,792	\$ 421,133	\$ 1,345,594	\$ 8,406,519

See accompanying Notes to Interim Consolidated Financial Statements.

ORGANIC RESOURCE MANAGEMENT INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010 (UNAUDITED)
(in Canadian dollars)

	2011	2010
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net (loss) income for the period	\$ (43,348)	\$ 164,181
Add (deduct) items not involving cash:		
Amortization of property, plant and equipment	255,760	280,797
Gain on disposal of property, plant and equipment	-	(800)
Amortization of intangible assets	70,096	51,403
Interest paid	64,436	48,797
Accretion of interest expense	86	86
Share based compensation	9,877	9,786
Future income tax recovery	-	10,408
	356,907	564,658
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable, net	26,625	(274,482)
Decrease in inventory	71,386	4,813
Decrease in prepaid expenses	32,971	65,623
(Decrease) increase in accounts payable and accrued liabilities	(70,088)	323,390
	417,801	684,002
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(19,719)	(842,987)
Reimbursement of property, plant and equipment leased	64,577	-
Acquisition of intangible assets	(62,348)	(72,482)
Proceeds on disposal of property, plant and equipment	-	800
	(17,490)	(914,669)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Repayment of revolving loan	(82,090)	-
Advance of long-term debt	-	525,000
Repayment of long-term debt	(79,389)	(77,213)
Repayment of finance lease obligations	(238,832)	(193,601)
	(400,311)	254,186
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	-	23,519
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	11,100	630,700
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 11,100	\$ 654,219
Supplemental cash flow information:		
Non-cash transactions:		
Capital assets acquired through finance leases	\$ 40,423	\$ -

See accompanying Notes to Interim Consolidated Financial Statements.

Organic Resource Management Inc.

Notes to Interim Consolidated Financial Statements

For the three months ended September 30, 2011 and 2010 (Unaudited)

1. NATURE OF OPERATIONS

Organic Resource Management Inc. (the "Company" or "ORMI") is federally incorporated under the Canada Business Corporations Act and its shares trade on the TSX Venture Exchange under the symbol "ORI". The Company provides vacuum truck services across Canada for the collection, processing and recycling of food-related organic residuals. The Company's unique processing systems convert the collected residuals into a value-added feedstock used by anaerobic digesters ("ADs") to generate biogas renewable energy. The Company's corporate office is located at 3700 Steeles Avenue West, Suite 601, Woodbridge, Ontario, L4L 8K8, Canada.

The Company has two wholly-owned subsidiaries, ORMI Information Systems Inc. ("OIS"), incorporated in the province of Ontario, and GI Compliance USA Inc. ("GIC"), incorporated in the state of Delaware. Both subsidiaries are currently inactive.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of International Financial Reporting Standards ("IFRS")* as issued by the International Accounting Standards Board ("IASB") and using the accounting policies that the Company expects to adopt in the consolidated financial statements for the year ending June 30, 2012. These consolidated financial statements represent the Company's initial presentation of its results and financial position under IFRS. The date of transition to IFRS is July 1, 2010.

The impact of the transition to IFRS is disclosed in Note 18, which includes reconciliations of total comprehensive (loss) income and changes in equity for the comparative period and statements of financial position at the date of transition, as reported under previous Canadian generally accepted accounting principles ("GAAP") to those reported under IFRS.

These interim financial statements are presented in Canadian dollars, which is also the Company's functional currency.

These consolidated interim financial statements were approved by the Board of Directors on December 13, 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and in preparing the opening IFRS statement of financial position as at July 1, 2010 for the purposes of the transition to IFRS.

A. Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which are entities over which the Company has control. Control exists when a Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany transactions and balances are eliminated on consolidation.

B. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and highly liquid temporary money market instruments where the underlying investments have maturities of three months or less. Bank borrowings are considered to be financing activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Inventory

Inventory is valued at the lower of cost and net realizable value for ORRS (Organic Residuals Recovery System) machines and grease interceptors, and at net replacement cost for repair parts, truck parts, decanting supplies and diesel fuel. Cost is based on the purchase price and is determined on a first-in, first-out ("FIFO") basis. Net realizable value is the estimated replacement cost.

D. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Cost includes expenses directly related to the acquisition of the asset, which includes costs to bring the asset to a working condition for its intended use. If major components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Assets are amortized using the straight-line method over their estimated useful lives up to their residual value and both useful lives and residual values are reviewed annually. The estimated useful lives for the current and comparative periods are as follows:

Building	40 years
Tank trailers, under finance lease	10 years
Other vehicles, owned and under finance lease	5 years
Office furniture and equipment, owned and under finance lease	5 to 10 years
Computer equipment	4 years
Machinery and equipment, owned and under finance lease	5 to 20 years
Leasehold improvements, owned and under finance lease	Term of the lease

Major improvements and extraordinary repairs that extend the life of an asset are capitalized; other repairs and maintenance are expensed. When assets are retired or otherwise disposed of, their carrying values and accumulated depreciation are removed from the accounts. Assets that are not in production are not amortized, where development and installation is not substantially complete.

E. Goodwill

Goodwill is the excess of the cost of a business acquisition over the fair value assigned to the tangible and intangible assets acquired and liabilities assumed. Goodwill is not subject to amortization but is tested for impairment annually or when indicators of impairment exist that more likely than not reduces the fair value of the reporting unit to which goodwill has been attributed below its carrying value.

F. Intangible assets

An intangible asset is an asset without physical substance that is acquired or internally generated, which meets the specified criteria for recognition apart from goodwill. The asset is recognized when it is probable that the expected future economic benefit will flow to the Company and the cost of the asset can be measured reliably.

Intangible assets are amortized over their estimated useful life to the Company unless that life is determined to be indefinite. When an intangible asset is determined to have an indefinite life, it is not amortized until its life is considered to be no longer indefinite.

Amortization of intangible assets is provided on a straight-line basis at the following rates:

Software	5 years
Patents	4 years ending in 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Impairment of goodwill, other intangible assets and property, plant and equipment

Assets are grouped at the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets, known as a cash-generating unit. Hence, some assets are tested individually for impairment and some are tested at the cash-generating unit level. Impairment in goodwill is tested at the level where cash-generating units are expected to benefit from the synergies of the cash-generating units taken collectively.

Impairment of goodwill is tested annually at June 30 and impairment is recognized when the carrying cost of the cash-generating unit is less than the recoverable amount of the unit. The recoverable amount is determined based on the greater of its fair value less costs to sell or its value in use. The value in use is determined using management's estimate of expected future cash flows from each unit based on an appropriate interest rate to calculate the present value of those cash flows.

If impairment loss is recognized, it is first applied to the carrying amount of the goodwill. The remaining impairment loss if any is allocated to other assets of the cash-generating unit on a pro rata basis of the carrying amount of each asset in the unit, which are not reduced below the highest of fair value less cost to sell, its value in use, and \$nil. Excluding goodwill, all other assets are subsequently reassessed and when the recoverable amount is greater than its carrying amount, the impairment loss is reversed.

H. Revenue recognition

Revenue from the collection and recycling of organic residuals is recognized when the service is performed and collection is reasonably assured, at the fair value of the consideration received or receivable.

Energy production credits are offset against the related waste treatment costs in the same periods in which the expenses are recognized.

I. Research and development costs

Research costs are expensed as incurred. Development costs incurred in the design and development of new software are capitalized if all of the following criteria are met:

- It is technically feasible to complete the software product for use or for sale;
- there is intent to complete the software product and use or sell it;
- the feasibility of the probable future economic benefits from the use of the software product can be demonstrated;
- there is adequate technical, financial and other resources to complete the development and to use or sell the software product; and
- the expenses attributable to the development of the software products can be reliably measured.

Any development cost to be capitalized that is not substantially complete is not amortized and is recognized as deferred development cost, which is continually evaluated to determine whether it meets the criteria for deferral. Where criteria for development cost are no longer met, the deferred cost is expensed.

J. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of cost of a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to prepare it for its intended use or sale. All other borrowing costs are expensed in the period incurred.

K. Share based compensation plan

The Company has a stock option plan, as described in Note 13C, which allows for the issuance of stock options to employees and directors. Any consideration paid upon exercise of stock options is recorded as an increase in share capital and the recorded fair value of the related stock option is reclassified from contributed surplus to share capital. The stock option plan does not have an option for cash settlement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

All share based awards made by the Company are recognized using the fair-value based method of accounting for share based compensation whereby the fair value of options granted is recorded as compensation expense for the period the options are vested or are expected to vest. The fair value of stock options is measured as at the grant date using the Black-Scholes option pricing model and estimated forfeitures. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

L. Income taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in net income except to the extent that it relates to items recognized directly in equity, in which case the related tax is recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or recoverable for the current year based on substantively enacted tax rates at the reporting date.

Deferred income tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences") and loss carryforwards that are probable, and for which taxable profit will be available. Deferred income tax assets and liabilities are measured using substantively enacted tax rates that are anticipated to be in effect when the differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that substantive enactment occurs. Deferred income taxes are reviewed at each reporting date and to the extent that the Company does not consider it probable that a deferred income tax asset will be recovered, a valuation allowance is provided.

M. Investment tax credits

The Company believes it is entitled to scientific research and experimental development ("SR&ED") investment tax credits granted by the Canadian federal government. Research and development expenses consist primarily of personnel and related costs associated with the Company's research and development efforts, including the development of new processes, enhancements to existing processes and software development. Management makes a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim.

Non-refundable investment tax credits for SR&ED activities are recorded as a reduction of the related expenses or capital expenditures in the year in which those expenses are incurred, provided there is reasonable assurance that the tax credits will be realized.

N. (Loss) income per share

Basic (loss) income per share is calculated using the weighted average number of common shares outstanding during the year.

The treasury stock method is used for determining diluted income per share, which assumes that all outstanding stock options granted with an exercise price below the average market value are exercised during the year.

Diluted income per share is calculated by dividing net income by the sum of the weighted average number of common shares outstanding during the year and all incremental common shares that would have been outstanding arising from the exercise of potentially dilutive stock options. Where there is a net loss, the effect of potential issuances of stock options would be anti-dilutive and therefore, diluted loss per share and basic loss per share are the same.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Financial instruments

Financial instruments are classified into the following categories:

- i. Loans and receivables:
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, which are initially measured at fair value and plus directly attributable transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method. Loans and receivables include cash and cash equivalents and accounts receivable.
- ii. Other financial liabilities:
Other financial liabilities include revolving loans, accounts payable and accrued liabilities and long-term debt and are measured at amortized cost using the effective interest rate method.

All financial instruments are initially measured at fair value on the transaction date, with subsequent measurement based on classification. Transaction costs are netted against the carrying value of the related debt and amortized into interest expense using the effective interest rate method.

Fair value measurement using fair value hierarchy requires the use of observable market inputs wherever such inputs exist. Financial instruments are classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value, based on the following levels of valuation:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates;
- Level 3 – Significant inputs for the assets or liabilities that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

P. Leased assets

Leases are classified as finance or operating depending on the terms and conditions of the contracts. A finance lease transfers substantially all the risks and benefits incidental to ownership of the leased asset to the Company and is capitalized at the commencement of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments using the rate implicit in the lease.

All assets held under finance lease agreements are amortized in accordance with the amortization method used for the owned assets of the same class. Obligations recorded under finance leases are reduced by lease payments net of imputed interest charges, which are expensed to comprehensive income over the period of the lease.

All other leases are classified as operating leases with payments amortized on a straight-line basis over lease term.

Q. Provisions and contingent liabilities

A provision is recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and the amount can be estimated reliably. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, such as legal disputes. A provision is not recognized for future operating losses. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized and disclosed as a contingency.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Significant management judgement in applying accounting policies

The following items require significant management judgment in applying the accounting policies of the Company:

(i) Allowance for doubtful accounts

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 deemed uncollectible, it is written off against the allowance for doubtful accounts.

(ii) Deferred income tax assets and provisions

Deferred income tax assets are assessed at the end of each reporting period and significant judgement is used to determine the likelihood that deductible temporary differences will be realized based on future taxable earnings. Tax regulations and legislation and the interpretation thereof in the jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

(iii) Leases

Lease transactions are not always conclusive and management uses judgment to determine if the lease should be classified as a finance lease, transferring substantially all the risks and rewards of ownership to the Company.

(iv) Research and development costs

Significant judgment is required to distinguish between research and the development costs. Development costs are capitalized if management determines that they meet certain criteria. All other costs are considered research costs and are expensed as incurred.

(v) Investment tax credits

Investment tax credits are realized only when it is reasonably assured that they will be awarded to the Company. The Company currently has an outstanding claim for investment tax credits relating to the 2009 fiscal year and is in the process of documenting and submitting claims for the 2010 and 2011 fiscal years. Management has not recognized these tax credits in the financial statements.

(vi) Provisions and Contingencies

Provisions and contingencies, by their nature, are subject to measurement uncertainty as the financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies involves a significant amount of judgement including assessing whether a present obligation exists and providing a reliable estimate of the amount of cash outflow required to settle the obligation. The uncertainty involved with the timing and amount at which a contingency will be settled may have a material impact on the consolidated financial statements of future periods to the extent that the amount provided differs from the actual outcome.

(vii) Financial instruments

The estimated fair values of financial assets and liabilities are subject to measurement uncertainty due to their exposure to credit, liquidity and market risks. Management's assumptions rely on external observable market data including interest rates and foreign exchange rates. The resulting fair value estimates may not be indicative of the amounts realized or settled in current market transactions and as such are subject to measurement uncertainty.

S. Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions reflect the most probable set of economic conditions and planned courses of action and include:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Useful life and residual value of depreciable assets

The useful life and the residual value of assets are reviewed by management at each reporting date. The write-off or the disposal of an asset is determined by management based on the evaluation of the circumstances requiring the write off or the disposal of the asset.

(ii) Impairment of goodwill and non-financial assets

Goodwill is reviewed for impairment annually or when indicators of impairment exist that suggest the carrying amount may not be recoverable. An impairment review requires estimates in determining fair value, selling costs, timing and size of cash flows, long-term growth rates, discount rates, and other valuation variables. The application of these variables in valuation models requires management's judgment.

Impairment loss is recognized if the carrying amount of an asset or cash-generating unit is greater than its recoverable amount. The recoverable amount is determined using management's estimate of expected future cash flows at an appropriate interest rate.

(iii) Share based compensation

Share based compensation plans are subject to estimation of the ultimate payout using option pricing models, such as the Black-Scholes model, which includes assumptions on volatility, dividend yield, risk-free interest rates, forfeiture rate estimates and expected option life. Compensation plans may also be performance-based and are therefore subject to management's judgment as to whether performance conditions have been met.

T. Recent pronouncements issued

A number of new standards, interpretations and amendments to existing standards were issued by the IASB and International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the period ended June 30, 2012, and have not been applied in preparing these interim consolidated financial statements. Many of these are not applicable or are inconsequential to the Company and have been excluded from the discussion below.

The following standards and interpretations have been issued by the IASB and the IFRIC and the Company is currently assessing their impact on the financial statements:

International Accounting Standards	Effective in annual period beginning on or after
IAS 1 Presentation of financial statements	July 1, 2012
IFRS 9 Financial Instruments	January 1, 2013
IFRS 13 Fair Value Measurement	January 1, 2013

IAS 1 - *Presentation of financial statements ("IAS 1")* is amended to require the presentation of items of other comprehensive income ("OCI"), classified by nature, to be grouped into items that will not be reclassified subsequently to profit or loss; and items that will be reclassified subsequently to profit or loss when specific conditions are met.

IFRS 9 - *Financial Instruments ("IFRS 9")* replaces IAS 39 – *Financial Instruments: Recognition and Measurement ("IAS 39")*. The replacement of IAS 39 is a three phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of the first phase of the IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities.

IFRS 13 - *Fair Value Measurements ("IFRS 13")* provides new guidance on fair value measurement and disclosure requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

4. FINANCIAL INSTRUMENTS DISCLOSURE AND PRESENTATION

A. Fair values

All financial instruments, which consist of trade and other accounts receivable, revolving loans, accounts payable and accrued liabilities, and long-term debt are carried at amortized cost and have carrying values that approximate fair values due to the relatively short period to maturity and/or market rates of interest.

Fair value estimates are made at a specific point in time, using available information about the instrument. These estimates are subjective in nature and often cannot be determined with precision.

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.

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.

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 September 30, 2011, the portion of trade receivables aged less than 60 days represented 77% of total receivables compared to 79% as at June 30, 2011. The decrease was largely due to two national accounts which remitted payment in October.

The following table summarizes accounts receivable:

	September 30 2011	June 30 2011	July 1 2010
Trade receivables - current to 60 days	\$ 1,959,374	\$ 2,107,142	\$ 1,733,370
Trade receivables - over 60 days	601,345	566,574	532,324
Other receivables	198,273	103,732	87,508
Allowance for doubtful accounts	(51,125)	(42,956)	(32,202)
	\$ 2,707,867	\$ 2,734,492	\$ 2,321,000

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. Historically the Company's bad debt expense has been less than 1% of total revenue, and therefore, 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.

The allowance for doubtful accounts increased by \$8,169 for the three months ended September 30, 2011, as follows:

	September 30 2011	June 30 2011
Balance, beginning of period	\$ 42,956	\$ 32,202
Change in provision	14,777	108,564
Write off of bad debts	(6,608)	(97,810)
Balance, end of period	\$ 51,125	\$ 42,956

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

4. FINANCIAL INSTRUMENTS DISCLOSURE AND PRESENTATION (continued)

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. The Company's Board of Directors approves the annual operating and capital budgets as well as any material transactions outside the ordinary course of business.

The Company's financial obligations include long-term debt, obligations under finance leases and commitments, as described in Notes 11, 12 and 15, as well as accounts payable and accrued liabilities as summarized below:

	September 30	June 30	July 1
	2011	2011	2010
Trade payables - Current	\$ 516,176	\$ 486,552	\$ 501,916
Trade payables - 30 to 90 days	155,913	175,854	74,994
Trade payables - over 90 days	10,420	11,832	7,460
Other accounts payable	108,208	95,222	59,272
Accrued liabilities	662,706	754,051	641,891
	\$ 1,453,423	\$ 1,523,511	\$ 1,285,533

The Company has access to the line of credit described in Note 10. In addition, the Company generated positive cash flow from operating activities, before changes in non-cash operating assets and liabilities, of \$356,907 for the quarter (Q1 2011 - \$564,658) and, as at September 30, 2011, has a working capital surplus of \$226,349. 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.

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 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 is material and therefore, has not provided a sensitivity analysis of the impact of fluctuations on net (loss) income and comprehensive (loss) income.

5. INVENTORY

	September 30	June 30	July 1
	2011	2011	2010
Grease interceptor materials and repair parts	\$ 29,833	\$ 16,756	\$ 17,548
ORRS machines	49,315	130,983	33,123
Diesel fuel, truck parts and other supplies	61,040	63,835	58,460
	\$ 140,188	\$ 211,574	\$ 109,131

6. PROPERTY, PLANT AND EQUIPMENT

The carrying amount for the reporting period is as follows:

	Land	Building	Vehicles	Vehicles under finance lease	Office equipment and computers	Office equipment, computers under finance lease	Machinery and equipment	Machinery and equipment under finance lease	Leasehold improve- ments	Leasehold improve- ments under finance lease	Total
Cost											
Balance at June 30, 2011	\$ 817,000	\$ 1,319,390	\$ 1,504,042	\$ 3,053,117	\$ 1,363,885	\$ 162,561	\$ 1,340,866	\$ 693,649	\$ 76,241	\$ 271,714	\$ 10,602,465
Additions	-	3,980	-	-	-	-	15,739	8,239	-	32,184	60,142
Disposals	-	-	-	-	(798,341)	-	(170,770)	-	-	-	(969,111)
Balance at September 30, 2011	817,000	1,323,370	1,504,042	3,053,117	565,544	162,561	1,185,835	701,888	76,241	303,898	9,693,496
Accumulated Amortization											
Balance at June 30, 2011	-	136,200	1,065,659	1,234,629	1,225,326	139,487	730,210	25,002	21,762	36,229	4,614,504
Amortization	-	8,221	50,386	131,472	19,229	5,227	19,971	10,483	2,740	8,031	255,760
Disposals	-	-	-	-	(798,341)	-	(170,770)	-	-	-	(969,111)
Balance at September 30, 2011	-	144,421	1,116,045	1,366,101	446,214	144,714	579,411	35,485	24,502	44,260	3,901,153
Net Book Value at June 30, 2011	817,000	1,183,190	438,383	1,818,488	138,559	23,074	610,656	668,647	54,479	235,485	5,987,961
Net Book Value at September 30, 2011	\$ 817,000	\$ 1,178,949	\$ 387,997	\$ 1,687,016	\$ 119,330	\$ 17,847	\$ 606,424	\$ 666,403	\$ 51,739	\$ 259,638	\$ 5,792,343
Cost											
Balance at July 1, 2010	\$ 520,000	\$ 829,033	\$ 981,537	\$ 2,971,296	\$ 1,267,858	\$ 202,560	\$ 1,284,349	\$ 145,752	\$ 38,236	\$ 271,714	\$ 8,512,335
Additions	297,000	483,423	-	-	27,445	-	21,268	-	13,851	-	842,987
Balance at September 30, 2010	817,000	1,312,456	981,537	2,971,296	1,295,303	202,560	1,305,617	145,752	52,087	271,714	9,355,322
Accumulated Amortization											
Balance at July 1, 2010	-	101,007	378,387	1,219,121	1,081,167	127,401	622,710	2,776	11,270	5,176	3,549,015
Amortization	-	10,557	46,663	121,091	48,245	11,871	28,143	4,164	2,300	7,763	280,797
Balance at September 30, 2010	-	111,564	425,050	1,340,212	1,129,412	139,272	650,853	6,940	13,570	12,939	3,829,812
Net Book Value at July 1, 2010	520,000	728,026	603,150	1,752,175	186,691	75,159	661,639	142,976	26,966	266,538	4,963,320
Net Book Value at September 30, 2010	\$ 817,000	\$ 1,200,892	\$ 556,487	\$ 1,631,084	\$ 165,891	\$ 63,288	\$ 654,764	\$ 138,812	\$ 38,517	\$ 258,775	\$ 5,525,510

Property, plant and equipment includes \$282,331 relating to the cost of projects that were under development as at September 30, 2011 and accordingly these assets have not been amortized. During the first three months ending September 30, 2011, fully amortized assets included in office equipment and computers and in machinery and equipment, with a total cost and accumulated amortization of \$969,111, were decommissioned and written off. There were no transfers during this period. There were also no disposals or transfers of assets during the first three months ended September 30, 2011 or 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

7. INTANGIBLE ASSETS

The carrying amount for the reporting period is as follows:

	Software	Patents	Total
Cost			
Balance at June 30, 2011	\$ 2,315,286	\$ 25,000	\$ 2,340,286
Addition	62,348	-	62,348
Balance at September 30, 2011	2,377,634	25,000	2,402,634
Accumulated Amortization			
Balance at June 30, 2011	1,377,024	12,234	1,389,258
Amortization	69,298	798	70,096
Balance at September 30, 2011	1,446,322	13,032	1,459,354
Net Book Value at June 30, 2011	938,262	12,766	951,028
Net Book Value at September 30, 2011	\$ 931,312	\$ 11,968	\$ 943,280
Cost			
Balance at July 1, 2010	\$ 1,992,622	\$ 25,000	\$ 2,017,622
Addition	72,482	-	72,482
Balance at September 30, 2010	2,065,104	25,000	2,090,104
Accumulated Amortization			
Balance at July 1, 2010	1,127,078	7,083	1,134,161
Amortization	50,778	625	51,403
Balance at September 30, 2010	1,177,856	7,708	1,185,564
Net Book Value at July 1, 2010	865,544	17,917	883,461
Net Book Value at September 30, 2010	\$ 887,248	\$ 17,292	\$ 904,540

Intangible assets include \$289,154 of deferred software development costs which have not been amortized as they relate to applications that were under development as at September 30, 2011.

8. GOODWILL

	September 30 2011	June 30 2011	July 1 2010
Goodwill, cost	\$ -	\$ -	\$ 2,434,793

During fiscal 2011, the Company recorded an impairment loss of \$2,434,793 representing 100% of the goodwill relating to the acquisition of the Company's Ontario-based subsidiary in 2002. An independent valuation of the fair value of goodwill to its carrying cost as at June 30, 2011 determined that impairment had occurred since the carrying cost exceeded fair value based on its value in use, i.e. the estimated discounted present value of future cash flows from operations using a rate of 5.74%. Cash flow projections over a five year period were used in the valuation, consisting of actual results for fiscal 2010, forecast results for fiscal 2011, budgeted results for fiscal 2012 and extrapolated performance for fiscals 2013 and 2014. Projections were based on long-term growth rates at an average inflationary rate of 1.95%.

The circumstances which led to the recognition of the impairment loss related to worse economic performance than expected based on prior years performance, comprised of both lower margins and higher selling, general and administrative expenses, which in turn have significantly impacted future cash flow projections.

The annual goodwill impairment test for fiscal 2003 through 2010 concluded that there was no impairment loss in those years related to the Company's acquisition of its Ontario-based subsidiary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

9. INCOME TAXES

A. Provision for taxes

The income tax recovery included in the consolidated statements of operations differs from the statutory income tax rate as follows:

	Three months ended September 30	
	2011	2010
Combined federal and provincial statutory income tax rate	27.09%	29.01%
Expected income tax (recovery) expense based on the statutory income tax rate	\$ (12,000)	\$ 50,640
Tax effect of non-deductible, non-taxable and other items	12,000	7,361
Decrease in valuation allowance	-	(47,593)
Provision for income taxes	\$ -	\$ 10,408

B. Deferred income tax asset

Deferred income tax assets consist of the following:

	September 30	June 30	July 1
	2011	2011	2010
Excess of capital cost for tax purposes over net book value of capital assets at expected future tax rate	\$ 909,000	\$ 909,000	\$ 1,326,000
Loss carryforwards at expected future tax rate	730,000	730,000	370,000
	1,639,000	1,639,000	1,696,000
Valuation allowance	(161,000)	(161,000)	(265,000)
Deferred income tax asset	\$ 1,478,000	\$ 1,478,000	\$ 1,431,000

Management believes that realization of a portion of the net future income tax assets is probable, and for which taxable profit will be available. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the periods in which temporary tax and accounting differences become deductible. Management considered projected future taxable income and tax planning strategies in making its assessment.

During fiscal 2011, the Company re-filed its fiscal 2010 tax return which had the effect of decreasing the excess of capital cost for tax purposes over net book value of capital assets at the expected future tax rate by \$206,000 and increasing loss carryforwards at the expected future tax rate by the same amount. This change did not have any effect on the reported deferred income tax asset.

The Company has also re-filed its fiscal 2009 tax return for the purpose of claiming a \$95,000 SR&ED investment tax credit. As at September 30, 2011, the Company has no basis on which it can provide reasonable assurance that this tax credit will be realized. This assurance will only be established when the related tax filing is assessed. Since it is still subject to assessment, the investment tax credit has not been included in the determination of net income or the deferred income tax asset as at September 30, 2011.

The Company intends to claim further SR&ED incentive tax credits for qualifying research and development activities incurred in fiscal years 2010, 2011 and 2012; the amount of these claims has not been determined.

C. Non-capital losses

The right to apply non-capital losses expires as follows:

2015	\$ 94,000
2027	1,484,000
2028	421,000
2030	208,000
2031	707,000
	\$ 2,914,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

10. REVOLVING LOAN

The Company has the following lines of credit with the Royal Bank of Canada ("RBC"), secured by a general security agreement constituting a first ranking security interest in all personal property of the Company:

- (i) a \$1,500,000 revolving demand facility based on 75% of eligible accounts receivable net of prior-ranking claims, at an annual interest rate of RBC prime, which was 3.00% at September 30, 2011 (2.50% at September 30, 2010), plus 1.50%;
- (ii) a \$2,500,000 lease facility which is governed under separate agreements.

The revolving loan balance is comprised of RBC's demand facility and outstanding cheques, as follows:

	September 30 2011	June 30 2011	July 1 2010
RBC demand facility	\$ 295,000	\$ 290,000	\$ -
Outstanding cheques	58,937	143,140	-
	\$ 353,937	\$ 433,140	\$ -

At July 1, 2010, outstanding cheques of \$31,474 were included in cash and cash equivalents.

The lease facility was increased from \$1,500,000 to \$2,500,000 on February 14, 2011. As a condition of the increase, the financial covenant relating to total liabilities to tangible net worth was changed from 3.5:1 to 3.0:1. As at September 30, 2011, the balance payable on the RBC lease facility was \$770,904 (September 30, 2010 - \$343,529), comprised of four machinery and equipment leases with total blended monthly payments of \$20,406 at effective interest rates ranging from 3.8% to 5.6%.

The Company has provided covenants whereby it will maintain certain financial ratios on a consolidated basis to be measured at the end of each fiscal quarter. As at June 30, 2011, the Company was not in compliance with the debt service coverage covenant. On September 20, 2011, the RBC while not waiving its rights in respect of the breach, agreed to tolerate the default and revised its measurement of the debt service coverage ratio. As at September 30, 2011, the Company was in compliance with the revised covenants:

- (i) debt service coverage, calculated on a rolling four quarter basis, of not less than 0.75:1; increasing to 1.10:1 as at June 30, 2012; and
- (ii) total liabilities to tangible net worth of not greater than 3.0:1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

11. LONG-TERM DEBT

	Note	Principal	Carrying amount		
			September 30	June 30 2011	July 1 2010
Floating base rate, maturing on December 31, 2033	(a)	\$ 850,000	\$ 754,936	\$ 763,355	\$ 797,032
One-year fixed rate, maturing on July 21, 2025	(b)	525,000	492,787	499,719	-
1.9% note payable, matured in December 2010	(c)	28,177	-	-	3,640
6.9% note payable, maturing in February 2012	(d)	46,228	4,488	7,120	17,206
10.00% note payable, maturing in November 2012	(e)	160,694	39,430	47,300	76,891
10.00% note payable, maturing in November 2012	(f)	158,737	38,950	46,724	75,955
7.65% note payable, maturing in September 2013	(g)	95,530	42,625	47,511	66,147
8.39% note payable, maturing in January 2014	(h)	100,840	52,310	57,334	76,406
8.39% note payable, maturing in January 2014	(i)	100,844	52,313	57,335	76,411
8.39% note payable, maturing in January 2014	(j)	100,844	52,313	57,335	76,411
6.99% note payable, maturing in December 2013	(k)	25,232	15,052	16,584	22,449
6.99% note payable, maturing in February 2014	(l)	43,780	27,894	30,520	40,580
			1,573,098	1,630,837	1,329,128
Less current portion			(234,390)	(233,167)	(198,010)
			\$ 1,338,708	\$1,397,670	\$1,131,118
Payments due:					
Within one year			\$ 234,390	\$ 233,167	\$ 198,010
From one to five years			411,246	453,520	502,473
After five years			927,462	944,150	628,645
			\$ 1,573,098	\$1,630,837	\$1,329,128

Notes:

- (a) 25 year loan payable in monthly principal installments of \$2,835 bearing interest calculated monthly on the loan balance at BDC's floating base rate, which was 5.00% on June 30, 2011, maturing on December 31, 2033. The loan is secured by a first mortgage on the land and building with a net book value of \$1,221,443 and by a general security interest.
- (b) \$525,000, 15 year term loan maturing on July 21, 2025, payable in blended monthly installments of \$3,689, bearing interest calculated monthly on the loan balance, at RBC's one-year fixed rate which on June 30, 2011 was 3.25%. On July 21, 2011, RBC's one-year fixed rate increased to 3.65% and the blended monthly payment increased to \$3,810. The loan is secured by a first mortgage on the land and building with a net book value of \$768,505.
- (c) 1.9% note payable in 48 blended monthly installments of principal and interest of \$610 which matured in December 2010.
- (d) 6.9% note payable in 60 blended monthly installments of principal and interest of \$913 maturing in February 2012, secured on certain vehicles with a net book value of \$7,475.
- (e) 10.00% note payable in 60 blended monthly installments of principal and interest of \$2,996 maturing in November 2012, secured on certain vehicles with a net book value of \$46,784.
- (f) 10.009% note payable in 60 blended monthly installments of principal and interest of \$2,959 maturing in November 2012, secured on certain vehicles with a net book value of \$46,516.
- (g) 7.65% note payable in 60 blended monthly installments of principal and interest of \$1,921 maturing in September 2013, secured on certain vehicles with a net book value of \$43,814.
- (h) 8.39% note payable in 60 blended monthly installments of principal and interest of \$2,064 maturing in January 2014, secured on certain vehicles with a net book value of \$48,580.
- (i) 8.39% note payable in 60 blended monthly installments of principal and interest of \$2,064 maturing in January 2014, secured on certain vehicles with a net book value of \$52,406.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

11. LONG-TERM DEBT (continued)

- (j) 8.39% note payable in 60 blended monthly installments of principal and interest of \$2,064 maturing in January 2014, secured on certain vehicles with a net book value of \$51,801.
- (k) 6.99% note payable in 48 blended monthly installments of principal and interest of \$604 maturing in December 2013, secured on certain vehicles with a net book value of \$17,431.
- (l) 6.99% note payable in 48 blended monthly installments of principal and interest of \$1,048 maturing in February 2014, secured on certain vehicles with a net book value of \$50,326.

12. FINANCE LEASES

	September 30 2011	June 30 2011	July 1 2010
Current portion	\$ 730,450	\$ 722,641	\$ 640,434
Long-term portion	1,705,492	1,807,148	1,542,264
	\$ 2,435,942	\$ 2,529,789	\$ 2,182,698
Payments due:			
Within one year	\$ 858,821	\$ 858,006	\$ 782,262
From one to five years	1,843,358	1,967,785	1,721,695
Less: imputed interest at rates ranging from 3.8% to 8.9%	(266,237)	(296,002)	(321,259)
	\$ 2,435,942	\$ 2,529,789	\$ 2,182,698

13. COMMON SHARES

A. Common shares

Authorized, an unlimited number of shares with a par value of \$nil, issued as follows:

	Shares	Amount
Balance, July 1, 2010	4,404,935	\$ 6,639,792
Balance, June 30, 2011	4,404,935	6,639,792
Balance, September 30, 2011	4,404,935	\$ 6,639,792

B. Directors' compensation plan

Non-management directors are compensated for Board and Committee meetings in cash or through the issuance of common shares at the Company's discretion. The number of shares to be issued is based on a weekly average closing price of the shares each quarter. During the first quarter of fiscal 2012 and throughout fiscal 2011, all directors' compensation was paid in the form of cash.

C. Stock option plan

The Company has an incentive stock option plan ("Plan") for certain employees and directors as determined by the Board of Directors. The maximum number of options that can be granted under the plan is limited to 880,987 common shares of the Company and no one person can be issued options which, when exercised, exceed 5% of the issued and outstanding common shares. Prior to December 7, 2010, the maximum number of options that could be granted under the Plan was limited to 10% of the issued and outstanding common shares (440,493 shares). The Company obtained approval for the change to the Plan by a resolution of the shareholders at the Annual General Meeting held on December 7, 2010.

The Board of Directors determines the number of options granted and their exercise price and vesting period. The minimum exercise price of a stock option is no less than the daily closing price on the TSX Venture Exchange preceding the award date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

13. COMMON SHARES (continued)

As of September 30, 2011 there were 539,000 options outstanding with exercise prices ranging from \$0.91 to \$2.20 and an average remaining life of 2.4 years. No options were granted during the three months ended September 30, 2011. During fiscal 2011, 106,500 options were granted, 91,500 vesting over three years commencing in the third year and the balance vesting in December 2011 based on the attainment of certain performance requirements. No options were exercised during the three months ended September 30, 2011 or the year ended June 30, 2011.

Option activity for the three months ended September 30, 2011 and year ended June 30, 2011 is summarized in the following table:

	Weighted Average Exercise Price		Number of Options	
	September 30	June 30	September 30	June 30
	2011	2011	2011	2011
Balance beginning of year	\$ 1.51	\$ 1.43	539,000	440,000
Granted	-	1.93	-	106,500
Expired	-	2.60	-	(7,500)
Balance at September 30, 2011	\$ 1.51	\$ 1.51	539,000	539,000

Weighted average characteristics of options outstanding at September 30, 2011 are as follows:

Range of Exercise Prices	Outstanding Options		Exercisable Options		Weighted Average Remaining Life - Years
	Number of Options	Weighted Exercise Price	Number of Options	Weighted Exercise Price	
\$0.01 - \$1.00	155,000	\$ 0.91	51,666	\$ 0.91	3.1
\$1.01 - \$2.00	348,000	1.71	236,500	1.66	2.1
\$2.01 - \$3.00	36,000	2.16	21,000	2.20	2.2
	539,000	\$ 1.51	309,166	\$ 1.57	2.4

No options were granted during the three months ended September 30, 2011. The fair value of each option granted during fiscal 2011 was estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2011	
	May 20 2011	December 7 2010
Number of options granted	15,000	91,500
Weighted average fair value	\$2.20	\$1.90
<u>Assumptions</u>		
Dividend yield	0%	0%
Volatility	60%	60%
Risk-free interest rate	2.40%	2.48%
Average expected life in years	2.8	3.7
Weighted average fair value of each option	\$0.89	\$0.92

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

14. SIGNIFICANT EXPENSES

Selling, general and administrative	Three months ended September 30	
	2011	2010
Salaries, wages and benefits	\$ 663,182	\$ 646,481
Advertising, travel and office expenses	154,335	192,004
Rent, taxes and insurance	90,809	83,390
Professional fees and corporate services	71,740	68,260
Bad debt expense	15,027	24,057
	\$ 995,093	\$ 1,014,192
Key management personnel expenses		
Executive & senior management salaries and benefits	\$ 232,757	\$ 198,020
Executive & senior management share based compensation	9,211	8,412
Directors' compensation	12,372	10,120
	\$ 254,340	\$ 216,552
Interest expense		
Long-term debt	\$ 21,650	\$ 23,556
Finance leases	39,985	25,327
Other	2,887	-
	\$ 64,522	\$ 48,883

15. COMMITMENTS AND CONTINGENCIES

A. Operating lease commitments

The future minimum payments under operating leases for premises and equipment are approximately as follows:

Due within one year	\$ 208,099
Due from one to five years	312,783
Due after five years	108,000
	\$ 628,882

The Company is also required to pay its share of maintenance, taxes and other costs of the leased premises.

B. Capital commitments

As at September 30, 2011, the Company has made capital commitments totaling \$1,016,850 with respect to new vehicles that have been ordered.

C. Contingencies

On February 3, 2009 the Company received a statement of claim in the amount of \$31,000,000 pertaining to a traffic accident which occurred in September 2008. The claim by the injured party exceeded the combined limit of the Company's insurance coverage at that time of \$10,000,000. The final outcome of this claim and the amount of any loss to the Company in the event that the claim exceeds \$10,000,000 is not determinable at this time and accordingly, no provision has been established in these consolidated financial statements.

During fiscal 2011, the Company received a number of summonses issued by the City of Toronto for certain wastewater discharge infractions. The Company has established a provision for these fines, included in selling, general and administrative expense, based on legal opinion and an assessment of likely outcomes based on a range of probabilities. However, the outcome of these proceedings and the amount of any fines which ultimately may be imposed on the Company, if any, could be significantly different than the estimated provision.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

16. (LOSS) INCOME PER SHARE

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

	Three months ended September 30	
	2011	2010
Numerator:		
Net (loss) income	\$ (43,348)	\$ 164,181
Denominator:		
Weighted average common shares	4,404,935	4,404,935
Net common shares that would be issued assuming the proceeds from stock options are used to repurchase common shares at the average share price	-	28,680
Diluted weighted average common shares	4,404,935	4,433,615
(Loss) income per share:		
Basic and diluted	\$ (0.01)	\$ 0.04

The effect of potential issuances of stock options would be anti-dilutive for the three months ended September 30, 2011, and are therefore not included in determining diluted loss per share.

17. 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 property, plant 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 other than software, and future tax assets. The Company's objective is to maintain a total debt to tangible net worth ratio of less than 3.0:1. As at September 30, 2011, the Company's total debt to tangible net worth was 1.5:1, down from 1.6:1 as at June 30, 2011.

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 finance 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 September 30, 2011, the Company's net debt to annualized cash flow from operations was 2.0:1 compared to a ratio of 2.6:1 as at June 30, 2011. The improvement was mainly due to an increase in annualized cash flow from operations.

The Company is subject to two financial ratios under its banking covenant, as described in Note 10, and was in compliance with these ratios as at September 30, 2011.

The Company's Board of Directors reviews internal and banking ratios and other key measurements on a quarterly basis and as part of the Company's strategic planning and budgeting process. The Company is currently in the process of assessing its financing options.

18. TRANSITION TO IFRS

A. First-time adoption of IFRS

These are the Company's first consolidated financial statements prepared in accordance with IFRS. The date of transition to IFRS is July 1, 2010.

The Company's IFRS accounting policies presented in Note 3 have been applied in preparing the consolidated financial statements for the three months ended September 30, 2011, the comparative information and the consolidated statement of financial position at the date of transition.

The Company has applied IFRS 1 First-time Adoption of International Financial Reporting Standard in preparing these initial consolidated financial statements. The effects of the transition to IFRS on the consolidated statements of financial position, comprehensive (loss) income, equity and cash flows are presented below.

B. Application of first-time adoption exemptions

The Company has elected to measure the fair value of land as a deemed cost upon transition to IFRS. The land was valued at \$520,000 at July 1, 2010 by an independent valuator hired by the Company. The carrying value of the land was \$263,500 before the revaluation, resulting in an increase of \$256,500.

The Company has elected for the exemption on restatement of prior business combinations before July 1, 2010 under IFRS 3. As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after July 1, 2010. There were no business combinations after July 1, 2010. For acquisitions prior to July 1, 2010, goodwill represents the amount recognized under previous Canadian GAAP.

The Company has elected for the exemption on restatement of borrowing costs prior to transition. Prior to the transition, the Company expensed borrowing costs. From the transition date, borrowing costs for the qualifying assets are capitalized.

C. Reconciliation of the statements of financial position

In accordance with IFRS 1, the statement of financial position at July 1, 2010, September 30, 2010 and June 30, 2011 are reconciled from previous Canadian GAAP to IFRS as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

ORGANIC RESOURCE MANAGEMENT INC. RECONCILIATION OF FINANCIAL POSITION (in Canadian dollars)

	Note	July 1, 2010			September 30, 2010			June 30, 2011		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS										
Current assets										
Cash and cash equivalents		\$ 630,700	\$ -	\$ 630,700	\$ 654,219	\$ -	\$ 654,219	\$ 11,100	\$ -	\$ 11,100
Accounts receivable		2,321,000	-	2,321,000	2,595,481	-	2,595,481	2,734,492	-	2,734,492
Inventory		109,131	-	109,131	104,318	-	104,318	211,574	-	211,574
Prepaid expenses		256,506	-	256,506	190,883	-	190,883	172,365	-	172,365
Deferred tax asset	(a)	326,000	(326,000)	-	326,000	(326,000)	-	-	-	-
		3,643,337	(326,000)	3,317,337	3,870,901	(326,000)	3,544,901	3,129,531	-	3,129,531
Non-current assets										
Property, plant and equipment	(b)	4,362,422	600,898	4,963,320	4,982,147	543,363	5,525,510	5,462,086	525,875	5,987,961
Intangible assets	(c)	984,841	(101,380)	883,461	994,030	(89,490)	904,540	1,009,403	(58,375)	951,028
Goodwill		2,434,793	-	2,434,793	2,434,793	-	2,434,793	-	-	-
Deferred tax asset	(a)	1,105,000	326,000	1,431,000	1,094,592	326,000	1,420,592	1,478,000	-	1,478,000
		8,887,056	825,518	9,712,574	9,505,562	779,873	10,285,435	7,949,489	467,500	8,416,989
		\$ 12,530,393	\$ 499,518	\$ 13,029,911	\$ 13,376,463	\$ 453,873	\$ 13,830,336	\$ 11,079,020	\$ 467,500	\$ 11,546,520
LIABILITIES										
Current liabilities										
Revolving loan		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 433,140	\$ -	\$ 433,140
Accounts payable and accrued liabilities		1,285,533	-	1,285,533	1,608,922	-	1,608,922	1,523,511	-	1,523,511
Long-term debt		198,010	-	198,010	227,467	-	227,467	233,167	-	233,167
Obligations under finance lease		640,434	-	640,434	628,736	-	628,736	722,641	-	722,641
Deferred tax liability	(c)	39,789	(39,789)	-	39,789	(39,789)	-	38,020	(38,020)	-
		2,163,766	(39,789)	2,123,977	2,504,914	(39,789)	2,465,125	2,950,479	(38,020)	2,912,459
Non-current liabilities										
Long-term debt		1,131,118	-	1,131,118	1,573,003	-	1,573,003	1,397,670	-	1,397,670
Obligations under finance lease		1,542,264	-	1,542,264	1,385,688	-	1,385,688	1,807,148	-	1,807,148
Deferred tax liability	(c)	49,737	(49,737)	-	39,329	(39,329)	-	9,505	(9,505)	-
		4,886,885	(89,526)	4,797,359	5,502,934	(79,118)	5,423,816	6,164,802	(47,525)	6,117,277
SHAREHOLDERS' EQUITY										
Common shares		6,639,792	-	6,639,792	6,639,792	-	6,639,792	6,639,792	-	6,639,792
Contributed Surplus	(d)	389,002	22,345	411,347	399,229	21,903	421,132	440,191	26,196	466,387
Retained Earnings (Deficit)	(e)	614,714	566,699	1,181,413	834,508	511,088	1,345,596	(2,165,765)	488,829	(1,676,936)
		7,643,508	589,044	8,232,552	7,873,529	532,991	8,406,520	4,914,218	515,025	5,429,243
		\$ 12,530,393	\$ 499,518	\$ 13,029,911	\$ 13,376,463	\$ 453,873	\$ 13,830,336	\$ 11,079,020	\$ 467,500	\$ 11,546,520

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended September 30, 2011 and 2010 (Unaudited)

ORGANIC RESOURCE MANAGEMENT INC.
RECONCILIATION OF TOTAL COMPREHENSIVE INCOME
(in Canadian dollars)

	Three months ended September 30, 2010			Year ended June 30, 2011			
	Note	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
REVENUES		\$ 3,593,293	\$ -	\$ 3,593,293	\$ 13,985,234	\$ -	\$ 13,985,234
COST OF SALES		2,014,443	-	2,014,443	8,751,938	-	8,751,938
GROSS MARGIN		1,578,850		1,578,850	5,233,296		5,233,296
OPERATING EXPENSE							
Selling, general and administrative		1,014,192	-	1,014,192	4,072,423	-	4,072,423
Amortization of property, plant and equipment	(f)	223,260	57,537	280,797	1,006,491	77,477	1,083,968
(Gain) loss on disposal of property, plant and equipment	(f)	(800)	-	(800)	5,352	(2,454)	2,898
Amortization of intangible assets	(g)	63,293	(11,890)	51,403	298,101	(43,005)	255,096
Write-down of goodwill		-	-	-	2,434,793	-	2,434,793
Share based compensation	(h)	10,228	(442)	9,786	51,189	3,851	55,040
		1,310,173	45,205	1,355,378	7,868,349	35,869	7,904,218
NET INCOME (LOSS) BEFORE INCOME TAXES AND INTEREST		268,677	(45,205)	223,472	(2,635,053)	(35,869)	(2,670,922)
Interest on long-term debt and obligations under finance lease		48,883	-	48,883	234,426	-	234,426
NET INCOME (LOSS) BEFORE INCOME TAXES		219,794	(45,205)	174,589	(2,869,479)	(35,869)	(2,905,348)
Deferred tax expense (recovery)	(i)	-	10,408	10,408	(89,000)	42,001	(46,999)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		\$ 219,794	\$ (55,613)	\$ 164,181	\$ (2,780,479)	\$ (77,870)	\$ (2,858,349)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended September 30, 2011 and 2010 (Unaudited)

ORGANIC RESOURCE MANAGEMENT INC.
RECONCILIATION OF STATEMENT OF CASHFLOWS
(in Canadian dollars)

	Note	Three months ended September 30, 2010			Year ended June 30, 2011		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:							
Net (loss) income and comprehensive (loss) income for the period		\$ 219,794	\$ (55,613)	\$ 164,181	\$ (2,780,479)	\$ (77,870)	\$ (2,858,349)
Amortization of property, plant and equipment	(f)	223,260	57,537	280,797	1,006,491	77,477	1,083,968
(Gain) loss on disposal of property, plant and equipment	(f)	(800)	-	(800)	5,352	(2,454)	2,898
Amortization of intangible assets	(g)	63,293	(11,890)	51,403	298,101	(43,005)	255,096
Interest paid	(j)		48,797	48,797		234,083	234,083
Accretion of interest expense		86	-	86	343	-	343
Share based compensation	(h)	10,228	(442)	9,786	51,189	3,851	55,040
Write-down of goodwill			-	-	2,434,793	-	2,434,793
Future income taxes expenses (recovery)	(i)		10,408	10,408	(89,000)	42,001	(46,999)
		515,861	48,797	564,658	926,790	234,083	1,160,873
Changes in operating assets and liabilities:							
(Increase) in accounts receivable, net		(274,482)	-	(274,482)	(413,492)	-	(413,492)
(Increase) decrease in inventory		4,813	-	4,813	(102,443)	-	(102,443)
Decrease (increase) in prepaid expenses		65,623	-	65,623	84,141	-	84,141
Increase in accounts payable and accrued liab.		323,390	-	323,390	237,978	-	237,978
		635,205	48,797	684,002	732,974	234,083	967,057
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:							
Acquisition of property, plant and equipment		(842,987)	-	(842,987)	(1,055,058)	-	(1,055,058)
Acquisition of intangible assets		(72,482)	-	(72,482)	(322,663)	-	(322,663)
Proceeds on disposal of property, plant and equipment		800	-	800	800	-	800
		(914,669)	-	(914,669)	(1,376,921)	-	(1,376,921)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:							
Advance of revolving loan		-	-	-	433,140	(1,732)	431,408
Advance of long-term debt		525,000	-	525,000	525,000	-	525,000
Repayment of long-term debt		(53,743)	(23,470)	(77,213)	(223,635)	(93,185)	(316,820)
Repayment of finance lease obligations		(168,274)	(25,327)	(193,601)	(710,158)	(139,166)	(849,324)
		302,983	(48,797)	254,186	24,347	(234,083)	(209,736)
INCREASE (DECREASE) IN CASH DURING THE PERIOD		23,519	-	23,519	(619,600)	-	(619,600)
CASH BEGINNING OF THE PERIOD		630,700	-	630,700	630,700	-	630,700
CASH END OF THE PERIOD		\$ 654,219	\$ -	\$ 654,219	\$ 11,100	\$ -	\$ 11,100

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2011 and 2010 (Unaudited)

18. TRANSITION TO IFRS (continued)

Reconciliation of Retained Earnings (Deficit)	July 1 2010	September 30 2010	June 30 2011
Transition adjustments recorded in Retained Earnings (Deficit):			
Increase to property, plant and equipment	\$ 600,898	\$ 543,363	\$ 525,875
Reversal of deferred tax liability recognized on acquisition of intangible assets	(11,854)	(10,372)	(10,850)
Increase in Contributed Surplus	(22,345)	(21,903)	(26,196)
	\$ 566,699	\$ 511,088	\$ 488,829

IFRS Notes:

- a) Deferred taxes are presented as non-current assets as required under IAS 1; hence, the current portion of the deferred tax asset of \$326,000 has been reclassified to non-current assets on the transition date.
- b) Property, plant and equipment are amortized on a straight line basis on transition to IFRS. Prior to transition, these assets were amortized on a declining balance basis. The Company believes the straight line amortization of these assets provides a more accurate and consistent basis for the determination of useful life under IFRS. The effect of this policy change increased the net book value of the Company's property, plant and equipment as at July 1, 2010 by \$344,398. In conjunction with the increase in the deemed cost of the land by \$256,500 under the IFRS 1 exemption, as noted above, the net book value of property, plant and equipment increased by \$600,898 on the transition date.
- c) On transition to IFRS, the Company's net book value of intangible assets decreased by \$101,378. This amount is comprised of \$100,234 relating to a reversal of the capitalized assumed deferred tax liability allocated to the purchase price of OIS software in 2008, and \$1,146 relating to a net book adjustment to intangible assets as a result of a change in amortization method. A reversal of current and non-current deferred tax liabilities of \$39,789 and \$49,737 respectively, largely offset the impact on retained earnings of the assumed deferred tax liability reversal.
- d) The retrospective restatement of share compensation expenses to the graded vesting method under IFRS increased contributed surplus by \$22,345 at the transition date.
- e) The above adjustments on transition to IFRS resulted in a net increase in retained earnings of \$566,699.
- f) The change in amortization method on transition to IFRS from a declining balance basis to a straight-line amortization increased amortization expenses by \$57,537 for the quarter ended September 30, 2010 and \$77,477 for the year ended June 30, 2011. Along with the amortization expense increase, the change in amortization method decreased the loss on disposal of property, plant and equipment by \$2,454 for the year ended June 30, 2011.
- g) Due to the reversal of the assumed deferred tax liability on purchase of OIS software, amortization expenses decreased by \$11,890 for the quarter ended September 30, 2010 and \$43,005 for the year ended June 30, 2011.
- h) Using the graded vesting method under IFRS, share based compensation decreased by \$442 for the quarter ended September 30, 2010 and increased by \$3,851 for the year ended June 30, 2011.
- i) The reversal of the assumed deferred tax liability on purchase price of OIS software also reversed the related tax recovery, resulting in recognition of deferred tax expenses of \$10,408 for the quarter ended September 30, 2010 and \$42,001 for the year ended June 30, 2011.
- j) On the statements of cash flows, interest paid of \$48,797 for the quarter ended September 30, 2010 and \$234,083 for the year ended June 30, 2011 are reclassified under IFRS to financing activities from operating activities.

The impact of these adjustments on the deferred tax asset as at July 1, 2010 was \$nil, however, the excess of capital cost for tax purposes over net book value of capital assets at the expected future tax rate decreased by \$90,000 with a corresponding offsetting decrease in the valuation allowance.