

# **NATIONAL CHALLENGE SYSTEMS INC.**

FORM 51-102F2  
ANNUAL INFORMATION FORM  
FOR FISCAL YEAR ENDED  
JUNE 30, 2007

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

*All disclosure is made as of September 20, 2007, unless otherwise indicated.*

## Table of Contents

<b>Item 1</b>	<b>Corporate Structure .....</b>	<b>1</b>
1.01	Name and Address of Head Office .....	1
1.02	Incorporation .....	1
1.03	Subsidiaries .....	1
<b>Item 2</b>	<b>General Development of the Business .....</b>	<b>2</b>
2.01	Compactor History .....	2
2.02	Vacuum Trucks & Non-hazardous Liquid Organic Waste – Canada .....	3
2.03	Vacuum Trucks & Non-hazardous Liquid Organic Waste – USA & World .....	5
<b>Item 3</b>	<b>Description of the Business .....</b>	<b>6</b>
3.01	Corporate Overview .....	6
3.02	Core Business .....	8
3.03	Organic Resource Management Inc. ....	9
3.04	A&A Anderson Tank Service (Vancouver) Ltd .....	9
3.05	Wastewater Residuals Management .....	10
3.06	Organic Waste Diversion .....	11
3.07	Organic Waste Recycling and Disposal .....	12
3.08	Integrated Strategy .....	14
3.09	Risk Factors .....	16
<b>Item 4</b>	<b>Dividends .....</b>	<b>18</b>
<b>Item 5</b>	<b>Related Party Transactions .....</b>	<b>18</b>
<b>Item 6</b>	<b>Description of Capital Structure .....</b>	<b>20</b>
6.01	Preferred Shares .....	20
6.02	Common Shares .....	21
<b>Item 7</b>	<b>Market for Securities .....</b>	<b>23</b>
<b>Item 8</b>	<b>Directors and Officers .....</b>	<b>23</b>
<b>Item 9</b>	<b>Transfer Agent and Registrar .....</b>	<b>25</b>
<b>Item 10</b>	<b>Material Contracts .....</b>	<b>25</b>
<b>Item 11</b>	<b>Additional Information .....</b>	<b>26</b>
<b>APPENDIX A</b>	<b>Charter of Audit Committee .....</b>	<b>27</b>

## ITEM 1 CORPORATE STRUCTURE

### 1.01 Name and Address of Head Office

National Challenge Systems Inc.

3700 Steeles Avenue West  
Suite 601  
Woodbridge, Ontario  
L4L 8K8  
Phone: (905) 264-7700  
Facsimile: (905) 264-7273  
Website: [www.ormi.com](http://www.ormi.com)

### 1.02 Incorporation

National Challenge Systems Inc. (“NCS” or the “Company”) was incorporated on January 4, 1990 under the laws of the Province of British Columbia by registration of its Memorandum and Articles pursuant to the Company Act (British Columbia). Effective September 30, 2003, the Company completed its continuance from a corporation under the Business Corporations Act of British Columbia to being a corporation under the Canada Business Corporations Act. The Company’s registered and records offices are located at 3700 Steeles Avenue West, Suite 601, Woodbridge, Ontario L4L 8K8.

On July 1, 2007 the Company vertically amalgamated its largest wholly owned subsidiary, Organic Resource Management Inc. into National Challenge Systems Inc. and continued with its subsidiary’s name. This change simplified the corporate structure and gave the Company a name more closely reflective of its core business.

The Company’s shares were listed on the Vancouver Stock Exchange on July 12, 1994 (now the Canadian Venture Exchange) and subsequently on the Toronto Stock Exchange (under the trading symbol “NLC”) on January 7, 1998 where it now trades exclusively. Following the amalgamation on July 1, 2007 the Company’s shares trade under the Company’s new name, Organic Resource Management Inc., under the TSX trading symbol of “ORI”.

### 1.03 Subsidiaries

As at June 30, 2007 the Company had the following wholly owned subsidiaries:

National Challenge Systems Inc.		
A&A Anderson Tank Services (Vancouver) Ltd. 100%	Organic Resource Management Inc. 100%	NCS Holdings Limited 100%
		NCS Environmental Services Limited 70%

#### (a) Active

##### (i) A&A Anderson Tank Service (Vancouver) Ltd. (“A&A”)

A&A was incorporated under the laws of British Columbia as 352505 BC Ltd. on January 1, 1989 and subsequently changed its name on January 3, 1989 to A&A Anderson Tank Service (Vancouver) Ltd. A&A is a provider of non-hazardous vacuum truck and related services including the collection, transportation and disposal/recycling of non-hazardous and organic wastes. The Company acquired A&A on May 31, 2002.

**(ii) Organic Resource Management Inc. (“ORMI”)**

On April 30, 1984, Filtrex Sales & Services Ltd. was incorporated under the laws of Ontario. On September 30, 1992, its name was changed to Organic Resource Management Inc. ORMI is a provider of non-hazardous vacuum truck and related services including the collection, transportation and disposal/recycling of non-hazardous and liquid organic wastes. The Company acquired ORMI on May 31, 2002. ORMI amalgamated with a former subsidiary of the Company, National Challenge Systems (Ontario) Inc., on July 1, 2002.

On July 1, 2007 the Company vertically amalgamated ORMI into National Challenge Systems Inc.

**(b) Inactive:**

**(i) NCS Holdings Limited (“Holdings”)**

Holdings was incorporated in Bermuda on March 4, 1999 and is currently inactive. Holdings owned 100% of the common shares of NCS Environmental Services Limited (“NCS ESL”), also an inactive company incorporated in Bermuda. In March 2000, NCS ESL entered into an intangible asset purchase and sale agreement (“APSA”) whereby it purchased certain patents from a related company, Organic Resource Technologies International Inc. “OII” (see Item 5(c)). In consideration for these assets, OII received 30% of the common shares of NCS ESL.

On August 29, 2007 the Company announced that it had reached an agreement whereby it would buy back the 30% equity interest in NCS ESL from OII for \$10,000 cash and on September 19, 2007 the transaction closed. The Company now owns 100% of NCS ESL and intends to transfer the US patents into the Company and wind-up both Bermuda companies thereby simplifying its corporate structure.

**ITEM 2 GENERAL DEVELOPMENT OF THE BUSINESS**

The primary business of the Company since May 31, 2002 has been operating vacuum truck fleets that provide collection, treatment and disposal/recycling services for non-hazardous liquid waste and other related services. The Company is Canada’s largest provider of vacuum truck services for the collection, treatment and disposal of organic and other non-hazardous liquid waste, servicing more than 8,000 commercial, industrial and institutional customers in Ontario, Quebec, and British Columbia. The Company’s core focus is on the utilization of leading edge, proprietary, information, and operating technologies to provide regularly scheduled, repetitive, and dispatched services, primarily to the foodservice and food production industries.

**2.01 Compactor History**

Prior to March 31, 2002, the Company’s primary business was the ownership, rental and distribution of waste compaction, baling and container equipment for disposing of waste (“Compactors”). Effective March 31, 2002, the Company divested 92% of its Compactor assets and incurred a substantial loss as a result. On May 31, 2002, the Company acquired ORMI and A&A and thereby entered the non-hazardous liquid waste business.

The Company commenced operations in January 1990 as a distributor of waste handling and compaction equipment manufactured by Marathon Equipment Company (“Marathon”) of Vernon, Alabama and was appointed as a Marathon distributor on June 22, 1993. Through a series of transactions in 1998, the Company purchased solid waste compactors from Canadian Waste Services Inc. (“CWS”) for approximately \$12 million and entered into a 10-year subcontracting arrangement with CWS whereby the Company rented its compactor assets to CSW customers. In 2001 CWS informed the Company that it did not intend to renew its subcontracting agreements when they expired and that it intended to resume providing compactor rental services to its customers at that time. In March 2002, the Company sold to CSW the vast majority of its compactor fleet located in Western Canada, Ontario and Quebec for cash consideration of slightly in excess of \$8,000,000 resulting in a loss of \$5,156,861.

The remaining compactors were rented to a major retail grocery chain under a five year contract which expired on September 30, 2006. Since this date, rental of compactors has continued on a monthly basis with the grocery chain while it replaces compactors with its own units and as the Company sells off its excess equipment. During the year the Company sold or disposed of more than half of its rental compactors and expects to dispose of the remaining compactors prior to June 30, 2008.

## 2.02 Vacuum Trucks & Non-hazardous Liquid Organic Waste – Canada

On May 31, 2002 the Company acquired 100% of the issued and outstanding shares of ORMI and A&A.

	ORMI	A&A	Total
<b>Net assets acquired</b>			
Current assets	1,073,966	845,456	1,919,422
Capital assets	377,218	699,847	1,077,065
Intangible assets	5,590,000	460,000	6,050,000
Goodwill	2,434,793	2,645,027	5,079,820
Current liabilities	(1,288,941)	(414,165)	(1,703,106)
Long-term debt	-	(449,770)	(449,770)
Future income taxes	-	(11,000)	(11,000)
	<b>8,187,036</b>	<b>3,775,395</b>	<b>11,962,431</b>
<b>Consideration given</b>			
Cash	1,622,000	1,559,500	3,181,500
Short-term promissory notes	200,000	290,000	490,000
Preferred shares series A	1,050,000	950,000	2,000,000
Preferred shares series B	900,000	-	900,000
Common shares	3,550,000	610,000	4,160,000
Paid to vendors	7,322,000	3,409,500	10,731,500
Acquisition costs	865,036	365,895	1,230,931
	<b>8,187,036</b>	<b>3,775,395</b>	<b>11,962,431</b>

Acquisition costs included a finder's fee of 725,000 common shares of the Company issued to Cambridge Capital Limited, a company controlled at the time by a director of the Company. Also included in the acquisition costs was a fee paid to Global Capital Partners Inc. ("Global") of \$625,000 and 2,475,000 warrants of the Company for the acquisition of ORMI and A&A and the sale of substantially all of the Company's compactor assets to CWS. The Global fee was proportionately allocated between the acquisitions and the sale of assets. The warrants expired unexercised on May 31, 2005.

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. Intangible assets relating to the Company's acquisition of A&A and ORMI were identified by management and recorded at estimated values based on a valuation performed by an independent third party valuation expert:

	<u>ORMI</u>	<u>A&amp;A</u>	<u>TOTAL</u>
Software Licence Agreement	3,000,000	-	3,000,000
Patent Licence Agreements	1,500,000	-	1,500,000
Customer Relationships	1,090,000	460,000	1,550,000
<b>Total Intangibles</b>	<b>5,590,000</b>	<b>460,000</b>	<b>6,050,000</b>
<b>Goodwill</b>	<b>2,434,793</b>	<b>2,645,027</b>	<b>5,079,820</b>
<b>Intangibles and Goodwill</b>	<b>8,024,793</b>	<b>3,105,027</b>	<b>11,129,820</b>

The goodwill is subject to an annual impairment test. The Company must make assumptions regarding estimated future cash flows, market conditions and other factors to determine the fair value of the assets. If these estimates or related assumptions change in the future, the Company may be required to record impairment charges for these assets. In fiscal years 2005 and 2004, the Company did not record an impairment charge related to goodwill or intangibles assets. However, for the year ended June 30, 2003 impairment charges were recorded for A&A Customer Relationships and Goodwill of \$160,334 and \$1,261,971 respectively. Canadian generally accepted accounting principles only provide for downward adjustment in the event of impairment.

The Company amortizes its intangible assets over their estimated life. The Company's Customer Relationships and the Software License (see Item 2.02(a)) were amortized on a straight-line basis over 5 years which ended in

May 2007. The Patent License (see Item 2.02(b)) was being amortized on a straight-line basis over 15 years, until it was written off at June 30, 2007.

#### **(a) Software**

Prior to the purchase of the software on September 19, 2007 (noted below), the proprietary software (“Software”) used by the Company was owned by Path Information Systems Inc. (“Path”) a company controlled by one of the Directors. On May 31, 2002, the Company signed an arms-length (see Item 5(e)(ii)) software licence agreement with Path wherein it obtained an exclusive Canadian License for the use the Software in the Industry anywhere in Canada (“Canadian License”) for a one-time cost of \$100. The Canadian License was exclusive to the Company for a period of three years, after which Path would have had the right to market the Software in geographical areas of Canada that were then not being serviced by the Company. On November 11, 2003, the Company and Path amended the Canadian License to make it perpetually exclusive to the Company for the Industry. This amendment was provided at no cost to the Company.

On May 31, 2002, the Company signed a software maintenance agreement with Path (“Maintenance Agreement”) whereby Path provided ongoing maintenance, support, upgrades and customization of the Software. The Maintenance Agreement required the Company to pay an annual fee of \$3,000 to Path. Software maintenance, support and customization were provided by Path at market rates at the Company’s direction and sole discretion. All maintenance, support, upgrades and customization of the Software provided by Path was at cost. Path has also waived the annual fee.

On September 19, 2007, Path changed its name to ORMI Information Systems Inc. and the Company purchased 100% of the issued and outstanding shares of OIS/Path for \$700,000 (see Item 5(a)). Although the Company had a perpetual license to the Software, it did not own the source code and was required by the terms of the license to use Path programmers to do maintenance, perform upgrades and do development work on the Software. The Software is a critical element of the Company’s operational success and a key component to its future. The Company must continually develop and upgrade the Software in order to remain competitive. Consequently, there would be on-going charges paid to OIS/Path for Software support and development, and the potential for an on-going conflict of interest in the determination of the appropriate market charges for those services. By purchasing OIS/Path and thereby the Software, this issue has been permanently resolved because the Company will be able to maintain and develop its own software.

#### **(b) Patent Rights**

The direct land application process (“DLAP”) is a patent protected solution for recycling high-fat content organic waste that uses the natural digestion ability of microbes found in soil to convert organic waste into stable soil organic matter. Prior to the purchase of the patents on September 19, 2007 (noted below), the Company had an arm’s-length exclusive licensing agreement until 2017 with Organic Resource Technologies Inc. (“ORTI”), a related company (see Item 5(b)), for exclusive use of DLAP in Canada. The license required the payment of \$25,000 per year plus royalties on waste processed using DLAP outside of the province of Ontario. (The Company had perpetual rights to DLAP in the province of Ontario at no cost or royalty as it had inherited these rights through its purchase of ORMI in 2002.) No royalties have ever been paid and ORTI always waived the requirement to pay the annual license fee.

Over the past few years the Company has been impacted by a number of government regulatory changes that directly affect the way liquid organic waste is handled and processed in Ontario. As a result of these changes, most of the third-party disposal facilities in Ontario that receive and process liquid organic waste have significantly reduced their capacity, or have closed down altogether. This has had a major impact on the cost of recycling/disposal. As part of the regulatory changes, the Company had to close most of its DLAP sites during 2005 and commence a re-permitting process. This was an extensive undertaking and the Company had limited success, with only one of the smaller Ontario DLAP sites being re-permitted. In addition, during the last two years, anaerobic digestion (“AD”, see Item 3.01) has been evolving as a superior competitive disposal alternative. The Company believes that this alternative will ultimately provide a low-cost, long-term recycling solution for all of the organic residuals the Company collects. As a result, the Company has decided to suspend efforts to re-permit and expand its DLAP facilities in Ontario and to focus its efforts on ADs.

In May 2007, the Company signed an exclusive, 20-year contract to supply organic residuals as feedstock to a farm-based AD for the production of renewable biogas energy. Although initially the volumes for this site are not material, the Company believes that this contract signals the advent of anaerobic digestion, effectively making DLAP obsolete and no longer a long term cost effective method of disposal. As a result, the Company recorded an impairment charge of \$991,667 in fiscal 2007 to write-off the balance of the carrying value of the Company's patent license agreements.

The Organic Resource Recovery System ("ORRS") is a patent protected process for on-site collection of organic waste. Produce and other food related wastes are ground into slurry by a mill and discharged into the holding tank where it is stored until collected by a vacuum truck. Current efforts by the Company to deploy its ORRS have been focused on a few large industrial, commercial and institutional organics generators and have been effectively stalled by the severe lack of viable low-cost recycling alternatives in Ontario and British Columbia. The Company believes that the establishment of anaerobic digesters will make ORRS a more financially viable organic residuals handling technology.

On September 19, 2007 the Company purchased the Canadian patents for DLAP and ORRS from ORTI (see Item 5(b)) for \$15,000 cash. Purchasing the ORRS and DLAP patents has eliminated any further requirement for the Company to pay royalties on new ORRS locations and royalties or the annual license fee for the DLAP.

**(c) June 30, 2007 intangibles**

	2007			2006		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Software license agreement	\$ 3,000,000	\$ 3,000,000	\$ -	\$ 3,000,000	\$ 2,450,000	\$ 550,000
Customer relationships	1,550,000	1,550,000	-	1,550,000	1,303,358	246,642
Patent license agreements	1,500,000	1,500,000	-	1,500,000	408,333	1,091,667
	<b>\$ 6,050,000</b>	<b>\$ 6,050,000</b>	<b>\$ -</b>	<b>\$ 6,050,000</b>	<b>\$ 4,161,691</b>	<b>\$ 1,888,309</b>

The amortization of intangibles assets, a non-cash operating expense, was \$896,642 for 2007 (969,064 for 2006). An impairment charge of \$991,667 to write-off the balance of the carrying value of the Company's patent license agreements (as described in Item 2.02(b)) was also recognized in 2007.

**2.03 Vacuum Trucks & Non-hazardous Liquid Organic Waste – USA & World**

The Company is unique in the industry, having exclusive access to four proprietary technologies that provide it with low cost competitive advantages plus superior operational efficiencies and controls. These advantages plus its expert knowledge of vacuum truck services for the collection, treatment and disposal of organic and other non-hazardous liquid waste, positions the Company as a very attractive partner in organic waste and vacuum truck services projects in Canada and the United States.

By purchasing the rights to the Software and patents on September 19, 2007, as noted in Item 2.02, the Company has permanently secured its rights to the:

- 1) ORRS<sup>1</sup> and DLAP<sup>2</sup> patents for the USA and the World excluding Canada.
- 2) Software for its own use and licensing to third parties in the liquid organic industry, anywhere in the world.

<sup>1</sup> Storage and Disposal of Organic Waste, United States Patent #5,568,996

<sup>2</sup> Process for Disposal of Decomposable Organic Waste, United States Patent #5,645,623

## ITEM 3 DESCRIPTION OF THE BUSINESS

### 3.01 Corporate Overview

The Company is Canada's largest provider of vacuum truck services for the collection, treatment and recycling of organic and other non-hazardous liquid residuals. The vast majority of the residuals the Company collects are from customers in the food service, processing, production or retail business and include industrial, commercial and institutional ("IC&I") operations.

The Company services more than 8,000 customers in Canada through Organic Resource Management Inc. ("ORMI") operating in Ontario and Quebec, and A&A Anderson Tank Service (Vancouver) Ltd. ("A&A") operating in the lower mainland of British Columbia.

The Company's core business is comprised of two distinct elements. The first is the regularly scheduled collection and transportation of organic and other non-hazardous liquid residuals. The primary source of these residuals is the food industry sectors. Within the food sectors the primary source is from the separation of excess organic residuals from wastewater discharges to prevent the adverse effect of discharging excessive organic materials to the drainage and sewer systems. These residuals accumulate on a predictable basis and require regular scheduled collection and removal. The second element of the Company's business is comprised of managing the disposal or recycling of the residuals it collects in the most cost effective and environmentally responsible manner. The Company does this through owned technologies and facilities, as well as through third-party relationships.

There are four major market drivers for the Company's services:

- ***Protection of the municipal sewer infrastructure.*** Municipalities regulate the amounts of organic residuals that can be discharged into the municipal sewer and as a result the Company's customers are required to capture, remove and properly dispose of these residuals. The Company provides the collection, transportation and recycling of these residuals. The Company's services help:
  - Prevent blockages and floods in the municipal sewer system.
  - Customers reduce the risk of exceeding sewer discharge limits and incurring expensive fines and remediation charges.
  - Improve the environmental quality of wastewater.
  - Increase the wastewater infrastructure capacity, allowing the same, existing physical infrastructure to service a greater customer base.
  - Limit the organic fats, oil and greases that are discharged into the sewer system and deposited in concrete sewer pipes accelerating corrosion of those pipes, thereby reducing infrastructure longevity.
- ***Protection of the customer's physical drainage infrastructure.*** The Company's services help prevent drain blockages at the customer's location that can result in costly backups, floods and business interruption.
- ***Organic residuals diversion.*** Municipalities are continuously looking for recycling and diversion from landfill options. The Company specializes in recycling organic residuals.
- ***Renewable energy and greenhouse gas reduction.*** The organic residuals the Company collects make excellent, high energy producing feedstock for biogas renewable energy production through anaerobic digestion. Biogas is a renewable energy that significantly reduces greenhouse gas emissions.

The organic and other non-hazardous liquid vacuum truck services industry is highly fragmented. It is estimated that approximately 52,000 companies operate in this industry in North America.<sup>3</sup> Management estimates that few of these companies have annual revenues in excess of \$1.5 million. There are no national operators, and therefore very few exit strategy options available for companies in this industry. The prime reason for this is the extremely complex logistics involved in delivering an intense customer service on a just-in-time basis.

---

<sup>3</sup> Tom Rulseh, Cole Publishing Inc., Three Lakes WI

At the heart of the Company are sophisticated, proprietary logistics and operational management software and systems, specifically designed for the Company's business, vision and growth plans. These systems allow it to deliver complex and intense customer services from its centralized call and logistics/dispatch center located in Woodbridge, Ontario. Although the Company currently operates only in Canada, its systems are ready for use in the US, a target market for future growth of the Company. Map-based GIS (Geographic Information System) routing and dispatch software, coupled with GPS (Global Positioning System) tracking and live, real-time handheld work order and data collection capabilities allow the Company to deliver superior customer service at extremely high productivity levels. The systems are easily scalable and have substantial inherent capacity. They were designed specifically to computerize otherwise labour-intensive logistics decisions and administrative functions, and provide the Company with unique competitive advantages and a serious barrier to entry for potential competitors.

The Company's demonstrated success in obtaining, servicing and retaining customers has resulted in its ability to collect and be responsible for the management of large quantities of liquid organic residuals on an ongoing basis. A key corporate strategy has always been to control access to the lowest cost, most beneficial recycling alternatives in the markets the Company services. To date, the Company has achieved that through the development and deployment of proprietary processes as well as competitive arrangements with third-party organic recyclers such as composting facilities that are positively influenced by the Company's market dominance.

The Company believes that anaerobic digestion ("AD") of organic residuals to produce biogas and generating clean renewable energy will ultimately be the most cost effective and most environmentally beneficial organic waste recycling technology; capable of managing the largest variety of organic residuals. The Company also believes that it has a significant opportunity to participate in an emerging renewable energy industry in North America, and that the positive elements of combining organic recycling with energy production are a unique win-win opportunity.

The reason AD has not emerged previously in North America is the abundant supply of relatively low cost energy. It has been widely demonstrated in Europe and parts of Asia (where appropriately priced energy markets exist to support the purchase the electricity generated by AD) that AD is the lowest cost organic residuals recycling solution. Energy markets in North America, particularly Ontario (the Company's current largest market), are beginning to adopt pricing regimes and operational policies that are favourable to AD renewable energy development. The Company is extremely well positioned to take advantage of this trend.

The residuals the Company collects are ideal feedstock for ADs. Their high volatile organics content (particularly fat, oils and greases) results in their ability to provide 4 to 10 times the gas production of other typical agricultural AD feedstocks. As a result, the addition of even a relatively small quantity of the Company's residuals stream will result in at least a doubling of the energy production.

The Company's call center and communications infrastructure, its logistics and fleet management expertise, combined with the significant productivity gains to be achieved by co-digesting the Company's residuals with typical agricultural feedstock, makes it an ideal partner for AD facilities.

The Company intends to partner with AD facilities through long term contractual relationships and through equity participation. In a long term contractual relationship, the delivery cost ("Tip Fee") that the Company would pay will be adjusted based on the amount of biogas produced from ORMI's feedstock, and ultimately could result in ORMI earning a rebate instead of paying a Tip Fee. Equity participation in an AD will require funding by the Company but will reflect ORMI's contribution of its high energy feedstock and its ability to remotely monitor and benchmark day-to-day AD operations. In cases where the Company has an equity stake it will receive a return on investment through renewable energy sales. In all cases ORMI will benefit by securing the lowest-cost recycling solution for the organic residuals it collects; thereby making it more competitive; thereby facilitating continued growth and improved profitability.

The Company believes the combination of increased low-cost residuals recycling capacity and the Company's sophisticated logistics and fleet management systems will allow it to aggressively expand its business across Canada and into the United States as it begins consolidating the highly fragmented non-hazardous liquid waste services industry.

### **3.02 Core Business**

The core services the Company provides are:

#### **(a) Grease Interceptor Pumping**

Grease interception devices are mandatory in all commercial, industrial and institutional facilities wherever fats, oils and grease (“FOG”) could be discharged into the sewer system. These facilities include restaurants, cafeterias, grocery stores, institutional kitchens, food processors, etc.

The grease interceptor captures and retains excess FOG and solids allowing only the cleaner wastewater to pass through to the sewer. As grease interceptors fill with captured FOG and solids, they progressively become less effective.

Grease interceptors must be periodically emptied in order to meet sewer discharge bylaws, prevent serious drain problems and protect the sewer and wastewater treatment systems.

The Company’s trained service crews use vacuum trucks to pump out grease interceptors and transport the liquid organics for processing and final recycling.

Provision of these services involves significant customer communications and care, which must be integrated with trucking logistics and residuals transportation.

#### **(b) Industrial Food Processing Wastewater Residuals**

Industrial food and beverage processors typically generate large quantities of residuals that must be removed from their wastewater prior to discharge to the municipal sewer system. This process is referred to as “pre-treatment”. In most cases, grease interceptors are not efficient enough and other pre-treatment technologies are required.

The most common technology deployed is dissolved air flotation (“DAF”). DAF is a clarification process for the separation of residuals from wastewater. It works by producing a stream of micro-fine air bubbles that attach to solids and float them to the surface, where they can be removed and stored in a holding tank for periodic collection. Industrial processors also have organic residual streams that are not wastewater related such as excess and off-spec product.

The Company’s trained service crews use vacuum trucks to collect and transport the pre-treatment residuals for processing and final recycling or disposal.

#### **(c) Liquification and Diversion of Food Residuals**

The Company provides organics diversion services to the IC&I food industries sectors where the materials to be collected are liquid or semi-liquid and can therefore be collected using the Company’s vacuum truck fleet and can be managed through the Company’s organics recycling programs.

The Organic Resource Recovery System (“ORRS”) is a patent protected process for on-site collection of organic waste. Produce and other food related wastes are ground into slurry by a mill and discharged into a holding tank where it is stored until collected by a vacuum truck. Liquification of food organics provides an approximate five-fold volume reduction and makes these residuals ideally suited for use as a feedstock for renewable energy production in ADs. These residuals require no further pre-processing at the AD location prior to digestion.

Current efforts by the Company to deploy its ORRS have been focused on a few large industrial, commercial and institutional organics generators and have been effectively stalled by the severe lack of viable low-cost recycling alternatives that are cost competitive with landfill disposal in Ontario and British Columbia. The Company believes that the establishment of anaerobic digesters will make ORRS a more financially viable organic residuals handling technology.

#### **(d) Other Related Vacuum Truck Offerings**

In addition to its two core services, Wastewater Residuals Management and Organic Residuals Diversion, the Company also provides related vacuum truck services such as: grease interceptor repairs and replacement, drain and sewer cleaning, off-spec product removal, septic and holding tank pumping; catch basin cleaning and sump

and lift-station cleaning. These services help to ensure a fully integrated menu of offerings to customers, but they represent a secondary source of revenue and profitability to the Company.

### **3.03 Organic Resource Management Inc.**

ORMI, the Company's Ontario based operating subsidiary, has been servicing the Ontario market and parts of Quebec for over 25 years.

ORMI provides primarily repeat, scheduled liquid organic waste removal services to the restaurant, foodservices and food retail industries.

ORMI operates three transfer facilities in Ontario, and is permitted to de-water residuals it collects ("Decant"). The Decant process removes excess water from the residuals the Company collects prior to delivery for final recycling/disposal.

Decanting is an especially advantageous pre-treatment process for AD's. By reducing the water content of the residuals and blending specific feed stocks ORMI will be able to maximize the performance of individual AD's. This fuel blending process will increase the value-added status of our customer's residuals and positively impact operating margins for the Company.

During the past couple of years, ORMI has faced challenges with its Direct Land Application Process ("DLAP"). In light of the recent developments in Ontario, and the Company's knowledge of organic recycling options in general, the Company believes that an anaerobic digestion industry is emerging in Ontario, and that it will ultimately provide a low-cost, long-term recycling solution for all of the organic residuals the Company does and can collect. As a result, the Company has decided to suspend efforts to re-permit and expand its DLAP facilities in Ontario. In the interim, the Company continues to use higher cost recycling alternatives including transporting material out of province to third-party recycling sites.

In May 2007, ORMI signed an exclusive, 20-year contract to supply organic residuals as feedstock to a farm-based Anaerobic Digester ("AD") for the production of renewable biogas energy. The AD has obtained all necessary permits, including the Ontario Ministry of Environment ("MOE") Certificate of Approval for the use of off-farm organic residuals as feedstock to an on-farm AD. This was the first Ontario farm AD to receive off-farm organic residuals. ORMI has been delivering feedstock to the AD since July 2007. Although the volumes in the first stage of this two-stage contract are not material, the Company believes this is a watershed in the developments of AD's in Ontario.

ORMI services over 5,000 customer locations. Over the last several years the Company has increased rates to the Ontario customers in order to offset the erosion to the gross margin that had occurred from the increase in disposal costs.

ORMI's annual revenue for the year end June 30, 2007 was \$9,881,000 down 4% from the previous year's \$10,320,000. ORMI's core business (grease interceptor servicing) recorded an increase in revenue of 13% during the year; however, two of the Company's largest industrial accounts significantly reduced their service levels after making capital improvements to their wastewater handling system to reduce the amount of residuals they produce. The vast majority of the Company's customers do not have sufficient volumes of liquid organic waste to justify capital investments of this type and the lost revenue from these industrial customers does not have a significant impact on the gross margin of the Company.

On July 1, 2007 ORMI was vertically amalgamated into National Challenge Systems Inc.

### **3.04 A&A Anderson Tank Service (Vancouver) Ltd.**

A&A, the Company's British Columbia based operating subsidiary, has been providing vacuum truck services in Vancouver and the Lower Mainland for over 30 years.

A&A's vacuum truck services vary from ORMI's in that a much smaller portion of its business is repeat scheduled service and with the larger portion being more responsive in nature. Over the last several years, A&A implemented a number of software enhancements designed specifically to manage the business requirements associated with a more responsive business model.

At present the major disposal option available in the Lower Mainland for non-hazardous liquid wastes, including FOG and a limited volume of food processing residuals, is delivery to municipal sewage treatment operated by the Greater Vancouver Regional District (the "GVRD"). The GVRD has continually increased prices at its liquid waste receiving facilities. There are no Decant facilities in the Lower Mainland. The Company believes there is a significant opportunity to establish a Decant facility in the GVRD and is actively pursuing a site. This opportunity will be driven by the introduction of ADs into British Columbia.

The BC government acknowledges the lack of any significant organic diversion activity in the province as an embarrassment going into the 2010 Winter Olympics. The Company is recognized by the BC government for its leadership role in the development of ADs in Ontario. As a result, the Company was specifically recruited by the British Columbia government to actively participate in the province's "Anaerobic Digester Feasibility Study Steering Committee". The committee's deliverables are identification and quantification of any potential regulatory barriers to AD deployment in the province, along with suggested remedies for these barriers. It is also tasked to review the available technology and make a recommendation for a site to establish a demonstration AD facility expressly capable of addressing both agricultural and urban organic wastes. The committee's report to the government is due before the end of 2007.

The momentum is building toward regulatory support for AD deployment. The Company is optimistic that it will begin realizing positive results in BC from AD development during fiscal 2009.

A&A has over 3,000 customer locations. Annual revenue for the year end June 30, 2007 was \$4,892,000 down 4% from the previous year's \$5,090,000. The Company has been negatively impacted by the labour shortage in Western Canada and as a result has experienced a severe shortage of service technicians and a resulting drop in revenue without the labour available to do the work. The situation improved in the fourth quarter and A&A currently has a full compliment of technicians.

### **3.05 Wastewater Residuals Management**

The Company's key focus is to collect, remove, transport and recycle residuals that are generated by its IC&I customers. Customers are often legally obliged to capture or prevent residuals from entering sewage collection and wastewater treatment networks. The provision of this service is vital to maintaining the physical infrastructure and business operations of customers, and ensures their compliance with municipal bylaws. It also strengthens the efficiency and longevity of municipal wastewater infrastructures.

The need for wastewater residuals collection/removal is driven by two factors:

- ***Maintenance of Customer Drainage Infrastructure*** – Food industry companies typically generate wastewaters that are high in FOG and other organic streams. These materials must be intercepted and prevented from entering the drainage system. If wastewaters containing FOG and other food solids are allowed to enter the drainage system, they accumulate on the walls of the drainpipes over time. These deposits eventually cause blockages and backups that can, in turn, cause serious floods – all of which are extremely costly to repair and may result in operational closures.
- ***Municipal Regulations Protecting Wastewater Treatment Infrastructure*** – Municipalities throughout Canada and the United States are actively mandating grease interceptor requirements, designed to reduce the discharge of excessive amounts of high-strength wastewaters into municipal sewer systems. In addition to the nearly universal application of bylaws mandating the installation of grease interceptors, more and more municipalities are implementing bylaws establishing maintenance schedules. Cost effective enforcement of these bylaws is a challenge that the Company is addressing through an adaptation of its sophisticated, proprietary logistics and operational management software.

In the absence of proper grease interception, high-strength wastewaters pose a material risk to customer and community infrastructure. Without effective abatement, collection and removal of residuals, high-strength wastewaters emptying directly into drainage systems can have significant consequences, including the following:

- ***Sewer Blockages and Floods*** – Accumulation of residuals on the interior walls of sewer piping systems is akin to sclerotic deposits in blood vessels: over time, fluid pressures increase as blockages occur, causing inevitable failure of pipes and channels. The risk posed to municipal infrastructure has resulted in a well

developed compliance function in most North American cities. Foodservice businesses face various monitoring, reporting, insurance and litigating risks given heightened bylaw enforcement. Increasingly, state and provincial jurisdictions are legislating compliance, given the regional and environmental protection impacts. For example, the State of California mandated (Chapter 533 of Statutes 2005) a process last year for documenting and tracking the transportation of kitchen grease to ensure proper disposal or recycling.

- **Capacity of Sewage Treatment** – Even in situations where the negative impact on sewer systems is slow to develop, the presence of residuals in wastewater treatment facilities is a costly and complex threat. Moreover, these challenges affect opportunities for municipal growth, since they impose a limit on sewer plant capacity and the effectiveness of wastewater infrastructure.
- **Increased Sewer System Operating and Maintenance Costs** – The impact on plant capital is high, given the difficulty in removing residual deposits from plant collection, pumping and treatment systems. To cope with operating and maintenance issues associated with removing residuals accumulation, municipal plant managers are increasingly forced to invest in customized equipment and handling processes. Lift station scum removal and pooling systems are some of the additional investments made by municipalities to contain the problem of residuals accumulation.
- **Reduced Life Expectancy of Sewer Infrastructure** – The low PH levels of FOG material causes accelerated deterioration of concrete sewer pipes. With underground and facility infrastructure failing at an accelerated rate, municipalities are facing significant cost pressures on replacement and repair.

As a result of the above consequences, municipalities seek to reduce the quantity of residuals that may be discharged into the sewer system. The focus of current municipal policy is to expand regulatory intervention, which includes increased fines and/or penalties for non-compliance to ensure excessive amounts of FOG and other organics are not discharged into the sewer systems. As a result, residual generators are increasingly required to improve their ability to capture these materials through the installation of additional or more efficient interception equipment and implement stringent maintenance (residual removal) programs in order to ensure compliance.

In the commercial and institutional sectors, grease interceptors are recognized as the best available technology to capture and prevent excess residuals from entering the sewer systems. Grease interceptors have been mandated by building codes throughout North America for decades. They must be installed wherever there is the potential for discharge of residuals to the drainage system. The standard for grease trap design, PDI-G101, has been in effect for more than 50 years. Design specifications were intended to ensure capture of FOG materials prior to discharge of commercial wastewaters to sewer systems.

In the industrial sector, numerous technologies and devices exist to facilitate the removal and capture of excess residuals from processed wastewater. Given the significantly larger wastewater volumes, and in many cases higher residuals concentrations in those wastewaters, technologies and devices tend to be more complex and capable of delivering significantly better residuals removal efficiencies, which in turn creates substantial residual volumes that must be managed.

Once captured, residuals must be periodically collected and removed from customers' premises. The core business of the Company is the deployment of a skilled workforce and a fleet of vacuum trucks and related equipment to collect captured residuals from customer locations and ensure they are recycled and/or disposed in an approved manner. Once removed, residuals are transported to owned and/or third-party facilities for either recycling or disposal.

### **3.06 Organic Waste Diversion**

In addition to its core business in the wastewater services industry, the Company also believes it is uniquely positioned to participate in the collection, transportation and recycling/disposal of solid organic waste.

The collection, transportation and disposal of organic waste is a large, growing and under-serviced market. Sixty-seven percent<sup>4</sup> of North America's annually discarded waste is comprised of organic materials. At industrial,

---

<sup>4</sup> US Environmental Protection Agency, 1998 Waste Generation Report

commercial and institutional waste generators, such as supermarkets, institutions, food processors and restaurants, organic materials can represent 55% to 90%<sup>5</sup> of the total discarded waste stream. As of March 2001, only 2.6% of the 22 million tons of food scraps generated were recovered<sup>6</sup> largely because collection is typically highly inefficient. Even if the recovery rate may have doubled to the present time, there is a huge volume of material remaining to be managed. Inefficient handling results in smelly waste that attracts vermin and flies. Further, organic residuals are heavy and bulky requiring excess floor space and smaller more frequent collections due to the many small tote bins on site to hold this material. The US government is targeting to divert 35%<sup>7</sup> of all waste from landfill. This is estimated to result in an increase in food waste recycling from the 2.6%<sup>8</sup> to 14%, or 5.4 times the recycled mass. The Company brings substantial proprietary efficiencies to this market and is leading the development of AD solutions for these wastes

### **3.07 Organic Waste Recycling and Disposal**

The Company has invested significant resources in the past 15 years to develop a comprehensive knowledge base of all types of organic recycling and disposal alternatives. Each of the Company's service territories have different drivers which dictate the practical recycling and/or disposal options that are available for collected residuals. The Company's over-riding strategy is to control the lowest cost recycling (or disposal) option in the markets that it does business by obtaining long-term contractual relationships and/or through direct equity participation.

The Company's market leadership in the collection, transportation and recycling of residuals has resulted in it being responsible for managing large volumes of organic residual streams. Historically, in Ontario the Company has recycled these organic residuals using aerobic methods such as composting and its own patented DLAP technology. In British Columbia the only option has, and continues to be, delivery to the municipally operated sewage treatment plant for de-watering and use in a mine-tailings reclamation project.

In Ontario, as in most markets, the composting industry has matured to the extent that revenue generating markets for end product are nearing saturation. In addition, odour management and truck traffic issues around both DLAP and composting facilities are making them increasingly difficult to site as the urbanization of rural areas continues to foster strong community opposition. The only answer is the application of increasingly complex and capital intensive technology which drives up costs. As a result, costs for composting large quantities of residuals are at an all-time high.

A particularly attractive recycling option for the Company is the AD process, a widely proven technology that has been in constant commercial use in Europe for many years. In the simplest terms, AD is a biological process that breaks down organic materials in the absence of oxygen. The primary by-products of AD are: stable organic matter, water, carbon dioxide and methane gas. The carbon dioxide/methane gas combination is what is commonly referred to as biogas. Biogas is combusted to create energy (see page 1). The high energy content of the Company's FOG residuals significantly improves both the quantity and quality of the AD's biogas output. This makes the Company's residual streams a highly desirable material to combine and co-digest with other AD organic inputs such as livestock manure and source separated organics from urban residential collection programs.

During the past decade, the Company has amassed a significant AD knowledge base, and has been a strong proponent of its introduction and development in Canada. The Ontario Government's two new programs have confirmed the Company's efforts:

1. The Standard Offer Program ("SOP") is encouraging the development of small generators of "clean", renewable electricity by allowing them to sell into the Ontario power grid at a fixed premium. The general terms of the SOP include a long-term fixed price (20 year) contract. A key goal of the SOP is to make AD for biogas energy production financially viable in Ontario.

---

<sup>5</sup> Cynthia Greene, US Environmental Protection Agency, unpublished report, March 14, 2001

<sup>6</sup> Cynthia Greene, US Environmental Protection Agency, unpublished report, March 14, 2001

<sup>7</sup> US Environmental Protection Agency, 1998 Waste Generation Report

<sup>8</sup> US Environmental Protection Agency, 1998 Waste Generation Report

2. The \$9 million Ontario Biogas Systems Financial Assistance Program will help farmers and rural businesses carry out feasibility studies for the installation of biogas systems as well as cover a proportion of construction and implementation costs. Applicants can receive up to \$400,000 in funding.

These programs in Ontario have made the province a leader in the promotion and development of the AD renewable energy industry in North America. British Columbia and Alberta are aggressively developing parallel programs. Many US States are moving forward in a similar manner that virtually ensures the deployment of AD facilities across North America over the next five years. There is no reason to doubt that the North American AD industry will eventually duplicate the market penetration experienced in Europe which is still aggressively expanding.

Other Canadian and US jurisdictions are watching closely as the Ontario experience unfolds over the next few years. The Company believes that co-digestion of the organic residuals it collects in AD systems with agricultural residuals will eventually be adopted by multiple North American jurisdictions, including British Columbia. The major policy driver in British Columbia is the high density of livestock in the Fraser valley, and the urgent need for better environmental stewardship of the vital ground water resource that are suffering from manure related nitrate and phosphate overload. In addition, British Columbia lacks any significant organic recovery and landfill diversion activity. Implementation of co-digested AD systems will address these factors.

AD recycling eliminates the challenges that both composting and DLAP face. In strategic terms, it offers a more environmentally sustainable approach in managing the recycling of residual streams. AD extracts the inherent energy from the residuals and at the same time reduces pathogens, odours and greenhouse gas emissions, and improves nutrient availability. AD processes create a more efficient and environmentally responsible solution.

AD facilities can be divided into two primary categories; both are ideal partners for the Company:

- **On-farm ADs** are located on the farms that have large numbers of livestock generating significant quantities of manure feedstock. Ontario regulations allow On-farm ADs to receive prescribed quantities of industrial, commercial and institutionally generated clean organics such as those collected by the Company<sup>9</sup>. On-farm ADs will typically be able to utilize most or all of the digested material onsite in the fields where they grow crops for the livestock. The farm generated manures can be processed by the AD with very little additional effort or cost than traditional manure management. The processed digestate can be managed with similar efficiency.
- **Centralized ADs** are typically large facilities strategically located to harvest the vast quantities of heat energy coincidentally created by the biogas burning generator engines. Sometimes these facilities receive some of their residuals (AD feedstock) from the co-located heat consumer, but most or all of their feedstock could also come from off-site generators like source separated organics from an urban residential collection program, large industrial generators and livestock manure from multiple farms. Centralized facilities are typically larger than On-farm ADs and require significantly more transportation logistics as most if not all of the material to be digested must be transported in, and all of the residual digested material must be transported out from the digester for final use to a farm or a composter. This additional transportation requirement could be a positive opportunity for the Company to provide additional transportation services. However, the Company believes there is a significant hurdle to siting centralized ADs as they are designated as waste processing facilities and must be permitted and regulated by the MOE.

The implications of the advent of AD recycling are dramatic to the Company:

- **Lower Operating Cost Base** – AD recycling represents a significantly lower cost alternative to third-party disposal options like composting, especially out of province composting. The Company believes that as AD facilities multiply they will eventually attach a commercial value to the reliable delivery of its high-energy potential feedstocks. As ADs multiply across the Company's service areas, they reduce total residuals management costs by shortening the travel times for delivery.

---

<sup>9</sup> OMAFRA, On-Farm Mixed Treatment System Design and Operations Manual, October 12, 2005

- **Increased Volumes** – Increased business volumes can come in three areas:
  - **IC&I Customers** - AD recycling offers the Company a secure and long-term solution for larger volumes of organic residuals. This new capacity will enable the Company to increase its market by providing reliable collection services in Ontario to customers with large residual streams that the Company has not been able to service previously due to a lack of cost effective recycling capacity. For the first time the Company will be in position to offer large volume customers long term service contracts on the strength of the Company’s long term delivery contracts with the ADs.
  - **Municipal Bylaw Enforcement** – The emergence of secure, long-term solutions for larger volumes of organic residuals will encourage many municipalities to enforce and/or improve their existing sewer use discharge bylaws. Mandated service will require all generators in the relevant municipality to establish service contracts, significantly expanding the Company’s market.
  - **ORRS** - once Centralized AD operations appear, the Company believes it will have substantially expanded opportunities for utilizing its ORRS system, including the management of source separated organics on behalf of municipalities.
  - **AD Farm Residuals** – The Company will have new opportunities to utilize its fleet to transport farm manures to AD facilities and the digestate that results from AD processes back to neighbouring farms, where it will be used as a feedstock for land application or to composting operations for inclusion into wholesale and retail soil amendments.
- **Municipal Bylaw Compliance Software** – The Company is addressing the emerging municipal desire to enforce their existing and new sewer use bylaws through an adaptation of its sophisticated, proprietary logistics and operational management software. When completed, the proprietary Municipal Compliance Package will allow a licensed municipal user to access a web-based, automated compliance program for these bylaws. Grease trap service event information would be automatically uploaded to the municipality’s central site. Non compliant generator sites stand out as exceptions and the system will automatically issue compliance warnings and even fines.
- **Renewable Energy Partnerships** – Direct participation in AD projects would convert a cost center into a revenue generating opportunity. AD’s will desire the Company as a partner because of its:
  - **Residuals** - Reliable volumes of high-energy potential feedstocks and fuel blending initiatives.
  - **Knowledge** - Significant technical, operational and industry contact knowledge and on-going practical knowledge the Company will develop by participating in multiple AD’s.
  - **Direct Land Application** - The Company believes it will have the opportunity to utilize its existing DLAP know-how, infrastructure and composting relationships for the management of digested organics coming from AD’s.

The Company’s strategy is to participate in AD projects through both long term exclusive contractual feedstock supply agreements and energy-side equity participation. The Company has a unique opportunity to directly participate in the development, ownership and operation of multiple ADs.

### **3.08 Integrated Strategy**

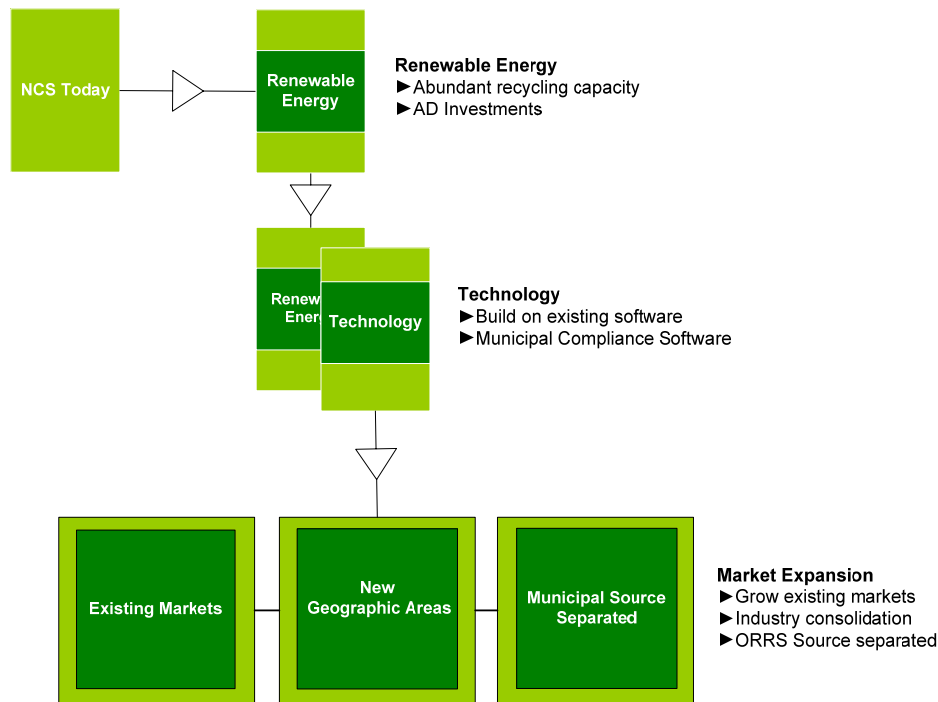
The Company’s mission is:

***“To be the recognized leader in providing optimum solutions for the collection, transportation and recycling of organic and other non-hazardous liquid residuals through a team dedicated to service excellence and environmental responsibility”***

Six core values reflect the Company’s quest for excellence:

- To provide customers with economic liquid residuals management solutions that are beneficial to society and the environment
- To promote ethical and environmentally responsible business practices
- To recognize the value and respect of employees, customers and neighbours
- To foster innovation and individual commitment among employees
- To continuously research and develop innovative residuals recycling and management technologies
- To be a profitable, secure Company dedicated to continued growth

Three integrated strategies flow from the mission and values of the Company. These strategies, illustrated below, represent a prudent and consistent approach to growing the Company's business based on its current operations and future opportunities:



- **Renewable Energy**
  - Secure abundant recycling capacity through long term exclusive contracts with AD's to deliver the Company's feedstock.
  - Invest in AD's through equity participation.
- **Technology**
  - Continue to focus on efficiency improvements that build on the technologies, expertise and systems developed by The Company.
  - Address the emerging municipal desire to enforce sewer use bylaws with Municipal Bylaw Compliance Software adapted from the Company's sophisticated, proprietary logistics and operational management software.
- **Market Expansion**
  - Increase volumes in existing markets as a result of an abundant AD recycling capacity, and increased municipal bylaw enforcement.
  - Expand into new geographic markets through a targeted program of industry consolidation and acquisition of customer lists within the Company's core business.
  - Leveraging ORRS plus the Company's operational logistics and management capabilities, increase large volume organics collection including source separated organics markets.

The three strategies are connected. The Company believes that expansion into renewable energy will lower the cost of recycling, and abundant capacity will allow it to accelerate growth in existing markets. Combining this with the Company's continually improving technology will have a compounding positive affect on the Company's financial performance. Improved results will position the Company to secure additional financing for its strategy of industry consolidation through acquisition of customer lists in its core business. The Company may then apply its systems and expertise to its long-term goals of penetrating related industries for non-hazardous liquid organic services, such as municipal source separated organics.

### **3.09 Risk Factors**

#### **(a) 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 non-hazardous liquid waste services industry is intense and expected to increase, both from within the industry and from those diversifying into the field. Some of the Company's competitors and potential competitors may have greater development, financial or personnel resources.

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

The Company believes there are two major constraints to the advancement of the ORRS program. First, the capital cost of installed ORRS equipment as compared to containerized collection alternatives, and second, the lack of readily available, low-cost organic recycling alternatives in Canada and the United States.

The Company has offset the erosion to the gross margin that occurred from the increase in Ontario recycling costs by increasing rates several times to Ontario based customers. The Company has successfully increased customer rates in the past, but with any price increase there is a risk that accounts could be lost. The price increases should have a long-term positive impact on the Company's gross margin, subject to the amount of lost business.

#### **(b) Government Regulation**

Over the past few years ORMI has been impacted by a number of government regulatory changes that directly affect the way liquid organic waste is handled and processed in Ontario. As a result of these changes, most of the third-party disposal facilities in Ontario that receive and process liquid organic waste significantly reduced their capacity, or closed down altogether. This had a major impact on the cost of recycling/disposal. As part of the regulatory changes, the Company had to close most of its DLAP sites during 2005 and commence a re-permitting process. This was an extensive undertaking and the Company had limited success, with only one of the smaller Ontario DLAP sites being re-permitted. The only option the Company was left with was to transport a large portion of the waste to alternative third-party recycling sites located in Quebec. This resulted in a dramatic increase in the Company's transportation expense. In addition, the actual cost of recycling is significantly more expensive than using ORMI's DLAP facilities.

At the same time, anaerobic digestion began to evolve as a superior competitive recycling alternative. After extensive study, the Company concluded that this alternative will ultimately provide a low-cost, long-term recycling solution for all of the organic residuals it collects. Therefore, the Company decided to suspend efforts to re-permit and expand its DLAP facilities in Ontario and to focus its efforts on anaerobic digestion.

In May 2007, the Company signed an exclusive, 20-year contract to supply organic residuals as feedstock to an On-farm AD for the production of renewable biogas energy. The AD has obtained all necessary permits, including the Ontario MOE Certificate of Approval for the use of off-farm organic residuals as feedstock in an on-farm AD. This is the first Ontario farm AD to receive off-farm organic residuals. ORMI has been delivering feedstock to the AD since July 2007.

The delivery cost ("Tip Fee") that ORMI will pay is significantly less than current recycling alternatives. However, the first stage of the two-stage contract is only for 700 tonnes per year of ORMI residuals, and therefore will not have a material financial impact. Stage two of the Contract provides an option to the AD until December 31, 2008, to expand the contracted volume to a maximum of 5,000 tonnes per year. The contract Tip Fee will be adjusted based on the amount of biogas produced by ORMI feedstock. Ultimately during the term of the contract this could result in ORMI earning a rebate instead of paying a Tip Fee feedstock delivered.

The Company believes this contract and the associated MOE Certificate of Approval are fundamental accomplishments to achieving the Ontario Ministry of Energy's goal of developing renewable energy from biogas on Ontario farms. Using high-energy-potential off-farm organic residuals in Ontario farm-based ADs mirrors

successful and long established European practices. The Company is actively working on additional potential AD sites that, if successfully funded and permitted, would result in an Ontario in-province solution. This additional capacity would allow ORMI to pursue a number of long-term contracts that it is unable to acquire today because of a lack of secure and competitively priced disposal options. In most cases, the waste generated by these potential customers is being transported outside the Province at much higher costs.

The development of AD is subject to government regulations for bringing off-farm waste (the Company's residuals) onto a farm for co-digestion as well as the ability of the AD to access the power transmission grid. The growth of AD's in Ontario will be positively impacted by two Ontario government programs, the SOP and the Ontario Biogas Systems Financial Assistance Program (discussed previously herein).

The Company has been forced to transport a large part of its Ontario residuals out of province in the last two years at great cost. During the first half of fiscal 2007 the Company had some temporary relief and began delivering more of its Ontario residuals to third-party sites in Ontario, thereby saving significant transportation costs. However, in the second half of the year the Company had to again revert to transporting large volumes out of province. Other than the small Klaesi AD, the Company has no long-term contracts with these third-party Ontario disposal sites and therefore cannot predict with certainty its cost of disposal. The Company's profitability can be materially impacted by the volume of residuals these Ontario sites receive.

#### **(c) Risk Associated With Acquisitions**

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

#### **(d) Compactors**

Prior to March 31, 2002, the Company's primary business was the ownership, rental and distribution of waste compactor equipment. In March 2002, the Company sold the vast majority of its compactor fleet to Canadian Waste Services Inc., but retained 195 compactors located in Western Canada. The remaining compactors were rented to a major retail grocery chain under a five year contract which expired on September 30, 2006. Rental of compactors has continued on a monthly basis with the grocery chain while it replaces compactors with its own units and the Company sells off its excess equipment.

The annual rental revenue from the compactors for 2007 was \$590,000 (2006 - \$518,000). During the year the Company sold or disposed of more than half of the rental compactors. The Company expects to dispose of the remaining compactors prior to June 30, 2008 and does not anticipate recovering any value for the remaining machines other than outstanding purchase commitments. As a result, the net loss for the year includes an impairment charge of \$235,000 (2006 - \$190,000).

#### **(e) Labour**

ORMI's hourly employees at its Toronto operation are represented by the Universal Workers Union Local 183. In October 2006 a new three year contract was ratified that runs from October 1, 2006 to September 30, 2009. The agreement includes a harmonization of pay scales over 24 months, improvements to benefits and a 3% wage increase in each of the three years.

In July 2007 the hourly employees at A&A ratified a new three year collective agreement with the Service Employees Union from May 1, 2007 to April 30, 2010. The agreement includes a 3% wage increase in each of the three years, some minor inflationary increases and a small improvement in the union pension plan.

#### **(f) 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.

#### **ITEM 4 DIVIDENDS**

The Class A preferred shares provided for the payment of the 12% dividend at the Company's discretion to be either (i) in cash or (ii) in additional Class A preferred shares. The Class A preferred shares have paid no dividends since December 31, 2003. On January 31, 2007 the Company issued \$1,016,823 of Class A shares representing the amount of dividends accrued to that date. On May 31, 2007 the Company issued a further \$121,827 of Class A shares for dividends accrued in the four months ending May 31, 2007. On June 1, 2007 the Company converted all issued and outstanding Class A and Class B shares into 47,965,376 common shares with a book value of \$4,086,650 based on a weighted average market price of \$.0852 per share. As a result, there were no cumulative dividends in arrears on the Class A preferred shares as at June 30, 2007 (2006 - \$811,343).

The financial liability for the preferred shares reflected in the June 30, 2006 consolidated financial statements included accrued dividends though they had not been declared as payable by the Board of Directors.

The Company has never paid cash dividends on its common shares and does not anticipate paying any cash dividends in the foreseeable future. Subject to approval from Textron Financial, there are no other restrictions that prevent the Company from paying dividends.

#### **ITEM 5 RELATED PARTY TRANSACTIONS**

On August 29, 2007 the Company announced that it had reached an agreement for three related party transactions which would eliminate the existing related party relationships for software and patents. These transactions closed on September 19, 2007. The three related party transactions resulted in the Company purchasing: (i) 100% of the shares of ORMI Information Systems Inc. formerly Path Information Systems Inc. ("OIS/Path"); (ii) the Canadian patents for DLAP and ORRS from Organic Resource Technologies Inc. ("ORTI"); and (iii) the 30% equity interest in NCS Environmental Services Limited ("NCS ESL") that it did not already own from Organic Resource Technologies International Inc. ("OII"). The Company has now eliminated all material related party transactions with the exception of the repayment of the loan relating to the purchase of OIS, as noted below.

##### **(a) ORMI Information Systems Inc.**

On September 19, 2007, Path changed its name to ORMI Information Systems Inc. and the Company purchased 100% of the issued and outstanding shares of OIS/Path for \$700,000. Charles Buehler, the Company's Chairman, CEO and control block holder, owned a majority of the shares of OIS/Path. \$100,000 of the purchase price was paid in cash on closing and the remainder will be paid over six years with interest at 7% per annum. The shares of OIS/Path were pledged to the vendors as security until the balance has been paid. Also as part of the transaction, the vendors retained the Path name and obtained a perpetual and exclusive license, including access to the source code, for use of the software outside of the liquid organic industry.

OIS/Path owns proprietary route optimization and management information software ("Software"). Prior to the acquisition of OIS, the Company had a perpetual and exclusive license for use of the Software in the non-hazardous liquid waste industry in Canada. In addition, the Company, through its Bermuda subsidiary, NCS ESL, had a perpetual licence from OIS/Path exclusive to the non-hazardous liquid waste industry for the worldwide (excluding Canada) use of the Software. In addition, NCS ESL had a marketing agreement with Path for the Software which gave NCS ESL the right to market Software licenses to third-parties for use in its industry worldwide (excluding Canada).

Although the Company did have a perpetual license to the software, it did not own the source code and was required by the terms of the license to use Path programmers to do maintenance, perform upgrades and do development work on the software. The software is a critical element of the Company's operational success and a key component to its future. The Company must continually develop and upgrade the software in order to remain competitive. Consequently, there would be on-going charges paid to OIS/Path for software support and development, and the potential for an on-going conflict of interest in the determination of the appropriate market

charges for those services. By purchasing OIS/Path and thereby the software, this issue is permanently resolved because the Company will be able to maintain and develop its own software.

**(b) Canadian DLAP and ORRS Patents**

DLAP is a patent protected solution for recycling high-fat content organic waste that uses the natural digestion ability of microbes found in soil to convert organic waste into stable soil organic matter. ORRS is a patent protected process for on-site collection of organic waste.

On September 19, 2007 the Company purchased the Canadian patents for DLAP and ORRS from ORTI, a company owned as to one third by Mr. Buehler, and one third by Douglas Carruthers, an officer and director of ORMI, for \$15,000 cash. As part of the terms of this transaction, a note payable from the Company to ORTI, with 24 blended monthly installments of principal and interest of \$4,292 maturing in December 2008 which had a current outstanding balance of \$65,729, was also paid in full on closing.

Prior to the purchase, the Company had an arm's-length exclusive licensing agreement until 2017 with ORTI for exclusive use of DLAP in Canada. The license required the payment of \$25,000 per year plus royalties on waste processed using DLAP outside of the province of Ontario. (The Company has always had perpetual rights to DLAP in the province of Ontario at no cost or royalty; the Company inherited these rights through its purchase of ORMI in 2002). As at the date of purchase, no royalties have ever been paid and ORTI has always waived the requirement to pay the annual license fee.

Purchasing the ORRS and DLAP patents has eliminated any requirement for the Company to pay royalties on new ORRS locations and royalties or the annual license fee for the DLAP.

**(c) 30% Equity Interest in NCS Environmental Services Ltd. ("NCS ESL")**

NCS Holdings and NCS ESL are inactive Bermuda companies that were originally incorporated as a tax strategy which is no longer applicable. In March 2000, NCS ESL entered into an intangible asset purchase and sale agreement ("APSA") whereby it purchased the ORRS and DLAP United States patents and certain other assets from OII. In consideration for these assets, OII received 30% of the common shares of NCS ESL.

On September 19, 2007, the Company purchased the 30% equity interest in NCS ESL that it did not own from OII, a company owned as to one third by Mr. Buehler and one third by Mr. Carruthers, for \$10,000 cash.

The Company now owns 100% of NCS ESL and intends to transfer the US patents into the parent company and wind-up both Bermuda companies thereby simplifying its corporate structure.

**(d) Approvals for Elimination of Related Party Relationships**

Other than Mr. Buehler and Mr. Carruthers, all other ORMI directors are independent. The transactions described above were assessed in detail and negotiated on behalf of the Company by a committee of all seven independent directors, and all resolutions approving these transactions were passed unanimously. Negotiations were extensive and lasted a number of months and finally concluded on August 21, 2007 when a purchase agreement for Path was signed.

Total fair market value of all three transactions, including the early repayment of the ORTI note, was \$790,729 or 9% of the Company's market capitalization determined in accordance with Ontario Securities Commission Rule 61-501 ("OSC Rule 61-501"). Accordingly, pursuant to section 5.5-2 of OSC Rule 61-501, the Company was exempt from a requirement for a formal valuation because the total fair market value of these transactions was not more than 25% of the market capitalization of the Company and, as a result, minority approval was also not required under OSC Rule 61-501 section 5.7(1)-2.

Eliminating related party relationships was part of a multi-step restructuring program that included simplifying the Company's balance sheet and organizational structure and strengthening its management. The restructuring program began on June 1, 2007 with the conversion of all the outstanding preferred shares into common shares. It continued on July 1, 2007 with the amalgamation of the Company with its largest subsidiary and concurrent name change to Organic Resource Management Inc., and on August 20, 2007 with the appointment of Charles Buehler as Chairman & CEO, Ian Kelland as President and Edward Dreher as Vice President of Finance.

### (e) Related Party Charges

During the year, the Company incurred charges from directors or companies and/or individuals related to them. These amounts have been recorded at their exchange amount, being the amount agreed to by all parties, for amounts approximately as follows:

	<u>2007</u>	<u>2006</u>
Dividends on preferred shares	\$ 199,194	\$ 318,853
Interest expense	9,253	12,776
Consulting fees	4,500	-
Software development cost	-	9,234

#### (i) Interest on long-term debt

Includes a note payable to a related party for \$20,933 (2006 - \$104,662). The note is repayable in 36 equal monthly installments of \$6,977, the last of which is due September 1, 2007. Long-term debt also includes a note payable to a company owned by certain directors for \$73,568 (2006 - \$93,636), repayable in 24 blended monthly installments of principal and interest of \$4,292 commencing January 2007 and maturing in December 2008 (see Item 2.02(a)).

#### (ii) Software

The software development costs were for work performed by Path. The terms of the Company's Software licences with Path (see Item 2.02(a)) were established in February 2000, prior to the Director being appointed to the the Company's Board. Subsequent amendments to the licences were negotiated with an independent committee of the Board.

#### (iii) Patent license agreement

Pursuant to patent license agreements with companies related to directors of the Company, as described in Item 2.02(b), the Company has use of patent products at a minimum annual patent license fee of \$25,000. The charges for 2007 and 2006 were waived by the licensor.

## ITEM 6 DESCRIPTION OF CAPITAL STRUCTURE

### 6.01 Preferred Shares

#### (a) Authorized

An unlimited number of Class A and Class B preferred shares.  
An unlimited number of preferred shares issuable in series.

#### (b) Class A preferred shares

Non-voting, non-participating, entitled to a 12% cumulative dividend per annum to be paid quarterly, redeemable at any time and convertible on or after June 1, 2007 into common shares at the option of either the Company or the preferred shareholder. The conversion into common shares is to be calculated by dividing the redemption value of the preferred shares at \$1.00 per share by an amount per common share, which would be equal to the lesser of:

- (i) \$0.40; or
- (ii) the average weighted market price over the 15-day period immediately prior to the date upon which conversion notice is given.

The provision for a 12% dividend on Class A preferred shares is cumulative and can be paid in cash or in additional Class A preferred shares at the Company's discretion. No dividends may be paid on any other class of shares until these shares have been redeemed.

**(c) Class B preferred shares**

Non-voting, non-participating, with no entitlement to dividends, redeemable at any time and convertible on or after June 1, 2007 into common shares at the option of either the Company or the preferred shareholder. The conversion into common shares is to be calculated by dividing the redemption value of the preferred shares at \$1.00 per share by an amount per common share, which would be equal to the lesser of:

- (i) \$0.40; or
- (ii) the average weighted market price over the 15-day period immediately prior to the date upon which conversion notice is given.

**(d) Issued**

	Number of Shares		Book Value	
	2007	2006	2007	2006
Class A shares:				
Balance beginning of year	2,048,000	2,048,000	\$ 2,048,000	\$ 2,048,000
Accrued dividends	-	-	-	811,343
Issued in the year	1,138,650	-	1,138,650	-
Conversion to common shares	(3,186,650)	-	(3,186,650)	-
Balance end of year	-	2,048,000	-	2,859,343
Class B shares:				
Balance beginning of year	900,000	900,000	900,000	900,000
Conversion to common shares	(900,000)	-	(900,000)	-
Balance end of year	-	900,000	-	900,000
	-	\$ 2,948,000	\$ -	\$ 3,759,343

On January 31, 2007 the Company issued \$1,016,823 of Class A shares representing the amount of dividends accrued to date. On May 31, 2007 the Company issued a further \$121,827 of Class A shares for dividends accrued in the four months ending May 31, 2007. On June 1, 2007 the Company converted all issued and outstanding Class A and Class B shares into 47,965,376 common shares with a book value of \$4,086,650 based on a weighted average market price of \$.0852 per share. There were no cumulative dividends in arrears on the Class A preferred shares as at June 30, 2007 (2006 - \$811,343).

The specific conversion provisions of the Class A and B preferred shares, which allowed the holder to receive a number of common shares which varied based on the redemption value and accrued dividends of the preferred shares, resulted in classification of the preferred shares as a financial liability in 2006. The financial liability included accrued dividends.

**6.02 Common Shares**

**(a) Authorized 100,000,000; issued as follows**

	Number of Shares		Book Value	
	2007	2006	2007	2006
Balance beginning of year	40,133,573	39,642,323	\$ 11,743,933	\$ 11,681,173
Conversion of preferred shares	47,965,376	-	4,086,650	-
Employee share compensation	-	300,000	-	45,000
Directors' compensation	-	191,250	-	17,760
Balance end of year	88,098,949	40,133,573	\$ 15,830,583	\$ 11,743,933

**(b) Employee share compensation**

In 2006 as per an employment contract the Company paid one of the executives in common shares. The number of shares was calculated by dividing the salary payable by \$0.15. Salary was based on an annual amount of \$120,000 pro-rated for the amount of time devoted to the Company.

**(c) 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 with a minimum price of \$0.20 per share.

**(d) Warrants outstanding**

Expiry Date	Exercise Price	Number of Shares	
		2007	2006
June 29, 2007	\$0.20	-	100,000
		-	100,000

On June 29, 2007 100,000 warrants expired without exercise.

**(e) Stock option plan**

The Company has an incentive stock option 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 5,200,000 and no one person can be issued options which, when exercised, exceed 5% of the issued and outstanding common shares. The Board of Directors determines the number of options granted and their exercise price and vesting period. However, the minimum exercise price of a stock option is the weighted average trading price of the Company's shares for the 5 days preceding the award date. As of June 30, 2007 there were 5,155,000 options outstanding with exercise prices ranging from \$0.10 to \$0.30, and average remaining life of 3.8 years. Of the 3,470,000 options granted in 2007, 1,050,000 vest over a three year period, 420,000 vested immediately on grant and 2,000,000 options vest subject to certain performance conditions. The 475,000 options granted in 2006 vest over a three year period.

Option activity for each of the years ending June 30, 2007 and 2006 is as follows:

	Weighted Average Exercise Price		Number of Options	
	2007	2006	2007	2006
Balance beginning of year	\$0.19	\$0.21	4,023,000	4,265,000
Granted	0.10	0.14	3,470,000	475,000
Expired	0.19	0.27	(2,338,000)	(717,000)
Balance end of year	\$0.13	\$0.19	5,155,000	4,023,000

Weighted average characteristics of options outstanding at June 30, 2007 are as follows:

Range of Exercise Prices	Outstanding Options		Exercisable Options		Average Remaining Life Years
	Number at June 30, 2007	Weighted Exercise Price	Number at June 30, 2007	Weighted Exercise Price	
\$0.10	3,050,000	\$0.10	-	-	5.0
\$0.11 - \$0.20	1,655,000	0.15	1,605,000	0.15	2.6
\$0.21 - \$0.30	450,000	0.30	450,000	0.30	0.5
	5,155,000	\$0.13	2,055,000	\$0.18	3.8

## (f) Fair value of stock options granted to employees, directors and non-employees

The fair value of each option granted during the year is estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

	<u>2007</u>	<u>2006</u>
Number of Options Granted	<b>3,470,000</b>	475,000
Fair value	<b>\$0.05</b>	\$0.07
<u>Assumptions</u>		
Risk free interest rate	<b>4.6%</b>	3.6%
Average expected life in years	<b>4.7</b>	3.6
Expected dividend yield	<b>0%</b>	0%
Volatility	<b>60%</b>	70%

## ITEM 7 MARKET FOR SECURITIES

The common shares are listed and posted for trading on the Toronto Stock Exchange (“TSX”) under the symbol “ORI”. As at September 20, 2007 there were 88,098,949 common shares outstanding. The monthly price ranges and total monthly trading volumes for the common shares during the year ended June 30, 2007 are listed below:

<u>Month</u>	<u>Share Price</u>		<u>Total Monthly Volume</u>
	<u>High</u>	<u>Low</u>	
July 2006	0.10	0.08	346,725
August 2006	0.11	0.08	1,049,325
September 2006	0.12	0.09	297,475
October 2006	0.13	0.09	367,880
November 2006	0.13	0.10	520,091
December 2006	0.11	0.08	353,298
January 2007	0.14	0.09	349,350
February 2007	0.15	0.08	496,314
March 2007	0.14	0.08	283,460
April 2007	0.14	0.08	402,000
May 2007	0.10	0.09	61,100
June 2007	0.13	0.09	432,700
Total			4,959,718

## ITEM 8 DIRECTORS AND OFFICERS

### (a) Name, Occupation and Security Holding

The following table sets forth the name, municipality of residence, principal occupation within the five preceding years and other stated information with respect to each current Director and Officer of the Company as at the date of this Annual Information Form. The term of office of each of the present Directors expires immediately prior to the election of Directors at the Company’s Annual General Meeting scheduled for October 24, 2007. The last Annual General Meeting was held on October 24, 2006.

Name and Municipality Of Residence	Principal Occupation	Office with Corporation	Director Since/Expire	Issued Common Shares	
				No.	%
Charles Buehler, Tottenham, ON	Founder of Organic Resource Management Inc. CEO; also President from October 24, 2006 to August 20, 2007.	Chairman & C.E.O.	04/28/00 10/24/07	39,412,900 (i)	44.7
Douglas M. Carruthers, Waterloo, ON	Vice President Corporate Development since October 24, 2006; President, April 28, 2000 to October 24, 2006; President of Organic Resource Technologies Inc.; Consultant to solid waste industry since 1980	Vice President and Director	04/28/00 10/24/07	943,181	1.1
Donald R. Carse, Jr. London, England	May 1, 2000 to March 25, 2002, Chief Financial Officer of National Challenge Systems Inc.; January 1999 to May 2000, Vice-President, Corporate Development of the Company; worked for 25 years with investment, commercial and development banks in the U.S. and overseas	Director	04/25/02 10/24/07	1,130,029	1.3
Frank Facto, Toronto, ON	Over 20 years experience in the Human Resources and Procurement professions; currently, Senior Human Resources Consultant for The City of Toronto. Former President and director of the Toronto Municipal Credit Union	Director	05/31/02 10/24/07	3,029,435	3.4
Martin Fallick, Toronto, ON	Director: Canadian Sales Agency Limited (since Feb. 1986), Monterey Transportation Limited (since Aug. 1986), Allied International Marketing, Inc. (since Dec. 1997); former President, Fairway Canadian Express, Vice President Sales, Direct Transport (1983-1986), Canadian General Sales Manager, Canadian Pacific Express; over 45 years of experience in all modes of transportation and storage throughout North America, Asia and Europe	Director	04/25/02 10/24/07	1,193,343	1.4
Matthew Gaasenbeek, Toronto, ON	Chairman of Northern Crown Capital (Since Nov. 1983); past Chairman, Ontario Development Corporation; former President of Camreco Inc. and former Senior Vice President and Director of Midland Doherty Limited	Director	10/21/04 10/24/07	53,750	0.1
Gary Kain, Oakville, ON	CEO and Chairman of the Board Regional Cablesystems Inc. in 1988 to 2004. CFO and COO Canadian Satellite Communications Inc. (Cancom) from 1984 until 1988, a Chartered Accountant and a CBV designation.	Director	02/12/07	Nil	0.0
Ian London, Toronto, ON	Vice President Corporate Development of Avalon Ventures Ltd. (since January 2007), former CEO at Process Products Limited from 2001 to 2006, Hydro One (formerly Ontario Hydro) from 1978 to 2000 where he served as Senior Vice President, Corporate Business Development; Director of Grid Strategies and Plans, and Director of Engineering & Construction Services; President and CEO of Ontario Hydro International.	Director	02/10/06 10/24/07	Nil	0.0
Ian Kelland, Mississauga ON	President and CFO since August 20, 2007. Previously Vice President Operations and CFO since joining the Company in May 2003. From 1996 to 2003, Mr. Kelland was the Director of Retail Operations at CN Intermodal where he was responsible for an \$80 million annual expense budget and the consolidation of 9 regional dispatch centers into one central office, dispatching and managing a fleet of over 400 trucks. Prior to CN, he was Vice President Operations for Frederick Transport and Vice President Finance of Federal Industries Truckload Operations.	President & CFO	N/A	1,674,951	1.9

(i) Of these shares, 2,833,211 shares are registered in the name of Buehler Investments Ltd., a private company partially owned by Charles H. Buehler, 133,862 shares are registered in the name of Path Information Systems Inc., a private company partially owned by Charles H. Buehler and 1,105,730 shares are held for family members. In addition, 750,747 shares are registered in ORTI (owned as to 1/3<sup>rd</sup>) and 522,958 shares are registered in Organic Resource Technologies International Inc. (owned as to 1/3<sup>rd</sup>).

Charles H. Buehler, who beneficially owns, directly or indirectly, or exercises control or direction over 39,412,900 common shares, representing approximately 44.7% of the issued and outstanding common shares of the Company, is the only person or corporation who beneficially owns, directly or indirectly, or exercises control

or direction over common shares carrying more than 10% of the voting rights attached to all outstanding common shares of the Company.

**(b) Board of Directors and its Committees**

The Board’s mandate is to protect the interest of the Company and to establish policies and procedures designed to promote and monitor good corporate governance and effective corporate management. The role of the Board is to supervise management and focus on the stewardship rather than the day-to-day operations. To assist the Board in the implementation of key policies, it delegates certain of its responsibilities to committees of the Board. The Board currently has an Audit Committee, Corporate Governance Committee and a Compensation Committee composed entirely of unrelated directors.

- **Audit Committee:** The Audit Committee is composed of three directors none of whom are officers or employees of the Corporation or its affiliates. The members of the Audit Committee currently are: Matthew Gaasenbeek (Chairman), Donald R. Carse, Jr., and Ian London. All members of the Audit Committee are independent and financially literate. A copy of the Audit Committee’s Charter is attached in Appendix A.

In addition to carrying out its statutory legal responsibilities (including review of the Corporation’s annual financial statements prior to their presentation to the Board), the Audit Committee reviews the Corporation’s accounting policies and issues and all financial reporting, including interim financial statements, management’s discussion and analysis and the Corporation’s annual information form. The Audit Committee meets with the Corporation’s external auditor and with members of management at least once a year to assist the external auditor in the effective discharge of its duties. The Audit Committee also makes recommendation to the Board regarding the firm to be appointed as the Corporation’s auditors and the terms of its remuneration.

- **Corporate Governance Committee:** The Corporate Governance Committee is composed of Frank Facto (Chairman), Martin Fallick and Ian London.

The Corporate Governance Committee’s primary function is to assist the Board in carrying out its responsibilities by reviewing corporate governance and making recommendations to the Board as appropriate. In particular, the Committee is responsible for ensuring that corporate governance guidelines are adopted, disclosed and applied. It is also responsible for providing oversight in the field of human resources and succession planning.

- **Compensation Committee:** The Compensation Committee is composed of Martin Fallick (Chairman), Matthew Gaasenbeek and Frank Facto.

The Compensation Committee reviews the Corporation’s overall approach to compensation and the development of compensation plans for executive officers and directors. It has responsibility for the establishment of the Corporation’s senior management compensation policy and its implementation through an effective comprehensive compensation program.

**ITEM 9 TRANSFER AGENT AND REGISTRAR**

Equity Transfer & Trust Company  
200 University Ave.  
Suite 400  
Toronto, Ontario M5H 4H1

**ITEM 10 MATERIAL CONTRACTS**

The Company has not entered into any material contracts, other than in the ordinary course of business, during the most recently completed financial year, or before the most recently completed financial year that is still in effect.

## ITEM 11 ADDITIONAL INFORMATION

### (a) Auditor Fee Disclosure

Grant Thornton LLP, Chartered Accountants, have been the auditors of the Company since the fiscal year ended June 30, 2004. At the next annual meeting of the shareholders of the Company, the Company will propose that Grant Thornton LLP be re-appointed as auditors of the Company to hold office until the next meeting of the shareholders.

Grant Thornton LLP provides professional services for audits relating to statutory and regulatory requirements. The Audit Committee negotiates with the auditors of the Company on an arm's-length basis in determining the fees to be paid to the auditors. Such fees have been based on the complexity of the matters in question and the time incurred by the auditors. The Audit Committee believes that the fees negotiated in the past with the auditors of the Company were reasonable and in the circumstances would be comparable to fees charged by other auditors providing similar services.

The following table set forth the various services provided by Grant Thornton LLP to the Company during each of the Company's last two fiscal years, together with the fee billed during the year for such services. The amounts indicated are exclusive of disbursements and GST:

<u>Services</u>	<u>Fees Billed During the Year Ended</u>	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Audit services	\$67,400	\$65,000
Audit-related services	Nil	Nil
Tax services	3,500	3,500
Other services	Nil	Nil
Total	<u>\$70,900</u>	<u>\$68,500</u>

The audit services related to the professional services rendered for the audits of the Company's annual financial statements. The tax services is related to the preparation of the annual corporate tax returns of the Company and its subsidiaries.

The Audit Committee has considered whether the provisions of the above-captioned services is compatible with maintaining the auditors' independence and has determined that such services were fully compatible with the maintenance of their independence.

### (b) General

Additional information, including Directors' and officers' remuneration and indebtedness and the principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, as applicable, are contained in the Company's management information circular dated September 19, 2007 which was prepared and mailed to shareholders prior to the annual general meeting of shareholders scheduled for October 24, 2007. Additional financial information is provided in the Company's comparative Financial Statements and Management Discussion and Analysis for the year ended June 30, 2007.

The comparative financial statements and additional information may be obtained through the Company's website at [www.ormi.com](http://www.ormi.com), or on SEDAR at [www.sedar.com](http://www.sedar.com) or upon request in writing to the Chief Financial Officer, Organic Resource Management Inc. (formerly National Challenge Systems Inc.), 3700 Steeles Avenue West, Suite 601, Woodbridge, Ontario, L4L 8K8.

**APPENDIX A**  
**NATIONAL CHALLENGE SYSTEMS INC.**  
**CHARTER OF AUDIT COMMITTEE**

**MANDATE**

The mandate of the audit committee (the “Committee”) is to:

- (a) assist the Board of Directors (the “Board”) of National Challenge Systems Inc. (the “Corporation”) in fulfilling its oversight responsibilities with respect to financial reporting and disclosure requirements
- (b) ensure that an effective risk management and financial control framework has been implemented by management of the Corporation; and
- (c) be responsible for external and internal audit processes.

**RESPONSIBILITIES**

The responsibilities of the Committee are as follows:

**Financial Reporting and Disclosure**

1. Review and recommend to the Board for approval, the quarterly financial statements, management discussion and analysis, financial reports and any public release of financial information through press release or otherwise.
2. Review and recommend to the Board for approval, the audited annual financial statements, including the auditors’ report thereon, management discussion and analysis and financial reports.
3. Review and recommend to the Board for approval, where appropriate, financial information contained in any prospectuses, annual information forms, material change disclosures of a financial nature and similar disclosure documents.
4. Review with management of the Corporation and with external auditors significant accounting principles and disclosure issues and alternative treatments under Canadian generally accepted accounting principles (“GAAP”) all with a view to gaining reasonable assurance that financial statements are accurate, complete and present fairly the Corporation’s financial position and the results of its operations in accordance with Canadian GAAP.

### **Internal Controls and Audit**

1. Review and assess the adequacy and effectiveness of the Corporation's system of internal control and management information systems through discussions with management and the external auditor to ensure that the Corporation maintains:
  - a. the necessary books, records and accounts in sufficient detail to accurately and fairly reflect the Corporation's transactions;
  - b. effective internal control systems; and
  - c. adequate processes for assessing the risk of material misstatement of the financial statement and for detecting control weaknesses or fraud.

From time to time the Committee will assess whether a formal internal audit department is necessary or desirable having regard to the size and stage of development of the Corporation at any particular time.

2. Satisfy itself that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements
3. Periodically assess the adequacy of such systems and procedures to ensure compliance with regulatory requirements and recommendations.
4. Review and discuss the Corporation's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.
5. Review annually insurance programs relating to the Corporation and its investments

### **External Audit**

1. Review the performance of the external auditors who are accountable to the Committee and the Board as representatives of the shareholders, including the lead partner of the independent auditors team and recommend to the Board the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation and the compensation of the external auditors.
2. Oversee the work of the external auditors appointed by the shareholders of the Corporation with respect to preparing and issuing an audit report or performing other audit, review or attest services for the Corporation, including the resolution of issues

between management of the Corporation and the external auditors regarding financial disclosure.

3. Review the results of the external audit and the report thereon including, without limitation, a discussion with the external auditors as to the quality of accounting principles used, any alternative treatments of financial information that have been discussed with management of the Corporation, the ramifications of their use as well as any other material changes. Review a report describing all material written communication between management and the auditors such as management letters and schedule of unadjusted differences.
4. Discuss with the external auditors their perception of the Corporation's financial and accounting personnel, records and systems, the cooperation which the external auditors received during their course of their review and availability of records, data and other requested information and any recommendations with respect thereto.
5. Review the reasons for any proposed change in the external auditors which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed auditors before making its recommendations to the Board
6. Review the independence of the external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards
7. Review annually a report from the external auditors in respect of their internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues.

### *Associated Responsibilities*

1. Establish, monitor and periodically review procedures for:
  - a. the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
  - b. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
2. Review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditor of the Corporation.

### Non-Audit Services

1. Pre-approve all non-audit services to be provided to the Corporation or any subsidiary entities by its external auditors or by the external auditors of such subsidiary entities. The Committee may delegate to one or more of its members the authority to pre-approve non-audit services but pre-approval by such member or members so delegated shall be presented to the full audit committee at its first scheduled meeting following such pre-approval (see Audit Committee Pre-approval Policy – August 3, 2004)
2. Review and assess the adequacy of the Corporation's risk management policies and procedures with regard to identification of the Corporation's principal risks and implementation of appropriate systems to manage such risks including an assessment of the adequacy of insurance coverage maintained by the Corporation.

### MEMBERSHIP AND PROCEDURES

1. The Committee will be comprised of three directors each of whom will be independent, financially literate and free of any relationship which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment. The Board may remove or replace a member of the Committee at any time and from time to time. The Corporation adopts: (a) the meaning of independence described in Multilateral Instrument 52-110 *Audit Committees* (the "Instrument") for the purpose of determining whether a member of the Committee is independent; and (b) the provisions of Sections 3.3 to 3.5, inclusive, of the Instrument relating to certain membership requirements.
2. The Board will appoint the Chairman of the Committee. The Secretary of the Corporation will act as the secretary at meetings of the Committee or, in his absence, the Chairman of the committee may appoint any member or any other person to act as secretary. The secretary will keep minutes of the proceedings at any meeting of the Committee setting out in reasonable detail the business conducted at such meeting. Minutes of the meetings of the Committee will be distributed by the Secretary to the members of the Committee and to the Board.
3. Meetings of the Committee will be held at such times and places as the Chairman may determine, but in any event not less than four times per year. Twenty-four (24) hours notice of each meeting will be given orally, by electronic transmission or by facsimile to all members of the Committee and to the external auditors of the Corporation and such notice will set out in reasonable detail the business proposed to be conducted at the meeting. Notice of a meeting may be waived if all members of the Committee are present at a meeting and waive notice or if a member who is not present waives notice before or after such meeting. A resolution signed by all members of the Committee shall have the same force and effect as a resolution passed at a meeting of the Committee duly called and regularly constituted for the transaction of business.

4. A majority of members of the Committee will constitute a quorum and decisions of the Committee will be by an affirmative vote of the majority with the Chairman having a deciding vote in the event of a tie.
5. At the request of the external auditors of the Corporation, the Chief Executive Officers or the Chief Financial Officer of the Corporation or any member of the Committee, the Chairman will convene a meeting of the Committee. Any such request will set out in reasonable detail the business proposed to be conducted at the meeting so requested.
6. The Committee has the authority to:
  - a. engage independent counsel and other advisors as it determines necessary or desirable to carry out its duties;
  - b. set and pay the compensation for any advisors engaged by the Committee; and
  - c. communicate directly with internal and external auditors.

## **OVERSIGHT FUNCTION**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate or are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of Management and the external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Corporation, and are specifically not accountable or responsible for the day to day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes is based on that individual's education and experience, which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Company's financial information or public disclosure.