

ORGANIC RESOURCE MANAGEMENT INC.

Management Discussion and Analysis

Three Months Ended September 30, 2007

MANAGEMENT DISCUSSION & ANALYSIS

The following Management Discussion and Analysis (“MD&A”) is a discussion of the consolidated financial condition and results of operations of Organic Resource Management Inc. (“ORMI”, formerly National Challenge Systems Inc.) for the three-month period ended September 30, 2007. This discussion should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of the Company and notes thereto for the three-months ended September 30, 2007, the MD&A for the year ended June 30, 2007 and the Audited Consolidated Financial Statements and notes thereto for the year ended June 30, 2007. This MD&A is prepared as at November 12, 2007.

On July 1, 2007 National Challenge Systems Inc. vertically amalgamated with its largest and wholly-owned subsidiary, Organic Resource Management Inc., and also assumed its subsidiary’s name. This change simplified the corporate structure and gave the Company a name more closely reflective of its core business, the provision of vacuum truck services for the collection, treatment and disposal of organic and other non-hazardous liquid waste. The Company’s shares now trade under the name Organic Resource Management Inc, with the TSX trading symbol of “ORI”.

FORWARD-LOOKING STATEMENTS

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

RESULTS OF OPERATIONS

Revenue

The Company’s core grease interceptor business recorded an increase in revenue of 12% in the first three months of fiscal 2008 compared to the same period last year, on the strength of double-digit volume increases.

Revenue from industrial organics services was down 34% for the same period, following the decision last year by two of the Company’s largest food processing accounts to make capital improvements to their wastewater handling systems in order to reduce the amount of residuals they produce. As at September 30, 2007, the annualized impact of these reduced service requirements has now largely been absorbed. In addition, the lost revenue from these two industrial customers was very competitively priced and did not have a significant impact on the gross margin of the Company.

The Company’s compactor rental contract with a major retailer expired on September 30, 2006 and the compactors are now rented on a month to month basis. These compactors are in the process of being sold or retired as the Company exists from this business. As a result, rental revenue was down 42% from the same period last year.

Revenues from all other service categories were 16% higher in the first three months of fiscal 2008 than in the same period last year.

Overall, revenues were \$3,723,000 in the first quarter of fiscal 2008, a decrease of 3% or \$123,000 from \$3,846,000 in the first quarter of fiscal 2007.

Operating Results

Net income for the first quarter of fiscal 2008 was \$114,000, an increase of \$103,000 from \$11,000 in the first quarter of fiscal 2007. The gross margin was \$1,198,000 for the quarter, a decrease of 12% or \$167,000 from \$1,365,000 for the same period last year. As a percentage of revenue, gross margin for the quarter was 32.2% compared to 35.5% last year.

During the quarter the Company was forced to transport a significantly higher percentage of its residuals to out of province third-party recycling sites, compared to the same period last year, as a major recycling facility in Ontario was shut down for three weeks. The Company also incurred expenses in the current quarter to clean up residuals at a terminated storage facility.

Selling, general and administrative expenses were \$832,000 in the first quarter of fiscal 2008, a decrease of 1% or \$5,000 from \$837,000 in the first quarter of fiscal 2007.

In July 2007 the hourly employees at the Company's Vancouver operation ratified a new three year collective agreement with the Service Employees Union for the period May 1, 2007 to April 30, 2010. The terms of the agreement include a 3% wage increase in each of the three years, some minor inflationary increases and a small improvement in the union pension plan.

The amortization of the Company's intangible assets ended in the fourth quarter of fiscal 2007 following the five year write-down related to the acquisition of its two operating subsidiaries, and the write-off of remaining patents. The accrual of preferred share dividends also ended in fiscal 2007 following the conversion of preferred shares to common shares. As a result, these non-cash operating expenses were nil in the first quarter of fiscal 2008 compared to \$242,000 and \$86,000 in the same period of fiscal 2007, respectively. Amortization of tangible assets and the gain on disposal of property, plant and equipment were \$154,000 and \$20,000 in the first quarter of fiscal 2008 and \$142,000 and \$6,000 in fiscal 2007, respectively. Other non-cash expenses in the quarter were future incomes taxes of \$60,000 and share based compensation of \$2,000; both were nil in the same period last year.

NON-CASH EXPENSES (in 000's)	2007	2006	2007	2006	2007	2006	2006	2005
	First Quarter Ending Sep. 30		Fourth Quarter Ending Jun. 30		Third Quarter Ending Mar. 31		Second Quarter Ending Dec. 31	
Amortization of property, plant & equip	\$ 154	\$ 142	\$ 213	\$ 169	\$ 178	\$ 149	\$ 163	\$ 146
Write down of property, plant & equip	-	-	235	190	-	-	-	-
Loss (gain) on disposal of property, plant & equipment	(20)	(6)	(18)	-	15	-	-	-
Amortization of intangibles	-	242	171	242	242	242	242	242
Write-down of intangibles	-	-	992	-	-	-	-	-
Dividends accrued on preferred shares	-	86	62	83	91	81	88	10
Share based compensation	2	-	-	22	21	-	-	78
Foreign exchange (gain) loss	-	-	-	(6)	-	-	-	2
Future income taxes	60	-	(1,135)	(4)	-	-	-	-
	\$ 196	\$ 464	\$ 520	\$ 696	\$ 547	\$ 472	\$ 493	\$ 478

Quarterly Review

FINANCIAL INFORMATION

EIGHT QUARTER SUMMARY

	2007	2006	2007	2006	2007	2006	2006	2005
(in 000's except earnings per share)	First Quarter Ending Sep. 30		Fourth Quarter Ending Jun. 30		Third Quarter Ending Mar. 31		Second Quarter Ending Dec. 31	
Revenues	\$3,723	\$3,846	\$3,834	\$3,955	\$3,928	\$4,103	\$3,810	\$4,008
Net income (loss)	114	11	(836)	(268)	(264)	(398)	(155)	(305)
Cash flows from operating activities	101	473	132	192	297	395	96	(237)
Profit (loss) per share, basic and fully diluted	0.00	0.00	(0.01)	(0.01)	(0.01)	(0.01)	0.00	(0.01)

Total revenue levels have trended marginally lower during the last eight quarters as the Company has replaced large volume, low margin industrial business with smaller volume, higher margin core grease interceptor business.

The consecutive higher losses recorded in the second and third quarters of fiscal 2006 reflect the increasing costs of recycling organic residuals. In the fourth quarter of fiscal 2006 this trend reversed as the revenue quality improved with additional rate increases and lower disposal costs resulting from the Company's ability to take some of its waste to third-party facilities in Ontario. This situation changed again in the second quarter of fiscal 2007 as the Ontario sites were impacted by colder weather and thereby reduced the volume of residuals they received. By the fourth quarter of 2007 the Ontario sites marginally increased the volumes they received. However, during the first quarter of fiscal 2008 a major Ontario recycling facility shut down for three weeks resulting in higher costs as the Company had to transport its residuals out of province.

The net loss of \$836,000 for the fourth quarter of 2007 includes \$1,805,000 of one-time charges relating to the write-down of the Company's patents, the write-down of property, plant and equipment related to compactors, severance expenses, legal fees related to the Company's restructuring, and a Ministry of Environment fine. These charges were partially offset by a future income tax recovery of \$1,135,000.

The net income of \$114,000 in the most recent quarter reflects the elimination of preferred dividends and amortization of intangible assets which occurred in the fourth quarter of 2007. For comparative purposes these items were \$328,000 in the first quarter of fiscal 2007.

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

Adjusted net earnings excluding non-cash expenses is a measure of the Company's ability to earn cash and is intended to be a measure that is representative of the Company's operating performance. Adjusted net earnings excluding non-cash expenses appears on the Consolidated Statement of Cash Flows as a subtotal and is the sum of the net income (loss) and items not involving cash.

ADJUSTED NET EARNINGS

EXCLUDING NON-CASH EXPENSES

	2007	2006	2007	2006	2007	2006	2006	2005
	First Quarter Ending Sep. 30		Fourth Quarter Ending Jun. 30		Third Quarter Ending Mar. 31		Second Quarter Ending Dec. 31	
Net income (loss)	114	11	(836)	(268)	(264)	(398)	(155)	(305)
Non-cash expenses	196	464	520	701	547	473	493	478
Adjusted net earnings excluding non-cash expenses	310	475	(316)	433	283	75	338	173
Changes in operating assets and liabilities	(209)	(2)	448	(241)	14	320	(242)	(410)
Cash flows from operating activities	\$ 101	\$ 473	\$ 132	\$ 192	\$ 297	\$ 395	\$ 96	\$ (237)

Balance Sheet & Cash Flow

Cash flows from operating activities were \$101,000 for the three months ended September 30, 2007 compared to \$473,000 for the same period last year. The main reason for the change was a decrease in accounts payable and accrued liabilities of \$417,000 in the current quarter, moderated by a decrease in accounts receivable of \$186,000. In total, changes in operating assets and liabilities in the quarter required a net cash application of \$209,000 compared to \$2,000 in the same quarter last year.

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 were unanimously approved by a committee of all seven independent directors on June 25, 2007 and closed on September 19, 2007. The three related party transactions resulted in the Company purchasing:

- (i) 100% of the issued and outstanding shares of ORMI Information Systems Inc., formerly Path Information Systems Inc. (“OIS/Path”), a company controlled by one of the Company’s directors, for \$700,000. \$100,000 of the purchase price was paid in cash on closing and a six year promissory note, with interest at 7% per annum to be paid in blended equal monthly instalments, was issued for the balance. The purchase price on the acquisition of OIS/Path was allocated \$820,733 to software which includes an assumed future tax liability of \$120,733. The shares of OIS/Path have been 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.
- (ii) the Canadian patents for the direct land application process “DLAP” and organic resource recovery system “ORRS” from Organic Resource Technologies Inc., a Company partially owned by two directors, for \$15,000 cash. Purchasing the DLAP patent eliminates the requirement for the Company to pay royalties on new ORRS locations and the annual fee of \$25,000 under the existing license.
- (iii) the remaining 30% equity interest in NCS Environmental Services Ltd. “NCS ESL” that it does not already own, from Organic Resource Technologies International Inc, a Company partially owned by two directors of the Company, for \$10,000 cash. This purchase secures 100% ownership of the US DLAP and ORRS patents.

The Company’s revolving loan increased during the first quarter by \$421,000 from \$684,000 at June 30, 2007 to \$1,105,000 at September 30, 2007, primarily as a result of the above investments and an increase in cash on hand of \$238,000 from \$207,000 to \$445,000.

STRATEGY

As previously reported, the Company is exploring anaerobic digestion as a potential recycling solution. Anaerobic digestion converts raw organic materials such as agricultural and other food-related residuals into reliable streams of biogas for electricity generation, thus creating a sustainable renewable energy supply.

Several years of effort were rewarded when the Company announced on July 25, 2007 it had signed an exclusive, 20-year contract to supply organic residuals as feedstock to the Klaesi farm-based Anaerobic Digester (“AD”) in Cobden Ontario for the production of renewable biogas energy. As previously reported, the AD had 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 is the first Ontario farm AD to receive off-farm organic residuals.

The delivery cost (“Tip Fee”) that ORMI will pay is less than current recycling alternatives. However, the first stage of the two-stage contract is only for a minimum of 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 June 30, 2009, to expand the contracted volume upward to a maximum of 5,000 tonnes per year. ORMI’s off-farm feedstock is expected to generate significantly more biogas than any on-farm feedstock. The contract Tip Fee will be adjusted based on the amount of biogas produced, and ultimately during the term of the contract could result in ORMI earning a rebate instead of paying a Tip Fee.

On October 25, 2007 the Company announced the preliminary biogas production results from the Klaesi AD. After three months of delivering ORMI feedstock it was demonstrated that the addition of less than 15% (by volume) of ORMI's feedstock to the Klaesi AD has increased electricity production from 700 kWhrs per day to 2,400 kWhrs per day over manure alone.

ORMI 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'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.

On October 24, 2007, a special resolution was approved at the Company's Annual General Meeting which proposes to consolidate the issued and outstanding common shares of the Corporation on the basis of one common share for every 20 issued and outstanding common shares. The purpose of the share consolidation is to present the investment community with a more appropriate and compelling capital structure, as the Company prepares for its anaerobic digester and renewable energy initiatives. The Company believes that the higher share price will generate greater interest among professional investors, institutions and potential financiers and therefore, anticipates that shares of its common stock will have greater liquidity and a stronger investor base.

RISKS & UNCERTAINTIES

No assurances can be given as to the effect of the Share Consolidation on the market price of the Shares. Specifically, no assurance can be given that if the Share Consolidation is affected that the market price of the Shares will increase by the same multiple as the Share Consolidation ratio or result in a permanent increase in the market price. The price of Shares is dependent on various factors, many of which are beyond the control of the Corporation.

The Company is actively working on additional potential AD sites that, if successfully funded and permitted, would result in an Ontario in-province solution for the residuals the Company collects. This additional capacity would allow the Company to pursue a number of long-term contracts that it is unable to acquire today because of a lack of secure and competitively priced disposal options. The development of AD sites is subject to pending changes in government regulations for bringing off-farm waste (the Company's residuals) onto a farm for co-digestion.

Over the past few years the Company has been impacted by a number of government regulatory changes that directly affect the way liquid organic waste is handled and processed in Ontario. As a result of these changes, most of the third-party recycling facilities in Ontario that receive and process liquid organic waste significantly reduced their capacity, or closed down altogether. This had a major impact on the cost of disposing the Company's residuals since it has had to transport a large portion of its residuals to alternative third-party recycling sites located in Quebec. Although the Company is currently delivering a portion of its residuals to third-party sites in Ontario, the Company, with the exception of its AD contract, has no long-term contracts with these recycling sites and therefore cannot predict with certainty the volume of material they will continue to receive. The Company's profitability can be materially impacted by the volume of residuals these Ontario sites receive.

ADDITIONAL INFORMATION

Further information about ORMI may be obtained at the Company's web site at www.ormi.com.

Financial Statements of
ORGANIC RESOURCE MANAGEMENT INC.

(Unaudited)

For the three months ended September 30, 2007

ORGANIC RESOURCE MANAGEMENT INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

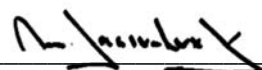
	SEPTEMBER 30 2007	JUNE 30 2007
ASSETS		
CURRENT		
Cash	\$ 444,838	\$ 206,771
Accounts receivable	2,226,580	2,412,263
Inventory	136,086	143,209
Prepaid expenses	209,839	225,839
Current portion of future income taxes	315,000	315,000
	3,332,343	3,303,082
PROPERTY PLANT AND EQUIPMENT	3,673,849	2,892,911
GOODWILL	3,817,849	3,817,849
FUTURE INCOME TAXES	1,144,127	1,325,000
DEFERRED FINANCING COSTS, net of accumulated amortization	21,889	29,186
	\$ 11,990,057	\$ 11,368,028
LIABILITIES		
CURRENT		
Revolving loan	\$ 1,104,734	\$ 684,324
Accounts payable and accrued liabilities	2,041,405	2,458,382
Current portion of long-term debt	115,637	100,948
Current portion of obligations under capital lease	240,355	230,873
	3,502,131	3,474,527
LONG-TERM DEBT	1,124,404	641,342
OBLIGATIONS UNDER CAPITAL LEASE	747,555	751,838
	1,871,959	1,393,180
SHAREHOLDERS' EQUITY		
COMMON SHARES	15,830,583	15,830,583
CONTRIBUTED SURPLUS	213,480	211,338
DEFICIT	(9,428,096)	(9,541,600)
	6,615,967	6,500,321
	\$ 11,990,057	\$ 11,368,028

See accompanying notes to consolidated financial statements. These interim financial statements should be read in conjunction with the 2007 annual consolidated financial statements.

On behalf of the Board of Directors:



Charles H. Buehler, Director



Matthew Gaasenbeek, Director

ORGANIC RESOURCE MANAGEMENT INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(UNAUDITED)

	3 Months Ended September 30	
	2007	2006
REVENUES		
Non hazardous vacuum services	\$ 3,639,499	\$ 3,701,760
Compactor rental income	79,977	129,501
Compactor sales, service and other	3,307	14,655
	<u>3,722,783</u>	<u>3,845,916</u>
COST OF SALES	<u>2,524,748</u>	<u>2,480,495</u>
GROSS MARGIN	1,198,035	1,365,421
OPERATING EXPENSE		
Selling, general and administrative	831,530	836,571
Amortization of property, plant and equipment	153,708	142,305
Amortization of intangible assets	-	242,266
Share based compensation	2,142	-
Foreign exchange loss	-	453
	<u>987,380</u>	<u>1,221,595</u>
NET INCOME BEFORE THE UNDERNOTED	210,655	143,826
OTHER EXPENSES (INCOME)		
Interest on long-term debt and obligations under capital lease	35,531	24,311
Other interest	21,546	28,817
Dividends on preferred shares	-	85,779
Gain on disposal of property, plant and equipment	(20,066)	(5,585)
	<u>37,011</u>	<u>133,322</u>
NET INCOME BEFORE INCOME TAXES	173,644	10,504
FUTURE INCOME TAXES	<u>60,140</u>	<u>-</u>
NET INCOME	113,504	10,504
DEFICIT, BEGINNING OF QUARTER	(9,541,600)	(8,297,950)
DEFICIT, END OF QUARTER	\$ (9,428,096)	\$ (8,287,446)
EARNINGS PER SHARE, BASIC AND DILUTED	\$0.00	\$0.00

See accompanying notes to consolidated financial statements. These interim financial statements should be read in conjunction with the 2007 annual consolidated financial statements.

ORGANIC RESOURCE MANAGEMENT INC.
CONSOLIDATED STATEMENTS OF CASHFLOWS
(UNAUDITED)

	3 Months Ended September 30	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 113,504	\$ 10,504
Add (deduct) items not involving cash		
Amortization of property, plant and equipment	153,708	142,305
Amortization of intangible assets	-	242,266
Share based compensation	2,142	-
Foreign exchange loss	-	453
Gain on disposal of property, plant and equipment	(20,066)	(5,585)
Dividends accrued on preferred shares	-	85,779
Future income taxes	60,140	-
	<u>309,428</u>	475,722
Changes in operating assets and liabilities:		
Decrease in accounts receivable, net	185,684	3,062
Decrease (increase) in inventory	7,124	(3,665)
Decrease in prepaid expenses	16,000	11,674
Decrease in accounts payable and accrued liabilities	(416,977)	(13,376)
CASH FLOWS FROM OPERATING ACTIVITIES	<u>101,259</u>	473,417
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(151,563)	(22,183)
Proceeds on disposal of property, plant and equipment	35,172	8,000
	<u>(116,391)</u>	(14,183)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advance (repayment) of revolving loan	420,410	(357,113)
Repayment of long-term debt	(102,249)	(76,267)
Repayment of capital lease obligation	(64,962)	(38,444)
	<u>253,199</u>	(471,824)
INCREASE (DECREASE) IN CASH DURING THE QUARTER	238,067	(12,590)
CASH BEGINNING OF THE QUARTER	206,771	227,302
CASH END OF QUARTER	\$ 444,838	\$ 214,712
Supplemental cash flow information:		
Interest paid	\$ 57,077	\$ 53,129
Non-cash transactions:		
Capital assets acquired through capital leases	\$ 70,160	\$ 158,587
Acquisition of OIS Inc. through notes payable	\$ 600,000	-

See accompanying notes to consolidated financial statements. These interim financial statements should be read in conjunction with the 2007 annual consolidated financial statements.

ORGANIC RESOURCE MANAGEMENT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

1. NATURE OF OPERATIONS

Organic Resource Management Inc. (the “Company” or “ORMI”) is incorporated under the Canada Business Corporations Act. The primary operations of the Company consist of operating vacuum truck fleets that provide collection, treatment and disposal services for non-hazardous liquid waste and other related services.

On July 1, 2007 National Challenge Systems Inc. vertically amalgamated with its largest and wholly-owned subsidiary, Organic Resource Management Inc., and also assumed its subsidiary’s name. This change simplified the corporate structure and gave the Company a name more closely reflective of its core business, the provision of vacuum truck services for the collection, treatment and disposal of non-hazardous waste.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and method of application as the June 30, 2007 annual audited statements except that the interim consolidated financial statements do not conform in all respects with disclosure required for annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended June 30, 2007.

3. 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 were unanimously approved by a committee of all seven independent directors on June 25, 2007 and closed on September 19, 2007. The three related party transactions resulted in the Company purchasing:

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- (ii) the Canadian patents for the direct land application process “DLAP” and organic resource recovery system “ORRS” from Organic Resource Technologies Inc., a Company partially owned by two directors, for \$15,000 cash. Purchasing the DLAP patent eliminates the requirement for the Company to pay royalties on new ORRS locations and the annual fee of \$25,000 under the existing license.
- (iii) the remaining 30% equity interest in NCS Environmental Services Ltd. “NCS ESL” that it does not already own, from Organic Resource Technologies International Inc, a Company partially owned by two directors of the Company, for \$10,000 cash. This purchase secures 100% ownership of the US DLAP and ORRS patents.

4. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

5. SUBSEQUENT EVENT

On October 24, 2007, subsequent to the quarter end, a special resolution was approved at the Company’s Annual General Meeting which proposes to consolidate the issued and outstanding common shares of the Corporation on the basis of one common share for every 20 issued and outstanding common shares.