

## **ORGANIC RESOURCE MANAGEMENT INC.**

### **Management Discussion and Analysis**

### **Six months Ended December 31, 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 six month period ended December 31, 2007. This discussion should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of the Company and notes thereto for the six months ended December 31, 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 February 12, 2008.

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 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**

Revenues were \$3,800,000 in the second quarter of fiscal 2008, essentially the same as last year. Year to date, revenues were \$7,523,000, down \$133,000 or 1.7% from last year.

Although the Company’s revenues remained static, several major positive shifts are occurring in its make-up. The Company’s core grease interceptor business recorded an increase in revenue of 18% in the second quarter of fiscal 2008 compared to the same period last year as a result of acquiring new business. Year to date, the increase in the grease interceptor revenue over last year is 15%.

Revenue from industrial organics services was down 22% for the second quarter compared to the same period last year, and down 29% year to date. These lower revenues reflect the Company’s decision to stop servicing several large volume, lower margin industrial accounts to ensure recycling capacity for the Company’s growing smaller volume, higher margin grease interceptor business.

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, compactor rental revenue was down \$169,000 in the second quarter compared to the same period last year. Year to date, the compactor rental revenue is down \$219,000. The Company expects to be out of the compactor business some time in the third quarter.

Revenues from all other service categories were 6% higher in the second quarter of fiscal 2008 than in the same period last year. Year to date, other services are 10% higher than last year.

### Operating Results

Net income for the second quarter of fiscal 2008 was \$82,000, up \$237,000 from the net loss of \$155,000 in the second quarter of fiscal 2007. For the six months ended December 31, 2007, net income was \$196,000, up \$340,000 over the net loss of \$144,000 for the same period last year.

The gross margin for the quarter increased 5% or \$65,000 to \$1,264,000 from \$1,199,000 for the same period last year. For the six months ended December 31, 2007, gross margin was \$2,462,000, 4% or \$103,000 less than the same period last year. As a percentage of revenue, gross margin was 33% in the second quarter of 2008 and 33% for the year to date, compared to 31% and 34% for the same periods last year, respectively.

Lower waste disposal and recycling costs, primarily because of the reduced volumes from industrial customers contributed to the higher margin in the second quarter. In addition, in July 2007 the Company began transporting a small amount of its residuals to the Klaesi farm-based Anaerobic Digester (“AD”) in Cobden Ontario, thereby reducing the percentage of residuals shipped out of province to third-party recycling sites.

Selling, general and administrative expenses were \$874,000 in the second quarter of fiscal 2008, an increase of 8% or \$67,000 from \$807,000 in the second quarter of fiscal 2007. Increased costs were partly related to the shareholders’ mailing and annual meeting, in addition to normal inflationary increases. For the year, these expenses were \$1,705,000, an increase of 4% or \$61,000 from \$1,644,000 last year.

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 second quarter of fiscal 2008 compared to \$242,000 and \$88,000 in the same period of fiscal 2007, respectively. Amortization and gain on disposal of property, plant and equipment were \$200,000 and \$16,000 in the second quarter of fiscal 2008 compared to \$163,000 and \$Nil in fiscal 2007, respectively. Other non-cash expenses in the quarter were future incomes taxes of \$41,000 and share based compensation of \$9,000; both were nil in the same period last year.

#### NON-CASH EXPENSES

(in 000's)	Fiscal 2008		Fiscal 2007				Fiscal 2006	
	Dec. 31 2007	Sep. 30 2007	Jun. 30 2007	Mar. 31 2007	Dec. 31 2006	Sep. 30 2006	Jun. 30 2006	Mar. 31 2006
Amortization of property, plant & equip	\$ 200	\$ 154	\$ 213	\$ 178	\$ 163	\$ 142	\$ 169	\$ 149
Amortization of intangibles	-	-	171	242	242	242	242	242
Share based compensation	9	2	-	21	-	-	27	-
Foreign exchange (gain) loss	-	-	-	-	-	-	(6)	-
(Gain) loss on disposal of property, plant & equipment	(16)	(20)	(18)	15	-	(6)	-	1
Write down of property, plant & equip	-	-	235	-	-	-	190	-
Write-down of intangibles	-	-	992	-	-	-	-	-
Dividends accrued on preferred shares	-	-	62	91	88	86	83	81
Future income taxes	41	60	(1,135)	-	-	-	(4)	-
	<b>\$ 234</b>	<b>\$ 196</b>	<b>\$ 520</b>	<b>\$ 547</b>	<b>\$ 493</b>	<b>\$ 464</b>	<b>\$ 701</b>	<b>\$ 473</b>

## Quarterly Review

### FINANCIAL INFORMATION

(in 000's except earnings (loss) per share)	Fiscal 2008		Fiscal 2007				Fiscal 2006	
	Dec. 31 2007	Sep. 30 2007	Jun. 30 2007	Mar. 31 2007	Dec. 31 2006	Sep. 30 2006	Jun. 30 2006	Mar. 31 2006
Revenues	\$3,800	\$3,723	\$3,834	\$3,928	\$3,810	\$3,846	\$3,955	\$4,103
Net income (loss)	82	114	(836)	(264)	(155)	11	(268)	(398)
Cash flows from operating activities	(162)	101	132	297	96	473	192	395
Profit (loss) per share, basic and fully diluted	\$ 0.02	\$ 0.02	\$ (0.30)	\$ (0.13)	\$ (0.08)	\$ 0.01	\$ (0.13)	\$ (0.20)

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 losses recorded in the third and fourth quarters of fiscal 2006 reflect the higher costs of recycling organic residuals. In the first quarter of fiscal 2007 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. In July 2007 the Company started transporting a small amount of its residuals to an Ontario farm-based Anaerobic Digester and reduced the quantities shipped to out of province third-party recycling sites.

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 \$82,000 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 \$330,000 in the second 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**

	<b>Fiscal 2008</b>		<b>Fiscal 2007</b>				<b>Fiscal 2006</b>	
	<b>Dec. 31</b>	<b>Sep. 30</b>	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
(in 000's)	<b>2007</b>	<b>2007</b>	2007	2007	2006	2006	2006	2006
Net income (loss)	\$ 82	\$ 114	\$ (836)	\$ (264)	\$ (155)	\$ 11	\$ (268)	\$ (398)
Non-cash expenses	<b>234</b>	<b>196</b>	520	547	493	464	701	473
Adjusted net earnings excluding non-cash expenses	<b>316</b>	<b>310</b>	(316)	283	338	475	433	75
Changes in operating assets and liabilities	<b>(478)</b>	<b>(209)</b>	448	14	(242)	(2)	(241)	320
Cash flows from operating activities	<b>\$ (162)</b>	<b>\$ 101</b>	\$ 132	\$ 297	\$ 96	\$ 473	\$ 192	\$ 395

**Balance Sheet & Cash Flow**

Cash flow used in operating activities was \$162,000 for the three months ended December 31, 2007 compared to cash provided by operations of \$96,000 for the same period last year. The main reason for the change was the reduction in accounts payable and accrued liabilities of \$365,000 in the current quarter. In total, changes in operating assets and liabilities in the quarter consumed net cash of \$478,000 compared to \$242,000 in the same quarter last year.

Four new vacuum trucks were added to the fleet in the second quarter at a total cost of \$633,000. Two trucks were acquired under capital leases for \$277,000 and the others were financed through long term debt of \$319,000. In the second quarter of fiscal 2007, four vacuum trucks were added under capital leases for a total cost of \$511,000.

The Company's revolving loan increased during the second quarter by \$57,000 from \$1,105,000 at September 30, 2007 to \$1,162,000 at December 31, 2007.

As at June 30, 2007, the Corporation had a stated value of capital stock of \$15,831,000, contributed surplus of \$211,000 and a retained earnings deficit of \$9,542,000 with a resulting shareholders' equity of \$6,500,000. This earnings deficit was primarily the result of the five-year write-off of intangible assets resulting from the May 31, 2002 acquisitions of Organic Resource Management Inc. (previously a wholly owned subsidiary of the Company) and A&A Anderson Tank Service (Vancouver) Ltd. In order to assist shareholders in better understanding ORMI's financial performance in the future, during the second quarter the Company reduced the earnings deficit and stated value of the Corporation's capital stock by \$7,581,000, representing the unconsolidated retained earnings deficit of the parent company, Organic Resource Management Inc. (formerly National Challenge Systems Inc) as at June 30, 2007. A special resolution to effect this transaction received shareholder approval at the Company's Annual General Meeting on October 24, 2007.

In order to present the investment community with a more appropriate and compelling capital structure as the Company prepares for its growth and anaerobic digester renewable energy initiatives, on November 30, 2007 the Company consolidated its shares on the basis of one common share for every twenty issued and outstanding common shares. 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. A special resolution to effect this transaction received shareholder approval at the Company's Annual General Meeting on October 24, 2007, and was subsequently approved by the Toronto Stock Exchange. As at June 30, 2007, the Corporation had 88,098,949 issued and outstanding shares; following the consolidation the Company had 4,404,935 issued and outstanding shares.

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.

## **STRATEGY**

The Company continues to explore 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 by 200%, 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.

## **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 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 government regulations which may change from time to time.

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](http://www.ormi.com).

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

(Unaudited)

For the six months ended December 31, 2007

*The accompanying unaudited interim financial statements of the Company for the three and six months ended December 31, 2007 have been prepared by and are the responsibility of the Company's management.*

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

**ORGANIC RESOURCE MANAGEMENT INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(UNAUDITED)

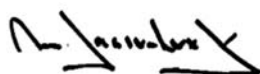
	DECEMBER 31	JUNE 30
	2007	2007
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 203,823	\$ 206,771
Accounts receivable	2,306,290	2,412,263
Inventory	143,344	143,209
Prepaid expenses	236,949	225,839
Current portion of future income taxes	315,000	315,000
	<b>3,205,406</b>	<b>3,303,082</b>
PROPERTY PLANT AND EQUIPMENT	4,185,605	2,892,911
GOODWILL	3,817,849	3,817,849
FUTURE INCOME TAXES	1,103,078	1,325,000
DEFERRED FINANCING COSTS, net of accumulated amortization	14,593	29,186
	<b>\$ 12,326,531</b>	<b>\$ 11,368,028</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Revolving loan	\$ 1,161,508	\$ 684,324
Accounts payable and accrued liabilities	1,676,835	2,458,382
Current portion of long-term debt	197,555	100,948
Current portion of obligations under capital lease	284,539	230,873
	<b>3,320,437</b>	<b>3,474,527</b>
LONG-TERM DEBT	1,325,035	641,342
OBLIGATIONS UNDER CAPITAL LEASE	973,863	751,838
	<b>2,298,898</b>	<b>1,393,180</b>
<b>SHAREHOLDERS' EQUITY</b>		
COMMON SHARES	8,250,053	15,830,583
CONTRIBUTED SURPLUS	222,137	211,338
DEFICIT	(1,764,994)	(9,541,600)
	<b>6,707,196</b>	<b>6,500,321</b>
	<b>\$ 12,326,531</b>	<b>\$ 11,368,028</b>

*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)

	6 Months Ended December 31		3 Months Ended December 31	
	2007	2006	2007	2006
<b>REVENUES</b>				
Non hazardous vacuum services	\$ 7,398,044	\$ 7,282,617	\$ 3,758,545	\$ 3,580,857
Compactor rental income	119,688	338,695	39,711	209,194
Compactor sales, service and other	5,297	34,326	1,991	19,671
	<b>7,523,029</b>	7,655,638	<b>3,800,247</b>	3,809,722
<b>COST OF SALES</b>	<b>5,060,917</b>	5,090,887	<b>2,536,169</b>	2,610,391
<b>GROSS MARGIN</b>	<b>2,462,112</b>	2,564,751	<b>1,264,078</b>	1,199,331
<b>OPERATING EXPENSE</b>				
Selling, general and administrative	1,705,092	1,643,684	873,563	807,113
Amortization of property, plant and equipment	353,560	304,762	199,852	162,457
Amortization of intangible assets	-	484,532	-	242,266
Share based compensation	10,799	133	8,657	133
Foreign exchange loss	-	453	-	-
	<b>2,069,451</b>	2,433,564	<b>1,082,072</b>	1,211,969
<b>NET INCOME (LOSS) BEFORE THE UNDERNOTED</b>	<b>392,661</b>	131,187	<b>182,006</b>	(12,638)
<b>OTHER EXPENSES (INCOME)</b>				
Gain on disposal of property, plant and equipment	(35,786)	(5,585)	(15,720)	-
Interest on long-term debt and obligations under capital lease	85,805	52,100	50,275	27,789
Other interest	45,377	54,566	23,830	25,749
Dividends on preferred shares	-	174,132	-	88,353
	<b>95,396</b>	275,213	<b>58,385</b>	141,891
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>297,265</b>	(144,026)	<b>123,621</b>	(154,529)
<b>FUTURE INCOME TAXES</b>	<b>101,189</b>	-	<b>41,049</b>	-
<b>NET INCOME (LOSS)</b>	<b>196,076</b>	(144,026)	<b>82,572</b>	(154,529)
<b>DEFICIT, BEGINNING OF QUARTER / YEAR</b>	<b>(9,541,600)</b>	(8,297,950)	<b>(9,428,096)</b>	(8,287,447)
Reduction of stated value of common shares	7,580,530	-	7,580,530	-
<b>DEFICIT, END OF QUARTER</b>	<b>\$ (1,764,994)</b>	\$ (8,441,976)	<b>\$ (1,764,994)</b>	\$ (8,441,976)
<b>EARNINGS (LOSS) PER SHARE</b>				
<b>BASIC AND DILUTED</b>	<b>\$ 0.04</b>	\$ (0.07)	<b>\$ 0.02</b>	\$ (0.08)

*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)

	6 Months Ended December 31		3 Months Ended December 31	
	2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income (loss)	\$ 196,076	\$ (144,026)	\$ 82,572	\$ (154,529)
Add (deduct) items not involving cash:				
Amortization of property, plant and equipment	353,560	304,762	199,852	162,457
Amortization of intangible assets	-	484,532	-	242,266
Share based compensation	10,799	133	8,657	133
Foreign exchange loss	-	453	-	-
Gain on disposal of property, plant and equipment	(35,786)	(5,585)	(15,720)	-
Dividends accrued on preferred shares	-	174,132	-	88,353
Future income taxes	101,189	-	41,049	-
	<b>625,838</b>	<b>814,401</b>	<b>316,410</b>	<b>338,680</b>
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable, net	105,973	26,430	(79,710)	23,367
(Increase) decrease in inventory	(135)	(1,702)	(7,258)	1,963
(Increase) decrease in prepaid expenses	(11,110)	24,215	(27,110)	12,541
Decrease in accounts payable and accrued liabilities	(781,545)	(294,162)	(364,568)	(280,786)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(60,979)</b>	<b>569,182</b>	<b>(162,236)</b>	<b>95,765</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Acquisition of property, plant and equipment	(210,147)	(160,710)	(45,260)	(138,527)
Proceeds on disposal of property, plant and equipment	67,018	8,000	31,846	-
	<b>(143,129)</b>	<b>(152,710)</b>	<b>(13,414)</b>	<b>(138,527)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Advance (repayment) of revolving loan	477,184	(60,252)	56,774	296,861
Repayment of long-term debt	(151,425)	(125,075)	(49,176)	(48,808)
Repayment of capital lease obligation	(124,599)	(84,952)	(72,963)	(46,508)
	<b>201,160</b>	<b>(270,279)</b>	<b>(65,365)</b>	<b>201,545</b>
(DECREASE) INCREASE IN CASH DURING THE QUARTER / YEAR	<b>(2,948)</b>	<b>146,193</b>	<b>(241,015)</b>	<b>158,783</b>
CASH BEGINNING OF THE QUARTER / YEAR	<b>206,771</b>	<b>227,302</b>	<b>444,838</b>	<b>214,712</b>
<b>CASH END OF QUARTER</b>	<b>\$ 203,823</b>	<b>\$ 373,495</b>	<b>\$ 203,823</b>	<b>\$ 373,495</b>
Supplemental cash flow information:				
Interest paid	\$ 131,182	\$ 106,667	\$ 74,105	\$ 53,538
Non-cash transactions:				
Capital assets acquired through debt	\$ 331,724	\$ -	\$ 331,724	\$ -
Capital assets acquired through capital leases	\$ 400,290	\$ 669,573	\$ 330,130	\$ 510,986
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**

December 31, 2007

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### **1. NATURE OF OPERATIONS**

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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.

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### **2. SIGNIFICANT ACCOUNTING POLICIES**

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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.

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### **3. SHAREHOLDERS’ EQUITY**

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During the second quarter, the stated value of the Company’s capital stock was reduced by \$7,580,530 and a corresponding entry was made to reduce the Company’s retained earnings deficit. The deficit balance on the Company’s books was primarily the result of the five-year write-off of intangibles assets resulting from the May 31, 2002 acquisitions of Organic Resource Management Inc. (previously a wholly owned subsidiary of the Company) and A&A Anderson Tank Service (Vancouver) Ltd. The Company obtained approval for this transaction by a special resolution of the shareholders at the Annual General Meeting held on October 24, 2007.

On November 30, 2007 the Company’s common shares were consolidated on a one-for-twenty basis, following the approval of the shareholders at the Annual General Meeting held on October 24, 2007 and subsequent approval by the Toronto Stock Exchange. The number of issued and outstanding shares immediately prior to and after consolidation was 88,098,949 and 4,404,935, respectively. Fractional shares were not issued.

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### **4. RELATED PARTY TRANSACTIONS**

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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.

**ORGANIC RESOURCE MANAGEMENT INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2007

- (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.

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**5. COMPARATIVE FIGURES**

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

Earnings (loss) per share data has been restated for all prior periods on the basis of the one-for-twenty share consolidation.