

# FROM LEFTOVERS TO LIGHTS®

Converting Organic Residuals  
into a Resource



ORGANIC RESOURCE MANAGEMENT INC.  
2008 Annual Report



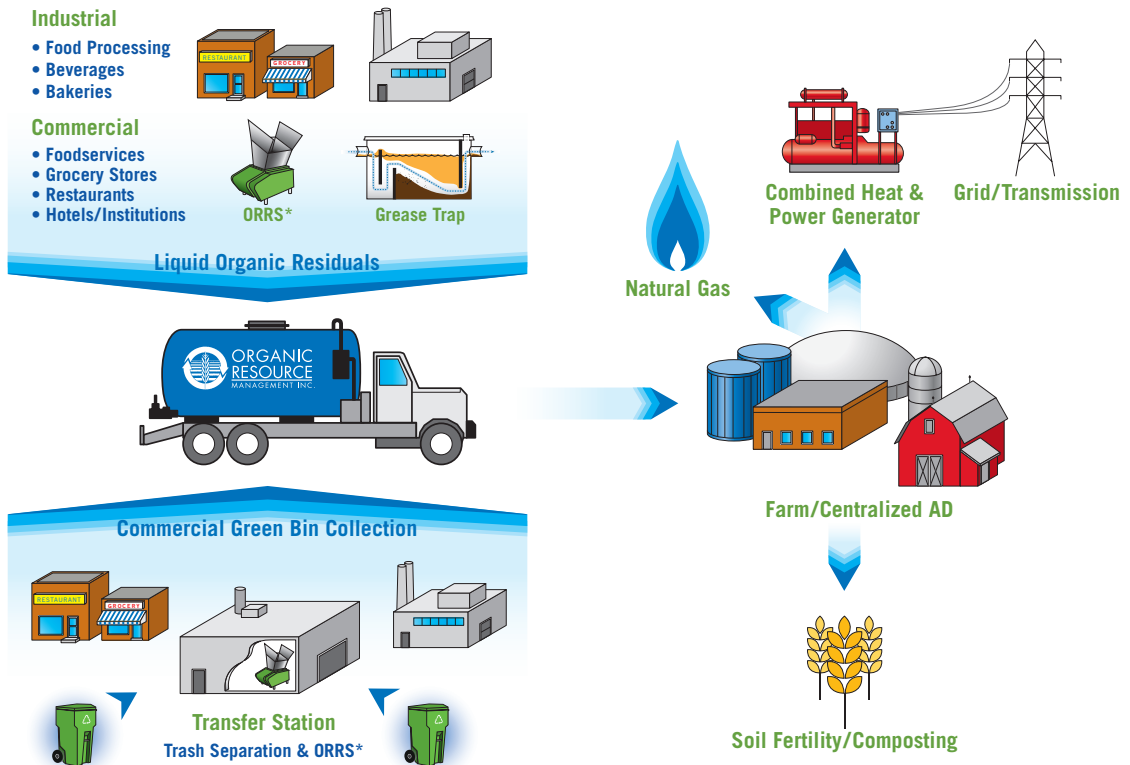
## HOW IT WORKS

On-farm anaerobic digestion of manure creates biogas, a combination of methane and carbon dioxide that can be used to generate electricity and heat. The liquid organic residuals the Company collects provide 4 to 10 times the biogas production of manure and are an ideal feedstock in conjunction with manure for anaerobic digesters. The digested material is virtually odour-free and can be used as an organic fertilizer on farm fields. This technology is a clean renewable energy solution that is cost-effective and environmentally beneficial.

## BENEFITS

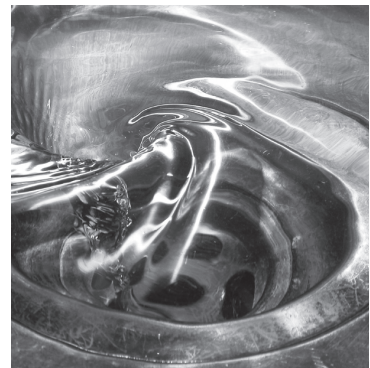
- Renewable energy
- Greenhouse gas reduction
- Improves wastewater treatment and groundwater protection
- Expands organic recycling capacity
- Reduces reliance on landfills
- Major reduction in odour and pathogens in the digestate
- Improves the nutrient availability in the digestate

### ORGANIC RESIDUALS TO RENEWABLE ENERGY FROM LEFTOVERS TO LIGHTS®



\*ORRS (Organic Resource Recovery System)

TO BE THE RECOGNIZED LEADER IN BOTH CANADA AND THE UNITED STATES FOR THE COLLECTION, TRANSPORTATION AND RECYCLING OF ORGANIC AND OTHER NON-HAZARDOUS LIQUID WASTES THROUGH A TEAM DEDICATED TO SERVICE EXCELLENCE AND ENVIRONMENTAL RESPONSIBILITY.



Organic Resource Management Inc. is Canada's largest provider of vacuum truck services for the collection, treatment and recycling of organic and other non-hazardous liquid residuals. The Company provides services to more than 8,000 customers, mostly in the food service, processing, production and retail business. Organic Resource Management Inc. operates in Ontario and Quebec, and in the Lower Mainland of British Columbia.

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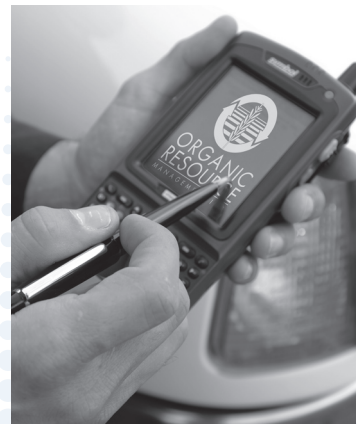
Converting Organic Residuals  
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## SERVICE ADVANTAGE

The Company specializes in regularly scheduled pumping of grease interceptors for over 6,000 restaurants, cafeterias, grocery stores, institutional kitchens and food processors. With a fleet of specialized vacuum trucks operated by trained technicians, ORMI collects and transports organic and other non-hazardous liquid waste to recycling facilities. From portable vacuum units that service difficult to reach locations to low-profile trucks that can fit into underground parking areas and tractor trailers that can collect 36,000 litres of material, ORMI has a wide array of equipment to service the customer.

Using sophisticated logistics software designed for the grease interceptor business, the Company delivers service 24 hours a day, 7 days a week, from a centralized call and logistics center located in Woodbridge, Ontario. The fully integrated proprietary software system includes map-based routing and dispatch, GPS tracking and wireless handheld devices used by the technicians to manage work orders and record detailed service reports. The software allows the Company to deliver superior customer service at extremely high productivity levels with a unique competitive advantage and provide a serious barrier to entry for potential competitors.



## 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.

## MANAGEMENT DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with Organic Resource Management Inc.'s ("ORMI" or the "Company"), formerly National Challenge Systems Inc. ("NCS"), fiscal 2008 consolidated financial statements and notes thereto.

Generally, all disclosure is made as of September 18, 2008, unless otherwise indicated. Financial information is presented as at June 30, 2008 in conformity with Canadian generally accepted accounting principles ("GAAP").

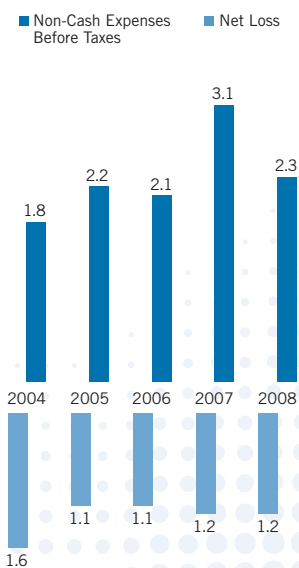
During the year, the Company has substantially completed its restructuring program that commenced in 2007. The initiatives taken were designed to simplify the Company's balance sheet and organizational structure, strengthen its management, secure the ownership of the software employed by the Company, and secure 100% ownership of the Company's patents. The restructuring program consisted of:

- (i) the conversion of all the outstanding preferred shares into common shares on June 1, 2007;
- (ii) the amalgamation of the Company with its largest subsidiary and concurrent name change to that of its subsidiary, Organic Resource Management Inc., which gave the Company a name more closely reflective of its core business, on July 1, 2007;
- (iii) the appointment of Charles Buehler as Chairman & CEO, Ian Kelland as President and Edward Dreher as Vice President of Finance, on August 20, 2007;
- (iv) the completion of several related party transactions which secured ownership of patents and software, on September 19, 2008;
- (v) the consolidation of the Company's common shares on the basis of one common share for every twenty issued and outstanding common shares, on November 30, 2008;
- (vi) the wind up of National Organic Resource Inc. ("NORI"), an inactive wholly-owned subsidiary, on April 8, 2008;
- (vii) the name change of the Company's wholly-owned subsidiary, A&A Anderson Tank Service (Vancouver) Ltd. to A&A Anderson Tank Service Ltd. ("A&A"), on April 15, 2008;
- (viii) the filing of a motion to wind up NCS Holdings Ltd. and NCS Environmental Services Ltd. ("NCS ESL"), the Company's inactive Bermuda subsidiaries, on July 18, 2008.

## NON-CASH EXPENSES

(in 000's)	2008	2007	2006	2005	2004
Amortization of property, plant & equipment	\$ 914	\$ 696	\$ 607	\$ 607	592
Amortization of intangible assets	–	897	969	969	969
Accretion of interest expense	29	–	–	–	–
Share based compensation	110	21	55	110	152
Foreign exchange loss (gain)	–	–	(23)	(60)	(8)
Gain on disposal of property, plant and equipment	(54)	(9)	–	–	(67)
Write-down of property, plant & equipment	–	235	190	322	–
Write-down of intangible assets	–	992	–	–	–
Write-down of goodwill	1,383	–	–	–	–
Dividends accrued on preferred shares	–	327	319	283	189
Non-cash expenses before taxes	\$ 2,382	\$ 3,158	\$ 2,117	\$ 2,231	1,827
Future income taxes	(104)	(1,135)	(4)	(142)	197
Non-cash expenses	\$ 2,278	\$ 2,023	\$ 2,113	\$ 2,089	2,024

Net Loss &  
Non-Cash Expenses Before Taxes  
\$ millions



### Income Taxes & Net Loss

The net loss for the year was \$1,229,000, a decrease of \$15,000 or 1% from \$1,244,000 in 2007.

The future income tax recovery for 2008 was \$104,000. This amount is comprised of a \$71,000 increase in the future tax asset, from \$1,640,000 in 2007 to \$1,711,000 in 2008, and a \$33,000 tax recovery related to the future income tax liability on the acquisition of OIS.

The future income tax recovery is the result of changes in timing differences plus the recognition of future tax assets. The increase in 2008 is the result of future tax assets in the Company that management has assessed are now more likely than not to be realized, on the basis that the Company has generated taxable income in 2007 and 2008 and the probability that it will continue to have taxable income in the future.

During the year, a future income tax liability of \$223,000 was recorded on the purchase of OIS software. This liability is being drawn down over five years, consistent with the amortization of the software and has resulted in a tax recovery of \$33,000 in 2008.

## CONSOLIDATED BALANCE SHEETS

JUNE 30, 2008 AND 2007

	2008	2007
<b>ASSETS</b>		
CURRENT		
Cash and cash equivalents	\$ 33,269	\$ 206,771
Accounts receivable (Note 5)	2,240,715	2,412,263
Inventory	132,388	143,209
Prepaid expenses	206,367	225,839
Current portion of future income tax asset (Note 9)	444,000	315,000
	<b>3,056,739</b>	<b>3,303,082</b>
PROPERTY PLANT AND EQUIPMENT (Note 6)	4,130,740	2,892,911
GOODWILL (Note 8)	2,434,793	3,817,849
FUTURE INCOME TAX ASSET (Note 9)	1,267,000	1,325,000
DEFERRED FINANCING COSTS, net of accumulated amortization	-	29,186
	<b>\$ 10,889,272</b>	<b>\$ 11,368,028</b>
<b>LIABILITIES</b>		
CURRENT		
Revolving loan (Note 10)	\$ 765,795	\$ 684,324
Accounts payable and accrued liabilities	1,740,598	2,458,382
Current portion of long-term debt (Note 11)	169,886	100,948
Current portion of obligations under capital lease (Note 12)	338,527	230,873
Current portion of future income tax liability (Note 9)	44,561	-
	<b>3,059,367</b>	<b>3,474,527</b>
LONG-TERM DEBT (Note 11)	1,238,457	641,342
OBLIGATIONS UNDER CAPITAL LEASE (Note 12)	1,065,373	751,838
FUTURE INCOME TAX LIABILITY (Note 9)	144,821	-
	<b>5,508,018</b>	<b>4,867,707</b>
<b>SHAREHOLDERS' EQUITY</b>		
COMMON SHARES (Note 14)	8,250,052	15,830,583
CONTRIBUTED SURPLUS (Note 15)	321,254	211,338
DEFICIT	(3,190,052)	(9,541,600)
	<b>5,381,254</b>	<b>6,500,321</b>
	<b>\$ 10,889,272</b>	<b>\$ 11,368,028</b>

Commitments (Note 16)

Subsequent events (Note 20)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:



**Charles H. Buehler**  
Director



**Matthew Gaasenbeek**  
Director