

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) reviews the financial condition and results of operations for Environmental Management Solutions Inc. ("EMS" or "the Company") for the year ended and three month periods ended December 31, 2006. This information is presented as of February 28, 2007. The MD&A should be read in conjunction with our audited consolidated financial statements and the accompanying notes for the year ended December 31, 2006. We also encourage you to read the MD&A for the year ended December 31, 2005.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All amounts in this MD&A are in Canadian dollars, except as otherwise noted.

Throughout this MD&A, "we", "us", "our", "EMS" and "the Company" refer to Environmental Management Solutions Inc. and its subsidiaries.

You will find more information about EMS, including our Annual Information Form for the year ended December 31, 2006 and recent financial reports filed on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements about EMS' objectives, strategies, financial conditions, results of operations, cash flow and businesses. These statements are "forward-looking" because they are based on our current expectations, estimates and assumptions about the markets we operate in, the Canadian economic environment, our ability to attract and retain customers, our relationships with our suppliers, availability and costs of fuels and utilities, the results of our ongoing efforts to improve cost effectiveness, changes in regulatory requirements affecting our business, and the availability and terms of financing.

Canadian securities laws contemplate that companies may disclose forward-looking information so that investors can get a better understanding of the Company's future prospects and make informed investment decisions. A statement we make is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as "anticipate", "believe", "could", "expect", "goal", "guidance", "intend", "may", "objective", "outlook", "plan", "seek", "strive", "target" and "will".

It is important to know that:

- Forward-looking statements in this MD&A describe our expectations as at February 28, 2007;
- Our actual results could be materially different from what we expect if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize and, accordingly, you are cautioned not to place undue reliance on these forward-looking statements.
- Forward-looking statements do not take into account the effect of transactions or non-recurring or other special items announced or occurring after the statements are made may have on our business. For example, they do not include the effect of sales of assets, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.

- We disclaim any intention and assume no obligation to update any of the forward-looking statements as a result of future events or for any other reason.

Risks that could cause our actual results to differ materially from our current expectations are discussed in this MD&A primarily in the *Risks That Could Affect Our Business* section.

NON-GAAP FINANCIAL MEASURES

EBITDA

Within this MD&A we use the term EBITDA (earnings before interest, taxes, depreciation and amortization). EBITDA does not have any standardized meaning prescribed under GAAP and is therefore unlikely to be comparable to similar measures presented by other companies.

We use EBITDA, among other measures, to assess the operating performance of our ongoing businesses without the effects of restructuring and other items, stock-based compensation, and goodwill and asset impairment charges. We exclude restructuring and other costs because they are generally not part of our ongoing operations. We exclude stock-based compensation expense and goodwill and asset impairment charges because they all largely depend on the accounting methods and assumptions we use, along with non-operating factors, such as the historical cost of capital assets and the value of our common shares.

EBITDA allows us to compare our operating performance over time on a consistent basis. We believe that certain investors and analysts use EBITDA to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement in the environmental services industry.

Readers are cautioned that EBITDA should not be confused with cash flow from operating activities. The most comparable GAAP financial measure is operating income, which is discussed in the *Results from Operations* section of the MD&A. The tables below reconciles EBITDA to operating income for the quarters presented.

\$000's	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006
EBITDA	1,114	(416)	1,573	2,297	3,123
Depreciation and amortization	599	728	629	676	1,216
Restructuring and other costs	2,010	67	28	181	200
Stock-based compensation	147	144	128	147	129
Operating income (loss)	(1,642)	(1,355)	788	1,292	1,579
Loss (gain) on disposal of property, plant and equipment	(21)	3	(4)	(3)	(0)
Interest and bank charges	1,389	825	567	450	747
Non-controlling interest in subsidiary company	4	(104)	-	-	-
Income tax expense (recovery)	88	(454)	241	303	(151)
Income (loss) before discontinued operations	(3,102)	(1,625)	(16)	542	983

ABOUT OUR BUSINESS

We are a leading environmental services company specializing in the management of organic-based waste streams and contaminated soils with an emphasis on beneficial reuse. We offer solutions to municipal, commercial and industrial clients in Canada, north-eastern United States, England and France through our subsidiaries Biogénie S.R.D.C. Inc. (“Biogénie”), GSI Environnement Inc. (“GSI”) and Tanknology Canada Inc. (“Tanknology”). Biogénie provides environmental contracting, off-site treatment and recycling of contaminated soil and remediation of contaminated or degraded sites in North America, England and France. GSI provides environmental services including land application, composting or disposal of organic wastes and eco-product sales in Quebec and Ontario. Tanknology provides storage tank precision leak testing and statistical inventory reconciliation, compliance testing and facility compliance and tank system audits across Canada.

On November 24, 2006 we completed the acquisition of all of the issued and outstanding shares of Biogénie for \$55 million plus transaction costs of approximately \$1.8 million less retention and deal bonuses to be paid to Biogénie employees of \$3.2 million, a Biogénie tax obligation of \$2.1 million, and other costs of \$0.1. The net cost of the shares was approximately \$51.4 million. The purchase price was satisfied through the issuance of 4.2 million shares to the vendors of Biogénie valued at \$7.1 million, payment of \$42.5 million in cash and the accrued transaction costs. Cash for the purchase was raised through a new \$55 million debt facility, the issuance of 24.3 million common shares to ONCAP II L.P. and certain related affiliates (“ONCAP”) for proceeds of \$10 million, and issuance of 2 million common shares to management for proceeds of \$1.0 million.

As a result of the acquisition of Biogénie we now report our results of operations by service offerings, specifically (a) Site Assessment and Remediation (b) Organic Waste Management and (c) Tank Testing and Calibration. In 2005 our operations were reported as Integrated Environmental Services and Tank Testing and Calibration.

Site Assessment and Remediation

Biogénie is the Site Assessment and Remediation (SAR) business unit for EMS. SAR services include environmental contracting, off-site treatment and recycling of contaminated soil, and remediation of contaminated or degraded sites. The Biogénie name has brand recognition, with operating locations in Canada, U.S., France and U.K., and has nine soil treatment facilities; six in Quebec, one in Ontario, and one in each of the United Kingdom and France. Biogénie beneficially reuses GSI’s treated organic waste for the reclamation of degraded sites.

Organic Waste Management

GSI is the Organic Waste Management (OWM) business unit for EMS. OWM services include the provision of environmental services such as land application, composting or disposal of organic wastes and eco-product sales in Quebec and Ontario. GSI has operating locations in Ontario and Quebec and has eight composting facilities all located in Quebec. GSI manages more than 900,000 metric tonnes of organic waste annually through its composting facilities and direct land application..

Tank Testing and Calibration

Tanknology Canada is the Tank Testing and Calibration business unit for EMS. Tanknology provides storage tank and line precision leak testing and statistical inventory reconciliation, compliance testing, meter calibration, and facility compliance and tank system audits across Canada.

Discontinued Operations

In prior years, we separated our business into geographical regions of Eastern and Western Canada; however, in July 2005 we sold or closed down a number of businesses that were unprofitable or did not fit our strategic direction. They included:

- Greenbank - environmental consulting in Ontario.
- Cannington and RNC - contracting in Ontario.
- K-Lor - contracting in Western Canada.
- WasteCo - facilities and waste management in Western Canada.

The impact on the financial statements of discontinuing the above operations has been reflected in our consolidated financial statements for the financial year ended December 31, 2006 and 2005.

RESULTS FROM OPERATIONS

As noted above, on November 24, 2006, we purchased Biogénie and included in our Results from Operations are the operating results of Biogénie for the period from November 25, 2006 to December 31, 2006. These operating results, along with those from our similar activities prior to the acquisition, are included in Site Assessment and Remediation line of business for the year ended and quarter ended December 31, 2006.

Twelve Months

Revenue

Revenue from continuing operations was \$69.9 million for the year ended December 31, 2006 compared with revenue of \$52.7 million for the year ended December 31, 2005, an increase of more than 32%. The majority of the revenue growth is attributable to OWM with an increase of \$11.4 million, however there was a substantial increase of \$6.7 million in SAR from the acquisition of Biogénie.

\$000's	Year ended December 31,	
	2006	2005
Revenue		
Site Assessment and Remediation	18,658	13,785
Organic Waste Management	47,503	36,095
Tank Testing & Calibration	3,760	2,807
Total	69,921	52,687

Gross Operating Profit

Gross operating profit is calculated by deducting from our revenue the direct costs incurred in delivering the revenue. Gross operating profit for the year ended December 31, 2006 was \$19.2 million compared with \$15.0 million for the same period ended December 31, 2005. The increase in gross operating profit is primarily a result of increased sales volumes across all lines of business.

Gross margin is defined as gross operating profit as a percentage of revenue. Gross margin for the year ended December 31, 2006 was 27% compared with 28% for the year ended December 31, 2005.

EBITDA and Operating Income (Loss)

EBITDA is calculated by deducting selling, general and administrative expenses from gross profit. EBITDA for the year ended December 31, 2006 was \$6.6 million compared with an EBITDA of \$3.8 million for the year ended December 31, 2005.

\$000's	Year ended December 31,	
	2006	2005
Gross profit	19,189	15,006
Selling general and administrative	12,612	11,246
EBITDA	6,577	3,760
Depreciation and amortization	3,250	2,772
Restructuring and other costs	476	5,303
Stock-based compensation	548	696
Operating income (loss)	2,303	(5,012)

Selling, general and administrative expenses include salaries and other costs not directly attributable to the generation of revenue, and include selling and marketing, general and administrative costs, occupancy, legal, accounting, other professional services and bad debt provisions. These costs for the year ended December 31, 2006 were \$12.6 million compared with \$11.2 million for the year ended December 31, 2005. The increase in these costs is primarily attributable to the costs from Biogénie since the date of acquisition.

As a percentage of revenue, indirect expenses for the year ended December 31, 2006 was 18% compared with 21% for the year ended December 31, 2005. We expect to continue to see a decline in this percentage as we add more revenue to our indirect cost base and complete the integration of Biogénie.

Operating income or loss is calculated by deducting depreciation and amortization, restructuring and other items, and stock-based compensation expense from EBITDA. The operating income for the year ended December 31, 2006 was \$2.3 million compared with an operating loss of \$5.0 million for the year ended December 31, 2005. This \$7.3 million improvement primarily attributable to decrease in restructuring and other costs of \$4.8 million and the improvement in gross operating profit.

Depreciation for the year ended December 31, 2006 was \$3.3 million compared with \$2.8 million for the year ended December 31, 2005. The increase in depreciation is a result of the acquisition of Biogénie and the depreciation of property plant and equipment and the amortization of intangible assets.

During the last quarter of 2004, we decided to reorganize the management team, close down unprofitable operations, and sell non-core assets. In addition, the former President and CEO, upon his termination, initiated a number of legal proceedings against the Company and its Board of Directors. These costs,

along with the associated costs of defending against a dissident shareholder requisition led by the former CEO, resulted in restructuring charges and other items of \$5.3 million during the year ended December 31, 2005 composed of:

- \$1.0 million in severance expenses for employees terminated throughout the Company;
- \$2.0 million in corporate legal, forensic accounting and consulting charges related to reorganizing the office of the CEO;
- \$1.7 million for the settlement of litigation brought about by the former CEO and related parties;
- \$0.3 million of premises closure costs and costs to exit leased facilities; and
- \$0.3 million in additional costs associated the special shareholders meeting.

Other costs related to the reorganization of the Western Canadian operations were classified as part of discontinued operations.

During 2006, the majority of the costs associated with the restructuring were generally complete with the exception of trailing legal costs associated with the settlement of outstanding legal suits and trailing employee settlement of \$0.3 million and other costs of \$0.2 million

During the normal course of operations, stock options are granted to employees and members of the Board of Directors. The value of these options is calculated using the Black Scholes valuation model and expensed over the period in which the options vest. For the year ended December 31, 2006, the amount of the expense recorded as stock-based compensation for employee stock options in continuing operations was \$0.5 million compared with \$0.7 million for the year ended December 31, 2005. The decrease in stock-based compensation is attributable to employee terminations.

Net Earnings (loss)

Net income or loss is calculated by deducting from the operating loss, depreciation, gains and losses on the sale of assets, interest and bank charges, income tax, non-controlling interest in subsidiary company, and discontinued operations.

\$000's	Year ended December 31,	
	2006	2005
Operating income (loss)	2,303	(5,012)
Interest and bank charges	2,588	4,406
Gain on sale of property, plant and equipment	(4)	(330)
Income tax recovery	(60)	(81)
non-controlling interest in subsidiary company	(104)	31
Loss before discontinued operations	(116)	(9,038)
Income (loss) from discontinued operations	847	(8,286)
Net earnings (loss)	731	(17,324)

Interest expense for the year ended December 31, 2006 was \$2.6 million compared with \$4.4 million for the year ended December 31, 2005. This significant decreases results from the recapitalization of third party debt on March 31, 2006 with the issuance of \$20.6 million in convertible debentures and preferred shares bearing cash interest at 5%, paid quarterly. These debentures and preferred shares have been valued using a discount rate of 9%, being the estimated interest rate of a non-convertible debt facility at the time

of issuance. In addition to the debenture and preferred shares, on November 24, 2006 a \$55 million debt facility was established at an interest rate of base plus 2%, where the base is either prime, Bankers Acceptance or LIBOR rates. As at December 31, 2006, the \$42 million term facility was utilized for the acquisition of Biogénie. The effective interest rate for 2006 was 6.5%.

During 2005, interest was charged on a number of different debt facilities and penalty interest was charged because of the inability of the Company to pay outstanding obligations as they came due. The average cash cost of debt financing was 16% for the year ended December 31, 2005, including cash paid or payable for extension agreements. In addition, amortization of warrants and deferred financing charges, both non-cash items, increased the cost of debt financing by an additional \$2.3 million, effectively raising the total cost of interest to 33%.

The average debt outstanding during the year ended December 31, 2006 was \$36.8 million compared with \$13.2 million for the year ended December 31, 2005.

Interest and bank charges will increase in 2007 due to the new facilities entered into in 2006 being outstanding for the full year.

Non-controlling interest in subsidiary company

The non-controlling interest in subsidiary company is the portion of income or loss that is attributable to third parties who hold an interest in one or more of our subsidiary company. During 2005, and the first quarter of 2006, we owned 70.9% of our subsidiary Les Composts du Quebec (CdQ). Concurrent with the re-financing on March 31, 2006, we acquired the remaining 29.1% of CdQ from the minority shareholder for \$0.3 million cash and \$0.1 million in transaction costs. Due to the seasonality of our business, the first quarter resulted in a loss attributable to non-controlling shareholders of \$0.1 million compared to the full years profit attributable to non-controlling shareholders of \$31 thousand for the year ended December 31, 2005.

Currently all operations and subsidiaries are now fully controlled, thereby eliminating the non-controlling interest in subsidiary company.

Discontinued operations

During the fourth quarter of 2004, we reviewed the operations of the Company and decided to focus the core business on the management, treatment and disposal of organic waste and contaminated soils. In addition, we looked at the profitability of operations and the return on average assets. Consequently, during 2005, the assets and operations of the following businesses were either sold or discontinued:

- Greenbank Environmental Ltd.
- Rom-Neg Construction Ltd.
- K-Lor Contractor Services Ltd.
- K-Lor Contractor Services (B.C.) Ltd.
- WasteCo Environmental Services Ltd.

- Cannington Excavating (1989) Ltd

During 2006, the majority of the activities regarding discontinued operations were related to the collection of outstanding receivables and discharging liabilities. Due to the liabilities exceeding the assets we were required to negotiate settlements with past suppliers at less than the face value of the obligation. As a result, we recorded a gain on the settlement of these liabilities resulting in net income from discontinued operations of \$0.8 million compared with a loss from discontinued operations of \$8.3 million in 2005.

Fourth Quarter

Revenue

Revenue was \$25.2 million for the quarter ended December 31, 2006, compared with revenue of \$13.8 million for the quarter ended December 31, 2005.

\$000's	Q4 2006	Q4 2005
Revenue		
Site Assessment and Remediation	10,625	3,732
Organic Waste Management	13,352	9,308
Tank Testing & Calibration	1,185	772
Total	25,162	13,812

The growth in SAR is primarily due to the inclusion of Biogénie results after November 24, 2006. Organic Waste Management revenues increased with the inclusion of a full years results on a number of major contracts we entered into during 2005.

Gross Operating Profit

Gross operating profit for the quarter ended December 31, 2006, was \$7.0 million compared with \$4.2 million for the quarter ended December 31, 2005. Gross margin for quarter ended December 31, 2006 was 28% compared with 30% for the same quarter in 2005. The decline in gross margin is largely attributable to the change in the mix of our activities and the associated gross margins for the quarter ended December 31, 2006.

EBITDA and Operating Income (Loss)

\$000's	Q4 2006	Q4 2005
Gross profit	6,979	4,153
Selling general and administrative	3,856	3,039
EBITDA	3,123	1,114
Depreciation and amortization	1,216	599
Restructuring and other costs	200	2,010
Stock-based compensation	129	147
Operating income (loss)	1,579	(1,642)

EBITDA for the quarter ended December 31, 2006 was \$3.1 million compared with \$1.1 million for the quarter ended December 31, 2005.

Selling, general and administrative expenses include salaries and other costs not directly attributable to the generation of revenue, and include selling and marketing, administrative, occupancy, legal, accounting, other professional services and bad debt provisions and other costs. Selling, general and administrative expenses for the quarter ended December 31, 2006 were \$3.9 million compared with \$3.0 million for the quarter ended December 31, 2005. This increase is directly attributable to the additional expenses from Biogénie.

As a percentage of revenue, selling general and administrative expenses were 15% for the quarter ended December 31, 2006, compared with 22% for the quarter ended December 31, 2005. This decrease is primarily attributable to the increased revenues.

Depreciation for quarter ended December 31, 2006, was \$1.2 million compared with \$0.6 million for same period ended December 31, 2005. This increase is attributable to the additional depreciation and amortization resulting from the acquisition of Biogénie.

The operating income for the quarter ended December 31, 2006, was \$1.6 million compared with an operating loss of \$1.6 million for the quarter ended December 31, 2005. The improvement is attributable to the Restructuring and Other Costs decrease of \$1.8 million. In 2005, \$1.7 million was charged to Restructuring and Other Costs for the settlement agreement with the former President and CEO to end the outstanding litigation.

Net Earnings (Loss)

\$000's (Unaudited)	Q4 2006	Q4 2005
Operating income (loss)	1,579	(1,642)
Interest and bank charges	747	1,388
Gain (loss) on sale of assets	-	(21)
Income tax expense	(151)	89
Non-controlling interest in subsidiary company	-	4
Income (loss) before discontinued operations	983	(3,102)
Loss from discontinued operations	(79)	(1,636)
Net earnings (loss)	904	(4,738)

Interest expense for quarter ended December 31, 2006, was \$0.7 million compared with \$1.4 million for the quarter ended December 31, 2005. During the last quarter of 2005, we were forced to extend our credit facilities at a very high cost while we made arrangements for refinancing. These expensive extensions were not required after the March 31, 2006 refinancing.

The average cash cost of debt financing was 6% during the quarter ended December 31, 2006, compared with 16% for the same period ended December 31, 2005. In addition, deferred financing charges and the deemed interest rate on the convertible debentures increased the effective cost of debt financing to 8%, compared with 33% for the same period ended December 31, 2005.

RELATED PARTY TRANSACTION

In December 2005, we reached a multi-party settlement with the former President and CEO, a condition precedent to the recapitalization of the Company. This settlement resulted in a March 31, 2006, payment

of \$1.7 million in return for the withdrawal of the former President and CEO's legal actions against the Company.

There were no other transactions with related parties.

LIQUIDITY AND CAPITAL RESOURCES

During 2005, the Company's financial resources were weakened by the direct and indirect costs associated with examining the activities of the former CEO, who is a significant shareholder and, to the knowledge of the Company, controls approximately 11% of the common shares. Ongoing disputes with the former CEO and investigations into his actions by a forensic accounting firm have caused us to incur significant costs and to rely on non-operational sources of financing to fund the ongoing investigation and disputes. On March 15, 2005, the Company raised additional gross proceeds of \$1.5 million in debt for the purposes of continuing the forensic investigation and to proceed with addressing the actions of certain dissidents and shareholders.

During the fall of 2005, discussions were entered into with ONCAP which ultimately resulted in an agreement to re-capitalize the debt of the Company with \$20.6 million raised by issuance of units consisting of a convertible debenture and preferred shares. Shareholder approval for this recapitalization was obtained on March 22, 2006 and closed March 31, 2006.

Proceeds from the convertible debenture and preferred shares were used to repay outside debt, settlement of the litigation with the former President and CEO with the \$1.7 million payment and for ongoing operations.

On November 24, 2006, concurrent with the acquisition of Biogénie, we arranged a \$55 million, five year facility bearing interest at a base rate plus 2% and collateralized by all the assets of all the operating companies. This facility consists of a \$42 million term loan and a \$13 million revolver facility. The interest rate base can be changed between Prime, Bankers Acceptance or LIBOR at the discretion of the Company and the rate over base is adjusted depending on achieving certain financial measures. Repayment of the principal is scheduled quarterly plus excess cash flows generated, as defined in the agreement.

CASH FLOW PROVIDED BY / USED IN OPERATING ACTIVITIES

For the year ended December 31, 2006, cash used in continuing operations was \$4.1 million compared with cash used in continuing operations of \$2.1 million for the year ended December 31, 2005. Cash used in operating activities for the year reflects our net loss for the period net of non-cash charges for depreciation, stock-based compensation, and non-controlling interest in subsidiary, plus the change in our working capital. Included in cash used in continuing operations is \$1.7 million for the settlement payment made to the former President and CEO and \$0.5 million in Restructuring and Other Costs. For December 31, 2005 the Restructuring and Other Costs was \$5.3 million.

CASH FLOW PROVIDED BY / USED IN FINANCING ACTIVITIES

For the year ended December 31, 2006, cash provided by financing activities of continuing operations was \$55.1 million, compared with cash used in the financing activities continuing operations \$3.3 million for the year ended December 31, 2005.

During the first quarter of 2006, \$20 million was raised for the refinancing and the proceeds used to repay debt. On November 24, 2006, \$42 million of our new credit facility was used to fund the cash portion of the cost of the purchase of Biogénie and two private placements of common shares raised an additional \$11 million.

CASH FLOW PROVIDED BY / USED IN INVESTING ACTIVITIES

For the year ended December 31, 2006, cash used in investing activities of continuing operations was \$45.4 million compared with cash used in continuing operations of \$0.6 million for the year ended December 31, 2005.

During 2006, we acquired all of the issued and outstanding shares of Biogénie as discussed above and invested in the improvement and expansion of composting sites in Lachute and St Henri.

AVAILABILITY OF FUNDS

As mentioned above, we arranged a \$13 million revolver facility on November 24, 2006, for the ongoing cash requirements of the business. This facility is used for, among other things, issuing letters of credit required for security for bonding, in place of bonds or as cash security. At December 31, 2006, \$4.4 million in letters of credit were outstanding.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

000's	Total	Current	2 Years	3-4 Years	After 4 Years
Long-term debt	57,372	4,204	4,196	12,600	36,372
Other long term obligations	1,396	620	776	-	-
Capital lease obligation	573	376	136	61	-
Operating leases	5,800	1,840	1,625	2,084	251
Total contractual obligations	65,141	7,040	6,733	14,745	36,623

In the normal course of business we are party to a number of claims, which individually and in the aggregate, we believe to be immaterial to the financial position or ongoing operations of the business.

WasteCo has been named as a co-defendant, together with unrelated parties, in a \$23.8 million lawsuit by a customer of WasteCo, Dura-Lite Heat Transfer Products Ltd. ("Dura-Lite"). The lawsuit relates to a fire and loss that occurred in November 2001. WasteCo is vigorously defending this action and denies any

liability to Dura-Lite and we believe this case is without merit. We understand that the plaintiff in the Dura-Lite lawsuit has already received a significant payment from its insurer in connection with its loss and the amount of any potential costs of settlement cannot readily be determined at this time. We are named as an additional insured party under a general liability policy together with other defendants and our primary insurers have also confirmed that a policy is in place that will provide coverage to a maximum of \$5,000,000 in the event WasteCo is found liable.

We were named as a defendant in a number of lawsuits filed by the former President and CEO and certain parties related or associated with the former President and CEO (collectively the “D’Addario Parties”). Pursuant to a conditional settlement agreement dated December 15, 2005, a payment of \$1.7 million was made to the D’Addario Parties, and this litigation representing 10 separate actions was settled and dismissed with full and final releases exchanged among the parties. In November 2006, EMS, our current President and CEO, and a third party, were served with a \$17 million law suit commenced by Mr. Frank D’Addario and related parties alleging conspiracy and fraud in the preparation and signing of a Consulting and Share Pledge Agreement dated March 1, 2005 between Mr. D’Addario and the third party. We were not involved in any way with this Consulting and Share Pledge Agreement and we will defend ourselves from such allegations.

In May 2006, we were named in a legal suit for \$5 million by Jean Shoiry, the former majority shareholder of GSI, for alleged breach of contract and intentional or negligent misrepresentation related to the acquisition of GSI. Mr. Frank D’Addario is also named for intentional or negligent misrepresentation.

QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected consolidated financial information derived from our unaudited interim period consolidated financial statements for each of the eight most recently completed quarters.

\$ 000's except per share amounts	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenue	25,162	13,812	17,844	13,576	17,403	17,067	9,512	8,232
Income (loss) from continuing operations	983	(3,102)	542	(759)	(19)	(2,343)	(1,625)	(2,837)
Net income (loss)	904	(4,738)	849	1,112	423	(8,794)	(1,446)	(4,904)
Basic earnings (loss) per share								
From continuing operations	0.02	(0.08)	0.01	(0.02)	(0.00)	(0.06)	(0.04)	(0.08)
Net income (loss)	0.02	(0.13)	0.02	0.03	0.01	(0.23)	(0.04)	(0.13)
Diluted earnings (loss) per share								
From continuing operations	0.02	(0.08)	0.01	(0.02)	(0.00)	(0.06)	(0.04)	(0.08)
Net income (loss)	0.01	(0.13)	0.01	0.03	0.01	(0.23)	(0.04)	(0.13)

SELECTED ANNUAL INFORMATION

The following is a summary of selected annual information. As noted above, in 2004 the decision was made to discontinue certain operations.

\$ 000's except per share amounts	For years ended December 31,		
	2006	2005	2004
Revenue	69,921	52,687	45,964
Earnings (loss) from continuing operations	(116)	(9,038)	(6,389)
Net earnings (loss)	731	(17,324)	(26,062)
Basic earnings (loss) per share			
From continuing operations	(0.00)	(0.24)	(0.18)
Net income (loss)	0.02	(0.46)	(0.74)
Diluted earnings (loss) per share			
From continuing operations	(0.00)	(0.24)	(0.18)
Net income (loss)	0.02	(0.46)	(0.74)
Total assets	137,417	42,291	73,866
Total long-term financial liabilities	55,012	6,877	10,432

There were no dividends declared during the year ended December 31, 2004 through December 31, 2006

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. We continually evaluate the estimates and assumptions we use. These estimates and assumptions are based on our historical experience, best knowledge of current events, and conditions and activities that we may undertake in the future. Actual results could differ from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain. Changes in these estimates and assumptions could materially affect the consolidated financial statements.

Goodwill and Intangible Assets

Goodwill is not amortized and is assessed for impairment at the business unit level at least annually. Comparing the fair value of a business unit/segment to its carrying value identifies any potential goodwill impairment. If the fair value of the business unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the business unit exceeds its fair value, this indicates potential goodwill impairment and must be quantified by comparing the estimated fair value of the business unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

We determine the fair value of our business units using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these fair values requires management to make estimates and assumptions including, but not limited to projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to our Board of Directors. Discount rates are based on an industry weighted average cost of capital. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

We completed our annual impairment test in the third quarter of 2006, using the same methodology, and determined there is no impairment of the remaining goodwill or intangible assets.

Income Taxes

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to recover or settle.

Stock-Based Compensation

Stock-based compensation expenses are recognized based on numerous estimates. The aggregate amount of expense in a particular period is the proportion of the expense relating to that period based on the expected life of each stock-based instrument multiplied by the fair value of each instrument at the time of grant. The fair value of each instrument granted is estimated on the date of grant using the Black-Scholes model taking into consideration the estimated expected life, the estimated volatility rate and the estimated risk free interest rate and dividend yield.

Bad Debt Expense

We routinely review accounts receivable and set up a reserve for bad debts on a customer-by-customer basis. This is an estimate since some of the reserved accounts may be collected and we may subsequently find that some accounts currently deemed collectible become non-collectible.

Revenue Recognition

Revenue is generated under fee for services contracts, cost based contracts and fixed price contracts. For the fee for services contracts, revenue is recognized when the services are provided. For cost based contracts, revenue is recorded when costs are incurred. Fixed price contracts are recorded using the percentage-of-completion method. This requires an estimate of the amount of costs that are anticipated to be incurred as the services are performed. Some of these costs change due to the nature of the treatment or disposal of the residual products. The estimate of the costs and associated margins can change during the year.

ACCOUNTING STANDARDS IMPLEMENTED IN 2006

Under Accounting Guideline 15 (“AcG-15”), “Consolidation of Variable Interest Entities”, companies are required to identify variable interest entities in which they have an interest to determine whether they are the primary beneficiary of such entities and, if so, to consolidate them. A variable interest entity is defined as an entity in which the equity is not sufficient to permit that entity to finance its activities without external support, or the equity investors lack either voting control and the obligation to absorb future losses or the right to receive future returns.

During the year, land and buildings adjacent to one of its composting facilities were acquired for \$500,000. The land and building was acquired in a company wholly owned by an employee of EMS. Agreements exist between EMS and the employee which provide EMS with exposure to losses or benefit of residual returns through a contractual interest in the property. Accordingly, EMS has consolidated the company owned by the employee under the accounting requirements of AcG-15. This was acquired for the purposes of additional office space and land for composting support functions such as a weigh scale and maintenance.

NEW ACCOUNTING PRONOUNCEMENTS

Financial Instruments – Recognition and Measurement, Handbook Section 3855

Section 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and at what amount – in certain instances using fair value and in others using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.

Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company will adopt this standard effective January 1, 2007. Transitional provisions for this Section are complex and vary based on the type of financial instrument under consideration. Management does not expect the adoption of this standard to have a significant impact on the Company’s consolidated financial statements.

Comprehensive Income, Handbook Section 1530

Section 1530 introduces a new requirement to temporarily present certain gains and losses outside net income.

Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company will adopt this standard effective January 1, 2007. Financial statements of prior periods are required to be restated for certain comprehensive income items. In addition, an enterprise is encouraged, but not required, to present reclassification adjustments in comparative financial statements provided for earlier periods. Management does not expect the adoption of this standard to have a significant impact on the Company's consolidated financial statements.

Hedges – Handbook Section 3865

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. This Section applies for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Retroactive application is not permitted.

The Company will adopt this standard effective January 1, 2007. The Company has no arrangements for hedging, and the adoption of this standard will not have any impact on the Company's consolidated financial statements.

SHARES OUTSTANDING

As at February 28, 2007 there are 78,570,160 common shares and 10,296,250 preferred shares outstanding.

In March 2006, we issued 10,296,250 preferred shares in conjunction with the issuance of convertible debentures.

In November 2006, we issued 14,245,000 common shares to the vendors of Biogénie in partial consideration of all the issued and outstanding shares of Biogénie. The value of the common shares was \$0.50 per share.

In November 2006, we issued 24,336,937 common shares by way of a private placement, to ONCAP and its affiliates for an aggregate amount of \$10 million at an average price of \$0.41 per share in accordance with the terms of the March 31, 2006 re-financing whereby ONCAP or its affiliates had a right of first refusal on \$10 million in additional equity financing.

In November 2006, we issued another 1,975,976 common shares through a private placement to members of the Board of Directors, management of EMS and management of Biogénie for an aggregate amount of \$987,988, or \$0.50 per share

RISKS THAT COULD AFFECT OUR BUSINESS

As stated above, risks that could cause our actual results to materially differ from our current expectations include, but are not limited to:

- General industry and economic conditions;

- Changes in our relationships with suppliers;
- Pricing pressures and other competitive factors;
- The availability and costs of fuels and utilities;
- The results of our ongoing efforts to improve cost effectiveness;
- Changes in legislative and regulatory requirements affecting our business;
- General uncertainty associated with operating in a highly regulated environment;
- Costs and risks associated with litigation;
- Potential changes to the mix of businesses we operate;
- Reliance on key personnel;
- The availability of future financing and the variability of interest rates, and
- Changes in exchange rates between the Canadian dollar, the U.S. Dollar, British Sterling and the Euro

Should one or more of these risks materialize, or should our underlying assumptions prove incorrect, our actual results may materially differ from our current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause our actual results to materially differ from such forward-looking statements. Please refer to the Risk Factors section of the Companies Annual Information Form for a more detailed description for risks that could affect our business.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures

Multilateral Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings”, issued by the Canadian Securities Administrators (“CSA”) requires Chief Executive Officers (“CEOs”) and Chief Financial Officers (“CFOs”) to certify that they are responsible for establishing and maintaining disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer’s disclosure controls and procedures, and that their conclusions about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

EMS’ CEO and CFO have evaluated the effectiveness of the Company’s disclosure controls and procedures as at December 31, 2006 and have concluded that those disclosure controls and procedures were effective for the year then ended.

Internal controls over financial reporting

Multilateral Instrument 52-109 also requires CEO’s and CFO’s to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the issuer, that those internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that the issuer has disclosed any changes in its

internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

During 2006, EMS management, including its CEO and CFO, evaluated the Company's internal controls over financial reporting to ensure that they had been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. While no changes occurred during the last fiscal quarter of 2006 that, in the view of EMS management, have materially affected or that are reasonably likely to materially affect, EMS' internal control over financial reporting, the Company occasionally acquires new businesses that are privately owned prior to their acquisition by EMS. The Company continues to assess the design of internal controls over financial reporting in its most recently acquired businesses, including in particular those acquired during the last fiscal quarter. It has not identified in that review any weakness that has materially affected, or that is reasonably likely to materially affect EMS' internal control over financial reporting.