

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2007

(Unaudited – Prepared by Management)

Notice: These interim consolidated financial statements have been prepared by management and they have not been reviewed by the Company's external auditors

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED BALANCE SHEETS
September 30, 2007 and June 30, 2007

	September 30, 2007	June 30, 2007
ASSETS		
Current		
Accounts receivable	\$ 111,065	\$ 507,202
Inventory (Note 3)	20,324	20,324
Deposits and prepaid expenses	18,567	18,567
	149,956	476,649
Property and equipment (Note 4)	2,355,912	2,440,246
Deferred development costs (Note 5)	232,390	242,777
Other assets	24,343	24,343
	\$ 2,762,601	\$ 3,253,296
LIABILITIES		
Current		
Bank loans (Note 6)	\$ 65,700	\$ 90,861
Accounts payable and accrued expenses	918,475	1,177,728
Current portion of capital lease obligations	18,599	42,646
Customer deposits	250,974	160,000
Loans payable (Note 7)	714,319	699,720
Promissory notes (Note 8)	445,000	445,000
	2,413,067	2,615,955
Capital lease obligations	49,354	78,461
	2,462,421	2,694,416
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	26,179,160	25,970,021
Contributed surplus (Note 10)	945,864	826,781
Deficit	(26,824,844)	(26,237,922)
	300,180	558,880
	\$ 2,762,601	\$ 3,253,296

APPROVED ON BEHALF OF THE BOARD:

"Ben Van Dyk"

Director

"Doug Johnston"

Director

The accompanying notes are an integral part of these consolidated financial statements.

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT
For the Three Months ended September 30, 2007 and 2006
(Unaudited – prepared by management)

	2007	2006
REVENUE		
Equipment and product sales	\$ 1,935	\$ 12,403
Plant licenses	-	1,050,000
	1,935	1,062,403
EXPENSES		
Administration	242,548	403,780
Plant and operations	137,523	240,618
Amortization	104,190	118,258
Interest	81,444	43,299
Research and development	19,096	57,361
Sales and marketing	2,509	109,005
Interest on capital lease obligations	1,547	4,448
	588,857	976,769
NET INCOME (LOSS)	(586,922)	86,634
Deficit, beginning of period	(26,237,922)	(24,691,405)
DEFICIT, end of period	\$ (26,824,844)	\$ (24,604,771)
BASIC AND DILUTED INCOME (LOSS) PER SHARE	\$ (0.02)	\$ 0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	35,356,389	34,867,259

The accompanying notes are an integral part of these consolidated financial statements.

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months ended September 30, 2007 and 2006
(Unaudited – prepared by management)

	2007	2006
OPERATIONS		
Net Income (Loss)	\$ (586,922)	\$ 86,634
Items not involving cash:		
Amortization	104,190	118,258
Stock-based compensation	119,083	167,913
	(363,649)	372,805
Changes in non-cash working capital balances:		
Increase (decrease) in customer deposits	90,974	(25,000)
Decrease in prepaid expenses and deposits	(163)	22,292
Increase (decrease) in accounts payable and accrued expenses	(145,049)	(156,741)
Increase (decrease) in accounts receivable	396,137	17,142
Increase (decrease) in inventory	-	(4,049)
	(21,750)	226,449
INVESTING		
Increase in property and equipment	(9,468)	(4,341)
	(9,468)	(4,341)
FINANCING		
Issue of common shares for cash	209,139	-
Increase (decrease) in bank loans	(25,161)	(87,883)
Decrease in capital lease obligations	(53,154)	(8,874)
Increase (decrease) in loans payable	(99,606)	10,500
	31,218	(86,257)
Increase (decrease) in cash and cash equivalents	-	135,851
Cash and cash equivalents, beginning of period	-	-
CASH AND CASH EQUIVALENTS, end of period	\$ -	\$ 135,851

The accompanying notes are an integral part of these consolidated financial statements.

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF EXPENSES
For the Three Months ended September 30, 2007 and 2006
(Unaudited – prepared by management)

	2007	2006
ADMINISTRATION:		
Stock option expense	\$ 119,083	\$ 167,913
Wages and management fees	54,833	69,838
Office expenses	22,051	35,523
Legal fees	21,308	31,367
Foreign exchange	19,994	(13,045)
Public company costs	3,630	3,486
Travel & entertainment	1,649	5,881
Consultants	-	66,663
Financing fees	-	36,154
	\$ 242,548	\$ 403,780
PLANT AND OPERATIONS:		
Wages and benefits	\$ 64,784	\$ 105,213
Rent & Property Tax	42,997	44,530
Power, water and sewer	18,357	38,208
Supplies & materials	6,269	19,314
Repairs and maintenance	4,291	18,971
Safety and Test	825	2,110
Other	-	8,272
Consultants	-	4,000
	\$ 137,523	\$ 240,618
SALES AND MARKETING:		
Wages and benefits, & Management fees	\$ 31,250	\$ 64,228
Consultants	29,793	
Travel	7,466	8,588
Commissions	-	51,250
Recovery of expenses	(66,000)	-
	\$ 2,509	\$ 109,005
RESEARCH AND DEVELOPMENT:		
Wages and benefits	\$ 32,673	\$ 33,935
Other expenses	1,523	3,548
Contractors	-	55,067
Government assistance (note 12)	(15,100)	(35,189)
	\$ 19,096	\$ 57,361

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2007

1. NATURE OF OPERATIONS

International Bio Recovery Corporation was incorporated in British Columbia, Canada, on August 17, 1993 and is a public company traded on the TSX Venture Exchange.

The Company has developed certain bio-technology which provides a waste conversion service to customers who dispose of biodegradable waste. The proprietary process converts the waste into organic fertilizer products.

The Company operates a plant in North Vancouver, British Columbia which is intended to demonstrate conversion operations to prospective technology and end-product buyers, to conduct research and development, to produce products for growing trials, and to create a fertilizer market. The Company sells technology licenses to other users and may take equity positions in plants.

At September 30, 2007, the Company had a working capital deficiency of \$2,263,111 and incurred a net loss of \$586,922 for the three months ended September 30, 2007. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon generating revenues sufficient to cover its operating costs, the continued support of its shareholders, and obtaining additional financing.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the consolidated financial statements.

2. BASIS OF PRESENTATION

These unaudited consolidated financial statements have been prepared in accordance with Canadian GAAP using the same accounting policies and methods as the most recent audited annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended June 30, 2007.

3. INVENTORY

	September 30, 2007	June 30, 2007
Fertilizer	\$ 10,975	10,975
Packing materials and spare parts	9,349	9,349
	\$ 20,324	20,324

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value	
			September 30, 2007	June 30, 2007
Plant and equipment	5,413,661	3,218,940	2,194,721	2,280,231
Office building	140,706	77,316	63,390	82,578
Other equipment	290,917	269,501	21,416	13,243
Mobile equipment	356,192	279,807	76,385	64,194
	\$ 6,201,476	3,845,564	2,355,912	2,440,246

Mobile equipment includes equipment subject to a capital lease having a recorded cost of \$87,942 (2007: \$87,942) and accumulated amortization of \$18,797 (2007: \$13,191). Total amortization expense for the three months was \$104,190 (2006: \$118,258).

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2007

5. DEFERRED DEVELOPMENT COSTS

The Company began production at its demonstration plant in January 1999 and the development costs incurred to that date were deferred and are being amortized over a 20-year period.

	September 30, 2007	June 30, 2007
Deferred development costs	\$ 595,933	595,933
Less accumulated amortization	(363,543)	(353,156)
Balance, end of period	\$ 232,390	242,777

Amortization expense for the three months ended September 30, 2007 was \$10,387 (2006: \$10,387).

6. BANK LOANS

The Company entered into a loan agreement with HSBC Bank Canada under a credit facility. The credit facility consists of a \$100,000 operating loan that bears interest at the bank's prime rate plus 1.25% per annum and is payable on demand. The loan is secured by a general security agreement providing a first security interest in all of the Company's assets and ranks ahead of all other loans.

7. LOANS PAYABLE

The loans payable are due on demand, and bear interest at 12% per annum. The loans rank pari-passu with each other and with the promissory notes but behind the general security agreement on the bank loan described in note 6, and are secured by an interest in all present and future personal property of the Company and a floating charge on all of the Company's other present and future property; \$505,114 of the loans payable are due to directors and \$114,205 is due to a company that includes certain directors of the Company.

8. PROMISSORY NOTES

	September 30, 2007	June 30, 2007
Promissory note due to a director, due on demand or upon receipt of a cumulative amount of \$2,500,000 resulting from technology sales, bearing interest at 15% per annum payable monthly, secured by an interest in all present and future personal property of the Company and a floating charge on all of the Company's other present and future property.	\$ 295,000	\$ 295,000
Promissory note, due on November 13, 2007, bearing interest at 8% per annum payable at maturity, and secured by an interest in all present and future personal property of the Company and a floating charge on all of the Company's other present and future property.	150,000	150,000
	\$ 445,000	\$ 445,000

The promissory notes rank pari-passu with each other and with the loans payable but behind the general security agreement on the bank loan described in note 6.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2007

9. SHARE CAPITAL

The Company has authorized share capital of 250,000,000 common shares without par value and 250,000,000 preferred shares without par value, of which none have been issued.

Issued common shares are as follows:

	Number	Amount
Balance, as at June 30, 2007	34,867,259	\$ 25,970,021
Shares issued for cash	833,333	209,139
Balance, as at September 30, 2007	35,700,592	\$ 26,179,160

Escrow shares – Share capital includes 2,094,000 common shares held in escrow, subject to release upon the Company achieving cash flow requirements, and only by regulatory approval. Any common shares not issued by September 30, 2008 will be cancelled.

Warrants – The Company has 8,211,977 share purchase warrants outstanding; 7,378,644 share purchase warrants are exercisable at \$0.27 to December 9, 2007, and 833,333 share purchase warrants are exercisable at US \$0.24 to August 20, 2009.

10. CONTRIBUTED SURPLUS

Three months ended September 30, 2007 Year ended June 30, 2007

Balance, beginning of period	\$ 826,781	\$ 581,776
Fair value of stock options granted	119,083	245,005
Balance, end of period	\$ 945,864	\$ 826,781

11. STOCK OPTION PLAN

The Company has issued stock options to directors and employees pursuant to its Stock Option Plan instituted in 1999. The following table summarizes the stock options outstanding at June 30, 2007 and September 30, 2007:

<u>Outstanding at June 30, 2006</u>	<u>Granted</u>	<u>(Expired/Cancelled)</u>	<u>Outstanding at June 30, 2007</u>	<u>Granted</u>	<u>(Expired/Cancelled)</u>	<u>Outstanding at Sept. 30, 2007</u>	<u>Price</u>	<u>Expiry Date</u>
200,000	-	(200,000)	-	-	-	-	\$0.25	April 21, 2008
50,000	-	-	50,000	-	(50,000)	-	\$0.50	April 21, 2008
-	2,185,000	(25,000)	2,160,000	-	(140,000)	2,020,000	\$0.35	July 12, 2008
-	400,000	(250,000)	150,000	-	(150,000)	-	\$0.35	July 31, 2008
-	225,000	-	225,000	-	-	225,000	\$0.20	Jan. 23, 2009
250,000	2,810,000	(475,000)	2,585,000	-	(340,000)	2,245,000		

The following table summarizes stock options outstanding at June 30, 2007 and September 30, 2007:

	<u>Outstanding</u>	<u>Exercisable</u>	<u>Range of Exercise Prices</u>	<u>Weighted average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>
June 2007:	2,585,000	1,442,500	\$0.20 – 0.50	\$0.34	1.08 years
Sept. 2007:	2,245,000	1,627,500	\$0.20 - 0.35	\$0.33	.88 years

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2007

11. STOCK OPTION PLAN (continued)

Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the pricing policies of the TSX Venture Exchange. Options vest over 18 months and expire two years from the date of the grant, unless the Board establishes more restrictive terms.

The aggregate number of shares issuable pursuant to options granted under the plan is limited to 15% of the Company's issued shares at the time the options are granted. The aggregate number of options granted to any one optionee in a 12-month period is limited to 5% of the issued shares of the corporation.

A summary of the change in the Company's stock option plan for the three months ended September 30, 2007 is:

	Number	Weighted Average Exercise Price
Outstanding, beginning of year	2,585,000	\$0.30
Granted	-	-
Exercised	-	-
Cancelled or expired	(340,000)	\$0.37
Outstanding, September 30, 2007	2,245,000	\$0.33

The Company uses the Black-Scholes option valuation model to estimate the fair value of stock options. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values.

The fair value of stock options granted during the three months ended September 30, 2007 has been estimated using the Black-Scholes model to be \$119,083 (2007 - \$167,913) and is being recognized as an expense and included in contributed surplus over the vesting period. For purposes of the calculation, the following assumptions were used:

	<u>Three months ended Sept. 30, 2007</u>	<u>Three months ended Sept. 30, 2006</u>
Risk free interest rate	4.18%	4.08%
Expected dividend yield	0%	0%
Expected stock price volatility	133%	114%
Expected life of options	2 years	2 years

The grant-date fair value of options granted during the three months ended September 30, 2007 was \$nil (2007 - \$0.18).

12. RELATED PARTY TRANSACTIONS

The Company had the following transactions with related parties during the three months to September 30, 2007, recorded at their exchange amounts, which are the amounts agreed upon by the transacting parties on terms and conditions similar to non-related entities:

- a) Management fees, in lieu of salary and wages, of \$31,250 (2007: \$58,800) were expensed for executive officers who are also directors; \$10,417 (2007: 4,558) of these fees are included in accounts payable and accrued expenses.
- b) Consulting fees of \$nil (2007: \$17,500) were expensed for services provided by a director; \$nil (2007: \$5,800) of these fees are included in accounts payable and accrued expenses.
- c) Accounts payable and accrued expenses include fees payable to directors of \$62,800 (2007: \$6,400) and interest payable to directors of \$105,207 (2007: \$4,269). Directors' fees of \$5,600 (2007: \$8,000) were expensed during the three months.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2007

12. RELATED PARTY TRANSACTIONS (continued)

- d) Loans payable includes \$114,205 (2007: \$nil) due to Shearator Corporation ("Shearator"). Directors of Shearator include certain directors of the Company. Interest and a bonus in lieu of interest of \$41,219 (2007: \$nil) were expensed during the three months ended September 30, 2007.
- e) Loans payable are due to directors and promissory notes are due to directors, as described in Notes 7 and 8. During the three months ending September 30, 2007, the Company expensed \$28,363 (2007: \$17,185) for interest on these loans and promissory notes; no interest (2007: \$16,511) was paid to directors.

13. GOVERNMENT ASSISTANCE

On December 1, 2004, the Company signed a contribution agreement with National Research Council Canada ("NRC") whereby NRC would contribute a maximum of \$242,500 to the Company's EATAD process-characterization project over a two-year period. The contribution agreement was subsequently amended by increasing the maximum contribution to \$342,500, terminating on March 31, 2008.

During the three months ending September 30, 2007, the Company received \$11,899 (2007: \$25,964) from NRC and accrued \$15,100 (2007: \$35,189) as government assistance receivable, resulting in an aggregate reduction in research and development expenses of \$15,100 (2007: \$35,189). Under the terms of the contribution agreement, the Company may receive further NRC contributions of up to \$20,601 through March 2008.

14. COMMITMENTS

The Company is committed to a 25-year operating lease for its North Vancouver demonstration plant expiring in 2021. The rental commitment under this lease aggregates \$1,393,308 and the payments over the next five fiscal years are as follows:

To June 2008	97,776
To June 2009	97,776
To June 2010	97,776
To June 2011	97,776
To June 2012	97,776

15. CONTINGENCY

In November, 2006, the Company settled a claim for severance pay and wrongful dismissal filed by its former President and CEO. The settlement amount is \$125,000 payable on a contingency basis upon the Company's receipt of license fees or equipment sale profits, without interest, in an amount equal to 10% of the payment received or profit generated, until fully paid. Any amount unpaid after 5 years will be extinguished. For the three months ended September 30, 2007, the Company had earned fees and profits that resulted in \$16,122 of the settlement amount becoming due, bring the total amount due to \$56,122; this amount was accrued and with the consent of the individual, was subsequently converted into a loan as described in note 7. At September 30, 2007, \$68,878 remains contingently payable under the terms of the settlement.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended September 30, 2007

16. SEGMENTED INFORMATION

The Company operates in two operating segments, that being the licensing of its proprietary technology for conversion of waste into organic fertilizer products and the sale of fertilizer. Distribution of operating results for the two segments and corporate overhead is as follows:

September 30, 2007	Technology Sales	Fertilizer Sales	Corporate	Total
Total assets	\$ -	2,619,785	142,816	2,762,601
Property and equipment	-	2,271,106	84,806	2,355,912
Net loss	(33,402)	(225,880)	(327,640)	(586,922)

September 30, 2006	Technology Sales	Fertilizer Sales	Corporate	Total
Total assets	\$ -	3,272,500	342,193	3,614,693
Property and equipment	-	2,674,226	89,413	2,763,639
Net loss	976,359	(423,479)	(466,246)	86,634

17. SUBSEQUENT EVENTS

Subsequent to September 30, 2007, the Company

- a) entered into additional Notes Payable with shareholders for amounts totalling \$70,500. The Notes Payable are payable on demand, accrue interest at 12% per annum, and are secured by an interest in all present and future personal property of the Company and a floating charge on all of the Company's other present and future property;
- b) granted 500,000 stock options at \$0.25 to expire on October 30, 2009 and cancelled 95,000 stock options with an exercise price of \$0.35; and
- c) has reached verbal agreement with the issuer of the promissory note for \$150,000, described in note 8, to extend the term of the note.

18. COMPARATIVE FIGURES

Certain figures from the previous year have been re-classified to conform to the current year's presentation. Such re-classification is for presentation purposes only and has no effect on previously reported results.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007
Report Prepared on November 23, 2007**

Description of the Business

International Bio Recovery Corporation (IBR) has developed an environmental technology, which processes organic material from municipal solid waste, agricultural manures and surplus organics from food production into innovative, environmentally progressive fertility products.

IBR operates a conversion facility in North Vancouver adjacent to its corporate offices where laboratory analysis and greenhouse trials are conducted. The prime functions of the plant are to provide product for research and market development and to demonstrate operations to prospective technology and fertilizer buyers. The Company markets its technology products through the sale of licenses. It may also take equity positions in plants sold under license.

The Company's current focus is to actively promote and assist with the construction of new plants in North America, and further develop its marketing capacity to enhance technology sales. The Company is committed to research and development to continue to improve the effectiveness of its technology, the quality of its products, and the creation of new product lines. It is further committed to developing a worldwide marketing capability to ensure market acceptance of its fertility products.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Basis of Presentation

The Company's financial statements are presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles (" GAAP "). This MD&A should be read in conjunction with the annual audited financial statements for the year ended June 30, 2007 and the unaudited interim financial statements for the three months ended September 30, 2007.

Overall Performance

	Oct-Dec/05 <u>Q2 2006</u>	Jan-Mar/06 <u>Q3 2006</u>	Apr-Jun/06 <u>Q4 2006</u>	Jul-Sept/06 <u>Q1 2007</u>	Oct-Dec/06 <u>Q2 2007</u>	Jan-Mar/07 <u>Q3 2007</u>	Apr-Jun/07 <u>Q4 2007</u>	Jul-Sept/07 <u>Q1 2008</u>
<u>Revenue</u>								
Technology & license fees	\$ -	\$ -	\$ 21,000	\$1,050,000	\$ -	\$ -	\$ 400,000	\$ -
Equipment & product sales	10,961	17,474	6,035	13,493	11,557	11,333	335,942	1,935
Interest & other income	566	14,882	5,419	-	1,102	1,039	-	-
Total Revenues	11,527	32,356	32,454	1,063,493	12,569	12,372	735,942	1,935
Net Income (Loss)	(551,866)	(714,672)	(3,556,657)	86,634	(781,138)	(897,726)	45,713	(586,922)
Net Income (Loss) per share	\$ (0.02)	\$ (0.02)	\$ (0.11)	\$ 0.00	\$ (0.02)	\$ (0.03)	\$ 0.00	\$ (0.02)
	<u>Dec. 31/05</u>	<u>Mar. 31/06</u>	<u>June 30/06</u>	<u>Sept. 30/06</u>	<u>Dec. 31/06</u>	<u>Mar. 31/07</u>	<u>June 30/07</u>	<u>Sept. 30/07</u>
Total Assets	7,720,496	7,010,212	3,540,202	3,614,693	3,338,881	3,179,924	3,253,296	2,762,601
Long term liabilities	-	-	48,271	112,923	103,791	94,331	78,461	49,354

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007**

The Company anticipates revenues from 4 primary sources:

- a) technology transfer agreements, plant license sales, and long term royalties;
- b) contracts to build plants or to supply equipment for plants being built using its technology;
- c) the sale of fertilizer products and tipping fees of solid wastes at its North Vancouver plant; and
- d) equity ownership in operating plants.

The technology transfer agreements and supply contracts for plants or equipment are usually of high value and the timing of the agreements and payments can materially affect the recognition of revenues and financial results of the Company.

Comparison of the three months ended Sept. 30, 2007 to the three months ended Sept. 30, 2006

During the three months to September 30, 2007, the Company's revenue was from waste collection fees of \$1,935. In the same period last year, revenue was generated from waste collection fees of \$12,403 and license revenues of \$1,050,000, broken down into payments of \$1,000,000 for the construction and operation of plants in Malaysia, and non-refundable deposits of \$25,000 each for plants planned for Indonesia and Iran

Total expenses for the three months were \$588,857 compared to \$976,769 in the previous year. The decrease of \$387,912 was a result of significant cost reductions in most areas of the company.

Administration costs decreased by \$161,232 from \$403,780 in the prior year to \$242,548 in the current year, primarily due to a reduction in stock option expense of \$48,830 and no costs in the three months this year for consultants (compared to \$66,663 last year) and no cost for financing fees compared to \$36,154 last year. These reductions were offset in part by an increase of \$33,039 in foreign exchange costs.

Plant and operations costs decreased by \$103,095 (or 43%) from \$240,618 in the prior year to \$137,523 in the current three month period. This reduction is a result of the major cutbacks in plant operations which are now used exclusively to maintain research and development and demonstration capacity. Staffing costs have been reduced by \$40,429, power, water, and sewer usage has been cut in half, supplies and materials have been reduced by two-thirds, and repairs and maintenance have been cut by three-quarters. In addition, no consultants and their associated costs have been used this year, resulting in further reductions of \$12,272.

Amortization during the three months was reduced by \$14,068 to \$104,190 as a result of declining balance calculations on a lower cost base. Interest costs increased by \$38,145 primarily due to a bonus payable in lieu of interest on a loan from Shearator Corporation.

Research and development costs decreased by \$38,265 to \$19,096 in the current year. The Company did not use contractors in the current three month period to September 30, 2007, resulting in a savings of \$55,067 compared to the same period last year. This was partially offset by a reduction of \$20,089 in National Research Council's Industrial Research Assistance Program ("IRA") grants. Funding has been provided by the National Research Council ("NRC") since 2004 and the agreement with NRC has been extended to March 2008 with a balance of \$20,601 available to be claimed.

Marketing efforts have been focused on the sale of plant licenses and field trials to prove the benefits of the Company's products. During the current three month period, the Company paid management fees of \$1,250 and \$29,793 to marketing consultants; the consulting agreements will be completed by the end of December 2007. Marketing costs were partially offset by contributions of \$66,000 under the provisions of a license sold to Converted Organics Inc. of Boston, Massachusetts.

The net loss for the three months ended September 30, 2007 was \$586,922, or \$0.02 per share, compared to net income of \$86,634 or \$0.00 per share, in the comparable period last year.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007**

Financial Condition

At September 30, 2007, the Company had total liabilities of \$2,462,421, a decrease of \$231,995 from the year ended June 30, 2007, mainly due to cash received from accounts receivable. The Company's working capital position at September 30, 2007 was a deficiency of \$2,261,111 (June 30, 2007 – \$2,070,025) with long term capital leases of \$49,354. The Company has one capital lease outstanding after paying out a second lease in July 2007.

Since December 2004, the Company has received support from RA for the Company's process and products characterization project; the total support available, after amendments, was \$342,500. As of September 30, 2007, a total of \$20,601 remained to be claimed to offset research contracts and salary costs until the expiry on March 31, 2008. This support has allowed IBR to increase its research and development spending.

The Company is dependent on cash generated by technology sales, contracts to build plants or supply equipment for these plants, revenues from plant ownership, or new financing activities, in order to meet its obligations. Until the Company generates significant sales, it will be relying on new financing and any difficulty in raising new financing will have a significant impact on the Company's ability to operate.

Share Capital

The Company had 35,700,592 common shares outstanding at September 30, 2007 and 8,211,977 share purchase warrants; 7,378,644 share purchase warrants are exercisable at \$0.27 to December 9, 2007, and 833,333 share purchase warrants are exercisable at US \$0.24 to August 20, 2009. On August 21, 2007, the Company completed a private placement of 833,333 units at a price of US \$0.24 per unit for gross proceeds of US \$200,000. Each unit consists of one common share and one common share warrant entitling the holder to purchase one common share at US \$0.24 for 24 months.

Business Development

Initial results from field trials using the Company's products have been positive and the results from the remaining trials are expected to be very positive. These results should statistically lend credibility to the Company's products and technology and are expected to facilitate increased interest in plant licenses. IBR continues to have discussions with interested parties regarding plant licenses, and feels confident that agreements can be reached for additional plants to be built.

In 2003, the Company signed a license agreement with Mining Organics Management. This agreement was assigned to Converted Organics Inc. ("COI") who arranged their financing early in 2007 to build the initial plant in Woodbridge, New Jersey. The Company sold a macerator to COI in June 2007 for \$335,000 (cost was \$272,977) and sold 17 shearators to COI in November 2007 for \$458,322 (cost was \$354,107). Under the terms of the agreement, COI is required to make total payments of \$352,000 by the end of February 2008 towards marketing costs and \$264,000 of this amount has been paid to date; they will make royalty payments once the plant is fully operating. COI has also placed a deposit of \$150,000 with the Company in respect of a planned second plant.

Transactions with Related Parties

During the three months ended September 30, 2007, the Company paid management fees of \$31,250 in lieu of salaries to directors. In addition, directors receive a fee of \$400 for each meeting or committee meeting attended and directors' fees and expenses of \$5,600 were expensed during the three months; \$64,524 of fees and expenses were due to directors at September 30, 2007.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007**

At September 30, 2007, the Company had loans of \$505,114 due to directors and a loan of \$114,205 due to Shearator Corporation, a company which includes certain directors of the Company. The loans are secured by a SA on the Company's assets, are payable on demand, and earn interest at 12% per annum. During the three months to September 30, 2007, the Company received new loans of \$21,000, converted \$16,122 of severance payments and \$114,205 of accounts payable into new loans, and repaid loans of \$231,728 to directors.

A promissory note of \$295,000 is due to a director, and is repayable on demand or upon receipt of a cumulative amount in excess of \$2,500,000 from technology sales, earns interest at 15% per annum, and is secured by a PPSA.

Disclosure Policies

The Company has disclosure policies in place to ensure that material information is released on a timely basis. The certifying officers of the Company have concluded that the disclosure controls and procedures as of September 30, 2007 are effective.

Internal Controls

The Company has designed and implemented a system of internal controls over its financial reporting. Due to the size of the staff involved in processing financial transactions and reporting on them, full segregation of duties that is normally required for full internal controls is not feasible. However, management has implemented approval processes to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of the financial statements for external purposes have been prepared in accordance with Canadian GAAP.

Additional Information

Additional information about International Bio Recovery Corporation can be found on SEDAR at www.sedar.com.