

CONSOLIDATED FINANCIAL STATEMENTS

INTERNATIONAL BIO RECOVERY CORPORATION

NORTH VANCOUVER, BRITISH COLUMBIA

JUNE 30, 2008 AND 2007

AUDITORS' REPORT

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND
DEFICIT

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



MANNING ELLIOTT
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AUDITORS' REPORT

To the Shareholders of
International Bio Recovery Corporation

We have audited the consolidated balance sheets of International Bio Recovery Corporation as at June 30, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

October 22, 2008

INTERNATIONAL BIO RECOVERY CORPORATION
CONSOLIDATED BALANCE SHEETS

June 30, 2008 and 2007

	2008	2007
ASSETS		
Current		
Cash	\$ 411,214	\$ -
Accounts receivable	18,797	507,202
Inventory (Note 5)	5,549	20,324
Deposits and prepaid expenses	4,999	18,404
	440,559	545,930
Property and equipment (Note 6)	2,087,710	2,440,246
Deferred development costs (Note 7)	236,938	242,777
Other assets	22,887	24,343
	\$ 2,788,094	\$ 3,253,296
LIABILITIES		
Current		
Bank loan (Note 8)	\$ -	\$ 90,861
Accounts payable and accrued expenses	764,663	1,177,728
Current portion of capital lease obligations (Note 9)	24,722	42,646
Customer deposits and unearned revenue	100,000	160,000
Loans payable (Note 10)	609,109	699,720
Promissory notes (Note 11)	295,000	445,000
	1,793,494	2,615,955
Capital lease obligations (Note 9)	42,446	78,461
	1,835,940	2,694,416
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	27,372,410	25,970,021
Contributed surplus (Note 13)	1,044,473	826,781
Deficit	(27,464,729)	(26,237,922)
	952,154	558,880
	\$ 2,788,094	\$ 3,253,296

Nature of Operations (Note 1)

Commitments (Note 19)

Subsequent Events (Note 21)

Contingencies (Note 22)

APPROVED ON BEHALF OF THE BOARD:

/s/ "Ben Van Dyk"

Ben Van Dyk, Director

/s/ "Doug Johnston"

Doug Johnston, Director

INTERNATIONAL BIO RECOVERY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
For the Years Ended June 30, 2008 and 2007

	2008	2007
REVENUE		
Plant licenses	\$ 510,000	\$ 1,450,000
Equipment and fertilizer sales	458,873	336,298
Other income	26,082	2,141
Waste collection fees	12,772	35,937
	1,007,727	1,824,376
EXPENSES		
Administration	661,752	956,218
Plant and operations	447,955	985,270
Amortization	382,648	468,438
Cost of equipment and product sales	377,765	300,170
Interest	248,740	176,259
Research and development	118,360	222,218
Sales and marketing	76,277	235,768
Interest on capital leases	8,133	19,771
	2,321,630	3,364,112
Loss before other income (expenses)	(1,313,903)	(1,539,736)
Gain (loss) on sale of property and equipment	-	(6,781)
Gain on write-off of liabilities	87,096	-
NET LOSS AND COMPREHENSIVE LOSS	(1,226,807)	(1,546,517)
Deficit, beginning of year	(26,237,922)	(24,691,405)
DEFICIT, end of year	\$ (27,464,729)	\$ (26,237,922)
BASIC AND DILUTED LOSS PER SHARE		
	\$ (0.03)	\$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
	38,710,000	34,867,259

INTERNATIONAL BIO RECOVERY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2008 and 2007

	2008	2007
OPERATIONS		
Net loss	\$ (1,226,807)	\$ (1,546,517)
Items not involving cash:		
Amortization	382,648	468,438
Stock-based compensation	217,692	245,005
Loss on sale of property and equipment	-	6,781
Gain on write-off of liabilities	(87,096)	-
	(713,563)	(826,293)
Changes in non-cash working capital balances:		
(Increase) decrease in accounts receivable	488,405	(436,068)
Decrease in inventory	14,775	299,962
Decrease in prepaid expenses and deposits	14,861	42,482
(Decrease) increase in accounts payable and accrued expenses	(525,969)	243,877
Increase in customer deposits and unearned revenue	100,000	25,000
CASH USED IN OPERATING ACTIVITIES	(621,491)	(651,040)
INVESTING		
Proceeds on sale of property and equipment	-	1,219
Purchase of property and equipment	(10,898)	(7,966)
CASH USED IN INVEST ACTIVITIES	(10,898)	(6,747)
FINANCING		
(Decrease) increase in loans payable	(50,611)	540,750
(Decrease) increase in promissory notes	(150,000)	150,000
(Decrease) increase in bank loans	(90,861)	2,978
Decrease in capital lease obligations	(67,314)	(35,941)
Shares issued for cash (net of issue costs)	1,402,389	-
CASH PROVIDED BY FINANCING ACTIVITIES	1,043,603	657,787
Increase in cash and cash equivalents	411,214	-
Cash, beginning of year	-	-
CASH, end of year	\$ 411,214	\$ -
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 143,755	\$ 115,792
Income taxes paid	\$ -	\$ -

INTERNATIONAL BIO RECOVERY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 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 biotechnology processes to provide a waste conversion service to customers who must 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 commercial-scale plant operations and technology to prospective plant operators and end-product consumers, and to create a fertilizer market. The Company sells technology licenses to other users and may take equity positions in plants.

At June 30, 2008 the Company had a working capital deficiency of \$1,352,935 (2007 - \$2,070,025) and incurred a net loss of \$1,226,807 for the year then ended (2007: \$1,546,517). 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, obtaining additional financing, and ultimately, generating profitable operations and positive operating cash flows.

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. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective July 1, 2007, the Company adopted new Canadian Institute of Chartered Accountants ("CICA") Handbook section 1506, "Accounting Changes", permitting accounting policy changes only in the event that a change is made within a primary source of generally accepted accounting principles ("GAAP"), or where a change is warranted to provide more relevant and reliable information. All accounting policy changes are to be applied retroactively, unless impracticable. Any prior period errors identified also require retroactive application. The revised standards did not have any material impact on the Company's financial statements.

Effective July 1, 2007, the Company adopted new CICA Handbook Sections 3855 "Financial Instruments - Recognition and Measurement", CICA 3861 "Financial Instruments - Disclosure and Presentation", CICA 3865 "Hedges", CICA 1530 "Comprehensive Income", CICA 3051 "Investments" and CICA 3251 "Equity". The new Handbook Sections establish standards governing the recognition, measurement, disclosure and presentation of financial instruments, when and how hedge accounting may be applied, the reporting and presentation of comprehensive income, accounting for investments subject to significant influence and for measuring and disclosing certain other non-financial instrument investments. The Company does not have any hedging relationships or investments that fall under these standards. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

In accordance with CICA 1530, "Comprehensive Income", and CICA 3251, "Equity", these sections provide standards for the reporting and presentation of comprehensive income, which represents the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income includes net income plus changes in unrealized gains or losses from changes in the fair market value of available-for sale investments, changes in the fair value of derivatives designated as cash flow hedges and currency translation adjustments on self-sustaining foreign operations. The Company does not have any derivative instruments or self-sustaining foreign operations and currently does not have available-for sale investments.

Under CICA 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for sale financial assets or other financial liabilities.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

2. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

All financial instruments, including derivatives, are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountant Handbook Section 3840, "Related Party Transactions". Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is impaired or sold at which time the amounts will be recorded in net income; financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for trading are measured at amortized cost, using the effective interest method of amortization. This new section also requires that transaction costs incurred in connection with the issuance of financial instruments either be capitalized and presented as a reduction of the carrying value of the related financial instrument or expensed as incurred. If capitalized, transaction costs must be amortized to income using the effective interest method. This Section does not permit the restatement of financial statements of prior periods.

The Company classified its financial instruments as follows:

Cash	held-for trading
Accounts receivable	loans and receivables
Bank loan	other financial liabilities
Accounts payable	other financial liabilities
Customer deposits	other financial liabilities
Loans payable	other financial liabilities
Promissory notes payable	other financial liabilities
Capital lease obligations	other financial liabilities

In addition, the Company has elected to account for transaction costs related to the acquisition or issuance of financial instruments as a reduction of the carrying value of the related financial instruments except for those classified as available for sale which are expensed as incurred. The Company did not have any available for sale instruments, held-to-maturity instruments and outstanding contracts with embedded derivatives at July 1, 2007.

As at June 30, 2008, the Company's financial instruments consist of cash, accounts receivable, accounts payable, customer deposits, loans payable, promissory notes, and capital lease obligations. The fair values of current assets and current liabilities approximate their carrying values due to the short-term maturity of the instruments. The fair value of the capital lease approximates its book value due to market prices for similar capital leases. The Company is not exposed to significant interest rate, currency exchange rate or credit risk arising from these financial instruments. The Company is not party to any derivative instruments.

There were no opening adjustments recorded on the adoptions of these standards.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation and basis of accounting – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, IBR Bio-Recovery (Van Is) Ltd. and Genica Inc., for the year ended June 30, 2008. All material intercompany balances and transactions have been eliminated upon consolidation.

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Inventory – Inventory consists of bagged and bulk fertilizer, spare parts and equipment held for sale and is carried at the lower of average cost or net realizable value.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition – The Company earns revenue from the licensing of its proprietary technology, either by way of territorial rights to sub-license the technology or through a license to operate a specific plant. Revenue includes technology transfer agreements, license fees and royalties based on a plant's gross revenue.

The Company recognizes license fees when non-refundable payments are received under plant license agreements.

Sales of fertilizer and equipment are recognized when delivery has occurred and title has passed to the customer under the terms of the contract, and collection is reasonably assured.

Waste collection fees are recognized when material is collected and delivered to the Company's plant.

Property and equipment – Property and equipment are recorded at cost and amortized over their estimated useful lives on a declining-balance basis at the following annual rates:

Plant and equipment	15%
Office building	5%
Other equipment	20-30%
Vehicles	30%

One-half of the above rates are applied in the year of acquisition.

Management tests for impairment whenever certain defined events or changes in circumstances indicate that the carrying amount of its property and equipment may not be recoverable. Management assesses the recoverability of these long-lived assets by comparing the projected undiscounted net cash flows associated with the related asset or asset group over their estimated remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

Research and development – Development costs relating to the development of certain biotechnological processes incurred before January 1, 1999, when the Company commenced production at its pilot plant, were deferred and are being amortized on a straight-line basis over 20 years. Research and development costs since that date have been expensed as incurred.

Management reviews annually the unamortized balance of deferred development costs against expected net future cash flows and the amortization period.

Government assistance – Government assistance, consisting of research grants, is recorded as a reduction of research and development expenses when there is reasonable assurance that the assistance will be realized.

Leases – Leases are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks incidental to the ownership of equipment are classified as capital leases. At the inception of a capital lease, the equipment and an obligation is recorded at its fair value. Equipment under a capital lease is amortized on a declining-balance basis at rates varying from 20 to 30% per annum, which approximates the equipment's estimated useful life.

All other leases are classified as operating leases.

Future income taxes – The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that future income tax assets will be realized.

INTERNATIONAL BIO RECOVERY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-based compensation - The Company has a stock option plan for directors, employees, and consultants as described in Note 14. The Company follows the recommendations in CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which provides standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. In accordance with these recommendations, stock options granted are recorded at their fair value over the vesting period as a compensation cost with a corresponding increase in contributed surplus. When the options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation.

Foreign currency translation - The financial statements are presented in Canadian dollars. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates at the balance sheet date. Non-monetary items are translated at historical exchange rates. Revenues and expenses are translated using average rates of exchange during the year. Exchange gains or losses arising from currency translation are included in the determination of net income.

Earnings per share – The Company uses the “treasury stock method” in computing earnings per share. Basic loss per common share is calculated on the net loss using the weighted average number of shares outstanding during the fiscal period.

For the years ended June 30, 2008 and 2007, the existence of warrants and stock options affects the calculation of loss per share on a fully diluted basis. As the effect of this dilution is to reduce the reported loss per share and diluted loss per share excludes all potential common shares if their effect is anti-dilutive, basic and diluted loss are the same.

Use of estimates – The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of estimates include the useful lives and recoverability of property and equipment, amortization, future income taxes and stock-based compensation. Management bases its estimates on historical experience and on other assumptions considered to be reasonable under the circumstances. However, actual results may differ from the estimates.

4. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2008, the Accounting Standards Board issued CICA Handbook Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Intangible Assets”, and Section 3450, “Research and Development Costs”. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for interim and annual periods relating to fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of the new standard and has not yet determined its effect on the Company’s financial statements.

In May 2007, the Accounting Standards Board issued CICA Handbook Section 3031, “Inventories”. Section 3031 introduces changes to the measurement and disclosure of inventory and converges with international financial reporting standards and is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

In December 2006, the Accounting Standards Board issued CICA Handbook Section 3862, “Financial Instruments - Disclosure” and Section 3863, “Financial Instruments - Presentation” which replace Section 3861, “Financial Instruments - Disclosure and Presentation”. Section 3862 increases the emphasis on recognition and management of the risks associated with recognized and unrecognized financial instruments. This section carries forward the former presentation requirements and is effective for fiscal years beginning on or after October 1, 2007. The Company is currently assessing the impact of the new disclosure standard and has not yet determined its impact on the Company’s financial statements.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In October 2006, the Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. This standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). On February 13, 2008, the AcSB confirmed that the standards will become effective for all publicly accountable enterprises in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

5. INVENTORY

	2008		2007	
Fertilizer	\$	-	\$	10,975
Packing materials and spare parts		5,549		9,349
	\$	5,549	\$	20,324

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value	
			2008	2007
Plant and equipment	\$ 5,413,661	3,475,466	1,938,195	2,280,231
Vehicles	356,192	298,387	57,805	82,578
Office building	140,706	79,723	60,983	64,194
Other equipment	305,722	274,995	30,727	13,243
	\$ 6,216,281	4,128,571	2,087,710	2,440,246

Plant and equipment and vehicles includes equipment subject to capital leases having recorded costs of \$87,942 (2007: \$87,942) and accumulated amortization of \$35,616 (2007: \$13,191), and other equipment includes equipment subject to a capital lease having a recorded cost of \$13,375 (2007: \$Nil) and accumulated amortization of \$1,338 (2007: \$Nil). Total amortization expense for the year was \$376,809 (2007: \$468,438).

7. DEFERRED DEVELOPMENT COSTS

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

	2008		2007	
Balance, beginning of year	\$	595,933	\$	595,933
Less accumulated amortization		(358,995)		(353,156)
Balance, end of year	\$	236,938	\$	242,777

8. BANK LOAN

The Company has a loan agreement with HSBC Bank Canada under a credit facility. The credit facility consists of a \$100,000 operating loan which 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. No amounts were drawn under this facility at June 30, 2008.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

9. CAPITAL LEASE OBLIGATIONS

Future minimum payments and the obligations due under capital leases are as follows:

	2008	2007
2008	\$ —	\$ 55,296
2009	32,422	50,688
2010	41,328	35,485
2011	5,842	—
2012	—	—
	79,592	141,469
Less amount representing interest at 13.79% (2007: 12.76%) per annum	(12,424)	(20,362)
	67,168	121,107
Less current portion	(24,722)	(42,646)
	\$ 42,446	\$ 78,461

10. 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 behind the general security agreement on the bank loan described in note 8, 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. The loans payable include \$351,904 (2007: \$609,720) due to directors, and \$257,205 (2007: \$nil) is due to a company whose directors include certain directors of the Company.

11. PROMISSORY NOTES

	2008	2007
The promissory note is due to a director, due on demand or upon receipt by the Company of a cumulative amount of \$2,500,000 resulting from technology sales, bears 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
The promissory note is 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
	\$ 295,000	\$ 445,000

The promissory notes rank pari-passu with each other and with the loans payable behind the general security agreement on the bank loan described in note 8.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

12. 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:

	2008		2007	
	Number	Amount	Number	Amount
Balance, beginning of year	34,867,259	\$ 25,970,021	34,867,259	\$ 25,970,021
Shares issued for:				
Private placements for cash	15,833,333	1,409,140	-	-
Less: share issuance costs	-	(6,751)	-	-
Balance, end of year	50,700,592	\$ 27,372,410	34,867,259	\$ 25,970,021

Private Placements

On August 10, 2007, the Company issued 833,333 shares for \$209,140 in connection with a private placement of 833,333 units at a price of \$0.25 per unit, each unit consisting of one common share and one share purchase warrant with one warrant exercisable at US\$0.24 per share for two years.

On April 16, 2008, the Company issued 15,000,000 shares for \$1,200,000 in connection with a private placement of 15,000,000 units at a price of \$0.08 per unit, each unit consisting of one common share and one share purchase warrant with one warrant exercisable at \$0.15 per share for two years.

No value was allocated to the warrants issued in connection with the private placements.

Escrow shares – Share capital includes 2,094,000 (2007: 2,094,000) common shares held in escrow, subject to release upon the Company achieving cash flow requirements, and subject to regulatory approval. Any common shares not released by September 30, 2008 will be cancelled (note 21).

Warrants – The Company has 15,833,333 (2007: 7,378,644) common share purchase warrants outstanding; 833,333 are exercisable at US \$0.24 to August 20, 2009; 15,000,000 are exercisable at \$0.15 to April 15, 2010; and 7,378,644 expired in the year.

13. CONTRIBUTED SURPLUS

	2008	2007
Balance, beginning of year	\$ 826,781	\$ 581,776
Fair value of stock options	217,692	245,005
Balance, end of year	\$ 1,044,473	\$ 826,781

14. STOCK OPTION PLAN AND STOCK-BASED COMPENSATION

The Company grants stock options to directors, officers, employees and consultants as compensation for services, pursuant to its Incentive Stock Option Plan (the "Plan") instituted in 1999. Options issued pursuant to the Plan have an exercise price as determined by the Board, subject to the pricing policies of the TSX Venture Exchange. Options have a maximum expiry period of five years from the grant date. The number of options, which may be issued under the plan, is limited to no more than 15% of the Company's issued and outstanding shares on the grant date. The aggregate number of options granted to any one optionee in a twelve month period is limited to 5% of the Company's issued shares at the time the options are granted.

Pursuant to the stock option plan, options granted are subject to vesting restrictions, such that one-quarter of the options vest immediately upon the grant date and in each subsequent six-month period thereafter such that the entire option will have vested eighteen months after the award date.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

14. STOCK OPTION PLAN AND STOCK-BASED COMPENSATION (continued)

The following table summarizes the continuity of the Company's stock options outstanding at June 30, 2008 and 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 June 30, 2008</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	-	(280,000)	1,880,000	\$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
-	-	-	-	500,000	-	500,000	\$0.25	Oct. 30, 2009
-	-	-	-	300,000	-	300,000	\$0.12	Apr. 12, 2010
250,000	2,810,000	(475,000)	2,585,000	800,000	(480,000)	2,905,000		

A summary of the change in the Company's stock options for the years ended June 30, 2008 and 2007 is presented below:

	<u>2008</u>		<u>2007</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	2,585,000	\$0.34	250,000	\$0.50
Granted	800,000	0.20	2,810,000	0.30
Cancelled or expired	(480,000)	(0.37)	(475,000)	(0.50)
Outstanding, end of year	2,905,000	\$0.30	2,585,000	\$0.34

Additional information regarding options outstanding and exercisable as at June 30, 2008 is as follows:

Exercise Price \$	<u>Options outstanding</u>			<u>Options exercisable</u>	
	<u>Outstanding #</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Weighted Average Exercise Price \$</u>	<u>Exercisable #</u>	<u>Weighted Average Exercise Price \$</u>
0.12	300,000	1.78	0.12	300,000	0.12
0.20-0.25	725,000	1.10	0.23	437,500	0.23
0.35	1,880,000	0.03	0.35	1,880,000	0.35
	2,905,000	0.48	0.30	2,617,500	0.30

The Company uses the Black-Scholes option pricing 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 year ended June 30, 2008 has been estimated using the Black-Scholes model to be \$217,692 (2007 - \$245,005) and is being recognized as an expense and included in contributed surplus over the vesting period. For purposes of the calculation, the following weighted average assumptions were used:

	<u>2008</u>	<u>2007</u>
Risk free interest rate	3.62%	4.18%
Expected dividend yield	0%	0%
Expected stock price volatility	77%	133%
Expected life of options	1.79 years	2 years

The grant-date fair value of options granted during the year ended June 30, 2008 was \$0.03 (2007 - \$0.18).

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

15. RELATED PARTY TRANSACTIONS

The Company had the following transactions with related parties, 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 \$207,158 (2007: \$205,408) were expensed for services provided by directors; \$82,158 (2007: \$34,507) of these fees are included in accounts payable and accrued expenses.
- b) Consulting fees of \$6,310 (2007: \$24,900) were expensed for services provided by directors and a company controlled by an officer; \$Nil (2007: \$7,400) of these fees are included in accounts payable and accrued expenses.
- c) Accounts payable and accrued expenses include fees payable to directors of \$75,200 (2007: \$57,200). Fees to directors of \$31,200 (2007: \$60,000) were expensed during the year.
- d) Loans payable include \$257,205 (2007: \$Nil) due to a company with directors in common. This amount is 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. Interest of \$72,465 (2007: \$Nil) has been accrued and is included in accounts payable and accrued expense.
- e) Loans payable are due to directors and a promissory note is due to a director, as described in Notes 10 and 11. Interest of \$117,281 (2007: \$97,374) was expensed on these loans payable and promissory notes, interest of \$90,561 (2007: \$24,244) was paid to directors, and interest payable to directors of \$103,564 (2007: \$80,573) is included in accounts payable and accrued expenses.

16. INCOME TAXES

Reconciliation to statutory rates - The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2008	2007
Canadian statutory income tax rate	32.57%	35.62%
Income tax recovery at statutory rate	\$ 416,486	\$ 550,869
Increase (decrease) resulting from:		
Non-deductible expenses	(72,248)	(617,834)
Share issuance costs	2,198	-
Expiry of non-capital loss	(1,444,284)	-
Change in enacted rates	(1,283,908)	-
Increase in valuation allowance	2,381,756	66,965
Income tax recoverable	\$ -	\$ -

Non-capital losses - The Company has non-capital losses of \$7,145,000 available to offset future taxable income, expiring from 2009 to 2028.

Scientific research and experimental development costs ("SRED") - The Company has SRED of \$5,589,786 available to offset future taxable income, expiring indefinitely.

The application of non-capital losses and SRED against future taxable income is subject to final determination by the Canada Revenue Agency.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

16. INCOME TAXES (continued)

Future tax assets - The tax effects of temporary differences measured at the substantively enacted rate that give rise to significant portions of the future tax assets at June 30, 2008 and 2007 are presented below:

	2008	2007
Canadian substantively enacted income tax rate	26%	35.63%
Non-capital loss carry-forwards	\$ 1,857,657	\$ 3,541,860
Property and equipment	1,693,407	2,186,201
SRED	1,453,344	2,383,829
Investment tax credit	725,821	-
Share issuance costs	1,404	-
Valuation allowance	(5,731,633)	(8,111,890)
	\$ -	\$ -

The Company has not recognized any other future income tax assets or liabilities. The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more likely than not that sufficient taxable income will not be realized during the carryforward periods to utilize all future tax assets.

17. 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 enhanced autogenous thermophilic aerobic digestion (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 2008, the Company received \$47,600 (2007: \$105,689) from NRC. Also during 2008, the Company reached a settlement agreement with a contractor who had provided research services to the Company, resulting in a requirement for the Company to repay \$22,289 of the funds received from NRC; the \$22,289 is recorded in accounts payable and accrued expenses. The repayment provision resulted in an aggregate reduction in research and development expenses of \$13,412 (2007: \$91,316).

During 2008, the Company signed a contribution agreement with Natural Sciences and Engineering Research Council of Canada ("NSERC") whereby NSERC would contribute a portion of an undergraduate student's salary. The Company has recorded an amount receivable of \$2,250 under the agreement and this repayment provision resulted in an aggregate reduction in research and development expenses of \$2,250.

18. NON-CASH TRANSACTION

During the year ended June 30, 2008, the Company acquired equipment of \$13,375 (2007: \$87,942) through a capital lease.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

19. 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 \$1,319,976 and the payments over the next five years are as follows:

2009	\$	97,776
2010		97,776
2011		97,776
2012		97,776
2013		97,776

The Company is obligated to make capital lease payments as described in Note 9.

20. 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 is as follows:

June 30, 2008	Technology Sales	Fertilizer Sales	Corporate	Total
Total assets	\$ -	2,254,295	533,799	2,788,094
Property and equipment	-	1,996,000	91,710	2,087,710
Revenues – Canada	-	12,772	26,082	38,854
Revenues – USA	458,873	-	-	458,873
Revenues – Ireland	500,000	-	-	500,000
Revenues - Iran	10,000	-	-	10,000
Net income (loss)	433,723	(845,082)	(815,448)	(1,226,807)
Significant non-cash items	-	-	13,375	13,375
Property and equipment additions	-	8,530	15,743	24,273
Amortization	-	372,647	10,001	382,648
Interest expense	-	-	256,873	256,873

June 30, 2007	Technology Sales	Fertilizer Sales	Corporate	Total
Total assets	\$ -	3,121,212	132,084	3,253,296
Property and equipment	-	2,362,808	77,438	2,440,246
Revenues – Canada	-	37,235	2,141	39,376
Revenues – USA	150,000	335,000	-	485,000
Revenues – Malaysia	1,250,000	-	-	1,250,000
Revenues - Iran	25,000	-	-	25,000
Revenues - Indonesia	25,000	-	-	25,000
Net income (loss)	1,214,232	(1,595,550)	(1,165,199)	(1,546,517)
Significant non-cash items	-	87,942	-	87,942
Property and equipment additions	-	93,103	2,805	95,908
Amortization	-	460,127	8,311	468,438
Interest expense	-	-	196,030	196,030

All of the Company's property and equipment is located in Canada.

During the year ended June 30, 2008, 95.1% (2007: 95.1%) of the Company's revenues were received from two customers.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

21. SUBSEQUENT EVENTS

On July 24, 2008, the Company granted 2,475,000 incentive stock options to employees, consultants, and directors. The options may be exercised at a price of \$0.15 until expiry on July 25, 2013.

On September 29, 2008, 2,094,000 common shares held in escrow were cancelled.

22. 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 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 year ended June 30, 2008, the Company had earned fees and profits that resulted in \$82,158 (2007 - \$40,000) of the settlement amount becoming due; the total earned amount of \$122,158 has been accrued in accounts payable and accrued expenses and earns interest at 12% per annum. Interest of \$9,248 was expensed on the unpaid amounts, and \$9,248 is included in accounts payable and accrued expenses. At June 30, 2008, \$2,842 remains contingently payable under the terms of the settlement.

23. COMPARATIVE FIGURES

Certain comparative figures for the year ended June 30, 2007 have been reclassified to conform to the presentation for the year ended June 30, 2008. Such reclassification is for presentation purposes only and has no effect on previously reported results.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2008**
(Report Prepared on October 27, 2008)

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 has 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, 2008.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Overall Performance

Year ended June 30	2006	2007	2008
Revenues	\$ 90,116	\$ 1,824,376	\$ 1,007,727
Loss before other income (expenses)	(3,035,975)	(1,539,736)	(1,313,903)
Gain on settlement of liabilities	206,815	-	87,096
Gain (loss) on sale of property and equipment	160,000	(6,781)	-
Write-down of deferred development costs	(235,000)	-	-
Impairment of property and equipment	(2,515,000)	-	-
Net loss	(5,419,160)	(1,546,517)	(1,226,807)
Net loss per share	\$ (0.17)	\$ (0.04)	\$ (0.03)
Total Assets	\$ 3,540,202	\$ 3,253,296	\$ 2,788,094
Long term liabilities	48,271	78,461	42,446

The Company is highly dependent on technology and license sales and supply contracts using its technology, and the timing of these revenue streams can materially affect revenues in any particular period. During the year ended June 30, 2008, the Company's revenue from license sales and equipment sales represented 96% (2007: 98%) of total revenues generated. In the year ending June 30, 2006, \$21,000 was generated from these areas; the resulting net loss was significantly higher in 2006.

	<u>Jul-Sept/06</u>	<u>Oct-Dec/06</u>	<u>Jan-Mar/07</u>	<u>Apr-Jun/07</u>	<u>Jul-Sept/07</u>	<u>Oct-Dec/07</u>	<u>Jan-Mar/08</u>	<u>Apr-Jun/08</u>
	<u>Q1 2007</u>	<u>Q2 2007</u>	<u>Q3 2007</u>	<u>Q4 2007</u>	<u>Q1 2008</u>	<u>Q2 2008</u>	<u>Q3 2008</u>	<u>Q4 2008</u>
Revenue								
Technology & license fees	\$1,050,000	\$ -	\$ -	\$ 400,000	\$ -	\$ -	\$ 10,000	\$ 500,000
Equipment & product sales	13,493	11,557	11,333	335,942	1,935	459,340	743	9,627
Interest & other income	-	1,102	1,039	-	-	-	-	26,082
Total Revenues	1,063,493	12,659	12,372	735,942	1,935	459,340	10,743	535,709
Gains on settlement of liabilities	-	-	-	-	-	-	-	87,096
Net Income (Loss)	86,634	(765,557)	(897,726)	30,132	(586,922)	(349,824)	(418,957)	128,896
Net Income (Loss) per share	\$ 0.00	\$ (0.02)	\$ (0.03)	\$ 0.00	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ 0.01
	<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>	<u>Dec. 31/07</u>	<u>Mar. 31/08</u>	<u>June 30/08</u>
Total Assets	3,614,693	3,338,881	3,179,924	3,253,296	2,762,601	2,615,294	2,490,655	2,788,094
Long term liabilities	112,923	103,791	94,331	78,461	49,354	44,778	40,060	42,446

The Company is pursuing revenues from 4 primary sources:

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

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.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Comparison of the year ended June 30, 2008 to the year ended June 30, 2007

During the current year, the Company generated revenue from license revenue of \$510,000, an equipment sale of \$458,873, waste collection fees of \$12,772, and other income of \$26,082. In the previous year, revenues were generated from license revenue of \$1,450,000, an equipment sale of \$335,000, waste collection fees of \$35,937, and other incomes of \$3,439.

The Company sold 17 shearators to Converted Organics Inc. ("COI") for \$458,873 and the cost of the equipment was \$354,107 to produce a gross profit on that sale of \$104,766; this cost is included in expenses. In the year ending June 30, 2007, the Company sold a macerator to COI for \$335,000 and the cost of the equipment was \$272,977 to produce a gross profit on that sale of \$62,023. Total expenses for the year were \$2,321,630 compared to \$3,364,112 in the previous year. The 31% decrease of \$1,042,482 was a result of reductions in almost all operations of the Company

Administration costs decreased by \$294,466 from \$956,218 in the prior year to \$661,752 in the current year. The major reductions were \$58,324 in legal, accounting and professional fees, \$83,504 in wages and management fees, \$50,530 in office expenses and supplies, and \$31,699 in directors' fees and expenses; all of these resulted from a reduction in total operations. Interest costs increased during the current year by \$72,481 to \$248,740, primarily due to increases in loans payable and promissory notes until the latter part of the year when some of the loans and promissory notes were paid down.

Plant and operations costs decreased by \$537,315 from \$985,270 in the prior year to \$447,955 in the current year. The reduction is a result of major cutbacks in plant operations in the spring of 2007 and further reductions in December 2007. The plant is now used exclusively to maintain research and development and as a demonstration facility when required, with minimal plant staff. Staffing costs during the year have been reduced by \$287,952, power, water, and sewer usage has been reduced by \$106,426 (almost a two-thirds reduction), supplies and materials have been reduced by \$49,271, and repairs and maintenance have been cut by \$34,148. As the plant is operating on a limited basis and with minimal staffing, these costs will continue at a reduced level.

Research and development costs decreased by \$103,858 from \$222,218 to \$118,360 in the current year. Factors contributing to this reduction were a) less use of contractors for a reduction of \$116,524, b) lower staffing resulting in a reduction of \$33,377, and c) reduced costs of \$25,624 for patent applications. These costs were offset by a reduction of \$75,654 in government grants. Funding has been provided by the National Research Council ("NRC") and the National Sciences and Engineering Research Council of Canada ("NSERC"); the NRC grant under the Industrial Research Assistance Program ("IRAP") began in 2004 and ended in March 2008 and the NSERC grant under the Undergraduate Student Research Award ("USRA") began in the spring of 2008 and ended at the end of August 2008.

Sales and marketing costs decreased by \$159,491 from \$235,768 to \$76,277 in the current year. Marketing efforts have been focused on the sale of plant licenses. During the current year, the Company saw a reduction of \$55,684 in management fees, a reduction of \$65,750 in commissions for license funds received, a reduction of \$52,542 on growing trials, and a reduction of \$8,125 on consultants to oversee the field trials and to negotiate sales commitments. Marketing costs were partially offset by contributions of \$132,000 under the provisions of a license sold to Converted Organics Inc. of Boston, Massachusetts.

The operating loss of \$1,313,903 was reduced by gains of \$87,096 on the settlement of liabilities. The net loss for the year ended June 30, 2008 was \$1,226,807, or \$0.03 per share, compared to a net loss of \$1,546,517, or \$0.04 per share, in the prior year.

INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Breakdown of Departmental Expenses
For the 12 Months Ending June 30
(Unaudited – prepared by Management)

	<u>June-08</u>	<u>June-07</u>
ADMINISTRATION:		
Wages, Management fees	251,361	334,865
Stock option expense	217,692	245,005
Legal, accounting and professional fees	82,677	141,001
Office expenses	52,061	102,591
Directors fees and expenses	31,699	63,398
Public company costs	22,374	22,712
Travel & entertainment	3,888	11,193
Other expenses	-	33,068
Rent & Property Tax	-	2,385
	661,752	956,218
PLANT AND OPERATIONS:		
Wages and benefits	195,107	483,059
Rent & Property Tax	153,869	216,183
Power, water and sewer	64,013	170,439
Repairs and maintenance	16,281	50,429
Other	9,785	6,989
Supplies & materials	8,900	58,171
	447,955	985,270
RESEARCH AND DEVELOPMENT:		
Wages and benefits	115,449	148,826
Patents	10,300	35,924
Other expenses	7,951	11,938
Contractors	322	116,846
Recoveries (NRC and NSERC)	(15,662)	(91,316)
	118,360	222,218
SALES AND MARKETING:		
Wages and benefits, and management fees	125,000	180,684
Consultants and contractors	48,751	56,876
Travel	21,626	36,585
Growing trials	7,400	59,942
Commissions	5,500	71,250
Other expenses	-	728
Recovery of expenses	(132,000)	(170,297)
	76,277	235,768

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Comparison of the three months to June 30, 2008 to the three months to June 30, 2007

During the three months ended June 30, 2008, the Company generated revenue from license sales of \$500,000, waste collection fees of \$9,627, and other income of \$26,082. In the same period in the previous year, revenues were generated from license sales of \$400,000, a sale of equipment for \$335,000, and waste collection fees of \$942.

Total expenses during the current three month period were \$493,909 compared to \$690,229 in the same period last year. Administration costs were \$172,306 higher than the previous year primarily due to an adjustment in stock based compensation of \$258,339 in the prior year. Plant and operations costs decreased by \$128,400 primarily due to reductions of \$73,539 in wages benefits and \$26,697 in power, water, and sewer usage due to significant reductions in plant operations . Research and development costs increased by \$32,020 primarily due to the expiry of the grant from National Research Council in March 2008 and the provision to repay \$22,289 of the grant as a result of a settlement agreement with a contractor. Marketing costs increased by \$64,084 as the prior year had a \$176,000 contribution to marketing costs from Converted Organics Inc. as part of their license agreement; these contributions offset an increase in the cost of consultants and field trials and the contribution ended in January 2008.

The operating profit for the three months ended June 30, 2008 was \$41,800, which was increased by gains of \$87,096 on the settlement of liabilities. The net profit for the three months was \$128,896, or \$0.01 per share, compared to a net profit of \$30,132, or \$0.00 per share, for the same period last year.

Financial Condition

At June 30, 2008, the Company had total liabilities of \$1,835,940, a decrease of \$858,476 from the year ended June 30, 2007, mainly due to payments on loans and promissory notes of \$617,516 and a decrease in accounts payable and accrued expenses of \$413,065. In addition, the bank loan at June 30, 2007 was repaid and the Company had cash balances at June 30, 2008 of \$411,214. The Company's working capital position at June 30, 2008 was a deficiency of \$1,352,935 (2007 – \$2,070,025) with long term capital leases of \$42,446.

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 50,700,592 common shares outstanding at June 30, 2008 and 15,833,333 share purchase warrants; 833,333 of the warrants are exercisable at US \$0.24 to August 20, 2009 and 15,000,000 are exercisable at \$0.15 to April 15, 2010.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Business Development

The Company is attempting to create demand for its end products through an organized growing trials program. Negotiations for the sale of technology licenses in several markets are in progress and the provisional patent covering the bacteria responsible for the beneficial properties in the end products has been re-filed.

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 \$458,873 (cost was \$354,107). Under the terms of the agreement, COI made total payments of \$352,000 towards marketing costs and the last payment of \$22,000 was received in March 2008; the agreement also requires COI to 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.

In April 2008, the Company announced the sale of a Master License Agreement to Recondo Holding Ltd. ("Recondo") covering up to seven plants in Ireland, Northern Ireland, and the United Kingdom. Recondo has made a non-refundable payment of \$500,000 against the initial Plant License Fee of \$1,250,000 with the balance expected within 120 days following the granting of an environmental permit. In addition to the license fees and equipment sales profits that the Company will receive, Recondo has granted the Company a 12.5% carried interest in the roll-out of Recondo's European plants.

Transactions with Related Parties

During the year ended June 30, 2008, the Company paid management fees of \$125,000 in lieu of salaries to a director who has a management position, and accrued \$82,158 as an amount payable to its former President and CEO under a severance agreement. In addition, directors receive a fee of \$400 for each meeting or committee meeting attended and directors' fees of \$31,200 were expensed during the twelve months; \$75,200 of the fees and expenses were due to directors at June 30, 2008.

At June 30, 2008, the Company had loans of \$351,904 due to directors and a loan of \$257,205 due to Shearator Corporation, a company which includes certain directors of the Company. The loans are secured by a charge on the Company's assets, are payable on demand, and earn interest at 12% per annum. During the year ended June 30, 2008, the Company received new loans from directors of \$159,700 and \$257,205 from Shearator, repaid loans of \$467,516 to directors, and re-classified \$40,000 of severance as accounts payable and accrued expenses.

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 charge on the Company's assets.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective July 1, 2007, the Company adopted new Canadian Institute of Chartered Accountants ("CICA") Handbook section 1506, "Accounting Changes", permitting accounting policy changes only in the event that a change is made within a primary source of generally accepted accounting principles ("GAAP"), or where a change is warranted to provide more relevant and reliable information. All accounting policy changes are to be applied retroactively, unless impracticable. Any prior period errors identified also require retroactive application. The revised standards did not have any material impact on the Company's financial statements.

Effective July 1, 2007, the Company adopted new CICA Handbook Sections 3855 "Financial Instruments - Recognition and Measurement", CICA 3861 "Financial Instruments - Disclosure and Presentation", CICA 3865 "Hedges", CICA 1530 "Comprehensive Income", CICA 3051 "Investments" and CICA 3251 "Equity". The new Handbook Sections establish standards governing the recognition, measurement, disclosure and presentation of financial instruments, when and how hedge accounting may be applied, the reporting and presentation of comprehensive income, accounting for investments subject to significant influence and for measuring and disclosing certain other non-financial instrument investments. The Company does not have any hedging relationships or investments that fall under these standards. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

In accordance with CICA 1530, "Comprehensive Income", and CICA 3251, "Equity", these sections provide standards for the reporting and presentation of comprehensive income, which represents the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income includes net income plus changes in unrealized gains or losses from changes in the fair market value of available-for sale investments, changes in the fair value of derivatives designated as cash flow hedges and currency translation adjustments on self-sustaining foreign operations. The Company does not have any derivative instruments or self-sustaining foreign operations and currently does not have available-for sale investments.

Under CICA 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for sale financial assets or other financial liabilities.

All financial instruments, including derivatives, are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountant Handbook Section 3840, "Related Party Transactions". Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is impaired or sold at which time the amounts will be recorded in net income; financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for trading are measured at amortized cost, using the effective interest method of amortization. This new section also requires that transaction costs incurred in connection with the issuance of financial instruments either be capitalized and presented as a reduction of the carrying value of the related financial instrument or expensed as incurred. If capitalized, transaction costs must be amortized to income using the effective interest method. This Section does not permit the restatement of financial statements of prior periods.

**INTERNATIONAL BIO RECOVERY CORPORATION
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FOR THE YEAR ENDED JUNE 30, 2008**

ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

The Company classified its financial instruments as follows:

Cash	held-for trading
Accounts receivable	loans and receivables
Bank loan	other financial liabilities
Accounts payable	other financial liabilities
Customer deposits	other financial liabilities
Loans payable	other financial liabilities
Promissory notes payable	other financial liabilities
Capital lease obligations	other financial liabilities

In addition, the Company has elected to account for transaction costs related to the acquisition or issuance of financial instruments as a reduction of the carrying value of the related financial instruments except for those classified as available for sale which are expensed as incurred. The Company did not have any available for sale instruments, held-to-maturity instruments and outstanding contracts with embedded derivatives at July 1, 2007.

As at June 30, 2008, the Company's financial instruments consist of cash, accounts receivable, accounts payable, customer deposits, loans payable, promissory notes, and capital lease obligations. The fair values of current assets and current liabilities approximate their carrying values due to the short-term maturity of the instruments. The fair value of the capital lease approximates its book value due to market prices for similar capital leases. The Company is not exposed to significant interest rate, currency exchange rate or credit risk arising from these financial instruments. The Company is not party to any derivative instruments.

There were no opening adjustments recorded on the adoptions of these standards.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2008, the Accounting Standards Board issued CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for interim and annual periods relating to fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of the new standard and has not yet determined its effect on the Company's financial statements.

In May 2007, the Accounting Standards Board issued CICA Handbook Section 3031, "Inventories". Section 3031 introduces changes to the measurement and disclosure of inventory and converges with international financial reporting standards and is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

In December 2006, the Accounting Standards Board issued CICA Handbook Section 3862, "Financial Instruments - Disclosure" and Section 3863, "Financial Instruments - Presentation" which replace Section 3861, "Financial Instruments - Disclosure and Presentation". Section 3862 increases the emphasis on recognition and management of the risks associated with recognized and unrecognized financial instruments. This section carries forward the former presentation requirements and is effective for fiscal years beginning on or after October 1, 2007. The Company is currently assessing the impact of the new disclosure standard and has not yet determined its impact on the Company's financial statements.

**INTERNATIONAL BIO RECOVERY CORPORATION
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FOR THE YEAR ENDED JUNE 30, 2008**

RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In October 2006, the Accounting Standards Board issued CICA Handbook Section 1535, "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. This standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). On February 13, 2008, the AcSB confirmed that the standards will become effective for all publicly accountable enterprises in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

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 June 30, 2008 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.