

**CONSOLIDATED FINANCIAL STATEMENTS**

**INTERNATIONAL BIO RECOVERY CORPORATION**

NORTH VANCOUVER, BRITISH COLUMBIA

JUNE 30, 2007 AND 2006

AUDITORS' REPORT

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

CONSOLIDATED STATEMENTS OF CASH FLOWS

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MANNING ELLIOTT  
CHARTERED ACCOUNTANTS

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## AUDITORS' REPORT

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To the Shareholders of  
International Bio Recovery Corporation

We have audited the consolidated balance sheets of International Bio Recovery Corporation as at June 30, 2007 and 2006 and the consolidated statements of earnings 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, 2007 and 2006 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

September 19, 2007

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

June 30, 2007 and 2006

	2007	2006
<b>ASSETS</b>		
Current		
Accounts receivable	\$ 507,202	\$ 71,134
Inventory (Note 3)	20,324	320,286
Deposits and prepaid expenses	18,404	65,886
	545,930	457,306
Property and equipment (Note 4)	2,440,246	2,779,227
Deferred development costs (Note 5)	242,777	284,326
Other assets	24,343	19,343
	\$ 3,253,296	\$ 3,540,202
<b>LIABILITIES</b>		
Current		
Bank loan (Note 6)	\$ 90,861	\$ 87,883
Accounts payable and accrued expenses	1,177,728	933,851
Current portion of capital lease obligations (Note 7)	42,646	20,835
Customer deposits and unearned revenue	160,000	135,000
Loans payable (Note 8)	699,720	158,970
Promissory notes (Note 9)	445,000	295,000
	2,615,955	1,631,539
Capital lease obligations (Note 7)	78,461	48,271
	2,694,416	1,679,810
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	25,970,021	25,970,021
Contributed surplus (Note 11)	826,781	581,776
Deficit	(26,237,922)	(24,691,405)
	558,880	1,860,392
	\$ 3,253,296	\$ 3,540,202

APPROVED ON BEHALF OF THE BOARD:

“Ben Van Dyk”  
 \_\_\_\_\_  
 Director

“Doug Johnston”  
 \_\_\_\_\_  
 Director

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT**  
For the Years Ended June 30, 2007 and 2006

	2007	2006
<b>REVENUE</b>		
Plant licenses	\$ 1,450,000	\$ 21,000
Equipment and fertilizer sales	336,298	5,305
Waste collection fees	35,937	42,874
Other income	2,141	20,937
	<b>1,824,376</b>	<b>90,116</b>
<b>EXPENSES</b>		
Plant and operations	985,270	814,936
Administration	956,218	754,590
Amortization	468,438	787,885
Cost of equipment and product sales	300,170	22,181
Sales and marketing	235,768	267,549
Research and development	222,218	343,450
Interest	176,259	134,669
Interest on capital leases	19,771	831
	<b>3,364,112</b>	<b>3,126,091</b>
Loss before other income (expenses)	<b>(1,539,736)</b>	<b>(3,035,975)</b>
Gain (loss) on sale of property and equipment	(6,781)	160,000
Gains on settlements of liabilities	-	206,815
Write-down of deferred development costs (Note 5)	-	(235,000)
Impairment of property and equipment (Note 4)	-	(2,515,000)
<b>NET LOSS</b>	<b>(1,546,517)</b>	<b>(5,419,160)</b>
Deficit, beginning of year	<b>(24,691,405)</b>	<b>(19,272,245)</b>
<b>DEFICIT, end of year</b>	<b>\$ (26,237,922)</b>	<b>\$ (24,691,405)</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$ (0.04)</b>	<b>\$ (0.17)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>34,867,259</b>	<b>31,345,705</b>

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2007 and 2006

	<b>2007</b>	<b>2006</b>
<b>OPERATIONS</b>		
Net loss	\$ (1,546,517)	\$ (5,419,160)
Items not involving cash:		
Amortization	468,438	787,885
Stock-based compensation	245,005	65,813
Loss (gain) on sale of property and equipment	6,781	(160,000)
Impairment of property and equipment	-	2,515,000
Write-down of deferred development costs	-	235,000
Gains on settlements of liabilities	-	(206,815)
	<b>(826,293)</b>	<b>(2,182,277)</b>
Changes in non-cash working capital balances:		
Increase in accounts receivable	(436,068)	(28,254)
Decrease (increase) in inventory	299,962	(262,562)
Decrease in prepaid expenses and deposits	42,482	205,098
Increase in accounts payable and accrued expenses	243,877	281,296
Increase (decrease) in customer deposits and unearned revenue	25,000	(13,624)
	<b>(651,040)</b>	<b>(2,000,323)</b>
<b>INVESTING</b>		
Proceeds on sale of property and equipment	1,219	600,000
Increase in property and equipment	(7,966)	(116,838)
	<b>(6,747)</b>	<b>483,162</b>
<b>FINANCING</b>		
Increase (decrease) in loans payable	540,750	(172,610)
Increase (decrease) in promissory notes	150,000	(330,000)
Increase (decrease) in bank loans	2,978	(121,113)
Decrease in capital lease obligations	(35,941)	(8,352)
Shares issued for cash (net of issue costs)	-	1,989,500
	<b>657,787</b>	<b>1,357,425</b>
Decrease in cash and cash equivalents	-	(159,736)
Cash and cash equivalents, beginning of year	-	159,736
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ -</b>	<b>\$ -</b>

**SUPPLEMENTAL CASH FLOW INFORMATION**

Interest paid	\$ 115,792	\$ 127,877
Income taxes paid	\$ -	\$ -

# INTERNATIONAL BIO RECOVERY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2007 and 2006

### 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, 2007 the Company had a working capital deficiency of \$2,070,025 (2006 - \$1,154,890) and incurred a net loss of \$1,546,517 for the year then ended (2006: \$5,419,160). 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. 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, 2007.

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.

**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.

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended June 30, 2007 and 2006

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

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.

**Financial instruments** – The Company's financial instruments consist of accounts receivable, bank loan, accounts payable, customer deposits, loans payable, promissory notes, and capital lease obligations. The carrying values of current assets and current liabilities approximate their fair value due to their short maturities. The Company is subject to interest rate risk as its bank loan incurs interest at a variable rate based on bank prime.

It is management's opinion that the Company is not exposed to significant interest rate, currency exchange rate, or credit risks arising from its other financial instruments and that their fair values approximate their carrying values, except where separately disclosed.

**Future income taxes** – The Company uses the 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. 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.

**Stock-based compensation** - The Company has a stock option plan for directors, employees, and consultants as described in Note 12. The Company recognizes an expense for the fair value of options granted and uses the Black-Scholes option-pricing model to estimate the fair value of each stock option at the date of grant. Any consideration received on the exercise of stock options is credited to share capital.

**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, 2007 and 2006, 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, fully diluted loss per share information has not been presented.

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended June 30, 2007 and 2006

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Use of estimates in the preparation of financial statements** – 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, 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.

**3. INVENTORY**

	2007	2006
Fertilizer	\$ 10,975	\$ 33,415
Packing materials and spare parts	9,349	13,894
Equipment held for sale	-	272,977
	<b>\$ 20,324</b>	<b>\$ 320,286</b>

**4. PROPERTY AND EQUIPMENT**

	Cost	Accumulated Amortization	Net Book Value	
			2007	2006
Plant and equipment	\$ 5,413,662	3,133,431	2,280,231	2,678,161
Vehicles	356,192	273,614	82,578	11,183
Office building	140,706	76,512	64,194	67,571
Other equipment	281,448	268,205	13,243	22,312
	<b>\$ 6,192,008</b>	<b>3,751,762</b>	<b>2,440,246</b>	<b>2,779,227</b>

Plant and equipment and vehicles includes equipment subject to capital leases having recorded costs of \$87,942 (2006: \$71,349) and accumulated amortization of \$13,191 (2006: \$10,702). Total amortization expense for the year was \$468,438 (2006: \$787,885).

Management assessed the recoverability of these assets by using a discounted cash flow analysis and recorded an impairment charge of \$2,515,000 for the year ended June 30, 2006. The impairment charge was deducted from the cost of plant and equipment.

**5. DEFERRED DEVELOPMENT COSTS**

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

	2007	2006
Balance, beginning of year	\$ 595,933	\$ 830,933
Less: write-down	-	(235,000)
	<b>595,933</b>	<b>595,933</b>
Less accumulated amortization	<b>(353,156)</b>	<b>(311,607)</b>
Balance, end of year	<b>\$ 242,777</b>	<b>\$ 284,326</b>

Amortization expense for the year was \$41,549 (2006: \$41,549).

During the year ended June 30, 2006, the Company determined that the expected future cash flows from its deferred development costs would not be sufficient to recover their carrying value, and recorded a write-down of deferred development costs of \$235,000.

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended June 30, 2007 and 2006

**6. 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.

**7. CAPITAL LEASE OBLIGATIONS**

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

	2007	2006
2007	\$ -	\$ 28,716
2008	55,296	28,716
2009	50,688	26,323
2010	35,485	-
	141,469	83,755
Less amount representing interest at 12.76% (2006: 13.15%) per annum	(20,362)	(14,649)
	121,107	69,106
Less current portion	(42,646)	(20,835)
	\$ 78,461	\$ 48,271

**8. 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 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; \$609,720 of the loans payable are due to directors.

**9. PROMISSORY NOTES**

	2007	2006
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	-
	\$ 445,000	\$ 295,000

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 6.

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended June 30, 2007 and 2006

**10. 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:

	2007		2006	
	Number	Amount	Number	Amount
Balance, beginning of year	34,867,259	\$ 25,970,021	27,459,852	\$ 23,980,521
Shares issued for:				
Private placements	-	-	7,407,407	2,000,000
Less: share issuance costs	-	-	-	(10,500)
Balance, end of year	34,867,259	\$ 25,970,021	34,867,259	\$ 25,970,021

**Escrow shares** – Share capital includes 2,094,000 (2006: 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 released by September 30, 2008 will be cancelled.

**Warrants** – The Company has 7,378,644 (2006: 7,378,644) common share purchase warrants outstanding, exercisable at \$0.27 to December 9, 2007.

**11. CONTRIBUTED SURPLUS**

	2007	2006
Balance, beginning of year	\$ 581,776	\$ 515,963
Fair value of stock options granted	245,005	65,813
Balance, end of year	\$ 826,781	\$ 581,776

**12. STOCK OPTION PLAN AND STOCK-BASED COMPENSATION**

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, 2006 and June 30, 2007:

<u>Outstanding at June 30, 2005</u>	<u>Granted</u>	<u>(Expired/Cancelled)</u>	<u>Outstanding at June 30, 2006</u>	<u>Granted</u>	<u>(Expired/Cancelled)</u>	<u>Outstanding at June 30, 2007</u>	<u>Price</u>	<u>Expiry Date</u>
30,000	-	(30,000)	-	-	-	-	\$0.70	Sept. 15, 2005
2,215,000	-	(2,215,000)	-	-	-	-	\$0.50	June 7, 2006
165,000	-	(165,000)	-	-	-	-	\$0.50	June 20, 2007
-	200,000	-	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	\$0.35	July 12, 2008
-	-	-	-	400,000	(250,000)	150,000	\$0.35	July 31, 2008
-	-	-	-	225,000	-	225,000	\$0.20	Jan. 23, 2009
2,410,000	250,000	(2,410,000)	250,000	2,810,000	(475,000)	2,585,000		

The following table summarizes stock options outstanding at June 30, 2006 and June 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>
2007:	2,585,000	1,442,500	\$0.20 – 0.50	\$0.34	1.08 years
2006:	250,000	62,500	\$0.25 - \$0.50	\$0.30	1.81 years

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended June 30, 2007 and 2006

**12. STOCK OPTION PLAN AND STOCK-BASED COMPENSATION** (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 up to five 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 Company's issued shares at the time the options are granted.

A summary of the change in the Company's stock option plan for the years ended June 30, 2007 and 2006 is presented below:

	2007		2006	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of year	250,000	\$0.30	2,410,000	\$0.50
Granted	2,810,000	0.34	250,000	0.30
Cancelled or expired	(475,000)	(0.31)	(2,410,000)	(0.50)
Outstanding, end of year	<b>2,585,000</b>	<b>\$0.34</b>	250,000	\$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, 2007 has been estimated using the Black-Scholes model to be \$245,005 (2006 - \$65,813) 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>2007</u>	<u>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 year ended June 30, 2007 was \$0.18 (2006 - \$0.15).

**13. 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 \$205,408 (2006: \$250,000) were expensed for services provided by directors; \$34,507 (2006: \$11,146) of these fees are included in accounts payable and accrued expenses.
- b) Consulting fees of \$24,900 (2006: \$nil) were expensed for services provided by directors; \$7,400 (2006: \$nil) of these fees are included in accounts payable and accrued expenses.
- c) Accounts payable and accrued expenses include fees payable to directors of \$57,200 (2006: \$21,200). Fees to directors of \$60,000 (2006: \$60,500) were expensed during the year.

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended June 30, 2007 and 2006

**13. RELATED PARTY TRANSACTIONS** (continued)

- d) Accounts payable and accrued expenses include \$114,205 (2006: 114,205) due to Shearator Corporation ("Shearator") with respect to equipment purchased from Shearator. 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. Directors of Shearator include certain directors of the Company.
- e) Loans payable are due to directors and a promissory note is due to a director, as described in Notes 8 and 9. Interest of \$97,374 (2006: \$101,350) was expensed on these loans payable and promissory notes, interest of \$24,244 (2006: \$58,221) was paid to directors, and interest payable to directors of \$80,573 (2006: \$7,623) is included in accounts payable and accrued expenses.

**14. 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:

	2007	2006
Canadian statutory income tax rate	35.62%	35.62%
Income tax recovery at statutory rate	\$ 550,869	1,930,305
Increase (decrease) resulting from:		
Non-deductible expenses	(617,834)	(1,578,023)
Valuation allowance	66,965	(352,282)
Income tax recoverable	\$ -	-

**Non-capital losses** - The Company has non-capital losses of \$9,943,459 available to offset future taxable income, expiring from 2008 to 2027.

**Scientific research and experimental development costs ("SRED")** - The Company has SRED of \$6,692,390 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.

**Future tax assets** - The tax effects of temporary differences that give rise to significant portions of the future tax assets at June 30, 2007 and 2006 are presented below:

	2007	2006
Non-capital loss carry-forwards	\$ 3,541,860	\$ 4,479,113
Property and equipment	2,186,201	1,693,708
SRED	2,383,829	1,487,354
Valuation allowance	(8,111,890)	(7,660,175)
	\$ -	-

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.

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended June 30, 2007 and 2006

**15. 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 2007, the Company received \$105,689 (2006: \$129,664) from NRC and accrued \$11,899 (2006: \$26,272) as government assistance receivable, resulting in an aggregate reduction in research and development expenses of \$91,316 (2006: \$155,936). Under the terms of the contribution agreement, the Company may receive further NRC contributions of up to \$35,701 through March 2008.

**16. NON-CASH TRANSACTION**

During the year ended June 30, 2007, the Company acquired equipment of \$87,942 through a capital lease.

**17. 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 \$1,417,752 and the payments over the next five years are as follows:

2008	\$	97,776
2009		97,776
2010		97,776
2011		97,776
2012		97,776

The Company is obligated to make capital lease payments as described in Note 7.

**18. 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, 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	(1,062,331)	(1,158,418)	(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

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended June 30, 2007 and 2006

**18. SEGMENTED INFORMATION** (continued)

June 30, 2006	Technology Sales	Fertilizer Sales	Corporate	Total
Total assets	\$ -	3,293,956	246,246	3,540,202
Property and equipment	-	2,689,344	89,883	2,779,227
Revenues – Canada	-	48,179	20,937	69,116
Revenues - Iran	11,000	-	-	11,000
Revenues - Indonesia	10,000	-	-	10,000
Net loss	(246,549)	(4,380,616)	(791,995)	(5,419,160)
Significant non-cash items	-	71,349	-	71,349
Property and equipment additions	-	106,998	9,840	116,838
Amortization	-	763,228	24,657	787,885
Interest expense	-	-	135,500	135,500

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

During the year ended June 30, 2007, 68.5% of the Company's revenues were received from one customer and 26.6% of revenues were received from a second customer. During the year ended June 30, 2006, no customer accounted for more than 15% of revenues.

**19. SUBSEQUENT EVENTS**

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.

**20. 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 year ended June 30, 2007, the Company had earned fees and profits that resulted in \$40,000 of the settlement amount becoming due; this amount was accrued and with the consent of the individual, was subsequently converted into a loan as described in note 8. At June 30, 2007, \$85,000 remains contingently payable under the terms of the settlement.

**21. COMPARATIVE FIGURES**

Certain of the amounts for the year ended June 30, 2006 have been reclassified to conform to the presentation for the year ended June 30, 2007. 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, 2007  
Report Prepared on October 29, 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, to demonstrate operations to prospective technology and fertilizer buyers, and to produce low volumes of fertilizer for sale. 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 and medium term focus is to produce fertilizer for field tests, 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.

**Overall Performance**

<u>Year ended June 30</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues	\$ 1,694,297	\$ 90,116	\$ 1,824,376
Loss before other income (expenses)	(1,682,938)	(3,035,975)	(1,539,736)
Gain on settlement of liabilities	131,954	206,815	-
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	(1,550,984)	(5,419,160)	(1,546,517)
Net loss per share	\$ (0.06)	\$ (0.17)	\$ (0.04)
Total Assets	\$ 7,403,918	\$ 3,540,202	\$ 3,253,296
Long term liabilities	-	48,271	78,461

**INTERNATIONAL BIO RECOVERY CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

Overall Performance (continued)

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 years ended June 30, 2007 and June 30, 2005, the Company's revenue from license sales and equipment sales represented 98% (2005: 97%) 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.

	Jul-Sept/05 <b>Q1 2006</b>	Oct-Dec/05 <b>Q2 2006</b>	Jan-Mar/06 <b>Q3 2006</b>	Apr-Jun/06 <b>Q4 2006</b>	Jul-Sept/06 <b>Q1 2007</b>	Oct-Dec/06 <b>Q2 2007</b>	Jan-Mar/07 <b>Q3 2007</b>	Apr-Jun/07 <b>Q4 2007</b>
<u>Revenue</u>								
Technology & license fees	\$ -	\$ -	\$ -	\$ 21,000	\$1,050,000	\$ -	\$ -	\$ 400,000
Equipment & product sales	13,709	10,961	17,474	6,035	13,493	11,557	11,333	335,942
Interest & other income	70	566	14,882	5,419	-	1,102	1,039	-
Total Revenues	13,779	11,527	32,356	32,454	1,063,493	12,569	12,372	735,942
Net Income (Loss)	(595,965)	(551,866)	(714,672)	(3,556,657)	86,634	(781,138)	(897,726)	45,713
Net Income (Loss) per share	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.11)	\$ 0.00	\$ (0.02)	\$ (0.03)	\$ 0.00
	<b>Sept. 30/05</b>	<b>Dec. 31/05</b>	<b>Mar. 31/06</b>	<b>June 30/06</b>	<b>Sept. 30/06</b>	<b>Dec. 31/06</b>	<b>Mar. 31/07</b>	<b>June 30/07</b>
Total Assets	7,044,748	7,720,496	7,010,212	3,540,202	3,614,693	3,338,881	3,179,924	3,253,296
Long term liabilities	-	-	-	48,271	112,923	103,791	94,331	78,461

The Company anticipates 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.

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 year ended June 30, 2007 to the year ended June 30, 2006**

During the current year, the Company generated revenue 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. In the previous year, revenues were generated from license revenue of \$21,000, waste collection fees of \$42,874 and other incomes of \$26,242.

The Company sold a macerator that had been held in inventory, for \$335,000 and the cost of the equipment was \$272,977 to produce a gross profit on that sale of \$62,023; this cost is included in expenses. Total expenses for the year were \$3,091,135 compared to \$3,126,091 in the previous year. The decrease of \$34,956 was primarily impacted by six factors – a) an increase in administration costs of \$201,628, b) an increase in plant and operations costs of \$170,334, c) a decrease in amortization of \$319,447, d) a decrease in research and development costs of \$121,232, e) the \$272,977 cost of the macerator, and f) an increase of \$60,530 in interest costs.

Administration costs increased by \$201,628 from \$754,590 in the prior year to \$956,218 in the current year, primarily due to an increase in stock option expense of \$178,192; the Company granted 2,810,000 stock options during the current year. Interest costs increased by \$60,530 to \$196,030 due to an increase in loans payable and promissory notes.

**INTERNATIONAL BIO RECOVERY CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

Comparison of the year ended June 30, 2007 to the year ended June 30, 2006 (continued)

Plant and operations costs increased by \$170,334 from \$814,936 in the prior year to \$985,270 in the current year, primarily due to increased staffing costs of \$186,395. This increase was directly related to staffing for the addition of an evaporator towards the end of the prior year, and the requirement to have product available for the 2007 field trials. During April and May 2007, the Company shipped 36 tonnes of granular fertilizer and 9.08 tonnes of liquid fertilizer to eastern Canada for field trials. Following the completion of product for field trials, the Company reduced its staffing in the plant to the level required to maintain research and development and demonstration capacity.

Amortization during the year was reduced by \$319,447 to \$468,438. This reduction was a result of lower property and equipment and deferred development cost values at the beginning of the fiscal year due to impairment charges of \$2,515,000 against property and equipment and a write-down of \$235,000 on deferred development charges for the year ended June 30, 2006.

Research and development costs decreased by \$121,232 to \$222,218 in the current year. Factors contributing to this reduction were a) less use of contractors for a reduction of \$137,651, and b) lower staffing resulting in a reduction of \$84,198; these were offset by a \$35,924 cost for a provisional application for a U.S. patent covering bacteria that have been identified as growth promoters and disease suppressants, and a reduction of \$64,620 in National Research Council's Industrial Research Assistance Program ("IRAP") 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 \$35,701 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 year, the Company paid \$71,250 in commissions for license funds received, \$59,942 on field trials, and \$56,876 on consultants to oversee the field trials and to negotiate sales commitments. Marketing costs were partially offset by contributions of \$176,000 under the provisions of a license sold to Converted Organics Inc. of Boston, Massachusetts.

The net loss for the year ended June 30, 2007 was \$1,546,517, or \$0.04 per share, compared to a net loss of \$5,419,160 or \$0.17 per share, in the prior year.

**INTERNATIONAL BIO RECOVERY CORPORATION**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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

	<u>June-07</u>	<u>June-06</u>
<b>PLANT AND OPERATIONS:</b>		
Wages and benefits	483,059	296,664
Rent & Property Tax	216,183	166,460
Power, water and sewer	170,439	133,089
Repairs and maintenance	50,429	108,891
Supplies & materials	58,171	98,634
Other	6,989	11,198
	<u><b>985,270</b></u>	<u><b>814,936</b></u>
<b>ADMINISTRATION:</b>		
Wages, Management fees	334,865	344,350
Stock option expense	245,005	65,813
Legal, accounting and professional fees	141,001	114,420
Office expenses	102,591	84,205
Directors fees and expenses	63,398	63,327
Other expenses	33,068	1,363
Public company costs	22,712	21,477
Travel & entertainment	11,193	27,981
Rent & Property Tax	2,385	31,654
	<u><b>956,218</b></u>	<u><b>754,590</b></u>
<b>SALES AND MARKETING:</b>		
Wages and benefits, and management fees	180,684	188,000
Commissions	71,250	6,750
Growing trials	59,942	-
Consultants and contractors	56,876	-
Travel	36,585	29,025
Other expenses	728	43,774
Recovery of expenses	(170,297)	-
	<u><b>235,768</b></u>	<u><b>267,549</b></u>
<b>RESEARCH AND DEVELOPMENT:</b>		
Wages and benefits	148,826	233,024
Contractors	116,846	254,497
Patents	35,924	-
Other expenses	11,938	11,865
Recovery (IRAP)	(91,316)	(155,936)
	<u><b>222,218</b></u>	<u><b>343,450</b></u>

**INTERNATIONAL BIO RECOVERY CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Comparison of the three months to June 30, 2007 to the three months to June 30, 2006**

During the three months ended June 30, 2007, the Company generated revenue from license sales of \$400,000, a sale of equipment of \$335,000, and waste collection fees of \$942. In the same period in the previous year, revenues were generated from waste collection fees of \$2,257, fertilizer sales and tipping fees of \$24,778 and other income of \$5,419 associated with work done by GVRD on its North Vancouver site.

Total expenses during the current three month period were \$417,252 compared to \$1,001,330 in the same period last year. Expenses in all departments other than plant and operations were reduced, primarily due to staff reductions.

Administration costs were \$396,259 lower than the previous year primarily due to an adjustment in stock based compensation of \$201,635 and lower management fees of \$79,692 due to the departure of the former President and CEO in July 2006. Plant and operations costs increased by \$17,793 primarily due to large repair and maintenance charges in 2006 associated with the installation of an evaporator offset by higher wages costs. Amortization costs were lower by \$85,745 as a result of lower property and equipment and deferred development cost values due to impairment charges at the end of June 2006. Research and development costs were \$142,443 lower as the Company reduced staff and did not use outside consultants as much as in previous periods. Marketing costs were lower by \$30,956 due to 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.

The net profit for the three months ended June 30, 2007 to \$45,713, or \$0.00 per share, compared to a net loss of \$3,556,657, or \$0.11 per share, for the same period last year. The three month period to June 30, 2006 was largely impacted by an impairment charge of \$2,515,000 on property and equipment and a write-down of \$235,000 on deferred development costs.

**Financial Condition**

At June 30, 2007, the Company had total liabilities of \$2,694,416, an increase of \$1,014,606 from the year ended June 30, 2006, mainly due to additional loans and promissory notes of \$690,750 and an increase in accounts payable and accrued expenses of \$232,160. The Company's working capital position at June 30, 2007 was a deficiency of \$2,070,025 (2006 – \$1,154,890) with long term capital leases of \$78,461.

Since December 2004, the Company has received support from IRAP for the Company's process and products characterization project; the total support available, after amendments, is \$342,500. As of June 30, 2007, a total of \$35,701 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 34,867,259 common shares outstanding at June 30, 2007 and 7,378,644 share purchase warrants exercisable at \$0.27 per share up to December 9, 2007. No common shares were issued during the year. 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.

**INTERNATIONAL BIO RECOVERY CORPORATION  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**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 will "prove" the Company's 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 New York City. This agreement was assigned to Converted Organics Inc. ("COI") who arranged their financing early in 2007 to build the initial plant. The Company sold the macerator held in inventory to COI and arranged for the purchase of 17 shearators for COI's plant. Under the terms of the agreement, COI will pay US \$220,000 over 10 months towards marketing costs and 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 year ended June 30, 2007, the Company paid management fees of \$205,408 in lieu of salaries to directors, and \$24,900 to a director who provided consulting services. In addition, directors receive a fee of \$400 for each meeting or committee meeting attended and directors' fees and expenses of \$63,398 were expensed during the year and \$58,924 of these fees and expenses were due to directors at the end of the year.

At June 30, 2007, the Company had loans of \$649,720 due to four directors. The loans are secured by a PPSA on the Company's assets, are payable on demand, and earn interest at 12% per annum. During the year, the Company received new loans of \$610,750 and repaid loans of \$120,000 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 June 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](http://www.sedar.com).