

INTERNATIONAL DALECO CORPORATION MID-YEAR REPORT 2008

2008 has been shaping up as our breakout year with revenues up over 55% for the fiscal year. We expect substantial ongoing growth, within the market sectors we participate, for our current programs. In a fundamental sense, we are at the early revenue growth phase of marketing initiatives we have been working on during the past few years to establish our technology as a superior green alternative to traditional chemicals or infrastructure expansion.

We are continuing to see the positive results of our business development activities in the continued expansion of the municipal and industrial wastewater client-base, such as food processors (Kraft Foods, Dairy Farmers of America), where our reputation for ground-breaking performance enhancements is catching on within specific market segments and operators. A good example is the municipal collection system market where, from a hard-earned base of clients, we are now experiencing the transition to securing major international operators.

This past year, we created our first entry into the green cleaning marketplace with a private label line for a very large industrial supply group (MSC Industrial Direct - \$1.6B) that is now beginning to ramp up. Our first customer was the United States Postal Service (USPS) for their vehicle washing and maintenance yards. MSC indicates that they believe we will begin to see strong results in the coming months as their internal promotional efforts take hold. This development effort also tied into the transition of our blending operations to sites in California and New Jersey, which dramatically lowered our manufacturing and shipping costs.

The shifting of our manufacturing operations has allowed us the ability to improve our gross profit margins, with the additional flexibility to support new program development efforts, such as the optimization of anaerobic digesters. This new application of our proprietary bio-organic catalyst composition, to the highly desirous area of renewable energy from waste (biomethane), has resulted in substantial increases in biomethane yields (+100%) and lower transportation costs, which are critical issues in today's high energy cost environment. It greatly expands our competitive stance within the industry groups we work with in servicing the municipal and industrial wastewater markets.

This new technical breakthrough, to our array of optimization techniques in biological processing of wastewater operations, gives us a compelling and complete advanced solutions package that is unique and unparalleled within the industrial and municipal wastewater industries. From the most superior odor-elimination agent, to the only non-mechanical additive for increasing dissolved oxygen levels in aeration channels, and now with the first viable additive to anaerobic digesters to improve bio-methane yields and reduce solids, we have put together the wastewater industry's premier offering for upgrading wastewater systems across all market segments.

This complete portfolio of technical features works well with the sales opportunities we usually encounter within the various market segments we operate. For instance, odor issues are generally indicative of low dissolved oxygen conditions and are exacerbated by the buildup of greases and bio-films within pipes, all chronic issues where we offer a superior and integrated technological solution. We are able to offer the superior technology for an initial problem, such as odor, and also begin positively impacting the entire downstream wastewater treatment operations. This inclusive solutions package is why industry leaders are now making us their specified choice.

The client base we have built, within market segments as diverse as major hotel properties to international operators of wastewater systems, from managers of some of the largest and most complex transportation centers to highly critical environmental sectors, has methodically established the foundation of our revolutionary green chemistry for a world-wide expansion strategic plan. We have found ourselves addressing the most pressing issues of the current marketplace with a green alternative that lowers energy usage and increases the production of renewable energy from wastes. We have shown that we can restore entire ecological areas, transforming septic conditions into healthy and clean water bodies.

Our primary business objective has now evolved to leveraging this impressive foundation with the most powerful, compatible, and dynamic marketing and distribution partners that will enable us to reach the various end clients who are seeking the solutions we offer. We have put together some of the critical business elements that help us manage the technical interface and supply chain fundamentals required. The accomplishment of these various business aspects, within a restrictive budgetary framework, indicates that we can accelerate growth without undue risk or large capital requirements. Success leads to greater success as we build up our

reputation and create a track-record for this entirely new model of biological wastewater system optimization and water purification.

We have intentionally been operating, over the past few years, with an extremely low-key approach, especially with stock promotion. This was due to a reluctance to make pronouncements about business developments that were in progress, but not fully realized. It was determined that the better strategy was to keep our focus on actually putting viable business development programs into place that would evolve into strong revenue streams. Additionally, the costs associated with putting out news releases on a consistent basis was deemed better spent on supporting critical marketing development activities.

Our business appears to be entering a period of more rapid and sustained revenue growth and we are in the early stages of organizing what will evolve into a much more aggressive promotional phase for the Company. This promotional phase will be accelerated dramatically with the completion of outside financing, which will provide the availability of greater resources and marketing program development capabilities. We are encouraged with recent interactions with the financial community to our business progress and prospects for expansion both domestically and internationally.

Our markets, while of immense size, are some of the most conservative and slow to change of any industry. However, the worldwide cost of energy, the repercussions that these higher costs have brought to the operational realities of our markets, along with the emergence of a desire to shift to green alternatives, has resulted in a tremendous alignment of positive factors for our business prospects. While the rigors of actually competing within our marketplace have been substantial, we have continued to quietly and successfully build an impressive client base and track record.

Sincerely yours,

Parker David Dale
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Neozyme International, Inc.
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