

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2009

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements of International Bio Recovery Corporation for the six months ended December 31, 2009 have been prepared by management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED BALANCE SHEETS
December 31, 2009 and June 30, 2009

	December 31, 2009	June 30, 2009
ASSETS		
Current		
Cash	\$ 1,696,093	\$ -
Accounts receivable	22,454	31,818
Deposits and prepaid expenses	9,687	18,681
CURRENT ASSETS	1,728,234	50,499
Property and equipment (Note 6)	1,024,013	1,108,745
Other assets (Note 5)	72,887	72,887
TOTAL ASSETS	\$ 2,825,134	\$ 1,232,131
LIABILITIES		
Current		
Bank loans (Note 7)	\$ -	\$ 89,976
Accounts payable and accrued expenses	751,089	614,031
Current portion of capital lease obligations	25,665	28,308
Customer deposits	100,000	100,000
Loans payable (Note 8)	1,386,360	1,156,360
CURRENT LIABILITIES	2,263,114	1,988,675
Capital lease obligations	3,244	14,284
TOTAL LIABILITIES	2,266,358	2,002,959
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	27,372,410	27,372,410
Subscriptions for common shares (Note 9)	2,183,000	-
Contributed surplus (Note 10)	1,269,442	1,196,262
Deficit	(30,266,076)	(29,339,500)
TOTAL SHAREHOLDERS' EQUITY	558,776	(770,828)
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	\$ 2,825,134	\$ 1,232,131

APPROVED ON BEHALF OF THE BOARD:

“Ben Van Dyk”

Director

“Theodore Deuel”

Director

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

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

For the Six Months ended December 31, 2009 and 2008

(Unaudited – prepared by management)

	Six months 2009	Six months 2008	Three months 2009	Three months 2008
REVENUE				
Plant licenses	\$ -	\$ 850,000	\$ -	\$ 850,000
Royalties	2,093	-	-	-
Equipment and product sales	-	3,900	-	-
Waste collection fees	1,884	18,770	1,020	6,611
Other income	103	1,092	103	439
	4,080	873,762	1,123	857,050
EXPENSES				
Administration	312,137	211,668	182,454	110,738
Plant and operations	283,264	215,425	88,346	113,895
Sales and marketing	98,689	74,339	64,774	36,577
Interest	94,519	82,085	67,575	41,310
Amortization	84,732	171,633	42,366	85,817
Research and development	54,664	78,278	27,612	36,641
Interest on capital lease obligations	2,651	4,431	1,206	2,120
Cost of equipment and fertilizer sales	-	3,729	-	3,729
	930,656	841,588	474,333	430,827
NET INCOME (LOSS)	(926,576)	32,174	(473,210)	426,223
Deficit, beginning of period	(29,339,500)	(27,464,729)	(29,792,866)	(27,858,778)
DEFICIT, end of period	\$(30,266,076)	\$(27,432,555)	\$(30,266,076)	\$(27,432,555)
BASIC AND DILUTED INCOME (LOSS) PER SHARE	\$ (0.02)	\$ 0.00	\$ (0.01)	\$ 0.01
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	48,606,592	49,630,831	48,606,592	48,606,592

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

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months ended December 31, 2009 and 2008

(Unaudited – prepared by management)

	Six months 2009	Six months 2008	Three months 2009	Three months 2008
OPERATIONS				
Net Income (Loss)	\$ (926,576)	\$ 32,174	\$ (473,210)	\$ 426,223
Items not involving cash:				
Amortization	84,732	171,633	42,366	85,817
Stock-based compensation	73,180	37,509	48,430	3,661
	(768,664)	241,316	(382,414)	515,701
Changes in non-cash working capital balances:				
Increase (decrease) in customer deposits	-	-	-	-
Decrease in prepaid expenses and deposits	8,994	1,923	8,965	12,902
Increase (decrease) in accounts payable and accrued expenses	137,057	56,810	(60,559)	43,318
Increase (decrease) in accounts receivable	9,364	236	8,586	5,885
Increase (decrease) in inventory	-	3,729	-	3,729
	(613,249)	304,014	(425,422)	581,535
INVESTING				
Increase in property and equipment	-	(4,960)	-	-
	-	(4,960)	-	-
FINANCING				
Subscriptions for common shares	2,183,000	-	2,183,000	-
Increase (decrease) in bank loans	(89,976)	-	(54,530)	-
Decrease in capital lease obligations	(13,682)	(11,994)	(6,955)	(6,088)
Increase (decrease) in loans payable	230,000	-	-	-
	2,309,342	(11,994)	2,121,515	(6,088)
Increase (decrease) in cash and cash equivalents	1,696,093	287,060	1,696,093	575,447
Cash and cash equivalents, beginning of period	-	411,214	-	122,827
CASH AND CASH EQUIVALENTS, end of period	\$ 1,696,093	\$ 698,274	\$ 1,696,093	\$ 698,274

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

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF EXPENSES

For the Six Months ended December 31, 2009 and 2008
(Unaudited – prepared by management)

	Six months 2009	Six months 2008	Three months 2009	Three months 2008
ADMINISTRATION:				
Stock option expense	\$ 73,180	\$ 37,509	\$ 48,430	\$ 3,661
Legal fees	63,503	13,764	37,661	7,094
Wages	62,739	78,046	31,985	48,471
Office expenses	39,269	36,122	20,647	16,880
Directors fees and expenses	29,943	4,112	13,703	2,112
Accounting and professional fees	26,000	28,068	14,000	16,068
Public company costs	16,286	11,391	15,615	10,222
Travel & entertainment	2,632	2,477	1,823	1,492
Foreign exchange	(1,415)	179	(1,410)	4,738
	\$ 312,137	\$ 211,868	\$ 182,454	\$ 110,738
PLANT AND OPERATIONS:				
Wages and benefits	\$ 109,703	\$ 99,072	\$ 47,954	\$ 53,662
Waste disposal	52,042	-	(5,320)	-
Rent & Property Tax	69,666	65,374	34,833	32,687
Power, water and sewer	24,005	34,681	6,498	22,140
Repairs and maintenance	21,330	8,650	2,110	1,647
Supplies & materials	5,558	4,765	1,311	3,053
Other	960	2,883	960	706
	\$ 283,264	\$ 215,425	\$ 88,346	\$ 113,895
SALES AND MARKETING:				
Management fees	\$ 62,500	\$ 62,500	\$ 31,250	\$ 31,250
Travel	36,189	10,939	33,524	5,327
Growing trials	-	900	-	900
Consultants	-	-	-	-
Recovery of expenses	-	-	-	-
	\$ 98,689	\$ 74,339	\$ 64,774	\$ 36,577
RESEARCH AND DEVELOPMENT:				
Wages and benefits	\$ 46,700	\$ 50,142	\$ 22,057	\$ 25,799
Contractors	18,382	14,333	16,572	5,448
Other expenses	2,748	8,564	2,149	4,365
Patent costs	1,589	7,489	1,589	1,029
Government assistance (note 13)	(14,755)	(2,250)	(14,755)	-
	\$ 54,664	\$ 78,278	\$ 27,612	\$ 36,641

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2009

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 an environmental technology which processes organic material from municipal solid waste, manures and surplus organics from food production into innovative, environmentally progressive agricultural 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 will provide the technology to organic waste generators requiring a waste management solution.

At December 31, 2009, the Company had a working capital deficiency of \$534,880 (2008 - \$1,128,573) and incurred a net loss of \$926,576 (2008 – net income of \$32,174) for the six months ended December 31, 2009. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon generating revenues sufficient to cover its operating costs, the continued support of its shareholders, and obtaining additional financing. In May 2009, the Company received a Notice of Termination of the lease from the landlord and the Company contested the Notice of Termination. The litigation was resolved in the Company's favour on a technical ground regarding the Notice and it is possible the Landlord will recommence its action against the Company. If so, the action may significantly impact the Company's operations if successful. As the Company has commenced the refurbishment of the North Vancouver plant the loss of the lease would make such efforts of limited value and therefore the Company is pursuing a resolution with the Landlord that will meet the Company's needs to continue operations at North Vancouver for at least the immediate term.

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

2. BASIS OF PRESENTATION

These unaudited consolidated financial statements have been prepared in accordance with Canadian GAAP using the same accounting policies and methods as the most recent audited annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended June 30, 2009.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Effective July 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

(a) CICA 3862, "Financial Instruments – Disclosures" and CICA 3863, "Financial Instruments Presentation"

These standards relate to the disclosures and presentation of financial instruments. They apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2007, and must be adopted at the same time, replacing CICA 3861, "Financial Instruments – Disclosure and Presentation". The adoption of these standards did not have a material effect on the Company's financial statements. As a result of the adoption of these standards, additional disclosure on the risks of certain financial instruments is provided in Note 16.

(b) CICA 1535, "Capital Disclosures"

This standard relates to the disclosure of capital management strategies. It applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The disclosures required by this standard are presented in Note 15.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2009

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

(c) CICA 3031, "Inventories"

In June 2007, the CICA issued Section 3031, "Inventories" to replace existing Section 3030. The new section, which is effective January 1, 2008, establishes standards for the measurement and disclosure of inventories. The adoption of this standard did not have a material effect on the Company's financial statements.

(d) CICA 1400, "General Standards of Financial Statement Presentation"

In May 2007, the CICA issued amended Handbook Section 1400, "General Standards of Financial Statement Presentation". The section provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern. This amended standard applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The adoption of this standard did not have a material effect on the Company's financial statements.

(e) CICA 3064, "Goodwill and Intangible Assets"

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," which replaces Section 3062, "Goodwill and Other Intangible Assets." This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and was effective for the Company beginning July 1, 2009. Concurrent with the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-operating Period," were withdrawn. The adoption of this standard did not have a material effect on the Company's financial statements.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements that have been announced but are not yet effective are as follows:

(a) CICA 1582, "Business Combinations", CICA 1601, "Consolidated Financial Statements" and CICA 1602, "Non-Controlling Interests"

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements."

Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations." The Company is currently assessing the impact of adopting these standards and has not yet determined its effect on its financial statements.

(b) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that public companies will be required to prepare interim and annual financial statements under IFRS for fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of adopting IFRS and has not yet determined its effect on its financial statements.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2009

5. EASEMENT

In 2006, the Company entered into an agreement with a company located in the United States whereby it would be granted an easement over a parcel of land on which a future plant could be built. The agreement requires the Company to make a total payment of \$500,000 prior to construction; during the year ended June 30, 2009, the Company made a non refundable initial payment of \$50,000 to keep the agreement in good standing. The company is not committed or obligated to make further payments unless it intends to build a plant on the property. The payment of \$50,000 is recorded in "Other assets." Also included in "Other assets" are security deposits for services, totalling \$22,887.

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value	
			Dec. 2009	June 2009
Plant and equipment	\$ 4,749,307	3,839,928	909,379	983,112
Vehicles	356,192	321,798	34,394	40,463
Office building	140,706	84,220	56,486	57,934
Other equipment	310,682	286,928	23,754	27,236
	\$ 5,556,887	4,532,874	1,020,013	1,108,745

Plant and equipment and vehicles includes equipment subject to capital leases having recorded costs of \$87,942 (2008: \$87,942) and accumulated amortization of \$56,808 (2008: \$43,464), and other equipment includes equipment subject to a capital lease having a recorded cost of \$13,375 (2008: \$13,375) and accumulated amortization of \$4,708 (2008: \$2,542). Total amortization expense for the six months was \$84,732 (2008: \$171,633).

Historically, the Company has not achieved its forecasted revenues from the use of its property and equipment. Management assessed the recoverability of these assets and recorded an impairment charge of \$664,354 for the year ended June 30, 2009. The impairment charge was deducted from the cost of plant and equipment.

7. 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.

8. LOANS PAYABLE

The loans payable are due on demand, and bear interest at 12% per annum. The loans contained a provision that, if they were not repaid in full by December 31, 2009, interest changed from 8% per annum effective as of February 1, 2009. The loans rank pari-passu with each other behind the general security agreement on the bank loan described in note 7, 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 \$310,972 (2008: \$351,904) due to a director, \$388,183 due to former directors, and \$257,205 (2008: \$257,205) is due to a company whose directors include a director of the Company.

The Company also received \$430,000 during the periods to December 31, 2009 from a company holding a licence agreement with the Company. This amount is non-interest bearing and unsecured, and is under discussion as a disagreement has arisen as to the applicability of these funds and their use in the Company's operations. Current discussions would provide that a portion will be used to acquire shares in the Company and a portion for the Company's operating needs.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2009

9. SHARE CAPITAL

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

Issued common shares are as follows:

	6 months to Dec. 31, 2009		Year ended June 30, 2009	
	Number	Amount	Number	Amount
Balance, beginning of period	48,606,592	\$ 27,372,410	50,700,592	\$ 27,372,410
Escrow shares cancelled	-	-	(2,094,000)	-
Balance, end of period	48,606,592	\$ 27,372,410	48,606,592	\$ 27,372,410

9. SHARE CAPITAL - continued

Private Placements. 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. The warrants are exercisable at \$0.15 until expiry on April 15, 2010.

On December 8, 2009, the Company announced a non-brokered private placement of up to 25,000,000 units at a price of \$0.10 per unit for gross proceeds of \$2,500,000. As at December 31, 2009, the Company had received subscriptions for \$2,183,000. Each unit consists of one common share and one warrant exercisable at \$0.125 for a period of two years; the warrants contain a provision that they must be exercised within 30 days of notice that the closing price of the Company's shares has been \$0.25 or higher for 20 consecutive trading days.

Warrants – The Company has 15,000,000 (2008: 15,833,333) common share purchase warrants outstanding, exercisable at \$0.15 to April 15, 2010.

10. CONTRIBUTED SURPLUS

	Dec. 2009	June 2009
Balance, beginning of period	\$ 1,196,262	\$ 1,044,473
Fair value of stock options	73,180	151,789
Balance, end of period	\$ 1,269,442	\$ 1,196,262

Contributed Surplus for the Company results from the accumulation of stock based compensation for stock options granted. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options, and expenses the fair value as the options vest. When stock options are exercised, the fair value of the exercised options reduces Contributed Surplus and is charged to Share Capital.

11. 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2009

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

The following table summarizes the continuity of the Company's stock options outstanding at December 31, 2009 and June 30, 2009:

<u>Outstanding at June 30, 2008</u>	<u>Granted</u>	<u>(Expired/Cancelled)</u>	<u>Outstanding at June 30, 2009</u>	<u>Granted</u>	<u>(Expired/Cancelled)</u>	<u>Outstanding at Dec. 31, 2009</u>	<u>Price</u>	<u>Expiry Date</u>
1,880,000	-	(1,880,000)	-	-	-	-	\$0.35	July 12, 2008
-	-	-	-	-	-	-	\$0.35	July 31, 2008
225,000	-	(225,000)	-	-	-	-	\$0.20	Jan. 23, 2009
500,000	-	-	500,000	-	(500,000)	-	\$0.25	Oct. 30, 2009
300,000	-	-	300,000	-	-	300,000	\$0.12	Apr. 12, 2010
-	2,475,000	-	2,475,000	-	-	2,475,000	\$0.15	July 25, 2013
-	-	-	-	900,000	-	900,000	\$0.15	Oct. 30, 2014
2,905,000	2,475,000	(2,105,000)	3,275,000	-	(500,000)	3,675,000		

A summary of the change in the Company's stock options for the periods ended December 31, 2009 and June 30, 2009 is presented below:

	<u>6 months to Dec. 31, 2009</u>		<u>Year ended June 30, 2009</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	3,275,000	\$0.16	2,905,000	\$0.30
Granted	900,000	\$0.15	2,475,000	0.15
Cancelled or expired	(500,000)	\$0.25	(2,105,000)	(0.33)
Outstanding, end of year	3,675,000	\$0.15	3,275,000	\$0.16

Additional information regarding options outstanding and exercisable as at December 31, 2009 is as follows:

<u>Options outstanding</u>				<u>Options exercisable</u>	
<u>Exercise Price</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>
<u>\$</u>	<u>#</u>		<u>\$</u>	<u>#</u>	<u>\$</u>
0.12	300,000	0.33	0.12	300,000	0.12
0.15	2,475,000	3.48	0.15	1,856,250	0.15
0.15	900,000	4.83	0.15	225,000	
	3,675,000	2.95	0.15	2,381,250	0.15

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 six months ended December 31, 2009 and the year ended June 30, 2009 has been estimated using the Black-Scholes model to be \$64,530 (year ended June 30, 2009 - \$151,789) 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>6 months ended Dec. 31, 2009</u>	<u>Year ended June 30, 2009</u>
Risk free interest rate	2.38%	3.39%
Expected stock price volatility	156%	127%
Expected life of options	5 years	5 years

The grant-date fair value of options granted during the period ended December 31, 2009 was \$0.07 (2008 - \$0.08).

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2009

12. RELATED PARTY TRANSACTIONS

The Company had the following transactions with related parties during the six months ended December 31, 2009:

- a) Management fees, in lieu of salary and wages, of \$62,500 (2008: \$62,500) were expensed for services provided by a director.
- b) Consulting fees of \$26,000 (2008: \$26,000) were expensed for services provided by a company controlled by an officer.
- c) Accounts payable and accrued expenses include fees payable to previous directors of \$104,000 (2008: \$70,000). Fees to these directors of \$25,200 (2008: \$1,712) were expensed during the six months to December 31, 2009.
- d) Loans payable include \$257,205 (2008: \$257,205) 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 \$137,322 (2008: \$92,917) has been accrued and is included in accounts payable and accrued expense.
- e) Loans payable are due to a director as described in Note 8. Interest of \$24,674 (2008: \$25,751) was expensed on these loans payable in the six months ending December 31, 2009, no interest (2008: \$Nil) was paid to the directors during the six months, and interest payable to the director of \$33,595 (2008: \$155,106) is included in accounts payable and accrued expenses.

13. GOVERNMENT ASSISTANCE

In October 2009, The Company signed a contribution agreement with National Research Council Canada ("NRC") whereby NRC will contribute a maximum of \$78,000 to the Company's enhanced autogenous thermophilic aerobic digestion (EATAD) process-characterization project over a one year period; \$14,755 of this amount has been accrued to December 31, 2009.

14. 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:

December 31, 2009	Technology Sales	Fertilizer Sales	Corporate	Total
Total assets	\$ -	943,773	1,881,361	2,825,134
Property and equipment	-	943,773	80,240	1,024,013
Revenues	-	3,977	103	4,080
Net loss	(98,689)	(413,754)	(414,133)	(926,576)
Amortization	-	79,803	4,929	84,732
Interest expense	-	-	28,439	28,439
December 31, 2008	Technology Sales	Fertilizer Sales	Corporate	Total
Total assets	\$ -	2,081,696	820,897	2,902,593
Property and equipment	-	1,854,785	78,099	1,932,884
Revenues	850,000	22,670	1,092	873,762
Net income (loss)	775,661	(442,469)	(298,617)	34,574
Amortization	-	165,883	5,750	171,633
Interest expense	-	-	82,085	82,085

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

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2009

15. CAPITAL MANAGEMENT

The Company manages its capital structure in order to ensure sufficient resources are available to meet operational requirements. The Company manages the components of shareholders' equity and its liabilities including shareholder loans and its bank line of credit as capital, and makes adjustments to these components in response to the Company's business objectives and the economic climate. To maintain or adjust its capital structure, the Company may attempt to issue new common shares from treasury, issue debt instruments or borrow money. The Company does not anticipate the payment of dividends in the foreseeable future.

16. FINANCIAL INSTRUMENTS

As at December 31, 2009 the Company's financial instruments consist of cash, accounts receivable, bank loans, accounts payable and accrued liabilities, and loans payable. The fair values of these financial instruments approximate their carrying values because of their short-term nature.

a) Fair value

The fair value of financial instruments at December 31, 2009 and 2008 approximate their carrying value. Fair value estimates are made at the balance sheet date, based on relevant quoted market and other information about the financial instruments.

b) Financial risk management

The Company's activities potentially expose it to a variety of financial risks, including credit risk, liquidity risk and foreign exchange risk.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash. As cash is generally held for short term periods, it is held on deposit with a high credit quality financial institution. Deposits held with this institution may exceed the amount on insurance provided on such deposits.

Liquidity Risk

The Company has operated with negative working capital for several years. 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.

Foreign Exchange Risk

The Company has minimal foreign exchange risk as almost all of its transactions are in Canadian dollars.

Interest Rate Risk

The Company is subject to interest on its bank loans, and shareholder loans which are at negotiated rates of interest. Significant increases in these interest rates would result in increased costs for the Company.

17. SUBSEQUENT EVENT

In January 2010, the Company closed a non-brokered private placement of 22,851,499 units at a price of \$0.10 per unit for gross proceeds of \$2,285,499. Each unit consists of one common share and one warrant exercisable at \$0.125 for a period of two years.

INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009
(Report Prepared on February 23, 2010)

Description of the Business

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

The Company is in the process of refurbishing the North Vancouver plant to produce sufficient product to establish a market demand and market pricing.

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.

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, 2009 and the interim unaudited financial statements for the six months ended December 31, 2009.

Quarterly Financial Results

	Jan-Mar/08	Apr-Jun/08	July-Sept/08	Oct-Dec/08	Jan-Mar/09	Apr-Jun/09	July-Sept/09	Oct-Dec/09
	<u>Q3 2008</u>	<u>Q4 2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>	<u>Q3 2009</u>	<u>Q4 2009</u>	<u>Q1 2010</u>	<u>Q2 2010</u>
<u>Revenues</u>								
Technology & license fees	\$ 10,000	\$ 500,000	\$ -	\$ 850,000	\$ -	\$ -	\$ -	\$ -
Equipment & product sales	743	9,627	16,059	6,611	3,320	860	864	1,020
Royalties	-	-	-	-	-	23,466	2,093	-
Interest & other income	-	26,082	653	439	97	48	-	103
Total Revenues	10,743	535,709	16,712	857,050	3,417	24,374	2,957	1,123
Gains on settlement of liabilities	-	87,096	-	-	-	-	-	-
Impairment of property and equipment	-	-	-	-	-	(664,354)	-	-
Write off deferred research and development	-	-	-	-	-	(213,244)	-	-
Net Income (Loss)	(418,957)	128,896	(394,049)	426,223	(440,002)	(1,466,943)	(453,366)	(473,210)
Net Income (Loss) per share	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.01)
	<u>Mar. 31/08</u>	<u>June 30/08</u>	<u>Sept. 30/08</u>	<u>Dec. 31/08</u>	<u>Mar. 31/09</u>	<u>June 30/09</u>	<u>Sept. 30/09</u>	<u>Dec. 31/09</u>
Total Assets	2,490,655	2,788,094	2,435,479	2,902,593	2,149,152	1,232,131	1,188,958	2,825,134
Long term liabilities	40,060	42,446	36,540	30,452	24,157	14,284	7,557	3,224

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

Comparison of the six months to Dec. 31, 2009 to the six months to Dec. 31, 2008

The Company generated revenue from waste collection fees of \$1,884, \$2,093 from royalties, and \$103 from interest and other income during the six months ended December 31, 2009. In the same period in the previous year, revenues were generated from a plant license fee of \$850,000 from Recondo Holdings Ltd., product sales of \$3,900, waste collection fees of \$18,770 and other income of \$1,092.

Total expenses during the six months ended December 31, 2009 were \$930,656 compared to \$841,588 in the same period last year. Administration costs increased by \$100,269 from the previous year primarily due to an increase of \$49,739 in legal fees associated with a lease dispute with Metro Vancouver, an increase in stock option expense of \$35,671 due to 900,000 options granted in October 2009 and greater share price volatility, and a \$25,831 increase in directors' fees resulting from a large number of board and special committee meetings. Plant and operations costs increased by \$67,839 primarily due to increases of \$52,042 to dispose of poor quality input, \$10,631 in wages and benefits, and \$12,680 in repair and maintenance costs, all associated with an increase in plant operations for manure trials in the first quarter. Research and development costs decreased by \$23,614 primarily due to a \$12,505 increase in government grants. Marketing costs increased by \$24,350 primarily due to an increase in travel costs.

During the year ended June 30 2009, the Company assessed the carrying value of its property and equipment and deferred research and development; based on an analysis of the carrying values, an impairment charge against property and equipment of \$664,354 was recorded and the \$213,244 balance of 1999 deferred research and development costs was written off. This change resulted in amortization being reduced by \$86,901 in the six months of 2010 to \$84,732 from \$171,633 in the same period last year.

The net loss for the six months ended December 31, 2009 was \$926,576, or \$0.02 per share, compared to net income of \$32,174, or \$0.00 per share, for the same period last year.

Comparison of the three months to December 31, 2009 to the three months to December 31, 2008

The Company generated revenue from waste collection fees of \$1,020 and interest and other income of \$103 during the three months ended December 31, 2009. In the same period in the previous year, revenues were generated from plant license sales of \$850,000, waste collection fees of \$6,611 and interest income of \$439.

Total expenses during the current three month period were \$474,333 compared to \$430,827 in the same period last year. Administration costs increased by \$71,716 from the previous year primarily due to an increase of \$44,769 in stock based compensation and an increase of \$30,567 in legal costs. Plant and operations costs decreased by \$25,549 primarily caused by a reduction of \$15,642 in power, water and sewer costs due to reduced plant operations. Research and development costs decreased by \$9,029 primarily due to a \$14,755 government grants in the current quarter, partially off set by an increase of \$11,124 in contractor costs. Marketing costs increased by \$28,197 due to increased travel costs.

The net loss for the three months ended December 31, 2009 was \$473,210, or \$0.01 per share, compared to a profit of \$426,223, or \$0.01 per share, for the same period last year.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

Financial Condition

At December 31, 2009, the Company had total liabilities of \$2,266,358, an increase of \$263,399 from the year ended June 30, 2009 primarily due to increases of \$137,058 in accounts payable and accrued liabilities and \$230,000 in loans payable, partially offset by the pay off of a \$89,975 bank line of credit with the proceeds of a private placement of shares. The working capital position at December 31, 2009 was a deficiency of \$534,880 compared to a deficiency of \$1,938,176 at June 30, 2009, primarily due to funds raised through the private placement.

To date, the Company has not generated sales sufficient to cover its operating expenses and has been dependent on cash from 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. Currently, the Company intends to refurbish and bring back into operation the North Vancouver plant and significant financing will be required, of which only a portion has been committed. If the plant is not brought to operational levels the business plan objectives would not be met and the viability of the Company would be severely impacted.

Share Capital

The Company had 48,606,592 common shares outstanding at December 31, 2009 and 15,000,000 share purchase warrants exercisable at \$0.15 to April 15, 2010. There are 3,675,000 stock options outstanding, exercisable at prices ranging from \$0.12 to \$0.25 and with expiry dates ranging from April 12, 2010 to October 30, 2014.

In January 2010, the Company closed a non-brokered private placement of 22,851,499 units at a price of \$0.10 for gross proceeds of \$2,285,150; \$2,183,000 of these proceeds had been received by December 31, 2009. Each unit consists of one common share and one warrant exercisable for two years at a price of \$0.125; the warrants contain a provision that they must be exercised within 30 days of notice that the closing price of the Company's shares has been \$0.25 or higher for 20 consecutive trading days.

Business Development

The Company intends to refurbish and bring into production the existing demonstration plant in North Vancouver in order to have sufficient product to allow product trials, develop market demand, and establish market pricing. Successful operation would provide the 'proof of concept' required by certain licence holders of the Company's technology to then proceed with their operating plants which are on a much larger scale, and from which the Company would receive fees and other revenues. The expected operating capacity of the North Vancouver demonstration plant does not generate a positive cash flow to the Company as revenues will not exceed operating costs at the expected low production level. The Company will not reach profitability from operations until a fully operating plant of sufficient size is constructed in a new location. The Company has entered into agreements to locate such a plant in Washington State once the proof of concept has been successful. Upon achievement of this proof of concept objective the Company will then need to secure financing in significant amounts to allow the development of a full size plant, which are estimated to cost in excess of \$25MM per plant depending on the output capacity desired. The Company has not secured any financing commitments for any additional plants and can make no representation that such financing will be available when needed.

**INTERNATIONAL BIO RECOVERY CORPORATION
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Transactions with Related Parties

During the six months ended December 31, 2009, the Company paid management fees of \$62,500 in lieu of salaries to a director who has a management position, and fees of \$26,000 for accounting and financial services. Previous directors received a fee of \$400 for each meeting or committee meeting attended and the new directors elected at the Annual General Meeting reduced this fee to \$200; directors' fees of \$27,800 were expensed during the six months; \$105,944 of the fees and expenses were due to current and previous directors at December 31, 2009 – the majority of these fees and expense were paid in January 2010.

At December 31, 2009, the Company had a loan of \$310,972 due to a director, \$388,183 due to former 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 and are payable on demand. The interest rate on all these loans is 12%.

The Company also received \$430,000 during the periods to December 31, 2009 from a company holding a licence agreement with the Company. This amount is non-interest bearing and unsecured, and is under discussion as a disagreement has arisen as to the applicability of these funds and their use in the Company's operations. Current discussions would provide that a portion will be used to acquire shares in the Company and a portion for the Company's operating needs.

Lease Agreement on North Vancouver office and plant

In 1996, the Company entered into a 25 year lease for its North Vancouver demonstration plant. In May 2009, the Company received a Notice of Termination of the lease from the landlord and the Company contested the Notice of Termination. The litigation was resolved in the Company's favour on a technical ground regarding the Notice and it is possible the Landlord will recommence its action against the Company. If so, the action may significantly impact the Company's operations if successful. As the Company has commenced the refurbishment of the North Vancouver plant the loss of the lease would make such efforts of limited value and therefore the Company is pursuing a resolution with the Landlord that will meet the Company's needs to continue operations at North Vancouver for at least the immediate term. The Company does not believe it was in default of the lease and has taken steps to ensure all lease obligations are being met.

Adoption of New Accounting Standards

Effective July 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

(a) CICA 3862, "Financial Instruments – Disclosures" and CICA 3863, "Financial Instruments Presentation"

These standards relate to the disclosures and presentation of financial instruments. They apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2007, and must be adopted at the same time, replacing CICA 3861, "Financial Instruments – Disclosure and Presentation". The adoption of these standards did not have a material effect on the Company's financial statements.

(b) CICA 1535, "Capital Disclosures"

This standard relates to the disclosure of capital management strategies. It applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007.

**INTERNATIONAL BIO RECOVERY CORPORATION
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(c) CICA 3031, “Inventories”

In June 2007, the CICA issued Section 3031, “Inventories” to replace existing Section 3030. The new section, which is effective January 1, 2008, establishes standards for the measurement and disclosure of inventories. The adoption of this standard did not have a material effect on the Company’s financial statements.

(d) CICA 1400, “General Standards of Financial Statement Presentation”

In May 2007, the CICA issued amended Handbook Section 1400, “General Standards of Financial Statement Presentation”. The section provides revised guidance related to management’s responsibility to assess and disclose the ability of an entity to continue as a going concern. This amended standard applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The adoption of this standard did not have a material effect on the Company’s financial statements.

(e) CICA 3064, “Goodwill and Intangible Assets”

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets,” which replaces Section 3062, “Goodwill and Other Intangible Assets.” This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and was effective for the Company beginning July 1, 2009. Concurrent with the adoption of this standard, EIC-27, “Revenues and Expenditures in the Pre-operating Period,” were withdrawn. The adoption of this standard did not have a material effect on the Company’s financial statements.

Recent Accounting Pronouncements

Recent accounting pronouncements that have been announced but are not yet effective are as follows:

(a) CICA 1582, “Business Combinations”, CICA 1601, “Consolidated Financial Statements” and CICA 1602, “Non-Controlling Interests”

In January 2009, the CICA issued Section 1582 “Business Combinations” to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards (“IFRS”). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The CICA concurrently issued Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests,” which replace Section 1600 “Consolidated Financial Statements.”

Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 “Business Combinations.” The Company is currently assessing the impact of adopting these standards and has not yet determined its effect on its financial statements.

(b) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that public companies will be required to prepare interim and annual financial statements under IFRS for fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of adopting IFRS and has not yet determined its effect on its financial statements.

**INTERNATIONAL BIO RECOVERY CORPORATION
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FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

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 December 31, 2009 are effective.

Internal Controls

Disclosure controls and procedures have been established to provide reasonable assurance that material information relating to the Company is made known to management, particularly during the period in which annual filings are being prepared. Furthermore, internal controls have been established to ensure the Company's assets are safeguarded and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. There have been no changes in the Company's internal controls during the year ended December 31, 2009.

Additional Information

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