

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2008

(Unaudited – Prepared by Management)

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

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED BALANCE SHEETS
December 31, 2008 and June 30, 2008

	December 31, 2008	June 30, 2008
ASSETS		
Current		
Cash	\$ 698,274	\$ 411,214
Accounts receivable	18,561	18,797
Inventory (Note 4)	1,820	5,549
Deposits and prepaid expenses	3,076	4,999
	721,731	440,559
Property and equipment (Note 5)	1,932,884	2,087,710
Deferred development costs (Note 6)	225,091	236,938
Other assets	22,887	22,887
	\$ 2,902,593	\$ 2,788,094
LIABILITIES		
Current		
Accounts payable and accrued expenses	\$ 821,473	\$ 764,663
Current portion of capital lease obligations	24,722	24,722
Customer deposits	100,000	100,000
Loans payable (Note 8)	609,109	609,109
Promissory notes (Note 9)	295,000	295,000
	1,850,304	1,793,494
Capital lease obligations	30,452	42,446
	1,880,756	1,835,940
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	27,372,410	27,372,410
Contributed surplus (Note 11)	1,081,982	1,044,473
Deficit	(27,432,555)	(27,464,729)
	1,021,837	952,154
	\$ 2,902,593	\$ 2,788,094

APPROVED ON BEHALF OF THE BOARD:

“Ben Van Dyk”

Director

“Doug Johnston”

Director

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

INTERNATIONAL BIO RECOVERY CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

For the Six Months ended December 31, 2008 and 2007

(Unaudited – prepared by management)

	Six months 2008	Six months 2007	Three months 2008	Three months 2007
REVENUE				
Plant licenses	\$ 850,000	\$ -	\$ 850,000	\$ -
Equipment and fertilizer sales	3,900	458,322	-	458,322
Waste collection fees	18,770	2,953	6,611	1,018
Other income	1,092	-	439	-
	873,762	461,275	857,050	459,340
EXPENSES				
Plant and operations	215,425	270,510	113,895	133,895
Administration	211,668	371,256	110,738	118,709
Amortization	171,633	208,380	85,817	104,190
Cost of equipment and fertilizer sales	3,729	356,190	3,729	355,282
Research and development	78,278	35,040	36,641	15,944
Interest	82,085	134,910	41,310	53,465
Sales and marketing	74,339	17,974	36,577	15,465
Interest on capital lease obligations	4,431	3,761	2,120	2,214
	841,588	1,398,021	430,827	809,164
NET INCOME (LOSS)	32,174	(936,746)	426,223	(349,824)
Deficit, beginning of period	(27,464,729)	(26,237,922)	(27,858,778)	(26,824,844)
DEFICIT, end of period	\$(27,432,555)	\$(27,174,668)	\$(27,432,555)	\$(27,174,668)
BASIC AND DILUTED INCOME (LOSS) PER SHARE	\$ 0.00	\$ (0.03)	\$ 0.01	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	49,630,831	35,356,389	48,606,592	35,356,389

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, 2008 and 2007

(Unaudited – prepared by management)

	Six months 2008	Six months 2007	Three months 2008	Three months 2007
OPERATIONS				
Net Income (Loss)	\$ 32,174	\$ (936,746)	\$ 426,223	\$ (349,824)
Items not involving cash:				
Amortization	171,633	208,380	85,817	104,190
Stock-based compensation	37,509	148,054	3,661	28,971
	241,316	(580,312)	515,701	(216,663)
Changes in non-cash working capital balances:				
Increase (decrease) in customer deposits	-	-	-	(90,974)
Decrease in prepaid expenses and deposits	1,923	12,849	12,902	13,012
Increase (decrease) in accounts payable and accrued expenses	56,810	(126,832)	43,318	132,421
Increase (decrease) in accounts receivable	236	411,467	5,885	15,330
Increase (decrease) in inventory	3,729	14,775	3,729	14,775
	304,014	(268,053)	581,535	(132,099)
INVESTING				
Increase in property and equipment	(4,960)	(9,468)	-	-
	(4,960)	(9,468)	-	-
FINANCING				
Issue of common shares for cash	-	209,139	-	-
Increase (decrease) in bank loans	-	7,514	-	32,675
Decrease in capital lease obligations	(11,994)	(57,730)	(6,088)	(4,576)
Increase (decrease) in loans payable	-	118,598	-	104,000
	(11,994)	277,521	(6,088)	132,099
Increase (decrease) in cash and cash equivalents	287,060	-	575,447	-
Cash and cash equivalents, beginning of period	411,214	-	122,827	-
CASH AND CASH EQUIVALENTS, end of period	\$ 698,274	\$ -	\$ 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, 2008 and 2007
(Unaudited – prepared by management)

	Six months 2008	Six months 2007	Three months 2008	Three months 2007
ADMINISTRATION:				
Stock option expense	\$ 37,509	\$ 148,054	\$ 3,661	\$ 28,971
Wages and management fees	78,046	94,812	48,471	45,579
Office expenses	36,122	40,349	16,880	18,298
Accounting and professional fees	28,068	10,000	16,068	-
Legal fees	13,764	27,317	7,094	6,009
Directors fees and expenses	4,112	15,832	2,112	10,232
Public company costs	11,391	12,322	10,222	8,692
Travel & entertainment	2,477	3,048	1,492	1,399
Foreign exchange	179	19,522	4,738	(471)
	\$ 211,868	\$ 371,256	\$ 110,738	\$ 118,709
PLANT AND OPERATIONS:				
Wages and benefits	\$ 99,072	\$ 130,460	\$ 53,662	65,676
Rent & Property Tax	65,374	84,236	32,687	41,239
Power, water and sewer	34,681	44,233	22,140	25,876
Repairs and maintenance	8,650	5,195	1,647	904
Supplies & materials	4,765	5,561	3,053	200
Other	2,883	825	706	-
	\$ 215,425	\$ 270,510	\$ 113,895	\$ 133,895
SALES AND MARKETING:				
Wages and benefits, & Management fees	\$ 62,500	\$ 62,500	\$ 31,250	\$ 31,250
Travel	10,939	16,723	5,327	9,257
Growing trials	900	-	900	-
Consultants	-	48,751	-	18,958
Recovery of expenses	-	(110,000)	-	(44,000)
	\$ 74,339	\$ 17,974	\$ 36,577	\$ 15,465
RESEARCH AND DEVELOPMENT:				
Wages and benefits	\$ 50,142	\$ 60,201	\$ 25,799	\$ 27,528
Contractors	14,333	1,732	5,448	1,732
Patent costs	7,489	-	1,029	-
Other expenses	8,564	2,054	4,365	531
Government assistance (note 12)	(2,250)	(28,947)	-	(13,847)
	\$ 78,278	\$ 35,040	\$ 36,641	\$ 15,944

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended December 31, 2008

1. NATURE OF OPERATIONS

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

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

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

At December 31, 2008, the Company had a working capital deficiency of \$1,128,573 (2007 - \$2,263,111) and made a net profit of \$32,174 (2007 - \$(586,922)) for the six months ended December 31, 2008. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon generating revenues sufficient to cover its operating costs, the continued support of its shareholders, and obtaining additional financing.

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

2. BASIS OF PRESENTATION

These unaudited consolidated financial statements have been prepared in accordance with Canadian GAAP using the same accounting policies and methods as the most recent audited annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended June 30, 2008.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

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

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

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2008

2. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

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

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

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

The Company classified its financial instruments as follows:

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

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

As at December 31, 2008, the Company's financial instruments consist of cash, accounts receivable, accounts payable, customer deposits, loans payable, promissory notes, and capital lease obligations. The fair values of current assets and current liabilities approximate their carrying values due to the short-term maturity of the instruments. The fair value of the capital lease approximates its book value due to market prices for similar capital leases. The Company is not exposed to significant interest rate, currency exchange rate or credit risk arising from these financial instruments. The Company is not party to any derivative instruments.

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

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2008

3. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

4. INVENTORY

	December 2008	June 2008
Fertilizer	\$ -	\$ -
Packing materials and spare parts	1,820	5,549
	\$ 1,820	\$ 5,549

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value	
			December 2008	June 2008
Plant and equipment	\$ 5,413,661	3,620,830	1,792,831	1,938,195
Vehicles	356,192	307,058	49,134	57,805
Office building	140,706	81,247	59,459	60,983
Other equipment	310,682	279,222	31,460	30,727
	\$ 6,221,241	4,288,357	1,932,884	2,087,710

Plant and equipment and vehicles includes equipment subject to capital leases having recorded costs of \$87,942 (2007: \$87,942) and accumulated amortization of \$43,464 (2007: \$18,797), and other equipment includes equipment subject to a capital lease having a recorded cost of \$13,375 (2007: \$Nil) and accumulated amortization of \$2,542 (2007: \$Nil). Total amortization expense for the six months was \$171,633 (2007: \$208,380).

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2008

6. DEFERRED DEVELOPMENT COSTS

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

	December 2008	June 2008
Balance, beginning of period	\$ 595,933	\$ 595,933
Less accumulated amortization	(370,842)	(358,995)
Balance, end of period	\$ 225,091	\$ 236,938

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. No amounts were drawn under this facility at December 31, 2008.

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 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 \$351,904 (2007: \$349,992) due to directors, and \$257,205 (2007: \$127,205) is due to a company whose directors include certain directors of the Company.

9. PROMISSORY NOTES

	December 2008	June 2008
The promissory note is due to a director, due on demand or upon receipt by the Company of a cumulative amount of \$2,500,000 resulting from technology sales, bears interest at 15% per annum payable monthly, secured by an interest in all present and future personal property of the Company and a floating charge on all of the Company's other present and future property.	\$ 295,000	\$295,000

The promissory notes rank pari-passu with each other and with the loans payable behind the general security agreement on the bank loan described in note 7.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2008

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:

	6 months to Dec. 31, 2008		Year ended June 30, 2008	
	Number	Amount	Number	Amount
Balance, beginning of period	50,700,592	\$ 27,372,410	34,867,259	\$ 25,970,021
Escrow shares cancelled	(2,094,000)	-	-	-
Shares issued for:				
Private placements for cash	-	-	15,833,333	1,409,140
Less: share issuance costs	-	-	-	(6,751)
Balance, end of period	48,606,592	\$ 27,372,410	50,700,592	\$ 27,372,410

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 with one warrant exercisable at \$0.15 per share for two years. No value was allocated to the warrants issued in connection with the private placement.

Escrow shares –2,094,000 (2007: 2,094,000) common shares that were held in escrow were cancelled on September 30, 2008 as the Company did not achieve the performance requirements for their release.

Warrants – The Company has 15,833,333 (2007: 8,211,977) common share purchase warrants outstanding; 833,333 are exercisable at US \$0.24 to August 20, 2009, and 15,000,000 are exercisable at \$0.15 to April 15, 2010.

11. CONTRIBUTED SURPLUS

	December 2008	June 2008
Balance, beginning of period	\$ 1,044,473	\$ 826,781
Fair value of stock options	37,509	217,692
Balance, end of period	\$ 1,081,982	\$ 1,044,473

12. 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, 2008

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

The following table summarizes the continuity of the Company's stock options outstanding at December 31, 2008 and June 30, 2008:

<u>Outstanding at June 30, 2007</u>	<u>Granted</u>	<u>(Expired/Cancelled)</u>	<u>Outstanding at June 30, 2008</u>	<u>Granted</u>	<u>(Expired/Cancelled)</u>	<u>Outstanding at Dec. 31, 2008</u>	<u>Price</u>	<u>Expiry Date</u>
50,000	-	(50,000)	-	-	-	-	\$0.50	April 21, 2008
2,160,000	-	(280,000)	1,880,000	-	(1,880,000)	-	\$0.35	July 12, 2008
150,000	-	(150,000)	-	-	-	-	\$0.35	July 31, 2008
225,000	-	-	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	\$0.15	July 25, 2013
2,585,000	800,000	(480,000)	2,905,000	2,475,000	(1,880,000)	3,500,000		

A summary of the change in the Company's stock options for the periods ended December 31, 2008 and June 30, 2008 is presented below:

	<u>6 months to Dec. 31, 2008</u>		<u>Year ended June 30, 2008</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	2,905,000	\$0.30	2,585,000	\$0.34
Granted	2,475,000	0.15	800,000	0.20
Cancelled or expired	(1,880,000)	(0.35)	(480,000)	(0.37)
Outstanding, end of year	3,500,000	\$0.16	2,905,000	\$0.30

Additional information regarding options outstanding and exercisable as at December 31, 2008 is as follows:

Exercise Price \$	<u>Options outstanding</u>			<u>Options exercisable</u>	
	<u>Outstanding #</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Weighted Average Exercise Price \$</u>	<u>Exercisable #</u>	<u>Weighted Average Exercise Price \$</u>
0.12	300,000	0.54	0.12	300,000	0.12
0.20-0.25	725,000	0.84	0.23	475,000	0.23
0.15	2,475,000	4.81	0.15	618,750	0.15
	3,500,000	3.40	0.16	1,393,750	0.17

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, 2008 and the year ended June 30, 2008 has been estimated using the Black-Scholes model to be \$33,848 (year ended June 30, 2008 - \$217,692) 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, 2008</u>	<u>Year ended June 30, 2008</u>
Risk free interest rate	3.39%	3.62%
Expected dividend yield	0%	0%
Expected stock price volatility	70%	77%
Expected life of options	5 years	1.79 years

The grant-date fair value of options granted during the period ended December 31, 2008 was \$0.05 (2007 - \$0.03).

INTERNATIONAL BIO RECOVERY CORPORATION
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For the six months ended December 31, 2008

13. RELATED PARTY TRANSACTIONS

The Company had the following transactions with related parties during the six months ended December 31, 2008:

- a) Management fees, in lieu of salary and wages, of \$62,500 (2007: \$62,500) were expensed for services provided by directors; \$Nil (2007: \$Nil) of these fees are included in accounts payable and accrued expenses.
- b) Consulting fees of \$26,000 (2007: \$Nil) were expensed for services provided by a company controlled by an officer; \$Nil (2007: \$Nil) of these fees are included in accounts payable and accrued expenses.
- c) Accounts payable and accrued expenses include fees payable to directors of \$72,400 (2007: \$62,800). Fees to directors of \$4,112 (2007: \$5,600) were expensed during the six months to December 31, 2008.
- d) Loans payable include \$257,205 (2007: \$114,205) 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 \$92,917 (2007: \$49,592) has been accrued and is included in accounts payable and accrued expense.
- e) Loans payable are due to directors and a promissory note is due to a director, as described in Notes 8 and 9. Interest of \$25,751 (2007: \$64,583) was expensed on these loans payable and promissory notes in the six months ending December 31, 2008, no interest (2007: \$Nil) was paid to directors during the six months, and interest payable to directors of \$155,106 (2007: \$141,427) is included in accounts payable and accrued expenses.

14. GOVERNMENT ASSISTANCE

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

During the year ended June 30, 2008, the Company received \$47,600 from NRC. Also during 2008, the Company reached a settlement agreement with a contractor who had provided research services to the Company, resulting in a requirement for the Company to repay \$22,289 of the funds received from NRC; \$7,500 of this amount has been paid to December 31, 2008 and the balance of \$14,789 is recorded in accounts payable and accrued expenses.

During 2008, the Company signed a contribution agreement with Natural Sciences and Engineering Research Council of Canada ("NSERC") whereby NSERC would contribute a portion of an undergraduate student's salary. The Company has received \$4,500 under the agreement and this payment resulted in an aggregate reduction in research and development expenses of \$2,250 during the six months ending December 31, 2008.

15. CONTINGENCY

In November, 2006, the Company settled a claim for severance pay and wrongful dismissal filed by its former President and CEO. The settlement amount is \$125,000 payable on a contingency basis upon the Company's receipt of license fees or equipment sale profits in an amount equal to 10% of the payment received or profit generated, until fully paid. In the periods up to December 31, 2008, the total amount was earned and has been accrued in accounts payable and accrued expenses and earns interest at 12% per annum. Interest of \$8,308 was expensed on the unpaid amounts in the six months ended December 31, 2008, and \$17,556 is included in accounts payable and accrued expenses.

See Note 17.

INTERNATIONAL BIO RECOVERY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2008

16. SEGMENTED INFORMATION

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

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)	(294,956)	38,235

December 31, 2007	Technology Sales	Fertilizer Sales	Corporate	Total
Total assets	\$ -	2,493,717	121,577	2,615,294
Property and equipment	-	2,179,404	82,706	2,262,110
Revenues	-	461,275	-	461,275
Net loss	(17,974)	(425,658)	(493,114)	(936,746)

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

During the six months ended December 31, 2008, 85.8% of the Company's revenues were received from one customer; in the same period of 2007, 99.4% of revenues were received from another customer.

17. SUBSEQUENT EVENTS

Subsequent to December 31, 2008, the Company paid the full amount for the contingency in Note 15.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**
(Report Prepared on February 24, 2009)

Description of the Business

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

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

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

Forward Looking Statements

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

Basis of Presentation

The Company's financial statements are presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A should be read in conjunction with the annual audited financial statements for the year ended June 30, 2008 and the interim unaudited financial statements for the six months ended December 31, 2008.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

Financial Performance

	Jan-Mar/07 Q3 2007	Apr-Jun/07 Q4 2007	Jul-Sept/07 Q1 2008	Oct-Dec/07 Q2 2008	Jan-Mar/08 Q3 2008	Apr-Jun/08 Q4 2008	July-Sept/08 Q1 2009	Oct-Dec/08 Q2 2009
Revenue								
Technology & license fees	\$ -	\$ 400,000	\$ -	\$ -	\$ 10,000	\$ 500,000	\$ -	\$ 850,000
Equipment & product sales	11,333	335,942	1,935	459,340	743	9,627	16,059	6,611
Interest & other income	1,039	-	-	-	-	26,082	653	439
Total Revenues	12,372	735,942	1,935	459,340	10,743	535,709	16,712	857,050
Gains on settlement of liabilities	-	-	-	-	-	87,096	-	-
Net Income (Loss)	(897,726)	30,132	(586,922)	(349,824)	(418,957)	128,896	(394,049)	426,223
Net Income (Loss) per share	\$ (0.03)	\$ 0.00	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ 0.01
	Mar. 31/07	June 30/07	Sept. 30/07	Dec. 31/07	Mar. 31/08	June 30/08	Sept. 30/08	Dec. 31/08
Total Assets	3,179,924	3,253,296	2,762,601	2,615,294	2,490,655	2,788,094	2,435,479	2,902,593
Long term liabilities	94,331	78,461	49,354	44,778	40,060	42,446	36,540	30,452

Revenues from technology and license fees and any associated 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 six months to December 31, 2008 to the six months to December 31, 2007

During the six months ended December 31, 2008, the Company generated revenue from plant license sales of \$850,000, waste collection fees of \$18,770, fertilizer sales of \$3,900, and interest income of \$1,092. Plant license fees were received from Recondo Holdings Limited (\$650,000) for the final payments for a plant in Ireland, Enviroco Corp. for the initial payment of \$100,000 for plants in California, and an initial payment of \$100,000 from Eastern Green Bio Recovery for a plant in Iran. During the six months ended December 31, 2007, revenues were generated from equipment sales of \$458,322 and waste collection fees of \$2,953.

Total expenses during the current six month period were \$839,188 compared to \$1,398,021 in the same period last year. Administration costs were \$161,988 lower than the previous year primarily due to a reduction of \$110,545 in stock based compensation and a reduction of \$16,766 in wages and management fees. Plant and operations costs decreased by \$55,085 primarily due to a reduction of \$31,388 in wages and benefits due to reduced plant operations. Research and development costs increased by \$43,238 primarily as the Company was receiving grants from National Research Council in the first two quarters of 2007 and these grants expired in March 2008; in addition use of contractors increased by \$12,601 and patent costs of \$7,489 were incurred. Marketing costs increased by \$56,365 as the prior year had a \$110,000 contributions to marketing costs from Converted Organics Inc. as part of their license agreement; these contributions offset an increase in the cost of consultants and the contribution ended in January 2008.

The profit for the six months ended December 31, 2008 was \$32,174, or \$0.00 per share, compared to a loss of \$936,746, or \$0.03 per share, for the same period last year.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

Comparison of the three months to December 31, 2008 to the three months to December 31, 2007

The Company generated revenue from plant license sales of \$850,000, waste collection fees of \$6,611 and interest income of \$439 during the three months ended December 31, 2008. In the same period in the previous year, revenues were generated from equipment sales of \$458,322 and waste collection fees of \$1,018.

Total expenses during the current three month period were \$428,427 compared to \$453,882 in the same period last year; in addition to expenses, 2007 costs also included \$355,282 for the cost of equipment sold. Administration costs decreased \$10,371 from the previous year primarily due to a reduction of \$25,310 in stock based compensation, offset by an increase of \$16,068 in accounting and professional fees. Plant and operations costs decreased by \$20,000 primarily due to a reduction of \$14,557 in wages and benefits due to reduced plant operations. Research and development costs increased by \$20,697 primarily as the Company was receiving grants from National Research Council in 2007 and these grants expired in March 2008; grants totalling \$13,847 was received in the three months of 2007. Marketing costs increased by \$21,112 as the prior year had a \$44,000 contribution to marketing costs from Converted Organics Inc. as part of their license agreement; these contributions offset an increase in the cost of consultants.

The net income for the three months ended December 31, 2008 was \$426,223, or \$0.01 per share, compared to a loss of \$349,824, or \$0.01 per share, for the same period last year.

Financial Condition

At December 31, 2008, the Company had total liabilities of \$1,850,304, an increase of \$56,810 from the year ended June 30, 2008; the Company had cash balances of \$698,274 and the working capital position was a deficiency of \$1,128,573 compared to a deficiency of \$1,352,935 at June 30, 2008 and a deficiency of \$2,484,350 at December 31, 2007. In January 2009, the Company paid severance of \$147,801 and \$266,330 of interest on loans; the total of \$414,131 was included in accounts payable and accrued liabilities at December 31, 2008.

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 48,606,592 common shares outstanding at December 31, 2008 and 15,833,333 share purchase warrants; 833,333 of the warrants are exercisable at US \$0.24 to August 20, 2009 and 15,000,000 are exercisable at \$0.15 to April 15, 2010. On September 29, 2008, 2,094,000 performance shares that had been held in escrow were cancelled as the release requirements had not been met. There are also 3,500,000 stock options outstanding, exercisable at prices ranging from \$0.15 to \$0.25 and with expiry dates ranging from January 23, 2009 to July 25, 2013.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

Business Development

The Company is actively working with a major fertilizer distributor to create a market for its end products. Negotiations for the sale of technology licenses in several markets are in progress and the provisional patent covering the bacteria responsible for the beneficial properties in the end products has been re-filed.

Under a license agreement with Converted Organics Inc. ("COI") signed in 2003, COI made total payments of \$352,000 towards marketing costs up to January 2008; the agreement also requires COI to make royalty payments once the plant is fully operating which is expected to occur in early 2009. COI has also placed a deposit of \$150,000 with the Company in respect of a planned second plant.

In April 2008, the Company announced the sale of a Master License Agreement to Recondo Holding Ltd. ("Recondo") covering up to seven plants in Ireland, Northern Ireland, and the United Kingdom; the final payment for the Plant License Fee of \$1,250,000 was received in December 2008. In addition to the license fees and equipment sales profits that the Company will receive, Recondo has granted the Company a 12.5% carried interest in the roll-out of Recondo's European plants.

In December, the Company also received the initial payment of \$100,000 from Envirco Corp. for a Plant License Fee covering the state of California.

Transactions with Related Parties

During the six months ended December 31, 2008, the Company paid management fees of \$62,500 in lieu of salaries to a director who has a management position. In addition, directors receive a fee of \$400 for each meeting or committee meeting attended and directors' fees of \$9,000 were expensed during the six months; \$72,400 of the fees and expenses were due to directors at December 31, 2008.

At December 31, 2008, the Company had loans of \$351,904 due to directors and a loan of \$257,205 due to Shearator Corporation, a company which includes certain directors of the Company. The loans are secured by a charge on the Company's assets, are payable on demand, and earn interest at 12% per annum. No new loans or repayment of loans has occurred since the end of April 2008. Accrued interest of \$138,990 on these loans was paid in January 2009.

A promissory note of \$295,000 is due to a director, and is repayable on demand, earns interest at 15% per annum, and is secured by a charge on the Company's assets. Accrued interest of \$109,033 on the promissory note was paid in January 2009.

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

ADOPTION OF NEW ACCOUNTING STANDARDS

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

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

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

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

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

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

The Company classified its financial instruments as follows:

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

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

As at December 31, 2008, the Company's financial instruments consist of cash, accounts receivable, accounts payable, customer deposits, loans payable, promissory notes, and capital lease obligations. The fair values of current assets and current liabilities approximate their carrying values due to the short-term maturity of the instruments. The fair value of the capital lease approximates its book value due to market prices for similar capital leases. The Company is not exposed to significant interest rate, currency exchange rate or credit risk arising from these financial instruments. The Company is not party to any derivative instruments.

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

**INTERNATIONAL BIO RECOVERY CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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

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

Disclosure Policies

The Company has disclosure policies in place to ensure that material information is released on a timely basis. The certifying officers of the Company have concluded that the disclosure controls and procedures as of December 31, 2008 are effective.

Internal Controls

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

Additional Information

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