



DYNAMOTIVE ENERGY SYSTEMS CORPORATION

Unaudited Interim Consolidated Financial Statements

For the six months ended June 30, 2009

(In U.S. Dollars)

NOTICE TO READER

The financial statements of Dynamotive Energy Systems Corporation and the accompanying interim consolidated balance sheet as at June 30, 2009 and the interim consolidated statements of loss, changes in shareholders' equity and cash flows for the six months period then ended are the responsibility of the Company's management. These consolidated financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles.

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Dynamotive Energy Systems Corporation

Unaudited Consolidated Balance Sheets

(expressed in U.S. dollars)

	June 30, 2009 (Unaudited) \$	December 31, 2008 (Audited) \$
ASSETS		
Current		
Cash and cash equivalents	40,944	39,927
Receivables	58,026	20,339
Government grants receivable	43,011	336,265
Prepaid expenses and deposits	264,282	321,587
Total current assets	406,263	718,118
Property, plant and equipment	34,581,637	32,769,583
Patents	190,672	193,171
Long-term investments [note 4]	243,443	231,098
Long-term deferred assets [note 5]	640,914	608,413
TOTAL ASSETS	36,062,929	34,520,383
LIABILITIES and SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities [note 6]	8,819,026	9,866,822
Short-term and related party debt	1,242,348	1,257,289
Current portion of long-term debt [note 5]	35,900	35,900
Total current liabilities	10,097,274	11,160,011
Long-term debt [note 5]	245,317	263,267
Asset retirement obligation liability [note 7]	257,397	229,312
Deferred revenue [note 8]	743,182	705,495
Total liabilities	11,343,170	12,358,085
Shareholders' Equity		
Share capital [note 9(b)]	115,953,622	112,883,411
Shares to be issued [note 9(c)]	1,837,517	1,837,398
Contributed surplus	26,443,016	24,729,955
Accumulated other comprehensive loss	(611,939)	(1,612,018)
Deficit	(118,902,457)	(115,676,448)
Total shareholders' equity	24,719,759	22,162,298
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY	36,062,929	34,520,383

The accompanying notes are an integral part of these financial statements

Approved by:

"R. Andrew Kingston" President & CEO "Richard C. H. Lin" Chairman

Dynamotive Energy Systems Corporation

Unaudited Consolidated Statements Of Loss and Comprehensive Loss

(expressed in U.S. dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
REVENUES				
License revenue	—	—	—	500,000
Total revenues	—	—	—	500,000
EXPENSES				
Marketing and business development	73,905	190,543	156,295	509,795
Research and development	276,098	317,223	479,081	548,145
General and administrative expenses	1,286,792	2,209,795	2,475,215	4,662,442
Depreciation and amortization	24,972	38,256	48,524	75,421
Interest expense	321,195	48,502	372,477	66,241
Foreign exchange (gain) loss	(446,076)	98,783	(303,439)	113,218
	1,536,886	2,903,102	3,228,153	5,975,262
Loss from operations	(1,536,886)	(2,903,102)	(3,228,153)	(5,475,262)
Interest and other income	2,075	4,312	2,144	5,669
Capital taxes expenses	—	(9,973)	—	(9,973)
Gain on reduction in bonus and vacation accrual	—	—	—	1,137,983
Net loss for the period	(1,534,811)	(2,908,763)	(3,226,009)	(4,341,583)
Other comprehensive loss				
Foreign currency translation adjustment	1,611,893	476,641	1,000,079	(1,493,255)
Comprehensive gain (loss)	77,082	(2,432,122)	2,225,930	(5,834,838)
Weighted average number of common shares outstanding				
	226,929,640	209,570,784	224,425,314	208,789,678
Basic and diluted loss per common share	0.01	0.01	0.01	0.02

The accompanying notes are an integral part of these financial statements

Dynamotive Energy Systems Corporation

Unaudited Consolidated Statement Of Changes In Shareholders' Equity

(expressed in U.S. dollars)

	Share Capital	Shares To be Issued	Contributed Surplus	Accumulated Other Comprehensiv e Income (loss)	Deficit	Total
	\$	\$	\$	\$	\$	\$
Balance, January 1, 2008 (audited)	109,133,395	1,265,070	22,663,941	5,422,751	(87,320,183)	51,164,974
Issued for cash and proceeds received since prior year						
Pursuant to private placement, net of issuance costs	3,273,027	—	—	—	—	3,273,027
Pursuant to exercise of stock options	126,780	—	—	—	—	126,780
Pursuant to exercise of warrants	127,340	—	—	—	—	127,340
Issued for services	222,869	—	—	—	—	222,869
Net change in shares to be issued	—	572,328	—	—	—	572,328
Warrant allocation for private placement	—	—	413,173	—	—	413,173
Stock-based compensation expense	—	—	1,652,841	—	—	1,652,841
Net loss	—	—	—	—	(28,356,265)	(28,356,265)
Foreign currency translation adjustment	—	—	—	(7,034,769)	—	(7,034,769)
Balance, December 31, 2008 (audited)	112,883,411	1,837,398	24,729,955	(1,612,018)	(115,676,448)	22,162,298
Issued for cash and proceeds received in since prior year						
Pursuant to private placement, net of issuance costs	1,316,018	—	—	—	—	1,316,018
Issued for settlement of fees payable	1,175,995	—	—	—	—	1,175,995
Issued for services	578,198	—	—	—	—	578,198
Net change in shares to be issued	—	119	—	—	—	119
Warrant allocation for private placement	—	—	1,259,308	—	—	1,259,308
Stock-based compensation expense	—	—	453,753	—	—	453,753
Net loss	—	—	—	—	(3,226,009)	(3,226,009)
Foreign currency translation adjustment	—	—	—	1,000,079	—	1,000,079
Balance, June 30, 2009	115,953,622	1,837,517	26,443,016	(611,939)	(118,902,457)	24,719,759

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

Dynamotive Energy Systems Corporation

Unaudited Consolidated Statements Of Cashflow

(expressed in U.S. dollars)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss for the period	(1,534,811)	(2,908,763)	(3,226,009)	(4,341,583)
Add items not involving cash:				
Amortization and depreciation	24,972	38,256	48,524	75,421
Recognition of deferred revenue	—	—	—	(500,000)
Interest expense-subscribed to private placement	97,390	—	97,390	—
Accretion on ARO liability	7,632	9,113	15,265	18,275
Stock based compensation	346,891	612,456	684,579	1,284,469
Foreign exchange (gain) loss	(446,076)	98,783	(303,439)	113,218
Net change in non-cash working capital balances related to operations <i>[note 11]</i>	224,403	1,808,875	329,394	2,327,323
Cash used in operating activities	(1,279,599)	(341,280)	(2,354,296)	(1,022,877)
FINANCING ACTIVITIES				
Repayment of loan	(8,975)	(8,975)	(17,950)	(17,950)
Increase in short- term and related party debt	20,645	1,198,030	1,114,231	1,360,277
Repayment in short-term and related party debt	(730,000)	(146,414)	(1,129,172)	(146,414)
Decrease in government grant receivable	—	—	290,548	—
Share capital issued	1,750,000	8,000	1,750,000	947,250
Shares to be issued	400,000	681,250	400,000	681,250
Cash provided by financing activities	1,431,670	1,731,891	2,407,657	2,824,413
INVESTING ACTIVITIES				
Increase in long term loan receivable	—	—	—	(173,334)
Purchase of capital assets	(17,429)	(1,296,605)	(17,429)	(3,372,728)
Cash used in investing activities	(17,429)	(1,296,605)	(17,429)	(3,546,062)
Increase (decrease) in cash and cash equivalents from continuing operations	134,642	94,006	35,932	(1,744,526)
Effects of foreign exchange rate changes on cash	(110,495)	(98,634)	(34,915)	(40,277)
Increase (decrease) in cash and cash equivalents during the period	24,147	(4,628)	1,017	(1,784,803)
Cash and cash equivalents, beginning of period	16,797	16,647	39,927	1,796,822
Cash and cash equivalents, end of period	40,944	12,019	40,944	12,019

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

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2009 and 2008

(in U.S. dollars)

1. DESCRIPTION OF BUSINESS

In this Report, unless the context otherwise requires, the terms the "Company" and "Dynamotive" refer to Dynamotive Energy Systems Corporation and its subsidiaries. The Company is listed on the over-the-counter bulletin board (OTCBB) under the symbol: DYMTF.OB. The executive office of the Company is Suite 140 – 13091 Vanier Place, Richmond, British Columbia, Canada V6V 2J1 (Telephone: 1-604-295-6800).

Dynamotive was incorporated on April 11, 1991 under the laws of the Province of British Columbia. The Company changed its name from Dynamotive Technologies Corporation on June 26, 2001. Dynamotive is focused on the development of innovative energy solutions on its patented fast pyrolysis system. The Company's focus is to commercialize its patented BioOil production technology and establish this technology for production of BioOil clean fuels.

Dynamotive Energy Systems Corporation (the "Company" and or "Dynamotive") is commercializing a biomass-to-liquid fuel conversion using a process known as "Fast Pyrolysis" which uses biomass or biomass waste feedstocks to produce BioOil as a fuel and char. BioOil is a clean, renewable fuel which can replace natural gas, diesel and other fossil fuels in certain applications to produce power, mechanical energy and heat in industrial boilers, fuel gas turbines and fuel reciprocating engines. The Company aims to unleash significant amounts of energy production, in the form of BioOil fuels, based upon utilization of abundant biomass waste streams from agricultural and forest operations and other post-industrial biomass residues. The process of biomass to energy conversion is sustainable, renewable and greenhouse gas neutral, and competes with other renewable energy sources such as wind, hydro and solar. One significant advantage of biomass energy over other renewable forms of energy, is that biomass is capable of delivering energy on a 24/7 basis, whereas wind, hydro and solar energy sources are all subject to natural weather fluctuations.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Dynamotive Canada Inc., federally incorporated under the laws of Canada; Dynamotive USA Inc. incorporated under the laws of Delaware, U.S.A.; Dynamotive Latinoamericana S.A., incorporated under the laws of Buenos Aires, Argentina; First Resources Corporation, incorporated under the laws of British Columbia; Dynamotive Europe Limited, formally known as Dynamotive Technologies (UK) Ltd, incorporated in the United Kingdom; Dynamotive Biomass Resource Corporation ("DBRC"), incorporated under the laws of British Columbia and owns a 99.98% interest in the West Lorne BioOil Co-Generation LP, formed under the laws of Ontario, Canada.

All inter-company balances and transactions have been eliminated on consolidation.

These financial statements have been prepared on the going concern basis, which presumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future.

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2009 and 2008

(in U.S. dollars)

2. UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited balance sheet at June 30, 2009 and the unaudited interim statements of loss and deficit and cash flows for the six-month periods ended June 30, 2009 and 2008, in the opinion of management, have been prepared on the same basis as the audited consolidated financial statements of the Company for the year ended December 31, 2008. These interim financial statements include all adjustments necessary for the fair statement of results of the interim periods. The data disclosed in the notes to the interim consolidated financial statements for this period are also unaudited. Results for the six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year. These interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2008, and the summary of significant accounting policies included therein.

The accounts of the Company and its consolidated subsidiaries are measured using the Canadian dollar as the functional currency. Monetary items denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect at the balance sheet date and non-monetary items are translated using historical exchange rates. Exchange gains or losses arising on the translation or settlement of foreign currency denominated monetary items are included in the determination of net income.

The Company uses the U.S. dollar as the reporting currency for its consolidated financial statements. Assets and liabilities are translated into U.S. dollars using current exchange rates in effect at the balance sheet date and revenue and expense accounts are translated using the average exchange rate during the Six months. Gains and losses resulting from this process are recorded in shareholders' deficit as an adjustment to the cumulative translation adjustment account.

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2009, the Company adopted the CICA Handbook Section 3064 "Goodwill and Intangible Assets". This standard, which replaces Canadian GAAP section 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs" provides guidance relating to the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not impact the Company's financial statements.

Future Accounting Changes

Transition to International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that IFRS will replace Canadian GAAP for publicly accountable enterprises for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The standard also requires that comparative figures for 2010 be based on IFRS. The Company is currently assessing the future impact of IFRS adoption on its financial statements and will continue to invest in training and additional resources to ensure a timely conversion.

4. LONG TERM INVESTMENTS

As at June 30, 2009, Dynamotive holds 3,874,139 (2008 – 3,874,139) common shares of Renewable Energy Corp ("ROC") incorporated in Victoria, Australia, a subsidiary of Enecon Pyrolysis Pty Limited. It represents an 8.0% (2008 – 8.0%) interest in the entity.

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2009 and 2008

(in U.S. dollars)

5. LONG TERM DEFERRED ASSET

In April 2007, the Company entered into amended agreements with Erie Flooring and Wood Products (“Erie”) regarding the supply by Erie of wood chips to the West Lorne BioOil plant over the next 12 years at no charge and the provision of char from the BioOil plant to Erie at no charge. In relation to these agreements, Dynamotive has paid for the purchase and installation of a char based boiler system and related char delivery infrastructure at Erie. The asset will be amortized evenly over the remaining life of the wood supply contract commencing when the Company begins to amortize the West Lorne plant. In 2008 the Company conducted a review of realizable value from its property plant and equipment in West Lorne and Guelph and as a result has recorded an impairment provision of which \$196,855 was allocated to the long term deferred asset.

To facilitate the purchase of the boiler system, the Company borrowed \$359,000 from Erie. This amount is being repaid to Erie in equal monthly payments plus 8% interest over a 10-year period. The first payment was made in May 2007. As at June 30, 2009, the Company owed Erie \$281,217 (2008 - \$317,117).

Long-term debt repayment schedule:

	2009
	\$
2009 – 2010 (Current)	35,900
2010 – 2011	35,900
2011 – 2012	35,900
2012 – 2013	35,900
2013 – 2014	35,900
Thereafter	101,717
	281,217

6. GUARANTEE PROVIDED BY DYNAMOTIVE

In 2001, Border Biofuels Limited (“BBL”) a company 75% owned by Dynamotive, entered into a credit facility with a UK bank (the “Bank”) for a maximum of \$328,980 (£200,000). The credit facility is denominated in British Pounds Sterling and is guaranteed by the Company. During 2002 BBL became insolvent. If the Bank is unable to realize on its collateral with BBL, it has the right to seek settlement from the Company for payment. Although there is currently no indication that the Bank will pursue the Company, the Company in 2002 recognized the full amount of the guarantee as a current liability. BBL remains in liquidation at June 30, 2009 and there has been no change in status regarding the settlement of the credit facility.

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2009 and 2008

(in U.S. dollars)

7. ASSET RETIREMENT OBLIGATION

The Company expects that at the end of the life of its production plants, there will be residual obligations to remediate the sites and remove equipment. Although the timing and amount of the future obligations are uncertain, the Company has estimated the present value of these future obligations arising from its activities to June 30, 2009 to be \$257,397 (2008 - \$257,616), being \$128,698 (2008 - \$128,808) for West Lorne and \$128,699 (2008 - \$128,808) for Guelph. The present value of the future obligations assumes a discount rate of 15%, an inflation rate of 2% and the commencement of reclamation activities in 15 years from January 1, 2007. The total undiscounted amount of the future obligation is \$2,000,000. For the period ended June 30, 2009, the Company recorded \$15,265 (2008 - \$18,275) in accretion expense which was charged to the Consolidated statement of loss.

The Company is currently reviewing scenarios including the possibility of relocating one of its plants this year. Although the likelihood of relocation cannot be determined at this time, the total undiscounted amount of future obligations associated with a relocation this year would be \$745,760 and had been included in the asset retirement obligation at its discounted value.

8. DEFERRED REVENUE

In 2006, the Company received a total of \$950,000 in non-refundable payments from Six unrelated companies as licensing fees. \$500,000 from Rika Ltd. as payment for a Master License to develop project opportunities in the Ukraine and the Baltic republics using Dynamotive's patented pyrolysis technology; \$150,000 from Classic Power Inc. as an initial payment on a Plant License for Guelph, Ontario, Canada; \$200,000 from Renewable Oil Corporation Pty Ltd. ("ROC") for a Master License to develop project opportunities in Australia and \$100,000 from ROC as a deposit on an initial Plant License.

In the first quarter of 2008, the Company recognized Rika Ltd. master license fee of \$500,000 at the end of the agreement term. In the fourth quarter of 2008 the Company decided to write-off against this revenue the related loan to entities controlled by Rika of \$330,000 (\$321,894 after foreign exchange effects). These amounts have been removed from the deferred revenue balance. In 2007, deferred revenue was net of the \$330,000 loan to entities controlled by Rika Ltd.

In 2007, the Company received common shares of ROC with a fair value of \$300,000 as compensation for engineering services performed. The Company subsequently transferred common shares of ROC with a fair value of \$150,000 to a sub-contractor as partial settlement for services provided to ROC by the sub-contractor on behalf of the Company. These amounts are included in deferred revenue.

Differences between the amounts described above and deferred revenue per the Balance Sheet result from the Company's foreign exchange translation policy.

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2009 and 2008

(in U.S. dollars)

9. SHARE CAPITAL

[a] Authorized share capital

The Company's authorized capital consists of an unlimited number of common shares with no par value and unlimited Class A preferred shares with no par value each having attached special rights and restrictions. No preferred shares were issued and outstanding at June 30, 2009.

[b] Issued and outstanding share capital

	June 30, 2009	December 31, 2008
	\$	\$
Issued and outstanding		
Common Shares 241,623,879 [December 31, 2008 – 221,312,201]	115,953,622	112,883,411
Common Share Issuance Summary for the Period		
	\$	Number of Shares
Share Capital, December 31, 2008	112,883,411	221,312,201
Private placement issued for cash, net of finder's fee	1,316,018	9,400,130
Issued for settlement of amounts payable	1,175,995	9,356,475
Share issued for commercial services	578,198	1,555,073
Share Capital, June 30, 2009		
Common shares without par value	115,953,622	241,623,879

[c] Shares to be issued

At June 30, 2009, the Company has 4,498,429 common shares to be issued which are comprised of:

- [i] 4,077,312 common shares which are to be issued to senior management, directors and non-employees for services rendered under compensation arrangements with a fair value of \$1,469,214.
- [ii] 421,117 common shares which are to be issued to directors and officers as bonuses for the previous years with a fair value of \$368,303.

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2009 and 2008

(in U.S. dollars)

9. SHARE CAPITAL (CONT'D)

[d] Stock options

At June 30, 2009, the following stock options to Directors, employees and others were outstanding:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at June 30, 2009	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Outstanding at June 30, 2009	Weighted-Average Exercise Price
\$0.19 - \$0.24	8,780,973	2.84 years	\$0.21	8,780,973	\$0.21
\$0.30 - \$0.48	10,573,333	3.77 years	\$0.43	10,573,333	\$0.43
\$0.50 - \$0.58	5,780,000	2.79 years	\$0.61	2,763,334	\$0.57
\$1.00 - \$1.31	5,549,500	1.71 years	\$1.21	5,549,500	\$1.21
\$1.50 - \$1.60	730,000	0.17 years	\$1.59	730,000	\$1.59
	31,413,806			28,397,140	

From time to time, the Company has provided incentives in the form of share purchase options to the Company's directors, officers, employees and others. The Company has reserved 36,243,582 (15%) of common shares for issuance upon the exercise of stock options of which at June 30, 2009, 4,829,776 are available to be granted. The exercise price and the vesting terms of the options are determined by the Compensation Committee. The exercise price will generally be at least equal to the market price of the common shares at the date of the grant. Stock options granted are also subject to certain vesting provisions as determined by the Compensation Committee.

Stock option transactions for the respective periods and the number of stock options outstanding are summarized as follows:

	No. Common Shares Issuable	Weighted Average Exercise Price
Balance, December 31, 2008	25,841,218	0.66
Options granted	6,632,588	0.24
Options forfeited or expired	(1,060,000)	0.72
Options exercised	—	—
Balance, June 30, 2009	31,413,806	0.57

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2009 and 2008

(in U.S. dollars)

9. SHARE CAPITAL (CONT'D)

[e] Common share purchase warrants

At June 30, 2009 the common share purchase warrants outstanding were as follows:

	No. of Common Shares Issuable	Exercise Price	Expiration Date
Series S Warrants	16,676,291	\$0.01 to \$1.35	July 29, 2009 – June 10, 2012
Series V Warrants	4,998,372	\$0.20	October 3, 2012 – January 18, 2013
Total	21,674,663		

In 2008 the Company entered into subscription agreements under a private placement including warrants to be issued with an exercise price of \$0.20. Due to existing agreements, this resulted in a re-pricing of the 4,998,372 Series V Warrants from an exercise price of \$1.06 to an exercise price of \$0.20. As the re-pricing resulted from an anti-dilution provision, no adjustment to the financial statements has been recorded.

Summary of warrants exercised and issued during the Six month period ending June 30, 2009:

	Number of Common Shares Issuable				at June 30, 2009	Exercise Price
	at December 31, 2008	via Warrants Issued during the 6-month Period ending June 30, 2009	via Warrants exercised during the 6- month Period ending June 30, 2009	via Warrants cancelled during the 6- month Period ending June 30, 2009		
Series S Warrants	8,289,610	9,678,302	—	(1,291,621)	16,676,291	\$0.01 to \$1.35
Series U Warrants	239,096	—	—	(239,096)	—	\$0.46 to \$0.53
Series V Warrants	4,998,372	—	—	—	4,998,372	\$0.20
	13,527,078	9,678,302	—	(1,530,717)	21,674,663	

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2009 and 2008

(in U.S. dollars)

10. RELATED PARTY TRANSACTIONS

The transactions with related parties are recorded at amounts established and agreed between the related parties. In addition to the transactions described in note 8, the Company had the following transactions with related parties during the quarter:

- Consulting fees and salaries of \$377,809 for the quarter (2008 - \$335,860) have been accrued and paid to Directors (or companies controlled by Directors) of the Company. Included in the amount above, is \$35,160 (2008 - \$43,192) paid by stock based compensation. For the six months ended June 30, 2009 consulting fees and salaries of \$683,967 (2008 - \$639,660) have been accrued and paid to Directors (or companies controlled by Directors) of the Company. Included in the amount above, is \$35,401 (2008 - \$65,571) paid by stock based compensation.
- In December 2008, the Company entered into loan agreements with directors and officers. As of June 30, 2009, the short-term and related party debt outstanding balance was \$1,242,348 (2008 - \$1,213,863). Of this amount, \$570,000 was from an unrelated party. The loans are due on demand and bear interest at 8% p.a. annum. One of the major loan agreements to a director of the Company is secured by a General Security Agreement as a floating charge over the Company's assets.
- The amounts due from/to related parties, which are non-interest bearing, unsecured and due on demand, are comprised of the following:

	2009	2008
	\$	\$
<hr/>		
Receivable		
Due from directors and officers	7,250	—
<hr/>		
Payable		
Due to directors and officers	\$1,915,503	1,332,258
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Note: Of the total amount \$1,915,503 (2008 - \$1,332,258) due to directors and officers, \$491,801 (2008 - \$1,036,926) was recorded in the shares to be issued account and \$1,423,702 (2008 - \$295,332) was recorded as accrued payables.

11. SUPPLEMENTARY CASH FLOW INFORMATION

Components of changes in non-cash balances related to operations are:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Net change in non-cash working capital				
Account receivable	10,386	(53,352)	(35,593)	(49,944)
Prepaid expenses and deposits	28,264	64,286	66,613	209,982
Accounts payable and accrued liabilities	185,753	1,797,941	298,374	2,167,285
	224,403	1,808,875	329,394	2,327,323

Notes to Consolidated Financial Statements (Unaudited)

Six Months Ended June 30, 2009 and 2008

(in U.S. dollars)

12. SEGMENTED FINANCIAL INFORMATION

In 2009 and 2008, the Company has only one reportable segment, BioOil Power Generation. The BioOil Power Generation segment relates to the biomass-to-energy technology. Substantially all of the Company's assets and the large majority of its operations are in Canada and are solely focused on the development and commercialization of its technology. BioOil Power Generation is a biomass-to-energy technology that converts low value forest waste and agricultural by-products into BioOil for use in power generation or other industrial energy purposes.

All of the revenue and loss for the Six month periods ended June 30 2009 (\$3,226,009) and June 30, 2008 (\$4,341,583) is attributable to the BioOil segment.

Dynamotive Energy Systems Corp.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Six-month period ended June 30, 2009 compared to the six-month period ended June 30, 2008

1.1 Date

This Management's Discussion and Analysis of financial condition and results of operations ("MD&A") is dated August 19, 2009 and should be read in conjunction with the unaudited interim Consolidated Financial Statements and Notes of the Company included in this Quarterly Report, and with the audited Consolidated Financial Statements and Notes, included in the Company's Annual Report for the year ended December 31, 2008.

The following sets out management's discussion and analysis of our financial position and results of operations for the six months ended June 30, 2009 and 2008.

All financial information is reported in U.S. dollars unless otherwise noted.

1.2 Overview

Dynamotive Energy Systems Corporation (the "Company" and or "Dynamotive") is commercializing a biomass-to-liquid fuel conversion using a process known as "Fast Pyrolysis" which uses biomass or biomass waste feedstock to produce BioOil as a fuel and char. BioOil is a clean, renewable fuel which can replace natural gas, diesel and other fossil fuels in certain applications to produce power, mechanical energy and heat in industrial boilers, fuel gas turbines and fuel reciprocating engines. The Company aims to unleash significant amounts of energy production, in the form of BioOil fuels, based upon utilization of abundant biomass waste streams from agricultural and forest operations and other post-industrial biomass residues. The process of biomass to energy conversion is sustainable, renewable and greenhouse gas neutral, and competes with other renewable energy sources such as wind, hydro and solar. One significant advantage of biomass energy over other renewable forms of energy, is that biomass is capable of delivering energy on a 24/7 basis, whereas wind, hydro and solar energy sources are all subject to natural fluctuations.

Dynamotive is attempting to establish its patented technology as the industry standard for the production of liquid biomass based fuels (other than ethanol and biodiesel), in competition with other pyrolysis technologies, and other biomass to energy applications. The Company's fast pyrolysis process converts raw biomass or biomass wastes into three fuel types: Liquid (BioOil), Solid (char) and Gas (non-condensable gases). The non-condensable gases are used to fuel the pyrolysis process. The entire system is a closed loop with low emissions and virtually no waste by-products. The principal by-product, char, has commercial applications.

Plant Operations

The Company's operating results for 2008 and early 2009 have fallen short of expectations for a number of reasons. The Company experienced a small fire at the West Lorne plant in April 2008, resulting in a shut-down for repairs of over three months. Also, the investigation of the fire lead to some recommended changes that were incorporated into the West Lorne plant and were also implemented in Guelph. Production at West Lorne continues and sales have totaled \$79,326 for the first six months of 2009 (2008 - \$75,510).

At Guelph, the changes resulting from the West Lorne fire were implemented and tested, however, due to financial limitations and feedstock issues, the Guelph plant has been maintained on a shut down basis for the balance of 2008 and into 2009. Prior to shut down the Guelph plant was handling a number of

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different feedstocks, including construction wood waste material. This material was found to have an excess of foreign substances which caused fouling and other operational difficulties. The Company is currently investigating a number of alternative financing, business structures and potential feedstock supplies to utilize the plant and to bring it into regular operation.

In addition, the difficult financial market combined with the significant fall in the price of petroleum products have made marketing and development of the Company's products and plants more challenging. In response to these challenges, the Company is focused on achieving higher operating rates and stable production and is being very careful to control costs where possible. We are continuing to advance a number of attractive projects and are working with our development partners to ensure that a realistic structure is in place to ensure that attractive projects do proceed.

Dynamotive has an existing power purchase agreement with the Ontario Power Authority for the output from the West Lorne 2.5 megawatt generator output at a rate of \$110 per megawatt hour. There has been minimal operation of the turbine during 2009 to date.

Operations in Guelph have been temporarily shut down in recognition of the incident at West Lorne. Due to the fire incident at West Lorne, additional fire preventive measures were incorporated in Guelph based on what we have learned. The Company is currently focusing its efforts on the West Lorne operations.

Project Development

The Company continues with a significant number of project developments in multiple markets, though activity slowed during 2008 and early 2009 due first to the required repairs in West Lorne as a result of the fire and the subsequent shut down of Guelph. Following the restart of operations (in West Lorne), the Company has received renewed expressions of interest for both its products and plant developments.

In Canada, there are several project in the early stages of potential development which will progress subject to sourcing further capital. We are also working with First Nations communities through our subsidiary First Resources Corporation which is involved in development activities on projects in Canada and the US to establish BioOil plants on traditional aboriginal territory.

In the United States, the Company plans, subject to availability of financing, to invest US \$24 to \$30 million to build the first fully commercial industrial biofuel plant in the U.S., to be followed by plants at other advanced locations. Negotiations on agreements continue to progress. The Company announced that it has secured a long term supply contract for biomass for a proposed facility in southern Arkansas and is working with the El Dorado Arkansas Chamber of Commerce on this development. Although the site of the first plants are not yet certain, we are also working to establish facilities in Willow Springs, Missouri, and North Webster Parish, Louisiana.

Dynamotive USA has begun evaluating engineering contractors to provide construction management for the U.S. BioOil projects. Subject to agreements being completed and confirmation of financing, the Company expects to launch engineering phase of the first US project before the end of 2009. Also, a number of field trials for BioOil and Char were completed during recent months.

In Argentina, progress has been slower than expected due to the fire in West Lorne, due to financial limitations and due to the political situation in Argentina. The Company has executed contracts for the provision of biomass for two of its proposed plants in the Province of Corrientes, as has been previously

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announced. A total of 2.5 million tons has been secured over 10 years from the municipality of Virasoro. Dynamotive Latinoamericana SA has been offered a site for the project within the Municipality of Virasoro. Negotiations in regard to the project are progressing. The development plan envisages further potential within the Province of Corrientes. Financing discussions are also well advanced.

Dynamotive and regional partners are also investigating other regional opportunities in Uruguay, Chile, Dominican Republic, Panama and Brazil.

In Asia, Dynamotive signed a cooperation agreement with Marketech International Corporation to jointly review the commercial feasibility and, if warranted, develop and construct the first two commercial BioOil plants in Taiwan. The companies also entered into a memorandum to explore further cooperation to potentially develop BioOil projects in the Greater China area. Several projects are currently under review.

In China, the Company has signed an agreement to assist Hubei Xinda Biooil Technology Co to build the first Chinese BioOil project in the province of Henan, where Dynamotive will provide process and engineering support. Also, Dynamotive has worked with the China National Development and Reform Commission on a BioOil feasibility study for two years. This is a major policy advisory and administrative division of the Chinese government which can assist in obtaining government subsidies for BioOil projects in China. With the study completed, NDRC is very supportive of BioOil production in China.

In Europe, the Company is working with Prius Developments and continues negotiations with several interested groups in Canton of Fribourg, Switzerland. Discussions in relation to project opportunities in France and Bulgaria are also occurring. Beyond these opportunities, Dynamotive is currently in the process of evaluating project opportunities in the Ukraine, the Netherlands, the U.K., Spain and Portugal.

In Australia, ROC has scaled back operations while it focuses on confirming financing, while they continues to make limited progress on its flagship project. The first plant site has been identified and preliminary work has been completed on permits and approvals. Negotiations are ongoing with several groups interested in output from the first plant. A joint venture has been formalized with a major recycling group for certain feed types and co-funding of plants. Further progress is subject to the availability of project and corporate finance. Financing applications have been submitted and are under discussion.

All of the above opportunities are progressing. However, additional development and access to project finance is expected to progress slowly until additional long term operating results are available from the Ontario plants.

Research and Development

The Company and its partners are also engaged in research and development on a range of derivative products that, if successful, could further enhance the market and value for BioOil as an alternative fuel and product source.

We continue our work in upgrading BioOil. We believe that beyond the direct substitution of heating oil # 2, there is a wider market in the potential refining of BioOil. Our research team is working on a number of paths that could prove commercially viable and, if successful, would expand the market for our

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technology and fuel exponentially. Bench scale tests of upgrading BioOil to "UBA" and "UBB", for advanced industrial use and transportation use respectively, have been successfully completed. The Company intends to build a pilot scale facility to produce UBA and UBB which have neutral acidity and much lower water and oxygen content compared to BioOil.

In addition to Dynamotive working in this area of research, there are strong efforts from energy companies and government sponsored research in the U.S. and in Europe.

The Company is also investigating a number of market opportunities for its pyrolytic char. The company is participating in a number of studies and field tests on the use of Char as a soil enhancer and announced successful results from its tests with Blueleaf Inc. showing 6% to 17% increases in crop yields. Dynamotive considers the production of its BioChar to be a high value opportunity.

Corporate Information

The Company was incorporated on April 11, 1991 in the Province of British Columbia, Canada, under the name of Dynamotive Canada Corporation. In October 1995, the shareholders approved a change of name to Dynamotive Technologies Corporation and in June 2001, the shareholders approved a change of name to the Company's current name.

As at June 30, 2009, the Company had six wholly-owned subsidiaries Dynamotive Canada Inc., federally incorporated under the laws of Canada in 2000; Dynamotive USA Inc. incorporated under the laws of Delaware, U.S.A. in 2006; Dynamotive Latinoamericana S.A., incorporated under the laws of Buenos Aires, Argentina in 2006; First Resources Corporation, incorporated under the laws of British Columbia, Canada in 2006; Dynamotive Biomass Resource Corporation, incorporated under the laws of British Columbia, Canada in 2006; and Dynamotive Europe Limited (formally known as Dynamotive Technologies (UK) Ltd.), incorporated in the United Kingdom in 1996. In addition, the Company owns a 99.98% interest in the West Lorne BioOil Co-Generation LP, formed under the laws of Ontario, Canada in 2003. Dynamotive Canada Inc. acts as the General Partner of the Limited Partnership, which operates the West Lorne BioOil and electricity generation plant.

In this report, unless the context otherwise requires, the terms the "Company" and "Dynamotive" refer to Dynamotive Energy Systems Corporation and its subsidiaries. The Company is currently listed on the over-the-counter bulletin board (OTCBB) under the symbol: DYMTF.OB.

The principal executive office of the Company is Suite 140 - 13091 Vanier Place, Richmond, British Columbia, Canada V6V 2J1 (Telephone: 604-295-6800).

1.3 Selected Annual Information

All financial information is reported in U.S. dollars unless otherwise noted. Our audited consolidated interim financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Dynamotive Energy Systems Corp.**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Six-month period ended June 30, 2009 compared to the six-month period ended June 30, 2008

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
(US Dollars)	\$	\$	\$
Results of operations:			
Revenue	178,106	—	—
Loss from operations	(13,279,325)	(14,415,849)	(14,319,641)
Net loss	(28,356,265)	(14,220,404)	(14,252,382)
Net loss per share	(0.13)	(0.08)	(0.09)
Financial position at year-end:			
Total assets	34,520,383	58,935,644	38,193,699
Total liabilities	12,358,085	7,770,670	7,058,287
Non-controlling interest, Cdn GAAP	—	—	1,354,923
Shareholder's equity	22,162,298	51,164,974	29,780,489
Deficit	(115,676,448)	(87,320,183)	(73,099,779)
Common shares issued	221,312,201	207,749,673	171,765,776

1.4 Results of Operations

Revenue

Revenue for the second quarters of 2009 and 2008 were \$nil. Revenue for the first six month of 2009 was \$nil compared to \$500,000 for the same period in 2008. The revenue for the first quarter of 2008 was due to the Company recognizing the Rika Ltd. master license fee of \$500,000. During the fourth quarter of 2008, the revenue for \$500,000 was netted \$330,000 (\$321,894 after foreign exchange effects) by writing down the outstanding loan due from Rika Ukraina Ltd. at the end of the two year agreement term.

During the second quarter of 2009, the Company netted \$23,113 (2008 - \$60,035) of product service sales against research and development expenses. During the first six months of 2009, the Company netted \$79,326 (2008 - \$75,510) of product and service sales against research and development expenses, which are considered incidental sales of BioOil, char and electricity until such time as the Company's plants have reached commercial production levels. Commercial production levels are reached when the plant is producing a positive cash-flow and operations are considered to be sustainable at that level.

Interest and other income decreased to \$2,075 in the second quarter of 2009 compared to \$4,312 in the same quarter in 2008. Interest and other income decreased to \$2,144 in the first six months of 2009 from \$5,669 in the same period in 2008. The decrease in 2009 was due mainly to lower cash balances and therefore decreased in interest income from investments in short-term money market deposits.

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Expenses

During the second quarter ended June 30, 2009, the Company recorded a net loss of \$1,534,811, while the net loss for the same quarter in 2008 amounted to \$2,908,763. During the first six months of 2009, the Company recorded a net loss of \$3,226,009, while the net loss for the same period in 2008 amounted to \$4,341,583. The decrease in operating loss was primarily attributable to (i) a decrease in marketing and business development related expenses; (ii) a decrease in research and development expenses and (iii) a decrease in general and administrative expenses; and slightly offset by (iv) an increase in interest expense.

The basic and diluted loss per common share for the second quarter was \$0.01 per share compared to \$0.01 for the same quarter in 2008. The basic and diluted loss per common share the first six months of 2009 decreased to \$0.01 compared to \$0.02 for the same period in 2008. The weighted average number of Common Shares increased to 226,929,640 shares for the second quarter ended June 30, 2009 from 209,570,784 for the same quarter in 2008. The weighted average number of Common Shares increased to 224,425,314 shares for the first six month period ended June 30, 2009 from 208,789,678 for the same period in 2008.

Marketing and business development expenses for the second quarter of 2009 decreased to \$73,905 from \$190,543 for the same quarter in 2008. Marketing and business development expenses for the first six months of 2009 decreased to \$156,295 from \$509,795 for the same period in 2008. These decreases were due to decreases in business development activities and participation in a major environmental conference during the first six months of 2008.

For the second quarters of 2009 and 2008 the Company had expended on a quarterly basis \$299,211 and \$377,258 respectively, on research and development. In the second quarter 2009, the Company also offset product sales of \$23,113 (2008 - \$60,035) against research and development expenses, which are considered incidental sales of BioOil until such time as the Company's plant has reached commercial production levels. For the first six months in 2009 and 2008 the Company had expended \$558,407 and \$623,655 respectively, on research and development. These amounts were net of \$79,326 (2008 - \$75,510) of product sales. These decreases in research and development expenses were due to reduced activity in engineering development of the commercial scale plant and other product development activities.

General and administrative expenses in the second quarter of 2009 decreased to \$1,286,792 from \$2,209,795 for the same quarter in 2008. General and administrative expenses in the first six months of 2009 decreased to \$2,475,215 from \$4,662,442 for the same period in 2008. The decrease in 2009 was a combination of decreased activity in the general and administrative area and management of the Company's development activities related to its 200 tpd plant in Guelph, Ontario and a decrease in non-cash compensation expenses.

Amortization and depreciation expenses decreased to \$24,972 in the second quarter of 2009 from \$38,256 in the same quarter in 2008. Depreciation and amortization expenses decreased to \$48,524 in the first six months of 2009 from \$75,421 in the same period in 2008.

Interest expenses increased in the second quarter of 2009 to \$321,195 from \$48,502 in the same quarter in 2008. Interest expenses increased in the first six months of 2009 to \$372,477 from \$66,241 in the same period in 2008. The increase in second quarter of 2009 was due to a combination the accrual of finance charge from outstanding payables and interest expense of \$97,390 as part of the settlement of payables

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by issuing Company's common shares during the second quarter. The interest expenses incurred in 2008 were due mainly to the accretion of the asset retirement obligation liability, expenses incurred on the long-term debt and the short-term debt with company's directors, officers and shareholders.

Currency exchange gain in the second quarter amounted to \$446,076 compared to the loss \$98,783 in the same quarter in 2008. Currency exchange gain in the first six months of 2009 amounted to \$303,439 compared to the loss \$113,218 in the same period in 2008. These non-cash changes were due to the depreciation of the US dollar. For further explanation on foreign exchange accounting practice, please refers to Note 2 to the unaudited interim financial statements for the quarter.

The Company recorded a gain on reduction in bonus and vacation accrual of \$1,137,983 during the first quarter of 2008. On May 29, 2008 the Company's Compensation Committee agreed with the motion of certain Company executives to make this reduction in the accrual. These amounts were previously accrued as at December 31, 2007 and included in results to that time.

Going forward, the Company expects to have increased sales and project development activities, both in North America and overseas. With West Lorne increasing production, product sales should increase through the remainder of 2009 and beyond. Also, successful operation of the plants should lead to additional project development activity.

The Company's main commitments going forward are the residual capital expenditures for the completion of the steam system at the Erie Flooring plant in West Lorne. These amounts total approximately \$0.6 million.

1.5 Summary of Quarterly Results (Unaudited)

The following table provides summary financial data for the last eight quarters:

	Jun 30 2009	Three months ended Mar 31 2009	Dec 31 2008	Sep 30 2008
(US Dollars)	\$	\$	\$	\$
Revenue	—	—	(321,894)	—
Net loss	(1,534,811)	(1,691,199)	(21,245,243)	(2,769,440)
Net loss per share	(0.01)	(0.01)	(0.10)	(0.01)
Weighted average common shares outstanding in the period	226,929,640	221,893,163	214,647,877	213,509,053
	Jun 30 2008	Three months ended Mar 31 2008	Dec 31 2007	Sep 30 2007
(US Dollars)	\$	\$	\$	\$
Revenue	—	500,000	—	—
Net loss	(2,908,763)	(1,432,819)	(4,299,404)	(3,179,667)
Net loss per share	(0.01)	(0.01)	(0.02)	(0.02)

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Six-month period ended June 30, 2009 compared to the six-month period ended June 30, 2008

Weighted average common shares outstanding in the period	209,570,784	208,008,571	205,329,005	189,679,200
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There were no discontinued operations or extraordinary items during the past eight quarters. Loss per share on a fully diluted basis is equal to the loss per share as stated above as the exercise of outstanding options and warrants would be anti-dilutive.

1.6 Liquidity

During the second quarter ended June 30, 2009, the Company generated cash from financing activities of \$1,431,670, and used cash in operating activities and investing activities of \$1,279,599 and \$17,429, respectively. During the first six months ended June 30, 2009, the Company generated cash from financing activities of \$2,407,657, and used cash in operating activities and investing activities of \$2,354,296 and \$17,429, respectively.

The Principal sources of liquidity during the second quarter ended June 30, 2009 were (i) \$20,645 increase in short term and related party debts; (ii) \$400,000 in deposits for Common Shares to be issued in 2009 pursuant to the Company's recent private placement; (iii) \$1,750,000 in net proceeds after deducting related issue costs and expenses from private placement offerings of the Company's Common Shares; offset by (iv) \$8,975 in repayment of loan and (v) \$730,000 in repayment of short term and related party debts. Principal sources of liquidity during the six months ended June 30, 2009 were (i) \$1,114,231 increase in short term and related party debts; (ii) \$1,750,000 in net proceeds after deducting related issue costs and expenses from private placement offerings of the Company's Common Shares and the exercise of Common Share options and warrants for cash, (iii) \$400,000 in deposits for Common Shares to be issued in 2009 pursuant to the Company's recent private placement, (iv) \$290,548 decrease in government grant receivable; offset by (v) \$17,950 in repayment of loan and \$1,129,172 in repayment of short term and related party debts.

The Principal sources of liquidity during the second quarter ended June 30, 2008 were (i) \$1,198,030 increase in short term and related party debts; (ii) \$681,250 in deposits for Common Shares to be issued in 2008 pursuant to the Company's recent private placement; (iii) \$8,000 in net proceeds after deducting related issue costs and expenses from private placement offerings of the Company's Common Shares; offset by (iv) \$8,975 in repayment of loan and (v) \$146,414 in repayment of short term and related party debts. Principal sources of liquidity during the six months ended June 30, 2008 were (i) \$1,360,277 increase in short term and related party debts; (ii) \$947,250 in net proceeds after deducting related issue costs and expenses from private placement offerings of the Company's Common Shares and the exercise of Common Share options and warrants for cash, (iii) \$681,250 in deposits for Common Shares to be issued in 2008 pursuant to the Company's recent private placement; offset by (iv) \$17,950 in repayment of loan and (v) \$146,414 in repayment of short term and related party debts.

Overall change in cash position during the second quarter of 2009 was an increase in cash of \$24,147 as compared to a decrease of \$4,628 during the same quarter in 2008. Overall change in cash position during the first six months of 2009 was an increase in cash of \$1,017 as compared to a decrease in cash of \$1,784,803 during the same period in 2008. Overall cash flows decreased during the first six months of 2009 due to significantly decreased financing activities, operating activities and investing activities.

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The net amount of cash used in operating activities in the second quarter of 2009 increased to \$1,279,599 from cash used of \$341,280 in the same quarter of 2008. Cash used in operating activities consisted primarily of a net loss from operations for the second quarter 2009 of \$1,534,811 and a translation gain of \$446,076, less non-cash expenses of (i) equity compensation expenses of \$346,891, (ii) amortization of \$24,972, (iii) accretion interest on convertible loan of \$7,632, (iv) a net change in non-cash working capital balances related to operations of \$224,403, and (v) interest expense for \$97,390 subscribed to private placement. Cash used in operating activities for the second quarter 2008 consisted primarily of a net loss from operations of \$2,908,763, less non-cash expenses of (i) equity compensation expenses of \$612,456, (ii) amortization of \$38,256, (iii) accretion interest on convertible loan of \$9,113, (iv) a net change in non-cash working capital balances related to operations of \$1,808,875, and (v) translation loss of \$98,783.

The net amount of cash used in operating activities in the first six months of 2009 increased to \$2,354,296 from cash used of \$1,022,877 in the first six months of 2008. Cash used in operating activities consisted primarily of a net loss from operations for the first six months of 2009 of \$3,226,009 and a translation gain of \$303,439, less non-cash expenses of (i) equity compensation expenses of \$684,579, (ii) amortization of \$48,524, (iii) accretion interest on convertible loan of \$15,265, (iv) a net change in non-cash working capital balances related to operations of \$329,394, and (v) interest expense for \$97,390 subscribed to private placement.. Cash used in operating activities for the first six months of 2008 consisted primarily of a net loss from operations of \$4,341,583, and the recognition of (non-cash) deferred revenue of \$500,000, less non-cash expenses of (i) equity compensation expenses of \$1,284,469, (ii) amortization of \$75,421, (iii) accretion interest on convertible loan of \$18,275, (iv) a net change in non-cash working capital balances related to operations of \$2,327,323, and (v) translation loss of \$113,218.

Financing activities during the second quarter 2009 generated a net increase in cash of \$1,431,670, primarily from the Company's private placements of Common Shares. Financing activities during the second quarter 2008 generated a net increase in cash of \$1,731,891, primarily from the short-term debt and related debt with the Company's directors, officers and shareholders of \$1,198,030 and the Company's private placements of Common Shares.

Financing activities during the first six months of 2009 generated a net increase in cash of \$2,407,657, primarily from a decrease of \$290,548 in government grant receivable and the Company's private placements of Common Shares. Financing activities during the first six months of 2008 generated a net increase in cash of \$2,824,413, primarily from the short-term debt with the Company's directors, officers and shareholders of \$1,213,863 and the Company's private placements of Common Shares.

Investing activities in the second quarter 2009 resulted in use of cash, in the amount of \$17,429. Investing activities in the second quarter 2008 resulted in use of cash, in the amount of \$1,296,605. This amount was incurred in the acquisition of capital assets (Guelph and West Lorne plants).

Investing activities in the first six months of 2009 resulted in use of cash, in the amount of \$17,429. Investing activities in the first six months of 2008 resulted in use of cash, in the amount of \$3,546,062. This amount was incurred in the acquisition of capital assets (Guelph and West Lorne plants) of \$3,372,728 and an increase of long-term loan receivable of \$173,334.

1.7 Capital Resources

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Six-month period ended June 30, 2009 compared to the six-month period ended June 30, 2008

As at June 30, 2009, the Company had working capital deficiency of \$9,691,011 and incurred a net loss of \$3,226,009 for the first six months ended June 30, 2009, and has an accumulated deficit of \$118,902,457.

In the quarter ended June 30, 2009, the Company recorded \$nil license revenue. Sales revenue going forward is uncertain and the Company is therefore dependent on its financing activities to fund its operations. Dynamotive will be required to raise sufficient additional funds to finance its commercialization strategy. The raising of additional finance to fund operations is subject to uncertainty. There is no assurance that such financing will be available on commercially reasonable terms, if at all. Dynamotive's operations are subject to all of the risks inherent in the establishment of a new business enterprise and in particular Dynamotive will require significant additional financing in the future to develop and market its technology to its full potential.

With the current cash on hand, anticipated cash flow from product sales and the potential to secure equity and debt financing, the Company anticipates that it will have sufficient cash resources and available financing to satisfy its cash requirements for the next 12 months. The Company expects to require additional funding for the commercial expansion of its technologies through the year 2009 and beyond. Given market conditions and other factors, there can be no guarantee that the Company will be successful in securing additional finance. If adequate funds are not available on acceptable terms when needed, the Company may be required to delay, scale-back or eliminate the manufacturing, marketing or sales of one or more of its products or research and development programs. The outcome of these matters cannot be predicted at this time. The Company's future operations are dependent on the market's acceptance of its products in order to ultimately generate future profitable operations, and the Company's ability to secure sufficient financing to fund future operations. There can be no assurance that the Company's products will be able to secure market acceptance. Management plans to raise additional equity financing to enable the company to complete its development plans.

The Company expects to spend approximately \$6 million in its operations in the next 12 months and has capital expenditure commitments of approximately \$0.6 million. The Company does expect to have increases in product sales and licenses over the coming months and years, but these are not expected to cover operating requirements in the near future..

In recognition of our liquidity and capital resources, our independent public accountants have included a comment in their report on our accompanying consolidated financial statements for the year ended December 2008, that expresses substantial doubt as to our ability to continue as a going concern.

The Company's 2009 financing plan is structured to include completion of the char boiler at the West Lorne plant. The core of the strategy surrounds market and project based equity financing that minimizes equity dilution while raising sufficient capital for operations and projects. In addition, the Company will seek asset backed debt financing if such facilities are available on reasonable commercial terms. In connection with the Company's West Lorne char boiler system project, the Company has committed to approximately \$0.6 million of further construction as at June 30, 2009.

The Company's funding plan for 2009 is structured so that equity placements explained above will maintain Company and project operations. Additionally, the Company contemplates a private placement and project finance strategy which, with other project funding and sales, are expected to fund the 200 tpd project(s) which are expected to be developed. Any delay in securing project funding for a project will delay the construction and commissioning of that project. As mentioned previously, there is no assurance

Dynamotive Energy Systems Corp.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Six-month period ended June 30, 2009 compared to the six-month period ended June 30, 2008

however that the Company will obtain positive cash flow from product sales or be able to obtain sufficient equity or debt financing to satisfy its cash requirements for the next 12 months.

1.8 Off-Balance Sheet Arrangements

None.

1.9 Transactions with Related Parties

The transactions with related parties are in the normal course of operations and are recorded at amounts established and agreed between the related parties. The Company had the following transactions with related parties during the quarter:

The Company had the following transactions with related parties during the three month period ended June 30, 2009:

- 1) Paid or accrued management compensation of \$306,033 (2008 - \$233,143) to directors and officers of the Company;
- 2) Paid or accrued consulting fees of \$36,616 (2008 - \$41,458) to a director of the Company. These fees arise from contractual arrangements based on a fixed monthly fee and stock based compensation. These expenses have been included in research and development expense in Statement of Loss.
- 3) Paid or accrued director fees of \$35,160 (2008 - \$61,259) to directors of the Company.

The Company had the following transactions with related parties during the six month period ended June 30, 2009:

- 4) Paid or accrued management compensation of \$539,932 (2008 - \$497,794) to directors and officers of the Company;
- 5) Paid or accrued consulting fees of \$73,232 (2008 - \$71,559) to a director of the Company. These fees arise from contractual arrangements based on a fixed monthly fee and stock based compensation. These expenses have been included in research and development expense in Statement of Loss.
- 6) Paid or accrued director fees of \$70,803 (2008 - \$70,307) to directors of the Company.

In December 2008, the Company entered into loan agreements with directors and officers. As of June 30, 2009, the short-term and related party debt outstanding balance was \$1,242,348 (2008 - \$1,213,863). Of this amount, \$570,000 was from an unrelated party. The loans are due on demand and bear interest at 8% p.a. annum. One of the major loan agreements to a director of the Company secured by a General Security Agreement as a floating charge over the Company's assets.

As at June 30, 2009, there was \$7,250 (2008 - \$nil) due from related parties and \$1,915,503 (2008 - \$1,332,258) due to related parties. The amounts due from/to related parties, which are non-interest

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bearing, unsecured and due on demand. Of the total amount payable of \$1,915,503 (2008 - \$1,332,258) due to directors and officers, \$491,801 (2008 - \$1,036,926) was recorded in the shares to be issued account and \$1,423,702 (2008 - \$295,332) was recorded as accrued payables.

1.10 Fourth Quarter

Not applicable.

1.11 Proposed Transaction

Not applicable.

1.12 Critical Accounting Estimates

Not applicable. The Company is a venture issuer.

1.13 Changes in Accounting Policies including Initial Adoption

New Accounting Policies

Effective January 1, 2009, the Company adopted the CICA Handbook Section 3064 "Goodwill and Intangible Assets". This standard, which replaces Canadian GAAP section 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs" provides guidance relating to the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not impact the Company's financial statements.

Transition to International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that IFRS will replace Canadian GAAP for publicly accountable enterprises for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The standard also requires that comparative figures for 2010 be based on IFRS. The Company is currently assessing the future impact of IFRS adoption on its financial statements and will continue to invest in training and additional resources to ensure a timely conversion.

1.14 Financial Instruments and Other Instruments

None.

1.15 Other MD&A Requirements

1.15.1 Other MD&A Requirements

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Not applicable.

1.15.2 Additional Disclosure for Venture Issuers Without Significant Revenue

(a) Capitalized or expensed exploration and development costs;

Not applicable.

(b) expensed research and development costs;

Breakdown by major category:	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Material	—	66,255	—	66,255
Salary and benefits	130,642	105,561	253,589	263,441
Consulting	80,522	83,861	148,789	120,136
Miscellaneous costs	88,047	121,581	156,029	173,823
	299,211	377,258	558,407	623,655
Less: Product & services sales	(23,113)	(60,035)	(79,326)	(75,510)
	276,098	317,223	479,081	548,145

(c) deferred development costs;

Not applicable.

(d) general and administrative expenses;

Breakdown by major category:	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Office supplies, telephone, and insurance	137,286	194,851	218,971	389,417
Professional fees	82,616	431,837	157,195	739,043
Rent	75,844	101,629	160,230	246,026
General and admin. salaries and benefits	991,046	1,481,478	1,938,819	3,287,956
	1,286,792	2,209,795	2,475,215	4,662,442

(e) any material costs, whether capitalized, deferred or expensed, not referred to in (a) through (d);

None.

1.15.3 Disclosure of Outstanding Share Data

As at August 19, 2009, the Company's outstanding share data was as follows:

Common shares outstanding:	244,023,879
Stock options:	30,656,306
Share purchase warrants:	21,566,769

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All financial information is reported in U.S. dollars unless otherwise noted. Our unaudited consolidated interim financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). Certain statements in this report may constitute "forward-looking" statements within the meaning of the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Law of 1995. Such forward-looking statements are based on management's current expectations, beliefs, intentions or strategies for the future, which are indicated by words such as "may, expects, intends, anticipates, believes, estimates and forecasts" and other similar words. All forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Such factors include, among other things: technological changes or changes in the competitive environment adversely affecting the products, markets, revenues or margins of our business; changes in general economic, financial or business conditions adversely affecting the business or the markets in which we operate; our ability to attract and retain customers and business partners; the ability to provide capital requirements for product development, operations and marketing; and, our dependency on third party suppliers. Investors are encouraged to review the section in Management's Discussion and Analysis in the 2008 Annual Report on Form 20-F entitled "Risk Factors" for a more complete discussion of factors that could affect Dynamotive's future performance.

1.16 Corporate Governance**Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this Annual Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as June 30, 2009, at the reasonable assurance level, because of the material weaknesses described in Management's Report on Internal Control over Financial Reporting.

Notwithstanding the existence of the material weaknesses described below, management has concluded that the consolidated financial statements fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the preparation and fair presentation of published consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP), including an annual reconciliation of net loss to US Generally Accepted Accounting Principles (US GAAP).

The Company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Internal controls over financial reporting, no matter how well designed, have inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2009, based on the criteria set forth in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of June 30, 2009.

A material weakness, as defined by the Securities and Exchange Commission rules, is a significant deficiency, or combination of significant deficiencies, such that there is a reasonable possibility that material misstatements of the annual or interim consolidated financial statements will not be prevented or detected. In its assessment of the effectiveness of internal control over financial reporting as of June 30, 2009, management determined that there were control deficiencies that constituted material weaknesses, as described below.

The Company does not have sufficient personnel with experience in the application of US GAAP. Specifically, the Company's entity level controls initially failed to identify the impact of new accounting pronouncements on the disclosures in the US GAAP reconciliation note. These errors were corrected by management prior to the issuance of the Company's December 31, 2008 consolidated financial statements.

Management performs an oversight function with regard to meeting the Company's tax obligations. This includes preparation of tax returns, monitoring of new tax requirements for changes in the Company's operations and preparation of tax disclosures for income tax, commodity taxes and other tax-related matters. Staff involved in the Company's tax function have some knowledge and experience with tax requirements but are not experts in all the tax regulations to which the company is subject. External tax

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experts are engaged by the Company to deal with tax matters, but there is a reasonable possibility that a material misstatement could occur in the Company's tax note or regulatory obligations with regard to tax could arise due to management's limited expertise with regard to tax requirements.

The Company did not maintain effective control in preparing financial statement disclosures in income taxes. Specifically, management initially failed to apply the correct future enacted tax rate to its future income tax assets in accordance with CICA HB 3465, "Income Taxes." This error was corrected by management prior to the issuance of the Company's December 31, 2008 consolidated financial statements.

Based on our assessment and because of the material weaknesses described above, management has concluded that our internal control over financial reporting was not effective as of December 31, 2008.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 has been audited by BDO Dunwoody, the Company's independent registered public accounting firm, as stated in their report which appears therein.

Remediation to Address Material Weakness

The Company will enhance its staff training and improve controls with regard to US GAAP and taxation matters. The Company will expand the use of outside consultants with expertise in the application of US GAAP and requisite knowledge of tax regulations in the jurisdictions in which the Company operates. Management will also implement an improved consultation process with external auditors in the above areas.

Changes in Internal Control over Financial Reporting

During the second quarter ended June 30, 2009, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.