CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

TERRABIOGEN TECHNOLOGIES INC.

(Expressed in Canadian Dollars)

For the six months ended December 31, 2015

(Unaudited – Prepared by Management)

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of TerraBioGen Technologies Inc. for the six months ended December 31, 2015 have been prepared by management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

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

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

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

TERRABIOGEN TECHNOLOGIES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
(Unaudited – Prepared by management)

		December 31, 2015		June 30, 2015
ASSETS				
Current				
Cash	$	**293,932**	$	34,296
Amounts receivable		**16,906**		18,446
Deposits and prepaid expenses		**5,855**		16,613
Inventory		**2,611**		-
CURRENT ASSETS		**319,304**		69,355
Property and equipment		**219,273**		265,164
Long term assets		**47,355**		47,355
TOTAL ASSETS	$	**585,932**	$	381,874
LIABILITIES				
Current				
Accounts payable and accrued expenses	$	**299,559**	$	337,125
CURRENT LIABILITIES		**299,559**		337,125
Provision for dismantling		**6,211**		6,133
TOTAL LIABILITIES		**305,770**		343,258
SHAREHOLDERS' EQUITY				
Share capital (Note 5)		**39,294,315**		38,572,901
Commitment to issue shares		**-**		70,000
Contributed surplus		**2,347,765**		2,229,619
Deficit		**(41,361,918)**		(40,833,904)
SHAREHOLDERS' EQUITY (DEFICIENCY)		**280,162**		38,616
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	**585,932**	$	381,874

Nature of Operations and Going Concern (Note 1)
Commitments (Note 7)

These interim financial statements were approved for issue by the Board of Directors on February 23, 2016 and are signed on its behalf by:

"Blair Heffelfinger"
Director

"Theodore Deuel"
Director

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

TERRABIOGEN TECHNOLOGIES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
For the Six Months ended December 31
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)

	Six months 2015	Six months 2014	**Three months 2015**	Three months 2014
PRODUCT SALES	**$ 3,501**	$ -	**$ 3,501**	$ -
COST OF PRODUCTS SOLD	**398**	-	**398**	-
GROSS PROFIT	**3,103**	-	**3,103**	-
EXPENSES				
Administration	**217,330**	207,322	**119,077**	111,127
Research and development	**312,722**	373,227	**159,140**	246,523
TOTAL EXPENSES	**530,052**	580,549	**278,217**	357,650
Loss before other items	**(526,949)**	(580,549)	**(275,114)**	(357,650)
Other items:				
Interest income	**239**	19	**50**	19
Interest expense	**(1,212)**	(1,497)	**(602)**	(601)
Loss on sale of asset	**(92)**	-	**(92)**	-
TOTAL OTHER ITEMS	**(1,065)**	(1,478)	**(644)**	(582)
NET LOSS AND COMPREHENSIVE LOSS	**$ (528,014)**	$ (582,027)	**$ (275,758)**	$(358,232)
BASIC AND DILUTED LOSS PER SHARE	**$ (0.29)**	$ (0.35)	**$ (0.15)**	$ (0.21)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	**1,812,141**	1,680,206	**1,816,250**	1,688,880

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

TERRABIOGEN TECHNOLOGIES INC.
CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY
For the Periods Ended December 31
(Expressed in Canadian Dollars)

	Common shares					
	Number of Shares	Amount	Commitment to Issue Shares	Contributed Surplus	Accumulated Deficit	Total
Balance at July 1, 2014	1,666,511	$ 37,647,373	$ -	$ 2,105,807	$ (39,681,903)	$ 71,277
Shares issued for cash	63,000	630,000	-	-	-	630,000
Issue of warrants	-	(96,168)	-	96,168	-	-
Share issue costs	-	(340)	-	-	-	(340)
Comprehensive loss for the period	-	-	-	-	(582,027)	(582,027)
Balance at Dec. 31, 2014	1,729,511	$ 38,180,865	$ -	$ 2,201,975	$ (40,263,930)	118,910
Balance at July 1, 2015	1,771,511	$ 38,572,901	$ 70,000	$ 2,229,619	$ (40,833,904)	$ 38,616
Shares issued for cash	126,000	840,000	-	-	-	840,000
Issue of warrants	-	(118,146)	-	118,146	-	-
Commitment to issue shares	-	-	(70,000)	-	-	(70,000)
Share issue costs	-	(440)	-	-	-	(440)
Comprehensive loss for the period	-	-	-	-	(528,014)	(528,014)
Balance at Dec. 31, 2015	1,897,511	$ 39,294,315	$ -	$ 2,347,765	$ (41,361,918)	$ 280,162

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

TERRABIOGEN TECHNOLOGIES INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
For the Six Months ended December 31
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)

	2015	2014
OPERATIONS		
Net Income (Loss)	$ **(528,014)**	$ (582,027)
Items not involving cash:		
Depreciation	**44,849**	53,098
Interest expense	**1,212**	1,497
Accretion on provision for dismantling	**78**	69
	(481,875)	(527,363)
Changes in non-cash working capital balances:		
Amounts receivable	**1,540**	10,349
Deposits and prepaid expenses	**10,758**	1,688
Inventory	**(2,611)**	-
Accounts payable and accrued liabilities	**(37,566)**	(88,356)
	(509,754)	(603,682)
Interest paid	**(1,212)**	(1,497)
CASH USED IN OPERATING ACTIVITIES	**(510,966)**	(605,179)
INVESTING		
Increase in other assets	**-**	(7,991)
Cash received on sales of assets	**1,042**	-
Purchase of property and equipment	**-**	(3,210)
CASH USED IN INVEST ACTIVITIES	**1,042**	(11,201)
FINANCING		
Shares issued for cash (net of issue costs)	**769,560**	629,660
CASH PROVIDED BY FINANCING ACTIVITIES	**769,560**	629,660
Increase (decrease) in cash	**259,636**	13,280
Cash, beginning of period	**34,296**	92,976
CASH AND CASH EQUIVALENTS, end of period	$ **293,932**	$ 106,256

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

1. OPERATIONS

TerraBioGen Technologies Inc. was incorporated in British Columbia, Canada, on August 17, 1993.

The Company has developed microbial metabolite bioactive materials that improve plant health and yield, and impart biotics and abiotic stress tolerance in plants. The Company is in the process of commercializing this technology. In recent years, the company has increased its research and development capabilities including a lab scale pilot line. The facility in Burnaby, BC is used exclusively for strain screening and development, product formulation, growth room and greenhouse trials, and production of materials for field trials.

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis. At December 31, 2015, the Company had working capital of $19,745 (December 31, 2014 – ($219,122)), an accumulated deficit of $41,361,918 (2014 - $40,263,930), and a net cash outflow from operating activities of $510,966 for the six months then ended (2014 - $605,179). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon the continued support of its major shareholders, and ultimately, generating profitable operations and positive operating cash flows. Failure to obtain sufficient financing or other appropriate arrangements would require the Company's assets and liabilities to be restated on a liquidation basis which may differ significantly from the going concern basis. These unaudited condensed consolidated interim financial statements do not give effect to any adjustments or disclosures which would be necessary should the Company be unable to continue as a going concern.

The address of the Company's corporate office and principal place of business is 8536 Baxter Place, Burnaby, BC V5A 4T8.

2. BASIS OF PRESENTATION

Basis of Presentation

The unaudited condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those in the Company's consolidated financial statements for the year ended June 30, 2014. These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting.* Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2015.

Use of estimates

The preparation of these condensed consolidated financial statements, in compliance with IFRS, requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. Significant areas requiring the use of management estimates include the fair value of property and equipment, deferred income tax asset valuations, provision for dismantling, and fair value measurements for financial instruments and share-based compensation. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the Company, and when the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, and this generally includes shipping and handling costs.

2. BASIS OF PRESENTATION - continued

Cost of Products Sold

Cost of products sold is primarily comprised of direct materials and supplies consumed in the manufacture of the product, as well as manufacturing labour and direct overhead expenses necessary to convert the purchased materials into finished product. Cost of products sold also includes the cost to distribute products to customers, inbound freight costs and other shipping and handling activity.

Amounts Receivable

Receivables are recognized when a sale of product has been completed A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Inventory

Inventory is stated at the lower of cost or market using the first-in first-out method.

3. ADOPTION OF ACCOUNTING STANDARDS

On July 1, 2014, the Company adopted the following amendments to accounting standards issued by the IASB:

- Offsetting Financial Assets and Liabilities, an amendment to IAS 32, Financial Instruments: Presentation; and
- Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets.
- Annual Improvements to IFRS (2010 - 2013) and (2011 - 2013) cycles.

The adoption of these amendments to accounting standards did not have an impact on the Company's unaudited condensed consolidated interim financial statements.

4. 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. As at December 31, 2015 and as at June 30, 2015, the Company had no outstanding drawings against this credit facility.

5. SHARE CAPITAL

Authorized Share Capital

On December 3, 2013, the Company's shareholders approved new Articles of Incorporation and the Company now has authorized share capital of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. There have been no preferred shares issued as at December 31, 2015.

Issued and outstanding: See Consolidated Statement of Changes in Shareholders' Equity.

Since July 1, 2014, the following share transactions occurred:

a) On September 9, 2014, the Company issued 21,000 units at $10.00 per unit for gross proceeds of $210,000. Each Unit consists of one common share and one warrant exercisable at $12.00 per share until September 8, 2019.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

b) On December 29, 2014, the Company issued 42,000 units at $10.00 per unit for gross proceeds of $420,000. Each unit consists of one common share and one warrant exercisable at $12.00 per share until December 28, 2019.

c) On February 19, 2015, the Company issued 42,000 units at $10.00 per unit for gross proceeds of $420,000. Each unit consists of one common share and one warrant exercisable at $12.00 per share until February 18, 2020.

d) On July 13, 2015, the Company issued 42,000 units at $10.00 per unit for gross proceeds of $420,000. Each unit consists of one common share and one warrant exercisable at $12.00 per share until July 12, 2020.

e) On December 29, 2015, the Company issued 84,000 units at $5.00 per unit for gross proceeds of $420,000. Each unit consists of one common share and one warrant exercisable at $6.00 per share until December 28, 2020.

Warrants – Details of share purchase warrants during the periods ended December 31, 2015 and June 30, 2015 are as follows:

	Six Months Ended Dec. 31, 2015		Year Ended June 30, 2015	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of year	**397,123**	**$ 12.00**	292,123	$ 12.00
Issued	**126,000**	**8.00**	105,000	12.00
Outstanding, end of year	**523,123**	**$ 11.04**	397,123	$ 12.00

As at December 31, 2015, the Company had share purchase warrants outstanding and exercisable as follows:

Number of Warrants Outstanding and Exercisable				
Dec. 31, 2015	June 30, 2015	Exercise Price per Share	Expiry Date	Weighted average Remaining Life
90,000	90,000	$12.00	March 7, 2018	2.18 years
46,000	46,000	$12.00	May 31, 2018	2.42 years
43,000	43,000	$12.00	Sept. 5, 2018	2.68 years
42,000	42,000	$12.00	Oct. 25, 2018	3.82 years
8,123	8,123	$12.00	Oct. 31, 2018	3.83 years
21,000	21,000	$12.00	Jan. 22, 2019	3.06 years
21,000	21,000	$12.00	April 24, 2019	3.32 years
21,000	21,000	$12.00	June 10, 2019	3.44 years
21,000	21,000	$12.00	Sept. 8, 2019	3.69 years
42,000	42,000	$12.00	Dec. 28, 2019	4.00 years
42,000	42,000	$12.00	Feb. 18, 2020	4.14 years
42,000	-	$12.00	July 12,2020	4.53 years
84,000		$6.00	Dec. 28, 2010	5.00 years
523,123	397,123			**3.44 years**

(Expressed in Canadian Dollars)

The Company uses the Black-Scholes pricing model to estimate the fair value of share purchase warrants. 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. For purposes of the calculation, the following weighted average assumptions were used:

	Six months ended Dec. 31, 2015	Year ended June 30, 2015
Risk-free interest rate	**0.76%**	1.20%
Expected dividend yield	**0%**	0%
Expected stock price volatility	**25%**	25%
Expected life of warrants	**5.00 years**	5.00 years

The weighted average fair value of the warrants issued during the period was $0.94 (2014 - $1.18).

Stock options

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 and amended, most recently in July 2010. Options issued pursuant to the Plan have an exercise price as determined by the Board. Options have a maximum expiry period of ten years from the grant date. The number of options, which may be issued under the plan, is limited to no more than 10% 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. Options granted under the plan are subject to vesting terms determined by the Board.

A summary of the Company's share options at December 31, 2015 and June 30, 2015 and the changes for the periods ended on those dates is presented below:

	Six months ended December 31, 2015		Year ended June 30, 2015	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	38,000	$12.00	57,000	$13.72
Forfeited or expired	(33,000)	(12.00)	(19,000)	(17.16)
Ending balance	5,000	$12.00	38,000	$12.00

The Company had the following share options outstanding and exercisable:

December 31, 2015				
Quantity		Exercise		Weighted Average
Outstanding	Exercisable	Price	Expiry Date	Remaining Life
5,000	5,000	$12.00	Oct 3, 2016	0.76 years
5,000	**5,000**			**0.76 years**

The weighted average contractual life remaining on the above options is .76 years (June 30, 2015 – 0.33 years).

The Company did not grant any options to directors and officers during the year ended June 30, 2015 or the six months ended December 31, 2015.

6. RELATED PARTY TRANSACTIONS

Related party transactions during the six months ended December 31, 2015:

a) Consulting fees of $24,000 (2014 - $25,100) were expensed for services provided by a company controlled by an officer.

b) Accounts payable and accrued expenses include fees payable to directors of $10,200 (2014 - $Nil). Fees to directors of $6,200 (2014 - $7,800) were expensed during the six months, and no fees (2014 - $13,000) were paid to directors during the six months ended December 31, 2015.

7. COMMITMENTS

In the year ended June 30, 2013, the Company signed a lease for its current premises located in Burnaby, British Columbia. The lease is for a four-year term which expires on May 31, 2017 with a renewal option for an additional four-year term. The remaining commitment for rent and operating costs is $130,490 in year 1 and $54,788 for the remainder of the initial term; the Company paid a security deposit of $7,612 which will be applied against the final month's rent.

8. GOVERNMENT ASSISTANCE

The Company receives government assistance under a number of government programs. These programs include the National Research Council of Canada's Industrial Research Assistance Program, the Agriculture Adaption Council, the National Research Council of Canada's Youth Internship Program, and the Natural Sciences & Engineering Research Council under their Industrial Undergraduate Student Research Award and their Collaborative Research and Development Grant.

Under these programs, the Company had a total of $112,500 of assistance available as at July 1, 2015 covering expiry dates ranging from August 31, 2015 to August 31, 2017. In the six months ended December 31, 2015, the Company filed claims for $35,003 and $9,899 is of this amount is included in accounts receivable as at December 31, 2015. The Company anticipates that it will claim the remaining $86,497.

TERRABIOGEN TECHNOLOGIES INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the six months ended December 31, 2015

TERRABIOGEN TECHNOLOGIES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

This discussion and analysis of financial position and results of operations is prepared as at February 23, 2016. The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of TerraBioGen Technologies Inc. (the "Company") as at and for the year ended June 30, 2015 and the unaudited condensed consolidated financial statements for the six months ended December 31, 2015 and related notes thereof which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Except as otherwise disclosed, all dollar figures included therein and the following MD&A are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com or the Company's website at www.terrabiogen.com.

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. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "plan," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Readers are cautioned regarding statements discussing profitability; growth strategies; anticipated trends in our industry; our future financing plans; and our anticipated needs for working capital.

While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include: inability or delays in achieving its technical development and commercialization milestones, environmental factors that could impact the Company's product field trial performance, delays in achieving regulatory approval of its products, inability or delays in securing the necessary funding to complete the development and commercialization of its products.

The Company disclaims any obligation or intention to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise, unless required to do so by law.

Description of the Business

TerraBioGen Technologies Inc. was incorporated in British Columbia, Canada, on August 17, 1993. The Company's common shares were traded on the TSX Venture Exchange until June 11, 2012 when they were delisted at the Company's request.

The Company has developed microbial metabolite bioactive materials that improve plant health and yield, and impart biotics and abiotic stress tolerance in plants. The Company is in the process of commercializing this technology. In recent years, the company has increased its research and development capabilities including a lab scale pilot line. The facility in Burnaby, BC is used exclusively for strain screening and development, product formulation, growth room and greenhouse trials, and production of materials for field trials.

The Company is committed to research and development to continue to improve the effectiveness of its technologies, the quality of its products, and the creation of new product lines. Through collaborations with some of the leading agricultural institutes in North America and funding from Canadian government programs, TerraBioGen is developing and testing microbially derived bioactive materials that are responsible for the improved crop yields and increase stress tolerance in plants. Further, the Company is taking steps to secure intellectual property rights to these bioactive materials and to formulate them in order to fully commercialize their potential.

TERRABIOGEN TECHNOLOGIES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

Overall Performance

The Company is a development company with minimal revenues to date from its activities.

Quarterly Financial Results

	YE June 30, 2016		Year ended June 30, 2015				YE June 30, 2014	
	Oct-Dec/15	July-Sept/15	Apr-Jun/15	Jan-Mar/15	Oct-Dec/14	July-Sept/14	Apr-Jun/14	Jan-Mar/14
	Q2 2016	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**
Revenues	$ 3,501	$ -	$ -	$ 94	$ -	$ -	$ -	$ -
Loss before other income (expense)	(278,217)	(252,865)	(325,660)	(243,421)	(357,650)	(222,899)	(447,937)	(293,517)
Net finance expense	(295)	(609)	(364)	(529)	(582)	(896)	(856)	(466)
Gain/loss on sale of assets	(92)	-	-		-	-	1,600	410
Net Income (Loss)	(278,758)	(252,256)	(326,024)	(243,950)	(358,232)	(223,795)	(447,193)	(293,573)
Net Income (Loss) per share (basic and diluted)	$ (0.15)	$ (0.14)	$ (0.19)	$ (0.14)	$ (0.21)	$ (0.13)	$ (0.27)	$ (0.18)
	Dec. 31/15	**Sept.30/15**	**June 30/15**	**Mar. 31/15**	**Dec. 31/14**	**Sept.30/14**	**June 30/14**	**Mar. 31/14**
Total assets	585,932	441,346	381,874	651,414	463,919	386,475	504,572	426,895
Long term liabilities	,211	6,172	6,133	6,094	6,049	6,017	5,979	5,941

Comparison of the six months ended December 31, 2015 to the six months ended December 31, 2014

In December 2015, the Company recorded its first sale in a number of years with a shipment of LCFX. The sale was $3,501 and gross profit of $3,103 was generated on the sale.

During the six months ended December 31, 2015, the Company recorded total expenses of $530,052, compared to $580,549 in the prior year, a decrease of $50,497. Administration costs increased by $10,008, and research and development costs decreased by $60,505.

The administration expense increase resulted from small differences in several expense categories. Overall, expenses have remained relatively consistent. The research and development expense decrease was largely due to a reduction of $75,644 in growing trials as the Company is targeting specific markets, an increase of $43,423 in wages due to higher staffing levels, and an increase of $19,773 in government grants.

During the six months ended December 31, 2015, the Company incurred interest expenses of $1,212 and earned interest income of $2399, and realized a loss of $92 on the sale of an asset, resulting in a net loss for the six months of $528,014 or $0.29 per share. In the previous year, the Company incurred interest expenses of $1,497 and earned $19 of interest income, resulting in a net loss for the six months ended December 31, 2014 of $582,027 or $0.35 per share.

Comparison of the three months ended December 31, 2015 to the three months ended December 31, 2014

During the three months ended December 31, 2015, the Company recorded total expenses of $278,217, compared to $357,650 in 2014, a decrease of $79,433. Administration costs were relatively steady with an increase of $7,950, and research and development costs decreased by $87,383; the research and development decrease was largely due to a reduction of $74,878 in growing trials and an increase of $8,760 in government grants.

During the three months ended December 31, 2015, the Company generated gross profit of $3,103 on sales, incurred interest expenses of $602, earned interest income of $50, and realized a loss of $92 on the sale of an asset, resulting in a net loss for the current quarter of $275,758 or $0.15 per share. In the previous year, the Company incurred interest expenses of $601 and earned interest income of $19, resulting in a net loss for the three months ended December 31, 2014 of $358,232 or $0.21 per share.

Breakdown of Expenses

		2015		2014
ADMINISTRATION:				
Wages and management fees	$	91,144	$	86,880
Depreciation		15,169		15,406
Accretion for provision for dismantling		78		69
Professional fees		31,222		27,753
Office expenses		54,092		54,605
Directors fees and expenses		7,569		9,038
Travel & entertainment		12,267		6,377
Regulatory fees		5,790		7,194
	$	217,330	$	207,322
RESEARCH AND DEVELOPMENT:				
Wages and benefits	$	186,380	$	142,957
Contractors		16,993		29,350
Growing trials		20,144		95,788
Rent and utilities		62,559		59,572
Depreciation		29,680		37,692
Other expenses		31,969		23,098
Government assistance		(35,003)		(15,230)
	$	312,722	$	373,227

Liquidity and Capital Resources

During the six months ended December 31, 2015, the Company spent $509,924 in cash on operating and investing activities, and realized $769,560 from financing activities, for a net cash inflow of $259,636, leaving a net cash balance of $293,932 at December 31, 2015.

At December 31, 2015, the Company had total liabilities of $305,770, a decrease of $37,488 from June 30, 2015. The Company had working capital of $19,745 compared to a deficiency of $267,770 at June 30, 2015. There are no committed capital expenditures required to meet the Company's planned research and development efforts. The Company has a 4 year lease on its premises in Burnaby, expiring on May 31, 2017 and the remaining commitment for rent and operating costs is $130,490 in year 1 and $54,788 for the remainder of the term.

The Company is dependent on cash from new financing activities and a $100,000 bank line of credit 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 funds from these activities will have a significant impact on the Company's ability to operate. The Company anticipates that it will be able to raise new financing to cover its operating needs through private placements.

Share Capital

As at December 31, 2015, the Company has 1,897,511 common shares issued and outstanding for a total of $39,294,315 in share capital. There are 5,000 stock options outstanding exercisable at $12.00 per share and 523,123 warrants exercisable into common shares at exercise prices of $12.00 per share on 439,123 warrants and $6.00 per share on 84,000 warrants.

Off Balance Sheet Arrangements

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

Business Development

The Company's primary focus has been the development, formulation and launch of its first generation product, TerraBioGen LCFX. The Company is actively marketing LCFX into the Canadian commercial greenhouse vegetable market and greenhouse ornamental markets. The Company is currently directly marketing to growers and offers free product trials for grower to test its product. The Company is also developing further geographic markets for LCFX in the United States of America and select markets in the European Union. To support the launch of LCFX, the Company is collaborating with the University of Guelph in understanding the mechanism of action of its bioactive materials.

In addition, the Company conducting intensive research on its next generation of microbial metabolite bioactive materials through strain development and characterization, process optimization and formulation. The research and development department has added additional staff/contract workers and is collaborating with various partners to advance its science and identify/characterize its active ingredients.

The Company is continuing an extensive but focused growing trial program in 2016 in order to optimize product formulation and application, delivering benefits to the grower and substantive return to the Company. Trials will cover select varieties of both horticultural and agricultural crops.

Patents

In September 2013, the Company filed a provisional patent in Canada on one of its bioactive materials and conducted further growing trials during 2014 to gather supplemental data for final patent submissions. Based on trial data and ongoing research, and in the interest of improving the strength and expanding the scope of the claims, the Company chose to refile the provisional patent with the US Patent and Trademark Office in September 2014. However, since the Company has subsequently made significant further improvements to its technology which will materially change the scope, nature and claims of the September 2014 provisional patent, the company has decided it will refile with the latest improvements in the spring of 2016.

Transactions with Related Parties

During the six months ended December 31, 2015, the Company paid fees of $24,000 for accounting and financial services to a company controlled by an officer. Also, directors receive a fee of $200 for each meeting or committee meeting attended; directors' fees of $6,200 were expensed during the six months ended December 31, 2015, and $10,200 is owed to directors and is included in accounts payable and accrued liabilities at December 31, 2015.

Critical Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain critical accounting estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. It also requires management to exercise judgment in applying the Company's accounting policies. Significant areas requiring the use of management estimates include the fair value measurements for equity instruments. Actual results could differ from those estimates.

Information about assumptions and estimation uncertainties in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes:

- Note 11 Share capital – fair value measurements for equity instruments

Information about critical judgments that management has made in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the going concern assessment, the classification of financial instruments, the applicability of government assistance programs, and the determination of cash generating units for purposes of impairment testing.

Changes in Accounting Polices

New standards and interpretations not yet adopted

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its consolidated financial statements.

(a) Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

On May 12, 2014 the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset. The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue.

The Company intends to adopt the amendments to IAS 16 and IAS 38 in its consolidated financial statements for the annual period beginning on July 1, 2016. The Company does not expect the amendments to have a significant impact on the consolidated financial statements.

(b) IFRS 9 - Financial Instruments:

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)).

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(c) Annual Improvements to IFRS (2012-2014) cycle

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process.

The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply.

Each of the amendments has its own specific transition requirements.

Amendments were made to clarify the following in their respective standards:

- Changes in method for disposal under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- 'Continuing involvement' for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 Financial Instruments: Disclosures;
- Discount rate in a regional market sharing the same currency under IAS 19 Employee Benefits;
- Disclosure of information 'elsewhere in the interim financial report' under IAS 34 Interim Financial Reporting;

The Company intends to adopt these amendments in its financial statements for the annual period beginning on July 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

(d) Disclosure Initiative: Amendments to IAS 1

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on July 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

(e) IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2017. On July 22, 2015, the IASB deferred the effective date of this standard to January 1, 2018 with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 15 on its financial statements.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Adoption of accounting standards

On July 1, 2014, the Company adopted the following amendments to accounting standards issued by the IASB:

- Offsetting Financial Assets and Liabilities, an amendment to IAS 32, Financial Instruments: Presentation; and
- Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets.
- Annual Improvements to IFRS (2010 - 2013) and (2011 - 2013) cycles.

The adoption of these amendments to accounting standards did not have an impact on the Company's consolidated financial statements.

Financial Instruments

The Company's financial instruments consist of cash, amounts receivable and accounts payables and accrued liabilities. The fair values of these financial instruments approximate carrying value because of their short-term nature. Cash and government grants receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and customer deposits are classified as other financial liabilities and are measured at amortized cost.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Foreign exchange risk

Most of the Company's operating expenditures are denominated in Canadian dollars and certain operating expenses are in United States dollars. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian dollar and the United States dollar.

The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

At December 31, 2015 and June 30, 2015, a change of 10% +/- in the US dollar would not result in a significant impact in the statements of loss and comprehensive loss.

Interest rate risk

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

Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash is believed to be minimal as cash is on deposit with Canadian banks that are believed to be creditworthy. Amounts receivable is comprised primarily of amounts due from the Government of Canada. The Company does not believe it is exposed to significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above.

The Company monitors its ability to meet its short-term operating expenditures by raising additional funds through share issuance when required. All of the Company's financial liabilities have contractual maturities of 30 days or are subject to normal trade terms.

Additional Information

Additional information about TerraBioGen Technologies Inc. can be found on SEDAR at www.sedar.com or on the Company's website at www.TerraBioGen.com.