



CONSOLIDATED FINANCIAL STATEMENTS

TERRABIOGEN TECHNOLOGIES INC.

(Expressed in Canadian Dollars)

For the three months ended September 30, 2012

(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 CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited consolidated interim financial statements of TerraBioGen Technologies Inc. for the three months ended September 30, 2012 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 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.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
(Unaudited – Prepared by management)

	September 30, 2012	June 30, 2012
ASSETS		
Current		
Cash	\$ 130,007	\$ 573,721
Amounts receivable (Note 6)	32,307	78,031
Deposits and prepaid expenses (Note 7)	39,232	35,284
CURRENT ASSETS	201,546	687,036
Property and equipment (Note 8)	422,711	553,657
Long term assets	6,510	6,510
TOTAL ASSETS	\$ 630,767	\$ 1,247,203
LIABILITIES		
Current		
Accounts payable and accrued expenses	\$ 315,724	\$ 325,993
Current portion of deferred rent	9,797	13,964
Customer deposits	100,000	100,000
Provision for dismantling (Note 12)	269,737	350,649
CURRENT LIABILITIES	695,258	790,606
Term loan (Note 10)	81,231	81,231
TOTAL LIABILITIES	776,489	871,837
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	34,966,585	34,967,762
Contributed surplus (Note 13)	1,852,658	1,844,734
Deficit	(36,964,965)	(36,437,130)
SHAREHOLDERS' EQUITY (DEFICIENCY)	(145,722)	375,366
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 630,767	\$ 1,247,203

Operations (Note 1)
Commitments (Note 15)
Subsequent Events (Note 19)

These consolidated interim financial statements were approved for issue by the Board of Directors on November 20, 2012 and are signed on its behalf by:

"Blair Heffelfinger"
Director

"Theodore Deuel"
Director

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

TERRABIOGEN TECHNOLOGIES INC.
CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
For the Three Months ended September 30
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)

	2012	2011
REVENUE		
Other income	\$ 619	\$ 723
TOTAL REVENUE	619	723
EXPENSES		
Plant and operations	197,750	165,133
Administration	90,526	122,630
Amortization	159,467	102,503
Research and development	75,955	82,058
Sales and marketing	-	17,180
Interest	1,695	1,254
Interest on long term debt	812	812
Accretion on provision for dismantling (Note 12)	2,249	2,191
TOTAL EXPENSES	528,454	493,761
NET LOSS AND COMPREHENSIVE LOSS	(527,835)	(492,948)
Deficit, beginning of period	(36,437,130)	(34,068,758)
DEFICIT, end of period	\$ (36,964,965)	\$ (34,561,706)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.38)	\$ (0.48)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	1,374,442	1,031,429

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

TERRABIOGEN TECHNOLOGIES INC.
CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY
For the Periods Ended June 30, 2012 and September 30, 2012
(Expressed in Canadian Dollars)

	<u>Common shares</u>						
	<u>Number of Shares</u>	<u>Amount</u>	<u>Share Subscriptions</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total Equity</u>	
Balance at July 1, 2011	1,031,429	\$ 31,670,293	\$ 366,667	\$ 1,735,919	\$ (24,068,758)	\$ (295,879)	
Shares issued:							
- for cash	295,000	2,950,000	(366,667)	-	-	2,583,333	
- for debt	53,750	430,000	-	-	-	430,000	
Share issue costs	-	(19,982)	-	-	-	(19,982)	
Shares repurchased	(5,684)	(62,549)	-	-	-	(62,549)	
Share-based compensation	-	-	-	108,815	-	108,815	
Comprehensive loss for the year	-	-	-	-	(2,368,372)	(2,368,372)	
Balance at June 30, 2012	1,374,495	\$ 34,967,762	\$ -	\$ 1,844,734	\$ (36,437,130)	\$ 375,366	
Shares repurchased	(107)	(1,177)	-	-	-	(1,177)	
Share-based compensation	-	-	-	7,924	-	7,924	
Comprehensive loss for the period	-	-	-	-	(527,835)	(527,835)	
Balance at September 30, 2012	<u>1,374,388</u>	<u>\$ 34,966,585</u>	<u>\$ -</u>	<u>\$ 1,852,658</u>	<u>\$ (36,964,965)</u>	<u>\$ (145,722)</u>	

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

TERRABIOGEN TECHNOLOGIES INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
For the Three Months ended September 30
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)

	2012	2011
OPERATIONS		
Net Income (Loss)	\$ (527,835)	\$ (492,948)
Items not involving cash:		
Depreciation	159,467	102,503
Accretion on provision for dismantling	2,249	2,191
Share-based compensation	7,924	22,451
	(358,195)	(365,803)
Changes in non-cash working capital balances:		
Decrease (increase) in prepaid expenses and deposits	(3,948)	13,072
Increase (decrease) in accounts payable and accrued expenses	(10,270)	(139,942)
Decrease (increase) in accounts receivable	45,724	19,162
CASH USED IN OPERATING ACTIVITIES	(326,689)	(473,511)
INVESTING		
Increase in property and equipment	(28,521)	-
CASH USED IN INVEST ACTIVITIES	(28,521)	-
FINANCING		
Increase in bank loans	-	35,733
Repurchase of shares	(1,177)	-
Increase in share subscriptions	-	433,333
Decrease in deferred rent	(4,167)	(4,167)
Reduction against plant dismantling	(83,160)	-
CASH PROVIDED BY FINANCING ACTIVITIES	(88,504)	464,899
Increase (decrease) in cash and cash equivalents	(443,714)	(8,702)
Cash and cash equivalents, beginning of period	573,721	8,702
CASH AND CASH EQUIVALENTS, end of period	\$ 130,007	\$ -

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

TERRABIOGEN TECHNOLOGIES INC.
CONSOLIDATED INTERIM STATEMENTS OF EXPENSES

For the Three Months ended September 30

(Expressed in Canadian Dollars)

(Unaudited – prepared by management)

	2012	2011
ADMINISTRATION:		
Wages and consulting fees	\$ 40,599	\$ 49,754
Stock option expense	7,924	22,451
Accounting and professional fees	15,000	17,500
Office expenses	16,040	14,877
Legal fees	8,575	13,138
Travel & entertainment	640	3,145
Public company costs	1,748	965
Directors fees and expenses	-	800
	\$ 90,526	\$ 122,630
PLANT AND OPERATIONS:		
Wages and benefits	\$ 89,275	\$ 79,782
Rent & Property Tax	30,821	29,485
Repairs and maintenance	20,553	27,020
Power, water and sewer	15,342	19,002
Supplies & materials	38,308	8,274
Waste disposal	-	895
Other	3,451	-
	\$ 197,750	\$ 165,133
SALES AND MARKETING:		
Contractors	\$ -	\$ 10,103
Travel	-	7,077
	\$ -	\$ 17,180
RESEARCH AND DEVELOPMENT:		
Wages and benefits	\$ 59,745	\$ 51,771
Contractors and growing trials	7,223	20,000
Patents	5,716	-
Other expenses	8,848	17,305
Government assistance (note 12)	(5,577)	(7,018)
	\$ 75,955	\$ 82,058

TERRABIOGEN TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2012
(Expressed in Canadian Dollars)

1. OPERATIONS

TerraBioGen Technologies Inc. was incorporated in British Columbia, Canada, on August 17, 1993; on January 21, 2011, the Company changed its name from International Bio Recovery Corp. The Company's shares were traded on the TSX Venture Exchange until June 12, 2012 when they were delisted at the Company's request.

The Company has identified active ingredients that impart growth promotion and disease suppression in plants, and is planning to commercialize this technology. The Company operates a pilot plant in North Vancouver, British Columbia which is primarily used for research and development, and to provide product for growing trials.

These consolidated financial statements have been prepared on a going concern basis. At September 30, 2012, the Company had a working capital deficit of \$493,712, an accumulated deficit of \$36,964,965, and incurred a net loss of \$527,835 for the three months then ended (2011 - \$492,948). The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon generating revenues sufficient to cover its operating costs, the continued support of its shareholders, obtaining additional financing, and ultimately, generating profitable operations and positive operating cash flows. 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 would differ significantly from the going concern basis. These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern.

The Company's principal office is located at 52 Riverside Drive, North Vancouver, BC V7H 1T4, Canada

2. BASIS OF PRESENTATION

These consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, IBR Bio-Recovery (Van Is) Ltd., which has been inactive since June 2006, and Genica Inc. All intercompany balances and transactions have been eliminated upon consolidation.

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The policies set out below were consistently applied to all periods presented unless noted below.

Use of estimates

The preparation of these 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition – The Company earns revenue from usage of its scale and interest on funds in its bank accounts.

Cash and cash equivalents – The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

TERRABIOGEN TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2012
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and equipment – Property and equipment are recorded at historical cost less accumulated depreciation and any accumulated impairment losses. The depreciation is determined based on the following annual rates:

Old plant and equipment	straight-line
New plant equipment	20% declining balance
Office building	straight-line
Laboratory equipment	30% declining balance
Other equipment	20-30% declining balance
Vehicles	30% declining balance

One-half of the above rates are applied in the year of acquisition.

The assets' useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Effective May 2010 the Company revised the estimated remaining useful life of the office building to April 2013 when the Company must vacate its premises. Effective July 1, 2011 the Company revised the estimated remaining useful life of the old plant and equipment to December 2012 when the Company estimates it must cease operating the equipment to dismantle the plant. Both of these revisions are a result of new lease terms entered into with the landlord and the required lease termination of May 3, 2013 (see also Note 15). The change in accounting estimate resulted in an increase of the depreciation expense and a corresponding reduction in the net carrying value of these assets. The Company has recognized the change in accounting estimate on a prospective basis. Plant equipment purchased for a new plant has been separated and is being depreciated at 20% per annum on a declining balance basis.

Gains and losses on disposals, if any, are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statements of loss.

Research and development – Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets criteria for deferral and depreciation.

Government assistance – Government grants are recognized and recorded as a reduction of research and development expenses where there is reasonable assurance that the grant will be received and all attaching conditions are complied with. Reimbursements of eligible costs pursuant to government corporate programs are recorded as a reduction of total costs when the related costs have been incurred and there is reasonable assurance regarding collection of the claim. Claims not settled by the consolidated statement of financial position date are recorded as a receivable on the consolidated balance sheets. The determination of the amount of the claim, and hence the receivable amount, requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government and corporate agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near term dependent on the review and audit by the government agency. Any funds received in advance of expenditures or eligibility requirements are recorded as deferred contributions on the consolidated statement of financial position and adjusted as subsequent claims are made by the Company.

If a grant becomes repayable, it will be treated as a change in estimate. Where the original grant related to income, the repayment should be applied first against any related undepreciated deferred contributions, and any excess will be recognized as an expense.

TERRABIOGEN TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2012
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Leases – Leases are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks incidental to the ownership of equipment are classified as capital leases. At the inception of a capital lease, the equipment and an obligation is recorded at its fair value. Equipment under a capital lease is amortized on a declining-balance basis at rates varying from 20 to 30% per annum, which approximates the equipment's estimated useful life. All other leases are classified as operating leases.

Decommissioning provisions – The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the consolidated statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established. As at June 30, 2012, the Company recognized a provision for dismantling of \$350,649, as described at Note 12.

Impairment – The carrying amounts of the Company's property and equipment are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the cash generating unit level ("CGU"), which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Deferred income taxes – The Company utilizes the asset and liability method of accounting for income taxes. Under the liability method, deferred income taxes and liabilities are recognized to reflect the expected deferred tax consequences arising from temporary differences between the carrying value and the tax bases of the deferred tax assets and liabilities, and are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. Deferred income tax assets are recognized to the extent that it is probable the asset will be realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

TERRABIOGEN TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2012
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based compensation – The Company operates an incentive stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of share-based compensation is charged to the statement of operations and comprehensive income (loss) with a corresponding credit recorded to contributed surplus. The fair value of options is determined using a Black-Scholes option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of operations and comprehensive loss/income over the remaining vesting period.

The Black-Scholes 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.

Share capital – Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity. Equity instruments issued to agents as financing costs are measured at their fair value at the date of grant.

Foreign currency translation – The functional currency of the Company, being the currency of the primary economic environment in which the Company operates, is the Canadian dollar. Foreign denominated monetary assets and liabilities are translated at the year-end rates of exchange. Non-monetary items are translated using the exchange rates prevailing at the date of the transaction. Revenues and expenses are translated using average rates of exchange during the year. Exchange gains or losses arising from currency translation are recognized in the consolidated statement of operations and comprehensive loss.

Earnings per share – Basic earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. This follows the treasury stock method in which the dilutive effect on loss per share is recognized based on the proceeds that could be obtained from the exercise of options, warrants, and similar instruments. It assumes the proceeds would be used to purchase common shares at the average market price during the year.

As described in Note 13, on June 12, 2012 the Company consolidated its shares on the basis of 100:1. Accordingly, the calculation of basic and diluted earnings/loss per share has been adjusted retrospectively for all periods presented to reflect the post-consolidated number of shares outstanding.

Financial instruments – All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified at fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash are classified at fair value through profit or loss.

TERRABIOGEN TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2012
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments – continued

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income except for losses in value that are considered other than temporary. At September 30, 2012, the Company has not classified any financial assets as available-for-sale.

Transaction costs associated with financial assets classified at fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. All financial liabilities are initially recorded at fair value and designated upon inception at fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payables, customer deposits and loans payable are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At September 30, 2012, the Company has not classified any financial liabilities at fair value through profit or loss.

4. NEW ACCOUNTING PRONOUNCEMENTS

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended September 30, 2012, and have not been applied in preparing these consolidated interim financial statements.

- a) Effective for annual periods beginning on or after July 1, 2011:

Amendments to IFRS 7, "Financial Instruments: Disclosures"

Increase in disclosure with regards to the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period.

- b) Effective for annual periods beginning on or after July 1, 2012:

Amendments to IAS 1, "Presentation of Financial Statements"

In June 2011, the IASB issued amendments to IAS 1 to require companies to group together items within other comprehensive income ("OCI") that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two separate statements. The amendments are to be applied retrospectively.

TERRABIOGEN TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2012
(Expressed in Canadian Dollars)

4. NEW ACCOUNTING PRONOUNCEMENTS - continued

- c) Effective for annual periods beginning on or after July 1, 2013:

New Standard IFRS 10, "Consolidated Financial Statements"

In May 2011, the IASB issued IFRS 10 to replace portions of IAS 27, "Consolidated and Separate Financial Statements" and interpretation SIC-12, "Consolidated - Special Purpose Entities". IFRS 10 incorporates a single model for consolidating all entities that are controlled and revises the definition of control to be "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee". The new standard also focuses on the concept of power, both of which will include a use of judgment and a continuous reassessment as facts and circumstances change.

New standard IFRS 11, "Joint Arrangements"

In May 2011, the IASB issued IFRS 11 to replace IAS 31, "Interest in Joint Ventures". The new standard will apply to the accounting for interest in joint arrangements where there is joint control. Joint arrangements will be separated into joint ventures and joint operations. The structure of the joint arrangement will no longer be the most significant factor on classifying a joint arrangement as either a joint operation or a joint venture. Proportionate consolidations will be removed and replaced with equity accounting.

New standard IFRS 12, "Disclosure of Interest in Other Entities"

In May 2011, the IASB issued IFRS 12. The new standard includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements.

New standard IFRS 13, "Fair Value Measurement"

In May 2011, the IASB issued IFRS 13. The new standard converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price.

- d) Effective for annual period beginning on or after July 1, 2015:

New standard IFRS 9, "Financial Instruments"

Partial replacement of IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for how an entity should classify and measure financial assets that are in the scope of IAS 39. The standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets, and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if two criteria are met: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and (b) the contractual cash flows under the instrument solely represent payments of principal and interest. If a financial asset meets the criteria to be measured at amortized cost, it can be designated at fair value through profit or loss under the fair value option, if doing so would significantly reduce or eliminate an accounting mismatch. If a financial asset does not meet the business model and contractual terms criteria to be measured at amortized cost, then it is subsequently measured at fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss.

The Company has not early adopted these revised standards and is currently assessing the impact they will have on the consolidated financial statements.

TERRABIOGEN TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2012
(Expressed in Canadian Dollars)

5. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, amounts receivable, accounts payable, customer deposits, loans payable, and term loan.

The following table summarizes information regarding the carrying and fair values of the Company's financial instruments:

	September 30, 2012		June 30, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
FVTPL asset (i)	\$ 130,007	\$ 130,007	\$ 573,721	\$ 573,721
Other financial liabilities (ii)	\$ 496,955	\$ 496,955	\$ 507,224	\$ 507,224

i) Cash

ii) Accounts payable, customer deposits, loans payable, and term loan

Fair value

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3 – inputs for the asset or liability that are not based upon observable market data

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Cash	\$ 130,007	\$ -	\$ -	\$ 130,007

The Company believes the recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates.

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 September 30, 2012 and June 30, 2012, the Company had no significant foreign currency denominated assets, however the foreign currency denominated financial liabilities are as follows:

	As at:	
	September 30, 2012	June 30, 2012
United States dollars	\$ 5,993	\$ 2,549
	\$ 5,993	\$ 2,549

TERRABIOGEN TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2012
(Expressed in Canadian Dollars)

5. FINANCIAL INSTRUMENTS - continued

The following table discusses the Company's sensitivity to a 10% increase or decrease in the Canadian dollar (CDN) against the United States dollar denominated financial liabilities above. The sensitivity analysis measures the effect from recalculation of these items as at the consolidated statement of financial position date by using adjusted foreign exchange rates.

		CDN appreciation by 10%		CDN depreciation by 10%
September 30, 2012				
Comprehensive loss				
Financial liabilities	\$	236	\$	(288)
June 30, 2012				
Comprehensive loss				
Financial liabilities	\$	544	\$	(665)

Interest rate risk

The Company is subject to interest on its bank loans and shareholder 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 (3 months) or are due on demand are subject to normal trade terms.

6. AMOUNTS RECEIVABLE

		September 30, 2012		June 30, 2012
Canadian Harmonized Sales Tax	\$	20,975	\$	25,340
Government grants		10,588		47,830
Other		744		4,861
	\$	<u>32,307</u>	\$	<u>78,031</u>

TERRABIOGEN TECHNOLOGIES INC.
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7. DEPOSITS AND PREPAID EXPENSES

	September 30, 2012	June 30, 2012
Deposits	\$ 17,000	\$ 17,000
Prepaid insurance premiums	4,701	5,284
Prepaid property taxes	7,531	-
Other	10,000	13,000
	<u>\$ 39,232</u>	<u>\$ 27,208</u>

8. PROPERTY AND EQUIPMENT

Three months ended September 30, 2012

	Old Plant and equipment	New plant equipment	Vehicles	Laboratory equipment	Office building	Other	Total
Costs							
Balance, July 1, 2012	\$4,901,173	\$ 67,441	\$ 356,192	\$ 290,223	\$ 140,706	\$ 195,672	\$5,951,407
Additions and transfers	-	-	12,116	16,405	-	-	28,521
Balance, Sept. 30, 2012	\$4,901,173	\$ 67,441	\$ 368,308	\$ 306,628	\$ 140,706	\$ 195,672	\$5,979,928
Depreciation and cumulative impairment losses							
Balance July 1, 2012	\$4,573,012	\$ 6,744	\$ 342,313	\$ 174,340	\$ 125,123	\$176,218	\$5,397,750
Depreciation	139,666	3,035	1,495	9,306	4,675	1,290	159,467
Balance, Sept. 30, 2012	\$4,712,678	\$ 9,779	\$ 343,808	\$ 183,646	\$ 129,798	\$177,508	\$5,557,217
Carrying amount at Sept 30, 2012	\$ 188,495	\$ 57,662	\$ 24,500	\$ 122,982	\$ 10,908	\$ 18,164	\$ 422,711

Year Ended June 30, 2012

	Old Plant and equipment	New plant equipment	Vehicles	Laboratory equipment	Office building	Construction in progress	Other	Total
Costs								
Balance, July 1, 2011	\$4,559,376	\$ -	\$ 356,192	\$ 205,656	\$ 140,706	\$ 48,821	\$ 185,511	\$5,496,262
Additions and transfers	341,797	67,441	-	84,567	-	(48,821)	10,161	455,145
Balance, June 30, 2012	\$4,901,173	\$ 67,441	\$ 356,192	\$ 290,223	\$ 140,706	\$ -	\$ 195,672	\$5,951,407
Depreciation and cumulative impairment losses								
Balance July 1, 2011	\$4,014,350	\$ -	\$ 336,365	\$ 142,797	\$ 106,697	\$ -	\$171,265	\$4,771,474
Depreciation	558,662	6,744	5,948	31,543	18,426	-	4,953	626,276
Balance, June 30, 2012	\$4,573,012	\$ 6,744	\$ 342,313	\$ 174,340	\$ 125,123	\$ -	\$176,218	\$5,397,750
Carrying amount at June 30, 2012	\$ 328,161	\$ 60,697	\$ 13,879	\$ 115,883	\$ 15,583	\$ -	\$ 19,454	\$ 553,657

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9. 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 September 30, 2012 and June 30, 2012, the Company had no outstanding drawings against this credit facility.

10. TERM LOAN

In December 2010, the Company converted \$81,231 of accrued interest on loans payable into a term loan. This term loan bears interest at 4% per annum and is repayable by October 31, 2013. The loan ranks behind the general security agreement on the bank loan described in Note 9, and is secured by an interest in all present and future personal property of the Company and a floating charge on all of the Company's other present and future property.

11. LOANS PAYABLE

The Company had received \$430,000 in the years ended June 30, 2009 and 2010 from a company holding a license agreement with the Company. In November 2011, the Company settled the \$430,000 through the issuance of 53,750 common shares at \$8.00 per share and 38,750 warrants exercisable at \$15.00 up to June 30, 2013.

12. PROVISION FOR DISMANTLING

The Company is required to vacate its current premises as described in Note 15. In order to vacate the premises, the Company will need to dismantle and move certain parts of its plant and equipment

The following table presents the reconciliation of the opening and closing aggregate carrying amount of the provision for dismantling associated with property and equipment:

	September 30, 2012	June 30, 2012
Opening balance	\$ 350,649	\$ -
Addition	-	341,797
Actual costs incurred against provision	(83,160)	-
Accretion expense	2,249	8,852
Ending balance	\$ 269,738	\$ 350,649

The Company recognizes liabilities associated with the decommissioning of property and equipment when those obligations result from the acquisition, construction, development and/or normal operation of the assets. The Company expects that the cash outflows in respect of the balance accrued as at the consolidated financial statement date will occur at approximately the same time as these long-term assets are decommissioned. These outflows commenced in the three months ended September 30, 2012 and the balance of the provision has been presented as current on the consolidated interim statements of financial position.

13. SHARE CAPITAL

Authorized Share Capital

At September 30, 2012, the Company has authorized share capital of 2,500,000 common shares without par value and 2,500,000 of preferred shares without par value. None of the preferred shares have been issued.

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

TERRABIOGEN TECHNOLOGIES INC.
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13. SHARE CAPITAL - continued

On June 12, 2012, the Company consolidated its shares on the basis of 100:1; the following transactions are reported on a post-consolidated basis.

a) On December 9, 2011, the Company issued 100,000 units at a price of \$10.00 per unit for gross proceeds of \$1,000,000. Each unit consisted of one common share and one-half a warrant exercisable at \$15.00 per share until June 9, 2013.

b) On February 16, 2012, the Company issued 75,000 shares at a price of \$10.00 per share for gross proceeds of \$750,000.

c) On April 16, 2012, the Company issued 120,000 shares at a price of \$10.00 per share for gross proceeds of \$1,200,000.

Shares for Debt

i) On November 15, 2011, the Company issued 53,750 common shares at a price of \$8.00 per share and 38,750 share purchase warrants exercisable at a price of \$15.00 until June 30, 2013 to convert \$430,000 of loans payable.

ii) On December 10, 2010, the Company allotted 13,784 common shares pursuant to a debt settlement, and these shares were issued in September, 2012.

No value was allocated to the warrants included in the above-noted unit offerings given that the warrants had no intrinsic value at the time of issuance of the unit offerings.

Warrants – Details of share purchase warrants during the periods ended September 30, 2012 and June 30, 2012 are as follows:

	Three Months Ended Sept. 30, 2012		Year Ended June 30, 2012	
	Weighted Average		Weighted Average	
	Number	Exercise Price	Number	Exercise Price
		\$		\$
Outstanding, beginning of year	391,854	\$ 12.00	531,579	\$ 12.00
Issued	-	-	88,750	15.00
Expired	-	-	(228,475)	12.50
Outstanding, end of year	391,854	\$ 12.00	391,854	\$ 12.00

As at September 30, 2012, the Company had share purchase warrants outstanding and exercisable as follows:

Number of Warrants Outstanding and Exercisable		Exercise Price per Share	Expiry Date
Sept. 30, 2012	June 30, 2012		
142,857	142,857	\$12.00	November 30, 2012
110,247	110,247	\$12.00 (1)	December 10, 2012
50,000	50,000	\$12.00	December 10, 2012
38,750	38,750	\$15.00	June 30, 2013
50,000	50,000	\$15.00	June 9, 2013
391,854	391,854		

(1) Exercise price increases to \$15.00 on December 11, 2012 until expiry on December 10, 2013

TERRABIOGEN TECHNOLOGIES INC.
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13. SHARE CAPITAL - continued

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 five 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 of Directors of the Company.

A summary of the Company's share options at September 30, 2012 and June 30, 2012 and the changes for the periods ended on those dates is presented below:

	September 30, 2012		June 30, 2012	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	73,000	\$15.61	69,750	\$24.00
Granted	-	-	5,000	12.00
Forfeited or Expired	-	-	(1,750)	(12.00)
Ending balance	73,000	\$15.61	73,000	\$15.61

As at September 30, 2012, the Company had the following share options outstanding and exercisable:

Quantity Outstanding	Quantity Exercisable	Exercise Price	Expiry Date
6,500	6,500	\$15.00	July 25, 2013
2,000	2,000	\$15.00	Mar 3, 2014
20,000	20,000	\$12.00	July 5, 2015
14,000	14,000	\$10.00	July 5, 2015
2,500	2,500	\$25.00 (a)	May 31, 2013
2,500	2,500	\$50.00 (b)	May 31, 2014
2,000	2,000	\$75.00 (c)	May 31, 2015
18,500	18,500	\$12.00	Dec 15, 2015
5,000	5,000	\$12.00	Oct 3, 2016
73,000	73,000		

On December 7, 2011, the Company amended options, as follows:

- a) the exercise price on 2,500 options vesting on June 1, 2012 and expiring May 31, 2013 was changed from \$100.00 to \$25.00;
- b) the exercise price on 2,000 options vesting on June 1, 2013 and expiring May 31, 2014 was changed from \$125.00 to \$50.00 and the quantity was increased to 2,500 options; and
- c) the exercise price on 2,500 options vesting on June 1, 2014 and expiring May 31, 2015 was changed from \$175.00 to \$75.00 and the quantity was decreased to 2,000 options.

TERRABIOGEN TECHNOLOGIES INC.
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13. SHARE CAPITAL -continued

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options granted. 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:

	<u>September 30, 2012</u>	<u>June 30, 2012</u>
Risk-free interest rate	-	1.38%
Expected dividend yield	-	0%
Expected stock price volatility	-	172%
Expected life of options	-	5.00 years

The weighted average fair value of the options granted during the year ended June 30, 2012 was \$9.00.

Total share-based compensation for the three months ended September 30, 2012 was \$7,924 and for the year ended June 30, 2012 was \$108,815, which were expensed to the consolidated statement of loss and comprehensive loss.

14. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

As of September 30, 2012 and June 30, 2012, the Company has identified its directors and senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties.

The compensation costs for key management personnel for the periods ended September 30, 2012 and June 30, 2012 are as follows:

	Three Months Ended September 30, 2012	Year Ended June 30, 2012
Salaries and benefits	\$ 106,139	\$ 372,557
Share-based compensation	6,380	98,381
	<u>\$ 112,519</u>	<u>\$ 470,938</u>

Other related party transactions during the three months ended September 30, 2012:

- a) Consulting fees of \$15,000 (2011 - \$15,000) were expensed for services provided by a company controlled by an officer, and consulting fees of \$4,650 (2011 - \$Nil) were expensed for services provided by a director.
- b) Accounts payable and accrued expenses include fees payable to directors of \$Nil (2011 - \$7,600). Fees to directors of \$Nil (2011 - \$800) were expensed during the three months, and fees of \$11,400 (2011 - \$Nil) were paid to directors during the three months ended September 30, 2012.
- c) During the year ended June 30, 2012, the Company obtained a loan from a director of \$50,000. In February 2012, the director subscribed for a private placement of 25,000 common shares at \$10.00 per share and the Company had used the funds to pay off the loans payable. The accrued interest of \$260 was paid in cash.
- d) During the year ended June 30, 2011, a company whose directors include a former director of the Company agreed to convert \$96,486 of accrued interest into shares. In September 2012, the Company issued 13,784 common shares in repayment of the accrued interest.

TERRABIOGEN TECHNOLOGIES INC.
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15. COMMITMENTS

The Company's lease agreement for its North Vancouver demonstration plant was amended in 2010 and now expires on May 3, 2013. In consideration of the amendment, the landlord forgave \$50,000 of rental payments due which the Company is depreciating over the remaining term of the lease. The remaining commitments to May 3, 2013 total \$57,824.

The Company is examining several alternatives to move its operations. In consideration of the lease expiry, the Company is depreciating the remaining net book value of the old plant and equipment as at July 1, 2011 over the period from July 1, 2011 to an anticipated closure date of December 2012 and the office building over the period from July 1, 2011 to the lease expiry in May 2013.

16. GOVERNMENT ASSISTANCE

The Company has received assistance or signed Contribution Agreements under a number of government programs including the National Research Council of Canada's Industrial Research Assistance Program (NRC-IRAP), the National Research Council of Canada's Youth Internship Program (NRC-Intern), the Natural Sciences and Engineering Research Council of Canada's Industrial Undergraduate Student Research Awards (NSERC – USRA), Agriculture Adaption Council's Canadian Agricultural Adaption Program (CAAP), and the National Research Council of Canada's Digital Technology Adoption Pilot Program (NRC-IRAP DTAPP). The government grant receivables balance as at September 30, 2012 and June 30, 2012 are mentioned in Note 6.

Details of each of these programs are as follows:

- The Company has a Contribution Agreement with NRC-IRAP to support the Company's research and development program for \$83,585 with an expiry date as amended to December 31, 2012. For the three months ended September 30, 2012, the Company submitted no claims and a balance of \$2,000 remains under the Agreement and the Company anticipates that it will claim this amount.
- The Company had two Contribution Agreements with NRC-Intern for the salaries of recent graduate students working in the Company's research department, for a maximum amount of \$55,250 until March 31, 2012. During the year ended June 30, 2012, the Company submitted claims to NRC-Intern totalling \$10,018 to complete the agreements and this amount was received and the agreements closed.
- The Company received two awards for undergraduate students. The first award covered the period from September 1, 2011 to December 31, 2011 and the Company submitted a claim for \$4,219 and received payment. The second award covers the period from May 1, 2012 to December 31, 2012 for a maximum claim of \$4,500; the Company has accrued \$1,155 towards this award.
- The Company has a Contribution Agreement with NRC-IRAP to supports the Company's research and development program for \$40,750 with an expiry date, as amended, to March 31, 2013. For the three months ended September 30, 2012, the Company submitted claims totalling \$1,005 and this amount is outstanding and included in amounts receivable as at September 30, 2012.
- The Company has signed an Agreement with CAAP for growing trials with a maximum contribution of \$81,050 and an expiry date of October 1, 2012. The Company has submitted claims totaling \$61,889 to date and CAAP is holding back \$6,189 until completion of the project; this amount is included in amounts receivable as at September 30, 2012.
- The Company has signed a Contribution Agreement with NRC-IRAP DTAPP for a process controller to manage its production process. The contribution amount is a maximum of \$19,677 with a current expiry date of December 31, 2012. The Company has submitted claims totalling \$19,057 and \$3,242 is outstanding and included in amounts receivable as at September 30, 2012.

TERRABIOGEN TECHNOLOGIES INC.
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17. SEGMENTED INFORMATION

The Company operates in one operating segment which encompasses research and development to identify and characterize the active ingredients in its products, and small scale production to optimize active ingredient production by controlling the key digestion factors. Distribution of operating results in the Company's main areas of focus are as follows:

September 30, 2012	Plant & Operations	Research & Development	Corporate	Total
Total assets	270,655	133,709	226,403	630,767
Property and equipment	270,655	122,982	29,075	422,711
Revenues	-	-	619	619
Net loss	(344,195)	(85,261)	(98,379)	(527,835)
Property and equipment additions	12,115	16,406	-	28,521
Depreciation	144,196	9,306	5,964	159,467
Interest expense	-	-	2,507	2,507
Accretion expense	2,249	-	-	2,249
September 30, 2011	Plant & Operations	Research & Development	Corporate	Total
Total assets	472,527	106,966	92,982	672,475
Property and equipment	472,527	106,966	42,792	622,285
Revenues	720	-	3	723
Net loss	(258,930)	(103,952)	(127,066)	(492,948)
Property and equipment additions	-	-	-	-
Depreciation	92,326	4,714	5,463	102,503
Interest expense	-	-	2,066	2,066
Accretion expense	2,191	-	-	2,191

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

18. CAPITAL MANAGEMENT

The Company manages its capital structure in order to ensure sufficient resources are available to meet operational requirements. The Company manages the components of shareholders' equity and its liabilities including shareholder loans and its bank line of credit as capital, and makes adjustments to these components in response to the Company's business objectives and the economic climate. To maintain or adjust its capital structure, the Company may attempt to issue new common shares from treasury, issue debt instruments or borrow money.

The Company expects its current capital resources, together with the proceeds from planned additional equity fundraising, will be sufficient to carry out its operations through its next operating period.

The Company does not anticipate the payment of dividends in the foreseeable future.



TERRABIOGEN TECHNOLOGIES INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the three months ended September 30, 2012

**TERRABIOGEN TECHNOLOGIES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012**

Background

This discussion and analysis of financial position and results of operations is prepared as at November 20, 2012. The Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements of TerraBioGen Technologies Inc. (the "Company") as at and for the three months ended September 30, 2012 and related notes thereof which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). 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.

Description of the Business

TerraBioGen Technologies Inc. was incorporated in British Columbia, Canada, on August 17, 1993; on January 21, 2011, the Company changed its name from International Bio Recovery Corp. 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 technologies which produce innovative, high value, environmentally progressive agricultural bioproducts that improve crop yields and suppress crop disease. TerraBioGen has a facility in North Vancouver adjacent to its corporate offices where laboratory research and development and, plant growth room and greenhouse trials are conducted. In addition, the facility houses a pilot plant for production process development to provide product for crop research and market development.

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 the Canadian government's National Research Program, TerraBioGen is gaining an understanding of the active ingredients in its products that are responsible for the improved crop yields and suppression of disease. Further, the Company is taking steps to secure intellectual property rights to these active ingredients and fully commercialize their potential.

Forward Looking Statements

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

TERRABIOGEN TECHNOLOGIES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

Overall Performance

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

The following selected financial information is derived from the unaudited consolidated interim financial statements of the Company. The financial statements have been prepared in accordance with IFRS.

Quarterly Financial Results

	2013	2012				2011		
	July-Sept/12	Apr-Jun/12	Jan-Mar/12	Oct-Dec/11	July-Sept/11	Apr-Jun/11	Jan-Mar/11	Oct-Dec/10
	<u>Q1 2013</u>	<u>Q4 2012</u>	<u>Q3 2012</u>	<u>Q2 2012</u>	<u>Q1 2012</u>	<u>Q4 2011</u>	<u>Q3 2011</u>	<u>Q2 2011</u>
Revenue								
Interest & other income	\$ 619	\$ 10,250	\$ 1,052	\$ 700	\$ 723	\$ 2,586	\$ 4,425	\$ 1,295
Total Revenues	619	10,250	1,052	700	723	2,586	4,425	1,295
Expenses								
Expenses	528,454	822,085	508,901	572,925	492,948	553,518	597,776	548,541
Other expenses	-	-	-	-	-	(60,000)	-	-
Gain on settlement of liabilities	-	-	-	15,762	-	-	-	160,574
Net Income (Loss)	(527,835)	(811,835)	(507,849)	(556,463)	(492,225)	(610,932)	(593,351)	(386,672)
Net Income (Loss) per share	\$ (0.38)	\$ (0.70)	\$ (0.47)	\$ (0.51)	\$ (0.48)	\$ (0.68)	\$ (0.58)	\$ (0.48)
	<u>Sept. 30/12</u>	<u>June 30/12</u>	<u>Mar. 31/12</u>	<u>Dec. 31/11</u>	<u>Sept. 30/11</u>	<u>June 30/11</u>	<u>Mar. 31/11</u>	<u>Dec. 31/10</u>
Total assets	630,767	1,247,203	605,428	563,240	672,475	815,914	904,178	1,367,190
Long term liabilities	81,231	81,231	82,695	86,862	91,029	95,196	99,353	103,530

Comparison of the three months ended Sept. 30, 2012 to the three months ended Sept. 30, 2011

During the three months ended September 30, 2012, the Company recorded other income of \$619 compared to other income of \$723 in the year earlier. Total expenses during the current quarter were \$528,454 compared to \$493,761 in the same period last year, an increase of \$34,693. Administration costs decreased by \$32,104 from the previous quarter primarily due a decrease of \$14,527 in share based compensation. Plant and operations costs increased by \$32,617 primarily due to the rental of equipment for the Company's pilot production line.

Research and development costs decreased by \$6,103; an increase of \$7,974 due to higher staffing levels was more than offset by reductions of \$12,777 in contractor costs and other expenses, primarily supplies, of \$8,457 primarily due to an increase in work on growing trials of \$63,835, partially offset by an increase of grants of \$16,471. The Company did not incur any sales and marketing costs in the current three month period, compared to contractor and travel costs of \$17,180 in the previous year.

Included within property and equipment in total assets is a provision for dismantling the current plant; the original amount of the provision was \$341,797 as at July 1, 2011 and depreciation of \$195,312 was expensed against this during the year ended June 30, 2012, and a further \$48,828 depreciation was charged in the three months ended September 30, 2012. This resulted in depreciation costs increasing by \$56,964 during the current three month period.

The resulting net loss for the three months ended September 30, 2012 was \$527,835, or \$0.38 per share compared to a net loss of \$492,948, or \$0.48 per share in the prior year.

**TERRABIOGEN TECHNOLOGIES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012**

Financial Condition

At September 30, 2012, the Company had total liabilities of \$776,489 which included a provision for dismantling the plant of \$269,737; this is a decrease of \$95,348 from June 30, 2011 and a decrease of \$1,431,764 from June 30, 2010; these reductions were primarily a result of settling loans and the waiver of accrued interest in December 2010, and the conversion of a \$430,000 loan into equity. The Company had a working capital deficiency of \$493,712 compared to a deficiency of \$103,570 at June 30, 2012.

To date, the Company has generated minimal sales primarily because the Company has insufficient production capacity at its current research plant, and all current output has been used for product development and testing. The Company is dependent on cash from new financing activities in order to meet its obligations. Until the Company generates significant sales, it will be relying on new financings 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.

Share Capital

All comments on share transactions are on a post-consolidated basis. As at September 30, 2012, the Company had 1,374,388 common shares outstanding; there were 391,854 share purchase warrants outstanding, exercisable at prices ranging from \$12.00 to \$15.00 and with expiry dates from November 30, 2012 to June 30, 2013. There were also 73,000 stock options outstanding, exercisable at prices ranging from \$10.00 to \$75.00 and with expiry dates ranging from May 31, 2013 to October 3, 2016.

In September 2012, the Company issued 13,784 common shares that had previously been allotted for interest conversion.

In April 2012, the Company closed a private placement of 120,000 units at \$10.00 for proceeds of \$1,200,000.

In February 2012, the Company closed a private placement of 75,000 units at \$10.00 for proceeds of \$750,000.

In December 2011, the Company closed a private placement of 100,000 units at \$10.00 for proceeds of \$1,000,000. The units consisted of one share and one-half a warrant with each full warrant exercisable at \$15.00 until June 9, 2013.

In November 2011, the Company issued 53,750 common shares and 38,750 share purchase warrants, exercisable at \$15.00 until June 30, 2013, to settle \$430,000 of amounts payable.

In November 2010, the Company completed a private placement of 142,857 units at \$7.00 for proceeds of \$1,000,000. The units consisted of one share and one warrant exercisable at \$12.00 until November 30, 2012.

In December 2010, the Company completed a series of transactions, as follows:

- a) a private placement of 110,247 units at a price of \$5.50 per unit for proceeds of \$606,360. Each unit consisted of one common share and one warrant exercisable at \$12.00 until December 10, 2012 and at \$15.00 until December 10, 2013. The proceeds from this private placement were used to pay out \$606,360 of notes payable.
- b) \$350,000 of notes payable were converted into 50,000 units at a price of \$7.00 per unit. Each unit consisted of one common share and one warrant exercisable at \$12.00 until December 10, 2012. Accrued interest of \$81,231 on this note payable was converted into a term loan with interest at 4% per annum and repayable on October 31, 2013.
- c) a shares for debt agreement on accrued interest of \$96,486 with payment to be made in shares at \$7.00 per share on the earlier of demand and October 31, 2012. These common shares were issued in September 2012.

**TERRABIOGEN TECHNOLOGIES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012
Business Development**

Over the past three years, the Company's primary focus has been conducting intensive research to identify and characterize the active ingredients in its products. The research and development department has added additional staff and contract work and collaboration is being undertaken with several leading Canadian and US universities as well as private companies. In addition to characterizing these active ingredients, the Company is developing product formulations and delivery methods to target crops that will provide benefits to the grower and substantive return to the Company. The Company continues to invest in its research facilities in order to exploit the technology it is developing.

During the 2011 growing season, the Company conducted growing trials in Ontario on field tomatoes and potatoes under the management of A & L Biologics of London, Ontario. TerraBioGen's products showed significant yield increases compared to the standard treatment and competitive products. For the 2012 growing season, the Company undertook much more extensive growing trials, covering more crops, different treatments and formulations, and various application methods. These results are expected shortly and it is anticipated that these trials will provide the Company with a deeper understanding and validation of product application performance, and the mechanism of action in which the product provides benefits to the target markets. The results of these trials will be critical in the formulation and introduction of new products for the Company.

The plant has also undergone significant changes. Most of the work has been on a pilot plant which is contained within the main plant facility. The pilot plant allows the Company to digest food waste on a much smaller scale and to optimize active ingredient production by controlling the key digestion factors. The pilot plant can be transported to a new facility as the Company examines several options as it must vacate the North Vancouver plant by May 2013.

As the Company has been focused on research and development and optimizing production, the Company has temporarily suspended licensing its technology. Until the end products are fully defined, limited marketing is being undertaken. It is expected that this will change with the move to a new facility and the ability to produce more product.

Transactions with Related Parties

During the three months ended September 30, 2012, the Company paid fees of \$15,000 for accounting and financial services to a company controlled by an officer, and consulting fees of \$4,650 to a director. In addition, directors receive a fee of \$200 for each meeting or committee meeting attended; no directors' fees were expensed during the three months ended September 30, 2012 and \$11,400 was paid to directors.

Lease Agreement on North Vancouver office and plant, and move to new location

In 1996, the Company entered into a 25 year lease for its North Vancouver demonstration plant. During the year ended June 30, 2010, the Company and its landlord amended the lease agreement. The amended lease agreement now expires May 3, 2013; in consideration of the amendment, the landlord forgave \$50,000 of rental payments due which the Company is depreciating over the remaining term of the lease. As at September 30, 2012, \$9,797 of the forgiven rent remains to be amortized.

The Company is looking at various options for a new location in the Greater Vancouver region. In consideration of the time to dismantle the plant and equipment at the facility, the Company is amortizing the full net book value of the plant and equipment on a straight-line basis to December 2012. The attached office building is being amortized on a straight-line basis to April 2013.

The Company also set up a provision of \$350,649 for dismantling the current plant and capitalized the corresponding amount within property and equipment. Depreciation of \$48,828 was expensed against the provision during the three months and the related provision will be fully retired by March 31, 2013.

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.