**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

# TERRABIOGEN TECHNOLOGIES INC.

(Expressed in Canadian Dollars)

**For the six months ended December 31, 2018**

(Unaudited – Prepared by Management)

Notice: These condensed 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, 2018 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 indicating 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, 2018 | | June 30, 2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current | | | | |
| Cash | **$** | **202,263** | $ | 105,631 |
| Amounts receivable | | **3,796** | | 9,880 |
| Inventory | | **23,610** | | 23,610 |
| Deposits and prepaid expenses | | **9,065** | | 14,384 |
| CURRENT ASSETS | | **238,734** | | 153,505 |
| Property and equipment | | **84,498** | | 98,933 |
| Other assets | | **7,312** | | 7,312 |
| TOTAL ASSETS | **$** | **330,544** | $ | 259,750 |
| **LIABILITIES** | | | | |
| Current | | | | |
| Accounts payable and accrued expenses | | **262,364** | | 275,093 |
| Convertible loan (Note 4) | | **300,000** | | 300,000 |
| CURRENT LIABILITIES | | **562,364** | | 575,093 |
| Long term convertible loan (Notes 5 and 10) | | **500,000** | | - |
| Deferred rent | | **4,541** | | 4,541 |
| Provision for dismantling | | **6,447** | | 6,447 |
| TOTAL LIABILITIES | | **1,073,352** | | 586,081 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (Note 6) | | **40,955,371** | | 40,955,371 |
| Contributed surplus | | **2,941,138** | | 2,941,138 |
| Deficit | | **(44,639,317)** | | (44,222,840) |
| SHAREHOLDERS' EQUITY (DEFICIENCY) | | **(742,808)** | | (326,331) |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | **$** | **330,544** | $ | 259,750 |

Nature of Operations and Going Concern (Note 1)
Commitments (Note 7)
Subsequent Event (Note 9)

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 2018** | Six months 2017 | **Three months 2018** | Three months 2017 |
|---|---|---|---|---|
| **REVENUE** | | | | |
| **Sales** | **$ 396** | **$ -** | **$ -** | **$ -** |
| **Cost of Goods Sold** | **1,088** | **-** | **-** | **-** |
| **NET PROFIT (LOSS)** | **(692)** | **-** | **-** | **-** |
| | | | | |
| **EXPENSES** | | | | |
| Administration | **$ 166,653** | **$ 173,768** | **$ 90,586** | **$ 98,095** |
| Research and development | **235,792** | **288,698** | **120,981** | **161,488** |
| TOTAL EXPENSES | **402,445** | **462,466** | **211,568** | **259,583** |
| | | | | |
| Loss before other items | **(403,137)** | **(461,604)** | **(211.568)** | **(259,583)** |
| Other items: | | | | |
| Other income | **-** | **862** | **-** | **-** |
| Interest income | **209** | **86** | **130** | **-** |
| Interest expense | **(13,549)** | **(1,065)** | **(9,221)** | **(407)** |
| TOTAL OTHER ITEMS | **(13,340)** | **(979)** | **(9,091)** | **(407)** |
| **NET LOSS AND COMPREHENSIVE LOSS** | **$ (416.477)** | **$ (462,583)** | **$ (220,659)** | **$ (259,990)** |
| | | | | |
| **BASIC AND DILUTED LOSS PER SHARE** | **$ (0.17)** | **$ (0.20)** | **$ (0.09)** | **$ (0.11)** |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | **2,435,513** | **2,320,730** | **2,435,513** | **2,397,947** |

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

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

| | Common shares | | | | |
|---|---|---|---|---|---|
| | Number of Shares | Amount | Contributed Surplus | Accumulated Deficit | Total |
| Balance at July 1, 2017 | 2,243,513 | $ 40,478,088 | $ 2,842,421 | $ (43,235,271) | $ 85,238 |
| Shares issued for cash | 192,000 | 576,000 | - | - | 576,000 |
| Issue of warrants | - | (150,824) | 150,824 | - | - |
| Comprehensive loss for the period | - | - | - | (462,583) | (462,583) |
| Balance at Dec. 31, 2017 | 2,435,513 | $ 40,903,264 | $ 2,993,245 | $ (43,697,854) | $ 198,655 |
| Balance at July 1, 2018 | 2,435,513 | $ 40,955,371 | $ 2,941,138 | $ (44,222,840) | $ (326,331) |
| Comprehensive loss for the period | - | - | - | (416,477) | (416,477) |
| Balance at Dec. 31, 2018 | 2,435,513 | $ 40,955,371 | $ 2,941,138 | $ (44,639,317) | $ (742,808) |

*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)

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **OPERATIONS** | | | | |
| Net loss | $ | (416,477) | $ | (462,583) |
| Items not involving cash: | | | | |
| Depreciation | | 14,435 | | 18,569 |
| Interest expense | | 13,549 | | 1,065 |
| Deferred rent | | - | | 6,936 |
| | | (388,493) | | (436,013) |
| Changes in non-cash working capital balances: | | | | |
| Amounts receivable | | 6,086 | | 9,095 |
| Deposits and prepaid expenses | | 5,319 | | 14,549 |
| Accounts payable and accrued liabilities | | (12,731) | | (95,638) |
| | | (389,819) | | (508,007) |
| Interest paid | | (13,549) | | (1,065) |
| **CASH USED IN OPERATING ACTIVITIES** | | (403,368) | | (509,072) |
| **INVESTING** | | | | |
| Purchase of property and equipment | | - | | (21,101) |
| **CASH USED IN INVEST ACTIVITIES** | | - | | (21,101) |
| **FINANCING** | | | | |
| Proceeds from convertible loans | | 500,000 | | - |
| Common shares issued | | - | | 576,000 |
| **CASH PROVIDED BY FINANCING ACTIVITIES** | | 500,000 | | 576,000 |
| Increase in cash | | 96,632 | | 45,927 |
| Cash, beginning of period | | 105,631 | | 213,957 |
| **CASH AND CASH EQUIVALENTS, end of period** | $ | 202,263 | $ | 259,874 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

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

The Company has identified active ingredients that impart growth promotion and disease suppression in plants, and is planning to commercialize 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, 2018, the Company had negative working capital of $323,630 (2017 – $6,161), an accumulated deficit of $44,639,317 (2017 - $43,697,854), and a net cash outflow from operating activities of $403,368 for the six months then ended (2017 - $509,072). 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, 2018. 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.

Certain comparative amounts have been reclassified to conform with the financial statement presentation adopted for the current year.

These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2018.

### Approval of the Financial Statements

These unaudited condensed consolidated interim financial statements were approved for issuance by the Board of Directors on February 26, 2019.

## 2. BASIS OF PRESENTATION (continued)

### 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.

## 3. 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, 2018, and June 30, 2018, the Company had no outstanding drawings.

## 4. CONVERTIBLE LOANS

During May and June, 2018, the Company issued $300,000 of convertible loans ("Loans") to multiple lenders, $150,000 of which were issued to a director of the Company in May 2018 and the remaining $150,000 were issued to other lenders in June 2018. The Loans are due for repayment in one year from the issuance dates and bear interest at 5% per annum, payable quarterly. With 7 days advance notice, the lenders may demand repayment of the Loans with any unpaid accrued interests prior to the maturity dates. The Loans are convertible, at the holders' option, into 300,000 common voting shares of the Company and 300,000 share purchase warrants exercisable at $1.50 per share over a term of 5 years. The Loans are secured by a general security agreement providing a second security interest in all of the Company's assets.

The Loans are compound financial instruments which include a debt host liability and an equity conversion option component. The liability component shall represent the estimated fair value of a similar debt without an equity conversion option and the equity component shall represent the residual amount after removal of the liability component at the date of issuance. The Company used a discount rate of 5.6% by reference to market interest rates of Canadian high yield bond index to estimate the fair value of the liability component. The estimated fair value of the liability component at the date of issuance was determined to approximate the face value of the Loans. Accordingly nil amount was allocated to the equity component.

## 5. LONG TERM CONVERTIBLE LOANS

On October 1, 2018, the Company reached agreement on $600,000 of convertible loans ("LT Loans") to multiple lenders, $300,000 of which were issued to a director of the Company and the remaining $300,000 to other lenders; $100,000 of the amount to other lenders was received in January 2019. The Loans are due for repayment in three years and bear interest at 5% per annum, payable quarterly. The Loans are convertible, at the holders' option, into 600,000 common voting shares of the Company. The Loans are secured by a general security agreement providing a second security interest in all of the Company's assets.

The Company used a discount rate of 5.6% by reference to market interest rates of Canadian high yield bond index to estimate the fair value of the liability component. The estimated fair value of the liability component at the date of issuance was determined to approximate the face value of the Loans. Accordingly nil amount was allocated to the equity component.

(Expressed in Canadian Dollars)

## 6. SHARE CAPITAL

Authorized Share Capital

The Company has authorized share capital of an unlimited number of common voting shares without par value, an unlimited number of non-voting common shares without par value, and an unlimited number of preferred shares without par value. There have been no non-voting common shares and no preferred shares issued as at December 31, 2018.

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

Since July 1, 2017, the following share transaction occurred:

On October 22, 2017, the Company issued 192,000 units at $3.00 per unit for gross proceeds of $576,000, of which $288,000 (96,000 units) was invested by a director of the Company. Each unit consists of one common share and one warrant exercisable at $5.00 per share expiring on October 19, 2022.

**Warrants** – Details of share purchase warrants during the periods ended December 31, 2018 and June 30, 2018 are as follows:

| | Six Months Ended Dec. 31, 2018 | | Year Ended June 30, 2018 | |
|---|---|---|---|---|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Outstanding, beginning of period | **925,125** | **$ 7.66** | 869,125 | $ 8.93 |
| Issued | **-** | **-** | 192,000 | 5.00 |
| Expired | **(93,123)** | **12.00** | (136,000) | 12.00 |
| Outstanding, end of period | **832,002** | **$ 7.18** | 925,125 | $ 7.66 |

As at December 31, 2018, the Company had share purchase warrants outstanding and exercisable as follows:

| Number of Warrants Outstanding and Exercisable | | | | |
|---|---|---|---|---|
| Dec. 31, 2018 | June 30, 2018 | Exercise Price per Share | Expiry Date | Weighted average Remaining Life |
| **-** | 43,000 | $12.00 | Sept. 5, 2018 | - |
| **-** | 42,000 | $12.00 | Oct. 25, 2018 | - |
| **-** | 8,123 | $12.00 | Oct. 31, 2018 | - |
| **21,000** | 21,000 | $12.00 | Jan. 22, 2019 | 0.31 years |
| **21,000** | 21,000 | $12.00 | April 24, 2019 | 0.56 years |
| **21,000** | 21,000 | $12.00 | June 10, 2019 | 0.69 years |
| **21,000** | 21,000 | $12.00 | Sept. 8, 2019 | 0.94 years |
| **42,000** | 42,000 | $12.00 | Dec. 28, 2019 | 1.24 years |
| **42,000** | 42,000 | $12.00 | Feb. 18, 2020 | 1.39 years |
| **42,000** | 42,000 | $12.00 | July 12, 2020 | 1.78 years |
| **84,000** | 84,000 | $6.00 | Dec. 28, 2020 | 2.25 years |
| **70,002** | 70,002 | $7.50 | May 5, 2021 | 2.60 years |
| **84,000** | 84,000 | $6.00 | Jan. 23,2022 | 3.32 years |
| **192,000** | 192,000 | $5.00 | May 29, 2022 | 3.67 years |
| **192,000** | 192,000 | $5.00 | Oct. 19, 2022 | 4.06 years |
| **832,002** | 925,125 | | | **2.60 years** |

(Expressed in Canadian Dollars)

**6. SHARE CAPITAL** (continued)

The Company uses the Black-Scholes pricing model to estimate the fair value of share purchase warrants. The fair value of the warrants as estimated using the Black-Scholes pricing model also considers a discount factor due to the lack of liquidity of the 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, 2018** | Year ended June 30, 2018 |
|---|---|---|
| Risk-free interest rate | - | 1.70% |
| Expected dividend yield | - | 0% |
| Expected stock price volatility | - | 68% |
| Expected life of warrants | - | 5.00 years |
| Discount factor | - | 50% |

The weighted average fair value of the warrants issued during the year ended June 30, 2018 was $0.51.

**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, 2018 and June 30, 2018 and the changes for the periods ended on those dates is presented below:

| | Six months ended December 31, 2018 | | Year ended June 30, 2018 | |
|---|---|---|---|---|
| | Options Outstanding | Weighted Average Exercise Price | Options Outstanding | Weighted Average Exercise Price |
| Opening balance | 175,500 | $5.00 | 177,000 | $5.00 |
| Forfeited or expired | - | - | (1,500) | (5.00) |
| Ending balance | 175,500 | $5.00 | 175,500 | $5.00 |

The Company had the following share options outstanding and exercisable:

| **December 31, 2018** | | | | |
|---|---|---|---|---|
| Quantity Outstanding | Quantity Exercisable | Exercise Price | Expiry Date | Weighted Average Remaining Life |
| 90,000 | 90,000 | $5.00 | Mar. 20, 2027 | 8.23 years |
| 85,500 | 85,500 | $5.00 | May 23, 2027 | 8.40 years |
| **175,500** | **175,000** | | | **8.31 years** |

(Expressed in Canadian Dollars)

## 6. SHARE CAPITAL (continued)

No options were granted during the year ended June 30, 2018 or the six months ended December 31, 2018. The Company uses the Black-Scholes pricing model to estimate the fair value of stock options. The fair value of the stock options as estimated using the Black-Scholes pricing model also considers a discount factor due to the lack of liquidity of the stock options. 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.

## 7. RELATED PARTY TRANSACTIONS

Related party transactions during the six months ended December 31, 2018:

a) Consulting fees of $15,000 (2017 - $11,693) were expensed for services provided by a company controlled by an officer.

b) Accounts payable includes fees payable to directors of $800 (2017 - $10,400). Fees to directors of $3,800 (2017 - $4,600) were expensed during the six months, and no fees (2017 - Nil) were paid to directors during the six months ended December 31, 2018.

## 8. RENT COMMITMENTS

In the year ended June 30, 2013, the Company signed a lease for premises located in Burnaby, British Columbia. The lease was renewed for an additional four-year term in May 2017. The future minimum lease payments are as follows:

| | |
|---|---|
| 2019 | $ 43,313 |
| 2020 | 86,625 |
| 2021 | 86,625 |

The Company paid a security deposit of $7,312 which will be applied against the final month's rent.

## 9. GOVERNMENT ASSISTANCE

The Company receives government assistance under a number of government programs. During the six months ended December 31, 2018, the Company filed a claim for $2,440 and this amount was received during August 2018.

## 10. SUBSEQUENT EVENT

In January 2019, the Company received the last proceeds of $100,000 against the $600,000 of convertible loans referred to in Note 5.

**TERRABIOGEN TECHNOLOGIES INC.**

**MANAGEMENT DISCUSSION & ANALYSIS**

**For the six months ended December 31, 2018**

This discussion and analysis of financial position and results of operations is prepared as at February 26, 2019. 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, 2018 and the unaudited condensed consolidated financial statements for the six months ended December 31, 2018 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 and commercialization.

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 national and provincial government programs, TerraBioGen is developing and testing microbial derived bioactive materials that are responsible for the improved crop yields and increase stress tolerance in a wide range of plant varieties. 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.

## Overall Performance

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

## Quarterly Financial Results

| | Year ended June 30, 2019 | | Year ended June 30, 2018 | | | | Year ended June/17 | |
|---|---|---|---|---|---|---|---|---|
| | Oct-Dec/18 **Q2 2019** | Jul-Sep/18 **Q1 2019** | Apr-Jun/18 **Q4 2018** | Jan-Mar/18 **Q3 2018** | Oct-Dec/17 **Q2 2018** | Jul-Sep/17 **Q1 2018** | Apr-Jun/17 **Q4 2017** | Jan-Mar/17 **Q3 2017** |
| Net loss on sales | $ - | $ (692) | $ - | $ - | $ - | $ - | $ - | $ - |
| Loss before other income (expense) | $(211,568) | (191,540) | $(306,021) | $(220,855) | $(259,583) | $(202,583) | (537,700) | (258,652) |
| Net finance expense | (9,091) | (4,278) | (1,907) | (401) | (407) | (572) | (718) | (838) |
| Gain/loss on sale of assets | - | - | - | 3,898 | - | - | - | - |
| Other income | - | | - | - | - | 862 | 1,459 | - |
| Net Loss | (220,659) | (195,818) | (307,928) | (217,358) | (259,990) | (202,293) | (537,959) | (259,490) |
| Net Loss per share (basic and diluted) | $ (0.11) | $ (0.08) | $ (0.13) | $ (0.09) | $ (0.11) | $ (0.09) | $ (0.26) | $ (0.13) |
| | **Dec. 31/18** | **Sept. 30/18** | **June 30/18** | **Mar. 31/18** | **Dec. 31/17** | **Sept. 30/17** | **June 30/17** | **Mar. 31/17** |
| Total assets | $ 335,494 | $ 139,300 | $ 259,750 | $ 229,786 | $ 458,422 | $ 546,975 | $ 433,707 | $ 358,131 |
| Long term liabilities | 510,988 | 10,988 | 10,988 | 15,135 | 13,383 | 15,887 | 6,447 | 6,407 |

## Comparison of the six months ended December 31, 2018 to the six months ended December 31, 2017

During the six months ended December 31, 2018, the Company recorded total expenses of $402,445, compared to $462,466 in the prior year. Administration costs decreased by $7,114, and research and development costs decreased by $52,907.

The administration cost decrease was primarily due to decreases of $2,862 in office expenses and $3,646 in regulatory costs. The research and development decrease was largely due to a $31,638 reduction in wages and benefits and a decrease of $15,433 in other costs, partially offset by a reduction of $18,980 in government grants. The research and development wage reduction is due to staff turnover. The Company is seeking to fill these open positions.

During the six months ended December 31, 2018, the Company had product sales of $396 and incurred short term interest costs of $8,799 and long-term interest costs of $4,750, much of it from interest on convertible loans, and earned interest income of $209, resulting in a net loss for the six months of $416,477 or $0.17 per share. In the previous year, the Company generated miscellaneous income of $862, incurred interest expenses of $1,065 and earned interest income of $86, resulting in a net loss for the six months of $462,583 or $0.20 per share.

## Comparison of the three months ended December 31, 2018 to the three months ended December 31, 2017

During the three months ended December 31, 2018, the Company recorded total expenses of $211,568, compared to $259,583 in the prior year. Administration costs decreased by $7,508, and research and development costs decreased by $40,507.

The administration cost decrease was primarily due to decreases of $12,691 in wages and management fees. The research and development decrease was largely due to a $25,353 reduction in wages and benefits.

During the three months ended December 31, 2018, the Company incurred short term interest costs of $4,471 and long-term interest costs of $4,750, much of it from interest on convertible loans, and earned interest income of $130, resulting in a net loss for the three months of $220,659 or $0.09 per share. In the previous year, the Company incurred interest expenses of $407, resulting in a net loss for the three months of $259,990 or $0.11 per share.

## Breakdown of Expenses

| | 2018 | 2017 |
|---|---|---|
| **ADMINISTRATION:** | | |
| Wages and management fees | $ 100,689 | $ 101,325 |
| Depreciation | 701 | 1,277 |
| Professional fees | 4,265 | 3,549 |
| Office expenses | 44,143 | 47,005 |
| Directors fees and expenses | 3,800 | 4,600 |
| Travel & entertainment | 7,468 | 6,779 |
| Regulatory fees | 5,587 | 9,233 |
| | $ 166,653 | $ 173,768 |
| **RESEARCH AND DEVELOPMENT:** | | |
| Wages and benefits | $ 139,424 | $ 171,062 |
| Contractors | 3,878 | 11,882 |
| Growing trials | - | 7,676 |
| Rent and utilities | 57,743 | 63,300 |
| Depreciation | 13,734 | 17,292 |
| Other expenses | 23,453 | 38,906 |
| Government assistance | (2,440) | (21,420) |
| | $ 235,792 | $ 288,698 |

## Liquidity and Capital Resources

During the six months ended December 31, 2018, the Company spent $403,368 in cash on operating and investing activities; with an opening cash balance at July 1, 2018 of $105,631, the Company receive proceeds of $500,000 from a convertible loan and had a bank balance of $202,263.

At December 31, 2018, the Company had total liabilities of $562,364, a decrease of $12,729 from June 30, 2018, The Company had a working capital deficit of $323,630 compared to a deficit of $421,588 at June 30, 2018,

On October 1, 2018, the Company reached agreement on $600,000 of convertible loans ("LT Loans") to multiple lenders, $300,000 of which were issued to a director of the Company and the remaining $300,000 to other lenders; $100,000 of the amount to other lenders was received in January 2019. The Loans are due for repayment in three years and bear interest at 5% per annum, payable quarterly. The Loans are convertible, at the holders' option, into 600,000 common voting shares of the Company. The Loans are secured by a general security agreement providing a second security interest in all of the Company's assets. Should the Company be unable to achieve ongoing financing as described below and therefore unable to service the secured debt, these secured creditors could gain effective control of the Company's assets which would negatively impact the common shareholders.

There are no committed capital expenditures required to meet the Company's planned research and development efforts. The Company signed a new 4 year lease on its premises in Burnaby, expiring on May 31, 2021. The remaining commitment for rent and operating costs is $215,843 for the remainder of the renewal term; the Company paid a security deposit of $7,312 which will be applied against the final month's rent.

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 or technology licensing fees, 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 February 26, 2019, the Company had 2,435,513 common shares issued and outstanding for a total of $40,955,371 in share capital. There are 832,002 warrants exercisable into common shares at a weighted average exercise price of $7.18 and 175,500 stock options exercisable into common shares at a weighted average exercise price of $5.00.

## 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 has achieved initial customer acceptance for its vermiculite infused LCFX product into the greenhouse vegetable market. Its primary goal now is to optimize fermentation of its next generation products delivering higher potency active ingredient to its target market crops. Specifically this will involve strain and culture development, and fermentation development and optimization to maximize active ingredient yield. Further mode of action studies and formulation studies will be complete to optimize active ingredient efficacy.

## Patents

As far as it is aware, the Company continues to be the only organization developing this type of plant biostimulant. Over the past several years, it has generated data related to performance on a variety of crops and data regarding the active ingredient's mode of action. With the completion of its production optimization anticipated in 2019, the Company will file a provisional patent with the US Patent and Trademark Office for its lead strain with claims covering production process and product formulation, mode of action, and product application and performance on a wide variety of crops.

## Transactions with Related Parties

During the six months ended December 31, 2018, the Company paid fees of $15,000 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 $3,800 were expensed during the six months, and no fees were paid to directors during the six months ended December 31, 2018, with a balance payable to directors of $800 at December 31, 2018.

## 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.

### IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16") which supersedes IAS 17 - Leases. IFRS 16 establishes principals for the recognition, measurements presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on balance sheet while lessor accounting remains largely unchanged and retains the finance and operation lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted, but only if also applying IFRS 15 - Revenue from Contracts with Customers. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements and does not intend to early adopt the standard.

### IFRIC 23 - Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23"). The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- measure a tax uncertainty based on the most likely amount of expected value depending on whichever method better predicts the amount payable (recoverable).

The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted. The Company is currently evaluating the impact of IFRIC 23 on its consolidated financial statements and does not intend to early adopt the standard.

## 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, 2018 and June 30, 2018, 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 and convertible loans 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.