

## **Biosenta Inc.**

### **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 2013**

*The following management discussion and analysis ("MD&A") of financial results is dated May 29, 2013 and reviews the business of Biosenta Inc. (the "Company" or "Biosenta"), for the three months and six months ended March 31, 2013, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three months and six months ended March 31, 2013, as well as the annual MD&A and audited annual financial statements and related notes for the year ended September 30, 2012. This MD&A and the accompanying unaudited condensed interim financial statements and related notes for the three months and six months ended March 31, 2013 have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors.*

*This release may contain forward-looking statements information and statements which constitute "forward-looking information" under Canadian securities law and which may be material regarding, among other things, the Company's beliefs, plans, objectives, estimates, intentions and expectations with respect to its operations, capital and funding plans. Inherent in the forward-looking information and statements are known and unknown risks, uncertainties and other factors beyond the Company's ability to control or predict, which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that its assumptions may not be correct and that the Company's plans, objectives and statements will not be achieved. For additional information respecting certain of these risks, see Section L of this MD&A. Actual results or developments may differ materially from those contemplated by the forward-looking information and statements. Consequently, undue reliance should not be placed on such forward-looking statements. The forward-looking information and statements contained in this MD&A about prospective results of operations, financial position, business development and operations are based on current assumptions of management. Forward-looking information and statements reflect the Company's views only as of the date of this MD&A.*

#### **A. Core Business Strategy**

The Company is developing two business units within the anti-microbial industry. Products within these business units are targeted to address the demand created by the mounting health and environmental concerns with mould. Mould can affect the immune system, nervous system, liver, kidneys, blood and cause brain damage.

The Company plans to manufacture and distribute an anti-microbial filler. Calcium Carbonate is one of the most common fillers used industrially. It is susceptible like other fillers that hold moisture to attract mould. Annual global revenue in the calcium carbonate filler industry approximates 140 billion dollars. Biosenta will produce anti-microbial filler that performs 'filling' and 'bulking' functions like calcium carbonate. Biosenta's filler product will not attracting moisture and consequently mould infestation. Biosenta's filler with its anti-microbial high ph core in individual particles will enhance commercial product life and eradicate a broad spectrum of known bacteria, fungi, algae and other micro-organisms by suppression of their reproduction.

In addition, the Company has developed a line of retail anti-microbial products that will effectively kill mould, bacteria and fungi on contact and prevent re-growth. The Company obtained the

necessary government approvals from Health Canada for selling the product in Canada in September 2012. The first shipments of the product started on October 15, 2012 on a limited basis within Canada. The Company is also in the process of seeking the necessary government approvals for selling the product in the United States. The Company has made applications in Canada and the United States for a trademark for the name Zeromold™ and is considering making applications for trademark registrations in other jurisdictions as well.

## **B. Overall Performance**

### **Anti-Microbial Filler Product Line**

The Company will manufacture and distribute proprietary anti-microbial filler, and/or sub-license the technology relating thereto. Calcium Carbonate is one of the most common fillers used industrially. It is susceptible like other fillers that hold moisture to attracting mould. Annual global revenue in the calcium carbonate filler industry approximates 140 billion dollars. The Company will produce anti-microbial filler that performs “filling” and “bulking” that will not attract moisture and consequently mould infestation. The Company’s filler product with its anti-microbial high ph core in individual particles enhances commercial product life and eradicates a broad spectrum of known bacteria, fungi, algae and other micro-organisms by suppression of their reproduction.

On June 7, 2011, the Company entered into an exclusive world-wide interim license agreement with Marcus Martin, a Director of the Company, with respect to certain intellectual property rights held by Mr. Martin relating to a process for the manufacture of anti-microbial filler product (the “MM License Agreement”). Effective October 3, 2011, the MM License Agreement was amended and restated to add Edward Pardiak, a Director of the Company, as a co-licensor and was again amended and restated on April 10, 2012 to add 2320696 Ontario Inc. and 2262554 Ontario Inc. , as co-licensors. Marcus Martin and Edward Pardiak, control 2320696 Ontario Inc. and 2262554 Ontario Inc. through holding companies controlled by them.

Pursuant to the License Agreement, the Company agreed to make payments aggregating to \$300,000 for an interim license and the Company was granted an interim license to exploit certain intellectual property rights held by the licensor including the right to manufacture, use, market, sell, import, export, have, hold, distribute and promote an anti-microbial filler product to be produced utilizing or exploiting the intellectual property rights. In addition, the interim license also included the right to obtain an exclusive world-wide license to the intellectual property.

During the term of the interim license (up to 24 months subject to specified triggers), the Company agreed to obtain all legal and regulatory approvals required in connection with the exercise of the right to acquire the perpetual license. Upon acquiring the exclusive world-wide license to the intellectual property pursuant to the exercise of the Company’s right under the License Agreement, the Company was obligated to issue 20 million Class A Shares as the initial consideration for the license and will pay ongoing royalties based on a percentage of the gross margin on sales made by the Company. The Company exercised its right to acquire the exclusive perpetual world-wide license to the intellectual property and know-how effective April 10, 2012.

In July 2011, the Company announced that it had entered into an exclusive retail distribution agreement with a major distributor of home renovation products for Canada and the United States for the Company’s line of home improvement and construction related anti-microbial products. The distribution agreement is for an initial term of five years and may be renewed by the distributor for an additional five year term provided the distributor is in compliance with the terms of the agreement. The agreement

provides for specified minimum quarterly purchase obligations by the distributor, which in aggregate over of the term of the agreement amount to approximately \$50 million in total revenues.

The Company is in the process of developing and outfitting its pilot plant facility located in Parry Sound, Ontario. The facility will be used primarily for research and development relating to the Company's anti-microbial filler product and as testing and demonstration facility for customers.

### **Anti-Microbial Retail Product Line (Zeromold™)**

The Company has developed a retail anti-mould product called Zeromold™ and has made its first shipments in Canada of the product starting after year end on October 15, 2012 with the Company's exclusive Canadian distributor, at that time. The Company has filed trademark applications for Zeromold™ in Canada and the United States and is considering making trademark applications in other jurisdictions.

Sales of the Zeromold™ product line in the first quarter included sales to the Company's exclusive Canadian distributor. The products shipped in these initial shipments included the 4 liter and 946ml bottles. Over 39,000 units were shipped totaling approximately \$248,000 in sales to the exclusive Canadian distributor. Subsequent to the first quarter, the Company's agreement with its exclusive Canadian distributor was terminated and all products located at the exclusive Canadian distributor were returned to the Company. Net sales of the Company reflect all shipments and all returned product from the exclusive Canadian distributor totaling \$33,600 for the six months ended March 31, 2013.

The Company has taken steps to internalize its sales and marketing function in order to control the product roll out and production. The Company has hired a new Vice President of Sales and Marketing, who has embarked on a rapid internal rationalization of the product sales and marketing process and procedure.

The Company will be announcing in the second quarter of 2013 the appointment of a new national sales broker to provide sale management expertise and representation in national retail channels that will include grocery, drug, mass merchant and club stores. Furthermore, new marketing materials have been developed including; product web sites, sales collateral and product display merchandisers.

The Company believes that this internal focused effort will deliver significant incremental product distribution and sales for the balance of 2013 and leading into retail 2014.

## **C. Results of Operations**

This analysis of the results of the Company's operations should be read in conjunction with the Company's unaudited condensed interim financial statements for the three months and six months ended March 31, 2013.

### **Licencing Fee**

In January 2013 the Company announced that it had entered into a non-binding letter of intent with New South Biolabs ("Biolabs") pursuant to which Biolabs would become the Company's strategic logistics management partner responsible for enterprise resource planning , production and customer relationship management as pertaining to all "Zeromold" products destined for the southern United States, Mexico, South America and the Caribbean. Biolabs will also purchase Biosenta's first scale unit ringed product system and allocate resources to establish a facility for the Company's patented ringed

product in the United States. Completion of the transaction is subject to a number of conditions, including completion of satisfactory due diligence reviews by both parties, negotiation and entering into definitive documents respecting the transactions acceptable to all parties, and obtaining all required approvals upon execution of definitive document respecting the transaction. Biolabs will pay Biosenta royalties on all products sold and a \$600,000 non-refundable fee, of which \$300,000 has been received to date.

### **Revenues and Cost of Sales**

The Company's net revenues for the six months ended March 31, 2013 were approximately \$33,600. Shipments for the Zeromold™ product started subsequent to October 15, 2012. The previous quarter reported over \$284,000 of product shipped to the Company's exclusive Canadian distributor, which was subsequently terminated in March 2013. Upon the termination of the contract, the products that were previously shipped to the distributor were returned to Biosenta. All products shipped to retailers, have remained at the retailers.

### **Administrative Costs**

Administrative expenses significantly increased to \$549,680 for the three months ended March 31, 2013 from \$423,261 in the same period last year. For the six months ended March 31, 2013, administrative costs increased to \$1,079,209 from \$885,045 in the same period last year. Generally, all categories of costs have increased in the current period as a result of the Company actively pursuing the development of both product lines, as well as building up the research and test facilities in Parry Sound. Significant components of this expense include:

1. Management and consulting fees increased to \$189,598 for the three months ended March 31, 2013 from \$171,601 in the same period last year. For the six months ended March 31, 2013, the management and consulting fees increased to \$369,058 from \$364,101 in the same period last year. Management and consulting fees include engineering, technical, packaging and marketing consultants used to develop the product lines. The Company has maintained the additional consultants hired in the prior year that were used to develop the product lines and bring them to market as soon as possible;
2. Legal and accounting fees marginally decreased to \$110,072 for the three months ended March 31, 2013 from \$112,468 in the same period last year. For the six months ended March 31, 2013, the legal and accounting fees significantly decreased to \$224,896 from \$276,830 in the same period last year. The legal fees and professional fees are significantly higher in the prior period as a result of the high level of activity regarding product developments, license agreements, patents filings and increase in general corporate activity for the public Company. The current period reflects a more normal level of activity for legal and professional services;
3. Salaries and benefits expenses significantly increased to \$76,945 for the three months ended March 31, 2013 from \$27,728 in the same period last year. For the six months ended March 31, 2013, the salaries and benefits expenses, once again, significantly increased to \$143,455 from \$42,969 in the same period last year. Head office infrastructure costs increased gradually in 2012 in order to support activities of management and consultants involved in product development initiatives, as well as public company related expenditures. Quarterly costs for this type of expense has been stabilized over the last three quarters, with the quarterly costs being in line with management's expectations;
4. Rent and occupancy costs increased to \$27,188 for the three months ended March 31, 2013 from \$25,903 in the same period last year. For the six months ended March 31, 2013, the rent and occupancy costs, once again, significantly increased to \$60,432 from \$36,049 in the same period last year. The current period costs reflects a full six months of occupancy costs for the Parry Sound facility and head office, where as the prior year only shows head office rental costs;
5. Vehicle, office and general, travel and insurance all increased in the six months of fiscal 2013 from the same period last year as a result of the Company actively pursuing the development of

both of the Company product lines, as well as building up the research and test facilities in Parry Sound, Ontario.

6. Product development costs for Zeromold™ include third party marketing, laboratory testing and commercialization cost of the Zeromold™ product line, which were expensed in the current period.

#### **D. Liquidity and Capital Resources**

At March 31, 2013, the Company had cash of \$41,583 compared to \$19,536 at September 30, 2012, and a working capital deficit of \$730,239 as of March 31, 2013 compared to a working capital deficit of \$1,302,464 at September 30, 2012. The improvement in the Company's working capital is the result of the Company completing two private placements for gross proceeds of \$1.4 million in the first six months of fiscal 2013, which funded the decrease in payables and ongoing product development and head office operating expenditures for the development of the two product lines.

Net additions to equipment for the three months ended March 31, 2013 were \$71,730 compared to \$362,802 for the year ended September 30, 2012. Additions were mainly related to equipment for the research and test facilities in Parry Sound, Ontario that were financed by cash and accounts payable. Another significant use of funds was the increase in product development costs for the Zeromold™ product line which, are expensed in the period incurred.

On February 4, 2013, the Company completed the first tranche of a private placement. The Company issued 800,004 units at a price of \$0.15 per unit for gross proceeds of \$120,006. Each unit consists of one Class A Share and one half of one Class A Share purchase warrant. Each whole warrant will entitle the holder to purchase one additional Class A Share in the capital of the Corporation (a "Warrant Share") at an exercise price of \$0.20 per Warrant Share to the extent such Warrant is exercised on or before the date that is 18 months from the closing of the Offering.

In November 2012, the Company completed the closing of a private placement of 6,313,003 units at a price of \$0.20 per unit for gross proceeds of \$1,262,600. Each unit consisted of one Class A Share and one Class A Share purchase warrant. Each warrant entitles the holder to purchase one additional Class A share of the Company at a price of \$0.30 for a period of 18 months from the date of closing.

On April 2, 2012, the Company announced the closing of a private placement of 1,782,500 units at a price of \$0.20 per unit for gross proceeds of \$356,500. Each unit consisted of one Class A Share and one Class A Share purchase warrant. Each warrant entitles the holder to purchase one additional Class A share of the Company at a price of \$0.30 for a period of 18 months from the date of closing.

On February 22, 2012, the Company announced the closing of a private placement of 1,830,000 units at a price of \$0.20 per unit for gross proceeds of \$366,000. Each unit consisted of one Class A Share and one Class A Share purchase warrant. Each warrant entitles the holder to purchase one additional Class A share of the Company at a price of \$0.30 for a period of 18 months from the date of closing.

In November 2011, the Company closed a private placement of 62,500 units at a price of \$0.20 per unit for gross proceeds of \$12,500. Each unit consisted of one Class A Share and one Class A Share purchase warrant. Each warrant entitles the holder to purchase one additional Class A share of the Company at a price of \$0.30 for a period of 18 months from the date of closing.

<b>Share Capital</b>				
	<b>March 31, 2013</b>		<b>September 30, 2012</b>	
	<b>Number of shares</b>	<b>\$ Amount</b>	<b>Number of shares</b>	<b>\$ Amount</b>
Balance, beginning of period	51,314,320	5,515,506	36,772,503	2,204,574
Shares issued for cash pursuant to a private placement	7,113,007	1,382,600	3,795,000	759,000
Shares issued for license agreements	-	-	20,000,000	3,060,000
Shares cancelled due to licence agreements	-	-	(9,253,183)	(267,997)
Less:				
Fair market value of warrants issued	-	332,485	-	180,425
Share issue costs	-	14,600	-	59,646
<b>Balance – end of period</b>	<b>58,427,327</b>	<b>6,551,021</b>	<b>51,314,320</b>	<b>5,515,506</b>

Please refer to note 13 and 14 of the unaudited condensed interim financial statements for the three months ended March 31, 2013 for additional information on outstanding warrants and options.

#### **E. Quarterly Information**

Selected quarterly information for the eight most recently completed quarters is presented below in Canadian currency (\$), and in accordance with Canadian generally accepted accounting principles.

	<b>2013</b>		<b>2012</b>		<b>2011</b>			
	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Net margins/fees	142	164	-	-	-	-	-	-
Administrative expenses	(550)	(529)	(917)	(483)	(443)	(481)	(1,183)	(191)
Income/(Loss) for the period	(408)	(365)	(917)	(483)	(443)	(481)	(1,183)	(191)
	\$	\$	\$	\$	\$	\$	\$	\$
Income/(loss) per share	(0.01)	(0.01)	(0.03)	(0.01)	(0.01)	(0.01)	(0.04)	(0.01)

#### **F. Off-Balance Sheet Arrangements**

The Company had no off-balance sheet arrangements as of March 31, 2013 or September 30, 2012.

#### **G. Financial Instruments**

The Company has not entered into any specialized financial arrangements to minimize its investment risk, currency risk or commodity risk.

#### **H. Related Party Transactions**

Refer to note 10 of the unaudited condensed interim financial statements for the three months and six months ended March 31, 2013 for the related party transactions.

#### **I. Changes in Accounting Policies including Initial Adoption**

##### **International Financial Reporting Standards ("IFRS")**

In February 2008, the CICA announced that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises were replaced by IFRS for fiscal years beginning on or after January 1, 2012. Accordingly, the conversion from Canadian GAAP to IFRS was applicable to the

Company's financial statements starting with the first quarter of 2012.

The key IFRS dates were October 1, 2010 which was the transition date and October 1, 2011 which was the changeover date. An opening balance sheet as of October 1, 2010 according to IRFS has been prepared to facilitate the change over to IFRS reporting for 2011. The change over date is the date which the Company's financial statements will be prepared and reported according to IFRS.

IFRS has a similar conceptual framework to that of previous Canadian GAAP. There are differences in certain areas under recognition and measurement, as well as disclosure. In order for users to understand the impact of IFRS on the Company's financial statements, please refer to note 17 to the audited condensed interim financial statements for the year ended September 30, 2012. Overall there was no significant change or adjustment to the financial statements, except for deferred taxes. The most significant impact is that reclassification of items on the financial statements and additional note disclosure.

## **J. Risks**

The Company's strategy emphasizes developing product lines in order to leverage its investment in licenses and drive the creation of shareholder value. This strategy has required, and continues to require significant financings. Due to the nature of the Company's business, the present stage of development of its product lines, and the constraints placed upon the Company's ability to move forward by its current liquidity situation, readers should carefully review and consider the financial, environmental and operational risk factors affecting the Company. The risk factors identified below are not an exhaustive list of the factors that may affect the Company, its operations or any forward-looking statements contained herein.

### **Need for Additional Financing**

The Company currently has no source of operating cash flow, and there is no assurance that additional funding will be available to the Company as and when needed for further development of its current or future product lines, or to fulfill its obligations to its existing creditors. Volatile markets may make it difficult or impossible for the Company to obtain adequate debt or equity financing in the future, or on terms acceptable to the Company. The failure to obtain additional financing could force the Company to liquidate its assets to satisfy creditor claims.

### **No Production Revenues**

To date, the Company has not achieved a sustainable stream of revenue. There can be no assurance that significant additional losses will not occur in the near future, or that the Company will be profitable in the future. In particular, the Company's operating expenses and capital expenditures may increase in subsequent three monthss as consultants, personnel, and equipment associated with advancing the product development and commercial production of its products are added.

The Company expects to continue to incur losses until such time as its product lines enter into commercial production and generate sufficient revenues to fund its continuing operations. There can be no assurance that the Company will generate any revenues or achieve profitability.

### **Dependence on Management**

The Company's business and operations are dependent on recruiting and retaining the services of a small number of key members of management and qualified personnel. The success of the operations and activities of the Company are dependent, to a significant extent, on the efforts and abilities of the management of the Company. Investors must be willing to rely, to a significant extent, on the discretion and judgment of the management of the Company. Furthermore, while the Company believes that it will

be successful in attracting qualified personnel and retaining its current management team, there can be no assurance of such success.

### **Conflicts of Interest**

Certain of the Company's directors and officers may serve as directors or officers of other reporting companies, companies providing services to the Company, or companies in which they may have significant shareholdings. To the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms.

In accordance with the laws of Canada, the directors of the Company are required to act honestly, in good faith and in the best interest of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

### **Litigation**

From time to time, the Company may be named as a defendant in legal actions or may commence legal actions against other parties arising in the course of business. To the extent that management's assessment of the Company's exposure in respect of such matters is incorrect or changes, including as a result of any determinations made the courts or other finders' of fact, the Company's exposure could exceed management's current expectations, which could have a material adverse effect on its business, financial conditions and results of operations or the ability to continue to carry on business.

### **K. Other MD&A Requirements**

Additional information related to the Company is filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).