

## **Biosenta Inc.**

### **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED DECEMBER 31, 2018 AND 2017**

*The following management discussion and analysis (“MD&A”) of financial results is dated July 30, 2019 and reviews the business of Biosenta Inc. (the “Company” or “Biosenta”), for the three months ended December 31, 2018 and 2017 and should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements and related notes for the three months ended December 31, 2018 and 2017. This MD&A and the accompanying annual consolidated financial statements and related notes for the three months ended December 31, 2018 and 2017 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. 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 and Company Highlights**

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 various microbes, including bacteria, viruses and fungi such as mould. Mould can affect the immune system, nervous system, liver, kidneys, blood and cause brain damage.

Under the Company’s Industrial Division, the Company plans to manufacture and distribute an anti-microbial filler called “*Tri-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 is likely to be more than 100 billion dollars. Biosenta will produce anti-microbial filler that performs 'filling' and 'bulking' functions like calcium carbonate. Biosenta’s *Tri-filler* product prohibits 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, viruses, fungi, algae and other micro-organisms by suppression of their reproduction.

The Company had commissioned its production plant to produce the filler product located in Parry Sound, Ontario. It was producing test product for potential customers.

Under the Company's Consumer Division, the Company has developed a line of retail anti-microbial products that will effectively kill viruses, bacteria and fungi on contact and prevent re-growth. The Company has obtained the necessary government approvals from Health Canada for selling its initial product line called Zeromold™ in Canada in September 2012. The first shipments of the product started in October 2012 on a limited basis within Canada. The Company has developed a second generation of this product line and has started the regulatory testing and approvals required for distribution in Canada and the United States.

### **Company Highlights**

- On June 13, 2016, the Company announced it had completed the Restructuring Proposal as approved by the courts. These financial statements now reflect the financial impact of the Restructuring Proposal which are summarized as follows:
  - i. The settlement of \$3.8 million of debt was completed through the issuance of 6,607,762 common shares (pre-consolidation 99,116,431) of the Company. The fair market value of the common shares which was based on the quoted market price of the Company's shares at the December 7, 2015 meeting, including costs for issuing the shares, was \$991,164. The difference between the book value of the debt and the fair market value of the common shares issued is included in the Gain on Debt Settlement from Restructuring Proposal;
  - ii. The settlement of approximately \$725,000 of debt was completed through the cash settlement option of the Restructuring Proposal. The cash option only paid a portion of the debt outstanding at the time of the settling the debt, but in return the vendor had to forgive the 50% of the balance which is included in the Gain on Debt Settlement from Restructuring Proposal. The outstanding payable as of September 30, 2017 for these vendors is reflected on the statement of financial position – Payable from Restructuring Proposal. This debt is only payable by the Company upon being sufficient cash flow over an undefined period of time;
  - iii. During the year ended September 30, 2018, the total outstanding secured loan of \$566,246 (principal balance of \$557,500 and accrued interest of \$8,746) along with trade payables and advance to the holder of the secured loan in the amount of \$169,300 was repaid through the issuance of 1,666,666 shares in the Company. The number of shares were based on the value of the shares of the Company on the date of the Restructuring Proposal. The fair market value of the shares issued is based on the trading price of the common shares on February 23, 2018 which had a value of \$41,666 and resulted on a gain on \$693,879 from settling the secured debt, which is included in the Statement of Operations; and
  - iv. Other debt that was not supported by an eligible claim or claims without merit were approved by the Court to be written down to nil. Since the settlement amount is nil, the full amount of such debt is included in Gain on Debt Settlement from Restructuring Proposal.
- The Company was in default of filing its annual financial statements on a timely basis. With the filing of this document, the Company is restoring its CSE and OSE filing requirement and remove its cease trade order. The cease trade order has since been lifted.

- On December 12, 2016, the Company announced it had received its first purchase order, for 8 metric tonnes, of its dry powder product, Tri-Filler.
- On November 15, 2016, Biosenta announced that it has received from the United States Patent Office a patent recognizing the unique and proprietary technology employed to manufacture Tri-Filler powder.
- In the most recent quarter, Biosenta has been awarded patents in Saudi Arabia and China.
- The Company will conduct a 12-month stability test for Tri-Filler and container packaging materials. It is anticipated that half way through this testing period if measurements trend positive, then a possibility exists that Health Canada may provide conditional application approval. This will be subject to consistent measurement trends prevailing upon completion of the 12-month period.
- The Company has engaged a leading-edge consulting firm to provide initially a pathway approach to an application for Tri-Filler with the EPA in the U.S.A. The next stage will be to complete and file an application with a meeting schedule between Biosenta and the EPA in the U.S.A.
- Company is in discussions with Polski Bazalt/ STM Technology (“STM”), a company that produces basalt composite pallets, to implement a licensing agreement for TriFiller and to sell to STM a 1 tonne per hour plant to manufacture Tri-Filler. Biosenta will give a license to STM to manufacture and use Tri-Filler in its Poland-based operation that will supply pallets to the European Union.
- The Company recovered \$153,000 in commissions earned from private placements completed a few years ago. This was an Ontario Securities Commission judgement that was imposed on an individual involved with the private placements at that time. The funds were used to reduce the balance owing on the secured loan.

## **B. Overall Performance**

### **Intellectual Property**

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”).

The Company exercised its right to convert the interim license granted on June 7, 2011, as amended and restated, into an assignable, transferable, perpetual, world-wide exclusive license (the “License”). In connection with the exercise of the right to acquire the License, and in accordance with the terms of the MM License Agreement as amended, the Company issued fully paid and non-assessable Class A shares of the Company to the Licensors valued at \$1,606,500. The License was subject to royalties payable equal

to 7% to 25%, based on gross margin as a percentage, actually received by the Company on the sale of the licensed products.

The escrowed shares were released from escrow within the period ended December 31, 2014 according to the terms of the escrow agreement. Under the terms of the agreement, all patents, know-how and patent applications were immediately assigned to the Company. All provisions of the License to which the Company is obligated to make payments to any of the licensors, including royalty payments are void and the parties acknowledge that no further payments will be made in respect of the License. If the Company had failed to obtain adequate funding to build the Parry Sound production facility by December 31, 2015, the patents could revert to the licensors, however as at September 30, 2015, management believes this requirement has been met as the plant was finished such that material was produced from the plant for testing by prospective customers.

Both inventors have agreed in writing to assign the inventions to Biosenta. Ed Pardiak has refused to execute an assignment in favour of Biosenta as required pursuant to a written agreement between both inventors and Biosenta. Based on legal advice provided to Biosenta, it is nevertheless taken steps to have the Company recorded as the owner of the patent applications relating to the inventions.

### **Industrial Division: *Tri-Filler***

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. The Company will produce anti-microbial filler that performs “filling” and “bulking” that prohibit 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 viruses’ bacteria, fungi, algae and other micro-organisms by suppression of their reproduction.

The Company completed the final construction phase of its production plant facility located in Parry Sound, Ontario in the three-month period ended December 31, 2014. The *Tri-filler* product is manufactured using advanced nano-encapsulation technology in a reactor. The *Tri-filler* compound and the manufacturing process have been patented by Biosenta. The plant had a capacity of 2 tonnes per hour.

In December 2014 and January 2015, *Tri-filler* product was successfully manufactured at the Parry Sound plant, and samples from the plant were examined at an independent laboratory to confirm that the particles were being manufactured to specification and that complete nano-encapsulation had occurred during production.

In March 2015, *Tri-filler* was used by a large plastics manufacturer in its production plant, and the product manufactured using *Tri-filler* was manufactured without any production issues. The next step was to test the product manufactured by the plant for anti-microbial properties at an independent laboratory. Biosenta expects these tests to be conducted within coming months. Discussions with other potential customers to test *Tri-filler* in industries, beyond plastics and resins, are also progressing and include the building, resin and plastics industries.

*Tri-filler* has been successfully tested using ASTM G21 and G22 tests and is being evaluated by potential customers. Approvals from the U.S. EPA and Canadian PMRA have begun. In addition, discussions with the Canadian Standards Association will continue to define new product standards for *Tri-filler* as it represents an innovative and unique product type.

In July 2017, the Company announced that it is in discussions with Polski Bazalt/ STM Technology (“STM”), a company that produces basalt composite pallets, to implement a licensing agreement for TriFiller and to sell to STM a 1 tonne per hour plant to manufacture Tri-Filler. Biosenta will give a license to STM to manufacture and use Tri-Filler in its Poland-based operation that will supply pallets to the European Union. STM is still conducting testing of the Tri-Filler in its operations and once completed will be in a position to finalize the terms of the licensing agreement.

A joint venture agreement is being finalized to market the Tri-Filler product line. No further details can be given at this time

### **Consumer Division - Anti-Microbial Retail Product Line**

Biosenta’s household disinfectants and cleaners possess similar levels of efficacy as traditional disinfectants with significantly lower concentrations of active ingredients resulting in lower toxicity. These disinfectants and cleaners will kill 100% of potentially deadly mold, fungi, bacteria and viruses on contact and prevent re-growth. The disinfectants are very safe due to the very low toxicity. The Company developed its first retail product line of anti-mould product called Zeromold™ and made its first shipments in Canada starting in October 2012.

The Company’s national sales partner, Crossmark Canada, provides sale management expertise and representation in national retail channels in the DIY (Do It Yourself), hardware, Mass Merchant, Grocery and Drug channels. The rollout of the product started in the last quarter of fiscal 2014. To date, Biosenta estimates that approximately 900 stores have received the product. Biosenta has also listed ZeroMold™ in two other retailers in Canada in the February and March 2015 time frame. The rollout to the stores was again limited as a result of limited working capital to finance the rollout to the different retailers.

In January 2015, the Company announced an update of both the continuing laboratory testing of its new retail disinfectant, to be called “*True*”, and the regulatory approval process in Canada and the U.S.A. *True* is a new disinfectant and cleaner which effectively kills a multitude of potentially deadly microbes (bacteria, viruses and fungi/ mould) with a formulation that has been shown to be very safe for use. The innovation which gives *True* its unique properties is that it is both a very powerful disinfectant and it contains very low levels of active ingredients which make it less toxic and safer to use.

Laboratory testing of *True* on a broad range of potentially deadly microbes has been conducted by a world-renowned institution. These standardised tests have shown *True* will kill 100% of the following microbes within a 10 minute contact time: Bacteria, Acinetobacter Baumannii (ABC), E. Coli, Listeria, MRSA, Pseudomonas aeruginosa, Salmonella, Staphylococcus aureus, Virus, Adenovirus, Chlamydia, Ebola, Enterovirus D68, H1N1, Hepatitis, Herpes, HIV, Influenza, Polio, Respiratory Syncytial Virus, Rotavirus, Swine Flu, and Vaccina (pox virus).

The regulatory approval to sell *True* in Canada and the U.S.A. is underway on limited basis. The product submission in the U.S.A has been ongoing for several months and EPA has been approved by the Environmental Protection Agency (“EPA”) in the United States. Further, the EPA allowed *True* to not carry a warning, caution of danger label because it is very safe for human use.

In March 2015, the Company announced a third-generation hospital-grade disinfectant, to be called *Purity*, has been developed to possess faster anti-microbial action than *True* and with a low pH. Biosenta's product strategy is to provide products that are both safe and powerful, and *Purity* will fulfill this strategy and represent an innovative disinfectant relative to currently available disinfectants. *Purity* will be tested over the next year at an independent laboratory to refine the formulation. The goal is to use *Purity* in hand sanitizer and wipes as well as a disinfectant.

## **C. Results of Operations**

This analysis of the results of the Company's operations should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements and related notes for the three months ended December 31, 2018 and 2017.

### **Zeromold™ - Revenues and Cost of Sales**

The Company's net revenues for the three months ended December 31, 2018 were approximately \$nil (2017 - \$1,167). Since 2014, when the Company first started selling this product, the Company has encountered several set backs on the roll out of the product into Canadian retailers. In the current period, with the Company having limited working capital, the Company was not able to manufacture the product on a timely basis and take advantage of certain marketing and sales programs offered through the Canadian retailers. Despite the slow roll out of the product, the Company continues to generate positive gross margin from the sales of Zeromold™ in Canada.

### **Administrative Expenses**

For the three months ended December 31, 2018, administrative costs increased to \$80,830 from \$70,624 as compared to the previous year mainly due to the following factors:

1. Salaries, management and consulting fees increased to \$24,139 for the three months ended December 31, 2018 from \$18,486 in the same period last year. Salaries, management and consulting fees include engineering, technical, packaging and marketing consultants used to develop the product lines. The Company continues to not pay management personnel;
2. Professional fees decreased to \$7,937 for the three months ended December 31, 2018 from \$30,282 in the same period last year. The legal fees and professional fees have decreased as a result of the reduced activity with the Restructuring Proposal and dealing with historical litigation issues. The majority of the professional fees now relate to product development and patent protection work;
3. Office and general expenses increased to \$22,174 for the three months ended December 31, 2018 from \$7,353 in the same period last year. No significant change in operations for the period, but expenses are being kept to a minimum in order to conserve capital;
4. Sales and marketing expenses were \$19,818 for the three months ended December 31, 2018 compared to \$905 in the same period last year. The Company continues to incur these expenditures, but on a significantly increased basis.
5. Product development costs include the laboratory testing and related professional fees for Zeromold™, True, and Purity product lines, as well as the testing of the Tri-filler product.

Product development cost for the three months ended December 31, 2018 decreased to \$nil from \$4,826 in the same period last year.

#### Other Items

The Company incurred an impairment loss of \$1,606,499 for the year ended September 30, 2018. Management decided to impair the intangible asset value to \$1 from \$1,606,500 after assessing the recoverability of the carrying value of the intangibles.

#### D. Liquidity and Capital Resources

At December 31, 2018, the Company had cash of \$20,535 compared to \$11,377 at September 30, 2018, and a working capital deficit of \$958,080 as at December 31, 2018 compared to a working capital deficit of \$873,137 at September 30, 2018.

<b>Issued and outstanding: Class Shares</b>	<b>Number of Shares</b>
<b>Balance, September 30, 2017</b>	<b>12,395,997</b>
<b>Balance, September 30, 2018</b>	<b>14,062,663</b>
<b>Balance, December 31, 2018</b>	<b>14,062,663</b>

On February 23, 2018 the Secured Debt was settled through the issue of 1,666,666 common shares at a fair market value of \$41,666.

Please refer to note 13 of the condensed interim consolidated financial statements for the period ended December 31, 2018 and September 30, 2018 for additional information on options.

#### E. Quarterly Information

Selected quarterly information for the eight most recently completed quarters is presented below in Canadian currency (\$), and in accordance with International Financial Reporting Standards ("IFRS").

	<b>2019</b>	<b>2018</b>				<b>2017</b>		
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Net Gross margin/fees	0	0	0	0	1	1	0	1
Administrative Expenses	(80)	(58)	(58)	(79)	(70)	(43)	(109)	(86)
Gain on Debt/other	0	(1,621)	0	696	0	(862)	153	0
Income/(Loss)	(80)	(1,679)	(58)	617	(69)	(904)	41	(80)
	\$	\$	\$	\$	\$	\$	\$	\$
Income/(loss) per share	(0.01)	(0.13)	(0.00)	(0.05)	(0.01)	(0.08)	(0.00)	(0.00)

#### F. Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at December 31, 2018.

## **G. Financial Instruments**

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

## **H. Business Risks and Financial Risks**

### **Business Risk Factors**

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 material 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 are unlikely to increase significantly in subsequent periods as consultants, personnel, and equipment associated with advancing the product development and commercial production of its products.

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.

### **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 by 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.

### **I. 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).