

Biosenta Inc.

Condensed Interim Consolidated Financial Statements
For the three and six months ended March 31, 2020 and 2019
(Expressed in Canadian dollars)

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of the company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor, MS Partners LLP, has not performed a review of these condensed interim consolidated financial statements, in accordance with standards established by the Institute of Chartered Professional Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

Biosenta Inc.
May 28, 2020

Biosenta Inc.**Condensed Interim Consolidated Statements of Financial Position**

(Expressed in Canadian dollars, unless otherwise stated)

	March 31 2020 \$	September 30 2019 \$
ASSETS		
Current		
Cash	2,896	9,647
Inventory	6,815	—
Other receivables	2,261	9,901
	11,972	19,548
Intangible asset (Note 5)	1	1
Total assets	11,973	19,549
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 6)	677,366	582,125
Payable from restructuring proposal (Note 7)	254,092	254,092
Loans (Note 8)	6,458	133,478
Joint venture advances (Note 9)	560,000	445,000
	1,497,916	1,414,695
Convertible debentures (Note 11)	—	38,842
Total liabilities	1,497,916	1,453,537
SHAREHOLDERS' DEFICIT		
Share capital (Note 12)	9,437,336	9,144,029
Warrants (Note 14)	131,163	—
Equity reserves (Note 13)	49,810	49,810
Equity component of convertible debentures	—	30,983
Deficit	(11,104,252)	(10,658,810)
Total shareholders' deficit	(1,485,943)	(1,433,988)
Total liabilities and shareholders' deficit	11,973	19,549

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 15)

Subsequent event (Note 18)

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

Approved by the Board of Directors

Signed "Am Gill" CEO, President and DirectorSigned "Ed Korhonen" Director

Biosenta Inc.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars, unless otherwise stated)

	Three months ended Mar 31 2020 \$	Three months ended Mar 31 2019 \$	Six months ended Mar 31 2020 \$	Six months ended Mar 31 2019 \$
Sales	—	—	—	—
Cost of sales	348	—	348	—
Gross profit	(348)	—	(348)	—
Administrative expenses				
Professional fees	31,583	35,378	57,947	43,315
Salaries, management and consulting fees (Note 10)	103,031	29,242	183,998	53,382
Office and general	5,489	27,844	17,182	50,018
Insurance	4,040	—	8,340	3,674
Product development costs	—	42,348	31,177	42,348
Stock transfer fees	9,159	2,745	11,872	5,833
Sales and marketing	11,397	20,385	32,246	40,202
Travel	252	—	2,119	—
Total expenses	164,951	157,942	344,881	238,772
Net loss from operations	(165,299)	(157,942)	(345,229)	(238,772)
Other expenses (income)				
Interest and accretion expense (Note 11)	30,671	9,722	34,431	13,107
Exchange loss	6,806	(538)	4,769	1,357
Loss from settlement of liabilities	65,581	—	65,581	—
Gain from settlement of debts from restructuring proposal	(4,568)	—	(4,568)	—
Total other expenses	98,490	9,184	100,213	14,464
Income tax expense (recovery)	—	—	—	—
Net loss and comprehensive loss	(263,789)	(167,126)	(445,442)	(253,236)
Loss per common share - basic and diluted	(0.02)	(0.01)	(0.03)	(0.02)
Weighted average number of common shares - basic and diluted	14,254,492	14,062,663	14,254,492	14,062,663

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

Biosenta Inc.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**

(Expressed in Canadian dollars, unless otherwise stated)

	Share Capital		Warrants	Equity reserve	Equity component of convertible debentures	Accumulated deficit	Total
	Shares	Amount					
	#	\$					
As at September 30, 2018	14,062,663	9,144,029	—	49,810	30,983	(10,128,727)	(903,905)
Net loss for the period	—	—	—	—	—	(253,236)	(253,236)
As at March 31, 2019	14,062,663	9,144,029	—	49,810	30,983	(10,381,963)	(1,157,141)
As at September 30, 2019	14,062,663	9,144,029	—	49,810	30,983	(10,658,810)	(1,433,988)
Shares issued to settle liabilities	3,279,075	293,307	—	—	(30,983)	—	262,324
Warrants issued to settle liabilities	—	—	131,163	—	—	—	131,163
Net loss for the period	—	—	—	—	—	(445,442)	(445,442)
As at March 31, 2020	17,341,738	9,437,336	131,163	49,810	—	(11,104,252)	(1,485,943)

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

Biosenta Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars, unless otherwise stated)

	Six months ended March 31, 2020 \$	Six months ended March 31, 2019 \$
Operating activities		
Net loss and comprehensive loss for the period	(445,442)	(253,236)
<i>Adjustments for items not affecting cash:</i>		
Accretion expenses	21,156	3,790
Loss on settlement of liabilities	65,581	—
<i>Changes in working capital items:</i>		
Inventory	(6,815)	—
Other receivables	7,640	5,136
Accounts payable and accrued liabilities	225,229	122,856
Cash used in operating activities	(132,651)	(121,454)
Financing activities		
Loans (Note 8)	10,900	—
Advances from joint venture (Note 9)	115,000	120,000
Cash provided by financing activities	125,900	120,000
Net increase in cash	(6,751)	(1,454)
Cash and cash equivalents, beginning of period	9,647	11,377
Cash and cash equivalents, end of period	2,896	9,923
Non - Cash activities		
Issuance of shares and warrants (Note 12)	393,489	

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

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

1. Nature of Operations and Going Concern

Biosenta Inc. (the “Company” or “Biosenta”) is a public company, incorporated and domiciled in Canada, whose shares are listed on the Canadian Securities Exchange (“CSE”) under the symbol "ZRO". The Company's registered address is 18 Wynford Drive, Suite 794, Toronto, Ontario, M3C 3S2. In 2011, the Company acquired the intellectual property rights to certain technology and processes relating to anti-microbial products with potential commercial and consumer applications. The Company is engaged in developing sales for its Zeromold™ and True product lines and the development for commercial applications of its technology to produce an anti-microbial Tri-Filler product.

Going concern

During the period ended March 31, 2020, the Company reported net loss of \$445,442 and a working capital deficit of \$1,485,944.

The ability of the Company to continue as a going concern is dependent upon the continuing financial support of shareholders or other investors, obtaining new financing on commercial terms acceptable to the Company to enable it to monetize its intellectual property assets, and upon attaining profitable operations once such assets can be monetized, all of which outcomes are uncertain and which represents material uncertainties, cast significant doubt over the ability of the Company to continue as a going concern. These condensed interim consolidated financial statements do not include any adjustments to the carrying values of the Company’s assets, liabilities, and expenses and the related classifications that would be necessary if the going concern assumption were inappropriate. Such adjustments have not been quantified by management, but could be material.

The Company funded its operations for the period ended March 31, 2020 from existing cash and advances from joint venture (See Note 9). The Company may not have sufficient cash reserves to fund its product development programs, administrative costs and other obligations for the coming fiscal year. Management is actively involved in developing and bringing their products to market, as well as seeking new debt and equity financing to enable it to service the Company’s liabilities and its ongoing administrative costs. Management believes the Company will continue as a going concern due to the Company’s ability to obtain funding through the issuance of debt and equity instruments.

2. Basis of Presentation

Statement of Compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company reported in Notes 2 and 3, in the Company’s audited annual financial statements for the year ended September 30, 2019. These condensed interim consolidated financial statements do not include all the information required for full annual financial statements.

The accounting policies noted above have been applied consistently to all periods presented in these condensed interim consolidated financial statements.

The Board of Directors of the Company authorized these condensed interim consolidated financial statements for issuance on May 28, 2020.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

2. Basis of Presentation (continued)

Basis of preparation and presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company, which is incorporated in Canada, and its wholly-owned subsidiary, Biosenta U.S.A. Inc. which is incorporated in the United States. All inter-company balances and transactions are eliminated on consolidation. These condensed interim consolidated financial statements include all assets, liabilities, expenses, and cash flows of the Company and its subsidiary after eliminating inter-company balances and transactions.

3. Significant Accounting Policies

Significant accounting judgments, estimates and assumptions

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates, and assumptions about future events that affect the amounts reported in the audited consolidated financial statements and related notes.

Although these estimates are based on management's best knowledge of the amount, event, or actions, actual results may differ from those estimates and these differences could be material.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant Accounting Policies (continued)

a) Revenue recognition policy

IFRS 15 – Revenue from contracts with customers (“IFRS 15”) specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. The pattern and timing of revenue recognition under the new standard is consistent with prior year practice. There were no adjustments recognized on the adoption of IFRS 15 in the year ended September 30, 2019. The Company’s accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

- Identifying the contract with a customer
- Identifying the performance obligations within the contract
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when/as performance obligation(s) are satisfied.

In some cases, judgement is required in determining whether the customer is a business or the end consumer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

In determining the appropriate time of sale, the Company takes into consideration a) the Company’s right to payment for the goods or services; b) customers legal title; c) transfer of physical possession of the goods; and d) timing of acceptance of goods.

The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

b) Related party transactions

A party is related to an entity if the party directly or indirectly controls, is controlled by or is under common control with the entity; or if it has an interest in the entity that gives it significant influence over the entity; or if it has joint control over the entity or is an associate or a joint venture of the entity. In addition, members and dependents of the key management personnel of the entity (Board of Directors and Executive Management Board) are also considered related parties.

c) Joint Venture advances

Joint ventures advances comprise money received from one or more unaffiliated entities. The company invests these advances under terms requiring unanimous consent of all the parties (See Note 9).

The Company’s interests in joint ventures are classified as obligation relating to investments in joint ventures and is accounted for using the equity method, with the Company’s share of net losses and net liabilities separately disclosed in the statement of net loss and consolidated statement of financial position, in accordance with IFRS 11 ‘Joint Arrangements’.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company’s share of net assets of joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant Accounting Policies (continued)

d) Financial instruments

Recognition and initial measurement

Financial assets and financial liabilities, including derivatives, are recognized when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the condensed interim consolidated statements of loss and comprehensive loss.

Classification and subsequent measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories:

- a) amortized cost ("AC");
- b) fair value through profit or loss ("FVTPL"); and
- c) fair value through other comprehensive income ("FVTOCI").

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL: a) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in the condensed interim consolidated statements of loss and comprehensive loss in the period that the asset is derecognized or impaired. All financial assets not classified as amortized cost as described above are measured at FVTPL or FVTOCI depending on the business model and cash flow characteristics. The Company has no financial assets measured at FVTOCI.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in the condensed interim consolidated statements of loss and comprehensive loss in the period that the liability is derecognized, except for financial liabilities classified as FVTPL.

Financial instruments are classified into one of the following categories: FVTPL; financial assets at amortized cost, financial liabilities at amortized cost, and financial assets at FVTOCI.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

3. Significant Accounting Policies (continued)

Impairment of financial instruments – Expected credit losses (“ECL”)

For all financial assets recorded at amortized cost, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all accounts receivables based on the Company’s historical default rates over the expected life of the accounts receivable and is adjusted for forward-looking estimates. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

All individually significant loan receivables are assessed for impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for impairment. Loans receivables not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

ECL are calculated as the product of the probability of default, exposure at default and loss given default over the remaining expected life of the receivables. No ECL has been recorded by the Company as all receivables are expected to be collected and are not significant.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the condensed interim consolidated statements of loss and comprehensive loss.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the condensed interim consolidated statements of loss and comprehensive loss.

Financial instruments (continued)

Impairment of non-financial assets

At each financial reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

4. Recent Accounting Pronouncements

Standards, Amendments and Interpretations Issued but not yet effective

Insurance Contracts

In May 2017, the IASB issued IFRS 17 - Insurance Contracts ("IFRS 17"), that replaces IFRS 4 - Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021; however, based on recent IASB meetings, an upcoming amendment to IFRS 17 and a deferral of the transition date by one year is anticipated. Early adoption is permitted. The Company is assessing the potential impact of this standard.

5. Intangible assets

On June 7, 2011, the Company entered into an exclusive world-wide 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 License Agreement was amended and restated to add Edward Pardiak, a former 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, respectively through holding companies controlled by them.

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 effective date for the issuance of the Class A shares and the acquisition of the License was April 10, 2012. The License was subject to royalties payable equal to 7% to 25%, based on gross margin, actually received by the Company on the sale of the licensed goods.

The shares were released in fiscal 2015. Under the terms of the license agreement, all patents, know-how and patent applications were 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. As at September 30, 2017, the Company had written-off the value of the corresponding equipment and leasehold improvements associated with this agreement.

As at September 30, 2018, management, based on its assessment of the recoverability of the carrying value of the intangible assets associated with this agreement, decided to write-down the asset value to \$1 from \$1,606,500. The impairment loss arising as a result of this, has been reported on the Statement of Operations and Comprehensive Income (loss).

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

6. Accounts Payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	As at March 31 2020	As at September 30 2019
	\$	\$
Trade payables	462,648	457,294
Payroll taxes payable	2,285	5,367
Sales tax recoverable	(9,267)	(12,166)
Accrued liabilities and other	221,700	131,630
	677,366	582,125

7. Payable from restructuring proposal

On June 13, 2016, the Company announced it had completed the Restructuring Proposal as approved by the Ontario Court. The financial impact of the Restructuring Proposal transaction is reflected in the accompanying consolidated financial statements, and is 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 was included in the Gain on Debt Settlement from Restructuring Proposal in fiscal 2016;
- 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 of the debt, and in return the vendor had to forgive 50% of the balance, which was included in the Gain on Debt Settlement from Restructuring Proposal for fiscal 2016. The outstanding payables for these vendors was reflected on the consolidated statements of financial position – Payable from Restructuring Proposal. This debt is only payable by the Company upon there being sufficient cash flow over an undefined period of time. The balance of this payable as of March 31, 2020 is \$254,092 (September 30, 2019 - \$254,092). There have been no payments made on this balance since inception; and
- iii. 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 was included in Gain on Debt Settlement from Restructuring Proposal for fiscal 2016.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

8. Loans

Loans consist of the following:

	As at March 31 2020 \$	As at September 30 2019 \$
Loans	133,478	133,478
Settled during the period – (Note 12)	(127,020)	-
Total	6,458	133,478

Loans to the Company from related parties are unsecured, non-interest bearing with no fixed terms of repayment.

9. Joint venture advances

On February 23, 2018, the Company announced that it had signed a five-year agreement with certain secured creditors to promote, advertise, market, and grow the sales of its dry product Tri-Filler. The entity is based in Parry Sound, Ontario and is owned 51% by the creditors and 49% by the Company. The creditors will contribute funds to operate the entity and provide expertise to launch Tri-Filler, and, in return, the Company will license the intellectual property that pertains to Tri-Filler.

Initially, the investors are to receive 60% of operating profits until the amounts already invested by the investors have been repaid. Thereafter, the operating profits will be split 51% to the investors and 49% to the Company. The investors make monthly advances to the Company of \$20,000, until the entity is able to distribute profits. These advances shall be repaid to the investors, once the Company's share of profits exceeds \$20,000 per month. During the period ended March 2020, the advances from investors received was \$560,000.

The Company to proceed with the proposal to issue shares from treasury and issue warrants to 194 in return for three tranches of cash funding, to be paid over a period of three months, as follows:

- The subscription is set at a fixed price of \$0.1 per share or 500,000 shares at for the first of three \$50,000 tranches, with one half of a warrant for each share subscribed to at \$0.20 per shares with an expiry date of 18 months from the closing of the tranche.
- The second 50,000 tranche would be identical to the first except for the closing and expiry dates of the warrants which are to be 24 months from the closing of the tranche.
- The third tranche \$50,000 will have the same subscription price of \$0.10 and warrant expiry date, except that the price of the warrant will be \$0.25 per share for the remaining 250,000 shares.

The proposal will be effective after the company shares trading will be active in the exchange.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

10. Related Party Transactions and Balances

The Company had the following related party transactions for the period ended March 31, 2020 and 2019. These transactions were in the normal course of operations and are measured at the exchange amount, which are the amounts agreed to by the related parties.

Compensation of key management personnel of the Company

The remuneration of directors and other key management personnel for the period ended:

	March 31, 2020	March 31 2019
Short-term compensation	103,031	53,381
Total	103,031	53,381

Short-term compensation includes salaries, bonuses, and allowances, employment benefits, and directors' fees.

11. Convertible Debentures

The Company completed one convertible debenture financing for \$60,000 in the year ended September 30, 2016. The debenture is non-interest bearing with a term of 5 years. It is convertible into common shares of the Company at a price \$0.30 per share.

The Company used the residual value method to allocate the proceeds between the liability and equity components. Under this method, the fair value of the liability component (the "Debenture Liability") of \$17,847 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum. The residual value \$42,153 was attributed to the equity component. The resulting fair value of the liability component of the debentures is accreted to their face value through the recording of accretion expense until maturity using the effective interest rate of 23%. Refer note 12 and 14.

	As at March 31 2020 \$	As at September 30 2019 \$
Face value of debentures	60,000	60,000
Equity component of debentures	(42,153)	(42,153)
Accumulated accretion	23,344	20,995
Settled through issuance of shares and warrant	(41,191)	-
Balance	-	38,842

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

12. Share Capital

Authorized:

The Company is authorized to issue an unlimited number of:

Class A shares, voting and participating.

Class B shares, voting, redeemable at any time at the option of the Company for an amount equal to the fair value of the consideration received at issuance.

Class C preferred shares issuable in series with the following to be fixed with each series: number of shares, designation, rights, privileges, restrictions and conditions including dividend rate and calculation method and payment dates, the redemption, purchase and/or conversion prices, terms of redemption, purchase and/or conversion, any sinking fund or other provisions, may be convertible into Class A shares and voting unless otherwise determined.

Issued and outstanding: Class A Shares

On February 28, 2020, the Company has entered into an agreement (the “Agreement”) to settle 327,907 of debt through the issuance of 3,279,075 common shares of the Company at a deemed price of \$0.1 per shares and 1,604,538 warrants each exercisable for one common share of the Company with an exercise price of \$0.2 per share (the “Transaction”). Pursuant to this agreement, the Company issued 1,099,875 shares and 549,938 warrants to DK Financial Canada Inc. to settle \$109,987 of debt, 1,109,000 shares and 549,500 warrants to 1698791 Ontario Ltd. To settle \$110,900 of debt, 770,200 shares and 385,100 warrants to a director to settle \$77,020 of debt and 300,000 shares and 150,000 warrants to various additional creditors, including one employee of the Company, to settle \$30,000 of debt. The shares and warrants issued to DK Financial Canada Inc., 1698791 Ontario Ltd, and certain other creditors are subject to a four month hold period under applicable securities legislation and the shares and warrants issued to a director and certain other creditors are subject to a four month hold period unless approval is obtained from the Canadian Stock Exchange.

	Number of shares	Amount
Balance, September 30, 2019	14,062,663	\$ 9,144,029
Balance, March 31, 2020	17,341,738	\$ 9,437,336

13. Equity Reserves

The Company has a stock option plan (the “Plan”), under which the Company may grant options to directors, officers, employees, and third-party service providers. Under the terms of the Plan that was approved by the shareholders on May 24, 2012, the Company is authorized to issue a maximum of 10% of the issued and outstanding shares.

The purpose of the Plan is to attract, retain and motivate directors, officers, and certain third-party service providers by providing them with the opportunity to acquire a proprietary interest in the Company and benefit from its growth. The options granted under the Plan are non-assignable, have a term of 5 years and vest over periods of up to three years from the date of issue.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

14. Warrants

During the period ended March 31, 2019, the Company issued 1,604,538 warrants to certain employees and director of the Company for past services provided, as discussed in *Note 12*. The warrants had no vesting conditions and are exercisable at any time for eighteen months after the issuance, subject to certain lock-up provisions: (i) the warrants may not be exercised for 4 months following the Issue Date. The warrants are exchangeable into Shares.

In determining the amount of share-based compensation related to warrants issued during the period, the Company used the Black-Scholes pricing model to establish the fair value of the warrants granted. Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the life of the warrants. The risk-free rate was based on the United States 2 -year bond yield rate.

	March 31, 2020
Stock Price	\$ 0.80
Exercise Price	\$ 0.20
Expected Life in Years	1.50
Annualized Volatility	781%
Annual Rate of Quarterly Dividends	0%
Discount Rate - Bond Equivalent Yield	158%

15. Commitments and Contingencies

Commitment

The Company has a rent agreement in Canada with Barracuda Wellsite Management on a monthly rental of \$1,500 per month. This rental agreement is based on a month to month basis.

The Company has a rent agreement in Canada with DK Financial on a monthly rental of \$2,125 per month. This rental agreement is based on a month to month basis.

Other Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At March 31, 2020, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. There are also no proceedings in which any of the Company's directors, officers or affiliates are an adverse party or have a material interest adverse to the Company's interest.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

16. Financial Risk Factors

The Company's financial instruments mainly comprise of cash and other receivables, accounts payable and accrued liabilities, payable from restructuring proposal, loans and joint venture advances.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which there is sufficient data with unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the condensed interim consolidated financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions and are not based on observable market data.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

16. Financial Risk Factors (continued)

Fair Value (continued)

The classification of financial instruments at their carrying and fair values is as follows:

Financial assets	Carrying values			Fair values
	FVTPL	FVTOCI	Total	Total
March 31, 2020	\$	\$	\$	\$
Cash	2,896	—	2,896	2,896
Inventory	6,815	—	6,815	6,815
Other receivables	2,261	—	2,261	2,261
	11,972	—	11,972	11,972
September 30, 2019	\$	\$	\$	\$
Cash	9,647	—	9,647	9,647
Inventory	—	—	—	—
Other receivables	9,901	—	9,901	9,901
	19,548	—	19,548	19,548

Financial liabilities	Carrying values			Fair values
	FVTPL	Other liabilities	Total	Total
March 31, 2020	\$	\$	\$	\$
Accounts payable and accrued liability	—	677,366	677,366	677,366
Payable from restructuring proposal	—	254,092	254,092	254,092
Loans and advances	—	6,458	6,458	6,458
Joint venture advances	—	560,000	560,000	560,000
	—	1,497,916	1,497,916	1,497,916
September 30, 2019	\$	\$	\$	\$
Accounts payable and accrued liability	—	582,125	582,125	582,125
Payable from restructuring proposal	—	254,092	254,092	254,092
Loans and advances	—	133,478	133,478	133,478
Joint venture advances	—	445,000	445,000	445,000
	—	1,414,695	1,414,695	1,414,695

There were no transfers between levels in the hierarchy. For financial assets and liabilities not measured at fair value, their carrying value approximates fair value due to their short-term nature and market terms.

The Company is exposed to credit risk, liquidity risk and interest rate risk. The Company's management oversees the management of these risks. The Company's management is supported by the members that advise on financial risks and the appropriate financial risk governance framework for the Company. The Company's financial risk activities are governed by appropriate policies and procedures and financial risks are identified, measured and managed in accordance with Company policies and Company risk appetite.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

16. Financial Risk Factors (continued)

The company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no changes to the Company's exposure to risks in respect of its financial instruments, and there have been no changes in respect of management's objectives, policies and processes in the management of its financial instruments from that of prior reporting period.

Credit risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and other receivables. To address its credit risk arising from cash, the Company ensures to keep these balances with financial institutions of high repute. The Company has not recorded an ECL as all amounts are considered to be recoverable and are immaterial. The Company is not significantly exposed to its other receivables. As at March 31, 2020 and September 30, 2019 the maximum amount exposed to credit risks was \$2,261 and \$9,901, respectively.

Liquidity risk

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash in a cost-effective manner to fund its obligations as they come due. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages liquidity risk through obtaining financing from its members, third parties and joint venture. As at March 31, 2020, all trade payables and accrued liabilities are due within a year.

Market risk - Interest rate risk

The Company's current policy is to invest excess cash in investment-grade, short-term deposit certificates issued by its banking institutions. Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in market interest rates. As at March 31, 2020, all of the company's financial instruments are either non-interest bearing or bear interest at fixed rates.

17. Capital Management

Capital is defined as share capital and equity reserve. The Company's objectives when managing capital are to maintain an appropriate balance between holding a sufficient amount of capital to support its operations as a going concern, and providing shareholders with a prudent amount of leverage, as and when required, to enhance returns. There have been no changes since the prior year.

The intellectual property in which the Company has acquired through a license agreement is currently in the development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurances that the Company will be able to continue raising equity capital in this manner. The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term guaranteed deposits, all held with major Canadian financial institutions.

The Company is not subject to any regulatory or contractual capital obligations of material consequence.

Biosenta Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period March 31, 2020 and 2019

(Expressed in Canadian dollars, unless otherwise stated)

18. Subsequent Events

Subsequent to December 31, 2019, the outbreak of the novel strain of coronavirus identified as COVID-19 has resulted in a widespread health crisis that has affected economies and financial markets around the world. The full impact of the COVID-19 pandemic continues to evolve as of the date of this report. Management is actively monitoring the global situation and its effects on the sector and the Company's financial position and operations. As of the date hereof, the Company does not envision the COVID-19 crisis to materially impact its operations and the Company has sufficient capital to support its current ongoing beyond the fiscal year 2020. If the pandemic continues for a prolonged period of time, it may have a material adverse effect on the Company's future capital projects and operations.