MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2016

Introduction

The following Management's Discussion and Analysis ("MD&A") of ESI Environmental Sensors Inc. (the "Company" or "ESI") has been prepared by management, in accordance with the requirements of National Instrument of 51-102 as of November 29, 2016 and should be read in conjunction with the unaudited condensed interim financial statements for the six months ended September 30, 2016 and 2015, the related notes contained therein which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The following should also be read in conjunction with the audited annual financial statements for the year ended March 31, 2016, the related notes contained therein which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. The Company is presently a "Venture Issuer" as defined in NI 51-102. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com and the Company's website at www.esica.com. All dollar amounts are quoted in Canadian dollars, the reporting and functional currency of the Company, unless specifically noted.

The Company is a reporting issuer in British Columbia and Alberta and is listed on the TSX Venture Exchange (the "Exchange") under the symbol ESV.

Forward-Looking Information

Certain statements made in this MD&A including without limitation, statements relating to ESI's expectations concerning future revenues and earnings, product development, market conditions and the sufficiency of capital and liquidity, constitute forward looking statements. These forward looking statements are subject to risks and uncertainties, many of which are beyond ESI's control. Actual results or events may differ materially from ESI's expectations. There is no assurance that ESI's products will be successfully developed or manufactured, or that ESI will be able to market or sell the products to achieve its revenue targets. Further, ESI's funding needs may vary depending on a number of factors including successful implementation of a new sales and marketing program, progress of research and development plans, cost of continued commercialization of ESI's products or technological or market developments. Consequently, ESI may need to raise additional funds or incur debt. In such an event, ESI intends to seek additional funding through public or private financings, arrangements with corporate partners, and from other sources. No assurance can be given that additional funding will be available on favourable terms, or at all. If adequate capital is not available, ESI may have to substantially reduce or eliminate expenditures in its operations. ESI does not undertake or accept any obligation to release publicly any updates or revisions to any forward looking statements to reflect changes in ESI's expectations, except as required by applicable securities laws.

To the extent possible, management implements strategies to reduce or mitigate risks and uncertainties associated with the business. Operating risks include, but are not limited to: (i) the continued ability of ESI to develop marketing and sales capabilities to successfully commercialize products, (ii) market acceptance of ESI's technologies and products, (iii) the competitive environment and impact of technological change, (iv) the ability to protect ESI's intellectual property, and (v) the continued availability of capital to finance ESI's activities. The Company is not in an industry where bad debts present a major business risk.

Company Overview

ESI's patented and proprietary technologies are incorporated into a range of products, primarily sensors, accessories and associated hardware and software, which together are used in water management applications. These applications include irrigation control, crop management, turf management, environmental management applications, mining, forestry, silviculture, scientific research, and various civil and municipal engineering applications including slope stability and landfill monitoring. The Company has also adapted its technology to address water management applications in the oil industry. The Company's technologies are marketed under the trade names of Gro•Point™, Moisture•Point™ and Flo•Point™.

ESI is a developer of Time Domain Reflectometry ("TDR") and Time Domain Transmissometry ("TDT") devices in water management. Papers on the Company's technology have been featured in related international industry journals.

The Company has recently engaged in either licensing or subcontracting its product line to different sources.

Significant Events

In July 2016, the Company signed a non-exclusive licensing agreement for its agricultural sensors, with the intention of signing a more definitive agreement in the current fiscal year.

In June 2016, the Company announced the appointment of Mr. Scott Davis as the Chief Financial Officer of the Company.

In June 2016, the Company announced the appointment of Mr. Johan Grandin, a director of the Company, as the Chief Executive Officer and Chairman of the Board of the Directors of the Company. Stephan Radermacher, the former Chief Executive Officer and Board Chairman, would remain as a director.

In June 2016, the Company closed a private placement consisting of 12,000,000 common shares for gross proceeds of $600,000. In connection with the transaction, the Company paid $60,000 in cash finders' fees and $3,750 of share issuance costs.

Results of Operations

Three and Six months ended September 30, 2016

Revenue and Cost of Product Sales

Revenue for the six months ended September 30, 2016 amounted to $10,875, a decrease from the $55,338 in revenue recorded for the prior period and cost of product sales amounted to $1,318, a decrease from the $39,061 in cost of product sales recorded for the prior period. Revenue for the three months period ended September 30, 2016 was $Nil, a decrease from $33,721 over the prior year three month period.

Presently, the Company's orders are generated primarily from repeat customers. The Company continues to try and develop new client relationships in North American, South American and overseas markets. Initiatives continue for the establishment of channel partners in North America and around the world. The Company will maintain its direct sales approach for the North American scientific, academic and research markets. Market opportunities in environmental monitoring also hold promise for the Company.

The Company's sensor offerings appeal to agriculture, environmental applications and commercial and consumer markets such as the golf and turf industries. The Company continues to make sales to clients in academic and government research organizations.

The global water shortage and search for solutions to optimize water usage and reduce consumption continues to receive increased attention around the world. Company management believes the overall market conditions for water monitoring and management systems are strong and will only continue to strengthen in the coming months and years.

Operations

Over the years, a significant corporate focus at ESI has been on engineering and new product development. Specifically, in recent years, there has been a strategic decision to focus near-term development efforts and expenditures on the Gro•Point™ product line, and in particular on the development of a new profiling sensor. The first production units of the Company's new profiling sensor were released in Q4-2013. The Company has continued to work on the development of supporting ancillary devices for the profiling sensor including an SDI-12 logger, an SDI-12 hand held reader and an SDI-12 shuttle during 2014 and 2015. In addition in Q1-2016, the Company has re-launched development of the Flo•Point™ watercut sensor.

General and administrative expenses:

General and administrative (G&A) expenditures have decreased to $57,722 for the six months ended September 30, 2016 vs. $312,124 for the prior period. G&A for the three months ended September 30, 2016 was $47,387 vs. $173,832 in the prior year three month period. The decreases are due to the Company's initiatives in cost reduction.

Selling and marketing expenses:

Selling and marketing expenses for the six months ended September 30, 2016 decreased to $Nil from the $49,739 spent in the prior period. These expenses consist mainly of salary allocations and customer service costs to support the Company's online irrigation management software platform. The decrease was due to the Company's initiatives in cost reduction. During the three months ended September 30, 2016, selling and marketing expenses have decreased to $Nil from $27,482 in the prior year three month period. These expenses consisted mainly of salaries, customer services costs and bad debt expense.

Research and development expenses:

Research and development expenditures for the six months ended September 30, 2016 decreased to $Nil from the $86,402 spent in the prior period. Expenses consist mainly of salary and benefit allocations, development infrastructure, and materials purchased for prototyping. The decrease was due to the Company's initiatives in cost reduction. The research and development expenses for the three months ended September 30, 2016 were $Nil vs. $44,416 for the prior year three month period.

As indicated above, the Company has re-launched development of the Flo•Point™ watercut sensor during fiscal 2016. The Company is continuing with the development a smart phone application for obtaining instantaneous readings via Bluetooth from any of the Company's digital output soil moisture sensors. A small number of beta units have been sold to date. Product development will be an ongoing priority for the Company as products are added, leveraged and improved upon continually. These product development efforts will continue to be market and customer driven.

Net income (loss) for the period:

The net income for the six month period ended September 30, 2016 was $903,081 compared with a $442,800 loss for the prior period and the net income for the three months ended September 30, 2016 was $950,550 compared with a $230,955 loss for the prior period. The Company recorded a write-off of current liabilities of $332,037 and a write-off of notes payable and interest of $761,274 during the three months ended September 30, 2016 which resulted in the net income during both periods.

Liabilities

Trade and other payables at September 30, 2016 ($310,775) have decreased by $822,802 from the year-end balance at March 31, 2016 ($1,133,577) and other liabilities at September 30, 2016 ($nil) have decreased by $338,520 from the year-end balance at March 31, 2016 ($338,520). The Company determined that certain accounts payable have met the criteria required to be written off and recorded a write-off of current liabilities of $332,037 during the three months ended September 30, 2016. The Company has reviewed the notes payable with counsel and has determined that certain criteria has been met and accordingly recorded a write-off of notes payable and accrued interest of $761,274 during the period ended September 30, 2016.

As at September 30, 2016, the total loans payable to an individual who controls a company which is the Company's majority shareholder amounted to $74,059 (March 31, 2016 - $70,000). The loans are unsecured, bear an interest of 6% per annum, and have no specific terms of repayment. During the period ended September 30, 2016, the Company accrued interest of $4,059.

As at September 30, 2016, the total loans payable to a company which is the Company's majority shareholder amounted to $65,000 (March 31, 2016 - $Nil). The loans are non-interest bearing, unsecured, and have no specific terms of repayment.

As at September 30, 2016, the loan payable to an accounting firm of which the Chief Financial Officer is a partner amounted to $2,000 (March 31, 2016 - $Nil). The loan is non-interest bearing, unsecured, and has no specific terms of repayment.

Total liabilities were $762,334 at September 30, 2016 (March 31, 2016 - $1,686,097). This decrease is due to the write-off of current liabilities of $332,037 and write-off of notes payable and accrued interest of $761,274 during the three months ended September 30, 2016.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Selected Quarterly Financial Data

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Revenues	$ 10,875	$ 10,875	$ 33,425	$ 9,855
Income (Loss)	950,550**	(47,469)	(265,620)	(227,495)
Basic and fully diluted loss per share	(0.00)	(0.00)	(0.00)	(0.00)

	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Revenues	$ 33,721	$ 21,616	$ 10,090	$ 8,866
Income (Loss)	(230,955)	(211,846)	(1,267,496)*	(129,166)
Basic and fully diluted loss per share	(0.00)	(0.00)	(0.01)	(0.00)

* The net loss for the quarter ended March 31, 2015 is inflated by a onetime accrual of $1,144,000 in management fee expenses. Excluding this one-time expense would amount in a quarterly net loss of $123,496.
** The net income for the quarter ended September 30, 2016 resulted from a write-off of current liabilities of $332,037 and write-off of notes payable and accrued interest of $761,274.

Other Operating Activities

Product Development & Engineering

Senior management of ESI has been approached by a strategic partner from the oil industry regarding the re-launch of the Flo•Point™ product line. During the first quarter of Fiscal 2014, discussions with Dycor Technologies Ltd. caused the Board of Directors and senior management to initiate work on the revival of the Flo•Point™ development program. During the second quarter of fiscal 2014, the Company resumed work on planning the next generation of the Flo•Point™ tool, which will feature new mechanical hardware, a new core, and new electronics. The Company is currently attempting to raise capital to pursue the Flo•Point™ development further. The first re-hire to the Flo•Point™ project occurred in April 2015. Substantial government funding has already been secured through Dycor to be directed toward contract research and development. During September 2015, the Company was also awarded a National Research Council of Canada – Industrial Research Assistance Program, Youth Employment Program grant. This has allowed the company to hire an additional individual to deploy on the Flo•Point™ development program.

Research and product development are typically the primary sources of intellectual property for technology-based companies such as ESI. Product development requires incremental working capital to achieve corporate goals. Financing initiatives during Fiscal 2015 and 2014 were necessary to fund product development efforts and will continue to be necessary in 2016 until revenues can support operations.

Liquidity, Capital Resources, and Financial Instruments

At September 30, 2016, the Company had a working capital deficiency of $753,945 (March 31, 2016 - $1,593,276) and accumulated deficit of $28,136,273 (March 31, 2016 - $29,039,354). Cash management has been and continues to be a priority for the Company and every effort is being made to minimize liquidity challenges.

In June 2016, the Company closed a private placement of 12,000,000 common shares for proceeds of $600,000 of which the funds were received in April 2015.

During the period ended September 30, 2016, the Company received loan proceeds of $65,000 from a majority shareholder and $2,000 from an accounting firm of which an officer of the Company is a partner to cover general working capital costs. The loans are non-interest bearing, unsecured and have no specific terms of repayment.

The Company's financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is substantial doubt about the Company's ability to continue as a going concern because the Company has experienced significant losses and negative cash flow from operations over a number of years and has a working capital deficiency and a deficiency in assets. The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to establish profitable operations and positive cash flows from operating activities or to obtain additional funding through public or private equity financing, debt, collaborative or other arrangements. There can be no assurances that financing will be available or be available on reasonable terms. Management is of the opinion that sufficient working capital will be obtained from future cash flows to meet the Company's liabilities and commitments as they become payable. The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the Company is unable to continue as a going concern, assets and liabilities would require restatement to a liquidation basis, which would differ materially from the going concern basis.

Related Party Transactions

(a) Key management compensation:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The compensation for key management is as follows:

		2016		2015
Salaries and other short term benefits	$	-	$	44,343
Management fees		132,000		72,000
General and administrative		30,000		-
	$	162,000	$	116,343

During the period ended September 30, 2016, the Company has recorded $72,000 (2015 - $72,000) in management fees to a majority shareholder, according to the terms of the ongoing management agreement. As at September 30, 2016, the amount owed was $216,000 (March 31, 2016 - $144,000).

During the period ended September 30, 2016, the Company has recorded $60,000 (2015 - $Nil) in management fees to a company owned by the Chief Executive Officer. As at September 30, 2016, the amount owed to the company was $63,000 (March 31, 2016 - $Nil).

During the period ended September 30, 2016, the Company has recorded $30,000 (2015 - $Nil) in general and administrative fees for accounting services provided by an accounting firm of which the Chief Financial Officer is a partner. As at September 30, 2016, the amount owed to the firm was $31,500 (March 31, 2016 - $Nil).

The Company has loans payable to related parties in aggregate of 141,059.

These transactions are in the normal course of operations and measured at the fair value of the consideration issued.

Risks and Uncertainties

The Company operates in a competitive and rapidly changing environment that involves a number of risks. To the extent possible, management implements strategies to reduce or mitigate risks and uncertainties associated with our business. Following are some of the principal risk factors:

Cash flow and Liquidity

The Company will make all efforts to increase sales in order to support operations, however, as required, the Company will also manage liquidity risk through raising sufficient funds through the receipt of loans, the issuance of common shares, or the issuance of convertible debt in order to meet financial obligations. Liquidity risk can arise through excess of financial obligations over available financial assets due at any point in time. The Company currently has negative working capital and has suffered liquidity problems in previous years.

Financing

The Company will require additional financing in order to continue to operate and make further investments in product development, research and marketing. The ability of the board and management to arrange financing in the future will depend in part upon prevailing capital market conditions, as well as the Company’s business success.

Competition

Competition within the soil moisture sensor market is fragmented but relatively intense. Similarly, competition within the water cut sensor market for the oil industry is relatively intense but most offerings are not yet fully accepted by the markets they intend to serve. In the oil industry, most competitors have longer operating histories than the Company within that market.

Dependence on Key Personnel

The Company's future success will depend on the quality of its key management, sales people, and research and development personnel. The loss of the services of such persons, or the inability to attract quality personnel, could materially adversely impact the Company's business operations and prospects.

Market and Foreign Exchange Risk

The majority of the Company's sales have most recently been made in the United States. Historically significant portions of sales have been made in U.S. dollars. Fluctuations in the exchange rate between Canadian and other foreign currencies, and especially the U.S. dollar, could have a material effect on the Company's business, financial condition and results of operations.

Disclosure for Venture Issuers Without Significant Revenue

An analysis of the material components of the Company's general and administrative expenses is disclosed in the condensed interim financial statements for the period ended September 30, 2016 to which this MD&A relates.

Outstanding Shares, Stock Options, and Warrants

As at the date of this report, the Company had the following outstanding:

- 203,467,509 common shares
- No stock options outstanding
- Warrants

Number of Warrants	Exercise Price	Expiry Date
4,033,532	$ 0.15	January 06, 2017
6,273,349	$ 0.10	October 10, 2017
3,600,000	$ 0.10	March 31, 2018
13,906,881		

Proposed Transactions

There are no proposed transactions that have not been disclosed herein.

Legal Action

A notice of claim has been filed against the Company. There has been no activity on this claim for the past 24 months, and thus, no change from prior periods. It is the opinion of the Company that the claim is without merit. The Company has filed a counter claim and will defend itself fully if called upon to do so. Any potential liability arising from the claim has been fully provided for in the Company's liabilities.

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual reports could differ from management's estimates.

Contingent liabilities

(a) Indemnification:

The Company is party to a variety of agreements in the ordinary course of business under which it may be obligated to indemnify a third party with respect to certain matters. The impact on the Company's future financial results is not subject to reasonable estimation because considerable uncertainty exists as to whether claims will be made and the final outcome of potential claims. To date, the Company has not incurred material costs related to these types of indemnifications.

(b) Government assistance:

In 2006 and prior years, the Company received financial assistance from the Government of Canada's National Research Council under its Technology Partnership Canada Program ("TPC") administered by the Industrial Research Assistance Program ("IRAP") and now Industry Canada. Government assistance received totaled $227,119, including $Nil for the period ended September 30, 2016 (2015 - $Nil) and was applied to reduce related development costs. The assistance received is repayable over a period not exceeding ten years from April 1, 2006 under a royalty arrangement based on the Company's gross revenue from all products. Repayments will be accrued and reported in the period(s) when sales of said products are recognized or when the liability is determined likely to be repayable. In July 2007, the terms of the agreement were amended whereas the repayment phase was extended an additional 43 months. The assistance will now be repayable up to October 1, 2019.

(c) Contingencies:

The Company has provided for certain amounts that are in dispute or in the process of being negotiated for settlement.

Internal Controls Over Financial Reporting

Changes in Internal Control over Financial Reporting ("ICFR")

In connection with National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issue Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI52-109.

Management's Responsibility For Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

Other MD&A Requirements

Additional disclosure of the Company's technical reports, material change reports, news releases and other information can be obtained on SEDAR at www.sedar.com.

Recent Accounting Policies

Please refer to the September 30, 2016 condensed interim financial statements on www.sedar.com.

Financial Instruments

Please refer to the September 30, 2016 condensed interim financial statements on www.sedar.com.