MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED DECEMBER 31, 2018

Introduction

The following Management 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 at March 1, 2019 and should be read in conjunction with the unaudited condensed interim financial statements for the nine months ended December 31, 2018 and 2017 and the audited annual financial statements for the year ended March 31, 2018 and 2017, 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 NEX (the "Exchange") under the symbol ESV.H.

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. 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. 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 is currently reviewing various strategic acquisition opportunities.

Significant Events

In July 2018, the Company accepted the resignations of Johan Grandin as Director and CEO, and Scott Davis as CFO.

In August 2018, the Company appointed Satvir (Saf) Dhillon as a Director and CEO of the Company. Mr. Dhillon filled the vacancy created by the resignation of Johan Grandin. Mr. Dhillon also serve as interim CFO and Corporate Secretary.

In September 2018, the Company appointed Stan Szary as a Director of the Company and Matteo Beffa resigned as a Director of the Company.

Results of Operations

Nine months ended December 31, 2018

General and administrative expenses:

General and administrative (G&A) expenditures were $367,875 for the nine months ended December 31, 2018 versus $302,143 for the prior period. During the current period, the Company recorded consulting fees of $180,000 (2017 - $15,000). The increase is the result of the addition of a new consultant current period. Management fees were $81,000 in the current period (2017 - $162,000). The decrease was the result of the departure of the CEO and the discontinuation of the management agreement for a majority shareholder. Rent was $Nil in the current period (2017 - $50,335). The decrease is the result of the discontinuation of the rental agreement in the current period.

Loss for the period:

The net loss for the nine months ended December 31, 2018 was $360,632 compared with loss of $128,173 in the prior period. During the period ended December 31, 2018, the Company extinguished $9,831 (2017 – $175,820) of accounts payable.

Three months ended December 31, 2018

General and administrative expenses:

General and administrative (G&A) expenditures were $100,982 for the three months ended December 31, 2018 versus $30,777 for the prior period. During the current period, the Company recorded consulting fees of $60,000 (2017 - $Nil). The increase is the result of the addition of a new consultant current period. Rent was $Nil in the current period (2017 - $16,778). The decrease is the result of the discontinuation of the rental agreement in the current period.

Loss for the period:

The net loss for the three months ended December 31, 2018 was $101,066 compared with a loss of $33,318 in the prior period. During the period ended December 31, 2018, the Company extinguished $Nil (2017 – $175,820) of accounts payable.

Liabilities

Trade and other payables were $556,413 (March 31, 2018 - $321,976).

As of December 31, 2018, the total loans payable to an individual who controls a company that is the Company's majority shareholder amounted to $80,000 (March 31, 2018 - $80,000). The loans are unsecured, bear interest at 6% per annum, and have no specific terms of repayment. As at December 31, 2018, the Company had accrued interest of $12,173 (March 31, 2018 - $10,976).

As of December 31, 2018, the total loans payable to a company which is the Company's majority shareholder amounted to $65,000 (March 31, 2018 - $65,000). The loans bear interest at 6% per annum unsecured and have no specific terms of repayment. As at December 31, 2018, the Company had accrued interest of $8,607 (March 31, 2018 - $7,635).

As of December 31, 2018, the total loans payable to a company related to the Company's former Chief Financial Officer is $5,000 (March 31, 2018 - $6,000). The loans bear interest at 6% per annum, are unsecured and have no specific terms of repayment. During the period ended December 31, 2018, the Company repaid $1,000. As at December 31, 2018, the Company had accrued interest of $388 (March 31, 2018 - $305).

As of December 31, 2018, the total loans payable to a company related to the Company's former Officer is $5,000 (March 31, 2018 - $6,000). The loans bear interest at 6% per annum, are unsecured and have no specific terms of repayment. During the period ended December 31, 2018, the Company received loan proceeds of $1,000 and repaid $2,000. As at December 31, 2018, the Company had accrued interest of $388 (March 31, 2018 - $305).

As of December 31, 2018, the total loans payable to a director of the Company is $5,000 (March 31, 2018 - $5,000). The loans bear interest at 6% per annum, are unsecured and have no specific terms of repayment. As at December 31, 2018, the Company had accrued interest of $277 (March 31, 2018 - $202).

During the period ended December 31, 2018, the loan holders assigned all their loans and interest payable of $181,833 to a third party.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Selected Quarterly Financial Data

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Income (Loss)	(101,066)	(102,792)	(96,774)	66,083***
Basic and fully diluted earnings (loss) per share	(0.00)	(0.01)	(0.00)	0.00

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Income (Loss)	(33,318)	28,016**	(122,871)	(556,056)
Basic and fully diluted earnings (loss) per share	(0.00)	0.00	(0.01)	(0.00)

* The net income for the quarter ended September 30, 2016 resulted from extinguishment of notes payable and accrued interest of $761,274.

** The net income for the quarter ended September 30, 2017 resulted from a write-off of current liabilities of $175,820.

***The net income for the quarter ended March 31, 2018 resulted from a write-off of current liabilities of $307,565.

Liquidity, Capital Resources, and Financial Instruments

At December 31, 2018, the Company had a working capital deficiency of $1,841,369 (March 31, 2018 - $1,480,737) and accumulated deficit of $29,223,697 (March 31, 2018 - $28,863,065). Cash management has been and continues to be a priority for the Company and every effort is being made to minimize liquidity challenges.

During the period ended December 31, 2018, the Company received loan proceeds of $1,000 and repaid loans of $3,000.

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

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:

	Period ended December 31, 2018	2017
Management fees	$ 81,000	$ 162,000
General and administrative	40,000	56,250
	$ 121,000	$ 218,250

During the period ended December 31, 2018, the Company has recorded $36,000 (2017 - $72,000) in management fees to a majority shareholder. As at December 31, 2018, the amount owed was $468,000 (March 31, 2018 - $432,000).

During the period ended December 31, 2018, the Company has recorded $45,000 (2017 - $90,000) in management fees to a company owned by the former Chief Executive Officer. As at December 31, 2018, the amount owed to the company was $390,250 (March 31, 2018 - $343,000).

During the period ended December 31, 2018, the Company has recorded $40,000 (2017 - $56,250) in general and administrative fees for accounting services provided by an accounting firm of which the former Chief Financial Officer is a partner. As at December 31, 2018, the amount owed to the firm was $209,750 (March 31, 2018 - $167,750).

As at December 31, 2018, there was an additional $38,897 owed to a related party (March 31, 2018 - $38,897) and $3,369 to a former related party (March 31, 2018 - $3,369).

The Company has loans payable to related parties in aggregate of $160,000 (March 31, 2018 - $162,000). During the period ended December 31, 2018 the Company accrued interest on the loans payable of $21,833 (March 31, 2018 - $19,423).

During the period ended December 31, 2018, certain vendors of the Company entered into debt assignment agreements with a non-related party which included $666,644 from former related parties and $677,954 from related parties. These amounts include loans payable assigned from related parties.

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 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.

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.

Foreign Exchange Risk

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. The Company is not exposed to any significant foreign exchange risk.

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 December 31, 2018 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:

- 20,346,755 common shares
- No stock options outstanding
- No warrants outstanding

Proposed Transactions

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

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, 2018 and 2017 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. As at September 30, 2018, the Company made total repayments of $1,760 (March 31, 2018 - $1,760).

Subsequent to the period ended December 31, 2018, a termination agreement was signed between IRAP and the Company for consideration of $15,000 to release the liability (paid).

(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 December 31, 2018 condensed interim financial statements on www.sedar.com

Financial Instruments

Please refer to the December 31, 2018 condensed interim financial statements on www.sedar.com.