

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis ("**MD&A**") dated October 28, 2019 is intended to assist the readers in the understanding of EcoSynthetix Inc. and its wholly owned subsidiaries ("**EcoSynthetix**" or the "**Company**"), its business environment, strategies and performance and risk factors. It should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2018. Financial data has been prepared in conformity with International Financial Reporting Standards ("**IFRS**") and using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2018, with the exception of the adoption of IFRS 16, Leases which is described below.

The Company, together with its consolidated subsidiaries, is referred to as the "Company", "we", "us", or "our". Our functional currency and reporting currency is the U.S. dollar. Unless otherwise indicated, all references to "\$" and "dollars" in this discussion and analysis mean U.S. dollars.

Certain measures used in this MD&A do not have any standardized meaning under IFRS. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. It is unlikely that these measures could be compared to similar measures presented by other companies. See "IFRS and non-IFRS Measures".

Forward-looking statements are included in this MD&A. See "Forward-Looking Statements" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of the risks relating to the Company, refer to the "Risk Factors" section of this MD&A and the "Risk Factors" section of the Company's Annual Information Form dated March 4, 2019.

Forward-looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements relate to, but are not limited to, future events or future performance, our expectations regarding the Company's growth, results of operations, estimated future revenues, requirements for additional capital, production costs, future demand for latex-based products, business prospects and opportunities. Forward-looking statements are often, but not always, identified by use of words such as "may", "will", "should", "could", "seek", "anticipate", "contemplate", "continue", "expect", "intend", "plan", "potential", "budget", "target", "believe", "estimate" and similar expressions. The forward-looking statements in this document include, but are not limited to, statements regarding the Company's expected product pipeline, plans to expand the Company's business into new markets, the Company's ability to achieve organizational efficiencies, and other statements regarding the Company's plans and expectations in 2019. Such statements reflect our current views and beliefs with respect to future events, are subject to risks and uncertainties, and are based upon a number of estimates and assumptions that, while considered reasonable by us, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Those assumptions and risks include, but are not limited to, the Company's ability to successfully allocate capital as needed and to develop new products, as well as the fact that our results of operations and business outlook are subject to significant risk, volatility and uncertainty. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements.

We have made material assumptions regarding, among other things: that our intellectual property rights are adequately protected; our ability to obtain the materials necessary for the production of our products; our ability to market products successfully to our customers; changes in demand for and prices of our products or the materials required to produce those products; labour and material costs remaining consistent with our current expectations; and that we do not and will not infringe third party intellectual property rights. Some of our assumptions are based upon internal estimates and analysis of current market conditions and trends, management plans and strategies, economic conditions and other factors and are necessarily subject to risks and uncertainties inherent in projecting future conditions and results.

Some of the risks that could affect our future results and could cause those results to differ materially from those expressed in the forward-looking information include, among other things: an inability to protect, defend, enforce or use our intellectual property and/or infringement of third-party intellectual property; dependence on certain

customers and changes in customer demand; the availability and price of natural feedstock's used in the production of our products; the inability to effectively expand our production facilities; variations in our financial results; increase in industry competition; the risk of volatility in global financial conditions, as well as significant decline in general economic conditions; our ability to effectively commercially market and sell our products; our ability to protect our know-how and trade secrets; Company growth and the impact of significant operating and capital cost increases; changes in the current political and regulatory environment in which we operate; the inability to retain key personnel; changes to regulatory requirements, both regionally and internationally, governing development, production, exports, taxes, labour standards, waste disposal, and use, environmental protection, project safety and other matters; enforcement of intellectual property rights; a significant decrease in the market price of petroleum related feedstocks; a shortage of supplies, equipment and parts; the inability to secure additional government grants; a deterioration in our cash balances or liquidity; the inability to obtain equity or debt financing; the ability to acquire intellectual property; the risk of litigation; changes in government regulations and policies relating to our business; losses from hedging activities and changes in hedging strategy; insufficient insurance coverage; the inability to expand technology; the impact of issuance of additional equity securities on the trading price of the Common Shares; the impact of ethical, legal and social concerns relating to genetically modified organisms and the food versus fuel debate; the risk of business interruptions; the impact of changes in interest rates; the impact of changes in foreign currency exchange; and credit risk, as well as the factors identified in the "Risk Factors" section of the Company's Annual Information Form dated March 4, 2019. Such factors are not intended to represent a complete list of the factors that could affect us. These factors should be considered carefully and prospective investors should not place undue reliance on forward-looking information.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those anticipated in such forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what we believe to be reasonable assumptions, there can be no assurance that such forward-looking information will prove to be accurate and we cannot assure that actual results will be consistent with these forward looking statements. Accordingly, readers should not place undue reliance on forward-looking statements. The information contained in this document, including the information provided under the heading "Risk Factors", identifies additional factors that could affect the Company's operating results and performance. Forward-looking information contained in this MD&A is made as of October 28, 2019 and we disclaim any obligation to update any forward-looking information, whether as a result of new information, future events or results, except as may be required by applicable securities laws. Accordingly, potential investors should not place undue reliance on forward-looking information.

IFRS and Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These non-IFRS measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of results of operations of the Company from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of the financial information of the Company reported under IFRS. We use non-IFRS measures such as Adjusted EBITDA to provide investors with a supplemental measure of operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also use non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet its capital expenditure and working capital requirements.

Adjusted EBITDA as presented herein are not recognized measures under IFRS and should not be considered as an alternative to operating income or net income as measures of operating results or an alternative to cash flows as measures of liquidity. Adjusted EBITDA is defined as consolidated net income (loss) before interest, income taxes, depreciation, amortization, impairment loss on PP&E, accretion, and other non-cash expenses deducted in determining consolidated net income (loss).

New Accounting Policies

IFRS 16 – Leases

On January 1, 2019 the Company adopted IFRS 16, which establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract: the customer (lessee) and the supplier (lessor). The standard introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. The requirements for lessor accounting have remained largely unchanged. IFRS 16 replaces the previous leases standard, IAS 17, Leases, and related interpretations. The Company has taken the modified retrospective approach in adopting IFRS 16 by recognizing a right of use asset and lease liability on January 1, 2019 with no adjustment to opening retained earnings or restatement of prior period figures.

Upon adoption of IFRS 16 the Company recognized a new right of use asset under property, plant & equipment of \$1.5 million and corresponding short and long-term portions of the lease liability of \$0.2 million and \$1.3 million respectively, on January 1, 2019. The lease is associated with the Company's corporate headquarters located in the Center of Innovation in Burlington, Ontario.

Overview

We are a renewable chemicals company specializing in bio-based materials that are used as inputs in a wide range of products that allow customers to reduce their use of harmful materials, such as formaldehyde and styrene-based chemicals. Our flagship products, DuraBind® and EcoSphere®, are used to manufacture wood composites, paper and paperboard, and enable performance improvements, economic benefits and sustainability. Our strategy is to commercialize a broad range of bio-based polymer and monomer products within specific market segments. We have developed processes that leverage “green” technology to produce bio-based materials from natural feedstocks, such as potato, tapioca and cornstarch, as an alternative to petroleum-derived feedstocks.

To date, we have developed the following two bio-based technology platforms that support broad application across a wide range of industries: (i) a biopolymer nanosphere technology that has been fully scaled and validated; and (ii) a bio-based sugar macromer technology. Our biopolymer nanosphere technology has generated two products, EcoSphere biopolymers and DuraBind biopolymers. Our bio-based sugar macromer technology has generated two products, EcoMer® biomonomers, EcoStix® bio-based pressure sensitive adhesives.

EcoSphere has generated substantially all of our revenues from the paper & paperboard market to date. Our DuraBind biopolymers are an effective replacement for formaldehyde-based binders in the building materials market.

Factors Affecting the Results of Operation

Commercialization

Our customers typically go through the following evaluation stages prior to commercial adoption of our products:

- (i) laboratory evaluation;
- (ii) pilot scale production testing; and
- (iii) industrial trials representing full scale production.

Our performance is influenced by our ability to convert prospects from the industrial trial phase into full commercial customers. The industrial trial stage is an important part of the sales cycle; it requires potential customers to invest significant resources, including labour and operating expenditures, and the product must meet or surpass rigorous qualification procedures. Successfully reaching the mill trial stage with a potential customer reflects substantial interest and commitment from them.

We are currently operating on a commercial scale with EcoSphere® in the coated paper and paperboard industry and with DuraBind in the wood composites industry.

Net Sales

Revenue is recognized when the Company has satisfied its performance obligations as set out in the contract with the customer, the contract has commercial substance and it is probable that the Company will collect the consideration it is entitled to on performance of its obligations in the contract. These criteria are generally met when the transfer of control of goods has occurred which typically occurs at the time of shipment or delivery, depending on the terms of the agreement. Net sales are measured based on the price specified in the sales contract net of any discounts and estimated returns at the time of sale.

Cost of sales and gross profit

Our gross profit is derived from our net sales less our cost of sales. Cost of sales includes raw material costs, contract manufacturing costs, freight costs and depreciation related to manufacturing equipment. Direct materials consist of the costs of natural feedstock and process chemicals. Cost of sales is mainly affected by the cost of natural feedstock costs and contract manufacturing costs.

Selling, general and administrative

Selling, general and administrative expense (SG&A) primarily relates to salaries & benefits and other employee related costs which collectively represent approximately 55% of total SG&A. In addition to this, SG&A includes: travel expenses, professional fees, occupancy related costs, foreign exchange gains and losses, insurance costs and marketing costs.

Research and development

Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are expensed as incurred, unless they meet certain capitalization criteria. No development costs have been capitalized to date.

Our research and development expenses (R&D) consist of costs incurred to develop and test our products. Salaries & benefits related to employees directly involved in research and development activities represent approximately 35% of total R&D. In addition, R&D includes costs related to consultants, facility costs, supplies and other costs directly associated with product development. These costs are partially offset by government grants related to such expenditures.

Share-based compensation

The Company operates an equity settled, share-based compensation plan under which we receive services from employees, directors, advisors, officers, contractors and consultants as consideration for equity instruments which include share options, restricted share units (RSUs) and deferred share units (DSUs) of the Company. Share options and RSUs are subject to time-based vesting conditions and may also include vesting conditions based on the achievement of performance targets.

Depreciation

Depreciation included in operating expenses includes depreciation on property, plant and equipment not utilized in our production process.

Depreciation expense included in cost of sales relates to depreciation on property, plant and equipment associated with our production processes.

Foreign exchange (gain)/loss

Foreign exchange represents the revaluation of monetary assets and liabilities denominated in foreign currencies. The change in foreign exchange gains and losses are primarily due to foreign exchange rate fluctuations between the U.S. dollar (our functional currency) and foreign currencies on our net monetary position in those respective currencies.

Other Factors Affecting the Results of Operations and Financial Conditions

Our financial condition and results of operations are influenced by a variety of factors, including:

- Optimizing the formulation of existing products to allow higher substitution rates by current and new customers and the ability to effectively develop products for new markets which could be a significant source of revenue growth in the future
- Pricing of incumbent technologies and other substitutes for our products
- Regulation of formaldehyde emission standards for wood composite products
- Feedstock, other input and production costs

Results of operations

The following is a summary of our results of operations for the three months and nine months ended September 30, 2019 and 2018:

	Three months ended (unaudited)		Change	
	September 30, 2019	September 30, 2018	\$	%
Net sales	4,505,533	5,566,269	(1,060,736)	-19%
Gross profit	1,004,569	1,060,359	(55,790)	-5%
Loss from operations	(594,751)	(536,080)	(58,671)	11%
Net loss	(312,441)	(307,582)	(4,859)	2%
Weighted average number of shares outstanding	58,378,346	59,585,638	(1,207,292)	-2%
Basic and diluted loss per share	(0.01)	(0.01)	(0.00)	4%
Adjusted EBITDA ¹	(40,330)	(4,047)	(36,283)	897%

	Nine months ended (unaudited)		Change	
	September 30, 2019	September 30, 2018	\$	%
Net sales	14,048,617	16,810,012	(2,761,395)	-16%
Gross profit	3,016,789	3,301,528	(284,739)	-9%
Loss from operations	(1,698,477)	(2,849,787)	1,151,310	-40%
Net loss	(866,265)	(2,181,807)	1,315,542	-60%
Weighted average number of shares outstanding	58,362,820	59,655,385	(1,292,565)	-2%
Basic and diluted loss per share	(0.01)	(0.04)	0.02	-59%
Adjusted EBITDA ¹	(159,690)	(1,358,711)	1,199,021	-88%

¹ Refer to "IFRS and Non-IFRS Measures" section in this MD&A

Net Sales – Net sales for the three months ended September 30, 2019 were \$4.5 million compared to \$5.6 million in the same period last year, a decrease of \$1.1 million or 19%. Net sales for the nine months ended September 30, 2019 were \$14.0 million compared to \$16.8 million in the same period last year, a decrease of \$2.8 million or 16%. The decrease during both periods was primarily due to lower sales volumes caused by continued challenging market dynamics within the paper market, which included the loss of business at a European paperboard mill which reduced sales \$0.4 million and \$1.1 million in the comparative periods, respectively.

Gross profit – Gross profit for the three months ended September 30, 2019 was \$1.0 million compared to \$1.1 million in the same period last year, a decrease of \$0.1 million or 5%. Gross profit for the nine months ended September 30, 2019 was \$3.0 million compared to \$3.3 million in the same period last year, a decrease of \$0.3 million or 9%. The decrease in both periods was primarily due to lower sales volume partially offset by lower manufacturing costs.

Gross profit as a percentage of sales was 22.3% and 21.5% for the three months and nine months ended September 30, 2019, respectively, compared to 19.0% and 19.6% in the same periods last year. Gross profit as a percentage of sales adjusted for manufacturing depreciation was 26.2% and 25.5% for the three months and nine months ended September 30, 2019, respectively, compared to 22.7% and 23.3% in the same periods last year. The increases in gross profit as a percentage of sales and gross profit as a percentage of sales adjusted for manufacturing depreciation in both periods were primarily due to favourable customer mix and lower manufacturing costs.

Operating Expenses

The following table sets forth the breakdown of our operating expenses by category during the three months and nine months ended September 30, 2019 and 2018:

	Three months ended ended (unaudited)		Change	
	September 30, 2019	September 30, 2018	\$	%
Selling, general and administrative	1,156,878	1,063,387	93,491	9%
Research and development	442,442	533,052	(90,610)	-17%
Total operating expenses	1,599,320	1,596,439	2,881	0%

	Nine months ended ended (unaudited)		Change	
	September 30, 2019	September 30, 2018	\$	%
Selling, general and administrative	3,441,836	4,119,978	(678,142)	-16%
Research and development	1,273,430	1,808,559	(535,129)	-30%
Termination benefits	-	222,778	(222,778)	-100%
Total operating expenses	4,715,266	6,151,315	(1,436,049)	-23%

Selling, general and administrative (SG&A) – SG&A expenses for the three months ended September 30, 2019 were \$1.2 million compared to \$1.1 million in the same period last year, an increase of \$0.1 million or 9%. The increase is due to a change in foreign exchange revaluation gains and losses. SG&A expenses for the nine months ended September 30, 2019 were \$3.4 million compared to \$4.1 million in the same period last year, a decrease of \$0.7 million or 16%. The decrease was primarily due to lower people related costs, a change in foreign exchange revaluation gains and losses and lower discretionary expenses. Changes in foreign exchange revaluation gains and losses are primarily due to the translation of cash balances denominated in Canadian dollars and foreign exchange rate fluctuations between the Canadian dollar and U.S. dollar. The decrease in people related costs and discretionary spending was primarily due to lower headcount.

SG&A includes share-based compensation expense of \$0.2 million and \$0.5 million for the three months and nine months ended September 30, 2019, respectively, compared to \$0.2 million and \$0.6 million in the same periods last year. Changes in share-based compensation expense were primarily due to the achievement of certain time-based and performance-based vesting conditions related to stock options and restricted share units in addition to the issuance of share-based awards. SG&A excluding share-based compensation expense was \$0.9 million and \$2.9 million for the three months and nine months ended September 30, 2019, respectively, compared to \$0.8 million and \$3.6 million in the same periods last year.

Research and development (R&D) – R&D expenses for the three months ended September 30, 2019 were \$0.4 million compared to \$0.5 million in the same period last year, a decrease of \$0.1 million or 17%. R&D expenses for the nine months ended September 30, 2019 were \$1.3 million compared to \$1.8 million, a decrease of \$0.5 million or 30%. The decrease in both periods was primarily due to lower people related costs, the recognition of

government grants and a decrease in rent expense. Rent expense was \$0.2 million lower during the nine months ended September 30, 2019 due to the adoption of IFRS 16, Leases, effective January 1, 2019.

Depreciation expense included in R&D was \$0.1 million and \$0.4 million for the three months and nine months ended September 30, 2019, respectively, compared to \$0.1 million and \$0.3 million in the same periods last year. The increase during the nine month period was primarily due to the recognition of a right of use asset and related depreciation expense on adoption of IFRS 16, Leases, effective January 1, 2019. R&D expense excluding depreciation expense during the three months and nine months ended September 30, 2019 was \$0.3 million and \$0.8 million, respectively, compared to \$0.4 million and \$1.5 million in the same periods last year.

R&D expense as a percentage of sales was 10% and 9% for the three months and nine months ended September 30, 2019, respectively, compared to 10% and 11% in the same periods last year. The Company's R&D efforts continue to focus on further enhancing value for our existing products and expanding addressable opportunities.

Termination benefits – Termination benefits for the nine months ended September 30, 2019 were nil compared to \$0.2 million in the same period last year. The termination benefits recorded in the prior year relate to a cost reduction plan that was implemented during the first quarter of fiscal 2018.

Loss from operations – Loss from operations for the three months ended September 30, 2019 was \$0.6 million compared to \$0.5 million in the same period last year, an increase of \$0.1 million or 11%. The increase was primarily due to lower gross profit. Loss from operations for the nine months ended September 30, 2019 was \$1.7 million compared to \$2.8 million in the same period last year, a decrease of \$1.1 million or 40%. The decrease was primarily due to lower operating expenses partly offset by lower gross profit.

Net Loss – Net loss for the three months ended September 30, 2019 was \$0.3 million or \$0.01 net loss per common share which was comparable to the same period last year. Net loss for the nine months ended September 30, 2019 was \$0.9 million or \$0.01 net loss per common share compared to \$2.2 million or \$0.04 net loss per common share in the same period last year. The decrease in net loss and net loss per common share was primarily due to lower operating expenses partly offset by lower gross profit.

Financial Condition

	September 30 2019	December 31, 2018	Change \$	%
Total current assets	49,204,334	50,182,346	(978,012)	-2%
Total assets	56,119,644	56,357,244	(237,600)	0%
Total current liabilities	1,724,176	2,255,430	(531,254)	-24%
Total liabilities	2,946,816	2,255,430	691,386	31%

Total current assets – Total current assets at September 30, 2019 were \$49.2 million compared to \$50.2 million at December 31, 2018, a decrease of \$1.0 million or 2%. The decrease was primarily due to lower cash and accounts receivable partly offset by an increase in short-term investments.

Total assets – Total assets at September 30, 2019 were \$56.1 million compared to \$56.4 million at December 31, 2018, a decrease of \$0.2 million. The change was due to an increase in PP&E of \$0.8 million offset by a decrease in total current assets of \$1.0 million. The increase in PP&E was primarily due to the recognition of a right of use asset of \$1.5 million on adoption of IFRS 16, Leases as well as purchases of PP&E of \$0.2 million. This was partly offset by \$1.0 million in depreciation of PP&E during the period.

Total current liabilities – Total current liabilities at September 30, 2019 were \$1.7 million compared to \$2.3 million December 31, 2018, a decrease of \$0.5 million or 24%. The decrease was primarily due to the timing of settlement of trade payables and accrued liabilities.

Total liabilities – Total liabilities at September 30, 2019 were \$2.9 million compared to \$2.3 million at December 31, 2018, an increase of \$0.7 million or 31%. The increase was due to the recognition of \$1.2 million non-current lease

liability offset by a decrease in current liabilities of \$0.5 million. The increase in lease liability was due to the implementation of IFRS 16, Leases.

Liquidity and Capital Resources

We currently fund our business operations through cash flow generated from our operations and from existing cash. We believe that ongoing operations, working capital and associated cash flow in addition to our cash resources provide sufficient liquidity to support our ongoing business operations for the foreseeable future.

Below is a summary of our cash flows provided by / (used in) operating activities, financing activities and investing activities for the three and nine months ended September 30, 2019 and 2018:

	Three months ended (unaudited)		Change	
	September 30, 2019	September 30, 2018	\$	%
Cash provided by operating activities	296,714	170,053	126,661	74%
Cash used in investing activities	(41,225)	(17,563)	(23,662)	135%
Cash used in financing activities	(588,287)	(229,379)	(358,908)	156%
Effect of exchange rate changes on cash and cash equivalents	(98,035)	86,433	(184,468)	-213%
(Decrease) increase in cash	(430,833)	9,544	(440,377)	-4614%
Beginning cash	9,217,611	16,415,766	(7,198,155)	-44%
Ending cash	8,786,778	16,425,310	(7,638,532)	-47%

	Nine months ended (unaudited)		Change	
	September 30, 2019	September 30, 2018	\$	%
Cash provided by (used in) operating activities	465,971	(1,989,972)	2,455,943	-123%
Cash used in investing activities	(5,206,274)	(17,563)	(5,188,711)	29543%
Cash used in financing activities	(600,623)	(594,213)	(6,410)	1%
Effect of exchange rate changes on cash and cash equivalents	(79,638)	(89,770)	10,132	-11%
Decrease in cash	(5,420,564)	(2,691,518)	(2,729,046)	101%
Beginning cash	14,207,342	19,116,828	(4,909,486)	-26%
Ending cash	8,786,778	16,425,310	(7,638,532)	-47%

Cash provided by (used in) operating activities – Cash provided by operating activities for the three months ended September 30, 2019 were \$0.3 million compared to \$0.2 million in the same period last year, an increase of \$0.1 million or 74%. The change was primarily due to changes in working capital.

Cash provided by operating activities for the nine months ended September 30, 2019 was \$0.5 million compared to cash used in operating activities of \$2.0 million in the same period last year, a change of \$2.5 million or 123%. The change was primarily due to a decrease in net loss adjusted for non-cash items, a decrease in cash used towards non-cash working capital and an increase in interest received on short-term investments. The decrease in net loss adjusted for non-cash items was primarily due to lower operating expenses.

Cash used in investing activities – Cash used in investing activities for the three months ended September 30, 2019 was a nominal amount relating to purchases of PP&E and is comparable to the same period last year. Cash used in investing activities during the nine months ended September 30, 2019 were \$5.2 million compared to a nominal amount in the same period last year. The increase was due to the purchase of a \$5.0 million short-term investment which matures in January 2020 and the purchase of \$0.2 million of PP&E related to the Company's production facilities.

Cash used in financing activities – Cash used in financing activities during the three months ended September 30, 2019 were \$0.6 million compared to cash used in financing activities of \$0.2 million in the same period last year, an increase of \$0.4 million or 156%. During the three months ended September 30, 2019, \$0.7 million of common shares were repurchased through a normal course issuers bid (NCIB) which was partly offset by \$0.1 million of proceeds received from a government grant. During the three months ended September 30, 2018, \$0.3 million

common shares were repurchased through the NCIB which was partly offset by \$0.1 million in proceeds received from the exercise of common share options.

Cash used in financing activities during the nine months ended September 30, 2019 were \$0.6 million which was comparable to the same period last year. During the nine months ended September 30, 2019, \$0.8 million worth of common shares were repurchased through the NCIB and payments of \$0.1 million were made towards the lease liability. This was offset by \$0.2 million in proceeds received on the exercise of common share options and \$0.1 million in proceeds received from a government grant. During the nine months ended September 30, 2018, \$1.0 million worth of common shares were repurchased through the NCIB which was offset by \$0.4 million in proceeds received from the exercise of common share options.

Effect of exchange rate changes on cash – The effect of exchange rate changes on cash is primarily due to the revaluation of cash denominated in Canadian dollars and the impact of currency fluctuations between the Canadian dollar and U.S. dollar.

Capital Management

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy and fund research and product development, while at the same time taking a conservative approach towards managing financial risk. The Company's capital is composed of the net cash received related to common shares and shareholder option exercises. Our primary uses of capital are financing operations, increasing non-cash working capital and capital expenditures. We currently fund these requirements from existing cash resources and cash raised through share issuances. Our objectives when managing capital are to ensure that we will continue to have enough liquidity to provide our products and services to our customers and a return to our shareholders. We monitor our capital on the basis of the adequacy of our cash resources to fund our business plan. In order to maximize the capacity to finance our ongoing growth, we do not currently pay a dividend to holders of our common shares.

Commitments

The Company entered into the following contractual obligations in the normal course of operations that were not recognized as liabilities as at September 30, 2019:

- I. The Company was committed to purchases of feedstock of approximately \$0.6 million over the next twelve months. The Company may enter into feedstock contracts to secure raw material availability over a twelve to twenty-four month period based on market pricing at the time of purchase.
- II. The Company is committed to purchasing \$0.2 million of equipment related to its production facilities over the next twelve months.

Summary of Quarterly Results

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended September 30, 2019. This information has been prepared on the same basis as the annual financial statements and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the quarterly financial statements of the Company and the related notes to those statements.

	September 30, 2019	June 30, 2019	Three months ended (unaudited)			June 30, 2018	March 31, 2018	December 31, 2017
			March 31, 2019	December 31, 2018	September 30, 2018			
Net sales	4,505,533	5,074,363	4,468,721	5,989,317	5,566,269	5,796,669	5,447,074	5,029,995
Gross profit	1,004,569	1,021,148	991,072	1,194,819	1,060,359	1,189,641	1,051,528	839,272
Loss from operations	(594,751)	(475,445)	(628,281)	(607,855)	(536,080)	(934,878)	(1,378,829)	(1,615,944)
Net loss	(312,441)	(200,588)	(353,236)	(348,951)	(307,582)	(709,018)	(1,165,207)	(1,434,280)
Weighted average number of shares outstanding	58,378,346	58,418,779	58,290,368	59,032,951	59,585,638	59,701,785	59,679,767	59,573,558
Basic and diluted loss per share	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)
Adjusted EBITDA ⁽¹⁾	(40,330)	25,695	(145,055)	(69,590)	(304,544)	(479,220)	(875,444)	(1,114,179)

The following table reconciles net loss to Adjusted EBITDA for the three months ended:

	Three months ended (unaudited)							
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Net loss	(312,441)	(200,588)	(353,236)	(348,951)	(307,582)	(709,018)	(1,165,207)	(1,434,280)
Depreciation	327,711	387,330	302,629	312,908	300,497	307,570	327,971	376,817
Share-based compensation	226,710	113,810	180,597	225,357	231,536	148,088	175,414	124,948
Interest income	(282,310)	(274,857)	(275,045)	(258,904)	(228,498)	(225,860)	(213,622)	(181,664)
Adjusted EBITDA ⁽¹⁾	(40,330)	25,695	(145,055)	(69,590)	(4,047)	(479,220)	(875,444)	(1,114,179)

Adjusted EBITDA

The following table reconciles net loss to Adjusted EBITDA for the nine months ended September 30, 2019 and 2018

	Nine months ended (unaudited)		Change	
	September 30, 2019	September 30, 2018	\$	%
Net loss	(866,265)	(2,181,807)	1,315,542	-60%
Depreciation	1,017,670	936,038	81,632	9%
Share-based compensation	521,117	555,038	(33,921)	-6%
Interest income	(832,212)	(667,980)	(164,232)	25%
Adjusted EBITDA ⁽¹⁾	(159,690)	(1,358,711)	1,199,021	-88%

Notes:

(1) Adjusted EBITDA is not a measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. See "IFRS and Non-IFRS Measures." The Company presents Adjusted EBITDA because the Company believes it facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting relative interest expense), the book amortization of intangibles (affecting relative amortization expense) and the age and book value of property and equipment (affecting relative depreciation expense). The Company also presents Adjusted EBITDA because it believes it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. Adjusted EBITDA as presented herein are not recognized measures under IFRS and should not be considered as an alternative to operating income or net income as measures of operating results or an alternative to cash flows as measures of liquidity. Adjusted EBITDA is defined as consolidated net income (loss) before net interest expense, income taxes, depreciation, amortization, impairment loss on PP&E, other non-cash expenses and charges deducted in determining consolidated net income (loss).

Adjusted EBITDA for the three months ended September 30, 2019 was a forty thousand loss compared to a nominal loss in the same period last year. The increase in loss was due to lower gross profit partly offset by lower operating expenses. Adjusted EBITDA loss for the nine months ended September 30, 2019 was a loss of \$0.2 million compared to a loss of \$1.4 million in the same period last year, a decrease of \$1.2 million or 88%. The decrease was primarily due to lower operating expenses partly offset by lower gross profit.

Internal control over financial reporting

There were no changes in the Company's internal control over financial reporting during the three and nine months ended September 30, 2019 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Risk Factors

For a detailed description of the risk factors associated with the Company, refer to the “Risk Factors” section of the Company’s Annual Information Form dated March 4, 2019. The Company is not aware of any significant changes to the Company’s risk factors from those disclosed at that time.

Additional Information

Additional information relating to EcoSynthetix Inc., including continuous disclosure documents, are available on SEDAR at www.sedar.com.

Common Share Trading Information

The Company’s common shares trade on the Toronto Stock Exchange under the symbol “ECO”. As at October 28, 2019, the Company had the equivalent of 58,205,784 common shares issued and outstanding. If all outstanding share options were exercised and assuming the settlement of outstanding RSU’s and DSU’s through common shares, there would be the equivalent of 63,951,368 common shares issued and outstanding on a fully diluted basis.

Outlook

Significant progress has been made towards achieving sustainable growth and profitability. EcoSynthetix has lowered its cost footprint, invested in leadership and talent, focused its R&D efforts and pursued a growth strategy which leverages its foundation in paper and paperboard packaging and the commercialization of DuraBind within the building materials space.

EcoSynthetix will continue to execute on the following priorities to drive profitable growth:

1. Drive Growth in Paper & Paperboard and Wood Composites Markets

The Company’s relationships with key customers in the paper & paperboard market continue to provide a strong foundation for its business and EcoSynthetix will continue to pursue growth opportunities in this market.

The Company continues its efforts in expanding its presence in the building materials space. Consumer and regulatory factors are creating demand for no-added formaldehyde (NAF) products, and the Company believes it is well-positioned to capitalize on these trends to grow its share of the \$15 billion annual wood composite binder market. Manufacturers are actively pursuing new technologies as alternatives to conventional formaldehyde binders. EcoSynthetix has expanded its relationship with its first key customer, won new lines and expanded the number of SKUs that use DuraBind. The key targets within the wood composites market are highly engaged and the Company continues to make progress with its commercialization activities. The conversion of its robust pipeline of industrial trial opportunities into commercial accounts remains its highest priority.

2. Product Development

The Company’s product development efforts focus on applications for its existing EcoSphere and DuraBind products in market segments where their value proposition is strong, and on further improvements to both product lines to further enhance value and expand addressable opportunities. The Company is also pursuing new product categories in specific markets where strong commercial interest from recognized leaders exist.

3. Top line growth with a sustainable bottom line

The Company expects to continue making investments in areas of the business that allow it to accelerate growth while retaining a disciplined approach toward its cost structure. The Company remains confident in its ability to execute on the opportunities it has identified in the wood composites and the paper and paperboard markets.