

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

The following management's discussion and analysis ("**MD&A**") dated May 2, 2017 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, 2016. Financial data has been prepared in conformity with International Financial Reporting Standards ("**IFRS**").

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 for the fiscal year ended December 31, 2016.

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 2017. 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; that we will continue to face no direct competition; 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 analyses 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 for the fiscal year ended December 31, 2016. 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 May 2, 2017 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 is defined as consolidated net income (loss) before interest, income taxes, depreciation, amortization, impairment loss on PP&E, accretion, and other non-cash charges deducted in determining consolidated net income (loss).

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™ biopolymers and EcoSphere® biopolymers, are used to manufacture wood composites, paper and packaging, and enable performance improvements, economic benefits and sustainability. Our strategy is to commercialize a broad range of bio-based polymer and monomer products within paper & paperboard, building materials and other relevant markets. 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 bio-based 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.

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

Factors Affecting the Results of Operation

Commercialization

Our customers typically go through three evaluation stages prior to commercial adoption of our products, including:

- (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 clients. 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 that is evaluating the product 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

Our sales are derived from the sale of our products to our customers. 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. Sales are recorded when significant risks and rewards of ownership have passed on to the buyer, which generally occurs at the time of shipment or delivery depending on the terms of the agreement.

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, 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 primarily relates to salaries & benefits and other employee related costs which collectively represent over 50% of our operational expenses. In addition to this, selling, general and administrative expenses include: travel expenses, professional fees, occupancy related costs, 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 consist of those incurred to develop and test our products. Salaries & benefits related to employees directly involved in research and development activities represent approximately 40% of total research and development expenses. In addition, research and development expenses include 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 the company receives services from employees advisors, officers, contractors and consultants as consideration for equity instruments which include share options, performance-based share options (PSOs), restricted share units (RSUs) and deferred share units (DSUs) of the Company.

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 ended March 31, 2017 and 2016:

	Three months ended (unaudited)		Change	
	March 31, 2017	March 31, 2016	\$	%
Net sales	3,602,129	2,964,470	637,659	22%
Gross profit	799,960	478,323	321,637	67%
Loss from operations	(2,035,804)	(2,508,458)	472,654	-19%
Net loss	(1,903,638)	(2,369,222)	465,584	-20%
Weighted average number of shares outstanding	59,515,232	59,275,758	239,474	0%
Basic and diluted loss per share	(0.03)	(0.04)	0.01	-20%
Adjusted EBITDA	(1,454,737)	(2,074,200)	619,463	-30%

Net Sales – Net sales for the three months ended March 31, 2017 were \$3.6 million compared to \$3.0 million in the same period last year, an increase of \$0.6 million or 22%. The increase was due to higher sales volumes of \$0.4 million or 14% and an increase in average selling price which positively impacted sales by \$0.2 million or 8%. The increase in sales volumes during this period was principally due to new commercial accounts. The increase in average selling price was primarily due to favorable pricing dynamics.

Gross profit – Gross profit for the three months ended March 31, 2017 was \$0.8 million compared to \$0.5 million in the same period last year, an increase of \$0.3 million or 67%. Gross profit as a percentage of sales increased from 16.1% to 22.2% and gross profit as a percentage of sales adjusted for manufacturing depreciation increased from 22.8% to 27.1% during the same period. The increase in gross profit was primarily due to higher average selling prices and an increase in sales volume.

Loss from operations – Loss from operations for the three months ended March 31, 2017 was \$2.0 million compared to \$2.5 million in the same period last year, a decrease of \$0.5 million or 19%. The decrease was due to higher gross profit of \$0.3 million and lower operating expenses of \$0.2 million.

Net Loss – Net loss for the three months ended March 31, 2017 was \$1.9 million or \$0.03 per common share compared to \$2.4 million or \$0.04 per common share during the same period last year.

Operating Expenses

The following table sets forth the breakdown of our operating expenses by category during the three months ended March 31, 2017 and 2016:

	Three Months Ended (unaudited)		Change	
	March 31, 2017	March 31, 2016	\$	%
Selling, general and administrative ¹	1,213,921	1,583,025	(369,104)	-23%
Research and development ¹	1,253,872	1,130,919	122,953	11%
Share-based compensation	314,021	142,000	172,021	121%
Provision for termination benefits	-	199,689	(199,689)	-100%
Depreciation	92,226	93,932	(1,706)	-2%
Foreign exchange gain	(38,276)	(162,784)	124,508	-76%
Total operating expenses	2,835,764	2,986,781	(151,017)	-5%

¹ For the purposes of this MD&A, selling, general and administrative expenses and research and development expenses excludes share-based compensation, depreciation, provision for termination benefits, impairment loss on PP&E and foreign exchange losses (gains)

*Selling, general and administrative*¹ – SG&A costs were \$1.2 million for the three months ended March 31, 2017 compared to \$1.6 million in the same period last year, a decrease of \$0.4 million or 23%. The decrease was primarily due to lower people related costs and lower discretionary spending.

*Research and development*¹ – R&D costs for the three months ended March 31, 2017 were \$1.3 million compared to \$1.1 million in the same period last year, an increase of \$0.1 million or 11%. The increase was principally due to lower government grants recognized in the current quarter compared to the same period last year.

Share-based compensation – For the three months ended March 31, 2017, share-based compensation expense was \$0.3 million compared to \$0.1 million in the same period last year, an increase of \$0.2 million or 121%. The increase was principally due to the timing of long-term incentive grants and vesting conditions related to the performance stock options (PSOs).

Provision for termination benefits – During the three months ended March 31, 2017, the Company did not recognize termination benefits. During the three months ended March 31, 2016, the Company recognized \$0.2 million in termination benefits.

Depreciation – Depreciation for the three months ended March 31, 2017 remained comparable to the same period last year at \$0.1 million.

Foreign exchange gain – The Company realized a nominal foreign exchange gain for the three months ended March 31, 2017 compared to a gain of \$0.2 million during the same period last year, a decrease of \$0.1 million or 76%. The change in foreign exchange gains during the period was primarily due to the translation of cash balances denominated in Canadian dollars and the change in exchange rates between the Canadian dollar and U.S. dollar.

Financial Condition

	March 31, 2017	December 31, 2016	Change \$	%
Total current assets	56,647,841	44,266,497	12,381,344	28%
Total assets	64,474,194	67,243,638	(2,769,444)	-4%
Total current liabilities	2,270,132	3,486,091	(1,215,959)	-35%

Total current assets – Total current assets at March 31, 2017 were \$56.6 million compared to \$44.3 million at December 31, 2016, an increase of \$12.4 million or 28%. The increase was primarily due to the Company's \$15.0 million term deposit which is now considered short-term as a result of its remaining term being less than 1 year. This increase was offset by a decrease in cash of \$2.5 million which was principally due to cash utilized in operations.

Total assets – Total assets at March 31, 2017 were \$64.5 million compared to \$67.2 million at December 31, 2016, a decrease of \$2.8 million or 4%. The decrease was principally due to lower cash.

Total current liabilities – Total current liabilities at March 31, 2017 were \$2.3 million compared to \$3.5 million at December 31, 2016, a decrease of \$1.2 million or 35%. The decrease was primarily due to the timing of raw material purchases and the settlement of trade accounts payable balances and a reduction in accrued termination benefits.

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 at least the next 12 months.

Below is a summary of our cash flows provided by / (used in) operating activities, financing activities and investing activities for the three months ended March 31, 2017 and 2016:

	Three months ended (unaudited)		Change	
	March 31, 2017	March 31, 2016	\$	%
Cash used in operating activities	(2,416,035)	(1,760,863)	(655,172)	37%
Cash used in investing activities	(171,123)	(15,277,156)	15,106,033	-99%
Cash provided by financing activities	74,415	295,831	(221,416)	-75%
Effect of exchange rate changes on cash	52,805	213,733	(160,928)	-75%
Net decrease in cash	(2,459,938)	(16,528,455)	14,068,517	-85%
Beginning cash	38,517,278	60,717,658	(22,200,380)	-37%
Ending cash	36,057,340	44,189,203	(8,131,863)	-18%

Cash used in operating activities – Cash used in operating activities for the three months ended March 31, 2017 was \$2.4 million compared to \$1.8 million in the same period last year, an increase of \$0.7 million or 37%. The increase was primarily due to changes in non-cash working capital partly offset by lower net loss adjusted for non-cash items and the impact of foreign exchange revaluation gains and losses. Working capital at March 31, 2017 compared to December 31, 2016 increased \$1.0 million principally due to a decrease trade payables and accrued liabilities and accrued termination benefits. Working capital at March 31, 2016 compared to December 31, 2015 decreased \$0.4 million primarily due to an increase in accounts payable and accrued liabilities and a reduction in inventory partly offset by higher accounts receivable.

Cash used in investing activities – Cash used in investing activities for the three months ended March 31, 2017 was \$0.2 million compared to \$15.3 million in the same period last year, a decrease of \$15.1 million. The decrease was primarily due to the purchase of a \$15.0 million fixed two year term-deposit in the first quarter of fiscal 2016.

Cash provided by financing activities – The Company received \$0.1 million in proceeds from government grants during the three months ended March 31, 2017 compared to \$0.3 million in the same period last year, a decrease of \$0.2 million or 75%.

Effect of exchange rate changes on cash – During the three months ended March 31, 2017, the effect of exchange rates changes on cash and cash equivalents was a gain of \$0.1 million and compared to a gain of \$0.2 million during the same period last year. The gain primarily related to the revaluation of our cash denominated in Canadian dollars and the impact of currency fluctuations on the Canadian dollar versus U.S. dollar during the same period.

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.

Contractual Obligations

Our contractual obligations include operating leases for premises and purchase obligations. The following table summarizes our cash commitments as March 31, 2017:

Less than one year	\$1,547,245
One – two years	\$ 315,907
Two – three years	\$ 295,138
Three – four years	\$ 270,543
Thereafter	\$ -

During the normal course of operations, 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. As at March 31, 2017, the Company was committed to purchases of feedstock in the approximate amount of \$1.1 million.

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 March 31, 2017. 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.

We believe that past operating results and period-to-period comparisons should not be relied upon as an indication of our future performance. See "Risk Factors" outlined elsewhere in this document. Key factors that account for the fluctuations in quarterly results include the growth in the Company's revenue and the pace at which the Company's operating costs are expanding.

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

	Three months ended (unaudited)							
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Net sales	3,602,129	4,672,268	2,723,638	2,917,010	2,964,470	2,984,351	3,333,534	4,094,987
Gross profit	799,960	852,213	413,160	457,107	478,323	324,338	486,839	689,920
Loss from operations	(2,035,804)	(2,491,386)	(2,040,063)	(2,767,009)	(2,508,458)	(5,986,609)	(2,010,403)	(2,514,339)
Net loss	(1,903,638)	(2,372,940)	(1,918,350)	(2,644,086)	(2,369,222)	(5,914,317)	(1,941,231)	(2,440,321)
Weighted average number of shares outstanding	59,515,232	59,374,714	59,300,627	59,277,680	59,275,758	58,607,787	58,323,037	56,477,460
Basic and diluted loss per share	(0.03)	(0.04)	(0.03)	(0.04)	(0.04)	(0.10)	(0.03)	(0.04)
Adjusted EBITDA ⁽¹⁾	(1,454,737)	(1,686,953)	(1,565,377)	(2,307,806)	(2,074,200)	(2,933,540)	(1,580,207)	(2,010,816)

	Three months ended (unaudited)							
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Net loss	(1,903,638)	(2,372,940)	(1,918,350)	(2,644,086)	(2,369,222)	(5,914,317)	(1,941,231)	(2,440,321)
Depreciation, amortization and impairment loss on PP&E	267,046	453,477	290,614	303,966	292,258	2,881,373	351,196	376,096
Share-based compensation	314,021	350,956	184,072	155,237	142,000	171,696	79,000	127,427
Interest income	(132,166)	(118,446)	(121,713)	(122,923)	(139,236)	(72,292)	(69,172)	(74,018)
Adjusted EBITDA ⁽¹⁾	(1,454,737)	(1,686,953)	(1,565,377)	(2,307,806)	(2,074,200)	(2,933,540)	(1,580,207)	(2,010,816)

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

Adjusted EBITDA loss for the three months ended March 31, 2017 was \$1.5 million compared to \$2.1 million in the same period last year, a decrease of \$0.6 million or 30%. The decrease was principally due to higher gross profit and lower operating expenses.

Critical Accounting Policies and Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies and historical experience, and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our financial statements. We believe that there have been no significant changes in our critical accounting estimates for the time periods presented in our interim financial statements.

Inventory

Inventory valuation assessments are performed periodically or when indicators of impairment are present. These assessments may involve significant uncertainty and are subject to change in that they could require the use of forward looking assumptions such as estimating the amount and timing of revenues as well as projecting the likelihood of an item becoming obsolete or unusable in the future. Recognition of inventory valuation provisions may have a material impact on our net income and the value of our inventory.

Impairment of long-lived assets

Long-lived assets (including property, plant and equipment and intangible assets with definite lives) are reviewed for impairment at each reporting date to determine whether there is an indication that an asset may be impaired. If any indication exists we estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for individual assets unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and it is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Asset impairment assessments involves significant uncertainty and are susceptible to change. They require the use of forward looking assumptions such as sales, costs, foreign exchange rates and market growth rates. Recognition of impairment may have a material impact on our net income (loss) and the value of our long-lived assets. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, a long-lived asset or asset group is required to be tested for possible impairment.

Share-based compensation

The Company operates equity-settled share-based compensation plans under which the Company receives services from employees, directors, advisers, officers, contractors and consultants as consideration for equity instruments (share options, preferred stock options (PSOs), restricted share units (RSUs), and deferred share units (DSUs) of the Company.

Each tranche of a share option award is considered a separate award with its own vesting period and recorded at fair value on the date of grant. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed periodically, with any impact being recognized in the consolidated statement of operations. Any contribution paid by an employee or director on the exercise of share options is credited to common shares with any previously recognized compensation expense.

A PSO provides a right, but not an obligation, to purchase common shares of the Company at a stated price for a given period of time. PSOs vest at a rate of 33.33% per year following the grant date subject to the achievement of performance hurdles and can only be settled in common shares issued from treasury. In the event that performance exceeds targeted performance hurdles, vesting can accelerate for PSOs granted; however, in no event can the

cumulative vesting exceed 100%. All PSOs expire between 7 and 10 years from the grant date. The fair value of a PSO is recorded over the expected vesting period, subject to management's estimate of the achievement of the performance hurdles. The fair values of the PSOs are recognized as compensation expense over the vesting period with a corresponding increase to contributed surplus. Fair value is determined based on the average closing price of common shares on the Toronto Stock Exchange (TSX) five trading days immediately prior to the date as of which market value is determined. The Company has estimated the length of the expected vesting period at grant date based on the most likely outcome of the performance conditions. The Company will revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates and any change to compensation cost will be recognized in the period in which the revised estimate is made. Forfeitures are estimated at the grant date and are revised to reflect a change in expected or actual forfeitures.

The restricted share unit plan (RSU Plan) provides that restricted share unit awards may be granted by a committee that administers the RSU Plan to full-time employees, officers and eligible contractors of the Company or an affiliate in a calendar year as a bonus for services rendered to the Company as determined at the sole discretion of the Board. The number of restricted share units awarded will be credited to the participants' accounts effective on the grant date of the RSUs. Each RSU entitles the holder to receive common shares issued from treasury of the Company. RSUs fully vest at the end of a three-year period subject to continued employment with the Company. Compensation cost is calculated on a straight-line basis over the vesting period with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect a change in expected or actual forfeitures.

The deferred share unit plan (DSU Plan) provides for awards of DSUs to non-employee directors of the Company. Under the DSU Plan, non-executive directors may receive a grant of DSUs in satisfaction of their annual retainer. Each DSU is equivalent to one common share and vest on a quarterly basis. DSUs must be retained until the director leaves the Board, at which time the DSUs will be settled through common shares. In the event dividends are declared and paid, additional DSUs would be credited to reflect dividends paid on common shares. The number of DSUs to be awarded are determined based on the average closing price of the common shares on the TSX on five trading days immediately prior to the date as of which market value is determined. Compensation cost for DSUs granted under the DSU Plan is recorded as an expense with a corresponding increase in contributed surplus.

Valuation of Future Income Tax Assets

Significant management judgment is required in determining the valuation allowance recorded against our net income tax assets. We record a valuation allowance to reduce our future income tax assets recorded on our consolidated balance sheet to the amount of future income tax benefit that is more likely than not to be realized. We have recorded a full valuation allowance to reflect the uncertainties associated with the realization of our future income tax assets based on management's best estimates as to the certainty of realization.

Internal control over financial reporting

There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2017 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 for the fiscal year ended December 31, 2016. 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 May 2, 2017, the Company had the equivalent of 59,563,101 common shares issued and outstanding assuming conversion of all rights pursuant to the put/call agreement. In addition, 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 64,652,806 common shares issued and outstanding on a fully diluted basis as at May 2, 2017.

Outlook

Significant progress has been made in the 24 months since the Company began a transformation that would put it on a path to sustainable growth and profitability. EcoSynthetix has lowered its cost footprint, invested in leadership and talent, and pursued a growth strategy based on the commercialization of DuraBind within the building materials space. EcoSynthetix will continue to execute on the following priorities in 2017:

1. Focus on core markets

The Company’s relationships with key customers in the paper and paperboard segment continues to provide a strong foundation for its business and will provide for selective growth opportunities in the near-term. The Company will continue its efforts on expanding its presence in the building materials space. Consumer and regulatory factors are creating demand for no added formaldehyde (NAF) products, and the Company is well-positioned to capitalize on these trends to rapidly grow its share of the \$15 billion annual wood composite binder market. In 2016, the Company announced its first commercial customer for its DuraBind product with a top five global producer of wood composites. The Company will build on this momentum through 2017, and 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 will be primarily focused on delivering next generation DuraBind solutions that further build the Company’s value proposition for wood composite customers.

3. Top line growth with a sustainable bottom line

The Company will continue making investments that allow the business to scale as it gains traction, 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 packaging market, and will remain focused on building strong customer relationships to drive growth and deliver value to its shareholders.