

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 2014

(expressed in US dollars)



July 31, 2014

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

EcoSynthetix Inc.
Interim Consolidated Balance Sheets
(Unaudited)

(expressed in US dollars)

	June 30, 2014	December 31, 2013
	\$	\$
Assets		
Current assets		
Cash	73,863,213	80,506,957
Accounts receivable (note 2)	3,400,536	3,691,791
Inventory (note 3)	5,921,087	6,470,410
Government grants receivable	444,891	261,648
Prepaid expenses	497,290	276,856
	<u>84,127,017</u>	<u>91,207,662</u>
Non-current assets		
Intangible assets	88,346	124,009
Property, plant and equipment (note 4)	12,377,907	12,775,188
	<u>96,593,270</u>	<u>104,106,859</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	<u>3,529,200</u>	<u>3,947,385</u>
Shareholders' Equity		
Common shares (note 7)	492,329,752	492,600,022
Contributed surplus	7,900,831	7,661,849
Accumulated deficit	<u>(407,166,513)</u>	<u>(400,102,397)</u>
	<u>93,064,070</u>	<u>100,159,474</u>
	<u>96,593,270</u>	<u>104,106,859</u>

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

EcoSynthetix Inc.

Interim Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(expressed in US dollars)

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2014</u> \$	<u>2013</u> \$	<u>2014</u> \$	<u>2013</u> \$
Net sales	4,542,648	5,533,678	9,536,712	11,654,156
Cost of sales	3,589,969	4,713,196	7,601,044	9,777,548
Gross profit on sales	952,679	820,482	1,935,668	1,876,608
Expenses				
Selling, general and administrative	3,470,689	3,319,599	6,314,772	6,725,061
Research and development	1,309,996	1,229,431	2,854,257	2,498,953
	4,780,685	4,549,030	9,169,029	9,224,014
Loss from operations	(3,828,006)	(3,728,548)	(7,233,361)	(7,347,406)
Interest income	86,144	93,856	169,245	179,228
Net loss and comprehensive loss	(3,741,862)	(3,634,692)	(7,064,116)	(7,168,178)
Basic and diluted loss per common share	(0.07)	(0.07)	(0.12)	(0.13)
Weighted average number of common shares outstanding	56,655,530	55,709,678	56,754,446	55,904,023

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

EcoSynthetix Inc.

Interim Consolidated Statements of Shareholders' Equity (Unaudited)

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance - January 1, 2013	492,065,820	6,831,354	(385,337,593)	113,559,581
Common share options exercised	336,697	(94,000)	-	242,697
Share-based compensation	-	616,979	-	616,979
Net loss and comprehensive loss	-	-	(7,168,178)	(7,168,178)
Balance - June 30, 2013	492,402,517	7,354,333	(392,505,771)	107,251,079
Balance - January 1, 2014	492,600,022	7,661,849	(400,102,397)	100,159,474
Warrants exercised	160,058	-	-	160,058
Common share options exercised	43,948	(16,018)	-	27,930
Common shares repurchased	(474,276)	-	-	(474,276)
Share-based compensation	-	255,000	-	255,000
Net loss and comprehensive loss	-	-	(7,064,116)	(7,064,116)
Balance - June 30, 2014	492,329,752	7,900,831	(407,166,513)	93,064,070

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

EcoSynthetix Inc.

Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in US dollars)

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(3,741,862)	(3,634,692)	(7,064,116)	(7,168,178)
Items not affecting cash				
Depreciation and amortization	433,645	365,697	863,564	747,604
Share-based compensation (note 6)	120,000	285,876	255,000	616,979
Changes in non-cash working capital				
Accounts receivable	133,701	108,476	291,255	(271,173)
Inventory	319,578	283,494	390,399	(716,568)
Government grants receivable	(100,869)	3,979	(183,243)	7,598
Prepaid expenses	(226,043)	(167,350)	(220,434)	(234,542)
Accounts payable and accrued liabilities	156,045	(1,668,447)	(418,188)	(119,904)
Deferred government grant	-	(40,972)	-	(144,002)
	<u>(2,905,805)</u>	<u>(4,463,939)</u>	<u>(6,085,763)</u>	<u>(7,282,186)</u>
Investing activities				
Cash used for purchase of intangible assets and property, plant and equipment (note 4)	(41,495)	(775,745)	(271,693)	(1,242,935)
Financing activities				
Exercise of common share options	-	7,818	27,930	242,697
Exercise of warrants	-	-	160,058	-
Repurchase of common shares	(402,398)	-	(474,276)	-
	<u>(402,398)</u>	<u>7,818</u>	<u>(286,288)</u>	<u>242,697</u>
Change in cash during the period	(3,349,698)	(5,231,866)	(6,643,744)	(8,282,424)
Cash - Beginning of period	77,212,911	90,209,738	80,506,957	93,260,296
Cash - End of period	73,863,213	84,977,872	73,863,213	84,977,872

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2014

(expressed in US dollars)

1 Business operations

EcoSynthetix Inc. (EcoSynthetix or the company) is engaged in the development and commercialization of ecologically friendly, bio-based technologies as replacement solutions for synthetic, petrochemical-based adhesives and other related products in North America, Latin America, Europe, Middle East and Africa (EMEA), and Asia Pacific. EcoSynthetix is incorporated and domiciled in Canada. The address of its registered office is 3365 Mainway, Burlington, Ontario, Canada.

Basis of preparation

The unaudited condensed interim consolidated financial statements (interim financial statements) were prepared using the same accounting policies and methods as those used in the company's consolidated financial statements for the year ended December 31, 2013. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at July 31, 2014, the date that the Board of Directors (the Board) approved the interim financial statements. The interim financial statements are in compliance with International Accounting Standard (IAS) 34, Interim Financial Reporting. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB), have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 2 of the company's consolidated financial statements for the year ended December 31, 2013. These interim financial statements should be read in conjunction with the company's consolidated financial statements for the year ended December 31, 2013.

New accounting standards issued and effective

- a) IAS 32, Financial instruments: presentation, amendment clarifies some of the requirements for offsetting financial assets and financial liabilities as well as additional disclosure requirements. The company adopted the amendment to IAS 32 effective January 1, 2014. The company determined that the adoption of the amendment to IAS 32 did not result in any change in presentation in the balance sheet or in disclosure.
- b) IAS 36, Impairment of assets, amendment requires additional disclosures when the recoverable amount is determined based on fair value less costs of disposal. The company adopted the amendments to IAS 36 effective January 1, 2014. The company determined that the adoption of the amendment to IAS 36 did not result in any change in disclosure.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2014

(expressed in US dollars)

2 Accounts receivable

	June 30, 2014 \$	December 31, 2013 \$
Trade accounts receivable	3,086,332	3,460,764
Commodity taxes receivable and other	314,204	231,027
	<hr/> 3,400,536	<hr/> 3,691,791

3 Inventory

	June 30, 2014 \$	December 31, 2013 \$
Raw materials	1,042,628	772,252
Finished goods	4,878,459	5,698,158
	<hr/> 5,921,087	<hr/> 6,470,410

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2014

(expressed in US dollars)

4 Property, plant and equipment

The composition of the net carrying amount of the company's property, plant and equipment is presented in the following table:

	Computer hardware \$	Machinery and equipment \$	Construction- in-process and deposits placed on property, plant and equipment \$	Leasehold improvements \$	Total \$
At December 31, 2013					
Cost	284,277	13,809,247	219,218	948,540	15,261,282
Accumulated depreciation	(182,480)	(2,046,853)	-	(256,761)	(2,486,094)
Net book value	101,797	11,762,394	219,218	691,779	12,775,188
Period ended June 30, 2014					
Additions	12,987	258,706	-	-	271,693
Depreciation	(26,382)	(582,569)	-	(60,023)	(668,974)
Transfers	-	219,218	(219,218)	-	-
Closing net book value	88,402	11,657,749	-	631,756	12,377,907
At June 30, 2014					
Cost	297,264	14,287,171	-	948,540	15,532,975
Accumulated depreciation	(208,862)	(2,629,422)	-	(316,784)	(3,155,068)
Net book value	88,402	11,657,749	-	631,756	12,377,907

For the three and six months ended June 30, 2014, depreciation expense of \$305,654 and \$605,631 (2013 - \$266,667 and \$576,779) has been charged to cost of goods sold and \$111,401 and \$222,270 (2013 - \$75,600 and \$130,665) has been charged to selling, general and administrative expenses.

5 Accounts payable and accrued liabilities

	June 30, 2014 \$	December 31, 2013 \$
Trade accounts payable	1,443,219	1,962,450
Commodity taxes payable	337,351	460,267
Accrued liabilities	1,748,630	1,524,668
	<u>3,529,200</u>	<u>3,947,385</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2014

(expressed in US dollars)

6 Share-based compensation

At June 30, 2014, the company had outstanding share options to purchase 6,455,489 common shares of the company. The share options expire at various dates through May 1, 2024.

	Number of share options outstanding	Weighted average exercise price \$
Outstanding - December 31, 2013	6,064,281	1.61
Share options granted	818,683	2.52
Share options exercised	(287,959)	0.11
Share options expired	(875)	0.08
Share options forfeited	(138,641)	3.43
	<hr/>	
Outstanding - June 30, 2014	6,455,489	1.75

7 Common shares

	Number of common shares	Share capital \$
Balance - December 31, 2013	56,393,383	492,600,022
Common share options exercised	287,959	43,948
Warrants exercised	202,958	160,058
Common shares repurchased	(218,412)	(474,276)
	<hr/>	
Balance - June 30, 2014	56,665,888	492,329,752

Share exchange

On November 11, 2013, the company received regulatory approval for a normal course issuer bid (the Bid) to repurchase a certain number of its outstanding common shares through the facilities of the Toronto Stock Exchange (TSX). The number of shares to be purchased will not exceed 2,478,823 common shares. The period of the Bid will occur from November 13, 2013 to November 12, 2014. During the three and six months ended June 30, 2014, the company repurchased 187,220 and 218,412 common shares for total consideration of \$402,398 and \$474,276, respectively.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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Outstanding warrants

As at December 31, 2013, the company had outstanding warrants for the purchase of up to 202,958 common shares of the company, exercisable at \$0.81 per share. During the six months ended June 30, 2014, all outstanding warrants were exercised prior to their expiry date of February 28, 2014 for total consideration of \$160,058. There were no further warrants outstanding as at June 30, 2014.

8 Segmented information and enterprise wide disclosures

Segmented reporting

The company operates in one reportable segment and generates revenue primarily from the sale of its Ecosphere Biolatex (R) Binders.

Sales by geographic location

The company is domiciled in Canada. Revenue from external customers located in Canada for the three and six months ended June 30, 2014 was \$813,675 and \$1,640,898, respectively (2013 - \$705,868 and \$1,355,623, respectively). The total revenue from external customers in the following regions was as follows:

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
North America	2,931,244	2,364,593	5,676,573	4,720,577
Latin America	600,686	383,979	1,066,394	1,092,419
EMEA	122,469	804,782	242,122	1,649,118
Asia Pacific	888,249	1,980,324	2,551,623	4,192,042
	<u>4,542,648</u>	<u>5,533,678</u>	<u>9,536,712</u>	<u>11,654,156</u>

The revenue has been assigned to each jurisdiction based on the location of the customer. In situations where a sale is made through a reseller, revenue associated with that sale is attributed to the geographic region of the end customer.

During the three months ended June 30, 2014, revenue attributable to individual countries reporting greater than 10% of total revenues included United States and Canada which represented 47% and 18%, respectively. During the three months ended June 30, 2013, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, United States, Canada and Germany, which represented 30%, 29%, 14% and 12%, respectively.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2014

(expressed in US dollars)

During the six months ended June 30, 2014, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan and Canada which represented 42%, 19% and 17%, respectively. During the six months ended June 30, 2013, revenue attributable to individual countries reporting greater than 10% of total revenue included United States, Japan, Germany and Canada, which represented 29%, 27%, 13% and 12%, respectively.

Sales to major customers

During the three months ended June 30, 2014, the company derived a significant portion of its revenues from four customers, representing 20%, 18%, 16% and 10% of total revenue (2013 - 30%, 14%, 14% and 12% from four customers). During the six months ended June 30, 2014, the company derived a significant portion of its revenues from four customers, representing 19%, 19%, 17% and 13% of total revenue (2013 - 27%, 13%, 13% and 12% from four customers). The concentrations disclosed do not necessarily apply to the same customer's period over period.

Property, plant and equipment and intangible assets

The company's property, plant and equipment and intangible assets are reported at their net carrying amount and are located in the following countries:

	June 30, 2014 \$	December 31, 2013 \$
Canada	3,340,295	3,540,808
United States of America	5,179,294	5,318,289
The Netherlands	3,946,664	4,040,100
	<u>12,466,253</u>	<u>12,899,197</u>

9 Expenses by nature

Additional information on the nature of amounts included in cost of sales, selling, general and administrative and research and development is as follows:

	Three months ended June 30		Six months ended June 30	
	2014 \$	2013 \$	2014 \$	2013 \$
Wages and salaries	2,259,977	2,192,622	4,593,952	4,231,380
Share-based compensation	120,000	285,876	255,000	616,979
Depreciation and amortization	433,645	365,697	863,564	747,604