EcoSynthetix Inc.

Consolidated Financial Statements
December 31, 2014 and December 31, 2013
(expressed in US dollars)

March 9, 2015

Independent Auditor's Report

To the Shareholders of
EcoSynthetix Inc.

We have audited the accompanying consolidated financial statements of EcoSynthetix Inc. and its subsidiaries, which comprise the consolidated balance sheets at December 31, 2014 and December 31, 2013 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EcoSynthetix Inc. and its subsidiaries as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

EcoSynthetix Inc.
Consolidated Balance Sheets
At December 31

(expressed in US dollars)

	2014	2013
Assets		
Current assets		
Cash	67,245,970	80,506,957
Accounts receivable (note 5)	2,258,151	3,691,791
Inventory (note 6)	5,497,944	6,470,410
Government grants receivable (note 7)	66,957	261,648
Prepaid expenses	286,288	276,856
	75,355,310	91,207,662
Non-current assets		
Intangible assets (note 8)	52,683	124,009
Property, plant and equipment (note 9)	11,690,072	12,775,188
Total assets	87,098,065	104,106,859
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	1,571,976	3,947,385
Total liabilities	1,571,976	3,947,385
Shareholders' Equity		
Common shares (note 13)	492,041,244	492,600,022
Contributed surplus	8,101,831	7,661,849
Accumulated deficit	(414,616,986)	(400,102,397)
Total shareholders' equity	85,526,089	100,159,474
Total liabilities and shareholders' equity	87,098,065	104,106,859

Approved by the Board of Directors

(signed)	**(signed)**
David Colcleugh, Chairman	John E. Barker, Director

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

EcoSynthetix Inc.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31

(expressed in US dollars)

	2014	2013
Net sales	18,841,745	22,229,846
Cost of sales	15,671,096	18,620,771
Gross profit on sales	3,170,649	3,609,075
Expenses		
Selling, general and administrative	12,446,687	12,916,606
Research and development	5,569,632	5,814,787
	18,016,319	18,731,393
Loss from operations	(14,845,670)	(15,122,318)
Interest income	331,081	357,514
Net loss and comprehensive loss	(14,514,589)	(14,764,804)
Basic and diluted loss per common share (note 18)	(0.26)	(0.26)
Weighted average number of common shares outstanding	56,656,036	56,113,610

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

EcoSynthetix Inc.

Consolidated Statements of Shareholders' Equity

For the years ended December 31

(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
Warrants exercised (note 13)	124,628	-	-	124,628
Common share options exercised (note 12)	409,574	(125,730)	-	283,844
Share-based compensation (note 12)	-	956,225	-	956,225
Net loss and comprehensive loss	-	-	(14,764,804)	(14,764,804)
Balance - December 31, 2013	492,600,022	7,661,849	(400,102,397)	100,159,474
Balance - January 1, 2014	492,600,022	7,661,849	(400,102,397)	100,159,474
Warrants exercised (note 13)	160,058	-	-	160,058
Common share options exercised (note 12)	43,948	(16,018)	-	27,930
Share-based compensation (note 12)	-	456,000	-	456,000
Common shares repurchased	(762,784)	-	-	(762,784)
Net loss and comprehensive loss	-	-	(14,514,589)	(14,514,589)
Balance - December 31, 2014	492,041,244	8,101,831	(414,616,986)	85,526,089

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

EcoSynthetix Inc.

Consolidated Statements of Cash Flows

For the years ended December 31

(expressed in US dollars)

	2014	2013
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss	(14,514,589)	(14,764,804)
Items not affecting cash		
Depreciation and amortization (notes 8 and 9)	1,767,366	1,731,765
Share-based compensation (note 12)	456,000	956,225
Changes in non-cash working capital		
Accounts receivable	1,433,640	617,564
Inventory	787,338	490,539
Government grants receivable (note 7)	194,691	(77,530)
Prepaid expenses	(9,432)	(122,364)
Accounts payable and accrued liabilities	(2,375,409)	123,088
Deferred government assistance	-	(226,920)
	(12,260,395)	(11,272,437)
Investing activities		
Purchase of intangible assets and property, plant and equipment (notes 8 and 9)	(425,796)	(1,889,374)
Financing activities		
Repurchase of common shares	(762,784)	-
Exercise of common share options	27,930	283,844
Exercise of warrants	160,058	124,628
	(574,796)	408,472
Decrease in cash during the year	(13,260,987)	(12,753,339)
Cash - Beginning of year	80,506,957	93,260,296
Cash - End of year	67,245,970	80,506,957

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

(expressed in US dollars, unless otherwise noted)

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.

2 Summary of significant accounting policies

Statement of compliance

These consolidated financial statements have been authorized for issuance by the board of directors of the company on March 9, 2015.

Basis of preparation

The consolidated financial statements have been prepared under International Financial Reporting Standards (IFRS), using the historical cost convention except for liabilities related to share-based payment arrangements that are measured at fair value.

Use of estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates are based on management's best knowledge of current events and actions that the company may undertake in the future. Actual results may differ from those estimates.

Significant estimates made by the company include estimates of useful lives of property, plant and equipment, share-based compensation, potentially uncollectible accounts receivable, provisions for inventory that are carried in excess of net realizable value and the realizability of deferred income tax assets.

Basis of consolidation

The consolidated financial statements of the company consolidate the accounts of EcoSynthetix and all of its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities wholly owned and controlled by the company.

(expressed in US dollars, unless otherwise noted)

Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the company's consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the company's reporting currency. The functional currency of all entities is US dollars.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than company's functional currency are recognized in the consolidated statements of operations and comprehensive loss.

Cash

Cash consists of deposits held with banks.

Trade receivables

Trade receivables are amounts due from customers for products sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for impairment.

Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously.

(expressed in US dollars, unless otherwise noted)

At initial recognition, the company classifies its financial instruments in the following categories, depending on the purpose for which the financial instruments were acquired:

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise accounts receivable, government grants receivable and cash and are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet dates, which is classified as non-current. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

ii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade payables and accrued liabilities. Trade payables and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables and accrued liabilities are measured at amortized cost, using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

At each reporting date, the company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the company recognizes an impairment loss on financial assets carried at amortized cost. The loss is the difference between the amortized cost of the receivable and the present value of the estimated future cash flows, discounted using the financial instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Inventory costs include the costs of material, labour, variable overhead and an allocation of fixed manufacturing overhead, including depreciation based on normal production volumes. Net realizable value is the estimated selling price less applicable selling expenses.

(expressed in US dollars, unless otherwise noted)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of operations and comprehensive loss during the year in which they are incurred.

Depreciation is calculated on a straight-line method to reduce the cost of the asset to its residual value over its estimated useful life. The depreciation period applicable to each category of property, plant and equipment is as follows:

Leasehold improvements	remaining lease term
Computer hardware	3 years
Machinery and equipment	2 to 15 years

Useful lives and residual values are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statements of operations and comprehensive loss.

Intangible assets

Computer software costs are amortized on a straight-line basis over their estimated useful lives, which are approximately three years.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash in-flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets that have been impaired previously are reviewed for possible reversal of impairment at each reporting date.

(expressed in US dollars, unless otherwise noted)

Provisions

Provisions are recognized when the company has a present legal or constructing obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Research and product development costs

Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are expensed as incurred, unless they meet the capitalization criteria of International Accounting Standard (IAS) 38, Intangible Assets. No development costs have been capitalized to date.

Government grants

Government grants include funding for government research and product development support. Research and product development funding is recognized when there is reasonable assurance the company has complied with the conditions attached to the funding arrangement and is recognized as the applicable costs are incurred. Research and product development funding is presented as a reduction in research and product development expenses, unless it is for the reimbursement of an asset, in which case, it is accounted for as a reduction in the carrying amount of the applicable asset.

Revenue recognition

Revenue is recognized when the company has transferred the significant risks and rewards of ownership of the goods to the buyer, it is probable that the economic benefits will flow to the company, delivery has occurred, and the amount of revenue and costs incurred or to be incurred can be measured reliably. These criteria are generally met at the time the product is shipped and the risks and rewards have passed to the customer. Revenue is measured based on the price specified in the sales contract, net of discounts and estimated returns at the time of sale. Historical experience is used to estimate and provide for discounts and returns.

Cost of sales and gross profit

Gross profit is derived from net sales, less cost of sales. Cost of sales includes raw material costs, contract manufacturing costs, freight costs and depreciation related to manufacturing equipment. Raw materials consist of the costs of cornstarch feedstock and process chemicals.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity. The company has classified all outstanding exchangeable shares of its subsidiaries as issued and outstanding of the parent company.

(expressed in US dollars, unless otherwise noted)

Share-based compensation

The company operates equity-settled share-based compensation plans under which the company receives services from employees, advisers, officers, directors, contractors and consultants as consideration for equity instruments (share options, performance-based share 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 statements of operations and comprehensive loss. 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 at the end of 10 years. The fair values of PSOs are 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 fair 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 (the RSUAs) 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 RSUs awarded will be credited to the participants' accounts effective on the grant date of the RSUs. Each RSUA entitles the holder to receive common shares issued from the treasury of the company. RSUs fully vest at the end of a three-year period subject to continued employment with the company and the achievement of performance hurdles. The company has estimated the probability of achieving the performance hurdles and will revise its estimate if subsequent information indicates that the expected outcome related to the achievement of the performance hurdles differs from previous estimates. Accordingly, 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.

(expressed in US dollars, unless otherwise noted)

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 vests 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 is 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 fair value is determined. Compensation cost for DSUs granted under the DSU Plan is recorded as an expense with a corresponding increase in contributed surplus.

Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations and comprehensive loss, except to the extent that they relate to items recognized directly in shareholders' equity, in which case the income taxes are also recognized directly in shareholders' equity.

Current income taxes are the expected income taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years.

In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the consolidated balance sheet dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Loss per share

Basic loss per common share is calculated based on the weighted average number of common shares outstanding for the year. Diluted loss per common share is calculated using the weighted average number of common shares outstanding for the year for basic net loss per common share plus the weighted average number of potential dilutive common shares that would have been outstanding during the year had potentially all common shares been issued at the beginning of the year or when the underlying share options or warrants were granted, if later, unless they were anti-dilutive.

(expressed in US dollars, unless otherwise noted)

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease (net of any incentives received from the lessor) are recognized in the consolidated statements of operations and comprehensive loss on a straight-line basis over the period of the lease.

Operating segments

The company operates in one operating segment that is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The chief executive officer has authority for resource allocation and assessment of the company's performance and is, therefore, the CODM.

New accounting standards

a) In May 2013, the IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). The amendments apply retrospectively for annual periods beginning on or after January 1, 2014. The IASB has issued amendments to reverse the unintended requirement in IFRS 13, Fair Value Measurement, to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. The company has adopted the amendments to IAS 36 effective January 1, 2014. The adoption of the amendments did not have a material impact on the consolidated financial statements.

b) IAS 32, Financial Instruments - Presentation, has been amended to clarify requirements for offsetting of financial assets and financial liabilities. The company has adopted the amendments to IAS 32 effective January 1, 2014. The adoption of the amendments did not result in any changes in the disclosures of the company.

c) IFRS 9, Financial Instruments (IFRS 9), was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments - Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, although the standard is available for early adoption. The company does not expect the impact of adoption of this new standard to be material.

(expressed in US dollars, unless otherwise noted)

d) IFRS 11, Acquisition of an Interest in a Joint Operation, provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation results in retaining joint control. The amendment is effective for annual periods beginning on or after January 1, 2016 and allows early adoption. The company does not expect the impact of adoption of this new standard to be material.

e) IFRS 15, Revenue from Contracts with Customers (IFRS 15), provides a single, comprehensive revenue recognition model for all contracts with customers. The standard contains principles that the company will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount the company expects to be entitled to in exchange for those goods or services. The standard is effective for the first interim period within years beginning on or after January 1, 2017 and allows early adoption. The company has not yet assessed the impact of this new standard and whether it will be adopted early.

3 Risk management and financial instruments

The company has classified its financial instruments into one of the following categories: loans and receivables and other financial liabilities at amortized cost. The following table summarizes information regarding the carrying amounts of the company's financial instruments:

	2014	2013
Loans and receivables	69,571,078	84,460,396
Other financial liabilities	1,571,976	3,947,385

Liquidity

The company has sustained losses and negative cash flows from operations since its inception. Liquidity risk is the risk the company will encounter difficulty in meeting its financial obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The company is exposed to liquidity risk as it continues to have net cash outflows to support its operations. The company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. The company achieves this by maintaining sufficient cash. The company monitors its financial position on a monthly basis and updates its expected use of cash resources based on the latest available data. The company's trade payables and accrued liabilities will be paid within the next 12 months.

(expressed in US dollars, unless otherwise noted)

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The company is exposed to credit risk from customers. At December 31, 2014, the company's three largest customers accounted for 54% (2013 - three customers at 68%) of accounts receivable. In order to minimize the risk of loss for accounts receivable, the company's extension of credit to customers involves a review and approval by senior management. The majority of the company's sales are invoiced with payment terms between 45 and 90 days. The company's objective is to minimize its exposure to credit risk from customers in order to prevent losses on financial assets by performing regular monitoring of overdue balances and to provide an allowance for potentially uncollectible accounts receivable.

The company's trade accounts receivable have a carrying amount of $2,142,926 at December 31, 2014 (2013 - $3,460,764), representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. An insignificant number of these receivables were past due at December 31, 2014. The company's exposure to credit risk for trade accounts receivable by geographic area at December 31 was as follows:

	2014 %	2013 %
North America	44	41
Latin America	4	9
EMEA	2	5
Asia Pacific	50	45
	100	100

The company may also have credit risk relating to cash, which it manages by dealing with large chartered Canadian and US banks. The company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investments in lower risk deposits of these chartered banks. The company's cash carrying amount is $67,245,970 at December 31, 2014 (2013 - $80,506,957), representing the maximum exposure to credit risk of these financial assets. Approximately 99% (2013 - 99%) of the company's cash at December 31, 2014 was held with one financial institution. The company's exposure to credit risk relating to cash segmented by geographic area at December 31 was as follows:

	2014 %	2013 %
Canada	99.3	99.7
United States of America	0.5	0.2
The Netherlands	0.2	0.1
	100.0	100.0

(expressed in US dollars, unless otherwise noted)

Foreign currency risk

Foreign currency risk arises because of fluctuations in foreign currency exchange rates. The company conducts a portion of its business activities in currencies other than the functional currency of the parent company (US dollars). This primarily includes Canadian dollar and euro denominated transactions. The company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by converting foreign denominated financial assets into US dollars to the extent practical to match the obligations of its financial liabilities. Financial assets and financial liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and these foreign currencies. This primarily includes cash, accounts receivable and trade payables and accrued liabilities, which are denominated in foreign currencies. The company recognized foreign currency exchange losses in the year ended December 31, 2014 of $223,000 (2013 - $73,895).

If a shift in the Canadian dollar relative to the US dollar of 10% were to occur, the foreign currency exchange gain or loss on the net financial assets would be $860,000 (2013 - not significant) due to exchange rate fluctuations and this amount would be recorded in the consolidated statements of operations and comprehensive loss.

If a shift in the Euro relative to the US dollar of 10% were to occur, the exchange gain or loss on the net financial assets would be nominal (2013 - $35,814) due to exchange rate fluctuations and this amount would be recorded in the consolidated statements of operations and comprehensive loss.

Interest rate risk

Interest rate risk arises because of the fluctuation in market interest rates. The company's objective in managing interest rate risk is to maximize the return on its cash. The company is subject to interest rate risk on its cash. If a shift in interest rates of 10% were to occur, the impact on the consolidated statements of operations and comprehensive loss for the year would be a gain or loss of $33,673 (2013 - $41,410).

Fair value

The carrying amounts of accounts receivable and trade payables and accrued liabilities approximate their fair values given their short-term nature.

Fair value measurement recognized in the consolidated balance sheets

Financial instruments that are measured at fair value are grouped into Levels 1 to 3, based on the degree to which their fair value is observable.

- Level 1 - Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities.

(expressed in US dollars, unless otherwise noted)

- Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the financial asset or financial liability that are not based on observable market data (unobservable inputs).

The company's financial assets and liabilities at fair value as at December 31, 2014 were as follows:

	Level 1	Level 2	Level 3	Total
Cash	67,245,970	-	-	67,245,970
Accounts receivable	-	2,258,151	-	2,258,151
Trade payables and accrued liabilities	-	(1,571,976)	-	(1,571,976)
Government grants receivable	-	66,957	-	66,957
	67,245,970	753,132	-	67,999,102

The company's financial assets and liabilities at fair value as at December 31, 2013 were as follows:

	Level 1	Level 2	Level 3	Total
Cash	80,506,957	-	-	80,506,957
Accounts receivable	-	3,691,791	-	3,691,791
Trade payables and accrued liabilities	-	(3,947,385)	-	(3,947,385)
Government grants receivable	-	261,648	-	261,648
	80,506,957	6,054	-	80,513,011

During the year, there were no reclassifications into or out of Level 3.

4 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 toward financial leverage and management of financial risk. The company's capital is composed of total shareholders' equity. The total capital as at December 31, 2014 is $85,526,089 (2013 - $100,159,474).The company's primary uses of capital are financing operations, increasing non-cash working capital and capital expenditures. The company currently funds these requirements from existing cash resources and cash raised through share issuances. The company's objectives when managing capital are to ensure the company will continue to have enough liquidity so that it can provide its products and services to its customers and returns to its shareholders. The company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize the capacity to finance the company's ongoing growth, the company does not currently pay a dividend to holders of its common shares.

(expressed in US dollars, unless otherwise noted)

5 Accounts receivable

	2014	2013
Trade accounts receivable	2,142,926	3,460,764
Commodity taxes receivable and other	115,225	231,027
	2,258,151	3,691,791

During the year ended December 31, 2014, the company recognized bad debt expense of $0.4 million related to a single customer announcing the idling of one of its paper mills.

The aging of trade accounts receivable at each reporting date was as follows:

	2014	2013
Current	2,075,244	2,755,453
Past due 1 - 30 days	45,421	672,215
Past due 31 - 60 days	22,261	2,169
Past due 61 - 90 days	-	-
Past due greater than 91 days	-	30,927
	2,142,926	3,460,764

6 Inventory

	2014	2013
Raw materials	945,644	772,252
Finished goods	4,552,300	5,698,158
	5,497,944	6,470,410

During the year ended December 31, 2014, the company recognized a $0.3 million charge to cost of sales related to shipments to a customer, which were not recognized as revenue during the period since collectibility was not probable at the time of shipment.

7 Government grants

The company has a forgivable loan agreement with the Province of Ontario under its Innovation Demonstration Fund Program (Ontario) (IDF), pursuant to which Ontario will provide a forgivable loan up to a maximum of approximately $3.1 million for a specific technology demonstration project. This loan is forgivable in the event no conditions of default have occurred, the technology is not commercialized outside the Province of Ontario and various other documentation requirements are met. Management has determined that there is reasonable assurance the company will comply with these conditions and, therefore, has recognized this forgivable loan as a government grant receivable at December 31, 2014. The loan is collateralized by a general security agreement over all of the assets of EcoSynthetix Corporation, a subsidiary company, and by the company's guarantee. In the event the company is required to repay this funding, the company will be obligated to repay the funding plus interest charged at a rate of 4.55% per annum.

(expressed in US dollars, unless otherwise noted)

In addition to the above, the company also has a non-repayable government grant agreement, Grant 1, with the Canadian federal government's Sustainability Development Technology Fund (the Fund or SDTF), which was formally granted in 2010 to the company. Grant 1 provides up to a maximum of approximately $1.7 million for a special research and development project. The company collected the remaining $0.2 million (2013 - $nil) from the SDTF during the year ended December 31, 2014.

In fiscal 2012, the company was formally granted an additional SDTF non-repayable government grant, Grant 2, securing $2.1 million of funding on completion of project milestones. For the fiscal year ended December 31, 2014, in accordance with the provisions of Grant 2, the company recognized $0.1 million (2013 - $0.4 million) primarily related to operating expenditures and received $nil in cash (2013 - $0.1 million) and expects to collect this balance within the next 12 months.

8 Intangible assets

The composition of the net carrying amount of the company's intangible assets is presented in the following table:

	Computer software
Cost	
December 31, 2013	417,850
Additions	-
December 31, 2014	417,850
Accumulated amortization	
December 31, 2013	(293,841)
Amortization	(71,326)
December 31, 2014	(365,167)
Carrying amount	
December 31, 2013	124,009
December 31, 2014	52,683

Amortization expense has been charged to selling, general and administrative expenses.

(expressed in US dollars, unless otherwise noted)

9 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:

	Machinery and equipment	Leasehold improvements	Computer hardware	Construction-in-process and deposits placed on property, plant and equipment	Total
Cost					
January 1, 2013	14,548,748	791,358	209,707	239,949	15,789,762
Additions	394,693	157,182	49,325	793,845	1,395,045
Disposals	(1,923,525)	-	-	-	(1,923,525)
Transfers	789,331	-	25,245	(814,576)	-
December 31, 2013	13,809,247	948,540	284,277	219,218	15,261,282
Additions	412,809	-	12,987	-	425,796
Transfers	219,218	-	-	(219,218)	-
December 31, 2014	14,441,274	948,540	297,264	-	15,687,078
Accumulated depreciation					
January 1, 2013	(2,342,184)	(153,738)	(119,424)	-	(2,615,346)
Depreciation expense	(1,628,194)	(103,023)	(63,056)	-	(1,794,273)
Disposals	1,923,525	-	-	-	1,923,525
December 31, 2013	(2,046,853)	(256,761)	(182,480)	-	(2,486,094)
Depreciation expense	(1,340,301)	(120,045)	(50,566)	-	(1,510,912)
December 31, 2014	(3,387,154)	(376,806)	(233,046)	-	(3,997,006)
Net carrying amount					
December 31, 2013	11,762,394	691,779	101,797	219,218	12,775,188
December 31, 2014	11,054,120	571,734	64,218	-	11,690,072

The company incurred $0.4 million (2013 - $1.4 million) in capital asset additions for the year ended December 31, 2014, net of $nil (2013 - $0.02 million) in government grants. The additions primarily relate to both the manufacturing equipment required for the company's production and the company's research and development facility in Burlington, Ontario.

During the year ended December 31, 2014, the company recognized an impairment loss of $0.1 million (2013 - $0.2 million) as depreciation expense included in selling, general and administrative expenses associated with redundant machinery and equipment that is no longer in use.

(expressed in US dollars, unless otherwise noted)

10 Trade payables and accrued liabilities

	2014	2013
Trade payables	802,449	2,422,717
Accrued liabilities	769,527	1,524,668
	1,571,976	3,947,385

11 Key management compensation

Key management personnel include those individuals having authority and responsibility for planning, directing and controlling the activities of the company directly or indirectly. Key management personnel include the directors, chief executive officer, chief financial officer and other key members of the executive team. The compensation paid or payable to key management personnel for employee services is shown below:

	2014	2013
Salaries and other short-term employee benefits	2,026,113	2,642,280
Share-based payments	329,171	731,429
	2,355,284	3,373,709

12 Shared-based compensation

At December 31, 2014, the company had outstanding share options to purchase 6,450,989 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, 2012	5,775,285	0.85
Share options cancelled	(41,379)	2.49
Share options granted	1,306,403	3.84
Share options exercised	(976,028)	0.30
Outstanding - December 31, 2013	6,064,281	1.61
Share options cancelled	(144,016)	3.39
Share options granted	818,683	2.52
Share options exercised	(287,959)	0.11
Outstanding - December 31, 2014	6,450,989	1.75

The weighted average contractual life of the outstanding share options at December 31, 2014 is 5.01 years (2013 - 5.26 years). The total number of share options exercisable at December 31, 2014 is 4,646,280 (2013 - 4,469,511), which have a weighted average exercise price of $1.12 (2013 - $0.87) per share.

(expressed in US dollars, unless otherwise noted)

	Number of share options outstanding	
	2014	**2013**
Range of exercise prices		
$0.01 - $0.50	1,906,002	2,184,862
$0.51 - $1.00	1,287,717	1,297,717
$1.01 - $10.00	3,257,270	2,581,702
	6,450,989	6,064,281

For the years ended December 31, the company determined the fair values of share options using the Black-Scholes option pricing model with the following assumptions for share option grants:

	2014	**2013**
Expected dividend yield	-%	-%
Risk-free interest rate	1.32 - 1.47%	1.31% to 1.75%
Expected share option life (in years)	5	5
Volatility	56%	60% to 70%

The aggregate fair value of share options granted during the year is $1,010,320 (2013 - $2,906,605). The weighted average fair value of the share options is $1.23 (2013 - $2.22) per share. During the fiscal year ended December 31, 2014, the company recognized a share-based compensation expense of $337,000 related to share options with a corresponding increase in contributed surplus.

For the year ended December 31, 2014, expected volatility is based on a review of historical volatilities for the company.

The expected share option life is based on the employees' historical exercise behaviour.

The risk-free interest rate used for each grant is equal to the Canadian treasury bill rates in effect at the date of grant for instruments with a term similar to the expected life of the related share option.

a) Performance share options

Under the company's Long-Term Incentive Plan (LTIP), which was adopted in 2013, the company may issue PSOs to employees, directors and officers in accordance with the company's 2011 stock option plan (2011 Plan). The purpose of the PSO Plan is to attract, retain and motivate employees of the company. During the fiscal year ended December 31, 2014, the company issued 818,683 PSOs in accordance with the provisions of the LTIP. For the year ended December 31, 2014, the company determined that the performance hurdles related to the PSOs had not been achieved and as a result did not record any related share-based compensation expense.

(expressed in US dollars, unless otherwise noted)

b) Restricted share unit plan

On March 5, 2013, the Board approved the adoption of a RSU Plan as part of the company's LTIP, which was subsequently approved by shareholders on May 8, 2013. The purpose of the RSU Plan is to attract, retain and motivate employees of the company. During the fiscal year ended December 31, 2014, the company issued 121,782 (2013 - 62,399) RSUs in accordance with the provisions of the RSU Plan. For the year ended December 31, 2014, the company determined that the performance hurdles related to the RSUs had not been achieved and as a result did not record any related share-based compensation expense.

c) Deferred share unit plan

On March 5, 2013, the Board approved the adoption of a DSU Plan, which was subsequently approved by shareholders on May 8, 2013. During the fiscal year ended December 31, 2014, 58,750 (2013 - 30,275) DSUs were issued to non-employee directors of the company. During the fiscal year ended December 31, 2014, the company recognized a share-based compensation expense of $119,000 related to DSUs with a corresponding increase in contributed surplus.

13 Common shares

	Number of common shares	Share capital
Balance - December 31, 2012	55,259,085	492,065,820
Common share options exercised	976,028	409,574
Warrants exercised	158,270	124,628
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	(406,840)	(762,784)
Balance - December 31, 2014	56,477,460	492,041,244

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 TSX. The number of shares to be purchased will not exceed 2,478,823 common shares. The period of the Bid occurred from November 13, 2013 to November 12, 2014. During the year ended December 31, 2014, the company repurchased 406,840 common shares for total consideration of $0.8 million (Canadian dollars).

Outstanding warrants

During the year ended December 31, 2014, 202,958 (2013 - 158,270) warrants were exercised into common shares generating proceeds of $160,058 (2013 - $124,628). At December 31, 2014, the company had no further warrants outstanding.

(expressed in US dollars, unless otherwise noted)

14 Income taxes

The difference between income tax expense and the income taxes as computed based on the statutory rate is as follows:

	2014	2013
Net loss before income taxes	(14,514,589)	(14,764,804)
Income tax benefit at statutory rate	(3,846,366)	(3,912,673)
Cost (benefit) resulting from		
Research and development credit	(464,534)	(1,007,337)
Deferred income tax assets expired	233	20,896
Deferred income tax assets not recognized and other	4,310,667	4,899,114
Income tax expense	-	-

Estimated temporary differences in the timing of recognition of expenses for accounting and income tax purposes at December 31 result in deferred income taxes as follows:

	2014	2013
Estimated deferred income tax assets attributable to		
Net operating loss carry-forwards	22,865,537	17,696,631
Research and development credits	2,447,973	2,134,632
Other deferred income tax assets	2,176,870	2,577,256
Deferred income tax assets	27,490,380	22,408,519
Deferred income tax assets not recognized and other	(27,490,380)	(22,408,519)
Net deferred income tax assets	-	-

(expressed in US dollars, unless otherwise noted)

The estimated net operating loss carry-forwards and estimated research and development credits expire as follows:

	United States of America		Canada and the Netherlands	Canada
	Net operating loss carry-forwards	**Research and development credits**	**Net operating loss carry-forwards**	**Research and development credits**
Year ending December 31,				
2016	252,561	-	-	-
2017	317,961	-	-	-
2018	1,009,888	-	-	-
2019	1,561,172	11,664	-	-
2020	2,063,163	42,132	-	-
2021	2,564,511	55,822	1,185,240	-
2022	1,338,594	52,731	1,915,609	-
2023	1,321,285	44,965	-	-
2024	1,532,264	46,333	-	-
2025	1,629,456	47,245	-	-
2026	1,562,856	41,905	496	-
2027	2,011,361	35,351	-	-
2028	2,717,038	69,118	2,583	-
2029	2,854,334	63,226	-	-
2030	1,207,399	96,302	-	51,074
2031	3,927,982	-	3,508,319	409,821
2032	1,127,104	-	4,256,082	706,894
2033	10,855,247	-	9,132,359	1,017,294
2034	3,153,905	-	11,864,765	374,082
	43,008,081	606,794	31,865,453	2,559,165

(expressed in US dollars, unless otherwise noted)

15 Commitments

The company has entered into the following financial commitments:

Year ending December 31, 2015	6,466,084
2016	5,299,449
2017	376,082
2018	330,671
Thereafter	661,343
	13,133,629

During the normal course of operations, the company may enter into feedstock contracts to secure raw material availability over a 12-month period based on market pricing at the time of purchase. As at December 31, 2014, the company was committed to purchases of feedstock of approximately $10,694,135 prior to December 31, 2016.

16 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. During the year ended December 31, 2014, revenue from external customers located in Canada was $3.3 million (2013 - $3.1 million). The total revenue from external customers in the following regions is as follows:

	2014	2013
Americas	12,631,831	12,508,384
EMEA	617,027	2,482,469
Asia Pacific	5,592,887	7,238,993
	18,841,745	22,229,846

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 year ended December 31, 2014, revenue attributable to the individual countries representing greater than 10% of total revenues included United States, Japan and Canada, which represented 42%, 17% and 17%, respectively.

During the year ended December 31, 2013, revenue attributable to the individual countries representing greater than 10% of total revenues included United States, Japan, Canada and Germany, which represented 33%, 27%, 14% and 10%, respectively.

(expressed in US dollars, unless otherwise noted)

Sales to major customers

The company derives a significant portion of its revenues from certain customers. Three customers represented 23%, 17% and 17%, respectively, of total revenue for the year ended December 31, 2014 (2013 - five customers represented 27%, 16%, 14%, 10% and 10%, respectively). The concentrations listed do not necessarily apply to the same customer year over year.

Property, plant and equipment and intangible assets

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

	2014	2013
Canada	3,046,242	3,540,808
United States of America	4,939,357	5,318,289
The Netherlands	3,757,156	4,040,100
	11,742,755	12,899,197

17 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:

	2014	2013
Wages and salaries, including benefits	9,529,925	9,417,539
Share-based compensation	456,000	956,225
Depreciation and amortization	1,767,366	1,731,765

18 Loss per share

Basic loss per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of common shares in issue during the year.

Diluted loss per share is equivalent to basic loss per share, as the consideration of potentially dilutive securities would be anti-dilutive.

(expressed in US dollars, unless otherwise noted)

19 Contingencies and guarantees

In connection with the company's initial public offering on August 4, 2011, the company agreed to provide an indemnity to each of the retained interest holders for any: (i) loss of deferral of US income taxes attributable to the execution of the put/call agreement that are incurred by a retained interest holder before the third anniversary of the closing of the offering; (ii) interest and penalties paid that are attributable to any US federal, state or local income tax liability of a retained interest holder that arises as a result of a final determination by any US taxing authority relating to the execution of the put/call agreement (taxes); and (iii) certain reasonable fees, costs and expenses paid by a retained interest holder to defend any demand, claim or notice from a US taxing authority with respect to taxes. The company's liability under the indemnity will not exceed the indemnity cap, which is determined based on $2.72 per covered share (which equates to $0.3885 per common share into which each covered share may be exchanged), representing a maximum liability to the company under the indemnity of approximately $4 million. The indemnity will terminate on the fifth anniversary of the closing. The company has assessed the likelihood of incurring the liability as remote and, accordingly, has not recorded a provision at December 31, 2014.

20 Subsequent event

On January 13, 2015, the company announced a workforce reduction and recognized approximately $0.4 million in associated severance costs as part of selling, general and administration expenses subsequent to December 31, 2014.