

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

September 30, 2014
(expressed in US dollars)



November 3, 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 EcoSynthetix Inc. (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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

PricewaterhouseCoopers LLP

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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)

	September 30, 2014	December 31, 2013
	\$	\$
Assets		
Current assets		
Cash	70,242,571	80,506,957
Accounts receivable (note 2)	2,766,090	3,691,791
Inventory (note 3)	6,314,333	6,470,410
Government grants receivable	423,755	261,648
Prepaid expenses	294,198	276,856
	<u>80,040,947</u>	<u>91,207,662</u>
Non-current assets		
Intangible assets	70,515	124,009
Property, plant and equipment (note 4)	12,042,583	12,775,188
	<u>92,154,045</u>	<u>104,106,859</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	<u>3,199,648</u>	<u>3,947,385</u>
Shareholders' Equity		
Common shares (note 7)	492,109,257	492,600,022
Contributed surplus	8,011,831	7,661,849
Accumulated deficit	<u>(411,166,691)</u>	<u>(400,102,397)</u>
	<u>88,954,397</u>	<u>100,159,474</u>
	<u>92,154,045</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)

	Three months ended September 30		Nine months ended September 30	
	2014 \$	2013 \$	2014 \$	2013 \$
Net sales	4,840,892	5,416,621	14,377,604	17,070,777
Cost of sales	4,346,413	4,579,748	11,947,457	14,357,296
Gross profit on sales	494,479	836,873	2,430,147	2,713,481
Expenses				
Selling, general and administrative	3,278,090	3,450,071	9,592,862	10,175,132
Research and development	1,300,597	1,438,023	4,154,854	3,936,976
	4,578,687	4,888,094	13,747,716	14,112,108
Loss from operations	(4,084,208)	(4,051,221)	(11,317,569)	(11,398,627)
Interest income	84,030	90,675	253,275	269,903
Net loss and comprehensive loss	(4,000,178)	(3,960,546)	(11,064,294)	(11,128,724)
Basic and diluted loss per common share	(0.07)	(0.07)	(0.19)	(0.20)
Weighted average number of common shares outstanding	56,628,449	55,764,273	56,883,831	56,026,829

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
Warrants exercised	95,299	-	-	95,299
Common share options exercised	396,787	(120,830)	-	275,957
Share-based compensation	-	1,093,979	-	1,093,979
Net loss and comprehensive loss	-	-	(11,128,724)	(11,128,724)
Balance - September 30, 2013	492,557,906	7,804,503	(396,466,317)	103,896,092
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	(694,771)	-	-	(694,771)
Share-based compensation	-	366,000	-	366,000
Net loss and comprehensive loss	-	-	(11,064,294)	(11,064,294)
Balance - September 30, 2014	492,109,257	8,011,831	(411,166,691)	88,954,397

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

EcoSynthetix Inc.

Interim Consolidated Statements of Cash Flows

(Unaudited)

For the year ended September 30, 2014

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2014 \$	2013 \$	2014 \$	2013 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(4,000,178)	(3,960,546)	(11,064,294)	(11,128,724)
Items not affecting cash				
Depreciation and amortization	379,947	387,337	1,243,511	1,134,941
Share-based compensation (note 6)	111,000	477,000	366,000	1,093,979
Changes in non-cash working capital				
Accounts receivable	634,446	739,527	925,701	468,354
Inventory	(411,741)	387,133	(21,342)	(329,435)
Government grants receivable	21,136	(4,429)	(162,107)	3,169
Prepaid expenses	203,092	34,993	(17,342)	(199,549)
Accounts payable and accrued liabilities	(329,549)	1,309,383	(747,737)	1,189,479
Deferred government grant	-	(82,918)	-	(226,920)
	(3,391,847)	(712,520)	(9,477,610)	(7,994,706)
Investing activities				
Cash used for purchase of intangible assets and property, plant and equipment (note 4)	(8,300)	(485,137)	(279,993)	(1,728,072)
Financing activities				
Exercise of common share options	-	33,260	27,930	275,957
Exercise of warrants	-	95,299	160,058	95,299
Repurchase of common shares	(220,495)	-	(694,771)	-
	(220,495)	128,559	(506,783)	371,256
Change in cash during the period	(3,620,642)	(1,069,098)	(10,264,386)	(9,351,522)
Cash - Beginning of period	73,863,213	84,977,872	80,506,957	93,260,296
Cash - End of period	70,242,571	83,908,774	70,242,571	83,908,774

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 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 November 3, 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

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 interim consolidated balance sheets or in disclosure.

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.

New accounting standards issued but not yet effective

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). This new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and

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financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of this standard.

2 Accounts receivable

	September 30, 2014 \$	December 31, 2013 \$
Trade accounts receivable	2,821,249	3,460,764
Allowance for doubtful accounts	(400,000)	-
Commodity taxes receivable and other	344,841	231,027
	<u>2,766,090</u>	<u>3,691,791</u>

During the three and nine months ending September 30, 2014, the Company recognized an impairment on its trade receivables of \$400,000 related to a single customer announcing the idling of one of its paper mills indefinitely.

3 Inventory

	September 30, 2014 \$	December 31, 2013 \$
Raw materials	1,515,980	772,252
Finished goods	4,798,353	5,698,158
	<u>6,314,333</u>	<u>6,470,410</u>

During the three months ending September 30, 2014, the Company recognized a \$300,000 charge to cost of sales related to shipments to a customer which were not recognized as revenue during the period since collectability was not probable at the time of shipment.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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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 September 30, 2014					
Additions	12,987	264,476	2,530	-	279,993
Depreciation	(38,860)	(883,702)	-	(90,036)	(1,012,598)
Transfers	-	221,748	(221,748)	-	-
Closing net book value	75,924	11,364,916	-	601,743	12,042,583
At September 30, 2014					
Cost	297,264	14,295,471	-	948,540	15,541,275
Accumulated depreciation	(221,340)	(2,930,555)	-	(346,797)	(3,498,692)
Net book value	75,924	11,364,916	-	601,743	12,042,583

For the three and nine months ended September 30, 2014, depreciation expense of \$250,244 and \$798,460 (2013 - \$264,651 and \$841,430) has been charged to cost of goods sold and \$111,872 and \$334,142 (2013 - \$104,855 and \$235,520) has been charged to selling, general and administrative expenses.

5 Accounts payable and accrued liabilities

	September 30, 2014 \$	December 31, 2013 \$
Trade accounts payable	1,041,987	1,962,450
Commodity taxes payable	400,793	460,267
Accrued liabilities	1,756,868	1,524,668
	<u>3,199,648</u>	<u>3,947,385</u>

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6 Share-based compensation

At September 30, 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, 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	(143,141)	3.43
	<hr/>	
Outstanding - September 30, 2014	6,450,989	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	(356,364)	(694,771)
	<hr/>	
Balance - September 30, 2014	56,527,936	492,109,257

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 nine months ended September 30, 2014, the Company repurchased 137,952 and 356,364 common shares for total consideration of \$220,495 and \$694,771, respectively.

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 nine months ended September 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 September 30, 2014.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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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 nine months ended September 30, 2014 was \$906,319 and \$2,547,217 respectively (2013 - \$803,430 and \$2,159,053 respectively). The total revenue from external customers in the following regions was as follows:

	Three months ended September 30		Nine months ended September 30	
	2014 \$	2013 \$	2014 \$	2013 \$
North America	2,804,342	2,823,985	8,480,915	7,544,562
Latin America	291,779	488,318	1,358,173	1,580,737
EMEA	199,325	690,962	441,447	2,340,080
Asia Pacific	1,545,446	1,413,356	4,097,069	5,605,398
	<u>4,840,892</u>	<u>5,416,621</u>	<u>14,377,604</u>	<u>17,070,777</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 September 30, 2014, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan and Canada which represented 39%, 19% and 19%, respectively. During the three months ended September 30, 2013, revenue attributable to individual countries reporting greater than 10% of total revenue included United States, Japan, Canada and Germany, which represented 37%, 25%, 15% and 11%, respectively.

During the nine months ended September 30, 2014, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan and Canada which represented 41%, 19% and 18%, respectively. During the nine months ended September 30, 2013, revenue attributable to individual countries reporting greater than 10% of total revenue included United States, Japan, Germany and Canada, which represented 32%, 26%, 12% and 13%, respectively.

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(expressed in US dollars)

Sales to major customers

During the three months ended September 30, 2014, the Company derived a significant portion of its revenues from three customers, representing 23%, 19% and 19% of total revenue (2013 - 14%, 12%, 12%, 11% and 10% from five customers). During the nine months ended September 30, 2014, the Company derived a significant portion of its revenues from four customers, representing 21%, 19%, 18% and 10% of total revenue (2013 - 12%, 12%, 11% and 10% from four customers). The concentrations disclosed do not necessarily apply to the same customer 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:

	September 30, 2014 \$	December 31, 2013 \$
Canada	3,213,121	3,540,808
United States of America	5,055,877	5,318,289
The Netherlands	3,844,100	4,040,100
	<u>12,113,098</u>	<u>12,899,197</u>

9 Expenses by nature

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

	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	2014 \$	2013 \$	2014 \$	2013 \$
Wages and salaries	2,202,114	2,364,112	6,796,066	7,147,566
Share-based compensation	111,000	477,000	366,000	1,093,979
Depreciation and amortization	379,947	387,337	1,243,511	1,134,941