

# **EcoSynthetix Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**March 31, 2014**  
(expressed in US dollars)



May 1, 2014

### **Notice of No Auditor Review of Interim Financial Statements**

Under National Instrument 51-102, Part 4, Subsection 4.34(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 standard 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**

---

*PricewaterhouseCoopers LLP*  
*PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2*  
*T: +1 416 863 1133, F: +1 416 365 8215*

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

**EcoSynthetix Inc.**  
Interim Consolidated Balance Sheets  
(Unaudited)

(expressed in US dollars)

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	77,212,911	80,506,957
Accounts receivable (note 2)	3,534,237	3,691,791
Inventory (note 3)	6,327,289	6,470,410
Government grants receivable	344,022	261,648
Prepaid expenses	271,247	276,856
	<u>87,689,706</u>	<u>91,207,662</u>
<b>Non-current assets</b>		
Intangible assets	119,831	124,009
Property, plant and equipment (note 4)	12,651,943	12,775,188
	<u>100,461,480</u>	<u>104,106,859</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 5)	3,373,150	3,947,385
	<u>3,373,150</u>	<u>3,947,385</u>
<b>Shareholders' Equity</b>		
<b>Common shares</b> (note 7)	492,732,150	492,600,022
<b>Contributed surplus</b>	7,780,831	7,661,849
<b>Accumulated deficit</b>	(403,424,651)	(400,102,397)
	<u>97,088,330</u>	<u>100,159,474</u>
<b>Total liabilities and shareholders' equity</b>	<u>100,461,480</u>	<u>104,106,859</u>

**Approved by the Board of Directors**

**(signed)**

John van Leeuwen, Director

**(signed)**

John E. Barker, Director

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

**EcoSynthetix Inc.**

## Interim Consolidated Statements Operations and Comprehensive Loss

(Unaudited)

For the three months ended March 31, 2014 and March 31, 2013

(expressed in US dollars)

	2014 \$	2013 \$
<b>Net sales</b>	4,994,064	6,120,478
<b>Cost of sales</b>	4,011,075	5,064,352
<b>Gross profit on sales</b>	982,989	1,056,126
<b>Expenses</b>		
Selling, general and administrative	2,844,083	3,405,462
Research and development	1,544,261	1,269,522
	4,388,344	4,674,984
<b>Loss from operations</b>	(3,405,355)	(3,618,858)
<b>Interest income</b>	83,101	85,372
<b>Net loss and comprehensive loss</b>	(3,322,254)	(3,533,486)
<b>Basic and diluted loss per common share</b>	(0.06)	(0.06)
<b>Weighted average number of common shares outstanding</b>	56,731,241	55,689,778

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)

	<b>Common shares \$</b>	<b>Contributed surplus \$</b>	<b>Accumulated deficit \$</b>	<b>Total \$</b>
<b>Balance - January 1, 2013</b>	492,065,820	6,831,354	(385,337,593)	113,559,581
Common share options exercised	328,879	(94,000)	-	234,879
Common shares repurchased	-	-	-	-
Share-based compensation	-	331,103	-	331,103
Net loss and comprehensive loss	-	-	(3,533,486)	(3,533,486)
<b>Balance - March 31, 2013</b>	<b>492,394,699</b>	<b>7,068,457</b>	<b>(388,871,079)</b>	<b>110,592,077</b>
<b>Balance - January 1, 2014</b>	492,600,022	7,661,849	(400,102,397)	100,159,474
Warrants exercised (note 7)	160,058	-	-	160,058
Common share options exercised (note 7)	43,948	(16,018)	-	27,930
Common shares repurchased (note 7)	(71,878)	-	-	(71,878)
Share-based compensation	-	135,000	-	135,000
Net loss and comprehensive loss	-	-	(3,322,254)	(3,322,254)
<b>Balance - March 31, 2014</b>	<b>492,732,150</b>	<b>7,780,831</b>	<b>(403,424,651)</b>	<b>97,088,330</b>

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

# EcoSynthetix Inc.

## Interim Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31, 2014 and March 31, 2013

(expressed in US dollars)

	2014 \$	2013 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss	(3,322,254)	(3,533,486)
Items not affecting cash		
Depreciation and amortization	429,919	381,907
Share-based compensation (note 6)	135,000	331,103
Changes in non-cash working capital		
Accounts receivable (note 2)	157,554	(379,649)
Inventory	70,821	(1,000,062)
Government grants receivable	(82,374)	3,619
Prepaid expenses	5,609	(67,192)
Accounts payable and accrued liabilities (note 5)	(574,233)	1,548,543
Deferred government assistance	-	(103,030)
	<u>(3,179,958)</u>	<u>(2,818,247)</u>
<b>Investing activities</b>		
Cash used for purchase of intangible assets and property, plant and equipment	<u>(230,198)</u>	<u>(467,190)</u>
<b>Financing activities</b>		
Exercise of common share options (note 7)	27,930	234,879
Exercise of warrants (note 7)	160,058	-
Repurchase of common shares (note 7)	<u>(71,878)</u>	<u>-</u>
	<u>116,110</u>	<u>234,879</u>
<b>Change in cash during the period</b>	<b>(3,294,046)</b>	<b>(3,050,558)</b>
<b>Cash - Beginning of period</b>	<u>80,506,957</u>	<u>93,260,296</u>
<b>Cash - End of period</b>	<u>77,212,911</u>	<u>90,209,738</u>

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

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2014 and March 31, 2013

---

(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.

#### 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 May 1, 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

- 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)

March 31, 2014 and March 31, 2013

(expressed in US dollars, unless otherwise noted)

### 2 Accounts receivable

	March 31, 2014 \$	December 31, 2013 \$
Trade accounts receivable	3,298,357	3,460,764
Commodity taxes receivable and other	235,880	231,027
	<u>3,534,237</u>	<u>3,691,791</u>

### 3 Inventory

	March 31, 2014 \$	December 31, 2013 \$
Raw materials	1,159,759	772,252
Finished goods	5,167,530	5,698,158
	<u>6,327,289</u>	<u>6,470,410</u>

### 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	<u>(182,480)</u>	<u>(2,046,853)</u>	<u>-</u>	<u>(256,761)</u>	<u>(2,486,094)</u>
Net book value	101,797	11,762,394	219,218	691,779	12,775,188
Period ended March 31, 2014					
Additions	6,372	208,929	-	-	215,301
Depreciation	<u>(13,488)</u>	<u>(295,047)</u>	<u>-</u>	<u>(30,011)</u>	<u>(338,546)</u>
Transfers	-	111,533	(111,533)	-	-
Closing net book value	<u>94,681</u>	<u>11,787,809</u>	<u>107,685</u>	<u>661,768</u>	<u>12,651,943</u>
At March 31, 2014					
Cost	290,649	14,129,709	107,685	948,540	15,476,583
Accumulated depreciation	<u>(195,968)</u>	<u>(2,341,900)</u>	<u>-</u>	<u>(286,772)</u>	<u>(2,824,640)</u>
Net book value	<u>94,681</u>	<u>11,787,809</u>	<u>107,685</u>	<u>661,768</u>	<u>12,651,943</u>



# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2014 and March 31, 2013

---

(expressed in US dollars, unless otherwise noted)

For the three months ended March 31, 2014, depreciation expense of \$299,977 (2013 - \$310,112) has been charged to cost of goods sold and \$110,869 (2013 - \$55,065) has been charged to selling, general and administrative expenses.

### 5 Accounts payable and accrued liabilities

	March 31, 2014 \$	December 31, 2013 \$
Trade accounts payable	1,613,902	1,962,450
Commodity taxes payable	299,584	460,267
Accrued liabilities	1,459,664	1,524,668
	<hr/>	<hr/>
	3,373,150	3,947,385

### 6 Share-based compensation

At March 31, 2014, the company had outstanding share options to purchase 6,448,969 common shares of the company. The share options expire at various dates through March 6, 2024.

	Number of share options outstanding	Weighted average exercise price
Outstanding - December 31, 2013	6,064,281	1.61
Share options cancelled	-	-
Share options granted	673,522	2.51
Share options exercised	(287,959)	0.11
Share options expired	(875)	0.08
	<hr/>	
Outstanding - March 31, 2014	6,448,969	1.77

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2014 and March 31, 2013

---

(expressed in US dollars, unless otherwise noted)

### 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	(31,192)	(71,878)
	<hr/>	<hr/>
Balance - March 31, 2014	56,853,108	492,732,150

#### 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 months ended March 31, 2014, the company repurchased 31,192 common shares for total consideration of \$71,878.

#### 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 three months ended March 31, 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 March 31, 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) Bindery.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2014 and March 31, 2013

(expressed in US dollars, unless otherwise noted)

### Sales by geographic location

The company is domiciled in Canada. Revenue from external customers located in Canada is \$827,223 (2013 - \$602,755). The total revenue from external customers in the following regions is as follows:

	<u>Three months ended March 31,</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
North America	2,750,532	2,355,984
Latin America	465,708	708,440
EMEA	114,450	844,336
Asia Pacific	1,663,374	2,211,718
	<u>4,994,064</u>	<u>6,120,478</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 March 31, 2014, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan, and Canada, which represented 39%, 28%, and 17%, respectively. During the three months ended March 31, 2013, revenue attributable to individual countries representing greater than 10% of total revenue included United States, Japan, Germany, China and Canada which represented 29%, 24%, 13%, 10% and 10%, respectively.

### Sales to major customers

During the three months ended March 31, 2014, the company derived a significant portion of its revenues from four customers, representing 28%, 19%, 16% and 11% of total revenue (2013 - 24%, 13%, 10% and 10% from four customers). The concentrations disclosed do not necessarily apply to the same customers 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:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Canada	3,437,284	3,540,808
United States of America	5,311,631	5,318,289
The Netherlands	4,022,859	4,040,100
	<u>12,771,774</u>	<u>12,899,197</u>

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2014 and March 31, 2013

---

(expressed in US dollars, unless otherwise noted)

### 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:

	<u>Three months ended March 31,</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Wages and salaries	2,333,975	2,038,758
Share-based compensation	135,000	331,103
Depreciation and amortization	429,919	381,907