

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

March 31, 2015 and March 31, 2014
(expressed in US dollars)



May 1, 2015

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 interim 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)

	March 31, 2015 \$	December 31, 2014 \$
Assets		
Current assets		
Cash	64,588,258	67,245,970
Accounts receivable (note 2)	1,716,963	2,258,151
Inventory (note 3)	5,701,325	5,497,944
Government grants receivable (note 4)	575,350	66,957
Prepaid expenses	188,808	286,288
	<u>72,770,704</u>	<u>75,355,310</u>
Non-current assets		
Intangible assets	34,848	52,683
Property, plant and equipment (note 5)	11,833,656	11,690,072
	<u>11,868,504</u>	<u>11,742,755</u>
Total assets	<u>84,639,208</u>	<u>87,098,065</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	3,202,738	1,571,976
	<u>3,202,738</u>	<u>1,571,976</u>
Total liabilities	<u>3,202,738</u>	<u>1,571,976</u>
Shareholders' Equity		
Common shares (note 8)	492,041,244	492,041,244
Contributed surplus	8,136,831	8,101,831
Accumulated deficit	(418,741,605)	(414,616,986)
	<u>81,436,470</u>	<u>85,526,089</u>
Total shareholders' equity	<u>81,436,470</u>	<u>85,526,089</u>
Total liabilities and shareholders' equity	<u>84,639,208</u>	<u>87,098,065</u>

Approved by the Board of Directors

(signed)

Jeff MacDonald, Chief Executive Officer

(signed)

John E. Barker, Director

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

EcoSynthetix Inc.

Interim Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

For the three months ended March 31, 2015 and March 31, 2014

(expressed in US dollars)

	2015 \$	2014 \$
Net sales	4,169,948	4,994,064
Cost of sales	3,588,680	4,011,075
Gross profit on sales	581,268	982,989
Expenses		
Selling, general and administrative	2,726,678	2,844,083
Provision for termination benefits (note 11)	1,220,080	-
Research and development	839,020	1,544,261
	4,785,778	4,388,344
Loss from operations	(4,204,510)	(3,405,355)
Interest income	79,891	83,101
Net loss and comprehensive loss	(4,124,619)	(3,322,254)
Basic and diluted loss per common share	(0.07)	(0.06)
Weighted average number of common shares outstanding	56,477,460	56,731,241

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, 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	(71,878)	-	-	(71,878)
Share-based compensation	-	135,000	-	135,000
Net loss and comprehensive loss	-	-	(3,322,254)	(3,322,254)
Balance - March 31, 2014	492,732,150	7,780,831	(403,424,651)	97,088,330
Balance - January 1, 2015	492,041,244	8,101,831	(414,616,986)	85,526,089
Share-based compensation (note 7)	-	35,000	-	35,000
Net loss and comprehensive loss	-	-	(4,124,619)	(4,124,619)
Balance - March 31, 2015	492,041,244	8,136,831	(418,741,605)	81,436,470

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, 2015 and March 31, 2014

(expressed in US dollars)

	2015 \$	2014 \$
Cash provided by (used in)		
Operating activities		
Net loss	(4,124,619)	(3,322,254)
Items not affecting cash		
Depreciation and amortization	336,742	429,919
Share-based compensation (note 7)	35,000	135,000
Unrealized foreign exchange loss	529,266	-
Changes in non-cash working capital		
Accounts receivable (note 2)	541,188	157,554
Inventory	(129,176)	70,821
Government grants receivable	(508,393)	(82,374)
Prepaid expenses	97,480	5,609
Accounts payable and accrued liabilities (note 6)	1,630,762	(574,233)
	<u>(1,591,750)</u>	<u>(3,179,958)</u>
Investing activity		
Cash used for purchase of intangible assets and property, plant and equipment	<u>(462,491)</u>	<u>(230,198)</u>
Financing activities		
Exercise of common share options (note 8)	-	27,930
Exercise of warrants (note 8)	-	160,058
Repurchase of common shares (note 8)	<u>-</u>	<u>(71,878)</u>
	<u>-</u>	<u>116,110</u>
Effect of exchange rate changes on cash	<u>(603,471)</u>	<u>-</u>
Change in cash during the period	<u>(2,657,712)</u>	<u>(3,294,046)</u>
Cash - Beginning of period	<u>67,245,970</u>	<u>80,506,957</u>
Cash - End of period	<u>64,588,258</u>	<u>77,212,911</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, 2015 and March 31, 2014

(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 the Americas, 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 interim consolidated 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, 2014. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at May 1, 2015, the date that the Board of Directors (the Board) approved the interim consolidated financial statements. The interim consolidated financial statements are in compliance with International Accounting Standard 34 (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, 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, 2014. These interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2014.

New accounting standards

New accounting standards issued and effective

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 International Accounting Standard 39 (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 (OCI). Where equity instruments are measured at fair value through OCI, 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 other comprehensive income indefinitely. The adoption of this standard did not have a material effect on the Company's financial statements.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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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 or loss are generally recorded in OCI. In July 2014, the effective date was revised to January 1, 2018 with earlier application permitted. The Company has not yet assessed the impact of this standard and amendments or determined whether it will early adopt them.

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting, and (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9).

New accounting standards issued but not yet effective

IFRS 15, Revenue from Contracts with Customers, 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.

2 Accounts receivable

	March 31, 2015 \$	December 31, 2014 \$
Trade accounts receivable	1,555,538	2,142,926
Commodity taxes receivable and other	161,425	115,225
	<u>1,716,963</u>	<u>2,258,151</u>

3 Inventory

	March 31, 2015 \$	December 31, 2014 \$
Raw materials	1,137,973	945,644
Finished goods	4,563,352	4,552,300
	<u>5,701,325</u>	<u>5,497,944</u>

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Notes to Interim Consolidated Financial Statements

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4 Government grants

On September 11, 2014, the Company announced that it will receive approximately \$2.0 million in funding from Bioindustrial Innovation Canada (BIC) to support the commercialization for new bio-based technology platforms targeting the replacement of non-renewable chemicals (BIC Grant). The grant is subject to completion of certain activities pursuant to the work plans for each project eligible for reimbursement.

For the three months ended March 31, 2015, in accordance with the provisions of the BIC Grant, the Company recognized \$0.4 million and \$0.1 million of grants related to operating expenses and capital asset expenditures, respectively. The Company expects to collect these balances in the next twelve months.

5 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 \$	Total \$
At December 31, 2014				
Cost	14,441,274	948,540	297,264	15,687,078
Accumulated depreciation	(3,387,154)	(376,806)	(233,046)	(3,997,006)
Net book value	11,054,120	571,734	64,218	11,690,072
Period ended March 31, 2015				
Additions	462,491	-	-	462,491
Depreciation	(278,920)	(30,011)	(9,976)	(318,907)
Closing net book value	11,237,691	541,723	54,242	11,833,656
At March 31, 2015				
Cost	14,903,765	948,540	297,264	16,149,569
Accumulated depreciation	(3,666,074)	(406,817)	(243,022)	(4,315,913)
Net book value	11,237,691	541,723	54,242	11,833,656

For the three months ended March 31, 2015, depreciation expense of \$191,912 (2014 - \$299,977) has been charged to cost of goods sold and \$126,995 (2014 - \$110,869) has been charged to selling, general and administrative expenses.

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6 Accounts payable and accrued liabilities

	March 31, 2015 \$	December 31, 2014 \$
Trade accounts payable	1,070,022	802,449
Accrued liabilities	2,132,716	769,527
	<u>3,202,738</u>	<u>1,571,976</u>

7 Share-based compensation

At March 31, 2015, the Company had outstanding share options to purchase 6,956,697 common shares of the Company. The share options expire at various dates through January 7, 2025.

	Number of share options outstanding	Weighted average exercise price \$
Outstanding - December 31, 2014	6,450,989	1.75
Share options granted	<u>505,708</u>	1.52
Outstanding - March 31, 2015	<u>6,956,697</u>	1.73

8 Common shares

	Number of common shares	Share capital \$
Balance - December 31, 2014	<u>56,477,460</u>	<u>492,041,244</u>
Balance - March 31, 2015	<u>56,477,460</u>	<u>492,041,244</u>

Share exchange

On November 14, 2014, the Company announced that it intends to make 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. The number of shares to be purchased will not exceed 2,714,106 common shares. The period of the Bid will occur from November 21, 2014 to November 20, 2015. During the three months ended March 31, 2015, the Company did not repurchase any common shares.

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

Outstanding warrants

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.

9 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.

Sales by geographic location

The Company is domiciled in Canada. During the three months ended March 31, 2015, revenue from external customers located in Canada is \$620,171 (2014 - \$827,223). The total revenue from external customers in the following regions is as follows:

	Three months ended March 31,	
	2015 \$	2014 \$
Americas	2,039,427	3,216,240
EMEA	97,243	114,450
Asia Pacific	2,033,278	1,663,374
	<u>4,169,948</u>	<u>4,994,064</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, 2015, revenue attributable to individual countries reporting greater than 10% of total revenues included Japan, United States and Canada, which represented 40%, 32% and 15%, respectively. 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.

Sales to major customers

During the three months ended March 31, 2015, the Company derived a significant portion of its revenues from three customers, representing 40%, 23% and 14% of total revenue (2014 - 28%, 19%, 16% and 11% from four customers). The concentrations disclosed do not necessarily apply to the same customers period over period.

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Notes to Interim Consolidated Financial Statements (Unaudited) March 31, 2015 and March 31, 2014

(expressed in US dollars, unless otherwise noted)

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:

	March 31, 2015 \$	December 31, 2014 \$
Canada	3,316,026	3,046,242
United States	4,835,380	4,939,357
The Netherlands	3,717,098	3,757,156
	<u>11,868,504</u>	<u>11,742,755</u>

10 Expenses by nature

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

	Three months ended March 31,	
	2015 \$	2014 \$
Wages and salaries	1,655,675	2,333,975
Termination benefits	1,220,080	-
Share-based compensation	35,000	135,000
Depreciation and amortization	336,742	429,919
Foreign exchange losses	662,494	10,765

Foreign exchange losses represent the revaluation of monetary assets and liabilities denominated in foreign currencies. The change in foreign exchange revaluation gains and losses is primarily due to foreign exchange rate fluctuations between the US dollar (our functional currency) and foreign currencies and the related impact on the net monetary position in those respective currencies. The foreign exchange losses for the three months ended March 31, 2015 primarily related to cash balances denominated in Canadian dollars.

11 Termination benefits

For the three months ended March 31, 2015, the Company recognized \$1.2 million in termination benefits as a result of a workforce reduction of approximately 20% in addition to the termination of employment with Mr. John van Leeuwen effective May 1, 2015. On March 19, 2015, the Company announced that Interim Chief Executive Officer, Mr. Jeff MacDonald, had been appointed as Chief Executive Officer of the Company replacing Mr. John van Leeuwen. As a result of this termination of employment, Mr. van Leeuwen is entitled to an aggregate of \$0.9 million, representing a 24-month severance period, inclusive of all salary, perquisites, allowances, statutory entitlements and bonus accounts. Accordingly, the Company has recorded a \$0.9 million provision for termination benefits during the current quarter. Mr. van Leeuwen is also entitled to a maximum

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of 24 months of severance related to the value of long-term incentives during this period. The Company has determined that no additional amounts are owed on account of long-term incentives as the associated performance conditions have not been met. Accordingly, the Company ascribes no value to the long-term incentives for the 24-month severance period. If the value of the long-term incentives is disputed, the Company's potential exposure is estimated to range from \$nil to \$0.7 million.