EcoSynthetix Inc.

Consolidated Financial Statements
December 31, 2016 and December 31, 2015
(expressed in US dollars)

March 7, 2017

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 as at December 31, 2016 and December 31, 2015 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, 2016 and December 31, 2015 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)

	2016	2015
Assets		
Current assets		
Cash	38,517,278	60,717,658
Accounts receivable (note 5)	2,199,289	1,177,719
Inventory (note 6)	3,216,016	3,290,238
Government grants receivable (note 7)	168,562	528,436
Prepaid expenses	165,352	242,983
	44,266,497	65,957,034
Non-current assets		
Long-term term deposit (note 8)	15,043,557	-
Property, plant and equipment (note 9)	7,933,584	8,746,072
Total assets	67,243,638	74,703,106
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	3,070,203	1,262,709
Accrued termination benefits (note 11)	415,888	1,277,755
Total liabilities	3,486,091	2,540,464
Shareholders' Equity		
Common shares (note 14)	493,359,612	493,182,209
Contributed surplus	8,740,007	8,017,907
Accumulated deficit	(438,342,072)	(429,037,474)
Total shareholders' equity	63,757,547	72,162,642
Total liabilities and shareholders' equity	67,243,638	74,703,106

Approved by the Board of Directors

(signed)	**(signed)**
Paul Lucas, Chairman	Jeff MacDonald, Chief Executive Officer

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)

	2016	2015
Net sales	13,277,386	14,582,820
Cost of sales	11,076,583	12,500,455
Gross profit on sales	2,200,803	2,082,365
Expenses		
Selling, general and administrative	6,532,524	8,488,594
Provision for termination benefits	534,114	1,939,080
Research and development	4,941,081	3,870,552
Impairment loss on property, plant and equipment (note 2)	-	2,500,000
	12,007,719	16,798,226
Loss from operations	(9,806,916)	(14,715,861)
Interest income	502,318	295,373
Net loss and comprehensive loss	(9,304,598)	(14,420,488)
Basic and diluted loss per common share (note 19)	(0.16)	(0.25)
Weighted average number of common shares outstanding	59,307,361	57,977,096

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, 2015	492,041,244	8,101,831	(414,616,986)	85,526,089
Common share options exercised (note 13)	1,140,965	(497,047)	-	643,918
Share-based compensation (note 13)	-	413,123	-	413,123
Net loss and comprehensive loss	-	-	(14,420,488)	(14,420,488)
Balance - December 31, 2015	493,182,209	8,017,907	(429,037,474)	72,162,642
Common share options exercised (note 13)	127,347	(60,109)	-	67,238
Share-based compensation (note 13)	-	832,265	-	832,265
DSU options exercised	50,056	(50,056)	-	-
Net loss and comprehensive loss	-	-	(9,304,598)	(9,304,598)
Balance - December 31, 2016	493,359,612	8,740,007	(438,342,072)	63,757,547

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)

	2016	2015
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss	(9,304,598)	(14,420,488)
Items not affecting cash		
Depreciation, amortization and impairment loss on property, plant and equipment (notes 2 and 9)	1,340,315	3,945,407
Share-based compensation (note 13)	832,265	413,123
Unrealized foreign exchange (gain) loss	(219)	139,937
Other	(228,238)	796,115
Changes in non-cash working capital		
Accounts receivable	(1,021,570)	1,080,432
Inventory	31,168	2,139,842
Government grants receivable (note 7)	(670,081)	(917,228)
Prepaid expenses	77,631	43,305
Accounts payable and accrued liabilities	1,907,494	(409,267)
Accrued termination benefits	(861,867)	1,277,755
	(7,897,700)	(5,911,067)
Investing activities		
Purchase of property, plant and equipment (note 9)	(584,773)	(780,860)
Purchase of long-term term deposit	(15,000,000)	-
	(15,584,773)	(780,860)
Financing activities		
Proceeds from government grant	1,029,955	455,749
Exercise of common share options	67,238	643,918
	1,097,193	1,099,667
Effect of exchange rate changes on cash	184,900	(936,052)
Decrease in cash during the year	(22,200,380)	(6,528,312)
Cash - Beginning of year	60,717,658	67,245,970
Cash - End of year	38,517,278	60,717,658

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 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.

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 6, 2017.

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 and impairment 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.

Property, plant and equipment are tested for impairment at the end of each reporting period or when events or changes in circumstances indicate the carrying amounts 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.

The Company has determined it has a single CGU, assessed as the entity as a whole, due to the interdependence of the Company's assets and liabilities in generating cash inflows. The recoverable amount of the CGU is highly dependent upon projected revenues, expenses and discount rates used in performing an analysis.

(expressed in US dollars, unless otherwise noted)

As at December 31, 2015, the Company determined that indication of impairment existed primarily due to the value of the Company's net assets exceeding the market capitalization of the Company and on-going operating losses. The Company performed an impairment assessment as at December 31, 2015 and has recorded an impairment charge of $2.5 million in relation to its property, plant and equipment (note 9).

In determining the recoverable amount of the CGU, the Company used a value in use analysis having concluded that due to the measurement uncertainty related to valuing the Company's future growth it was not possible to accurately determine a point estimate of the fair value less cost to sell of the CGU.

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.

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 the 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.

(expressed in US dollars, unless otherwise noted)

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.

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.

iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. The Company's held-to-maturity financial instrument consists of long-term term deposits. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment. Interest is recorded in interest income on the consolidated statements of operations and comprehensive loss.

(expressed in US dollars, unless otherwise noted)

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 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.

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.

(expressed in US dollars, unless otherwise noted)

Provisions

Provisions are recognized when the Company has a present legal or constructive 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 it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably. 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 natural feedstock and process chemicals.

Share capital

Common shares are classified as 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 the 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 have an expiry between seven and ten years from the grant date. 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. The exercise price 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 the 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 with a corresponding change to contributed surplus. 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 awarded cliff vest at the end of a three-year vesting period subject to continued employment with the Company. Compensation cost is calculated on a straight-line basis over the vesting period with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect a change in expected or actual forfeitures.

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

(expressed in US dollars, unless otherwise noted)

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

Standards issued but not yet effective or amended up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company has not determined if it will early adopt any standards at this time.

a) In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, Financial Instruments, which reflects all phases of the financial instruments project and replaces International Accounting Standard (IAS) 39, Financial Instruments - Recognition and Measurement, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company is in the process of evaluating the impact of this pronouncement.

b) In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which establishes a single comprehensive model of accounting for revenue arising from contracts with customers that an entity will apply to determine the measurement of revenue and timing of when it is recognized. IFRS 15 supersedes current revenue recognition guidance, which is found currently across several standards and interpretations including IAS 11, Construction Contracts and IAS 18, Revenue. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the amount an entity expects to be entitled to in exchange for those goods and services. The new standard will also result in enhanced disclosures about revenue that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is in the process of evaluating the impact of this pronouncement.

(expressed in US dollars, unless otherwise noted)

c) On January 13, 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. The Company is in the process of evaluating the impact of this pronouncement.

3 Risk management and financial instruments

The Company has classified its financial instruments into one of the following categories: loans and receivables, held-to-maturity and financial liabilities at amortized cost. The following table summarizes information regarding the carrying amounts of the Company's financial instruments:

	2016	2015
Loans and receivables	40,885,129	62,423,813
Held-to-maturity	15,043,557	-
Financial liabilities at amortized cost	3,486,091	2,540,464

Liquidity risk

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.

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, 2016, the Company's three largest customers accounted for 66% (2015 - three customers at 73%) of trade 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 up to 75 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 $1,915,469 at December 31, 2016 (2015 - $987,059), representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. The Company's exposure to credit risk for trade accounts receivable by geographic area at December 31 was as follows:

(expressed in US dollars, unless otherwise noted)

	2016 %	2015 %
Americas	31	47
EMEA	14	9
Asia Pacific	55	44
	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 $38,517,278 at December 31, 2016 (2015 - $60,717,658), representing the maximum exposure to credit risk of these financial assets. Approximately 99% (2015 - 99%) of the Company's cash at December 31, 2016 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:

	2016 %	2015 %
Canada	98.9	98.8
United States of America	0.8	0.7
The Netherlands	0.3	0.5
	100.0	100.0

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 realized foreign currency exchange gains in the year ended December 31, 2016 of $185,119 (2015 - loss of $796,115). The Company has unrealized foreign exchange losses in the year ended December 31, 2016 of a nominal amount (2015 - $139,937).

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 $396,235 (2015 - $484,807) 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 (2015 - nominal).

(expressed in US dollars, unless otherwise noted)

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 $27,159 (2015 - $28,289).

Fair value

The carrying amounts of accounts receivable 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.
- 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, 2016 were as follows:

	Level 1	Level 2	Level 3	Total
Cash	38,517,278	-	-	38,517,278
Accounts receivable	-	2,199,289	-	2,199,289
Government grants receivable	-	168,562	-	168,562
	38,517,278	2,367,851	-	40,885,129

The Company's financial assets and liabilities at fair value as at December 31, 2015 were as follows:

	Level 1	Level 2	Level 3	Total
Cash	60,717,658	-	-	60,717,658
Accounts receivable	-	1,177,719	-	1,177,719
Government grants receivable	-	528,436	-	528,436
	60,717,658	1,706,155	-	62,423,813

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

(expressed in US dollars, unless otherwise noted)

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, 2016 is $63,757,547 (2015 - $72,162,642). The Company's primary uses of capital are financing operations, 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.

5 Accounts receivable

	2016	2015
Trade accounts receivable	1,915,469	987,059
Commodity taxes receivable and other	283,820	190,660
	2,199,289	1,177,719

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

	2016	2015
Current	1,897,306	948,544
Past due 1 - 30 days	18,163	38,515
Past due 31 - 60 days	-	-
Past due 61 - 90 days	-	-
Past due greater than 91 days	-	-
	1,915,469	987,059

6 Inventory

	2016	2015
Raw materials	673,557	678,855
Finished goods	2,542,459	2,611,383
	3,216,016	3,290,238

The Company recorded a provision of $58,402 (2015 - $225,891) against finished goods and raw materials inventory.

Inventories recognized as an expense during the year amounted to $9,644,394 (2015 - $10,843,753).

(expressed in US dollars, unless otherwise noted)

7 Government grants

In September 2014, the Company announced that it would receive a grant of approximately $2.0 million from Agriculture and Agri-Food Canada (AAFC) through a national Bioproducts cluster that was developed by BioIndustrial Innovation Canada (BIC) (the grant). The grant was provided in support of accelerated commercialization for new bio-based platforms targeting the replacement of non-renewable chemicals. The grant could be repayable in the event a condition of default occurs. The Company expects to comply with the conditions of the grant and has accordingly recognized this grant in its operating results during fiscal 2015 and 2016. The total claims for the years ended December 31 were as follows:

	2016	2015
Operating expenses	669,960	769,863
Property, plant and equipment	-	170,298
	669,960	940,161

During the year ended December 31, 2016, the Company collected cash of $1,029,955 (2015 - $455,749) relating to claims under the grant. The Company expects to collect the remaining balance in the next 12 months.

8 Long-term term deposit

During the current fiscal year, the Company purchased a $15.0 million fixed term deposit maturing on January 8, 2018. The term deposit was purchased with a large chartered Canadian bank at an interest rate of 1.74%. The term deposit pays out accrued interest every six months starting April 30, 2016 with the final interest payment made on the maturity date. The carrying value of the term deposit includes accrued interest and is recorded at amortized cost using the effective interest method. The Company has classified the investment as ‘held-to-maturity’.

(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	Total
Cost				
January 1, 2015	14,441,274	948,540	297,264	15,687,078
Additions	875,744	-	5,116	880,860
December 31, 2015	15,317,018	948,540	302,380	16,567,938
Additions	484,773	-	-	484,773
Disposals	(323,765)	(116,697)	(209,705)	(650,167)
December 31, 2016	15,478,026	831,843	92,675	16,402,544
Accumulated depreciation				
January 1, 2015	(3,387,154)	(376,806)	(233,046)	(3,997,006)
Depreciation	(1,153,086)	(141,718)	(30,056)	(1,324,860)
Impairment loss (note 2)	(2,069,984)	(430,016)	-	(2,500,000)
December 31, 2015	(6,610,224)	(948,540)	(263,102)	(7,821,866)
Depreciation expense	(1,282,450)	-	(14,811)	(1,297,261)
Accumulated depreciation on disposals	323,765	116,697	209,705	650,167
December 31, 2016	(7,568,909)	(831,843)	(68,208)	(8,468,960)
Net carrying amount				
December 31, 2015	8,706,794	-	39,278	8,746,072
December 31, 2016	7,909,117	-	24,467	7,933,584

The Company invested $484,773 (2015 - $880,860) in capital asset additions for the year ended December 31, 2016, net of $nil (2015 - $180,293) in government grants. The additions primarily relate to equipment for production and research and development purposes. There were no capital asset additions included in trade payables and accrued liabilities as at December 31, 2016 (2015 - $100,000).

During the year ended December 31, 2016, depreciation expense of $764,112 (2015 - $883,446) has been charged to cost of goods sold, $14,811 (2015 - $170,673) has been charged to selling, general and administrative expenses and $561,392 (2015 - $338,605) has been charged to research and development.

10 Trade payables and accrued liabilities

	2016	2015
Trade payables	1,478,184	489,464
Accrued liabilities	1,592,019	773,245
	3,070,203	1,262,709

(expressed in US dollars, unless otherwise noted)

11 Termination benefits

During the year ended December 31, 2016, the Company reached a settlement agreement with respect to the termination of employment of the former Chief Executive Officer (former CEO). Accordingly, the Company recognized additional termination benefits of approximately $430,000 during the current fiscal year.

During the year ended December 31, 2015, the Company recognized $1,939,080 in termination benefits as a result of a workforce reduction in addition to the termination of employment of the former CEO effective May 1, 2015.

12 Key management compensation

Key management personnel includes those individuals having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management personnel includes 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:

	2016	2015
Salaries and other short-term employee benefits	1,259,747	1,480,936
Share-based payments	437,963	427,306
	1,697,710	1,908,242

13 Share-based compensation

At December 31, 2016, the Company had outstanding share options to purchase 4,602,797 common shares of the Company. The share options expire at various dates through January 1, 2025.

	Number of share options outstanding	Weighted average exercise price (CA$)
Outstanding - December 31, 2014	6,450,989	1.75
Share options cancelled	(1,845,946)	2.97
Share options granted	2,483,861	1.39
Share options exercised	(2,737,952)	0.30
Outstanding - December 31, 2015	4,350,952	2.02
Share options cancelled	(459,108)	2.52
Share options granted	1,116,520	1.28
Share options forfeitures	(315,067)	2.36
Share options exercised	(90,500)	1.00
Outstanding - December 31, 2016	4,602,797	1.59

(expressed in US dollars, unless otherwise noted)

The weighted average contractual life of the outstanding share options at December 31, 2016 is 5.3 years (2015 - 6.2 years). The total number of share options exercisable at December 31, 2016 is 2,369,519 (2015 - 1,615,648), which have a weighted average exercise price of CA$1.82 (2015 - CA$2.11) per share.

	Number of share options outstanding	
	2016	**2015**
Range of exercise prices		
$0.01 - $0.50	-	-
$0.51 - $1.00	435,267	480,267
$1.00 - $1.50	3,156,603	2,160,174
$1.50 - $2.00	290,510	321,192
$2.00 - $2.50	-	-
$2.50 - $3.00	421,748	1,002,533
$3.00 - $3.50	177,327	265,444
$3.50 - $4.00	25,342	25,342
$4.00 - $4.50	-	-
$4.50 - $5.00	-	-
$5.00 - $5.50	24,500	24,500
$5.50 - $6.00	-	-
$6.00 - $6.50	-	-
$6.50 - $7.00	-	-
$7.00 - $7.50	71,500	71,500
	4,602,797	4,350,952

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:

	2016	**2015**
Expected dividend yield	-%	-%
Risk-free interest rate	0.63%	1.05% - 1.33%
Expected share option life (in years)	5	5
Volatility	57%	56%

The aggregate fair value of share options granted during the year is $638,249 (2015 - $1,550,277). The weighted average fair value of the share options is $0.57 (2015 - $0.62) per share. During the fiscal year ended December 31, 2016, the Company recognized a share-based compensation expense of $409,812 related to share options with a corresponding increase in contributed surplus.

For the year ended December 31, 2016, 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.

(expressed in US dollars, unless otherwise noted)

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 2011 Plan is to attract, retain and motivate employees of the Company. During the current fiscal year, the Company issued 1,116,520 PSOs in accordance with the provisions of the LTIP resulting in a total of 1,754,710 PSOs outstanding as at December 31, 2016. For the year ended December 31, 2016, the Company determined that a portion of the performance hurdles related to the PSOs were achieved and recognized share-based compensation expense of $545,050 (2015 - $nil) accordingly.

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 current fiscal year, the Company issued 174,209 (2015 - 247,912) RSUs in accordance with the provisions of the RSU Plan resulting in 390,058 RSUs outstanding as at December 31, 2016. For the year ended December 31, 2016, the Company recorded share-based compensation expense of $226,495 (2015 - $129,839) related to RSUs that were issued that vested over three years with no performance hurdles. The Company determined that RSUs which contained performance hurdles had not been achieved and as a result did not record any related share-based compensation expense with respect to these RSUs.

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, 2016, 193,470 (2015 - 187,974) DSUs were issued to non-employee directors of the Company. During the fiscal year ended December 31, 2016, the Company recognized a share-based compensation expense of $195,957 related to DSUs with a corresponding increase in contributed surplus. As at December 31, 2016, 303,345 DSUs were outstanding (2015 - 123,331).

14 Common shares

	Number of common shares	Share capital
Balance - December 31, 2014	56,477,460	492,041,244
DSUs exercised	60,346	54,311
Common share options exercised	2,737,952	1,086,654
Balance - December 31, 2015	59,275,758	493,182,209
DSUs exercised	13,456	50,056
Common share options exercised	90,500	127,347
Balance - December 31, 2016	59,379,714	493,359,612

(expressed in US dollars, unless otherwise noted)

15 Income taxes

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

	2016	**2015**
Net loss before income taxes	(9,304,598)	(14,420,488)
Income tax benefit at statutory rate	(2,465,718)	(3,821,429)
Cost (benefit) resulting from		
Research and development credit	(53,260)	(464,066)
Deferred income tax assets expired	1,548	193,977
Deferred income tax assets not recognized and other	2,517,430	4,091,518
	-	-

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:

	2016	**2015**
Estimated deferred income tax assets attributable to		
Net operating loss carry-forwards	28,992,509	24,477,162
Research and development credits	2,689,455	2,576,096
Other deferred income tax assets	2,092,035	2,298,199
Deferred income tax assets	33,773,999	29,351,457
Deferred income tax assets not recognized and other	(33,773,999)	(29,351,457)
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	-	-	6,837	-
2017	-	-	7,411	-
2018	1,009,888	-	9,658	-
2019	1,561,172	11,664	10,727	-
2020	2,063,163	42,132	414,789	-
2021	2,564,511	55,822	1,035,486	-
2022	1,338,594	52,731	337,428	-
2023	1,321,285	44,965	1,902,401	-
2024	1,532,264	46,333	426,828	-
2025	1,629,456	47,245	379,961	-
2026	1,562,856	41,905	428	-
2027	2,011,361	35,351	-	-
2028	2,717,038	69,118	2,232	-
2029	2,854,334	63,226	-	-
2030	1,207,399	96,302	-	40,460
2031	3,927,982	-	3,508,319	324,649
2032	1,127,104	-	3,741,234	512,522
2033	10,855,248	-	6,910,017	599,866
2034	1,333,972	-	12,270,269	545,970
2035	1,058,892	-	16,636,735	358,110
2036	2,007,599		6,868,891	255,938
	43,684,118	606,794	54,469,651	2,637,515

(expressed in US dollars, unless otherwise noted)

16 Commitments

The Company has entered into the following financial commitments:

Year ending December 31, 2017	2,867,487
2018	387,408
2019	295,138
2020	270,543
Thereafter	-
	3,820,576

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, 2016, the Company was committed to purchases of feedstock of approximately $2,235,870 prior to December 31, 2017.

The Company has a forgivable loan agreement with the Province of Ontario under its Innovation Demonstration Fund Program (Ontario) (IDF), pursuant to which Ontario has provided a forgivable loan up to CA$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.

17 Segmented information and enterprise wide disclosures

Segmented reporting

The Company operates in one reportable segment and generates revenue primarily from its biopolymer nanosphere technology platform.

Sales by geographic location

The Company is domiciled in Canada. During the year ended December 31, 2016, revenue from external customers located in Canada was $2,596,629 (2015 - $2,468,518). The total revenue from external customers in the following regions is as follows:

	2016	2015
Americas	6,748,961	7,587,160
EMEA	1,712,483	850,717
Asia Pacific	4,815,942	6,144,943
	13,277,386	14,582,820

(expressed in US dollars, unless otherwise noted)

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, 2016, revenue attributable to the individual countries representing greater than 10% of total revenues included Japan, United States, and Canada, which represented 30%, 24% and 20%, respectively.

During the year ended December 31, 2015, revenue attributable to the individual countries representing greater than 10% of total revenues included United States, Japan and Canada, which represented 32%, 32% and 17%, respectively.

Sales to major customers

The Company derives a significant portion of its revenues from certain customers. Three customers represented 30%, 19% and 11%, respectively, of total revenue for the year ended December 31, 2016 (2015 - four customers represented 32%, 19%, 17% and 11%, respectively). The concentrations listed do not necessarily apply to the same customer year over year.

Property, plant and equipment

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

	2016	2015
Canada	2,174,420	2,641,304
United States of America	2,944,100	3,306,105
The Netherlands	2,815,064	2,798,663
	7,933,584	8,746,072

18 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:

	2016	2015
Wages and salaries, including benefits	4,909,376	5,831,083
Termination benefits	531,909	1,939,080
Share-based compensation	832,265	413,123
Depreciation and amortization	1,340,315	1,445,407
Foreign exchange (gain) loss	(87,130)	936,052

(expressed in US dollars, unless otherwise noted)

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 (the Company's functional currency) and foreign currencies and the related impact on the net monetary position in those respective currencies. The foreign exchange losses for the year ended December 31, 2016 primarily relate to monetary assets and liabilities denominated in Canadian dollars.

19 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.