

# **EcoSynthetix Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**March 31, 2016 and March 31, 2015**  
(expressed in US dollars)



May 9, 2016

### **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*

**Chartered Professional Accountants, Licensed Public Accountants**

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

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

(expressed in US dollars)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	44,189,203	60,717,658
Accounts receivable (note 2)	1,500,552	1,177,719
Inventory (note 3)	2,900,801	3,290,238
Government grants receivable (note 4)	366,110	528,436
Prepaid expenses	300,559	242,983
	<u>49,257,225</u>	<u>65,957,034</u>
<b>Non-current assets</b>		
Long-term term deposit (note 5)	15,059,104	-
Property, plant and equipment (note 6)	8,652,152	8,746,072
	<u>15,059,104</u>	<u>8,746,072</u>
<b>Total assets</b>	<u>72,968,481</u>	<u>74,703,106</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities (note 7)	1,647,091	1,262,709
Accrued termination benefits	1,385,970	1,277,755
	<u>3,033,061</u>	<u>2,540,464</u>
<b>Total liabilities</b>	<u>3,033,061</u>	<u>2,540,464</u>
<b>Shareholders' Equity</b>		
<b>Common shares</b>	493,182,209	493,182,209
<b>Contributed surplus</b>	8,159,907	8,017,907
<b>Accumulated deficit</b>	(431,406,696)	(429,037,474)
	<u>69,935,420</u>	<u>72,162,642</u>
<b>Total shareholders' equity</b>	<u>69,935,420</u>	<u>72,162,642</u>
<b>Total liabilities and shareholders' equity</b>	<u>72,968,481</u>	<u>74,703,106</u>

**Approved by the Board of Directors**

**(signed)**

John E. Barker, Chairman

**(signed)**

Jeff MacDonald, Chief Executive Officer

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

## EcoSynthetix Inc.

### Interim Consolidated Statement of Operations and Comprehensive Loss

(Unaudited)

For the three months ended March 31, 2016 and March 31, 2015

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(expressed in US dollars)

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Net sales</b>	2,964,470	4,169,948
<b>Cost of sales</b>	2,486,147	3,588,680
<b>Gross profit on sales</b>	<u>478,323</u>	<u>581,268</u>
<b>Expenses</b>		
Selling, general and administrative	1,562,241	2,726,678
Provision for termination benefits	199,689	1,220,080
Research and development	1,224,851	839,020
	<u>2,986,781</u>	<u>4,785,778</u>
<b>Loss from operations</b>	(2,508,458)	(4,204,510)
<b>Interest income</b>	139,236	79,891
<b>Net loss and comprehensive loss</b>	<u>(2,369,222)</u>	<u>(4,124,619)</u>
<b>Basic and diluted loss per common share</b>	(0.04)	(0.07)
<b>Weighted average number of common shares outstanding</b>	59,275,758	56,477,460

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

# EcoSynthetix Inc.

## Interim Consolidated Statement of Shareholders' Equity

(Unaudited)

For the three months ended March 31, 2016 and March 31, 2015

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
<b>Balance - January 1, 2015</b>	492,041,244	8,101,831	(414,616,986)	85,526,089
Share-based compensation	-	35,000	-	35,000
Net loss and comprehensive loss	-	-	(4,124,619)	(4,124,619)
<b>Balance - March 31, 2015</b>	<u>492,041,244</u>	<u>8,136,831</u>	<u>(418,741,605)</u>	<u>81,436,470</u>
<b>Balance - January 1, 2016</b>	493,182,209	8,017,907	(429,037,474)	72,162,642
Share-based compensation (note 8)	-	142,000	-	142,000
Net loss and comprehensive loss	-	-	(2,369,222)	(2,369,222)
<b>Balance - March 31, 2016</b>	<u>493,182,209</u>	<u>8,159,907</u>	<u>(431,406,696)</u>	<u>69,935,420</u>

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

# EcoSynthetix Inc.

## Interim Consolidated Statement of Cash Flows

(Unaudited)

For the three months ended March 31, 2016 and March 31, 2015

(expressed in US dollars)

	2016 \$	2015 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss	(2,369,222)	(4,124,619)
Items not affecting cash		
Depreciation and amortization	292,258	336,742
Share-based compensation (note 8)	142,000	35,000
Unrealized foreign exchange (gain)/loss	(161,686)	529,266
Other	(111,151)	-
Changes in non-cash working capital		
Accounts receivable (note 2)	(322,833)	541,188
Inventory	368,255	(129,176)
Government grants receivable	(133,505)	(508,393)
Prepaid expenses	(57,576)	97,480
Accounts payables and accrued liabilities (note 7)	484,382	410,682
Accrued termination benefits	108,215	1,220,080
	<u>(1,760,863)</u>	<u>(1,591,750)</u>
<b>Investing activities</b>		
Cash used for purchase of property, plant and equipment	(277,156)	(462,491)
Purchase of long-term term deposit (note 5)	(15,000,000)	-
	<u>(15,277,156)</u>	<u>(462,491)</u>
<b>Financing activity</b>		
Proceeds from government grant	295,831	-
	<u>295,831</u>	<u>-</u>
<b>Effect of exchange rate changes on cash</b>	<u>213,733</u>	<u>(603,471)</u>
<b>Change in cash during the period</b>	(16,528,455)	(2,657,712)
<b>Cash - Beginning of period</b>	<u>60,717,658</u>	<u>67,245,970</u>
<b>Cash - End of period</b>	<u>44,189,203</u>	<u>64,588,258</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, 2016 and March 31, 2015**

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(expressed in US dollars, unless otherwise noted)

### **1. (a) Business operations**

EcoSynthetix Inc. (EcoSynthetix or the Company) is engaged in the development and commercialization of environmentally 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.

### **(b) 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, 2015. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at May 9, 2016, 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 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 (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, 2015. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015.

### **(c) 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.

For the year ended the December 31, 2015, the Company classified financial assets and liabilities into the following specified categories: 'loans and receivables' and 'financial liabilities at amortized cost'. Subsequent to the Company's consolidated financial statements for the year ended December 31, 2015, the Company classified a financial asset into the 'held-to-maturity' category.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2016 and March 31, 2015

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(expressed in US dollars, unless otherwise noted)

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

i) Loans and receivables

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

ii) Financial liabilities at amortized cost

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

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

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. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

## 2 Accounts receivable

	March 31, 2016 \$	December 31, 2015 \$
Trade accounts receivable	1,177,475	987,059
Commodity taxes receivable and other	323,077	190,660
	<hr/> 1,500,552	<hr/> 1,177,719



# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2016 and March 31, 2015

(expressed in US dollars, unless otherwise noted)

### 3 Inventory

	March 31, 2016 \$	December 31, 2015 \$
Raw materials	550,166	678,855
Finished goods	2,350,635	2,611,383
	<u>2,900,801</u>	<u>3,290,238</u>

### 4 Government grants

On September 11, 2014, the Company announced 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 BIC Grant is subject to completion of certain activities pursuant to the work plans for each project eligible for reimbursement. The total claims for the three months ended March 31, 2016 and 2015 were as follows:

	2016 \$	2015 \$
Operating expenses	133,505	387,942
Property, plant and equipment	-	126,160
	<u>133,505</u>	<u>514,102</u>

During the three months ended March 31, 2016, the Company collected cash of \$295,831 (2015 - \$nil) relating to claims under the BIC Grant. The Company expects to collect the remaining balance in the next twelve months.

### 5 Long-term term deposit

During the three months ended March 31, 2016, 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 carrying value of the term deposit includes accrued interest and is recorded at amortized cost using the effective interest method.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2016 and March 31, 2015

(expressed in US dollars, unless otherwise noted)

### 6 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:

	<b>Machinery and equipment \$</b>	<b>Leasehold improvements \$</b>	<b>Computer hardware \$</b>	<b>Total \$</b>
As at December 31, 2015				
Cost	15,317,018	948,540	302,380	16,567,938
Less: Accumulated depreciation	(4,540,240)	(518,524)	(263,102)	(5,321,866)
Less: Impairment losses	(2,069,984)	(430,016)	-	(2,500,000)
Net book value	8,706,794	-	39,278	8,746,072
Period ended March 31, 2016				
Additions	177,156	-	-	177,156
Disposals	(323,765)	(116,697)	(209,705)	(650,167)
Depreciation	(265,738)	-	(5,338)	(271,076)
Accumulated depreciation on disposals	323,765	116,697	209,705	650,167
Closing net book value	8,618,212	-	33,940	8,652,152
As at March 31, 2016				
Cost	15,170,409	831,843	92,675	16,094,927
Less: Accumulated depreciation	(4,482,213)	(401,827)	(58,735)	(4,942,775)
Less: Impairment losses	(2,069,984)	(430,016)	-	(2,500,000)
Net book value	8,618,212	-	33,940	8,652,152

For the three months ended March 31, 2016, depreciation expense of \$198,326 (2015 - \$191,912) has been charged to cost of goods sold and \$93,932 (2015 - \$126,995) has been charged to selling, general and administrative expenses.

### 7 Accounts payable and accrued liabilities

	<b>March 31, 2016 \$</b>	<b>December 31, 2015 \$</b>
Trade payables	989,165	489,464
Accrued liabilities	657,926	773,245
	<u>1,647,091</u>	<u>1,262,709</u>

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2016 and March 31, 2015

(expressed in US dollars, unless otherwise noted)

### 8 Share-based compensation

As at March 31, 2016, the Company had outstanding share options to purchase 5,467,472 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 CA\$
Outstanding - December 31, 2015	4,350,952	2.02
Share options granted	1,116,520	1.28
Outstanding - March 31, 2016	5,467,472	1.70

### 9 Segmented reporting

The Company operates in one reportable segment and generates revenue primarily from the sale of its Ecosphere Biolatex (R) Binders.

#### Sales by geographic location

The Company is domiciled in Canada. Revenue from external customers located in Canada for the three months ended March 31, 2016 was \$614,165 (2015 - \$620,171). The total revenue from external customers in the following regions was as follows:

	2016 \$	2015 \$
Americas	1,739,035	2,039,427
EMEA	321,360	97,243
Asia Pacific	904,075	2,033,278
	2,964,470	4,169,948

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, 2016, revenue attributable to individual countries reporting greater than 10% of total revenues included the United States, Japan and Canada, which represented 27%, 24% and 21%, respectively. 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.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2016 and March 31, 2015

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(expressed in US dollars, unless otherwise noted)

### Sales to major customers

During the three months ended March 31, 2016, the Company derived a significant portion of its revenues from three customers, representing 24%, 21% and 12% of total revenue (2015 - 40%, 23% and 14% from three customers).

### Property, plant and equipment

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

	March 31, 2016 \$	December 31, 2015 \$
Canada	2,577,133	2,641,304
United States	3,214,442	3,306,105
The Netherlands	2,860,577	2,798,663
	<hr/>	<hr/>
	8,652,152	8,746,072

## 10 Expenses by nature

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

	2016 \$	2015 \$
Wages and salaries	1,283,151	1,655,675
Provision for termination benefits	199,689	1,220,080
Share-based compensation	142,000	35,000
Depreciation and amortization	292,258	336,742
Foreign exchange (gains)/losses	(162,784)	662,494

Foreign exchange (gains)/losses represent the revaluation of monetary assets and liabilities denominated in foreign currencies. The change in foreign exchange revaluation gains and losses is 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 gains for the three months ended March 31, 2016 primarily related to monetary assets and liabilities denominated in Canadian dollars.