

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 2018

(expressed in US dollars)

August 3, 2018

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.

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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)

	June 30, 2018	December 31, 2017
	\$	\$
Assets		
Current assets		
Cash	16,415,766	19,116,828
Term deposits (note 3)	30,304,200	30,171,121
Accounts receivable (note 4)	2,424,109	2,296,255
Inventory (note 5)	2,833,484	2,535,234
Prepaid expenses	161,504	153,524
	<u>52,139,063</u>	<u>54,272,962</u>
Non-current assets		
Property, plant and equipment (note 6)	<u>6,488,043</u>	<u>7,115,672</u>
Total assets	<u>58,627,106</u>	<u>61,388,634</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 7)	2,145,079	2,951,220
Accrued termination benefits	-	39,830
	<u>2,145,079</u>	<u>2,991,050</u>
Total liabilities	<u>2,145,079</u>	<u>2,991,050</u>
Shareholders' Equity		
Common shares (note 9)	493,584,062	493,631,495
Contributed surplus	9,556,546	9,550,445
Accumulated deficit	<u>(446,658,581)</u>	<u>(444,784,356)</u>
Total shareholders' equity	<u>56,482,027</u>	<u>58,397,584</u>
Total liabilities and shareholders' equity	<u>58,627,106</u>	<u>61,388,634</u>

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

EcoSynthetix Inc.

Interim Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

For the three and six months ended June 30, 2018 and June 30, 2017

(expressed in US dollars)

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	\$	\$	\$	\$
Net sales	5,796,669	4,759,213	11,243,743	8,361,342
Cost of sales	4,607,028	3,719,895	9,002,574	6,522,064
Gross profit on sales	1,189,641	1,039,318	2,241,169	1,839,278
Expenses				
Selling, general and administrative	1,598,842	1,629,171	3,056,591	3,118,837
Research and development	525,677	1,243,343	1,275,507	2,589,441
Termination benefits	-	63,485	222,778	63,485
	2,124,519	2,935,999	4,554,876	5,771,763
Loss from operations	(934,878)	(1,896,681)	(2,313,707)	(3,932,485)
Interest income	225,860	157,651	439,482	289,817
Net loss and comprehensive loss	(709,018)	(1,739,030)	(1,874,225)	(3,642,668)
Basic and diluted loss per common share	(0.01)	(0.03)	(0.03)	(0.06)
Weighted average number of common shares outstanding	59,701,785	59,563,101	59,690,837	59,536,785

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

EcoSynthetix Inc.

Interim Consolidated Statements of Shareholders' Equity

(Unaudited)

For the three and six months ended June 30, 2018 and June 30, 2017

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance - January 1, 2017	493,359,612	8,740,007	(438,342,072)	63,757,547
Share-based compensation (note 8)	-	620,587	-	620,587
Common share options exercised	63,342	(27,210)	-	36,132
Deferred share unit options exercised	70,642	(70,642)	-	-
Restricted share unit options exercised	119,885	(119,885)	-	-
Net loss and comprehensive loss	-	-	(3,642,668)	(3,642,668)
Balance - June 30, 2017	493,613,481	9,142,857	(441,984,740)	60,771,598
Balance - January 1, 2018	493,631,495	9,550,445	(444,784,356)	58,397,584
Share-based compensation (note 8)	-	323,502	-	323,502
Common share options exercised	471,199	(186,016)	-	285,183
Restricted share unit options exercised	131,385	(131,385)	-	-
Common shares repurchased	(650,017)	-	-	(650,017)
Net loss and comprehensive loss	-	-	(1,874,225)	(1,874,225)
Balance - June 30, 2018	493,584,062	9,556,546	(446,658,581)	56,482,027

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 and six months ended June 30, 2018 and June 30, 2017

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2018 \$	2017 \$	2018 \$	2017 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(709,018)	(1,739,030)	(1,874,225)	(3,642,668)
Items not affecting cash				
Depreciation	307,570	304,648	635,541	571,694
Share-based compensation (note 8)	148,088	306,566	323,502	620,587
Unrealized foreign exchange loss (gain)	566	(5,141)	141,268	(13,980)
Other	(59,604)	92,625	(98,144)	(15,612)
Changes in non-cash working capital				
Accounts receivable (note 4)	620,487	(258,682)	(127,854)	119,670
Inventory (note 5)	(183,574)	(202,059)	(306,162)	(304,350)
Government grants receivable	-	47,892	-	(11,629)
Prepaid expenses	(77,399)	(110,351)	(7,980)	(87,320)
Trade accounts payable and accrued liabilities (note 7)	(374,544)	703,164	(806,141)	(214,962)
Accrued termination benefits	-	(87,998)	(39,830)	(385,831)
	(327,428)	(948,366)	(2,160,025)	(3,364,401)
Investing activities				
Purchase of property, plant and equipment	-	-	-	(171,123)
Purchase of term deposit	-	(15,000,000)	-	(15,000,000)
	-	(15,000,000)	-	(15,171,123)
Financing activities				
Common shares repurchased	(650,017)	-	(650,017)	-
Exercise of common share options	224,723	-	285,183	8,709
Proceeds from government grant	-	-	-	65,706
	(425,294)	-	(364,834)	74,415
Effect of exchange rate changes on cash	(109,262)	(28,476)	(176,203)	24,329
Change in cash during the period	(861,984)	(15,976,842)	(2,701,062)	(18,436,780)
Cash - Beginning of period	17,277,750	36,057,340	19,116,828	38,517,278
Cash - End of period	16,415,766	20,080,498	16,415,766	20,080,498

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

(expressed in US dollars)

1 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.

Basis of preparation

The unaudited interim consolidated financial statements (interim financial statements) for the three-month and six-month periods ended June 30, 2018 were prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2017, with the exception of the adoption of International Financial Reporting Standards (IFRS) 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, which were both adopted on January 1, 2018. The impact of these policies is noted in note 2 below. The policies applied in these interim financial statements are based on IFRS issued and in effect as at August 3, 2018, the date the Board of Directors approved the interim financial statements. The interim financial statements are in compliance with International Accounting Standard (IAS) 34, Interim Financial Reporting. Accordingly, certain information and footnote disclosures 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 interim 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 to the Company's consolidated financial statements for the year ended December 31, 2017. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2017.

2 New accounting policies

a) IFRS 9 - Financial Instruments

Classification and Measurement of Financial Assets and Financial Liabilities

On January 1, 2018, the Company adopted IFRS 9, Financial Instruments, which introduces new requirements for the classification, measurement and derecognition of financial instruments and introduces a new impairment model for financial assets. The adoption of IFRS 9 did not have a material impact on the interim financial statements, but resulted in certain additional disclosures. The Company applied the standard retrospectively with the cumulative effect of the standard being reflected on the date of application. There was no impact on carrying values and equity as at January 1, 2018 as a result of the adoption of the standard and no measurement differences as a result of adopting IFRS 9.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

(expressed in US dollars)

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 interim 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.

The Company determines the classification of financial assets and liabilities at initial recognition. The Company's financial assets are classified into one of the following three categories:

- Amortized cost - If the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (held to collect).
- Fair value through other comprehensive income (FVOCI) - If the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Fair value through profit or loss (FVPL) - A financial asset is measured at fair value through profit or loss unless it is measured at amortized cost or through other comprehensive income.

The Company's financial assets measured at amortized cost include cash, term deposits and accounts receivable. The Company does not have any financial assets measured at FVOCI or FVPL. The Company's financial liabilities, trade accounts payable and accrued liabilities, are measured at amortized cost. Financial assets and liabilities included in this category are initially recognized at fair value (net of transaction costs, if applicable) and are subsequently measured at amortized cost using the effective interest rate method less allowances for losses.

A financial asset is derecognized when its contractual right to the cash flows that compose the financial asset expire or substantially all the risks and rewards of the asset are transferred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized in net income (loss). If a financial instrument is modified and does not result in derecognition, the gross carrying value of the financial instrument is revised and the modification gain or loss is recognized in net income (loss).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

(expressed in US dollars)

Impairment of financial assets

The Company applies a simplified approach to measure an allowance for credit losses (ACL) where the loss allowance is always equal to lifetime expected credit losses (ECL). The Company assesses whether there has been a significant increase in credit risk since initial recognition of a financial asset and both the ECL and ACL measurement at each reporting date. Increases or decreases in the ACL are recognized as impairment gains and losses in net income (loss). The Company has not recognized an ACL on adoption of this standard.

b) IFRS 15 - Revenue from Contracts with Customers

On January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers, which requires revenue to be recognized when the Company has satisfied its performance obligation as set out in the contract with the customer, the contract has commercial substance and it is probable that the Company will collect the consideration it is entitled to on performance of its obligations in the contract.

These criteria are met when transfer of control of goods has occurred, which is generally on shipment or delivery of goods to the customer, where they have legal title to and possession of the goods, and are therefore able to use and obtain substantially all of the benefits of the goods.

Revenue is measured as the transaction price that is allocated to the performance obligation as stipulated in the contract with the customer. Historical experience is used to estimate and provide for discounts and returns. Costs to fulfill or obtain contracts are not directly attributable to specific contracts or are not recoverable and are expensed as incurred. There are no significant differences between the point of risks and rewards transfer under IAS 18, Revenue and the transfer of control under IFRS 15. As such, no adjustment has been made to the Company's interim financial statements. Financial results would have been the same under either IAS 18 or IFRS 15 for the periods presented in these interim financial statements. There was no impact on equity as at January 1, 2018 and no changes in the timing or measurement of revenue resulted from the adoption of IFRS 15. The Company applied the standard retrospectively with the cumulative effect of the standard being reflected on the date of application. Accordingly, the information presented for 2017 is not restated but certain additional disclosures have been made.

Recent pronouncements

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective until financial years beginning on or after January 1, 2019 and have not been early adopted. Pronouncements that are not applicable to the Company have been excluded from those described below.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

(expressed in US dollars)

a) IFRS - 16 Leases

In January 2016, the IASB issued IFRS 16, Leases, which establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract: the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17, Leases, and related interpretations. IFRS 16 is effective from January 1, 2019, though a company can choose to apply IFRS 16 before that date but only in conjunction with IFRS 15. The Company is currently assessing the impact of this standard.

3 Term deposits

The Company purchased a one-year \$30.0 million term deposit maturing on January 11, 2019 at an interest rate of 2.19%. The term deposit is held with a large chartered Canadian bank. The carrying value of the term deposit includes accrued interest and is recorded at amortized cost using the effective interest method.

4 Accounts receivable

	June 30, 2018 \$	December 31, 2017 \$
Trade accounts receivable	2,191,635	2,012,410
Commodity taxes receivable and other	232,474	283,845
	<u>2,424,109</u>	<u>2,296,255</u>

5 Inventory

	June 30, 2018 \$	December 31, 2017 \$
Raw materials	472,862	268,033
Finished goods	2,360,622	2,267,201
	<u>2,833,484</u>	<u>2,535,234</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

(expressed in US dollars)

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:

	Machinery and equipment \$	Leasehold improvements \$	Computer hardware \$	Total \$
As at December 31, 2017				
Cost	15,806,251	831,843	90,091	16,728,185
Less: Accumulated depreciation	(8,711,435)	(831,843)	(69,235)	(9,612,513)
Net book value	7,094,816	-	20,856	7,115,672
Period ended June 30, 2018				
Depreciation	(626,367)	-	(1,262)	(627,629)
Closing net book value	6,468,449	-	19,594	6,488,043
As at June 30, 2018				
Cost	15,806,251	831,843	90,091	16,728,185
Less: Accumulated depreciation	(9,337,802)	(831,843)	(70,497)	(10,240,142)
Net book value	6,468,449	-	19,594	6,488,043

For the three months and six months ended June 30, 2018, depreciation expense of \$194,219 and \$414,880 (2017 - \$187,263 and \$362,083) has been charged to cost of goods sold and \$113,351 and \$220,661 (2017 - \$117,385 and \$209,611) has been charged to research and development.

7 Trade accounts payable and accrued liabilities

	June 30, 2018 \$	December 31, 2017 \$
Trade accounts payable	1,368,857	1,530,410
Accrued liabilities	776,222	1,420,810
	<u>2,145,079</u>	<u>2,951,220</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

(expressed in US dollars)

8 Share-based compensation

As at June 30, 2018, the Company had outstanding share options to purchase 4,598,121 shares of the Company. The share options expire at various dates through January 4, 2025.

	Number of share options outstanding	Weighted average exercise price CA\$
Outstanding - December 31, 2017	4,925,647	1.66
Share options granted	366,877	2.18
Share options exercised	(386,973)	0.94
Share option forfeitures	(307,430)	2.56
	<hr/>	<hr/>
Outstanding - June 30, 2018	4,598,121	1.70

9 Common shares

	Number of common shares	Share capital \$
Balance - December 31, 2017	59,573,558	493,631,495
Common share options exercised	386,973	471,199
Restricted share options exercised	104,981	131,385
Common shares repurchased	(489,900)	(650,017)
	<hr/>	<hr/>
Balance - June 30, 2018	59,575,612	493,584,062

Share exchange

On April 12, 2018, 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 4,461,696 common shares. The period of the Bid will occur from April 12, 2018 to April 11, 2019. During the three and six months ended June 30, 2018, the company repurchased and cancelled 489,900 common shares for total consideration of \$650,017.

10 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.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

(expressed in US dollars)

Sales by geographic location

The Company is domiciled in Canada. Revenue from external customers located in Canada for the three months and six months ended June 30, 2018 was \$932,379 and \$1,799,279 (2017 - \$910,779 and \$1,874,883). The total revenue from external customers in the following regions was as follows:

	Three months ended June 30		Six months ended June 30	
	2018 \$	2017 \$	2018 \$	2017 \$
Americas	2,964,621	2,375,955	5,599,427	4,382,514
EMEA	1,363,322	954,569	3,145,981	1,697,251
Asia Pacific	1,468,726	1,428,689	2,498,335	2,281,577
	<u>5,796,669</u>	<u>4,759,213</u>	<u>11,243,743</u>	<u>8,361,342</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 June 30, 2018, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan, Canada and Germany, which represented 29%, 23%, 16% and 13%, respectively. During the three months ended June 30, 2017, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan, Canada and Germany, which represented 28%, 27%, 19% and 11%, respectively.

During the six months ended June 30, 2018, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan, Canada, Germany and Finland, which represented 29%, 20%, 16%, 15% and 11%, respectively. During the six months ended June 30, 2017, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan and Canada, which represented 27%, 24% and 22%, respectively.

Sales to major customers

During the three months ended June 30, 2018, the Company derived a significant portion of its revenues from three customers, representing 23%, 20% and 16% of total revenue (2017 - 27%, 19% and 16% from three customers). During the six months ended June 30, 2018, the Company derived a significant portion of its revenues from three customers, representing 20%, 19% and 16% of total revenue (2017 - 24%, 22%, 14% and 11% from four customers). The concentrations listed do not necessarily apply to the same customers year over year.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

(expressed in US dollars)

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:

	June 30, 2018 \$	December 31, 2017 \$
Canada	1,571,935	1,792,596
United States	2,478,748	2,687,492
The Netherlands	2,437,360	2,635,584
	<u>6,488,043</u>	<u>7,115,672</u>

11 Expenses by nature

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

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2018 \$	2017 \$	2018 \$	2017 \$
Wages and salaries	922,189	1,143,096	1,890,186	2,322,156
Termination benefits	-	63,485	222,778	63,485
Share-based compensation	148,088	306,566	323,502	620,587
Depreciation	307,570	304,648	635,541	571,694
Foreign exchange loss (gain)	155,504	11,528	176,070	(26,748)

Foreign exchange gains 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 gains for the three months and six months ended June 30, 2018 primarily related to cash balances denominated in Canadian dollars.