

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

September 30, 2015
(expressed in US dollars)



November 11, 2015

Notice of No Auditor Review of Interim Consolidated 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 consolidated financial statements of EcoSynthetix Inc. have been prepared by and are the responsibility of EcoSynthetix Inc.'s management. EcoSynthetix Inc.'s independent auditor has not performed a review of these interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim consolidated 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)

	September 30, 2015	December 31, 2014
	\$	\$
Assets		
Current assets		
Cash	62,095,588	67,245,970
Accounts receivable (note 2)	1,336,923	2,258,151
Inventory (note 3)	3,870,460	5,497,944
Government grants receivable (note 4)	379,339	66,957
Prepaid expenses	316,752	286,288
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	67,999,062	75,355,310
Non-current assets		
Intangible assets	8,664	52,683
Property, plant and equipment (note 5)	11,484,905	11,690,072
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	79,492,631	87,098,065
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	1,658,167	1,571,976
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Shareholders' Equity		
Common shares (note 8)	493,046,599	492,041,244
Contributed surplus	7,911,022	8,101,831
Accumulated deficit	(423,123,157)	(414,616,986)
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	77,834,464	85,526,089
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	79,492,631	87,098,065
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The accompanying notes are an integral part of these interim consolidated financial statements.

EcoSynthetix Inc.

Interim Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

(expressed in US dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
Net sales	3,333,534	4,840,892	11,598,469	14,377,604
Cost of sales	2,846,695	4,346,413	9,840,442	11,947,457
Gross profit on sales	486,839	494,479	1,758,027	2,430,147
Expenses				
Selling, general and administrative	1,539,097	3,239,130	6,367,070	9,356,389
Provision for termination benefits	-	38,960	1,220,080	236,473
Research and development	958,145	1,300,597	2,900,129	4,154,854
	2,497,242	4,578,687	10,487,279	13,747,716
Loss from operations	(2,010,403)	(4,084,208)	(8,729,252)	(11,317,569)
Interest income	69,172	84,030	223,081	253,275
Net loss and comprehensive loss for the period	(1,941,231)	(4,000,178)	(8,506,171)	(11,064,294)
Basic and diluted loss per common share	(0.03)	(0.07)	(0.15)	(0.19)
Weighted average number of common shares outstanding	58,323,037	56,628,449	57,099,413	56,883,831

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

EcoSynthetix Inc.

Interim Consolidated Statements of Shareholders' Equity (Unaudited)

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance - January 1, 2014	492,600,022	7,661,849	(400,102,397)	100,159,474
Warrants exercised	160,058	-	-	160,058
Common share options exercised	43,948	(16,018)	-	27,930
Common shares repurchased	(694,771)	-	-	(694,771)
Share-based compensation	-	366,000	-	366,000
Net loss and comprehensive loss for the period	-	-	(11,064,294)	(11,064,294)
Balance - September 30, 2014	492,109,257	8,011,831	(411,166,691)	88,954,397
Balance - January 1, 2015	492,041,244	8,101,831	(414,616,986)	85,526,089
Common share options exercised	1,005,355	(432,236)	-	573,119
Share-based compensation	-	241,427	-	241,427
Net loss and comprehensive loss for the period	-	-	(8,506,171)	(8,506,171)
Balance - September 30, 2015	493,046,599	7,911,022	(423,123,157)	77,834,464

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

EcoSynthetix Inc.

Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in US dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss for the period	(1,941,231)	(4,000,178)	(8,506,171)	(11,064,294)
Items not affecting cash				
Depreciation and amortization	351,196	379,947	1,064,034	1,243,511
Share-based compensation (note 7)	79,000	111,000	241,427	366,000
Unrealized foreign exchange (gain) loss	(153,175)	-	274,147	-
Realized foreign exchange loss	407,169	-	496,348	-
Changes in non-cash working capital				
Accounts receivable	1,019,080	634,446	921,228	925,701
Inventory	468,677	(411,741)	1,590,356	(21,342)
Government grants receivable	(104,716)	21,136	(768,131)	(162,107)
Prepaid expenses	60,549	203,092	(30,464)	(17,342)
Accounts payable and accrued liabilities	(438,056)	(329,549)	86,191	(747,737)
	(251,507)	(3,391,847)	(4,631,035)	(9,477,610)
Investing activities				
Cash used for purchase of intangible assets and property, plant and equipment (note 5)	(140,573)	(8,300)	(777,720)	(279,993)
Financing activities				
Exercise of common share options	573,119	-	573,119	27,930
Exercise of warrants	-	-	-	160,058
Repurchase of common shares	-	(220,495)	-	(694,771)
Proceeds from government grant (note 4)	-	-	455,749	-
	573,119	(220,495)	1,028,868	(506,783)
Effect of exchange rate changes on cash	(253,994)	-	(770,495)	-
Change in cash during the period	(72,955)	(3,620,642)	(5,150,382)	(10,264,386)
Cash - Beginning of period	62,168,543	73,863,213	67,245,970	80,506,957
Cash - End of period	62,095,588	70,242,571	62,095,588	70,242,571

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2015

(expressed in US dollars)

1 Business operations

EcoSynthetix Inc. (EcoSynthetix or the Company) is engaged in the development and commercialization of ecologically friendly, bio-based technologies as replacement solutions for synthetic, petrochemical-based adhesives and other related products in the Americas, Europe, Middle East and Africa (EMEA), and Asia Pacific. EcoSynthetix is incorporated and domiciled in Canada. The address of its registered office is 3365 Mainway, Burlington, Ontario, Canada.

Basis of preparation

The unaudited 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, 2014. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at November 11, 2015, 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, 2014. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2014.

New accounting standards issued and effective

IFRS 9, Financial Instruments (IFRS 9), was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, Financial Instruments - Recognition and Measurement (IAS39) for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (OCI). Where equity instruments are measured at fair value through OCI, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income (AOCI) indefinitely. The adoption of this standard did not have a material effect on the Company's interim financial statements.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss are generally recorded in OCI. In July 2014, the effective date was revised to January 1, 2018 with earlier application permitted. The Company has not yet assessed the impact of this standard and amendments or determined whether it will early adopt them.

EcoSynthetix Inc.

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

New accounting standards issued but not yet effective

IFRS 15, Revenue from Contracts with Customers (IFRS 15), provides a single, comprehensive revenue recognition model for all contracts with customers. The standard contains principles that the Company will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount the Company expects to be entitled to in exchange for those goods or services. The standard is effective for the first interim period within years beginning on or after January 1, 2018 and allows early adoption. The Company has not yet assessed the impact of this new standard and whether it will be adopted early.

2 Accounts receivable

	September 30, 2015 \$	December 31, 2014 \$
Trade accounts receivable	1,154,551	2,142,926
Commodity taxes receivable and other	182,372	115,225
	<u>1,336,923</u>	<u>2,258,151</u>

3 Inventory

	September 30, 2015 \$	December 31, 2014 \$
Raw materials	784,429	945,644
Finished goods	3,086,031	4,552,300
	<u>3,870,460</u>	<u>5,497,944</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 and nine months ended September 30, 2015 were as follows:

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	Three months ended September 30,		Six months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
Operating expenses	112,737	-	621,252	-
Property, plant and equipment	-	-	170,298	-
	112,737	-	791,550	-

During the nine months ended September 30, 2015, the Company collected cash of \$455,749 relating to claims under the BIC Grant. The Company expects to collect the remaining balance in the next twelve months.

5 Property, plant and equipment

The composition of the net carrying amount of the Company's property, plant and equipment is presented in the following table:

	Computer hardware \$	Machinery and equipment \$	Leasehold improvements \$	Total \$
As at December 31, 2014				
Cost	297,264	14,441,274	948,540	15,687,078
Less: Accumulated depreciation	(233,046)	(3,387,154)	(376,806)	(3,997,006)
Net book value	64,218	11,054,120	571,734	11,690,072
Period ended September 30, 2015				
Additions	5,116	772,604	-	777,720
Depreciation	(24,719)	(868,059)	(90,109)	(982,887)
Closing net book value	44,615	10,958,665	481,625	11,484,905
As at September 30, 2015				
Cost	302,380	15,213,878	948,540	16,464,798
Less: Accumulated depreciation	(257,765)	(4,255,213)	(466,915)	(4,979,893)
Net book value	44,615	10,958,665	481,625	11,484,905

For the three and nine months ended September 30, 2015, depreciation expense of \$216,010 and \$649,443 (2014 - \$250,244 and \$798,460) has been charged to cost of goods sold and \$126,526 and \$370,572 (2014 - \$111,872 and \$334,142) has been charged to selling, general and administrative expenses.

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Notes to Interim Consolidated Financial Statements

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6 Accounts payable and accrued liabilities

	September 30, 2015 \$	December 31, 2014 \$
Trade accounts payable	488,799	802,449
Accrued liabilities	1,169,368	769,527
	<u>1,658,167</u>	<u>1,571,976</u>

7 Share-based compensation

As at September 30, 2015, the Company had outstanding share options to purchase 5,197,380 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, 2014	6,450,989	1.75
Share options granted	2,483,861	1.39
Share options exercised	(2,391,478)	0.31
Share options forfeited	(1,345,992)	2.88
	<u>5,197,380</u>	<u>1.95</u>

During the three months ended September 30, 2015, the former CEO exercised 2.4 million options resulting in proceeds of CA\$0.7 million. In addition, 1.3 million options have expired in accordance with the terms of the 2011 option plan agreement. The effect of both transactions resulted in a 3.7 million reduction of outstanding options.

8 Common shares

	Number of common shares	Share capital \$
Balance - December 31, 2014	56,477,460	492,041,244
Common share options exercised	2,361,452	573,119
Change in value of options	-	432,236
	<u>58,838,912</u>	<u>493,046,599</u>

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Share exchange

On November 14, 2014, the Company announced it intends to make a normal course issuer bid (the Bid) to repurchase a certain number of its outstanding common shares through the facilities of the Toronto Stock Exchange. The number of shares to be purchased will not exceed 2,714,106 common shares. The period of the Bid will occur from November 21, 2014 to November 20, 2015. During the three and nine months ended September 30, 2015, the Company did not repurchase any common shares.

9 Segmented information and enterprise wide disclosures

Segmented reporting

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

Sales by geographic location

The Company is domiciled in Canada. Revenue from external customers located in Canada for the three and nine months ended September 30, 2015 was \$600,652 and \$1,861,063, respectively (2014 - \$906,319 and \$2,547,217, respectively). The total revenue from external customers in the following regions was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
Americas	1,920,486	3,096,121	5,980,021	9,839,088
EMEA	208,782	199,325	421,095	441,447
Asia Pacific	1,204,266	1,545,446	5,197,353	4,097,069
	<u>3,333,534</u>	<u>4,840,892</u>	<u>11,598,469</u>	<u>14,377,604</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 September 30, 2015, revenue attributable to individual countries reporting greater than 10% of total revenues included the United States, Japan and Canada, which represented 34%, 24% and 18%, respectively. During the three months ended September 30, 2014, revenue attributable to individual countries reporting greater than 10% of total revenue included the United States, Japan and Canada, which represented 39%, 19% and 19%, respectively.

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Notes to Interim Consolidated Financial Statements

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(expressed in US dollars)

During the nine months ended September 30, 2015, revenue attributable to individual countries reporting greater than 10% of total revenues included Japan, the United States, and Canada, which represented 34%, 33% and 16%, respectively. During the nine months ended September 30, 2014, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan and Canada which represented 41%, 19% and 18%, respectively.

Sales to major customers

During the three months ended September 30, 2015, the Company derived a significant portion of its revenues from four customers, representing 24%, 18%, 18% and 12% of total revenue (2014 - 23%, 19% and 19% from three customers). During the nine months ended September 30, 2015, the Company derived a significant portion of its revenues from four customers, representing 34%, 20%, 16% and 10% of total revenue (2014 - 21%, 19%, 18% and 10% from four customers). The concentrations disclosed do not necessarily apply to the same customer period over period.

Property, plant and equipment and intangible assets

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

	September 30, 2015 \$	December 31, 2014 \$
Canada	3,223,012	3,046,242
United States	4,691,906	4,939,357
The Netherlands	3,578,651	3,757,156
	<u>11,493,659</u>	<u>11,742,755</u>

10 Expenses by nature

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

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
Wages and salaries	1,323,000	2,202,114	4,405,200	6,796,066
Termination benefits	-	38,960	1,220,080	236,473
Share-based compensation	79,000	111,000	241,427	366,000
Depreciation and amortization	351,196	379,947	1,064,034	1,243,511
Foreign exchange loss	56,495	-	599,725	-

EcoSynthetix Inc.

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(expressed in US dollars)

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 three and nine months ended September 30, 2015 primarily related to monetary assets and liabilities denominated in Canadian dollars.

11 Termination benefits

For the three months ended March 31, 2015, the Company recognized \$1.2 million in termination benefits as a result of a workforce reduction of approximately 20% in addition to the termination of employment with the former Chief Executive Officer (former CEO) effective May 1, 2015. As a result of this termination of employment, the former CEO is entitled to an aggregate of \$0.9 million, representing a 24-month severance period, inclusive of all salary, perquisites, allowances, statutory entitlements and bonus accounts. Accordingly, the Company has recorded a \$0.9 million provision for termination benefits as at March 31, 2015. The former CEO is also entitled to a maximum of 24 months of severance related to the value of long-term incentives during this period. The Company has determined that no additional amounts are owed on account of long-term incentives as the associated performance conditions have not been met. Accordingly, the Company ascribes no value to the long-term incentives for the 24-month severance period. If the value of the long-term incentives is disputed, the Company's potential exposure is estimated to range from \$nil to \$0.7 million.

12 Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.