

EcoSynthetix Reports First Quarter 2016 Results

BURLINGTON, ON, May 10, 2016 /CNW/ - EcoSynthetix Inc. (TSX: ECO) ("EcoSynthetix" or the "Company"), a renewable chemicals company that produces a portfolio of commercially proven bio-based products, today announced its financial and operational results for the three months ended March 31, 2016 (Q1 2016). Financial references are in U.S. dollars unless otherwise indicated.

Q1 2016 Highlights

- Completed longest sustained late-stage DuraBind wood composite trial at a customer account with multiple prospects in the sale pipeline
- Recorded \$3.0 million in net sales in Q1 2016 compared to \$4.2 million in Q1 2015, a decrease of \$0.8 million or 29%
- On-going challenging market conditions in the paper industry and continuation of depressed prices related to petroleum based substitutes
- Maintained a strong balance sheet with cash and term deposits of \$59.2 million as at March 31, 2016 and reduced operating expenses by 38% compared to Q1 2015, while continuing to invest in new product segments, specifically wood composites
- Recruited Dr. James Wright as Vice President, Research & Development, who brings senior-level technical experience, including development of bonding and surfacing solutions, from his work with Arclin and Georgia Pacific Chemicals

"We live and work surrounded by wood composites every day," said Jeff MacDonald, CEO of EcoSynthetix. "The binder market for wood composites is a multi-billion dollar annual opportunity. As an alternative to urea-formaldehyde binders, our DuraBind technology addresses this multi-billion dollar market with a viable No Added Formaldehyde (NAF) binder solution. DuraBind's unique characteristics, offering comparable performance, at a low cost, continues to drive significant interest from a broad range of the world's largest wood composite manufacturers. Late-stage trials continue with our lead prospects and at the same time we are conducting work with new prospects across various stages. The success of our commercialization strategy for DuraBind is our number one priority in 2016."

Outlook

In 2015, EcoSynthetix introduced a disciplined plan that would return the Company to growth, and it took meaningful steps in delivering on this strategy. In 2016, the Company will continue to focus on executing against the following three priorities as part of this plan:

1. Defined product pipeline

The Company's progress in the commercialization of its DuraBind product offering in the building products space will continue to drive development efforts. EcoSynthetix expects the steady progress it made through 2015 will deliver commercial success in the near term. Next generation DuraBind product offerings will be introduced that further build the Company's value proposition for wood composite customers, in addition to new offerings for other applications in the broader building products space, as well as for paper and paperboard. The addition of Dr. James Wright as Vice President Research & Development, who is a veteran in the building products space, will accelerate the Company's innovation efforts.

2. Diversified business verticals

EcoSynthetix' focus in 2016 is expanding its presence in the building materials space, while further developing relationships with customers in paper and paperboard. Specific opportunities that could drive sales over the next 12 months are the commercialization of: (i) no added formaldehyde (NAF) solutions that will enable customers in the building products space to meet consumer and regulatory demand; (ii) bio-based solutions for paper; and, (iii) new offerings for paperboard customers.

3. Disciplined organizational growth

A majority of the Company's human and financial resources continue to be focused on the commercialization of DuraBind in the wood composites space. Over the next 12 months, the Company will continue making investments that will allow it to scale this business as it gains traction, while seeking out opportunities to further reduce internal costs. EcoSynthetix remains highly confident in its ability to realize on the opportunities in front of it, and with a disciplined investment strategy, the Company will ensure the business is effectively scaled for the growth EcoSynthetix anticipates.

Financial Summary

Net Sales

Net sales were \$3.0 million for the three months ended March 31, 2016 (Q1 2016) compared to \$4.2 million in the same period last year. The change was primarily attributable to unfavourable market conditions in the paper industry resulting in \$0.7 million or 15% lower sales volume to existing commercial accounts and \$0.3 million or 8% lower sales related to the closure of a North American paper mill announced in prior year. In addition, lower average selling price negatively impacted sales \$0.2 million or 6% in the current quarter due to continued competitive pricing dynamics related to petroleum-based incumbent technologies.

Gross Profit

Gross profit was \$0.5 million for Q1 2016, in line with \$0.6 million for the same period last year, as the impact of pricing pressure and lower sales volume were partly offset by lower manufacturing production costs, lower feedstock costs and foreign exchange benefits related to a weaker Euro. Gross profit as a percentage of sales improved to 16.1% in Q1 2016 compared to 13.9% in the same period last year. Adjusted for manufacturing depreciation, gross profit as a percentage of sales improved to 22.8% in Q1 2016 compared to 18.5% last year.

Selling, General and Administrative

(Excludes share-based compensation, depreciation and amortization, foreign exchange loss or gain and provision for termination benefits)

Selling, general and administrative expenses (SG&A) were \$1.6 million in Q1 2016, compared to \$2.0 million in the same period last year, a decrease of \$0.4 million, or 20%. The decrease was primarily due to lower discretionary expenses and the favourable impact of the Canadian dollar versus the U.S. dollar which weakened approximately 11% during the period.

Research and Development

(Excludes share-based compensation, depreciation and amortization and foreign exchange loss or gain)

Research and development (R&D) costs were \$1.1 million in Q1 2016 compared to \$0.8 million in the same period last year, an increase of \$0.4 million or 48%. The increase was due to higher spending related to commercialization activities for DuraBind and a decrease in the recognition of government grants. The Company recognized \$0.1 million in government grants in the current quarter compared to \$0.4 million during the same period last year.

Foreign Currency Exchange Gain (Loss)

Foreign exchange gains (loss) were \$0.2 million in Q1 2016 compared to \$(0.7) million in the same period last year, an increase of \$0.8 million. The increase in exchange gains was primarily due to the translation of cash balances denominated in Canadian dollars and the strengthening of the Canadian dollar versus U.S. dollar. The Canadian dollar month-end spot rate at March 31, 2016 strengthened 7% versus the U.S. dollar, compared to December 31, 2015. In fiscal 2015, the month-end spot rate weakened 9% during the same period.

Adjusted EBITDA

Adjusted EBITDA loss was \$2.1 million in Q1 2016, compared to \$3.8 million in the same period last year. The decrease was principally due to lower operating

expenses partly offset by lower gross profit. Adjusted for the provision of termination benefits and unrealized foreign exchange translation gains and losses, EBITDA loss was \$2.0 million compared to \$2.1 million in the same period last year.

Net Loss

Net loss was \$2.4 million, or \$0.04 per common share, in Q1 2016, compared to \$4.1 million, or \$0.07 per common share, for the same period last year. The \$1.8 million decrease was due to a lower loss from operations during the same period.

Liquidity

Cash on hand and term deposits were \$59.2 as at March 31, 2016, compared to \$60.7 million as at December 31, 2015. During the period, the Company purchased a \$15.0 million term deposit maturing on January 8, 2018. Cash on hand at March 31, 2016, excluding the term deposit, was \$44.2 million.

Notice of Conference Call

EcoSynthetix will host a conference call on Wednesday, May 11, 2016 at 8:30 AM ET to discuss its financial results. Jeff MacDonald, CEO, and Robert Haire, CFO, will co-chair the call. All interested parties can join the call by dialling (647) 427-7450 or (888) 231-8191. Please dial in 15 minutes prior to the call to secure a line. A live audio webcast of the conference call will also be available at www.ecosynthetix.com. The presentation will be accompanied by slides, which will be available via the webcast link and the Company's website. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast.

¹Non-IFRS Financial Measures

This press release makes reference to certain non-IFRS measures. These non-IFRS measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of results of operations of EcoSynthetix from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the financial information of EcoSynthetix reported under IFRS. The Company uses non-IFRS measures such as Adjusted EBITDA to provide investors with a supplemental measure of operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess the Company's ability to meet its capital expenditure and working capital requirements.

Adjusted EBITDA is not a measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. See "IFRS and Non-IFRS Measures." The Company presents Adjusted EBITDA because the Company believes it facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting relative interest expense), the book amortization of intangibles (affecting relative amortization expense) and the age and book value of property and equipment (affecting relative depreciation expense). The Company also presents Adjusted EBITDA because it believes it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. Adjusted EBITDA as presented herein are not recognized measures under IFRS and should not be considered as an alternative to operating income or net income as measures of operating results or an alternative to cash flows as measures of liquidity. Adjusted EBITDA is defined as consolidated net income (loss) before net interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss).

The following table reconciles net loss to Adjusted EBITDA for the three months ended March 31, 2016 and March 31, 2015:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Net Loss	\$(2,369,222)	\$(4,124,619)
Depreciation and Amortization	292,258	\$336,742
Share-based Compensation	142,000	\$35,000
Interest Income	(139,236)	\$(79,891)
Adjusted EBITDA	\$(2,074,200)	\$(3,832,768)

About EcoSynthetix Inc. (www.ecosynthetix.com)

EcoSynthetix offers a range of engineered biopolymers that replace the non-renewable chemicals used to manufacture many products, such as paper and packaging, personal care products, insulation and wood composites. The Company's flagship products, EcoSphere® biolatex® and DuraBind™ biopolymers, provide a sustainable alternative that reduces a customer's carbon footprint, decreases overall material costs and improves performance. The Company is publicly traded on the Toronto Stock Exchange (T:ECO).

Forward-Looking Statements

Certain statements in this Press Release constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of the Company, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward looking statements. The forward-looking statements in this Press Release include, but are not limited to, statements regarding the Company's expected product pipeline, plans to expand the Company's business into new markets, the Company's ability to achieve organizational efficiencies, and other statements regarding the Company's plans and expectations in 2016. These statements reflect our current views regarding future events and operating performance and are based on information currently available to us, and speak only as of the date of this Press Release. These forward-looking statements involve a number of risks, uncertainties and assumptions and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Those assumptions and risks include, but are not limited to, the Company's ability to successfully allocate capital as needed and to develop new products, as well as the fact that our results of operations and business outlook are subject to significant risk, volatility and uncertainty. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including the factors identified in the "Risk Factors" section of the Company's Annual Information Form dated March 30, 2016. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this Press Release as intended, planned, anticipated, believed, estimated or expected. Unless required by applicable securities law, we do not intend and do not assume any obligation to update these forward-looking statements.

EcoSynthetix Inc.

Interim Consolidated Balance Sheets

(Unaudited)

(expressed in US dollars)

March 31,	December 31,
2016	2015

Assets**Current assets**

Cash	44,189,203	60,717,658
Accounts receivable	1,500,552	1,177,719
Inventory	2,900,801	3,290,238
Government grants receivable	366,110	528,436
Prepaid expenses	300,559	242,983
	<u>49,257,225</u>	<u>65,957,034</u>

Non-current assets

Long-term term deposit	15,059,104	-
Property, plant and equipment	8,652,152	8,746,072
Total assets	<u>72,968,481</u>	<u>74,703,106</u>

Liabilities**Current liabilities**

Accounts payable and accrued liabilities	1,647,091	1,262,709
Accrued termination benefits	1,385,970	1,277,755
Total liabilities	<u>3,033,061</u>	<u>2,540,464</u>

Shareholders' Equity

Common shares	493,182,209	493,182,209
Contributed surplus	8,159,907	8,017,907
Accumulated deficit	(431,406,696)	(429,037,474)
Total shareholders' equity	<u>69,935,420</u>	<u>72,162,642</u>

Total liabilities and shareholders' equity	<u>72,968,481</u>	<u>74,703,106</u>
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EcoSynthetix Inc.**Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)****For the three months ended March 31, 2016 and 2015****(expressed in US dollars)**

	Three months ended March 31,	
	2016	2015
Net sales	2,964,470	4,169,948
Cost of sales	<u>2,486,147</u>	<u>3,588,680</u>
Gross profit on sales	<u>478,323</u>	<u>581,268</u>
Expenses		
Selling, general and administrative	1,562,241	2,726,678
Provision for termination benefits	199,689	1,220,080
Research and development	<u>1,224,851</u>	<u>839,020</u>
	<u>2,986,781</u>	<u>4,785,778</u>
Loss from operations	<u>(2,508,458)</u>	<u>(4,204,510)</u>
Interest income	<u>139,236</u>	<u>79,891</u>
Net loss and comprehensive loss	<u>(2,369,222)</u>	<u>(4,124,619)</u>
Basic and diluted loss per common share	(0.04)	(0.07)
Weighted average number of common shares outstanding	59,275,758	56,477,460

EcoSynthetix Inc.**Interim Consolidated Statements of Cash Flows
(Unaudited)****For the three months ended March 31, 2016 and 2015**

(expressed in US dollars)

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

SOURCE EcoSynthetix Inc.

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