

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 2016

(expressed in US dollars)



August 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.

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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, 2016 \$	December 31, 2015 \$
Assets		
Current assets		
Cash	42,335,305	60,717,658
Accounts receivable (note 2)	1,659,108	1,177,719
Inventory (note 3)	2,948,792	3,290,238
Government grants receivable (note 4)	283,867	528,436
Prepaid expenses	230,038	242,983
	47,457,110	65,957,034
Non-current assets		
Long-term term deposit (note 5)	15,043,560	-
Property, plant and equipment (note 6)	8,522,572	8,746,072
Total assets	71,023,242	74,703,106
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 7)	2,131,943	1,262,709
Accrued termination benefits	1,444,728	1,277,755
Total liabilities	3,576,671	2,540,464
Shareholders' Equity		
Common shares	493,232,265	493,182,209
Contributed surplus	8,265,088	8,017,907
Accumulated deficit	(434,050,782)	(429,037,474)
Total shareholders' equity	67,446,571	72,162,642
Total liabilities and shareholders' equity	71,023,242	74,703,106

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 June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Net sales	2,917,010	4,094,987	5,881,480	8,264,935
Cost of sales	2,459,903	3,405,067	4,946,050	6,993,747
Gross profit on sales	457,107	689,920	935,430	1,271,188
Expenses				
Selling, general and administrative	1,768,171	2,101,295	3,330,412	4,827,973
Provision for termination benefits	292,849	-	492,538	1,220,080
Research and development	1,163,096	1,102,964	2,387,947	1,941,984
	3,224,116	3,204,259	6,210,897	7,990,037
Loss from operations	(2,767,009)	(2,514,339)	(5,275,467)	(6,718,849)
Interest income	122,923	74,018	262,159	153,909
Net loss and comprehensive loss	(2,644,086)	(2,440,321)	(5,013,308)	(6,564,940)
Basic and diluted loss per common share	(0.04)	(0.04)	(0.08)	(0.12)
Weighted average number of common shares outstanding	59,277,680	56,477,460	59,276,033	56,477,460

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, 2015	492,041,244	8,101,831	(414,616,986)	85,526,089
Share-based compensation	-	162,427	-	162,427
Net loss and comprehensive loss	-	-	(6,564,940)	(6,564,940)
Balance - June 30, 2015	492,041,244	8,264,258	(421,181,926)	79,123,576
Balance - January 1, 2016	493,182,209	8,017,907	(429,037,474)	(72,162,642)
Share-based compensation (note 8)	-	297,237	-	297,237
DSU options exercised	50,056	(50,056)	-	-
Net loss and comprehensive loss	-	-	(5,013,308)	(5,013,308)
Balance - June 30, 2016	493,232,265	8,265,088	(434,050,782)	67,446,571

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)

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(2,644,086)	(2,440,321)	(5,013,308)	(6,564,940)
Items not affecting cash				
Depreciation and amortization	303,966	376,096	596,224	712,838
Share-based compensation (note 8)	155,237	127,427	297,237	162,427
Unrealized foreign exchange loss (gain)	114,007	(101,944)	(47,679)	427,322
Other	(130,632)	-	(241,783)	-
Changes in non-cash working capital				
Accounts receivable (note 2)	(158,556)	(639,040)	(481,389)	(97,852)
Inventory	(64,575)	1,340,034	303,680	1,210,858
Government grants receivable	(118,743)	(155,022)	(252,248)	(663,415)
Prepaid expenses	70,521	(188,493)	12,945	(91,013)
Trade accounts payable and accrued liabilities (note 7)	484,852	(980,075)	969,234	(296,663)
Accrued termination benefits	58,758	(126,440)	166,973	820,910
	<u>(1,929,251)</u>	<u>(2,787,778)</u>	<u>(3,690,114)</u>	<u>(4,379,528)</u>
Investing activities				
Cash used for purchase of intangible assets and property, plant and equipment (note 6)	(157,802)	(174,656)	(434,958)	(637,147)
Purchase of long-term term deposit (note 5)	-	-	(15,000,000)	-
	<u>(157,802)</u>	<u>(174,656)</u>	<u>(15,434,958)</u>	<u>(637,147)</u>
Financing activity				
Proceeds from government grant (note 4)	200,986	455,749	496,817	455,749
	<u>200,986</u>	<u>455,749</u>	<u>496,817</u>	<u>455,749</u>
Effect of exchange rate changes on cash	<u>32,169</u>	<u>86,970</u>	<u>245,902</u>	<u>(516,501)</u>
Change in cash during the period	<u>(1,853,898)</u>	<u>(2,419,715)</u>	<u>(18,382,353)</u>	<u>(5,077,427)</u>
Cash - Beginning of period	<u>44,189,203</u>	<u>64,588,258</u>	<u>60,717,658</u>	<u>67,245,970</u>
Cash - End of period	<u>42,335,305</u>	<u>62,168,543</u>	<u>42,335,305</u>	<u>62,168,543</u>

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2016

(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 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 August 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.

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 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

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(expressed in US dollars)

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

a) 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.

b) Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade accounts payable 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 accounts payable 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.

c) 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

	June 30, 2016 \$	December 31, 2015 \$
Trade accounts receivable	1,288,028	987,059
Commodity taxes receivable and other	371,080	190,660
	<u>1,659,108</u>	<u>1,177,719</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2016

(expressed in US dollars)

3 Inventory

	June 30, 2016 \$	December 31, 2015 \$
Raw materials	422,180	678,855
Finished goods	2,526,612	2,611,383
	<u>2,948,792</u>	<u>3,290,238</u>

4 Government grants

On September 11, 2014, the Company announced that 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 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 six months ended June 30, 2016 and 2015 were as follows:

	Three months ended June 30		Six months ended June 30	
	2016 \$	2015 \$	2016 \$	2015 \$
Operating expenses	242,059	107,092	375,564	508,514
Property, plant and equipment	-	39,754	-	170,298
	<u>242,059</u>	<u>146,846</u>	<u>375,564</u>	<u>678,812</u>

During the six months ended June 30, 2016, the Company collected cash of \$496,817 (2015 - \$455,749) 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)

June 30, 2016

(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 \$	Construction in progress \$	Total \$
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 June 30, 2016					
Additions	177,156	-	-	157,802	334,958
Disposals	(323,765)	(116,697)	(209,705)	-	(650,167)
Depreciation	(548,503)	-	(9,955)	-	(558,458)
Accumulated depreciation on disposals	323,765	116,697	209,705	-	650,167
Closing net book value	8,335,447	-	29,323	157,802	8,522,572
As at June 30, 2016					
Cost	15,170,409	831,843	92,675	157,802	16,252,729
Less: Accumulated depreciation	(4,764,978)	(401,827)	(63,352)	-	(5,230,157)
Less: Impairment losses	(2,069,984)	(430,016)	-	-	(2,500,000)
Net book value	8,335,447	-	29,323	157,802	8,522,572

For the three and six months ended June 30, 2016, depreciation expense of \$193,847 and \$392,173 (2015 - \$241,521 and \$433,433) has been charged to cost of goods sold and \$110,119 and \$204,051 (2015 - \$117,051 and \$244,046) has been charged to selling, general and administrative expenses.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited) June 30, 2016

(expressed in US dollars)

7 Trade accounts payable and accrued liabilities

	June 30, 2016 \$	December 31, 2015 \$
Trade accounts payable	1,298,554	489,464
Accrued liabilities	833,389	773,245
	<u>2,131,943</u>	<u>1,262,709</u>

8 Share-based compensation

At June 30, 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	<u>1,116,520</u>	<u>1.28</u>
Outstanding - June 30, 2016	<u>5,467,472</u>	<u>1.70</u>

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 six months ended June 30, 2016 was \$539,753 and \$1,153,918, respectively (2015 - \$640,240 and \$1,260,411, respectively). The total revenue from external customers in the following regions was as follows:

	Three months ended June 30		Six months ended June 30	
	2016 \$	2015 \$	2016 \$	2015 \$
Americas	1,395,444	2,020,108	3,134,479	4,059,535
EMEA	482,595	115,070	803,955	212,313
Asia Pacific	1,038,971	1,959,809	1,943,046	3,993,087
	<u>2,917,010</u>	<u>4,094,987</u>	<u>5,881,480</u>	<u>8,264,935</u>

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June 30, 2016

(expressed in US dollars)

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, 2016, revenue attributable to individual countries reporting greater than 10% of total revenues included Japan, United States and Canada which represented 32%, 24% and 19%, respectively. During the three months ended June 30, 2015, revenue attributable to individual countries reporting greater than 10% of total revenues included Japan, United States and Canada which represented 36%, 33% and 16%, respectively.

During the six months ended June 30, 2016, revenue attributable to individual countries reporting greater than 10% of total revenues included Japan, United States and Canada which represented 28%, 25% and 20%, respectively. During the six months ended June 30, 2015, revenue attributable to individual countries reporting greater than 10% of total revenues included Japan, United States and Canada which represented 38%, 33% and 15%, respectively.

Sales to major customers

During the three months ended June 30, 2016, the Company derived a significant portion of its revenues from three customers, representing 32%, 18% and 11% of total revenue (2015 - 36%, 19%, 16% and 11% from four customers). During the six months ended June 30, 2015, the Company derived a significant portion of its revenues from three customers, representing 28%, 19% and 12% of total revenue (2015 - 38%, 21% and 15% from three customers).

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:

	June 30, 2016 \$	December 31, 2015 \$
Canada	2,532,414	2,641,304
United States of America	3,123,525	3,306,105
The Netherlands	2,866,633	2,798,663
	8,522,572	8,746,072

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2016

(expressed in US dollars)

10 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:

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2016	2015	2016	2015
	\$	\$	\$	\$
Wages and salaries	1,301,436	1,426,525	2,584,587	3,082,200
Termination benefits	292,849	-	492,538	1,220,080
Share-based compensation	155,237	127,427	297,237	162,427
Depreciation and amortization	303,966	376,096	596,224	712,838
Foreign exchange loss (gain)	12,113	(119,264)	(150,671)	543,230

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 (our 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 six months ended June 30, 2016 primarily related to cash balances denominated in Canadian dollars.

11 Termination benefits

During the six months ended June 30, 2016, the Company reached a settlement agreement with respect to the termination of employment of the former CEO. Accordingly, the Company recorded an additional provision for termination benefits of \$0.5 million.