

EcoSynthetix Inc.

Interim Financial Statements
(Unaudited)

September 30, 2016
(expressed in US dollars)



November 7, 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 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 interim 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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

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

EcoSynthetix Inc.

Interim Balance Sheets (Unaudited)

(expressed in US dollars)

	September 30, 2016 \$	December 31, 2015 \$
Assets		
Current assets		
Cash	39,319,308	60,717,658
Accounts receivable (note 2)	1,790,993	1,177,719
Inventory (note 3)	3,072,223	3,290,238
Government grants receivable (note 4)	489,800	528,436
Prepaid expenses	254,521	242,983
	44,926,845	65,957,034
Non-current assets		
Long-term term deposit (note 5)	15,109,256	-
Property, plant and equipment (note 6)	8,308,655	8,746,072
Total assets	68,344,756	74,703,106
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 7)	2,003,015	1,262,709
Accrued termination benefits	568,243	1,277,755
Total liabilities	2,571,258	2,540,464
Shareholders' Equity		
Common shares	493,348,194	493,182,209
Contributed surplus	8,394,436	8,017,907
Accumulated deficit	(435,969,132)	(429,037,474)
Total shareholders' equity	65,773,498	72,162,642
Total liabilities and shareholders' equity	68,344,756	74,703,106

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

EcoSynthetix Inc.

Interim Statements of Operations and Comprehensive Loss (Unaudited)

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
Net sales	2,723,638	3,333,534	8,605,118	11,598,469
Cost of sales	2,310,478	2,846,695	7,256,528	9,840,442
Gross profit on sales	413,160	486,839	1,348,590	1,758,027
Expenses				
Selling, general and administrative	1,370,262	1,539,097	4,700,674	6,367,070
Provision for termination benefits	41,576	-	534,114	1,220,080
Research and development	1,041,385	958,145	3,429,332	2,900,129
	2,453,223	2,497,242	8,664,120	10,487,279
Loss from operations	(2,040,063)	(2,010,403)	(7,315,530)	(8,729,252)
Interest income	121,713	69,172	383,872	223,081
Net loss and comprehensive loss	(1,918,350)	(1,941,231)	(6,931,658)	(8,506,171)
Basic and diluted loss per common share	(0.03)	(0.03)	(0.12)	(0.15)
Weighted average number of common shares outstanding	59,300,627	58,323,037	59,282,164	57,099,413

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

EcoSynthetix Inc.

Interim 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
Common share options exercised	1,005,355	(432,236)	-	573,119
Share-based compensation	-	241,427	-	241,427
Net loss and comprehensive loss	-	-	(8,506,171)	(8,506,171)
Balance - September 30, 2015	493,046,599	7,911,022	(423,123,157)	77,834,464
Balance - January 1, 2016	493,182,209	8,017,907	(429,037,474)	72,162,642
Common share options exercised	115,929	(54,724)	-	61,205
Share-based compensation (note 8)	-	481,309	-	481,309
DSU options exercised	50,056	(50,056)	-	-
Net loss and comprehensive loss	-	-	(6,931,658)	(6,931,658)
Balance - September 30, 2016	493,348,194	8,394,436	(435,969,132)	65,773,498

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

EcoSynthetix Inc.

Interim Statements of Cash Flows (Unaudited)

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(1,918,350)	(1,941,231)	(6,931,658)	(8,506,171)
Items not affecting cash				
Depreciation and amortization	290,614	351,196	886,838	1,064,034
Share-based compensation (note 8)	184,072	79,000	481,309	241,427
Unrealized foreign exchange loss (gain)	29,185	(153,175)	(18,494)	274,147
Other	(50,129)	407,169	(291,912)	496,348
Changes in non-cash working capital				
Accounts receivable (note 2)	(131,885)	1,019,080	(613,274)	921,228
Inventory	(114,033)	468,677	189,647	1,590,356
Government grants receivable	(205,933)	(104,716)	(458,181)	(768,131)
Prepaid expenses	(24,483)	60,549	(11,538)	(30,464)
Trade accounts payable and accrued liabilities (note 7)	(128,928)	(280,610)	840,306	(577,273)
Accrued termination benefits	(876,485)	(157,446)	(709,512)	663,464
	(2,946,355)	(251,507)	(6,636,469)	(4,631,035)
Investing activities				
Cash used for purchase of intangible assets and property, plant and equipment (note 6)	(86,095)	(140,573)	(521,053)	(777,720)
Purchase of long-term term deposit (note 5)	-	-	(15,000,000)	-
	(86,095)	(140,573)	(15,521,053)	(777,720)
Financing activities				
Exercise of common share options	61,205	573,119	61,205	573,119
Proceeds from government grant (note 4)	-	-	496,817	455,749
	61,205	573,119	558,022	1,028,868
Effect of exchange rate changes on cash	(44,752)	(253,994)	201,150	(770,495)
Change in cash during the period	(3,015,997)	(72,955)	(21,398,350)	(5,150,382)
Cash - Beginning of period	42,335,305	62,168,543	60,717,658	67,245,970
Cash - End of period	39,319,308	62,095,588	39,319,308	62,095,588

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

EcoSynthetix Inc.

Notes to Interim Financial Statements

(Unaudited)

September 30, 2016

(expressed in US dollars)

1 Business operations

(a) 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 November 7, 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 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.

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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 date, 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 accounts payable and accrued liabilities. Trade accounts payable 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.

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

	September 30, 2016 \$	December 31, 2015 \$
Trade accounts receivable	1,328,461	987,059
Commodity taxes receivable and other	462,532	190,660
	<u>1,790,993</u>	<u>1,177,719</u>

EcoSynthetix Inc.

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3 Inventory

	September 30, 2016 \$	December 31, 2015 \$
Raw materials	688,420	678,855
Finished goods	2,383,803	2,611,383
	<u>3,072,223</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 nine months ended September 30, 2016 and 2015 were as follows:

	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
Operating expenses	201,115	112,737	576,679	621,252
Property, plant and equipment	-	-	-	170,298
	<u>201,115</u>	<u>112,737</u>	<u>576,679</u>	<u>791,550</u>

During the nine months ended September 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 12 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. The Company has classified the investment as 'held-to-maturity'.

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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, 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 September 30, 2016				
Additions	421,053	-	-	421,053
Disposals	(323,765)	(116,697)	(209,705)	(650,167)
Depreciation	(845,697)	-	(12,773)	(858,470)
Accumulated depreciation on disposals	323,765	116,697	209,705	650,167
Closing net book value	8,282,150	-	26,505	8,308,655
As at September 30, 2016				
Cost	15,414,306	831,843	92,675	16,338,824
Less: Accumulated depreciation	(5,062,172)	(401,827)	(66,170)	(5,530,169)
Less: Impairment losses	(2,069,984)	(430,016)	-	(2,500,000)
Net book value	8,282,150	-	26,505	8,308,655

For the three and nine months ended September 30, 2016, depreciation expense of \$166,999 and \$559,172 (2015 - \$216,010 and \$649,443) has been charged to cost of goods sold and \$123,615 and \$327,666 (2015 - \$126,526 and \$370,572) have been charged to selling, general and administrative expenses.

7 Trade accounts payable and accrued liabilities

	September 30, 2016 \$	December 31, 2015 \$
Trade accounts payable	1,032,449	489,464
Accrued liabilities	970,566	773,245
	2,003,015	1,262,709

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8 Share-based compensation

At September 30, 2016, the Company had outstanding share options to purchase 5,074,905 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
Share options exercised	(80,500)	1.02
Forfeitures	(312,067)	1.89
Outstanding - September 30, 2016	5,074,905	1.67

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, 2016 was \$649,830 and \$1,803,748, respectively (2015 - \$600,652 and \$1,861,063, respectively). The total revenue from external customers in the following regions was as follows:

	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
Americas	1,580,505	1,920,486	4,714,984	5,980,021
EMEA	319,968	208,782	1,123,923	421,095
Asia Pacific	823,165	1,204,266	2,766,211	5,197,353
	2,723,638	3,333,534	8,605,118	11,598,469

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.

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During the three months ended September 30, 2016, revenue attributable to individual countries reporting greater than 10% of total revenues included United States, Japan and Canada, which represented 29%, 24% and 24%, respectively. 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 nine months ended September 30, 2016, revenue attributable to individual countries reporting greater than 10% of total revenues included Japan, United States and Canada, which represented 27%, 26% and 21%, respectively. 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.

Sales to major customers

During the three months ended September 30, 2016, the Company derived a significant portion of its revenues from four customers, representing 24%, 23%, 16% and 11% of total revenue (2015 - 24%, 18%, 18% and 12% from four customers). During the nine months ended September 30, 2015, the Company derived a significant portion of its revenues from three customers, representing 27%, 21% and 13% of total revenue (2015 - 34%, 20%, 16% and 10% of total revenue from four 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:

	September 30, 2016 \$	December 31, 2015 \$
Canada	2,422,956	2,641,304
United States of America	3,033,252	3,306,105
The Netherlands	2,852,447	2,798,663
	8,308,655	8,746,072

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(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:

	Three months ended September 30		Nine months ended September 30	
	2016 \$	2015 \$	2016 \$	2015 \$
Wages and salaries	1,166,764	1,323,000	3,751,351	4,405,200
Termination benefits	41,576	-	534,114	1,220,080
Share-based compensation	184,072	79,000	481,309	241,427
Depreciation and amortization	290,614	351,196	886,838	1,064,034
Foreign exchange loss (gain)	8,522	56,495	(142,149)	599,725

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 nine months ended September 30, 2016 primarily related to cash balances denominated in Canadian dollars.

11 Termination benefits

During the nine months ended September 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.