EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)
March 31, 2017
(expressed in US dollars)

May 2, 2017

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.

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

EcoSynthetix Inc.

Interim Consolidated Balance Sheet
(Unaudited)

(expressed in US dollars)

	March 31, 2017	December 31, 2016
Assets		
Current assets		
Cash	36,057,340	38,517,278
Term deposit (note 2)	15,107,828	-
Accounts receivable (note 3)	1,848,360	2,199,289
Inventory (note 4)	3,329,615	3,216,016
Government grants receivable	162,377	168,562
Prepaid expenses	142,321	165,352
	56,647,841	44,266,497
Non-current assets		
Term deposit (note 2)	-	15,043,557
Property, plant and equipment (note 5)	7,826,353	7,933,584
Total assets	64,474,194	67,243,638
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 6)	2,152,077	3,070,203
Accrued termination benefits	118,055	415,888
Total liabilities	2,270,132	3,486,091
Shareholders' Equity		
Common shares	493,613,481	493,359,612
Contributed surplus	8,836,291	8,740,007
Accumulated deficit	(440,245,710)	(438,342,072)
Total shareholders' equity	62,204,062	63,757,547
Total liabilities and shareholders' equity	64,474,194	67,243,638

Approved by the Board of Directors

(signed)	**(signed)**
Paul Lucas, Chairman	Jeff MacDonald, Chief Executive Officer

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

EcoSynthetix Inc.

Interim Consolidated Statement of Operations and Comprehensive Loss
(Unaudited)

For the three months ended March 31, 2017 and March 31, 2016

(expressed in US dollars)

	2017	2016
Net sales	3,602,129	2,964,470
Cost of sales	2,802,169	2,486,147
Gross profit on sales	799,960	478,323
Expenses		
Selling, general and administrative	1,489,666	1,562,241
Research and development	1,346,098	1,224,851
Provision for termination benefits	-	199,689
	2,835,764	2,986,781
Loss from operations	(2,035,804)	(2,508,458)
Interest income	132,166	139,236
Net loss and comprehensive loss	(1,903,638)	(2,369,222)
Basic and diluted loss per common share	(0.03)	(0.04)
Weighted average number of common shares outstanding	59,515,232	59,275,758

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

EcoSynthetix Inc.

Interim Consolidated Statement of Shareholders' Equity

(Unaudited)

For the three months ended March 31, 2017 and March 31, 2016

(expressed in US dollars)

	Common shares	Contributed surplus	Accumulated deficit	Total
Balance - January 1, 2016	493,182,209	8,017,907	(429,037,474)	72,162,642
Share-based compensation (note 7)	-	142,000	-	142,000
Net loss and comprehensive loss	-	-	(2,369,222)	(2,369,222)
Balance - March 31, 2016	493,182,209	8,159,907	(431,406,696)	69,935,420
Balance - January 1, 2017	493,359,612	8,740,007	(438,342,072)	63,757,547
Share-based compensation (note 7)	-	314,021	-	314,021
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	-	-	(1,903,638)	(1,903,638)
Balance - March 31, 2017	493,613,481	8,836,291	(440,245,710)	62,204,062

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

EcoSynthetix Inc.

Interim Consolidated Statement of Cash Flows

(Unaudited)

For the three months ended March 31, 2017 and March 31, 2016

(expressed in US dollars)

	2017	2016
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss	(1,903,638)	(2,369,222)
Items not affecting cash		
Depreciation	267,046	292,258
Share-based compensation (note 7)	314,021	142,000
Unrealized foreign exchange gain	(8,839)	(161,686)
Other	(108,237)	(111,151)
Changes in non-cash working capital		
Accounts receivable (note 3)	378,352	(322,833)
Inventory (note 4)	(102,291)	368,255
Government grants receivable	(59,521)	(133,505)
Prepaid expenses	23,031	(57,576)
Trade payables and accrued liabilities (note 6)	(918,126)	484,382
Accrued termination benefits	(297,833)	108,215
	(2,416,035)	(1,760,863)
Investing activities		
Purchase of property, plant and equipment	(171,123)	(277,156)
Purchase of term deposit (note 2)	-	(15,000,000)
	(171,123)	(15,277,156)
Financing activities		
Exercise of common share options	8,709	-
Proceeds from government grants	65,706	295,831
	74,415	295,831
Effect of exchange rate changes on cash	52,805	213,733
Change in cash during the period	(2,459,938)	(16,528,455)
Cash - Beginning of period	38,517,278	60,717,658
Cash - End of period	36,057,340	44,189,203

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

(expressed in US dollars, unless otherwise noted)

1. Summary of significant accounting policies

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, 2016. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at May 2, 2017, 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 disclosures normally included in annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board, 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, 2016. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016.

2. Term deposit

During the three months ended March 31, 2016, the Company purchased a $15,000,000 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 term deposit has been classified as a current asset due to its maturity date being less than one year from the balance sheet date.

3. Accounts receivable

	March 31, 2017	December 31, 2016
Trade accounts receivable	1,628,937	1,915,469
Commodity taxes receivable and other	219,423	283,820
	1,848,360	2,199,289

(expressed in US dollars, unless otherwise noted)

4. Inventory

	March 31, 2017	December 31, 2016
Raw materials	513,259	673,557
Finished goods	2,816,356	2,542,459
	3,329,615	3,216,016

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:

	Machinery and equipment	Leasehold improvements	Computer-hardware	Total
As at December 31, 2016				
Cost	15,478,026	831,843	92,675	16,402,544
Less: Accumulated depreciation	(5,498,925)	(401,827)	(68,208)	(5,968,960)
Less: Impairment losses	(2,069,984)	(430,016)	-	(2,500,000)
Net book value	7,909,117	-	24,467	7,933,584
Period ended March 31, 2017				
Additions	171,123	-	-	171,123
Depreciation	(276,818)	-	(1,536)	(278,354)
Closing net book value	7,803,422	-	22,931	7,826,353
As at March 31, 2017				
Cost	15,649,149	831,843	92,675	16,573,667
Less: Accumulated depreciation	(5,775,743)	(401,827)	(69,744)	(6,247,314)
Less: Impairment losses	(2,069,984)	(430,016)	-	(2,500,000)
Net book value	7,803,422	-	22,931	7,826,353

During the three months ended March 31, 2017, a depreciation expense of $174,820 (2016 - $198,326) has been charged to cost of sales and $92,226 (2016 - $93,932) has been charged to research and development.

6. Trade payables and accrued liabilities

	March 31, 2017	December 31, 2016
Trade payables	1,232,373	1,478,184
Accrued liabilities	919,704	1,592,019
	2,152,077	3,070,203

(expressed in US dollars, unless otherwise noted)

7. Share-based compensation

As at March 31, 2017, the Company had outstanding share options to purchase 5,144,432 common shares of the Company. The share options expire at various dates through January 9, 2027.

	Number of share options outstanding	Weighted average exercise price CA$
Outstanding - December 31, 2016	4,602,797	1.59
Share options granted	600,985	2.20
Share options exercised	(59,350)	0.81
Outstanding - March 31, 2017	5,144,432	1.67

8. Segmented reporting

The Company operates in one reportable segment and generates revenue primarily from its biopolymer nanosphere technology platform.

Sales by geographic location

The Company is domiciled in Canada. Revenue from external customers located in Canada for the three months ended March 31, 2017 was $964,104 (2016 - $614,165). The total revenue from external customers in the following regions was as follows:

	2017	2016
Americas	2,006,559	1,739,035
EMEA	742,682	321,360
Asia Pacific	852,888	904,075
	3,602,129	2,964,470

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 March 31, 2017, revenue attributable to individual countries reporting greater than 10% of total revenue included Canada, United States, Japan and Finland, which represented 27%, 26%, 20% and 11%, respectively. During the three months ended March 31, 2016, revenue attributable to individual countries reporting greater than 10% of total revenue included United States, Japan and Canada, which represented 27%, 24% and 21%, respectively.

(expressed in US dollars, unless otherwise noted)

Sales to major customers

During the three months ended March 31, 2017, the Company derived a significant portion of its revenue from five customers, representing 27%, 20%, 12%, 12% and 10% of total revenue (2016 - 24%, 21% and 12% from three customers). The concentrations listed do not necessarily apply to the same customers year over year.

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:

	March 31, 2017	December 31, 2016
Canada	2,082,194	2,174,420
United States	2,952,948	2,944,100
The Netherlands	2,791,211	2,815,064
	7,826,353	7,933,584

9. Expenses by nature

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

	2017	2016
Wages and salaries	1,179,060	1,283,151
Provision for termination benefits	-	199,689
Share-based compensation	314,021	142,000
Depreciation and amortization	267,046	292,258
Foreign exchange gains	(38,276)	(162,784)

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 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 ended March 31, 2017 primarily related to monetary assets and liabilities denominated in Canadian dollars.