

# **EcoSynthetix Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**March 31, 2019**

(expressed in US dollars)



May 7, 2019

### **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

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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)

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	9,050,178	14,207,342
Short-term investments (note 3)	35,204,658	30,635,400
Accounts receivable (note 4)	1,629,316	2,347,622
Inventory (note 5)	3,573,458	2,722,742
Government grants receivable	136,362	140,000
Prepaid expenses	89,523	129,240
	<u>49,683,495</u>	<u>50,182,346</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 6)	<u>7,412,700</u>	<u>6,174,898</u>
<b>Total assets</b>	<u>57,096,195</u>	<u>56,357,244</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade accounts payable and accrued liabilities (note 7)	1,869,463	2,255,430
<b>Non-current liabilities</b>		
Lease liability (note 8)	<u>1,308,319</u>	-
<b>Total liabilities</b>	<u>3,177,782</u>	<u>2,255,430</u>
<b>Shareholders' Equity</b>		
<b>Common shares</b> (note 10)	491,747,498	491,618,125
<b>Contributed surplus</b>	9,839,265	9,798,803
<b>Accumulated deficit</b>	<u>(447,668,350)</u>	<u>(447,315,114)</u>
<b>Total shareholders' equity</b>	<u>53,918,413</u>	<u>54,101,814</u>
<b>Total liabilities and shareholders' equity</b>	<u>57,096,195</u>	<u>56,357,244</u>

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

## EcoSynthetix Inc.

### Interim Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

For the three months ended March 31, 2019 and March 31, 2018

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(expressed in US dollars)

	2019 \$	2018 \$
<b>Net sales</b>	4,468,721	5,447,074
<b>Cost of sales</b>	3,477,649	4,395,546
<b>Gross profit on sales</b>	991,072	1,051,528
<b>Expenses</b>		
Selling, general and administrative	1,173,329	1,457,749
Research and development	446,024	749,830
Termination benefits	-	222,778
	1,619,353	2,430,357
<b>Loss from operations</b>	(628,281)	(1,378,829)
<b>Net interest income</b>	275,045	213,622
<b>Net loss and comprehensive loss</b>	(353,236)	(1,165,207)
<b>Basic and diluted loss per common share</b>	(0.01)	(0.02)
<b>Weighted average number of common shares outstanding</b>	58,290,368	59,679,767

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

## EcoSynthetix Inc.

### Interim Consolidated Statements of Shareholders' Equity

(Unaudited)

For the three months ended March 31, 2019 and March 31, 2018

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
<b>Balance – January 1, 2018</b>	493,631,495	9,550,445	(444,784,356)	58,397,584
Share-based compensation (note 9)	-	175,414	-	175,414
Common share options exercised (note 10)	89,910	(29,450)	-	60,460
Restricted share units converted (note 10)	130,038	(130,038)	-	-
Net loss and comprehensive loss	-	-	(1,165,207)	(1,165,207)
<b>Balance – March 31, 2018</b>	<u>493,851,443</u>	<u>9,566,371</u>	<u>(445,949,563)</u>	<u>57,468,251</u>
<b>Balance – January 1, 2019</b>	491,618,125	9,798,803	(447,315,114)	54,101,814
Share-based compensation (note 9)	-	180,597	-	180,597
Common share options exercised (note 10)	71,939	(23,387)	-	48,552
Restricted share units converted (note 10)	116,748	(116,748)	-	-
Common shares repurchased	(59,314)	-	-	(59,314)
Net loss and comprehensive loss	-	-	(353,236)	(353,236)
<b>Balance – March 31, 2019</b>	<u>491,747,498</u>	<u>9,839,265</u>	<u>(447,668,350)</u>	<u>53,918,413</u>

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

# EcoSynthetix Inc.

## Interim Consolidated Statements of Cash Flows

(Unaudited)

For the three months ended March 31, 2019 and March 31, 2018

(expressed in US dollars)

	2019 \$	2018 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss and comprehensive loss	(353,236)	(1,165,207)
Items not affecting cash		
Depreciation	302,629	327,971
Share-based compensation (note 9)	180,597	175,414
Unrealized foreign exchange (gain) loss	(51,832)	140,702
Other	(207,156)	(225,859)
Changes in non-cash working capital		
Accounts receivable (note 4)	718,306	(748,341)
Inventory (note 5)	(794,318)	(122,588)
Government grants receivable	3,638	-
Prepaid expenses	39,717	69,419
Trade accounts payable and accrued liabilities (note 7)	(543,790)	(431,597)
Accrued termination benefits	-	(39,830)
Interest received on short-term investments	655,200	187,319
	<u>(50,245)</u>	<u>(1,832,597)</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(78,687)	-
Receipts on mature short-term investments (note 3)	30,000,000	30,000,000
Purchase of short-term investments (note 3)	(35,000,000)	(30,000,000)
	<u>(5,078,687)</u>	<u>-</u>
<b>Financing activities</b>		
Payments made on lease liability (note 8)	(52,000)	-
Common shares repurchased (note 10)	(59,314)	-
Exercise of common share options	48,552	60,460
	<u>(62,762)</u>	<u>60,460</u>
<b>Effect of exchange rate changes on cash</b>	<u>34,530</u>	<u>(66,941)</u>
<b>Change in cash during the period</b>	(5,157,164)	(1,839,078)
<b>Cash – Beginning of period</b>	14,207,342	19,116,828
<b>Cash – End of period</b>	<u>9,050,178</u>	<u>17,277,750</u>

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

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2019 and March 31, 2018**

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(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 interim consolidated financial statements (interim financial statements) for the three-month period ended March 31, 2019 were prepared using the same accounting policies and methods as those used in the Company's audited consolidated financial statements for the year ended December 31, 2018, with the exception of the adoption of IFRS 16, Leases, which was adopted on January 1, 2019. The impact of IFRS 16 is described in note 2 below. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at May 7, 2019, the date the Board of Directors 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 (IASB), have been omitted or condensed. The preparation of interim consolidated 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 to the Company's consolidated financial statements for the year ended December 31, 2018. These interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2018.

### **2 New accounting policies**

#### **IFRS 16 – Leases**

On January 1, 2019 the Company adopted IFRS 16, which establishes the principles that should be used to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract: the customer (lessee) and the supplier (lessor). The standard removes the distinction between operating and finance leases and requires the recognition of a right-of-use asset and lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. The requirements for lessor accounting have remained largely unchanged. IFRS 16 replaces the previous leases standard, IAS 17, Leases, and related interpretations. The Company has adopted IFRS 16 on a modified retrospective basis recognizing the corresponding asset and liability as at January 1, 2019 with no adjustment to opening retained earnings or restatement of prior period figures.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2019 and March 31, 2018**

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(expressed in US dollars)

For contracts entered into, or changed, on or after January 1, 2019 the Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - The Company has the right to operate the assets; or
  - The Company designed the asset in a way that predetermines how and for what purpose it will be used.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate. Lease payments include fixed payments, variable payments, amounts expected to be payable under a residual guarantee and payments under a purchase option, extension option and termination penalties if the Company is reasonably certain it will exercise those options or terminate the lease early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.



# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2019 and March 31, 2018

(expressed in US dollars)

The lease associated with the Company's corporate headquarters located in the Center of Innovation in Burlington, Ontario was impacted by the adoption of IFRS 16. Previously, the Company recognized the lease charge associated with this facility as an operating lease expense on a straight-line basis over the term of the lease. The corresponding right of use asset and lease liability are measured by discounting the lease payments over the remaining lease term of 7 years using the Company's incremental borrowing rate of 6.2%. There were no other lease agreements which were impacted by the adoption of this standard.

The impact on the interim consolidated balance sheet as at January 1, 2019 is as follows:

	December 31, 2018 \$	Impact of IFRS 16 \$	January 1, 2019 \$
Non-current assets			
Property, plant and equipment	6,174,898	1,547,467	7,722,365
Current liabilities			
Trade accounts payable and accrued liabilities	2,255,430	182,139	2,437,569
Non-current liabilities			
Lease liability	-	1,362,995	1,362,995

### Financial instruments

The Company has classified the lease liability at amortized cost. The Company's financial instruments were classified as follows as at January 1, 2019:

	Amortized cost \$	Fair value through other comprehensive income \$	Fair value through profit or loss \$	Total \$
Cash	14,207,342	-	-	14,207,342
Short-term investments	30,635,400	-	-	30,635,400
Accounts receivable	2,347,622	-	-	2,347,622
Government grants receivable	140,000	-	-	140,000
Trade accounts payable and accrued liabilities	(2,437,569)	-	-	(2,437,569)
Lease liability	(1,362,995)	-	-	(1,362,995)
	<u>43,529,800</u>	<u>-</u>	<u>-</u>	<u>43,529,800</u>

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2019 and March 31, 2018

(expressed in US dollars)

The Company's financial instruments were classified as follows at December 31, 2018:

	Amortized cost \$	Fair value through other comprehensive income \$	Fair value through profit or loss \$	Total
Cash	14,207,342	-	-	14,207,342
Short-term investments	30,635,400	-	-	30,635,400
Accounts receivable	2,347,622	-	-	2,347,622
Government grants receivable	140,000	-	-	140,000
Trade accounts payable and accrued liabilities	(2,255,430)	-	-	(2,255,430)
	<u>45,074,934</u>	<u>-</u>	<u>-</u>	<u>45,074,934</u>

### Interest rate risk

Interest rate risk arises because of fluctuations in market interest rates. The Company is subject to interest rate risk on its lease liability. If the Company's incremental borrowing rate shifted 10%, the impact on the interim consolidated statements of operations and comprehensive loss for the year ended would be a gain or loss of \$11,219.

### 3 Short-term investments

Short-term investments include short-term investment certificates and term deposits. During the three months ended March 31, 2019, the Company purchased \$20,000,000 of short-term investment certificates maturing in January 2020 at an annual interest rate of 2.8%. During the three months ended March 31, 2019, the Company purchased \$15,000,000 of term deposits maturing in January 2020 at interest rates ranging from 2.8% to 3.0%. All short-term investments are held with one large chartered Canadian bank. The carrying value of the short-term investments includes accrued interest and is recorded at amortized cost using the effective interest method.

	March 31, 2019 \$	December 31, 2018 \$
Short-term investment certificates	20,115,452	-
Term deposits	15,089,206	30,635,400
	<u>35,204,658</u>	<u>30,635,400</u>

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2019 and March 31, 2018

(expressed in US dollars)

### 4 Accounts receivable

	March 31, 2019 \$	December 31, 2018 \$
Trade accounts receivable	1,375,555	2,111,366
Commodity taxes receivable and other	253,761	236,256
	<u>1,629,316</u>	<u>2,347,622</u>

### 5 Inventory

	March 31, 2019 \$	December 31, 2018 \$
Raw materials	286,701	218,290
Finished goods	3,286,757	2,504,452
	<u>3,573,458</u>	<u>2,722,742</u>

### 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 \$	Right of use asset \$	Computer hardware \$	Total \$
As at December 31, 2018					
Cost	15,845,199	828,005	-	90,091	16,763,295
Less: Accumulated depreciation	(9,688,632)	(828,005)	-	(71,760)	(10,588,397)
Net book value	6,156,567	-	-	18,331	6,174,898
Period ended March 31, 2019					
IFRS 16 implementation	-	-	1,547,467	-	1,547,467
Additions	49,362	-	-	-	49,362
Depreciation	(302,803)	-	(55,593)	(631)	(359,027)
Closing net book value	5,903,126	-	1,491,874	17,700	7,412,700
As at March 31, 2019					
Cost	15,894,561	828,005	1,547,467	90,091	18,360,124
Less: Accumulated depreciation	(9,991,435)	(828,005)	(55,593)	(72,391)	(10,947,424)
Net book value	5,903,126	-	1,491,874	17,700	7,412,700

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2019 and March 31, 2018

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(expressed in US dollars)

For the three months ended March 31, 2019, depreciation expense of \$150,037 (2018 – \$220,661) has been charged to cost of goods sold and \$152,592 (2018 – \$107,310) has been charged to research and development.

There was \$49,362 of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at March 31, 2019 (December 31, 2018 – \$78,687).

### 7 Trade accounts payable and accrued liabilities

	March 31, 2019 \$	December 31, 2018 \$
Trade accounts payable	1,414,755	1,306,645
Accrued liabilities	190,508	877,775
Lease liability – short-term	183,257	-
Commodity taxes payable	80,943	71,010
	<hr/> 1,869,463	<hr/> 2,255,430

### 8 Lease liability

The Company has one right of use asset under property, plant and equipment and corresponding lease liability, for the lease associated with the Company's corporate headquarters located in the Centre of Innovation in Burlington, Ontario. The lease liability is measured at amortized cost by discounting the lease payments over the remaining term of the lease at the Company's incremental borrowing rate of 6.2%.

	March 31, 2019 \$	December 31, 2018 \$
Lease liability		
Short-term	183,257	-
Long-term	1,308,319	-
	<hr/> 1,491,576	<hr/> -

For the three months ended March 31, 2019, total cash payments of \$67,385 were made on the lease liability, which includes interest expense of \$15,385, that has been recognized in net interest income on the consolidated statements of operations and comprehensive loss, and principal payments of \$52,000.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2019 and March 31, 2018

(expressed in US dollars)

### 9 Share-based compensation

As at March 31, 2019, the Company had outstanding share options to purchase 4,811,701 shares of the Company. The share options expire at various dates through January 9, 2026.

	Number of share options outstanding	Weighted average exercise price CA\$
Outstanding – December 31, 2018	4,435,493	1.72
Share options granted	520,151	1.82
Share option forfeitures	(95,695)	2.20
Share options exercised	(48,248)	1.35
Outstanding – March 31, 2019	<u>4,811,701</u>	<u>1.72</u>

### 10 Common shares

	Number of common shares	Share capital \$
Balance – December 31, 2018	58,252,736	491,618,125
Common share options exercised	48,248	71,939
Restricted share units converted	121,421	116,748
Common shares repurchased	(38,000)	(59,314)
Balance – March 31, 2019	<u>58,384,405</u>	<u>491,747,498</u>

#### Share exchange

On April 12, 2018, 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 4,461,696 common shares. The period of the Bid will occur from April 12, 2018 to April 11, 2019. During the three months ended March 31, 2019, the Company repurchased and cancelled 38,000 (2018 – nil) common shares for total consideration of \$59,314 (2018 – \$nil).

### 11 Segmented information and enterprise wide disclosures

#### Segmented reporting

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

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2019 and March 31, 2018

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(expressed in US dollars)

### Sales by geographic location

The Company is domiciled in Canada. Revenue from external customers located in Canada for the three months ended March 31, 2019 was \$899,515 (2018 – \$866,900). The total revenue from external customers in the following regions was as follows:

	2019 \$	2018 \$
Americas	2,424,750	2,634,806
EMEA	1,284,605	1,782,659
Asia Pacific	759,366	1,029,609
	<hr/> 4,468,721	<hr/> 5,447,074

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, 2019, revenue attributable to individual countries reporting greater than 10% of total revenues included the United States, Canada, Japan and Germany, which represented 31%, 20%, 17% and 15%, respectively. During the three months ended March 31, 2018, revenue attributable to individual countries reporting greater than 10% of total revenues included the United States, Japan, Canada, Germany and Finland, which represented 29%, 18%, 16%, 16% and 11%, respectively.

### Sales to major customers

During the three months ended March 31, 2019, the Company derived a significant portion of its revenues from three customers, representing 20%, 20% and 17% of total revenue (2018 – 18%, 18% and 16% 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, 2019 \$	December 31, 2018 \$
Canada	2,759,572	1,364,697
United States	2,259,851	2,348,867
The Netherlands	2,393,277	2,461,334
	<hr/> 7,412,700	<hr/> 6,174,898

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2019 and March 31, 2018

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(expressed in US dollars)

### 12 Expenses by nature

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

	2019 \$	2018 \$
Wages and salaries	805,881	967,997
Termination benefits	-	222,778
Share-based compensation	180,597	175,414
Depreciation	302,629	327,971
Foreign exchange (gain) loss	(102,716)	20,566

Foreign exchange gains and 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 gains for the three months ended March 31, 2019 primarily related to cash balances denominated in Canadian dollars.

### 13 Comparative figures

Certain comparative figures have been restated to conform with the current year presentation.