

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

March 31, 2021

(expressed in US dollars)



May 4, 2021

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 interim consolidated 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

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

EcoSynthetix Inc.
Interim Consolidated Balance Sheet
(Unaudited)

(expressed in US dollars)

	March 31, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Cash	41,915,025	16,637,161
Short-term investments (note 2)	-	25,344,575
Accounts receivable (note 3)	1,833,907	1,794,594
Inventory (note 4)	2,579,994	2,134,389
Government grants receivable	125,091	122,218
Prepaid expenses	42,110	69,633
	<u>46,496,127</u>	<u>46,102,570</u>
Property, plant and equipment (note 5)	<u>5,375,426</u>	<u>5,620,805</u>
	<u>51,871,553</u>	<u>51,723,375</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	2,160,909	1,179,097
Lease liability (note 7)	<u>1,022,091</u>	<u>1,072,287</u>
	<u>3,183,000</u>	<u>2,251,384</u>
Shareholders' Equity		
Common shares (note 9)	490,313,256	490,259,923
Contributed surplus	10,296,447	10,383,334
Accumulated deficit	<u>(451,921,150)</u>	<u>(451,171,266)</u>
	<u>48,688,553</u>	<u>49,471,991</u>
	<u>51,871,553</u>	<u>51,723,375</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, 2021 and March 31, 2020

(expressed in US dollars)

	2021 \$	2020 \$
Net sales	3,673,447	4,224,416
Cost of sales	2,921,358	3,124,202
Gross profit on sales	752,089	1,100,214
Expenses		
Selling, general and administrative	1,198,989	1,372,487
Research and development	328,925	376,095
	1,527,914	1,748,582
Loss from operations	(775,825)	(648,368)
Net interest income	25,941	201,113
Net loss and comprehensive loss	(749,884)	(447,255)
Basic and diluted loss per common share	(0.01)	(0.01)
Weighted average number of common shares outstanding	57,247,344	57,926,217

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, 2021 and March 31, 2020

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance – January 1, 2020	490,590,406	10,351,658	(448,769,172)	52,172,892
Share-based compensation (note 8)	-	144,252	-	144,252
Common share options exercised (note 9)	67,811	(22,281)	-	45,530
Restricted share units converted (note 9)	112,681	(112,681)	-	-
Common shares repurchased	(476,567)	-	-	(476,567)
Net loss and comprehensive loss	-	-	(447,255)	(447,255)
Balance – March 31, 2020	490,294,331	10,360,948	(449,216,427)	51,438,852
Balance – January 1, 2021	490,259,923	10,383,334	(451,171,266)	49,471,991
Share-based compensation (note 8)	-	119,477	-	119,477
Common share options exercised (note 9)	65,631	(28,667)	-	36,964
Restricted share units converted (note 9)	177,697	(177,697)	-	-
Common shares repurchased	(189,995)	-	-	(189,995)
Net loss and comprehensive loss	-	-	(749,884)	(749,884)
Balance – March 31, 2021	490,313,256	10,296,447	(451,921,150)	48,688,553

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, 2021 and March 31, 2020

(expressed in US dollars)

	2021 \$	2020 \$
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss	(749,884)	(447,255)
Items not affecting cash		
Depreciation	360,126	313,877
Share-based compensation (note 8)	119,477	144,252
Other	3,894	78,720
Changes in non-cash working capital		
Accounts receivable (note 3)	(194,324)	(462,229)
Inventory (note 4)	(473,721)	(370,926)
Government grants receivable	(2,873)	81,749
Prepaid expenses	27,523	38,801
Trade accounts payable and accrued liabilities (note 6)	933,182	649,215
Interest on short-term investments		
Interest received on short-term investments	358,740	760,545
Accrued interest on short-term investments	(14,165)	(202,792)
	<u>367,975</u>	<u>583,957</u>
Investing activities		
Purchase of property, plant and equipment	(44,557)	(88,955)
Receipts on mature short-term investments (note 2)	25,000,000	35,000,000
Purchase of short-term investments (note 2)	-	(35,000,000)
	<u>24,955,443</u>	<u>(88,955)</u>
Financing activities		
Payments made on lease liability (note 7)	(59,237)	(47,579)
Common shares repurchased (note 9)	(189,995)	(476,567)
Exercise of common share options	191,975	45,530
	<u>(57,257)</u>	<u>(478,616)</u>
Effect of exchange rate changes on cash	<u>11,703</u>	<u>(188,504)</u>
Change in cash during the period	25,277,864	(172,118)
Cash – Beginning of period	<u>16,637,161</u>	<u>7,975,713</u>
Cash – End of period	<u>41,915,025</u>	<u>7,803,595</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, 2021 and March 31, 2020

(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.

The unaudited interim consolidated financial statements (interim financial statements) for the three month period ended March 31, 2021 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, 2020. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at May 3, 2021, the date the Board of Directors approved the interim financial statements. The interim financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting (IAS 34). Accordingly, certain information and note 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, 2020. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2020.

COVID-19

During the three-months ended March 31, 2021, COVID-19 continues to have an adverse impact on the global demand for paper products and the pricing of petroleum-related products with which the Company's products compete. This has resulted in reduced sales volume, lower pricing and reduced gross profit for the Company when compared to the three months ended March 31, 2020. COVID-19 has also caused a decline in interest rates reducing interest income earned on cash and short-term investments. During the three months ended March 31, 2021 the Company applied for and received government assistance under the Canadian Emergency Wage Subsidy (CEWS) program and the Canadian Emergency Rent Subsidy (CERS) program. There are no other direct impacts on the operating results of the Company or the interim financial statements. Given the dynamic nature of this outbreak, the extent to which the COVID-19 virus impacts the Company's operational results and financial performance will depend on future developments, which remain highly uncertain and cannot be accurately predicted at this time, including the duration, scope and severity of the pandemic, the actions taken to contain or mitigate its impact, and the direct and indirect economic effects of the pandemic and related containment measures, among others.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2021 and March 31, 2020

(expressed in US dollars)

2 Short-term investments

During the year ended December 31, 2020, the Company purchased \$65,000,000 of short-term investment certificates maturing between July 2020 and January 2021 at annual interest rates between 0.12% and 2.35%. The carrying value of the short-term investments includes accrued interest and is recorded at amortized cost using the effective interest method.

	March 31, 2021 \$	December 31, 2020 \$
Short-term investment certificates	-	15,322,520
Term deposits	-	10,022,055
	-	25,344,575

3 Accounts receivable

	March 31, 2021 \$	December 31, 2020 \$
Trade accounts receivable	1,666,431	1,532,603
Commodity taxes receivable and other	167,476	261,991
	1,833,907	1,794,594

4 Inventory

	March 31, 2021 \$	December 31, 2020 \$
Raw materials	554,926	457,054
Finished goods	2,025,068	1,677,335
	2,579,994	2,134,389

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2021 and March 31, 2020

(expressed in US dollars)

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 \$	Right-of- use asset \$	Computer hardware \$	Total \$
As at December 31, 2020					
Cost	16,078,428	828,005	1,661,759	90,091	18,658,283
Less: Accumulated depreciation	11,656,679	(828,005)	(462,703)	(90,091)	(13,037,478)
Net book value	4,421,749	-	1,199,056	-	5,620,805
Period ended March 31, 2021					
Additions	86,631	-	-	-	86,631
Depreciation	(269,990)	-	(62,020)	-	(332,010)
Closing net book value	4,238,390	-	1,137,036	-	5,375,426
As at March 31, 2021					
Cost	16,165,059	828,005	1,661,759	90,091	18,744,914
Less: Accumulated depreciation	(11,926,669)	(828,005)	(524,723)	(90,091)	(13,369,488)
Net book value	4,238,390	-	1,137,036	-	5,375,426

For the three months ended March 31, 2021, depreciation expense of \$203,510 (2020 – \$159,816) has been charged to cost of goods sold and \$156,616 (2020 – \$154,061) has been charged to research and development. For the three months ended March 31, 2021, depreciation expense of \$28,116 was expensed from inventory (2020 – \$32,698 depreciation expense capitalized into inventory).

There were \$42,074 of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at March 31, 2021 (2020 – \$nil).

6 Trade accounts payable and accrued liabilities

	March 31, 2021 \$	December 31, 2020 \$
Trade accounts payable	1,493,925	560,329
Accrued liabilities	421,721	380,061
Lease liability – short-term	245,263	238,707
	<u>2,160,909</u>	<u>1,179,097</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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7 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, 2021 \$	December 31, 2020 \$
Lease liability		
Short-term	245,263	238,707
Long-term	1,022,091	1,072,287
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	1,267,354	1,310,994
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For the three months ended March 31, 2021, total cash payments of \$78,240 (2020 – \$68,009) were made on the lease liability. Cash payments for the three months ended March 31, 2021 included interest expense of \$19,003 (2020 – \$20,430), which has been recognized in net interest income on the interim consolidated statement of operations and comprehensive loss, and principal payments of \$59,237 (2020 – \$47,579).

8 Share-based compensation

As at March 31, 2021, the Company had outstanding share options to purchase 4,183,690 shares of the Company. The share options expire at various dates through March 9, 2027.

	Number of share options outstanding	Weighted average exercise price CA\$
Outstanding – December 31, 2020	4,202,439	1.72
Share options exercised	(18,749)	2.51
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Outstanding – March 31, 2021	4,183,690	1.72
	<hr/>	<hr/>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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9 Common shares

	Number of common shares	Share capital \$
Balance – December 31, 2020	57,140,413	490,259,923
Common share options exercised	18,749	65,631
Restricted share units converted	106,627	177,697
Common shares repurchased	(57,600)	(189,995)
Balance – March 31, 2021	57,208,189	490,313,256

Share exchange

During the three months ended March 31, 2021, the Company held 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. During the three months ended March 31, 2021, the Company repurchased and cancelled 57,600 (2020 – 356,900) common shares for total consideration of \$189,995 (2020 – \$476,567).

10 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.

Sales by geographic location

The Company is domiciled in Canada. Revenue from external customers located in Canada for the three months ended March 31, 2021 was \$592,347 (2020 – \$830,509). The total revenue from external customers in the following regions was as follows:

	2021 \$	2020 \$
Americas	1,357,484	2,086,337
EMEA	1,106,186	781,984
Asia Pacific	1,209,777	1,356,095
	3,673,447	4,224,416

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.

EcoSynthetix Inc.

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(expressed in US dollars)

During the three months ended March 31, 2021, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, Germany, the United States and Canada, which represented 33%, 22%, 19% and 16%, respectively. During the three months ended March 31, 2020, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States and Canada, which represented 30%, 24% and 20%, respectively.

Sales to major customers

During the three months ended March 31, 2021, the Company derived a significant portion of its revenue from three customers, representing 33%, 20% and 16% of total revenue (2020 – 30%, 20% and 11% 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, 2021 \$	December 31, 2020 \$
Canada	1,690,204	1,846,820
United States	1,783,679	1,792,891
The Netherlands	1,901,543	1,981,094
	<hr/>	<hr/>
	5,375,426	5,620,805

11 Expenses by nature

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

	2021 \$	2020 \$
Wages and salaries	846,253	782,099
Government grants	181,034	33,178
Share-based compensation	119,477	144,252
Depreciation	360,126	313,877
Foreign exchange loss	22,124	106,720

During the three months ended March 31, 2021, the Company recognized claims under the CEWS program in the amount of \$106,288 (2021 – nil), of which \$79,716 (2021 – \$nil) is included as a reduction in selling, general and administrative expenses and \$26,572 (2021 – \$nil) as a reduction in research and development expenses. The subsidy is provided by the Government of Canada and is a non-repayable wage subsidy on eligible remuneration paid, with subsidy rates varying depending on the amount of revenue decline during the period.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2021 and March 31, 2020

(expressed in US dollars)

During the three months ended March 31, 2021, the Company recognized claims under the CERS program in the amount of \$39,003 (2021 - \$nil), of which \$5,850 (2020 - \$nil) is included as a reduction in selling, general and administrative expenses and \$33,153 (2020 - \$nil) as a reduction in research and development expenses. The subsidy is provided by the Government of Canada and is a non-repayable subsidy on commercial rent payments, with subsidy rates varying depending on the amount of revenue decline during the period.

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 loss for the three months ended March 31, 2021 primarily relates to monetary assets and liabilities denominated in Canadian dollars.