

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

March 31, 2020

(expressed in US dollars)



May 5, 2020

Notice of No Auditor Review of Interim consolidated Financial Statements

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of interim consolidated 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 consolidated 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)

	March 31, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash	7,803,595	7,975,713
Short-term investments (note 2)	35,162,795	35,720,548
Accounts receivable (note 3)	2,286,810	1,824,581
Inventory (note 4)	2,672,585	2,268,961
Government grants receivable	33,207	114,956
Prepaid expenses	37,172	75,973
	<hr/>	<hr/>
	47,996,164	47,980,732
Non-current assets		
Property, plant and equipment (note 5)	<hr/>	<hr/>
	6,496,656	6,729,371
Total assets	<hr/>	<hr/>
	54,492,820	54,710,103
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	2,023,417	1,360,568
Non-current liabilities		
Lease liability (note 7)	<hr/>	<hr/>
	1,030,551	1,176,643
Total liabilities	<hr/>	<hr/>
	3,053,968	2,537,211
Shareholders' Equity		
Common shares (note 9)	490,294,331	490,590,406
Contributed surplus	10,360,948	10,351,658
Accumulated deficit	<hr/>	<hr/>
	(449,216,427)	(448,769,172)
Total shareholders' equity	<hr/>	<hr/>
	51,438,852	52,172,892
Total liabilities and shareholders' equity	<hr/>	<hr/>
	54,492,820	54,710,103

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, 2020 and March 31, 2019

(expressed in US dollars)

	2020 \$	2019 \$
Net sales	4,224,416	4,468,721
Cost of sales	3,124,202	3,477,649
Gross profit on sales	1,100,214	991,072
Expenses		
Selling, general and administrative	1,372,487	1,173,329
Research and development	376,095	446,024
	1,748,582	1,619,353
Loss from operations	(648,368)	(628,281)
Net interest income	201,113	275,045
Net loss and comprehensive loss	(447,255)	(353,236)
Basic and diluted loss per common share	(0.01)	(0.01)
Weighted average number of common shares outstanding	57,926,217	58,290,368

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, 2020 and March 31, 2019

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance – January 1, 2019	491,618,125	9,798,803	(447,315,114)	54,101,814
Share-based compensation (note 8)	-	180,597	-	180,597
Common share options exercised (note 9)	71,939	(23,387)	-	48,552
Restricted share units converted (note 9)	116,748	(116,748)	-	-
Common shares repurchased	(59,314)	-	-	(59,314)
Net loss and comprehensive loss	-	-	(353,236)	(353,236)
Balance – March 31, 2019	491,747,498	9,839,265	(447,668,350)	53,918,413
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

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, 2020 and March 31, 2019

(expressed in US dollars)

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss	(447,255)	(353,236)
Items not affecting cash		
Depreciation	313,877	302,629
Share-based compensation (note 8)	144,252	180,597
Other	78,720	(34,530)
Changes in non-cash working capital		
Accounts receivable (note 3)	(462,229)	718,306
Inventory (note 4)	(370,926)	(794,318)
Government grants receivable	81,749	3,638
Prepaid expenses	38,801	39,717
Trade accounts payable and accrued liabilities (note 6)	649,215	(543,790)
Interest on short-term investments		
Interest received on short-term investments	760,545	655,200
Accrued interest on short-term investments	(202,792)	(224,458)
	<u>583,957</u>	<u>(50,245)</u>
Investing activities		
Purchase of property, plant and equipment	(88,955)	(78,687)
Receipts on mature short-term investments (note 2)	35,000,000	30,000,000
Purchase of short-term investments (note 2)	(35,000,000)	(35,000,000)
	<u>(88,955)</u>	<u>(5,078,687)</u>
Financing activities		
Payments made on lease liability (note 7)	(47,579)	(52,000)
Common shares repurchased (note 9)	(476,567)	(59,314)
Exercise of common share options	45,530	48,552
	<u>(478,616)</u>	<u>(62,762)</u>
Effect of exchange rate changes on cash	<u>(188,504)</u>	<u>34,530</u>
Change in cash during the period	(172,118)	(5,157,164)
Cash – Beginning of period	<u>7,975,713</u>	<u>14,207,342</u>
Cash – End of period	<u>7,803,595</u>	<u>9,050,178</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, 2020 and March 31, 2019

(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, 2020 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, 2019. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at May 5, 2020, 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 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 interim financial statements, have been set out in note 2 to the Company's consolidated financial statements for the year ended December 31, 2019. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2019.

Risk and uncertainty

Beginning in December 2019 a new strain of the coronavirus, COVID-19, has spread rapidly through the world including the Americas, EMEA and Asia Pacific. For the three months ended March 31, 2020, COVID-19 has not caused significant disruption in the Company's business and has had no direct impact on these interim financial statements. For the remainder of fiscal 2020, the extent to which the COVID-19 virus impacts the Company's results will depend on future developments, which remain highly uncertain and cannot be accurately predicted at this time.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2020 and March 31, 2019

(expressed in US dollars)

2 Short-term investments

During the three months ended March 31, 2020, the Company purchased \$35,000,000 of short-term investment certificates that mature between July 2020 and January 2021. The short-term investment certificates are at an annual interest rate between 2% and 2.35%. During the year ended December 31, 2019, the Company purchased \$35,000,000 of short-term investment certificates maturing in January 2020 at an annual interest rate between 2.8% and 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, 2020 \$	December 31, 2019 \$
Short-term investment certificates	35,162,795	25,671,233
Term deposits	-	10,049,315
	<hr/> 35,162,795	<hr/> 35,720,548

3 Accounts receivable

	March 31, 2020 \$	December 31, 2019 \$
Trade accounts receivable	2,021,872	1,610,427
Commodity taxes receivable and other	264,938	214,154
	<hr/> 2,286,810	<hr/> 1,824,581

4 Inventory

	March 31, 2020 \$	December 31, 2019 \$
Raw materials	1,168,755	321,702
Finished goods	1,503,830	1,947,259
	<hr/> 2,672,585	<hr/> 2,268,961

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2020 and March 31, 2019

(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, 2019					
Cost	16,224,684	828,005	1,561,149	90,091	18,703,929
Less: Accumulated depreciation	(10,834,090)	(828,005)	(222,372)	(90,091)	(11,974,558)
Net book value	5,390,594	-	1,338,777	-	6,729,371
Period ended March 31, 2020					
Additions	113,860	-	-	-	113,860
Depreciation	(288,430)	-	(58,145)	-	(346,575)
Closing net book value	5,216,024	-	1,280,632	-	6,496,656
As at March 31, 2020					
Cost	16,338,544	828,005	1,561,149	90,091	18,817,789
Less: Accumulated depreciation	(11,122,520)	(828,005)	(280,517)	(90,091)	(12,321,133)
Net book value	5,216,024	-	1,280,632	-	6,496,656

For the three months ended March 31, 2020, depreciation expense of \$159,816 (2019 – \$150,037) has been charged to cost of goods sold and \$154,061 (2019 – \$152,592) has been charged to research and development and depreciation expense of \$32,698 was capitalized into inventory (2019 – \$56,398 capitalized into inventory).

There was \$24,905 of property, plant and equipment additions included in trade accounts payables and accrued liabilities as at March 31, 2020 (December 31, 2019 – \$nil).

6 Trade accounts payable and accrued liabilities

	March 31, 2020 \$	December 31, 2019 \$
Trade accounts payable	1,151,626	536,023
Accrued liabilities	682,295	623,776
Lease liability – short-term	189,496	200,769
	<u>2,023,417</u>	<u>1,360,568</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2020 and March 31, 2019

(expressed in US dollars)

7 Lease liability

The Company has one right-of-use asset under property, plant and equipment and a 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, 2020 \$	December 31, 2019 \$
Lease liability		
Short-term	189,496	200,769
Long-term	1,030,551	1,176,643
	<hr/> 1,220,047	<hr/> 1,377,412

For the three months ended March 31, 2020, total cash payments of \$68,009 (2019 – \$67,385) were made on the lease liability. Cash payments for the three months ended March 31, 2020 include interest expense of \$20,430 (2019 – \$15,385), which has been recognized in net interest income on the interim consolidated statements of operations and comprehensive loss and principal payments of \$47,579 (2018 – \$52,000).

8 Share-based compensation

As at March 31, 2020, the Company had outstanding share options to purchase 4,737,939 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, 2019	4,780,644	1.80
Share options granted	36,000	2.46
Share options exercised	(27,806)	2.19
Share option forfeitures	(50,899)	6.16
	<hr/> 4,737,939	<hr/> 1.76

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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(expressed in US dollars)

9 Common shares

	Number of common shares	Share capital \$
Balance – December 31, 2019	57,902,441	490,590,406
Common share options exercised	27,806	67,811
Restricted share units converted	66,666	112,681
Common shares repurchased	(356,900)	(476,567)
	<hr/>	<hr/>
Balance – March 31, 2020	57,640,013	490,294,331

Share exchange

During the three months ended March 31, 2020, 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. The Company repurchased and cancelled 356,900 (2019 – 38,000) common shares for total consideration of \$476,567 (2019 – \$59,314).

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, 2020 was \$830,509 (2019 – \$899,515). The total revenue from external customers in the following regions was as follows:

	2020 \$	2019 \$
Americas	2,086,337	2,424,750
EMEA	781,984	1,284,605
Asia Pacific	1,356,095	759,366
	<hr/>	<hr/>
	4,224,416	4,468,721

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.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2020 and March 31, 2019

(expressed in US dollars)

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

Sales to major customers

During the three months ended March 31, 2020, the Company derived a significant portion of its revenue from three customers, representing 30%, 20% and 11% of total revenue (2019 – 20%, 20% and 17% 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, 2020 \$	December 31, 2019 \$
Canada	2,171,990	2,326,050
United States	2,099,841	2,129,048
The Netherlands	2,224,825	2,274,273
	<hr/>	<hr/>
	6,496,656	6,729,371

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:

	2020 \$	2019 \$
Wages and salaries	782,099	805,881
Share-based compensation	144,252	180,597
Depreciation	313,877	302,629
Foreign exchange loss (gain)	106,720	(102,716)

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, 2020 primarily related to cash balances denominated in Canadian dollars.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2020 and March 31, 2019

(expressed in US dollars)

12 Comparative figures

Certain comparative figures have been restated to conform with the current period's presentation.