

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 2021

(expressed in US dollars)

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.

EcoSynthetix Inc.
Interim Consolidated Balance Sheets
(Unaudited)

(expressed in US dollars)

	June 30, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Cash	41,203,589	16,637,161
Short-term investments (note 2)	-	25,344,575
Accounts receivable (note 3)	1,846,480	1,794,594
Inventory (note 4)	2,638,658	2,134,389
Government grants receivable	53,930	122,218
Prepaid expenses	104,819	69,633
	<u>45,847,476</u>	<u>46,102,570</u>
Property, plant and equipment (note 5)	<u>5,200,185</u>	<u>5,620,805</u>
	<u>51,047,661</u>	<u>51,723,375</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	2,066,860	1,179,097
Lease liability (note 7)	<u>973,640</u>	<u>1,072,287</u>
	<u>3,040,500</u>	<u>2,251,384</u>
Shareholders' Equity		
Common shares (note 9)	490,371,582	490,259,923
Contributed surplus	10,285,826	10,383,334
Accumulated deficit	<u>(452,650,247)</u>	<u>(451,171,266)</u>
	<u>48,007,161</u>	<u>49,471,991</u>
	<u>51,047,661</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 and six months ended June 30, 2021 and June 30, 2020

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2021 \$	2020 \$	2021 \$	2020 \$
Net sales (note 10)	4,897,107	3,102,881	8,570,554	7,327,297
Cost of sales (notes 5 and 11)	3,794,621	2,587,339	6,715,979	5,711,541
Gross profit on sales	1,102,486	515,542	1,854,575	1,615,756
Expenses (note 11)				
Selling, general and administrative	1,294,822	858,254	2,493,811	2,230,741
Research and development	552,430	437,884	881,355	813,979
	1,847,252	1,296,138	3,375,166	3,044,720
Loss from operations	(744,766)	(780,596)	(1,520,591)	(1,428,964)
Net interest income	15,669	172,351	41,610	373,464
Net loss and comprehensive loss	(729,097)	(608,245)	(1,478,981)	(1,055,500)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.03)	(0.02)
Weighted average number of common shares outstanding	57,241,838	57,119,605	57,248,524	57,522,911

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 and six months ended June 30, 2021 and June 30, 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)	-	313,278	-	313,278
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 (note 9)	(1,464,433)	-	-	(1,464,433)
Net loss and comprehensive loss	-	-	(1,055,500)	(1,055,500)
Balance – June 30, 2020	489,306,465	10,529,974	(449,824,672)	50,011,767
Balance – January 1, 2021	490,259,923	10,383,334	(451,171,266)	49,471,991
Share-based compensation (note 8)	-	346,962	-	346,962
Common share options exercised (note 9)	103,392	(38,310)	-	65,082
Restricted share units converted (note 9)	177,697	(177,697)	-	-
Deferred share units converted (note 9)	228,463	(228,463)	-	-
Common shares repurchased (note 9)	(397,893)	-	-	(397,893)
Net loss and comprehensive loss	-	-	(1,478,981)	(1,478,981)
Balance – June 30, 2021	490,371,582	10,285,826	(452,650,247)	48,007,161

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 and six months ended June 30, 2021 and June 30, 2020

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2021 \$	2020 \$	2021 \$	2020 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(729,097)	(608,245)	(1,478,981)	(1,055,500)
Items not affecting cash				
Depreciation (note 5)	338,417	369,103	698,543	682,980
Share-based compensation (note 8)	227,485	169,026	346,962	313,278
Other	62,960	(222,208)	66,854	(143,488)
Changes in non-cash working capital				
Accounts receivable (note 3)	(12,573)	1,060,688	(206,897)	598,459
Inventory (note 4)	(70,123)	416,906	(543,844)	45,980
Government grants receivable	71,161	(7,114)	68,288	74,635
Prepaid expenses	(62,709)	(58,283)	(35,186)	(19,482)
Trade accounts payable and accrued liabilities (note 6)	(59,767)	(953,878)	873,415	(304,663)
Interest on short-term investments				
Interest received on short-term investments	-	-	358,740	760,545
Accrued interest on short-term investments	-	(194,465)	(14,165)	(397,257)
	(234,246)	(28,470)	133,729	555,487
Investing activities				
Purchase of property, plant and equipment	(193,791)	(24,905)	(238,348)	(113,860)
Receipts on mature short-term investments (note 2)	-	-	25,000,000	35,000,000
Purchase of short-term investments (note 2)	-	-	-	(35,000,000)
	(193,791)	(24,905)	24,761,652	(113,860)
Financing activities				
Payments made on lease liability (note 7)	(62,958)	(45,488)	(122,195)	(93,067)
Common shares repurchased (note 9)	(207,898)	(987,866)	(397,893)	(1,464,433)
Exercise of common share options	28,118	-	220,093	45,530
	(242,738)	(1,033,354)	(299,995)	(1,511,970)
Effect of exchange rate changes on cash	(40,661)	270,222	(28,958)	81,718
Change in cash during the period	(711,436)	(816,507)	24,566,428	(988,625)
Cash – Beginning of period	41,915,025	7,803,595	16,637,161	7,975,713
Cash – End of period	41,203,589	6,987,088	41,203,589	6,987,088

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2021 and June 30, 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 and six-month periods ended June 30, 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 July 27, 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 six months ended June 30, 2020, the impact of COVID-19 caused both the global demand for paper products to decrease and a decrease in the pricing of petroleum-related products with which the Company's products compete. This resulted in reduced sales volume, lower pricing and reduced gross profit for the Company. During the six months ended June 30, 2021, the impacts of COVID-19 on sales volume, pricing and gross profit partially diminished as vaccines continued to roll-out and countries emerged from containment measures. The impact of COVID-19 on the economy continues to keep interest rates low, reducing interest income earned on cash deposits and short-term investments. During the six months ended June 30, 2021, the Company applied for and received government assistance under the Canada Emergency Wage Subsidy (CEWS) program and the Canada 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 the COVID-19 pandemic, the extent to which the pandemic 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; these developments include 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)

June 30, 2021 and June 30, 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.

	June 30, 2021 \$	December 31, 2020 \$
Short-term investment certificates	-	15,322,520
Term deposits	-	10,022,055
	-	<u>25,344,575</u>

3 Accounts receivable

	June 30, 2021 \$	December 31, 2020 \$
Trade accounts receivable	1,660,097	1,532,603
Commodity taxes receivable and other	186,383	261,991
	<u>1,846,480</u>	<u>1,794,594</u>

4 Inventory

	June 30, 2021 \$	December 31, 2020 \$
Raw materials	637,752	457,054
Finished goods	2,000,906	1,677,335
	<u>2,638,658</u>	<u>2,134,389</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2021 and June 30, 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
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 June 30, 2021					
Additions	238,348	-	-	-	238,348
Depreciation	(534,928)	-	(124,040)	-	(658,968)
Closing net book value	4,125,169	-	1,075,016	-	5,200,185
As at June 30, 2021					
Cost	16,316,776	828,005	1,661,759	90,091	18,896,631
Accumulated depreciation	(12,191,607)	(828,005)	(586,743)	(90,091)	(13,696,446)
Net book value	4,125,169	-	1,075,016	-	5,200,185

For the three and six months ended June 30, 2021, depreciation expense of \$183,610 and \$387,120 (2020 – \$215,216 and \$375,032) has been charged to cost of goods sold and \$154,807 and \$311,423 (2020 – \$153,622 and \$307,683) has been charged to research and development. For the six months ended June 30, 2020, depreciation expense of \$39,575 was expensed from inventory (2020 – \$265 depreciation expense capitalized into inventory).

There was \$nil of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at June 30, 2021 (2020 – \$nil).

6 Trade accounts payable and accrued liabilities

	June 30, 2021 \$	December 31, 2020 \$
Trade accounts payable	1,182,298	560,329
Accrued liabilities	631,507	380,061
Lease liability – short-term	253,055	238,707
	<u>2,066,860</u>	<u>1,179,097</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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June 30, 2021 and June 30, 2020

(expressed in US dollars)

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%.

	June 30, 2021 \$	December 31, 2020 \$
Lease liability		
Short-term	253,055	238,707
Long-term	973,640	1,072,287
	<u>1,226,695</u>	<u>1,310,994</u>

For the three and six months ended June 30, 2021, total cash payments of \$81,082 and \$159,322 (2020 – \$64,846 and \$132,855) were made on the lease liability. Cash payments for the three and six months ended June 30, 2021 include interest expense of \$18,124 and \$37,127 (2020 – \$19,358 and \$39,788), which has been recognized in net interest income on the interim consolidated statement of operations and comprehensive loss, and principal payments of \$62,958 and \$122,195 (2020 – \$45,488 and \$93,067).

8 Share-based compensation

As at June 30, 2021, the Company had outstanding share options to purchase 4,416,509 shares of the Company. The share options expire at various dates through May 5, 2028.

	Number of share options outstanding	Weighted average exercise price CA\$
Outstanding – December 31, 2020	4,202,439	1.72
Share options granted	264,016	4.59
Share options exercised	(39,451)	2.01
Share option forfeitures	(10,495)	5.02
	<u>4,416,509</u>	<u>1.88</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2021 and June 30, 2020

(expressed in US dollars)

9 Common shares

	Number of common shares	Share capital \$
Balance – December 31, 2020	57,140,413	490,259,923
Common share options exercised	39,451	103,392
Restricted share units converted	106,627	177,697
Deferred share units converted	136,125	228,463
Common shares repurchased	(109,600)	(397,893)
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Balance – June 30, 2021	57,313,016	490,371,582

Share exchange

During the six months ended June 30, 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 and six months ended June 30, 2021, the Company repurchased and cancelled 52,000 and 109,600 (2020 – 744,700, and 1,101,600) common shares for total consideration of \$207,898 and \$397,893 (2020 – \$987,866 and \$1,464,433).

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 and six months ended June 30, 2021 was \$751,599 and \$1,343,946 (2020 – \$477,847 and \$1,308,356). The total revenue from external customers in the following regions was as follows:

	Three months ended June 30		Six months ended June 30	
	2021 \$	2020 \$	2021 \$	2020 \$
Americas	1,936,470	1,628,532	3,293,954	3,714,869
EMEA	1,534,555	653,136	2,640,741	1,435,120
Asia Pacific	1,426,082	821,213	2,635,859	2,177,308
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	4,897,107	3,102,881	8,570,554	7,327,297

EcoSynthetix Inc.

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(Unaudited)

June 30, 2021 and June 30, 2020

(expressed in US dollars)

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 June 30, 2021, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Canada and Germany, which represented 29%, 23%, 15% and 14%, respectively. During the three months ended June 30, 2020, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Canada and Germany, which represented 26%, 25%, 15% and 15%, respectively.

During the six months ended June 30, 2021, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Germany and Canada, which represented 31%, 21%, 17% and 16%, respectively. During the six months ended June 30, 2020, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Canada and Germany, which represented 29%, 24%, 16% and 12%, respectively.

Sales to major customers

During the three months ended June 30, 2021, the Company derived a significant portion of its revenue from three customers, representing 29%, 15% and 12% of total revenue (2020 – 26%, 15% and 12% from three customers). During the six months ended June 30, 2021, the Company derived a significant portion of its revenue from three customers, representing 31%, 16% and 14% of total revenue (2020 – 29%, 18% 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:

	June 30, 2021 \$	December 31, 2020 \$
Canada	1,681,758	1,846,820
United States	1,710,377	1,792,891
The Netherlands	1,808,050	1,981,094
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	5,200,185	5,620,805

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2021 and June 30, 2020

(expressed in US dollars)

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:

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2021 \$	2020 \$	2021 \$	2020 \$
Salaries and benefits	1,119,309	724,124	2,039,739	1,545,475
Government grants	(78,067)	(103,337)	(259,101)	(136,515)
Share-based compensation	227,485	169,026	346,962	313,278
Depreciation	338,417	369,103	698,543	682,980
Foreign exchange loss (gain)	15,946	(61,146)	38,070	45,574

During the three and six months ended June 30, 2021, the Company recognized claims under the CEWS program in the amount of \$61,567 (2020 – \$97,509) and \$167,855 (2020 – \$97,509), respectively, of which \$46,175 (2020 – \$97,509) and \$125,891 (2020 – \$97,509) are included as a reduction in selling, general and administrative expenses and \$15,392 (2020 – \$nil) and \$41,964 (2020 – \$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.

During the three and six months ended June 30, 2021, the Company recognized claims under the CERS program in the amount of \$9,906 (2020 – \$nil) and \$48,909 (2020 – \$nil), of which \$1,486 (2020 – \$nil) and \$7,336 (2020 – \$nil) are included as a reduction in selling, general and administrative expenses and \$8,420 (2020 – \$nil) and \$41,572 (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 (gain) for the three and six months ended June 30, 2021 primarily relates to monetary assets and liabilities denominated in Canadian dollars.

12 Comparative figures

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