

# **EcoSynthetix Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**June 30, 2020**

(expressed in US dollars)



July 29, 2020

### **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>June 30, 2020</b>	<b>December 31, 2019</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	6,987,088	7,975,713
Short-term investments (note 2)	35,357,260	35,720,548
Accounts receivable (note 3)	1,226,122	1,824,581
Inventory (note 4)	2,222,716	2,268,961
Government grants receivable	40,321	114,956
Prepaid expenses	95,455	75,973
	<u>45,928,962</u>	<u>47,980,732</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 5)	<u>6,261,126</u>	<u>6,729,371</u>
<b>Total assets</b>	<u>52,190,088</u>	<u>54,710,103</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade accounts payable and accrued liabilities (note 6)	1,064,025	1,360,568
<b>Non-current liabilities</b>		
Lease liability (note 7)	<u>1,114,296</u>	<u>1,176,643</u>
<b>Total liabilities</b>	<u>2,178,321</u>	<u>2,537,211</u>
<b>Shareholders' Equity</b>		
<b>Common shares</b> (note 9)	489,306,465	490,590,406
<b>Contributed surplus</b>	10,529,974	10,351,658
<b>Accumulated deficit</b>	<u>(449,824,672)</u>	<u>(448,769,172)</u>
<b>Total shareholders' equity</b>	<u>50,011,767</u>	<u>52,172,892</u>
<b>Total liabilities and shareholders' equity</b>	<u>52,190,088</u>	<u>54,710,103</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, 2020 and June 30, 2019

(expressed in US dollars)

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2020</u> \$	<u>2019</u> \$	<u>2020</u> \$	<u>2019</u> \$
<b>Net sales</b>	3,102,881	5,074,363	7,327,297	9,543,084
<b>Cost of sales</b>	2,587,339	4,053,215	5,711,541	7,530,864
<b>Gross profit on sales</b>	515,542	1,021,148	1,615,756	2,012,220
<b>Expenses</b>				
Selling, general and administrative	858,254	1,111,629	2,230,741	2,284,958
Research and development	437,884	384,964	813,979	830,988
	1,296,138	1,496,593	3,044,720	3,115,946
<b>Loss from operations</b>	(780,596)	(475,445)	(1,428,964)	(1,103,726)
<b>Net interest income</b>	172,351	274,857	373,464	549,902
<b>Net loss and comprehensive loss</b>	(608,245)	(200,588)	(1,055,500)	(553,824)
<b>Basic and diluted loss per common share</b>	(0.01)	(0.00)	(0.02)	(0.01)
<b>Weighted average number of common shares outstanding</b>	57,119,605	58,418,779	57,522,911	58,354,928

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, 2020 and June 30, 2019

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
<b>Balance – January 1, 2019</b>	491,618,125	9,798,803	(447,315,114)	54,101,814
Share-based compensation (note 8)	-	294,407	-	294,407
Common share options exercised (note 9)	229,561	(79,935)	-	149,626
Restricted share units converted (note 9)	119,927	(119,927)	-	-
Common shares repurchased	(65,763)	-	-	(65,763)
Net loss and comprehensive loss	-	-	(553,824)	(553,824)
<b>Balance – June 30, 2019</b>	<b>491,901,850</b>	<b>9,893,348</b>	<b>(447,868,938)</b>	<b>53,926,260</b>
<b>Balance – January 1, 2020</b>	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	(1,464,433)	-	-	(1,464,433)
Net loss and comprehensive loss	-	-	(1,055,500)	(1,055,500)
<b>Balance – June 30, 2020</b>	<b>489,306,465</b>	<b>10,529,974</b>	<b>(449,824,672)</b>	<b>50,011,767</b>

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, 2020 and June 30, 2019

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2020 \$	2019 \$	2020 \$	2019 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss and comprehensive loss	(608,245)	(200,588)	(1,055,500)	(553,824)
Items not affecting cash				
Depreciation	369,103	387,330	682,980	689,959
Share-based compensation (note 8)	169,026	113,810	313,278	294,407
Other	(222,208)	42,966	(143,488)	8,436
Changes in non-cash working capital				
Accounts receivable (note 3)	1,060,688	(571,935)	598,459	146,371
Inventory (note 4)	416,906	969,274	45,980	174,956
Government grants receivable	(7,114)	(74,945)	74,635	(71,307)
Prepaid expenses	(58,283)	(90,365)	(19,482)	(50,648)
Trade accounts payable and accrued liabilities (note 6)	(953,878)	(193,031)	(304,663)	(736,821)
Interest on short-term investments				
Interest received on short-term investments	-	86,301	760,545	741,501
Accrued interest on short-term investments	(194,465)	(249,315)	(397,257)	(473,773)
	(28,470)	219,502	555,487	169,257
<b>Investing activities</b>				
Purchase of property, plant and equipment	(24,905)	(86,362)	(113,860)	(165,049)
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)
	(24,905)	(86,362)	(113,860)	(5,165,049)
<b>Financing activities</b>				
Payments made on lease liability (note 7)	(45,488)	(44,199)	(93,067)	(96,199)
Common shares repurchased (note 9)	(987,866)	(6,449)	(1,464,433)	(65,763)
Exercise of common share options	-	101,074	45,530	149,626
	(1,033,354)	50,426	(1,511,970)	(12,336)
<b>Effect of exchange rate changes on cash</b>	270,222	(16,133)	81,718	18,397
<b>Change in cash during the period</b>	(816,507)	167,433	(988,625)	(4,989,731)
<b>Cash – Beginning of period</b>	7,803,595	9,050,178	7,975,713	14,207,342
<b>Cash – End of period</b>	6,987,088	9,217,611	6,987,088	9,217,611

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

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2020 and June 30, 2019

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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.

The unaudited interim consolidated financial statements (interim financial statements) for the three and six-month periods ended June 30, 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 July 28, 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 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, 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-month period ended June 30, 2020, the impact of COVID-19 has caused both the global demand for paper products to decrease and a decrease in the pricing of petroleum-related products which the Company's products compete with. This has resulted in reduced sales volume, lower pricing and reduced gross profit for the Company. During the three-month period ended June 30, 2020, the Company also applied for and received government assistance under the Canadian Employer Wage Subsidy (CEWS) program. There are no other impacts on the operating results of the Company or these interim financial statements. For the remainder of fiscal 2020, the extent to which COVID-19 impacts the Company's results will depend on future developments, which remain highly uncertain and cannot be accurately predicted at this time.

### 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 2.00% 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

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2020 and June 30, 2019

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(expressed in US dollars)

Canadian bank. The carrying value of the short-term investments includes accrued interest and is recorded at amortized cost using the effective interest method.

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
	\$	\$
Short-term investment certificates	35,357,260	25,671,233
Term deposits	-	10,049,315
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	35,357,260	35,720,548
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### 3 Accounts receivable

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
	\$	\$
Trade accounts receivable	1,032,440	1,610,427
Commodity taxes receivable and other	193,682	214,154
	<hr/>	<hr/>
	1,226,122	1,824,581
	<hr/>	<hr/>

### 4 Inventory

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
	\$	\$
Raw materials	703,554	321,702
Finished goods	1,519,162	1,947,259
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	2,222,716	2,268,961
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# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2020 and June 30, 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 June 30, 2020					
Additions	113,860	-	100,610	-	214,470
Disposals	(214,436)	-	-	-	(214,436)
Depreciation	(566,424)	-	(116,291)	-	(682,715)
Accumulated depreciation on disposals	214,436	-	-	-	214,436
Closing net book value	4,938,030	-	1,323,096	-	6,261,126
As at June 30, 2020					
Cost	16,124,108	828,005	1,661,759	90,091	18,703,963
Less: Accumulated depreciation	(11,186,078)	(828,005)	(338,663)	(90,091)	(12,442,837)
Net book value	4,938,030	-	1,323,096	-	6,261,126

For the three and six months ended June 30, 2020, depreciation expense of \$215,216 and \$375,032 (2019 – \$235,108 and \$385,145) has been charged to cost of goods sold and \$153,622 and \$307,683 (2019 – \$152,222 and \$304,814) has been charged to research and development. For the six months ended June 30, 2020, depreciation expense of \$265 was expensed from inventory (2019 – \$22,557 depreciation expense capitalized into inventory).

During the three months ended June 30, 2020, a change in lease rates on the Company's existing right-of-use-asset caused a change in contractual cash outflows over the remaining term of the lease. The change resulted in an increase in the right-of-use asset and corresponding lease liability of \$100,610.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2020 and June 30, 2019

(expressed in US dollars)

### 6 Trade accounts payable and accrued liabilities

	June 30, 2020 \$	December 31, 2019 \$
Trade accounts payable	638,303	536,023
Accrued liabilities	216,833	623,776
Lease liability – short-term	208,889	200,769
	<u>1,064,025</u>	<u>1,360,568</u>

### 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, 2020 \$	December 31, 2019 \$
Lease liability		
Short-term	208,889	200,769
Long-term	1,114,296	1,176,643
	<u>1,323,185</u>	<u>1,377,412</u>

For the three and six months ended June 30, 2020, total cash payments of \$64,846 and \$132,855 (2019 – \$66,967 and \$134,352) were made on the lease liability. Cash payments for the three and six months ended June 30, 2020 include interest expense of \$19,358 and \$39,788 (2019 – \$22,768 and \$38,153), which has been recognized in net interest income on the interim consolidated statements of operations and comprehensive loss, and principal payments of \$45,488 and \$93,067 (2019 – \$44,199 and \$96,199).

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2020 and June 30, 2019

(expressed in US dollars)

### 8 Share-based compensation

As at June 30, 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/>	<hr/>
Outstanding – June 30, 2020	4,737,939	1.76

### 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	(1,101,600)	(1,464,433)
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Balance – June 30, 2020	56,895,313	489,306,465

#### Share exchange

During the six months ended June 30, 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. During the three and six months ended June 30, 2020, the Company repurchased and cancelled 744,700, and 1,101,600 (2019 – 4,000 and 42,000) common shares for total consideration of \$987,866 and \$1,464,433 (2019 – \$6,449 and \$65,763).

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2020 and June 30, 2019

(expressed in US dollars)

### 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, 2020 was \$477,847 and \$1,308,356 (2019 – \$760,277 and \$1,659,792). The total revenue from external customers in the following regions was as follows:

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Americas	1,628,532	2,593,390	3,714,869	5,018,140
EMEA	653,136	928,742	1,435,120	2,213,347
Asia Pacific	821,213	1,552,231	2,177,308	2,311,597
	<u>3,102,881</u>	<u>5,074,363</u>	<u>7,327,297</u>	<u>9,543,084</u>

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, 2020, revenue attributable to individual countries reporting greater than 10% of total revenues included Japan, the United States, Canada and Germany, which represented 26%, 25%, 15% and 15%, respectively. During the three months ended June 30, 2019, revenue attributable to individual countries reporting greater than 10% of total revenues included the United States, Japan, Canada and Germany, which represented 28%, 28%, 15% and 13%, respectively.

During the six months ended June 30, 2020, revenue attributable to individual countries reporting greater than 10% of total revenues included Japan, the United States, Canada and Germany, which represented 29%, 24%, 18% and 12%, respectively. During the six months ended June 30, 2019, revenue attributable to individual countries reporting greater than 10% of total revenues included the United States, Japan, Canada and Germany, which represented 29%, 23%, 17% and 14%, respectively.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2020 and June 30, 2019

(expressed in US dollars)

### Sales to major customers

During the three months ended June 30, 2020, the Company derived a significant portion of its revenues from three customers, representing 26%, 15% and 12% of total revenue (2019 – 28%, 18% and 15% from three customers). During the six months ended June 30, 2019, the Company derived a significant portion of its revenues from three customers, representing 29%, 18% and 11% of total revenue (2019 – 23%, 19% 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:

	June 30, 2020 \$	December 31, 2019 \$
Canada	2,118,978	2,326,050
United States	2,009,642	2,129,048
The Netherlands	2,132,506	2,274,273
	<u>6,261,126</u>	<u>6,729,371</u>

## 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>	
	2020 \$	2019 \$	2020 \$	2019 \$
Wages and salaries	763,376	768,823	1,545,475	1,574,704
Government assistance (CEWS)	(97,509)	-	(97,509)	-
Share-based compensation	169,026	113,810	313,278	294,407
Depreciation	369,103	387,330	682,980	689,959
Foreign exchange loss (gain)	(61,146)	8,848	45,574	(93,868)

During the three months ended June 30, 2020, the Company received payments under the CEWS program in the amount of \$97,509, which is included as a reduction in selling, general and administrative expenses. The subsidy is provided by the Government of Canada and is a non-repayable wage subsidy of 75% of eligible remuneration, paid by an eligible entity to eligible employees up to a maximum of \$847 (CA\$) per week per employee.

# **EcoSynthetix Inc.**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2020 and June 30, 2019**

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(expressed in US dollars)

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