

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

September 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)

	September 30, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Cash	40,751,262	16,637,161
Short-term investments (note 2)	-	25,344,575
Accounts receivable (note 3)	2,096,939	1,794,594
Inventory (note 4)	2,559,239	2,134,389
Government grants receivable	22,483	122,218
Prepaid expenses	132,092	69,633
	<u>45,562,015</u>	<u>46,102,570</u>
Property, plant and equipment (note 5)	<u>4,945,007</u>	<u>5,620,805</u>
	<u>50,507,022</u>	<u>51,723,375</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	2,437,766	1,179,097
Lease liability (note 7)	<u>885,530</u>	<u>1,072,287</u>
	<u>3,323,296</u>	<u>2,251,384</u>
Shareholders' Equity		
Common shares (note 9)	490,030,002	490,259,923
Contributed surplus	10,567,863	10,383,334
Accumulated deficit	<u>(453,414,139)</u>	<u>(451,171,266)</u>
	<u>47,183,726</u>	<u>49,471,991</u>
	<u>50,507,022</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 nine months ended September 30, 2021 and September 30, 2020

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2021 \$	2020 \$	2021 \$	2020 \$
Net sales (note 10)	4,705,917	2,991,591	13,276,471	10,318,888
Cost of sales (notes 5 and 11)	3,602,241	2,548,305	10,318,220	8,259,846
Gross profit on sales	1,103,676	443,286	2,958,251	2,059,042
Expenses (note 11)				
Selling, general and administrative	1,394,430	898,253	3,888,241	3,128,994
Research and development	483,455	331,534	1,364,810	1,145,513
	1,877,885	1,229,787	5,253,051	4,274,507
Loss from operations	(774,209)	(786,501)	(2,294,800)	(2,215,465)
Net interest income	10,317	145,811	51,927	519,275
Net loss and comprehensive loss	(763,892)	(640,690)	(2,242,873)	(1,696,190)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.04)	(0.03)
Weighted average number of common shares outstanding	57,277,143	56,924,245	57,251,786	57,321,899

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 nine months ended September 30, 2021 and September 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)	-	506,428	-	506,428
Common share options exercised (note 9)	150,408	(59,114)	-	91,294
Restricted share units converted (note 9)	112,681	(112,681)	-	-
Common shares repurchased (note 9)	(1,646,058)	-	-	(1,646,058)
Net loss and comprehensive loss	-	-	(1,696,190)	(1,696,190)
Balance – September 30, 2020	489,207,437	10,686,291	(450,465,362)	49,428,366
Balance – January 1, 2021	490,259,923	10,383,334	(451,171,266)	49,471,991
Share-based compensation (note 8)	-	647,262	-	647,262
Common share options exercised (note 9)	161,917	(56,573)	-	105,344
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)	(797,998)	-	-	(797,998)
Net loss and comprehensive loss	-	-	(2,242,873)	(2,242,873)
Balance – September 30, 2021	490,030,002	10,567,863	(453,414,139)	47,183,726

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 nine months ended September 30, 2021 and September 30, 2020

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2021 \$	2020 \$	2021 \$	2020 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(763,892)	(640,690)	(2,242,873)	(1,696,190)
Items not affecting cash				
Depreciation (note 5)	357,902	365,426	1,056,445	1,048,406
Share-based compensation (note 8)	300,300	193,150	647,262	506,428
Other	13,675	37,552	80,529	(105,936)
Changes in non-cash working capital				
Accounts receivable (note 3)	(250,459)	251,581	(457,356)	850,040
Inventory (note 4)	45,548	(164,791)	(498,296)	(118,811)
Government grants receivable	31,447	93	99,735	74,728
Prepaid expenses	(27,273)	(14,920)	(62,459)	(34,402)
Trade accounts payable and accrued liabilities (note 6)	344,174	156,498	1,217,589	(148,165)
Interest on short-term investments				
Interest received on short-term investments	-	108,493	358,740	869,038
Accrued interest on short-term investments	-	(159,041)	(14,165)	(556,298)
	51,422	133,351	185,151	688,838
Investing activities				
Purchase of property, plant and equipment	(107,154)	(92,465)	(345,502)	(206,325)
Receipts of government grants related to property, plant and equipment (note 5)	67,418	-	67,418	-
Receipts on mature short-term investments (note 2)	-	10,000,000	25,000,000	45,000,000
Purchase of short-term investments (note 2)	-	(10,000,000)	-	(45,000,000)
	(39,736)	(92,465)	24,721,916	(206,325)
Financing activities				
Payments made on lease liability (note 7)	(63,443)	(50,728)	(185,638)	(143,795)
Common shares repurchased (note 9)	(400,105)	(181,625)	(797,998)	(1,646,058)
Exercise of common share options	40,262	45,764	260,355	91,294
	(423,286)	(186,589)	(723,281)	(1,698,559)
Effect of exchange rate changes on cash	(40,727)	(7,817)	(69,685)	73,901
Change in cash during the period	(452,327)	(153,520)	24,114,101	(1,142,145)
Cash – Beginning of period	41,203,589	6,987,088	16,637,161	7,975,713
Cash – End of period	40,751,262	6,833,568	40,751,262	6,833,568

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2021 and September 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 nine-month periods ended September 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 November 2, 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 nine months ended September 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 nine months ended September 30, 2021, the impacts of COVID-19 on sales volume, pricing and gross profit partially diminished as vaccines continue 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 nine months ended September 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)

September 30, 2021 and September 30, 2020

(expressed in US dollars)

2 Short-term investments

During the year ended December 31, 2020, the Company purchased short-term investments maturing in January 2021 at annual interest rates between 0.5% 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.

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

3 Accounts receivable

	September 30, 2021 \$	December 31, 2020 \$
Trade accounts receivable	1,927,632	1,532,603
Commodity taxes receivable and other	169,307	261,991
	2,096,939	1,794,594

4 Inventory

	September 30, 2021 \$	December 31, 2020 \$
Raw materials	1,158,393	457,054
Finished goods	1,400,846	1,677,335
	2,559,239	2,134,389

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2021 and September 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 September 30, 2021					
Additions	307,201	-	-	-	307,201
Disposals	(49,070)	-	-	-	(49,070)
Depreciation	(796,939)	-	(186,060)	-	(982,999)
Accumulated depreciation on disposals	49,070	-	-	-	49,070
Closing net book value	3,932,011	-	1,012,996	-	4,945,007
As at September 30, 2021					
Cost	16,336,559	828,005	1,661,759	90,091	18,916,414
Accumulated depreciation	(12,404,548)	(828,005)	(648,763)	(90,091)	(13,971,407)
Net book value	3,932,011	-	1,012,996	-	4,945,007

For the three and nine months ended September 30, 2021, depreciation expense of \$203,683 and \$590,803 (2020 – \$207,527 and \$582,559) has been charged to cost of goods sold and \$154,219 and \$465,642 (2020 – \$157,899 and \$465,847) has been charged to research and development. For the nine months ended September 30, 2021, depreciation expense of \$73,446 was expensed from inventory (2020 – \$33,880 depreciation expense capitalized into inventory).

There was \$29,117 of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at September 30, 2021 (2020 – \$nil).

During the three months ended September 30, 2021, the Company received \$67,418 from its funding agreement with Bioindustrial Innovation Canada. The grant amount related to an eligible purchase of machinery and equipment purchased for research and development purposes.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2021 and September 30, 2020

(expressed in US dollars)

6 Trade accounts payable and accrued liabilities

	September 30, 2021 \$	December 31, 2020 \$
Trade accounts payable	1,238,966	560,329
Accrued liabilities	948,130	380,061
Lease liability – short-term	250,670	238,707
	<u>2,437,766</u>	<u>1,179,097</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%.

	September 30, 2021 \$	December 31, 2020 \$
Lease liability		
Short-term	250,670	238,707
Long-term	885,530	1,072,287
	<u>1,136,200</u>	<u>1,310,994</u>

For the three and nine months ended September 30, 2021, total cash payments of \$81,975 and \$241,297 (2020 – \$65,829 and \$198,684) were made on the lease liability. Cash payments for the three and nine months ended September 30, 2021 include interest expense of \$18,532 and \$55,659 (2020 – \$15,101 and \$54,889), which has been recognized in net interest income on the interim consolidated statements of operations and comprehensive loss, and principal payments of \$63,443 and \$185,638 (2020 – \$50,728 and \$143,795).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2021 and September 30, 2020

(expressed in US dollars)

8 Share-based compensation

As at September 30, 2021, the Company had outstanding share options to purchase 4,381,903 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	(74,057)	1.75
Share option forfeitures	(10,495)	5.02
	<hr/>	
Outstanding – September 30, 2021	4,381,903	1.88

9 Common shares

	Number of common shares	Share capital \$
Balance – December 31, 2020	57,140,413	490,259,923
Common share options exercised	74,057	161,917
Restricted share units converted	106,627	177,697
Deferred share units converted	136,125	228,463
Common shares repurchased	(200,400)	(797,998)
	<hr/>	
Balance – September 30, 2021	57,256,822	490,030,002

Share exchange

During the nine months ended September 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 nine months ended September 30, 2021, the Company repurchased and cancelled 90,800 and 200,400 (2020 – 105,600 and 1,207,200) common shares for total consideration of \$400,105 and \$797,998 (2020 – \$181,625 and \$1,646,058).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2021 and September 30, 2020

(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 nine months ended September 30, 2021 was \$678,768 and \$2,022,714 (2020 – \$630,538 and \$1,938,894). The total revenue from external customers in the following regions was as follows:

	Three months ended September 30		Nine months ended September 30	
	2021 \$	2020 \$	2021 \$	2020 \$
Americas	1,826,552	1,740,286	5,120,506	5,455,155
EMEA	1,371,223	765,333	4,011,964	2,200,453
Asia Pacific	1,508,142	485,972	4,144,001	2,663,280
	<u>4,705,917</u>	<u>2,991,591</u>	<u>13,276,471</u>	<u>10,318,888</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 September 30, 2021, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Germany and Canada, which represented 29%, 22%, 16% and 14%, respectively. During the three months ended September 30, 2020, revenue attributable to individual countries reporting greater than 10% of total revenue included the United States, Canada, Japan and Germany, which represented 28%, 21%, 16% and 14%, respectively.

During the nine months ended September 30, 2021, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Germany and Canada, which represented 30%, 21%, 17% and 15%, respectively. During the nine months ended September 30, 2020, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Canada and Germany, which represented 25%, 25%, 19% and 13%, respectively.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2021 and September 30, 2020

(expressed in US dollars)

Sales to major customers

During the three months ended September 30, 2021, the Company derived a significant portion of its revenue from three customers, representing 28%, 14% and 14% of total revenue (2020 – 21%, 16%, 14% and 11% from four customers). During the nine months ended September 30, 2021, the Company derived a significant portion of its revenue from three customers, representing 30%, 15% and 14% of total revenue (2020 – 25%, 19% and 12% 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:

	September 30, 2021 \$	December 31, 2020 \$
Canada	1,537,867	1,846,820
United States	1,628,768	1,792,891
The Netherlands	1,778,372	1,981,094
	<u>4,945,007</u>	<u>5,620,805</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:

	Three months ended September 30		Nine months ended September 30	
	2021 \$	2020 \$	2021 \$	2020 \$
Salaries and benefits	1,043,409	743,325	3,083,148	2,288,800
Government grants	(25,496)	(200,752)	(284,597)	(343,989)
Share-based compensation	300,300	193,150	647,262	506,428
Depreciation	357,902	365,426	1,056,445	1,048,406
Foreign exchange loss (gain)	17,730	(39,955)	55,800	5,620

During the three and nine months ended September 30, 2021, the Company recognized claims under the CEWS program in the amount of \$8,768 (2020 – \$183,978) and \$176,623 (2020 – \$281,487), respectively, of which \$6,576 (2020 – \$117,081) and \$132,467 (2020 – \$214,590) are included as a reduction in selling, general and administrative expenses and \$2,192 (2020 – \$66,897) and \$44,156 (2020 – \$66,897) as a reduction in research and development expenses. The subsidy is provided by the Government of Canada and is a non-

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2021 and September 30, 2020

(expressed in US dollars)

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 nine months ended September 30, 2021, the Company recognized claims under the CERS program in the amount of \$5,168 (2020 – \$nil) and \$54,077 (2020 – \$nil), of which \$776 (2020 – \$nil) and \$8,112 (2020 – \$nil) are included as a reduction in selling, general and administrative expenses and \$4,392 (2020 – \$nil) and \$45,965 (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 nine months ended September 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.