

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

September 30, 2020
(expressed in US dollars)



November 3, 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 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.

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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)

	September 30, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash	6,833,568	7,975,713
Short-term investments (note 2)	35,407,808	35,720,548
Accounts receivable (note 3)	974,541	1,824,581
Inventory (note 4)	2,421,652	2,268,961
Government grants receivable	40,228	114,956
Prepaid expenses	110,375	75,973
	<u>45,788,172</u>	<u>47,980,732</u>
Property, plant and equipment	<u>5,954,020</u>	<u>6,729,371</u>
	<u>51,742,192</u>	<u>54,710,103</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	1,233,208	1,360,568
Lease liability	<u>1,080,618</u>	<u>1,176,643</u>
	<u>2,313,826</u>	<u>2,537,211</u>
Shareholders' Equity		
Common shares (note 9)	489,207,437	490,590,406
Contributed surplus	10,686,291	10,351,658
Accumulated deficit	<u>(450,465,362)</u>	<u>(448,769,172)</u>
	<u>49,428,366</u>	<u>52,172,892</u>
	<u>51,742,192</u>	<u>54,710,103</u>

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

EcoSynthetix Inc.

Interim Consolidated Statement of Operations and Comprehensive Loss

(Unaudited)

For the three and nine months ended September 30, 2020

(expressed in US dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020 \$	2019 \$	2020 \$	2019 \$
Net sales	2,991,591	4,505,533	10,318,888	14,048,617
Cost of sales	2,548,305	3,500,964	8,259,846	11,031,828
Gross profit on sales	443,286	1,004,569	2,059,042	3,016,789
Expenses				
Selling, general and administrative	898,253	1,156,878	3,128,994	3,441,836
Research and development	331,534	442,442	1,145,513	1,273,430
	1,229,787	1,599,320	4,274,507	4,715,266
Loss from operations	(786,501)	(594,751)	(2,215,465)	(1,698,477)
Net interest income	145,811	282,310	519,275	832,212
Net loss and comprehensive loss	(640,690)	(312,441)	(1,696,190)	(866,265)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.03)	(0.01)
Weighted average number of common shares outstanding	56,924,245	58,378,346	57,321,899	58,362,820

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

EcoSynthetix Inc.

Interim Consolidated Statement of Shareholders' Equity

(Unaudited)

For the three and nine months ended September 30, 2020

(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)	-	521,117	-	521,117
Common share options exercised (note 9)	262,137	(91,783)	-	170,354
Restricted share units converted (note 9)	119,927	(119,927)	-	-
Common shares repurchased	(754,192)	-	-	(754,192)
Net loss and comprehensive loss	-	-	(866,265)	(866,265)
Balance – September 30, 2019	491,245,997	10,108,210	(448,181,379)	53,172,828
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	(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

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

EcoSynthetix Inc.

Interim Consolidated Statement of Cash Flows

(Unaudited)

For the three and nine months ended September 30, 2020

(expressed in US dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020 \$	2019 \$	2020 \$	2019 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(640,690)	(312,441)	(1,696,190)	(866,265)
Items not affecting cash				
Depreciation	365,426	327,711	1,048,406	1,017,670
Share-based compensation (note 8)	193,150	226,710	506,428	521,117
Other	37,552	80,940	(105,936)	89,376
Changes in non-cash working capital				
Accounts receivable (note 3)	251,581	469,036	850,040	615,407
Inventory (note 4)	(164,791)	(201,189)	(118,811)	(26,233)
Government grants receivable	93	103,229	74,728	31,922
Prepaid expenses	(14,920)	6,702	(34,402)	(43,946)
Trade accounts payable and accrued liabilities (note 6)	156,498	(27,388)	(148,165)	(764,209)
Interest on short-term investments				
Interest received on short-term investments	108,493	-	869,038	741,501
Accrued interest on short-term investments	(159,041)	(252,054)	(556,298)	(725,827)
	133,351	421,256	688,838	590,513
Investing activities				
Purchase of property, plant and equipment	(92,465)	(41,225)	(206,325)	(206,274)
Receipts on mature short-term investments (note 2)	10,000,000	-	45,000,000	30,000,000
Purchase of short-term investments (note 2)	(10,000,000)	-	(45,000,000)	(35,000,000)
	(92,465)	(41,225)	(206,325)	(5,206,274)
Financing activities				
Payments made on lease liability (note 7)	(50,728)	(45,128)	(143,795)	(141,327)
Common shares repurchased (note 9)	(181,625)	(688,429)	(1,646,058)	(754,192)
Exercise of common share options	45,764	20,728	91,294	170,354
	(186,589)	(712,829)	(1,698,559)	(725,165)
Effect of exchange rate changes on cash	(7,817)	(98,035)	73,901	(79,638)
Change in cash during the period	(153,520)	(430,833)	(1,142,145)	(5,420,564)
Cash – Beginning of period	6,987,088	9,217,611	7,975,713	14,207,342
Cash – End of period	6,833,568	8,786,778	6,833,568	8,786,778

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

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, 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 November 3, 2020, 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, 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. For the three and nine-month periods ended September 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 with which the Company's products compete. This has resulted in reduced sales volume, lower pricing and reduced gross profit for the Company. During the three and nine-month periods ended September 30, 2020, the Company applied for and received government assistance under the Canadian Emergency 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.

For the three-month period ended September 30, 2020, the Company assessed that an indicator of impairment was present due to the adverse change in the economic conditions in the market in which the Company operates, which resulted in a higher than anticipated loss from operations. The indicator is related to the COVID-19 pandemic, which has caused the global demand for paper products to decrease and has caused a decrease in the pricing of petroleum related products, with which the Company's products compete.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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The Company performed an impairment test and determined that the recoverable amount of property, plant and equipment was higher than the carrying amount and has not recognized an impairment loss during the period. The recoverable amount was calculated as the fair value less cost to sell (FVLCS) of the Company. The Company is considered to be one cash generating unit (CGU) consistent with the accounting policy described in note 2 to the Company's consolidated financial statements for the year ended December 31, 2019. As part of the Company's assessment of the FVLCS of the CGU, the Company used an independent third party appraiser to determine the fair value of property, plant and equipment, excluding the right-of-use asset, using Level 2 fair value measurements. All other assets and liabilities were assessed using Level 1 and Level 2 fair value inputs. Level 1 are fair value measurements derived from quoted prices (unadjusted) in active markets for identical financial instruments and Level 2 are fair value measurements derived from inputs other than quoted prices included in Level 1 that are observable for the financial instrument or asset either directly (i.e., as prices) or indirectly (i.e., derived from prices).

2 Short-term investments

During the three months ended March 31, 2020, the Company purchased \$35,000,000 in 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 three months ended September 30, 2020, the Company purchased a \$10,000,000 short-term investment certificate that matures in January 2021. The short-term investment certificate has an annual interest rate of 0.5%. During the year ended December 31, 2019, the Company purchased \$35,000,000 in 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.

	September 30, 2020 \$	December 31, 2019 \$
Short-term investment certificates	35,407,808	25,671,233
Term deposits	-	10,049,315
	<u>35,407,808</u>	<u>35,720,548</u>

3 Accounts receivable

	September 30, 2020 \$	December 31, 2019 \$
Trade accounts receivable	844,176	1,610,427
Commodity taxes receivable and other	130,365	214,154
	<u>974,541</u>	<u>1,824,581</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

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4 Inventory

	September 30, 2020 \$	December 31, 2019 \$
Raw materials	554,130	321,702
Finished goods	1,867,522	1,947,259
	<u>2,421,652</u>	<u>2,268,961</u>

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 September 30, 2020					
Additions	206,325	-	100,610	-	306,935
Disposals	(319,288)	-	-	-	(319,288)
Depreciation	(903,975)	-	(178,311)	-	(1,082,286)
Accumulated depreciation on disposals	319,288	-	-	-	319,288
Closing net book value	4,692,944	-	1,261,076	-	5,954,020
As at September 30, 2020					
Cost	16,111,721	828,005	1,661,759	90,091	18,691,576
Less: Accumulated depreciation	(11,418,777)	(828,005)	(400,683)	(90,091)	(12,737,556)
Net book value	4,692,944	-	1,261,076	-	5,954,020

For the three and nine months ended September 30, 2020, depreciation expense of \$207,527 and \$582,559 (2019 – \$176,014 and \$561,159) has been charged to cost of goods sold and \$157,899 and \$465,847 (2019 – \$151,697 and \$456,511) has been charged to research and development. For the nine months ended September 30, 2020, depreciation expense of \$33,880 was capitalized into inventory (2019 – \$35,376 depreciation expense capitalized into inventory).

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During the six months ended September 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.

6 Trade accounts payable and accrued liabilities

	September 30, 2020 \$	December 31, 2019 \$
Trade accounts payable	543,286	536,023
Accrued liabilities	468,348	623,776
Lease liability – short-term	221,574	200,769
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	1,233,208	1,360,568
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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%.

	September 30, 2020 \$	December 31, 2019 \$
Lease liability		
Short-term	221,574	200,769
Long-term	1,080,618	1,176,643
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	1,302,192	1,377,412
	<hr/>	<hr/>

For the three and nine months ended September 30, 2020, total cash payments of \$65,829 and \$198,684 (2019 – \$67,580 and \$201,932) were made on the lease liability. Cash payments for the three and nine months ended September 30, 2020 included interest expense of \$15,101 and \$54,889 (2019 – \$22,452 and \$60,605), which has been recognized in net interest income on the interim consolidated statement of operations and comprehensive loss, and principal payments of \$50,728 and \$143,795 (2019 – \$45,128 and \$141,327).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2020

(expressed in US dollars)

8 Share-based compensation

As at September 30, 2020, the Company had outstanding share options to purchase 4,685,939 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	(80,306)	\$1.54
Share option forfeitures	(50,899)	\$6.16
	<hr/>	<hr/>
Outstanding – September 30, 2020	4,685,439	\$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	80,306	150,408
Restricted share units converted	66,666	112,681
Common shares repurchased	(1,207,200)	(1,646,058)
	<hr/>	<hr/>
Balance – September 30, 2020	56,842,213	489,207,437

Share exchange

During the nine months ended September 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 nine months ended September 30, 2020, the Company repurchased and cancelled 105,600 and 1,207,200 (2019 – 319,168 and 361,168) common shares for total consideration of \$181,625 and \$1,646,058 (2019 – \$688,429 and \$754,192).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

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, 2020 was \$630,538 and \$1,938,894 (2019 – \$836,825 and \$2,496,617). The total revenue from external customers in the following regions was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020 \$	2019 \$	2020 \$	2019 \$
Americas	1,740,286	2,220,910	5,455,155	7,239,050
EMEA	765,333	958,034	2,200,453	3,171,381
Asia Pacific	485,972	1,326,589	2,663,280	3,638,186
	<u>2,991,591</u>	<u>4,505,533</u>	<u>10,318,888</u>	<u>14,048,617</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, 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 three months ended September 30, 2019, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Canada and Germany, which represented 29%, 25%, 19% and 13%, 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. During the nine months ended September 30, 2019, revenue attributable to individual countries reporting greater than 10% of total revenue included the United States, Japan, Canada and Germany, which represented 28%, 25%, 18% and 14%, respectively.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2020

(expressed in US dollars)

Sales to major customers

During the three months ended September 30, 2020, the Company derived a significant portion of its revenue from four customers, representing 21%, 16%, 14% and 11% of total revenue (2019 – 29%, 19% and 16% from three customers). During the nine months ended September 30, 2020, the Company derived a significant portion of its revenue from three customers, representing 25%, 19% and 12% of total revenue (2019 – 25%, 18% and 18% 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, 2020 \$	December 31, 2019 \$
Canada	2,006,765	2,326,050
United States	1,870,716	2,129,048
The Netherlands	2,076,539	2,274,273
	<u>5,954,020</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:

	Three months ended September 30,		Nine months ended September 30,	
	2020 \$	2019 \$	2020 \$	2019 \$
Wages and salaries	743,325	745,509	2,288,800	2,320,213
Government assistance (CEWS)	(183,978)	-	(281,487)	-
Share-based compensation	193,150	226,710	506,428	521,117
Depreciation	365,426	327,711	1,048,406	1,017,670
Foreign exchange loss (gain)	(39,955)	3,491	5,620	(90,377)

During the three and nine months ended September 30, 2020, the Company received payments under the CEWS program in the amounts of \$183,978 and \$281,487, which are included as a reduction in selling, general and administrative expenses and 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.

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

12 Comparative figures

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