

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

March 31, 2022

(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 Sheet
(Unaudited)

(expressed in US dollars)

	March 31, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Cash	19,903,462	42,226,816
Term deposits (note 2)	5,006,616	-
Accounts receivable (note 3)	1,903,581	1,912,390
Inventory (note 4)	2,912,881	2,073,800
Government grants receivable	13,396	6,676
Prepaid expenses	46,855	91,930
	<u>29,786,791</u>	<u>46,311,612</u>
Non-current assets		
Term deposits (note 2)	15,039,321	-
Property, plant and equipment (note 5)	4,441,025	4,670,089
	<u>19,480,346</u>	<u>4,670,089</u>
Total assets	<u>49,267,137</u>	<u>50,981,701</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	1,705,291	2,363,630
Non-current liabilities		
Lease liability (note 7)	764,359	820,045
Total liabilities	<u>2,469,650</u>	<u>3,183,675</u>
Shareholders' Equity		
Common shares (note 9)	491,846,924	492,297,041
Contributed surplus	9,960,461	9,851,991
Accumulated deficit	(455,009,898)	(454,351,006)
Total shareholders' equity	<u>46,797,487</u>	<u>47,798,026</u>
Total liabilities and shareholders' equity	<u>49,267,137</u>	<u>50,981,701</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 months ended March 31, 2022 and March 31, 2021

(expressed in US dollars)

	2022	2021
	\$	\$
Net sales (note 10)	4,237,955	3,673,447
Cost of sales (notes 5 and 11)	3,157,915	2,921,358
Gross profit on sales	1,080,040	752,089
Expenses (notes 5 and 11)		
Selling, general and administrative	1,340,685	1,198,989
Research and development	430,734	328,925
	1,771,419	1,527,914
Loss from operations	(691,379)	(775,825)
Net interest income (note 2)	32,487	25,941
Net loss and comprehensive loss	(658,892)	(749,884)
Basic and diluted loss per common share	(0.01)	(0.01)
Weighted average number of common shares outstanding	58,913,708	57,247,344

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, 2022 and March 31, 2021

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance – January 1, 2021	490,259,923	10,383,334	(451,171,266)	49,471,991
Share-based compensation (note 8)	-	119,477	-	119,477
Common share options exercised (note 9)	65,631	(28,667)	-	36,964
Restricted share units converted (note 9)	177,697	(177,697)	-	-
Common shares repurchased (note 9)	(189,995)	-	-	(189,995)
Net loss and comprehensive loss	-	-	(749,884)	(749,884)
Balance – March 31, 2021	490,313,256	10,296,447	(451,921,150)	48,688,553
Balance – January 1, 2022	492,297,041	9,851,991	(454,351,006)	47,798,026
Share-based compensation (note 8)	-	271,966	-	271,966
Restricted share units converted (note 9)	163,496	(163,496)	-	-
Common shares repurchased (note 9)	(613,613)	-	-	(613,613)
Net loss and comprehensive loss	-	-	(658,892)	(658,892)
Balance – March 31, 2022	491,846,924	9,960,461	(455,009,898)	46,797,487

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, 2022 and March 31, 2021

(expressed in US dollars)

	2022 \$	2021 \$
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss	(658,892)	(749,884)
Items not affecting cash		
Depreciation	232,552	360,126
Share-based compensation (note 8)	271,966	119,477
Other	(48,177)	3,894
Changes in non-cash working capital		
Accounts receivable (note 3)	8,809	(194,324)
Inventory (note 4)	(805,986)	(473,721)
Government grants receivable	(6,720)	(2,873)
Prepaid expenses	45,075	27,523
Trade accounts payable and accrued liabilities (note 6)	(654,127)	933,182
Interest on term deposits		
Interest received on term deposits (note 2)	-	358,740
Accrued interest on term deposits (note 2)	(45,937)	(14,165)
	<u>(1,661,437)</u>	<u>367,975</u>
Investing activities		
Purchase of property, plant and equipment	(49,562)	(44,557)
Receipts on mature short-term investments (note 2)	-	25,000,000
Purchase of term deposits (note 2)	(20,000,000)	-
	<u>(20,049,562)</u>	<u>24,955,443</u>
Financing activities		
Payments made on lease liability (note 7)	(61,281)	(59,237)
Common shares repurchased (note 9)	(613,613)	(189,995)
Exercise of common share options	-	191,975
	<u>(674,894)</u>	<u>(57,257)</u>
Effect of exchange rate changes on cash	<u>62,539</u>	<u>11,703</u>
Change in cash during the period	(22,323,354)	25,277,864
Cash – Beginning of period	<u>42,226,816</u>	<u>16,637,161</u>
Cash – End of period	<u>19,903,462</u>	<u>41,915,025</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, 2022 and March 31, 2021

(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 month period ended March 31, 2022 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, 2021. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at May 2, 2022, 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, 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, 2021. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2021.

COVID-19

The outbreak of COVID-19 and its variants, which was first declared by the World Health Organization to be a "pandemic" in March 2020, has impacted the Company's operations and financial results since March 2020 and the pandemic continues to have an impact. The Company serves as an essential manufacturing business and, as a result, has continued to be operational during the pandemic in order to meet the ongoing needs of customers, all of which are also essential businesses. However, the guidelines and orders enacted by federal, state and local governments during the pandemic have created and continue to create disruption in global supply chains, increasing rates of unemployment and adversely impacting many industries. The Company has experienced supply chain shortages, disruptions and inflationary pressures, which have impacted product costs and prices, and customer demand has been negatively impacted, primarily for the Company's graphic paper customers. In addition, the impact of COVID-19 on economic conditions continues to keep interest rates relatively low, reducing interest income earned on cash, and term deposits. The Company has received government assistance during the pandemic, including \$145,291 received during the three months ended March 31, 2021, under the Canada Emergency Wage Subsidy (CEWS) and the Canada Emergency Rent Subsidy (CERS) programs. No government assistance was received during the three months ended March 31, 2022 as these programs have now expired.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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There continue to be significant uncertainties associated with the COVID-19 pandemic, including with respect to the resurgence of new and more contagious variants of the virus; the efficacy of the vaccines introduced to combat the virus and the public acceptance of such vaccines; and the impact of COVID-19 on economic conditions, including with respect to labor market conditions, economic activity, consumer behavior, supply chain shortages and disruptions and inflationary pressure; all of which could have a material impact on the Company's financial position, results of operations and cash flows. Due to these significant uncertainties, the Company cannot reasonably estimate the full impact of COVID-19 on its future financial position, results of operations and cash flows.

2 Term deposits

During the three months ended March 31, 2022, the Company purchased non-redeemable guaranteed investment certificates maturing in October 2022, July 2023 and January 2024 at annual interest rates between 0.7% and 1.47%. All term deposits are held with one large chartered Canadian bank. The carrying value of the term deposits includes accrued interest and is recorded at amortized cost using the effective interest method.

	March 31, 2022 \$	December 31, 2021 \$
Short-term term deposits	5,006,616	-
Long-term term deposits	15,039,321	-
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	20,045,937	-

3 Accounts receivable

	March 31, 2022 \$	December 31, 2021 \$
Trade accounts receivable	1,691,435	1,716,442
Commodity taxes receivable and other	212,146	195,948
	<hr/>	<hr/>
	1,903,581	1,912,390

4 Inventory

	March 31, 2022 \$	December 31, 2021 \$
Raw materials	1,522,409	1,016,108
Finished goods	1,390,472	1,057,692
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	2,912,881	2,073,800

EcoSynthetix Inc.

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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, 2021					
Cost	16,341,902	828,005	1,661,759	90,091	18,921,757
Accumulated depreciation	(12,622,789)	(828,005)	(710,783)	(90,091)	(14,251,668)
Net book value	3,719,113	-	950,976	-	4,670,089
Period ended March 31, 2022					
Additions	36,583	-	-	-	36,583
Disposals	(36,650)	-	-	-	(36,650)
Depreciation	(203,627)	-	(62,020)	-	(265,647)
Accumulated depreciation on disposals	36,650	-	-	-	36,650
Closing net book value	3,552,069	-	888,956	-	4,441,025
As at March 31, 2022					
Cost	16,341,835	828,005	1,661,759	90,091	18,921,690
Accumulated depreciation	(12,789,766)	(828,005)	(772,803)	(90,091)	(14,480,665)
Net book value	3,552,069	-	888,956	-	4,441,025

For the three months ended March 31, 2022, depreciation expense of \$142,878 (2021 – \$203,510) has been charged to cost of goods sold and \$89,674 (2021 – \$156,616) has been charged to research and development. For the three months ended March 31, 2022, depreciation expense of \$33,095 was capitalized into inventory (2021 – \$28,116 depreciation expense was expensed from inventory).

There was \$12,375 of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at March 31, 2022 (2021 – \$42,074).

6 Trade accounts payable and accrued liabilities

	March 31, 2022 \$	December 31, 2021 \$
Trade accounts payable	840,784	959,601
Accrued liabilities	599,810	1,148,099
Lease liability – short-term	264,697	255,930
	<u>1,705,291</u>	<u>2,363,630</u>

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7 Lease liability

The Company has one right-of-use asset under property, plant and equipment and corresponding a 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 estimated incremental borrowing rate of 6.2%.

	March 31, 2022 \$	December 31, 2021 \$
Lease liability		
Short-term	264,697	255,930
Long-term	764,359	820,045
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	1,029,056	1,075,975
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For the three months ended March 31, 2022, total cash payments of \$80,055 (2021 – \$78,240) were made on the lease liability. Cash payments for the three months ended March 31, 2022 include interest expense of \$18,774 (2021 – \$19,003), which has been recognized in net interest income on the interim consolidated statements of operations and comprehensive loss, and principal payments of \$61,281 (2021 – \$59,237).

8 Share-based compensation

As at March 31, 2022, the Company had outstanding share options to purchase 3,027,226 shares of the Company. The share options expire at various dates through January 5, 2029.

	Number of share options outstanding	Weighted average exercise price CA\$
Outstanding – December 31, 2021	2,817,886	2.18
Share options granted	209,340	5.84
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Outstanding – March 31, 2022	3,027,226	2.43
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9 Common shares

	Number of common shares	Share capital \$
Balance – December 31, 2021	58,929,239	492,297,041
Restricted share units converted	115,466	163,496
Common shares repurchased	(137,100)	(613,613)
Balance – March 31, 2022	58,907,605	491,846,924

Share exchange

During the three months ended March 31, 2022, the Company held a normal course issuer bid to repurchase a certain number of its outstanding common shares through the facilities of the Toronto Stock Exchange. During the three months ended March 31, 2022, the Company repurchased and cancelled 137,100 (2021 – 57,600) common shares for total consideration of \$613,613 (2021 – \$189,995).

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, 2022 was \$705,693 (2021 – \$592,347). The total revenue from external customers in the following regions was as follows:

	March 31, 2022 \$	March 31, 2021 \$
Americas	1,276,605	1,357,484
EMEA	1,665,652	1,106,186
Asia Pacific	1,295,698	1,209,777
	4,237,955	3,673,447

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.

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(expressed in US dollars)

During the three months ended March 31, 2022, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, Canada, the United States and Germany, which represented 29%, 17%, 13% and 11%, respectively. During the three months ended March 31, 2021, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, Germany, the United States and Canada, which represented 33%, 22%, 19% and 16%, respectively.

Sales to major customers

During the three months ended March 31, 2022, the Company derived a significant portion of its revenue from two customers, representing 29% and 17% of total revenue (2021 – 33%, 20% and 16% 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, 2022	December 31, 2021
	\$	\$
Canada	1,307,817	1,397,491
United States	1,537,956	1,588,379
The Netherlands	1,595,252	1,684,219
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	4,441,025	4,670,089

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:

	March 31, 2022	March 31, 2021
	\$	\$
Salaries and benefits	892,426	846,253
Share-based compensation	271,966	119,477
Government grants	(6,617)	(181,034)
Depreciation	232,552	360,126
Foreign exchange (gain) loss	(21,307)	22,124

During the three months ended March 31, 2022, the Company recognized claims under the CEWS and CERS program in the amount of \$nil (2021 – \$145,291), of which \$nil (2021 – \$85,566) is included as a reduction in selling, general and administrative expenses and \$nil (2021 – \$59,725) as a reduction in research and development expenses. CEWS 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

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(expressed in US dollars)

the period. CERS 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 (gain) loss for the three months ended March 31, 2022 primarily relates to monetary assets and liabilities denominated in Canadian dollars.