

# **EcoSynthetix Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**March 31, 2023**  
(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 interim consolidated 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.

**EcoSynthetix Inc.**  
Interim Consolidated Balance Sheet  
(Unaudited)

(expressed in US dollars)

	March 31, 2023 \$	December 31, 2022 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	5,713,651	4,808,606
Term deposits (note 2)	29,913,232	21,054,812
Accounts receivable (note 3)	1,302,845	2,912,000
Inventory (note 4)	5,019,523	5,317,367
Government grants receivable	42,733	18,386
Prepaid expenses	97,950	85,131
	42,089,934	34,196,302
<b>Term deposits</b> (note 2)	-	10,138,542
<b>Property, plant and equipment</b> (note 5)	3,797,768	3,859,413
	45,887,702	48,194,257
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade accounts payable and accrued liabilities (note 6)	1,319,605	2,595,353
<b>Lease liability</b> (note 7)	494,554	543,639
	1,814,159	3,138,992
<b>Shareholders' Equity</b>		
<b>Common shares</b> (note 9)	491,555,432	491,700,059
<b>Contributed surplus</b>	10,232,616	10,081,456
<b>Accumulated deficit</b>	(457,714,505)	(456,726,250)
	44,073,543	45,055,265
	45,887,702	48,194,257

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, 2023 and 2022

(expressed in US dollars)

	2023 \$	2022 \$
<b>Net sales</b> (note 10)	3,061,508	4,237,955
<b>Cost of sales</b> (notes 5 and 11)	2,445,585	3,157,915
<b>Gross profit on sales</b>	615,923	1,080,040
<b>Expenses</b> (notes 5 and 11)		
Selling, general and administrative	1,250,174	1,340,685
Research and development	604,810	430,734
	1,854,984	1,771,419
<b>Loss from operations</b>	(1,239,061)	(691,379)
<b>Net interest income</b> (note 2)	250,806	32,487
<b>Net loss and comprehensive loss for the period</b>	(988,255)	(658,892)
<b>Basic and diluted loss per common share</b>	(0.02)	(0.01)
<b>Weighted average number of common shares outstanding</b>	59,269,038	58,913,708

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, 2023 and 2022

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
<b>Balance – January 1, 2023</b>	492,297,041	9,851,991	(454,351,006)	47,798,026
Share-based compensation	-	271,966	-	271,966
Restricted share units converted	163,496	(163,496)	-	-
Common shares repurchased	(613,613)	-	-	(613,613)
Net loss and comprehensive loss	-	-	(658,892)	(658,892)
<b>Balance – March 31, 2023</b>	<u>491,846,924</u>	<u>9,960,461</u>	<u>(455,009,898)</u>	<u>46,797,487</u>
<b>Balance – January 1, 2022</b>	491,700,059	10,081,456	(456,726,250)	45,055,265
Share-based compensation (note 8)	-	163,632	-	163,632
Common share options exercised (note 9)	39,339	(12,472)	-	26,867
Common shares repurchased (note 9)	(183,966)	-	-	(183,966)
Net loss and comprehensive loss for the period	-	-	(988,255)	(988,255)
<b>Balance – March 31, 2023</b>	<u>491,555,432</u>	<u>10,232,616</u>	<u>(457,714,505)</u>	<u>44,073,543</u>

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, 2023 and 2022

(expressed in US dollars)

	2023 \$	2022 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss and comprehensive loss for the period	(988,255)	(658,892)
Items not affecting cash		
Depreciation (note 5)	487,894	232,552
Share-based compensation (note 8)	163,632	271,966
Other	12,167	(48,177)
Changes in non-cash working capital		
Accounts receivable (note 3)	1,609,155	8,809
Inventory (note 4)	296,077	(805,986)
Government grants receivable	(24,347)	(6,720)
Prepaid expenses	(12,819)	45,075
Trade accounts payable and accrued liabilities (note 6)	(1,298,372)	(654,127)
Interest on term deposits		
Interest received on term deposits	266,017	-
Accrued interest on term deposits (note 2)	(219,280)	(45,937)
	<u>291,869</u>	<u>(1,661,437)</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment (note 5)	(380,900)	(49,562)
Receipts on mature short-term investments (note 2)	6,534,444	-
Purchase of term deposits (note 2)	(5,300,000)	(20,000,000)
	<u>853,544</u>	<u>(20,049,562)</u>
<b>Financing activities</b>		
Principal payments made on lease liability (note 7)	(70,584)	(61,281)
Common shares repurchased (note 9)	(183,966)	(613,613)
Exercise of common share options (note 9)	26,867	-
	<u>(227,683)</u>	<u>(674,894)</u>
<b>Effect of exchange rate changes on cash</b>	<u>(12,685)</u>	<u>62,539</u>
<b>Change in cash during the period</b>	905,045	(22,323,354)
<b>Cash – Beginning of period</b>	<u>4,808,606</u>	<u>42,226,816</u>
<b>Cash – End of period</b>	<u>5,713,651</u>	<u>19,903,462</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, 2023 and 2022**

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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-month period ended March 31, 2023 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, 2022. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at May 2, 2023, 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, 2022. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2022.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) March 31, 2023 and 2022

(expressed in US dollars)

### 2 Term deposits

The Company has non-redeemable guaranteed investment certificates maturing between June 2023 and January 2024 at annual interest rates between 1.22% and 4.80%. The Company also has redeemable guaranteed investment certificates that are redeemable after 30 days of issuance at annual interest rates between 4.25% and 4.56%. All term deposits are held with two large chartered Canadian banks. One redeemable term deposit is denominated in Canadian dollars with a US dollar value of \$1,868,835, and the remaining redeemable and non-redeemable term deposits of \$28,044,397 are denominated in US dollars. The carrying value of all term deposits includes accrued interest and is recorded at amortized cost using the effective interest method.

Included in net interest income for the three months ended March 31, 2023 is \$219,280 (2022 – \$45,937) of interest earned on term deposits, \$44,284 (2022 – \$5,324) of interest earned on cash deposits and \$12,758 (2022 – \$18,774) of interest expense on the lease liability.

	March 31, 2023 \$	December 31, 2022 \$
Redeemable short-term deposits	4,585,701	5,833,990
Non-redeemable short-term deposits	25,327,531	15,220,822
Non-redeemable long-term deposits	-	10,138,542
	<u>29,913,232</u>	<u>31,193,354</u>

### 3 Accounts receivable

	March 31, 2023 \$	December 31, 2022 \$
Trade accounts receivable	1,123,644	2,266,200
Commodity taxes receivable	179,201	344,006
Other receivables	-	301,794
	<u>1,302,845</u>	<u>2,912,000</u>

### 4 Inventory

	March 31, 2023 \$	December 31, 2022 \$
Raw materials	1,989,970	2,468,849
Finished goods	3,029,553	2,848,518
	<u>5,019,523</u>	<u>5,317,367</u>

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) March 31, 2023 and 2022

(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:

	<b>Machinery and equipment</b>	<b>Leasehold improvements</b>	<b>Right-of- use asset</b>	<b>Computer hardware</b>	<b>Total</b>
Cost					
December 31, 2022	16,258,449	828,005	1,729,033	20,479	18,835,966
Additions	387,102	-	37,380	-	424,482
Disposals	(3,865)	-	-	-	(3,865)
March 31, 2023	16,641,686	828,005	1,766,413	20,479	19,256,583
Accumulated depreciation					
December 31, 2022	(13,152,762)	(828,005)	(975,307)	(20,479)	(14,976,553)
Depreciation expense	(416,324)	-	(69,803)	-	(486,127)
Disposals	3,865	-	-	-	3,865
March 31, 2023	(13,565,221)	(828,005)	(1,045,110)	(20,479)	(15,458,815)
Net carrying amount					
December 31, 2022	3,105,687	-	753,726	-	3,859,413
March 31, 2023	3,076,465	-	721,303	-	3,797,768

During the three months ended March 31, 2023, a change in the variable portion of the Company's lease payments 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 \$37,380.

During the three months ended March 31, 2023, depreciation expense of \$380,061 (2022 – \$142,878) was charged to cost of goods sold, \$106,066 (2022 – \$89,674) was charged to research and development and depreciation expense of \$1,767 was expensed from inventory (2022 – capitalized into inventory \$33,095).

There was \$112,799 of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at March 31, 2023 (December 31, 2022 – \$106,597).



# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) March 31, 2023 and 2022

(expressed in US dollars)

### 6 Trade accounts payable and accrued liabilities

	March 31, 2023 \$	December 31, 2022 \$
Trade accounts payable	674,555	1,260,993
Short-term lease liability	292,255	275,833
Accrued liabilities	352,795	1,058,527
	<u>1,319,605</u>	<u>2,595,353</u>

### 7 Lease liability

The Company has one right-of-use asset under property, plant and equipment and a corresponding lease liability for the lease associated with the Company's corporate headquarters located 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%.

	March 31, 2023 \$	December 31, 2022 \$
Lease liability		
Short-term	292,255	275,833
Long-term	494,554	543,639
	<u>786,809</u>	<u>819,472</u>

For the three months ended March 31, 2023, total cash payments of \$83,342 (2022 – \$80,055) were made on the lease liability. Cash payments include interest expense of \$12,758 (2022 – \$18,774), which is recognized in net interest income on the consolidated statement of operations and comprehensive loss, and principal payments of \$70,584 (2022 – \$61,281).

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) March 31, 2023 and 2022

(expressed in US dollars)

### 8 Share-based compensation

As at March 31, 2023, the Company had outstanding share options (SOs) to purchase 2,448,159 common shares of the Company. The SOs expire at various dates through January 6, 2030.

	Number of share options outstanding	Weighted average exercise price CA\$
Outstanding – December 31, 2022	2,176,871	2.77
Share options granted	299,787	4.09
Share options exercised	(28,499)	1.28
Outstanding – March 31, 2023	2,448,159	2.94

### 9 Common shares

The authorized share capital of the Company consists of an unlimited number of common shares.

	Number of common shares	Share capital \$
Balance – December 31, 2022	59,264,660	491,700,059
Common share options exercised	28,499	39,339
Common shares repurchased	(68,400)	(183,966)
Balance – March 31, 2023	59,224,759	491,555,432

#### Share exchange

During the three months ended March 31, 2023, 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 TSX. During the three months ended March 31, 2023, the Company repurchased and cancelled 68,400 (2022 – 137,100) common shares for total consideration of \$183,966 (2022 – \$613,613).

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) March 31, 2023 and 2022

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(expressed in US dollars)

### 10 Segmented information and enterprise wide disclosures

#### Operating segments

The Company operates in one operating 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, 2023 was \$549,162 (2022 – \$705,693). The total revenue from external customers in the following regions is as follows:

	March 31, 2023 \$	March 31, 2022 \$
Americas	1,105,428	1,276,605
EMEA	1,215,760	1,665,652
Asia Pacific	740,320	1,295,698
	<u>3,061,508</u>	<u>4,237,955</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 March 31, 2023, revenue attributable to individual countries representing greater than 10% of total revenues included Japan, Canada, the United States, Lithuania and Finland, which represented 22%, 18%, 17%, 16% and 11% respectively.

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

#### Sales to major customers

During the three months ended March 31, 2023, the Company derived a significant portion of its revenue from five customers, representing 22%, 16%, 16%, 11% and 11%, respectively, of total revenue (2022 – 29% and 17% from two customers). The concentrations listed do not necessarily apply to the same customer year over year.

# EcoSynthetix Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) March 31, 2023 and 2022

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(expressed in US dollars)

### Property, plant and equipment

The Company's property, plant and equipment, reported at their net carrying amount, are located in the following countries:

	March 31, 2023 \$	December 31, 2022 \$
Canada	1,241,277	1,035,658
United States of America	1,144,586	1,438,883
The Netherlands	1,411,905	1,384,872
	<hr/> 3,797,768	<hr/> 3,859,413

### 11 Expenses by nature

Additional information on the nature of amounts included in cost of sales; selling, general and administrative; and research and development is as follows:

	March 31, 2023 \$	March 31, 2022 \$
Salaries and benefits	823,343	892,426
Share-based compensation	163,632	271,966
Government grants	(24,346)	(6,617)
Depreciation	487,894	232,552
Foreign exchange (gain)	(5,098)	(21,307)