

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 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 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 Sheets (Unaudited)

(expressed in US dollars)

	June 30, 2022 \$	December 31, 2021 \$
Assets		
Current assets		
Cash	19,292,852	42,226,816
Term deposits (note 2)	5,015,343	-
Accounts receivable (note 3)	1,703,506	1,912,390
Inventory (note 4)	2,768,728	2,073,800
Government grants receivable	16,554	6,676
Prepaid expenses	163,303	91,930
	<u>28,960,286</u>	<u>46,311,612</u>
Term deposits (note 2)	15,091,178	-
Property, plant and equipment (note 5)	<u>4,342,153</u>	<u>4,670,089</u>
	<u>19,433,331</u>	<u>4,670,089</u>
	<u>48,393,617</u>	<u>50,981,701</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	1,736,579	2,363,630
Lease liability (note 7)	<u>673,681</u>	<u>820,045</u>
	<u>2,410,260</u>	<u>3,183,675</u>
Shareholders' Equity		
Common shares (note 9)	491,458,321	492,297,041
Contributed surplus	10,211,762	9,851,991
Accumulated deficit	<u>(455,686,726)</u>	<u>(454,351,006)</u>
	<u>45,983,357</u>	<u>47,798,026</u>
	<u>48,393,617</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 and six months ended June 30, 2022 and June 30, 2021

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Net sales (note 10)	4,167,838	4,897,107	8,405,793	8,570,554
Cost of sales (notes 5 and 11)	3,050,353	3,794,621	6,208,268	6,715,979
Gross profit on sales	1,117,485	1,102,486	2,197,525	1,854,575
Expenses (note 11)				
Selling, general and administrative	1,375,381	1,294,822	2,716,066	2,493,811
Research and development	501,431	552,430	932,165	881,355
	1,876,812	1,847,252	3,648,231	3,375,166
Loss from operations	(759,327)	(744,766)	(1,450,706)	(1,520,591)
Net interest income	82,499	15,669	114,986	41,610
Net loss and comprehensive loss	(676,828)	(729,097)	(1,335,720)	(1,478,981)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.02)	(0.03)
Weighted average number of common shares outstanding	58,855,891	57,241,838	58,895,397	57,248,524

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

EcoSynthetix Inc.

Interim Consolidated Statements of Shareholders' Equity

(Unaudited)

For the six months ended June 30, 2022 and June 30, 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)	-	346,962	-	346,962
Common share options exercised (note 9)	103,392	(38,310)	-	65,082
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)	(397,893)	-	-	(397,893)
Net loss and comprehensive loss	-	-	(1,478,981)	(1,478,981)
Balance – June 30, 2021	490,371,582	10,285,826	(452,650,247)	48,007,161
Balance – January 1, 2022	492,297,041	9,851,991	(454,351,006)	47,798,026
Share-based compensation (note 8)	-	523,267	-	523,267
Restricted share units converted (note 9)	163,496	(163,496)	-	-
Common shares repurchased (note 9)	(1,002,216)	-	-	(1,002,216)
Net loss and comprehensive loss	-	-	(1,335,720)	(1,335,720)
Balance – June 30, 2022	491,458,321	10,211,762	(455,686,726)	45,983,357

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, 2022 and June 30, 2021

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(676,828)	(729,097)	(1,335,720)	(1,478,981)
Items not affecting cash				
Depreciation (note 5)	280,307	338,417	512,859	698,543
Share-based compensation (note 8)	251,301	227,485	523,267	346,962
Other	58,713	62,960	10,536	66,854
Changes in non-cash working capital				
Accounts receivable (note 3)	200,075	(12,573)	208,884	(206,897)
Inventory (note 4)	134,242	(70,123)	(671,744)	(543,844)
Government grants receivable	(3,158)	71,161	(9,878)	68,288
Prepaid expenses	(116,448)	(62,709)	(71,373)	(35,186)
Trade accounts payable and accrued liabilities (note 6)	9,738	(59,767)	(644,389)	873,415
Interest on term deposits				
Interest received on term deposits	-	-	-	358,740
Accrued interest on term deposits	(60,584)	-	(106,521)	(14,165)
	<u>77,358</u>	<u>(234,246)</u>	<u>(1,584,079)</u>	<u>133,729</u>
Investing activities				
Purchase of property, plant and equipment	(148,924)	(193,791)	(198,486)	(238,348)
Receipts on mature short-term investments (note 2)	-	-	-	25,000,000
Purchase of term deposits (note 2)	-	-	(20,000,000)	-
	<u>(148,924)</u>	<u>(193,791)</u>	<u>(20,198,486)</u>	<u>24,761,652</u>
Financing activities				
Payments made on lease liability (note 7)	(70,354)	(62,958)	(131,635)	(122,195)
Common shares repurchased (note 9)	(388,603)	(207,898)	(1,002,216)	(397,893)
Exercise of common share options	-	28,118	-	220,093
	<u>(458,957)</u>	<u>(242,738)</u>	<u>(1,133,851)</u>	<u>(299,995)</u>
Effect of exchange rate changes on cash	<u>(80,087)</u>	<u>(40,661)</u>	<u>(17,548)</u>	<u>(28,958)</u>
Change in cash during the period	<u>(610,610)</u>	<u>(711,436)</u>	<u>(22,933,964)</u>	<u>24,566,428</u>
Cash – Beginning of period	<u>19,903,462</u>	<u>41,915,025</u>	<u>42,226,816</u>	<u>16,637,161</u>
Cash – End of period	<u>19,292,852</u>	<u>41,203,589</u>	<u>19,292,852</u>	<u>41,203,589</u>

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2022 and June 30, 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 and six-month periods ended June 30, 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 August 8, 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 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 adverse impacts in 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.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2022 and June 30, 2021

(expressed in US dollars)

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

The Company has non-redeemable guaranteed investment certificates maturing between October 2022 and January 2024 at annual interest rates between 0.7% and 1.47%. All term deposits are held with one large chartered Canadian bank and are denominated in US dollars. The carrying value of the term deposits includes accrued interest and is recorded at amortized cost using the effective interest method.

	June 30, 2022	December 31, 2021
	\$	\$
Short-term deposits	5,015,343	-
Long-term deposits	15,091,178	-
	<u>20,106,521</u>	<u>-</u>

3 Accounts receivable

	June 30, 2022	December 31, 2021
	\$	\$
Trade accounts receivable	1,519,831	1,716,442
Commodity taxes receivable and other	183,675	195,948
	<u>1,703,506</u>	<u>1,912,390</u>

4 Inventory

	June 30, 2022	December 31, 2021
	\$	\$
Raw materials	1,546,091	1,016,108
Finished goods	1,222,637	1,057,692
	<u>2,768,728</u>	<u>2,073,800</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2022 and June 30, 2021

(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, 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 June 30, 2022					
Additions	208,107	-	-	-	208,107
Disposals	(229,240)	-	-	-	(229,240)
Depreciation	(412,003)	-	(124,040)	-	(536,043)
Accumulated depreciation on disposals	229,240	-	-	-	229,240
Closing net book value	3,515,217	-	826,936	-	4,342,153
As at June 30, 2022					
Cost	16,320,769	828,005	1,661,759	90,091	18,900,624
Accumulated depreciation	(12,805,552)	(828,005)	(834,823)	(90,091)	(14,558,471)
Net book value	3,515,217	-	826,936	-	4,342,153

For the three and six months ended June 30, 2022, depreciation expense of \$167,932 and \$310,810 (2021 – \$183,610 and \$387,120) has been charged to cost of sales and \$112,375 and \$202,049 (2021 – \$154,807 and \$311,423) has been charged to research and development. For the six months ended June 30, 2022, depreciation expense of \$23,184 was capitalized into inventory (2021 – \$39,575 depreciation expense was expensed from inventory).

There was \$34,975 of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at June 30, 2022 (December 31, 2021 – \$25,354).

6 Trade accounts payable and accrued liabilities

	June 30, 2022 \$	December 31, 2021 \$
Trade accounts payable	1,020,915	959,601
Accrued liabilities	452,017	1,148,099
Lease liability – short-term	263,647	255,930
	<u>1,736,579</u>	<u>2,363,630</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2022 and June 30, 2021

(expressed in US dollars)

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 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%.

	June 30, 2022 \$	December 31, 2021 \$
Lease liability		
Short-term	263,647	255,930
Long-term	673,681	820,045
	<u>937,328</u>	<u>1,075,975</u>

For the three and six months ended June 30, 2022, total cash payments of \$83,195 and \$163,250 (2021 – \$81,082 and \$159,322) were made on the lease liability. Cash payments for the three and six months ended June 30, 2022 include interest expense of \$12,841 and \$31,615 (2021 – \$18,124 and \$37,127), which has been recognized in net interest income on the interim consolidated statements of operations and comprehensive loss, and principal payments of \$70,354 and \$131,635 (2021 – \$62,958 and \$122,195).

8 Share-based compensation

As at June 30, 2022, the Company had outstanding share options to purchase 3,023,226 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
Share options expired	(4,000)	5.33
	<u>3,023,226</u>	<u>2.42</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2022 and June 30, 2021

(expressed in US dollars)

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	(227,600)	(1,002,216)
Balance – June 30, 2022	58,817,105	491,458,321

Share exchange

During the six months ended June 30, 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 and six months ended June 30, 2022, the Company repurchased and cancelled 90,500 and 227,600 (2021 – 52,000 and 109,600) common shares for a total consideration of \$388,603 and \$1,002,216 (2021 – \$207,898 and \$397,893).

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, 2022 was \$710,597 and \$1,416,290 (2021 – \$751,599 and \$1,343,946). The total revenue from external customers in the following regions was as follows:

	Three months ended June 30		Six months ended June 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Americas	1,621,481	1,936,470	2,898,086	3,293,954
EMEA	1,695,946	1,534,555	3,361,598	2,640,741
Asia Pacific	850,411	1,426,082	2,146,109	2,635,859
	4,167,838	4,897,107	8,405,793	8,570,554

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2022 and June 30, 2021

(expressed in US dollars)

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, 2022, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Canada, and Lithuania, which represented 19%, 19%, 17% and 13%, respectively. During the three months ended June 30, 2021, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Canada and Germany, which represented 29%, 23%, 15% and 14%, respectively.

During the six months ended June 30, 2022, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, Canada, the United States and Lithuania, which represented 24%, 17%, 16% and 11%, respectively. During the six months ended June 30, 2021, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Germany and Canada, which represented 31%, 21%, 17% and 16%, respectively.

Sales to major customers

During the three months ended June 30, 2022, the Company derived a significant portion of its revenue from four customers, representing 19%, 16%, 13% and 11% of total revenue (2021 – 29%, 15% and 12% from three customers). During the six months ended June 30, 2022, the Company derived a significant portion of its revenue from three customers, representing 24%, 16% and 11% of total revenue (2021 – 31%, 16% and 14% from three customers). The concentrations listed do not necessarily apply to the same customers period over period.

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, 2022	December 31, 2021
	\$	\$
Canada	1,195,442	1,397,491
United States	1,633,973	1,588,379
The Netherlands	1,512,738	1,684,219
	<hr/> 4,342,153	<hr/> 4,670,089

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2022 and June 30, 2021

(expressed in US dollars)

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>	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries and benefits	836,344	1,119,309	1,728,770	2,039,739
Government grants	(3,544)	(78,067)	(10,161)	(259,101)
Share-based compensation	251,301	227,485	523,267	346,962
Depreciation	280,307	338,417	512,859	698,543
Foreign exchange loss	91,978	15,946	70,671	38,070

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 and six months ended June 30, 2022 primarily relates to monetary assets and liabilities denominated in Canadian dollars.