

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 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 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, 2023 \$	December 31, 2022 \$
Assets		
Current assets		
Cash	6,641,367	4,808,606
Term deposits (note 2)	29,076,741	21,054,812
Accounts receivable (note 3)	1,224,266	2,912,000
Inventory (note 4)	3,394,805	5,317,367
Government grants receivable	5,663	18,386
Prepaid expenses	166,633	85,131
	<u>40,509,475</u>	<u>34,196,302</u>
Term deposits (note 2)	-	10,138,542
Property, plant and equipment (note 5)	<u>3,538,243</u>	<u>3,859,413</u>
	<u>3,538,243</u>	<u>13,997,955</u>
	<u>44,047,718</u>	<u>48,194,257</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	1,108,768	2,595,353
Lease liability (note 7)	<u>427,037</u>	<u>543,639</u>
	<u>1,535,805</u>	<u>3,138,992</u>
Shareholders' Equity		
Common shares (note 9)	490,811,431	491,700,059
Contributed surplus	10,395,208	10,081,456
Accumulated deficit	<u>(458,694,726)</u>	<u>(456,726,250)</u>
	<u>42,511,913</u>	<u>45,055,265</u>
	<u>44,047,718</u>	<u>48,194,257</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, 2023 and June 30, 2022

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Net sales (note 10)	2,954,114	4,167,838	6,015,622	8,405,793
Cost of sales (notes 5 and 11)	2,404,239	3,050,353	4,849,824	6,208,268
Gross profit on sales	549,875	1,117,485	1,165,798	2,197,525
Expenses (notes 5 and 11)				
Selling, general and administrative	1,162,370	1,375,381	2,412,544	2,716,066
Research and development	626,056	501,431	1,230,866	932,165
	1,788,426	1,876,812	3,643,410	3,648,231
Loss from operations	(1,238,551)	(759,327)	(2,477,612)	(1,450,706)
Net interest income (note 2)	258,330	82,499	509,136	114,986
Net loss and comprehensive loss	(980,221)	(676,828)	(1,968,476)	(1,335,720)
Basic and diluted loss per common share	(0.02)	(0.01)	(0.03)	(0.02)
Weighted average number of common shares outstanding	59,098,730	58,855,891	59,183,414	58,895,397

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, 2023 and June 30, 2022

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
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
Balance – January 1, 2023	491,700,059	10,081,456	(456,726,250)	45,055,265
Share-based compensation (note 8)	-	326,224	-	326,224
Common share options exercised (note 9)	39,339	(12,472)	-	26,867
Common shares repurchased (note 9)	(927,967)	-	-	(927,967)
Net loss and comprehensive loss	-	-	(1,968,476)	(1,968,476)
Balance – June 30, 2023	490,811,431	10,395,208	(458,694,726)	42,511,913

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, 2023 and June 30, 2022

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(980,221)	(676,828)	(1,968,476)	(1,335,720)
Items not affecting cash				
Depreciation (note 5)	298,885	280,307	786,779	512,859
Share-based compensation (note 8)	162,592	251,301	326,224	523,267
Other	(53,319)	58,713	(41,152)	10,536
Changes in non-cash working capital				
Accounts receivable (note 3)	78,579	200,075	1,687,734	208,884
Inventory (note 4)	1,613,355	134,242	1,909,432	(671,744)
Government grants receivable	37,070	(3,158)	12,723	(9,878)
Prepaid expenses	(68,683)	(116,448)	(81,502)	(71,373)
Trade accounts payable and accrued liabilities (note 6)	(109,951)	9,738	(1,408,323)	(644,389)
Interest on term deposits				
Interest received on term deposits	106,455	-	372,472	-
Accrued interest on term deposits	(210,917)	(60,584)	(430,197)	(106,521)
	873,845	77,358	1,165,714	(1,584,079)
Investing activities				
Purchase of property, plant and equipment	(140,796)	(148,924)	(521,696)	(198,486)
Receipts on mature term deposits (note 2)	7,143,300	-	13,677,744	-
Purchase of term deposits (note 2)	(6,182,840)	-	(11,482,840)	(20,000,000)
	819,664	(148,924)	1,673,208	(20,198,486)
Financing activities				
Payments made on lease liability (note 7)	(70,777)	(70,354)	(141,361)	(131,635)
Common shares repurchased (note 9)	(744,001)	(388,603)	(927,967)	(1,002,216)
Exercise of common share options	-	-	26,867	-
	(814,778)	(458,957)	(1,042,461)	(1,133,851)
Effect of exchange rate changes on cash	48,985	(80,087)	36,300	(17,548)
Change in cash during the period	927,716	(610,610)	1,832,761	(22,933,964)
Cash – Beginning of period	5,713,651	19,903,462	4,808,606	42,226,816
Cash – End of period	6,641,367	19,292,852	6,641,367	19,292,852

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2023 and June 30, 2022

(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, 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 August 1, 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, 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.

2 Term deposits and net interest income

The Company has non-redeemable guaranteed investment certificates maturing between July 2023 and March 2024 at annual interest rates between 1.22% and 5.75%. The Company also has redeemable guaranteed investment certificates that are redeemable after 30 days of issuance at annual interest rates between 4.75% and 5.22%. 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 \$907,160, and the remaining redeemable and non-redeemable term deposits of \$28,169,581 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.

	June 30, 2023	December 31, 2022
	\$	\$
Redeemable short-term deposits	3,612,566	5,833,990
Non-redeemable short-term deposits	25,464,175	15,220,822
Non-redeemable long-term deposits	-	10,138,542
	29,076,741	31,193,354

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

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(expressed in US dollars)

The Company generates interest income on its term deposits and cash deposits and incurs interest expense on its lease liability.

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Interest earned on term deposits	210,917	60,584	430,197	106,521
Interest earned on cash deposits	59,296	34,756	103,580	40,080
Interest expense on lease liability	(11,883)	(12,841)	(24,641)	(31,615)
	258,330	82,499	509,136	114,986

3 Accounts receivable

	June 30, 2023	December 31, 2022
	\$	\$
Trade accounts receivable	1,136,833	2,266,200
Commodity taxes receivable	87,433	344,006
Other receivables	-	301,794
	1,224,266	2,912,000

4 Inventory

	June 30, 2023	December 31, 2022
	\$	\$
Raw materials	948,730	2,468,849
Finished goods	2,446,075	2,848,518
	3,394,805	5,317,367

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2023 and June 30, 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:

	Machinery and equipment	Leasehold improvements	Right-of- use asset	Computer hardware	Total
Cost					
December 31, 2022	16,258,449	828,005	1,729,033	20,479	18,835,966
Additions	415,099	-	37,380	-	452,479
Disposals	(3,865)	-	-	-	(3,865)
June 30, 2023	16,669,683	828,005	1,766,413	20,479	19,284,580
Accumulated depreciation					
December 31, 2022	(13,152,762)	(828,005)	(975,307)	(20,479)	(14,976,553)
Depreciation expense	(634,043)	-	(139,606)	-	(773,649)
Disposals	3,865	-	-	-	3,865
June 30, 2023	(13,782,940)	(828,005)	(1,114,913)	(20,479)	(15,746,337)
Net carrying amount					
December 31, 2022	3,105,687	-	753,726	-	3,859,413
June 30, 2023	2,886,743	-	651,500	-	3,538,243

For the three and six months ended June 30, 2023, depreciation expense of \$194,715 and \$576,543 (2022 – \$167,932 and \$310,810) has been charged to cost of sales and \$104,170 and \$210,236 (2022 – \$112,375 and \$202,049) has been charged to research and development. For the six months ended June 30, 2023, depreciation expense of \$13,130 was expensed from inventory (2022 – \$23,184 depreciation expense was capitalized into inventory).

There was \$nil of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at June 30, 2023 (December 31, 2022 – \$106,597).

During the three months ended June 30, 2023, the Company revised its residual value estimate on certain machinery and equipment with a net book value of \$596,459. The revised estimated residual value on the machinery and equipment resulted in \$nil depreciation during the three months ended June 30, 2023.

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Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2023 and June 30, 2022

(expressed in US dollars)

6 Trade accounts payable and accrued liabilities

	June 30, 2023 \$	December 31, 2022 \$
Trade accounts payable	170,336	1,260,993
Short-term lease liability	304,168	275,833
Customer deposit	345,000	
Accrued liabilities	289,264	1,058,527
	1,108,768	2,595,353

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, 2023 \$	December 31, 2022 \$
Lease liability		
Short-term	304,168	275,833
Long-term	427,037	543,639
	731,205	819,472

For the three and six months ended June 30, 2023, total cash payments of \$82,660 and \$166,002 (2022 – \$83,195 and \$163,250) were made on the lease liability. Cash payments for the three and six months ended June 30, 2023 include interest expense of \$11,883 and \$24,641 (2022 – \$12,841 and \$31,615), which has been recognized in net interest income on the interim consolidated statements of operations and comprehensive loss, and principal payments of \$70,777 and \$141,361 (2022 – \$70,354 and \$131,635).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2023 and June 30, 2022

(expressed in US dollars)

8 Share-based compensation

As at June 30, 2023, the Company had outstanding share options to purchase 2,448,159 shares of the Company. The share options 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 expired	(28,499)	1.28
Outstanding – June 30, 2023	2,448,159	2.94

9 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	(416,800)	(927,967)
Balance – June 30, 2023	58,876,359	490,811,431

Share exchange

During the six months ended June 30, 2023, 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, 2023, the Company repurchased and cancelled 348,400 and 416,800 (2022 – 90,500 and 227,600) common shares for a total consideration of \$744,001 and \$927,967 (2022 – \$388,603 and \$1,002,216).

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.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2023 and June 30, 2022

(expressed in US dollars)

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, 2023 was \$413,411 and \$962,573 (2022 – \$710,597 and \$1,416,290). The total revenue from external customers in the following regions was as follows:

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
	\$	\$	\$	\$
Americas	822,599	1,621,481	1,928,027	2,898,086
EMEA	1,526,104	1,695,946	2,741,864	3,361,598
Asia Pacific	605,411	850,411	1,345,731	2,146,109
	2,954,114	4,167,838	6,015,622	8,405,793

The revenue has been assigned to each jurisdiction based on the location of the customer.

During the three months ended June 30, 2023, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, Lithuania, Canada, the United States and Finland, which represented 20%, 20%, 14%, 12% and 11%, respectively. 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 six months ended June 30, 2022, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, Lithuania, Canada, the United States and Finland, which represented 21%, 18%, 16%, 15% and 11%, respectively.

During the six months ended June 30, 2023, 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.

Sales to major customers

During the three months ended June 30, 2023, the Company derived a significant portion of its revenue from four customers, representing 20%, 20%, 13% and 11% of total revenue (2022 – 19%, 16%, 13% and 11% from four customers). During the six months ended June 30, 2023, the Company derived a significant portion of its revenue from four customers, representing 21%, 18%, 14% and 11% of total revenue (2022 – 24%, 16% and 11% from three customers). The concentrations listed do not necessarily apply to the same customers period over period.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

June 30, 2023 and June 30, 2022

(expressed in US dollars)

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, 2023 \$	December 31, 2022 \$
Canada	1,164,458	1,035,658
United States of America	1,052,763	1,438,883
The Netherlands	1,321,022	1,384,872
	3,538,243	3,859,413

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 June 30		Six months ended June 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Salaries and benefits	844,694	836,344	1,668,037	1,728,770
Government grants	-	(3,544)	(24,346)	(10,161)
Share-based compensation	162,592	251,301	326,224	523,267
Depreciation	298,885	280,307	786,779	512,859
Foreign exchange (gain) loss	(4,962)	91,978	(10,060)	70,671

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, 2023 primarily relates to monetary assets and liabilities denominated in Canadian dollars.