

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

September 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 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)

	September 30, 2023	December 31, 2022
	\$	\$
Assets		
Current assets		
Cash	6,615,072	4,808,606
Term deposits (note 2)	28,061,920	21,054,812
Accounts receivable (note 3)	1,538,378	2,912,000
Inventory (note 4)	4,049,962	5,317,367
Government grants receivable	5,561	18,386
Prepaid expenses	166,939	85,131
	<u>40,437,832</u>	<u>34,196,302</u>
Term deposits (note 2)	-	10,138,542
Property, plant and equipment (note 5)	<u>3,503,194</u>	<u>3,859,413</u>
	<u>3,503,194</u>	<u>13,997,955</u>
	<u>43,941,026</u>	<u>48,194,257</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	1,939,744	2,595,353
Lease liability (note 7)	<u>341,471</u>	<u>543,639</u>
	<u>2,281,215</u>	<u>3,138,992</u>
Shareholders' Equity		
Common shares (note 9)	490,062,192	491,700,059
Contributed surplus	10,560,292	10,081,456
Accumulated deficit	<u>(458,962,673)</u>	<u>(456,726,250)</u>
	<u>41,659,811</u>	<u>45,055,265</u>
	<u>43,941,026</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 nine months ended September 30, 2023 and September 30, 2022

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Net sales (note 10)	3,800,564	5,019,650	9,816,186	13,425,443
Cost of sales (notes 5 and 11)	2,648,579	3,984,789	7,498,403	10,193,057
Gross profit on sales	1,151,985	1,034,861	2,317,783	3,232,386
Expenses (notes 5 and 11)				
Selling, general and administrative	1,226,127	1,146,576	3,638,671	3,862,642
Research and development	514,560	434,103	1,745,426	1,366,268
	1,740,687	1,580,679	5,384,097	5,228,910
Loss from operations	(588,702)	(545,818)	(3,066,314)	(1,996,524)
Net interest income (note 2)	320,755	156,968	829,891	271,954
Net loss and comprehensive loss	(267,947)	(388,850)	(2,236,423)	(1,724,570)
Basic and diluted loss per common share	(0.00)	(0.01)	(0.04)	(0.03)
Weighted average number of common shares outstanding	58,711,122	58,809,507	59,024,253	58,866,452

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

EcoSynthetix Inc.

Interim Consolidated Statements of Shareholders' Equity

(Unaudited)

For the nine months ended September 30, 2023 and September 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	-	709,301	-	709,301
Common share options exercised	202,166	(65,934)	-	136,232
Restricted share units converted	163,496	(163,496)	-	-
Common shares repurchased	(1,444,585)	-	-	(1,444,585)
Net loss and comprehensive loss	-	-	(1,724,570)	(1,724,570)
Balance – September 30, 2022	491,218,118	10,331,862	(456,075,576)	45,474,404
Balance – January 1, 2023	491,700,059	10,081,456	(456,726,250)	45,055,265
Share-based compensation (note 8)	-	491,308	-	491,308
Common share options exercised (note 9)	39,339	(12,472)	-	26,867
Common shares repurchased (note 9)	(1,677,206)	-	-	(1,677,206)
Net loss and comprehensive loss	-	-	(2,236,423)	(2,236,423)
Balance – September 30, 2023	490,062,192	10,560,292	(458,962,673)	41,659,811

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 nine months ended September 30, 2023 and September 30, 2022

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(267,947)	(388,850)	(2,236,423)	(1,724,570)
Items not affecting cash				
Depreciation (note 5)	234,516	228,313	1,021,295	741,172
Share-based compensation (note 8)	165,084	186,034	491,308	709,301
Other	69,672	66,996	28,520	77,532
Changes in non-cash working capital				
Accounts receivable (note 3)	(314,112)	(830,624)	1,373,622	(621,740)
Inventory (note 4)	(638,361)	(1,914,302)	1,271,071	(2,586,046)
Government grants receivable	102	(7,889)	12,825	(17,767)
Prepaid expenses	(306)	26,785	(81,808)	(44,588)
Trade accounts payable and accrued liabilities (note 6)	769,268	622,350	(639,055)	(22,039)
Interest on term deposits				
Interest received on term deposits	371,064	-	743,536	-
Accrued interest on term deposits	(261,305)	(76,043)	(691,502)	(182,564)
	<u>127,675</u>	<u>(2,087,230)</u>	<u>1,293,389</u>	<u>(3,671,309)</u>
Investing activities				
Purchase of property, plant and equipment	(154,748)	(34,975)	(676,444)	(233,461)
Receipts on mature term deposits (note 2)	13,416,140	-	27,093,884	-
Purchase of term deposits (note 2)	(12,500,000)	(7,500,000)	(23,982,840)	(27,500,000)
	<u>761,392</u>	<u>(7,534,975)</u>	<u>2,434,600</u>	<u>(27,733,461)</u>
Financing activities				
Payments made on lease liability (note 7)	(73,158)	(68,499)	(214,519)	(200,134)
Common shares repurchased (note 9)	(749,239)	(442,369)	(1,677,206)	(1,444,585)
Exercise of common share options	-	136,232	26,867	136,232
	<u>(822,397)</u>	<u>(374,636)</u>	<u>(1,864,858)</u>	<u>(1,508,487)</u>
Effect of exchange rate changes on cash	<u>(92,965)</u>	<u>(113,692)</u>	<u>(56,665)</u>	<u>(131,240)</u>
Change in cash during the period	<u>(26,295)</u>	<u>(10,110,533)</u>	<u>1,806,466</u>	<u>(33,044,497)</u>
Cash – Beginning of period	<u>6,641,367</u>	<u>19,292,852</u>	<u>4,808,606</u>	<u>42,226,816</u>
Cash – End of period	<u>6,615,072</u>	<u>9,182,319</u>	<u>6,615,072</u>	<u>9,182,319</u>

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2023 and September 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 nine-month periods ended September 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 October 31, 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 interim 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 January 2024 and September 2024 at annual interest rates between 1.47% and 6.34%. The Company also has a redeemable guaranteed investment certificate that is redeemable after 30 days of issuance at an annual interest rate of 5.22%. All term deposits are held with two large chartered Canadian banks and 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.

	September 30, 2023 \$	December 31, 2022 \$
Redeemable short-term deposits	2,740,931	5,833,990
Non-redeemable short-term deposits	25,320,989	15,220,822
Non-redeemable long-term deposits	-	10,138,542
	<u>28,061,920</u>	<u>31,193,354</u>

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2023 and September 30, 2022

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Interest earned on term deposits	261,305	76,043	691,502	182,564
Interest earned on cash deposits	70,253	95,061	173,833	135,141
Interest expense on lease liability	(10,803)	(14,136)	(35,444)	(45,751)
	<u>320,755</u>	<u>156,968</u>	<u>829,891</u>	<u>271,954</u>

3 Accounts receivable

	September 30, 2023 \$	December 31, 2022 \$
Trade accounts receivable	1,384,847	2,266,200
Commodity taxes receivable	120,245	344,006
Other receivables	33,286	301,794
	<u>1,538,378</u>	<u>2,912,000</u>

4 Inventory

	September 30, 2023 \$	December 31, 2022 \$
Raw materials	520,201	2,468,849
Finished goods	3,529,761	2,848,518
	<u>4,049,962</u>	<u>5,317,367</u>

The Company has a recorded provision of \$128,883 against finished goods and raw materials inventory as at September 30, 2023 (December 31, 2022 – \$30,673).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2023 and September 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	631,362	-	37,380	-	668,742
Disposals	(3,865)	-	-	-	(3,865)
September 30, 2023	16,885,946	828,005	1,766,413	20,479	19,500,843
Accumulated depreciation					
December 31, 2022	(13,152,762)	(828,005)	(975,307)	(20,479)	(14,976,553)
Depreciation expense	(815,551)	-	(209,410)	-	(1,024,961)
Disposals	3,865	-	-	-	3,865
September 30, 2023	(13,964,448)	(828,005)	(1,184,717)	(20,479)	(15,997,649)
Net carrying amount					
December 31, 2022	3,105,687	-	753,726	-	3,859,413
September 30, 2023	2,921,498	-	581,696	-	3,503,194

For the three and nine months ended September 30, 2023, depreciation expense of \$141,083 and \$717,626 (2022 – \$119,182 and \$429,992) has been charged to cost of goods sold and \$93,433 and \$303,669 (2022 – \$109,131 and \$311,180) has been charged to research and development. For the nine months ended September 30, 2023, depreciation expense of \$3,666 (2022 – \$67,115) was capitalized into inventory.

There was \$61,151 of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at September 30, 2023 (2022 – \$106,597).

6 Trade accounts payable and accrued liabilities

	September 30, 2023 \$	December 31, 2022 \$
Trade accounts payable	984,520	1,260,993
Short-term lease liability	304,361	275,833
Customer deposit	149,987	-
Accrued liabilities	500,876	1,058,527
	1,939,744	2,595,353

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

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(expressed in US dollars)

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, 2023 \$	December 31, 2022 \$
Lease liability		
Short-term	304,361	275,833
Long-term	341,471	543,639
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	645,832	819,472
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For the three and nine months ended September 30, 2023, total cash payments of \$83,961 and \$249,963 (2022 – \$82,635 and \$245,885) were made on the lease liability. Cash payments for the three and nine months ended September 30, 2023 include interest expense of \$10,803 and \$35,444 (2022 – \$14,136 and \$45,751), which has been recognized in net interest income on the interim consolidated statements of operations and comprehensive loss, and principal payments of \$73,158 and \$214,519 (2022 – \$68,499 and \$200,134).

8 Share-based compensation

As at September 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 exercised	(28,499)	1.28
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Outstanding – September 30, 2023	2,448,159	2.95
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EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2023 and September 30, 2022

(expressed in US dollars)

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	(691,400)	(1,677,206)
Balance – September 30, 2023	<u>58,601,759</u>	<u>490,062,192</u>

Share exchange

During the nine months ended September 30, 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 Toronto Stock Exchange. During the three and nine months ended September 30, 2023, the Company repurchased and cancelled 274,600 and 691,400 (2022 – 133,600 and 361,200) common shares for total consideration of \$749,239 and \$1,677,206 (2022 – \$442,369 and \$1,444,585), respectively.

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, 2023 was \$570,252 and \$1,532,825 (2022 – \$759,376 and \$2,175,666). The total revenue from external customers in the following regions was as follows:

	Three months ended September 30		Nine months ended September 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Americas	1,058,444	1,867,955	2,986,471	4,766,041
EMEA	1,943,358	1,312,689	4,685,222	4,674,287
Asia Pacific	798,762	1,839,006	2,144,493	3,985,115
	<u>3,800,564</u>	<u>5,019,650</u>	<u>9,816,186</u>	<u>13,425,443</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2023 and September 30, 2022

(expressed in US dollars)

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

During the three months ended September 30, 2023, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the Netherlands and Canada, which represented 19%, 17% and 15%, respectively. During the three months ended September 30, 2022 revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States and Canada, which represented 36%, 20% and 15%, respectively.

During the nine months ended September 30, 2023, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, Canada, Lithuania and the United States, which represented 21%, 16%, 15% and 13%, respectively. During the nine months ended September 30, 2022, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States and Canada, which represented 28%, 18% and 16%, respectively.

Sales to major customers

During the three months ended September 30, 2023, the Company derived a significant portion of its revenue from three customers, representing 19%, 17% and 14% of total revenue (2022 – three customers representing 36%, 14% and 11% of total revenue). During the nine months ended September 30, 2023, the Company derived a significant portion of its revenue from three customers, representing 21%, 15% and 14% of total revenue (2022 – two customers, representing 28% and 15% of total revenue). 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, 2023	December 31, 2022
	\$	\$
Canada	1,244,110	1,035,658
United States of America	987,379	1,438,883
The Netherlands	1,271,705	1,384,872
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	3,503,194	3,859,413
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EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2023 and September 30, 2022

(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:

	Three months ended September 30		Nine months ended September 30	
	2023 \$	2022 \$	2023 \$	2022 \$
Salaries and benefits	757,651	731,766	2,425,688	2,460,536
Government grants	-	(19,377)	(24,346)	(29,538)
Share-based compensation	165,084	186,034	491,308	709,301
Depreciation	234,516	228,313	1,021,295	741,172
Foreign exchange loss	51,637	92,212	41,577	162,883

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 for the three and nine months ended September 30, 2023 primarily relates to monetary assets and liabilities denominated in Canadian dollars.