

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

March 31, 2024

(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, 2024	December 31, 2023
	\$	\$
Assets		
Current assets		
Cash	5,034,173	4,915,445
Term deposits (note 2)	28,688,965	28,366,765
Accounts receivable (note 3)	2,056,701	1,549,443
Inventory (note 4)	2,688,929	3,642,923
Prepaid expenses	92,700	91,917
	<u>38,561,468</u>	<u>38,566,493</u>
Property, plant and equipment (note 5)	<u>4,161,642</u>	<u>4,268,820</u>
Total assets	<u>42,723,110</u>	<u>42,835,313</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	2,516,863	1,607,140
Lease liability (note 7)	<u>169,737</u>	<u>258,278</u>
Total liabilities	<u>2,686,600</u>	<u>1,865,418</u>
Shareholders' Equity		
Common shares (note 9)	489,786,078	490,263,781
Contributed surplus	10,417,075	10,253,411
Accumulated deficit	<u>(460,166,643)</u>	<u>(459,547,297)</u>
Total shareholders' equity	<u>40,036,510</u>	<u>40,969,895</u>
Total liabilities and shareholders' equity	<u>42,723,110</u>	<u>42,835,313</u>

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

EcoSynthetix Inc.

Interim Consolidated Statement of Operations and Comprehensive Loss

(Unaudited)

For the three months ended March 31, 2024

(expressed in US dollars)

	2024	2023
	\$	\$
Net sales (note 10)	4,685,819	3,061,508
Cost of sales (notes 5 and 11)	3,550,929	2,445,585
Gross profit on sales	<u>1,134,890</u>	<u>615,923</u>
Expenses (notes 5 and 11)		
Selling, general and administrative	1,722,468	1,250,174
Research and development	448,817	604,810
	<u>2,171,285</u>	<u>1,854,984</u>
Loss from operations	(1,036,395)	(1,239,061)
Net interest income (note 2)	417,049	250,806
Net loss and comprehensive loss for the period	<u>(619,346)</u>	<u>(988,255)</u>
Basic and diluted loss per common share	(0.01)	(0.02)
Weighted average number of common shares outstanding	58,613,145	59,269,038

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

EcoSynthetix Inc.

Interim Consolidated Statement of Shareholders' Equity

(Unaudited)

For the three months ended March 31, 2024

(expressed in US dollars)

	Common shares \$	Contributed surplus \$	Accumulated deficit \$	Total \$
Balance – January 1, 2023	491,700,059	10,081,456	(456,726,250)	45,055,265
Share-based compensation	-	163,632	-	163,632
Common share options exercised	39,339	(12,472)	-	26,867
Common shares repurchased	(183,966)	-	-	(183,966)
Net loss and comprehensive loss for the period	-	-	(988,255)	(988,255)
Balance – March 31, 2023	<u>491,555,432</u>	<u>10,232,616</u>	<u>(457,714,505)</u>	<u>44,073,543</u>
Balance – January 1, 2024	490,263,781	10,253,411	(459,547,297)	40,969,895
Share-based compensation (note 8)	-	202,379	-	202,379
Common share options exercised (note 9)	66,945	(21,984)	-	44,961
Common shares repurchased (note 9)	(561,379)	-	-	(561,379)
Restricted share units converted	16,731	(16,731)	-	-
Net loss and comprehensive loss for the period	-	-	(619,346)	(619,346)
Balance – March 31, 2024	<u>489,786,078</u>	<u>10,417,075</u>	<u>(460,166,643)</u>	<u>40,036,510</u>

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

EcoSynthetix Inc.

Interim Consolidated Statement of Cash Flows

(Unaudited)

For the three months ended March 31, 2024

(expressed in US dollars)

	2024 \$	2023 \$
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss for the period	(619,346)	(988,255)
Items not affecting cash		
Depreciation (note 5)	304,199	487,894
Share-based compensation (note 8)	202,379	163,632
Other	(13,083)	12,167
Changes in non-cash working capital		
Accounts receivable (note 3)	(507,258)	1,584,808
Inventory (note 4)	894,268	296,077
Prepaid expenses	(783)	(12,819)
Trade accounts payable and accrued liabilities (note 6)	926,920	(1,298,372)
Interest on term deposits		
Interest received on term deposits	260,450	266,017
Accrued interest on term deposits (note 2)	(382,650)	(219,280)
	<u>1,065,096</u>	<u>291,869</u>
Investing activities		
Purchase of property, plant and equipment (note 5)	(152,386)	(380,900)
Receipts on mature short-term investments (note 2)	12,600,000	6,534,444
Purchase of term deposits (note 2)	(12,800,000)	(5,300,000)
	<u>(352,386)</u>	<u>853,544</u>
Financing activities		
Principal payments made on lease liability (note 7)	(79,885)	(70,584)
Common shares repurchased (note 9)	(561,379)	(183,966)
Exercise of common share options (note 9)	44,961	26,867
	<u>(596,303)</u>	<u>(227,683)</u>
Effect of exchange rate changes on cash	<u>2,321</u>	<u>(12,685)</u>
Change in cash during the period	118,728	905,045
Cash – Beginning of period	<u>4,915,445</u>	<u>4,808,606</u>
Cash – End of period	<u>5,034,173</u>	<u>5,713,651</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, 2024 and 2023

(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, 2024 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, 2023. The policies applied in these interim financial statements are based on International Financial Reporting Standards (IFRS) issued and in effect as at May 6, 2024, 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, 2023. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2023.

2 Term deposits

The Company has non-redeemable guaranteed investment certificates maturing between July 2024 and March 2025 at annual interest rates between 5.82% 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.

	March 31, 2024 \$	December 31, 2023 \$
Redeemable short-term deposits	2,811,594	2,776,455
Non-redeemable short-term deposits	25,877,371	25,590,310
	<u>28,688,965</u>	<u>28,366,765</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2024 and 2023

(expressed in US dollars)

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

	March 31, 2024	December 31, 2023
	\$	\$
Interest earned on term deposits	382,650	219,280
Interest earned on cash deposits	42,821	44,284
Interest expense on lease liability	(8,422)	(12,758)
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	417,049	250,806
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3 Accounts receivable

	March 31, 2024	December 31, 2023
	\$	\$
Trade accounts receivable	1,815,869	1,108,883
Commodity taxes receivable	231,845	320,241
Other receivables	3,442	114,651
Government grant receivables	5,545	5,668
	<hr/>	<hr/>
	2,056,701	1,549,443
	<hr/>	<hr/>

4 Inventory

	March 31, 2024	December 31, 2023
	\$	\$
Raw materials	607,917	846,417
Finished goods	2,081,012	2,796,506
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	2,688,929	3,642,923
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The Company had a recorded provision of \$131,882 against finished goods and raw materials inventory as at March 31, 2024 (December 31, 2023 – \$108,883).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2024 and 2023

(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	Right-of- use asset	Computer hardware	Total
Cost				
December 31, 2023	17,035,910	1,766,413	20,479	18,822,802
Additions	137,295	-	-	137,295
March 31, 2024	17,173,205	1,766,413	20,479	18,960,097
Accumulated depreciation				
December 31, 2023	(13,278,980)	(1,254,523)	(20,479)	(14,553,982)
Depreciation expense	(174,564)	(69,909)	-	(244,473)
March 31, 2024	(13,453,544)	(1,324,432)	(20,479)	(14,798,455)
Net carrying amount				
December 31, 2023	3,756,930	511,890	-	4,268,820
March 31, 2024	3,719,661	441,981	-	4,161,642

During the three months ended March 31, 2024, depreciation expense of \$232,536 (2023 – \$380,061) was charged to cost of goods sold, \$71,663 (2023 – \$106,066) was charged to research and development and depreciation expense of \$59,726 was expensed from inventory (2023 – \$1,767 expensed from inventory).

There was \$101,339 of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at March 31, 2024 (December 31, 2023 – \$116,430).

6 Trade accounts payable and accrued liabilities

	March 31, 2024 \$	December 31, 2023 \$
Trade accounts payable	1,494,152	831,463
Short-term lease liability	323,977	326,083
Customer deposit	340,000	-
Accrued liabilities	358,734	449,594
	2,516,863	1,607,140

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2024 and 2023

(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 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, 2024 \$	December 31, 2023 \$
Lease liability		
Short-term	323,977	326,083
Long-term	169,737	258,278
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	493,714	584,361
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For the three months ended March 31, 2024, total cash payments of \$88,307 (2023 – \$83,342) were made on the lease liability. Cash payments include interest expense of \$8,422 (2023 – \$12,758), which is recognized in net interest income on the interim consolidated statement of operations and comprehensive loss, and principal payments of \$79,885 (2023 – \$70,584).

8 Share-based compensation

As at March 31, 2024, the Company had outstanding share options (SOs) to purchase 2,541,890 common shares of the Company. The SOs expire at various dates through January 8, 2031.

	Number of share options outstanding	Weighted average exercise price CA\$
Outstanding – December 31, 2023	2,194,235	3.04
Share options granted	373,162	3.61
Share options exercised	(25,507)	2.35
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Outstanding – March 31, 2024	2,541,890	3.12
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EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

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March 31, 2024 and 2023

(expressed in US dollars)

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, 2023	58,661,837	490,263,781
Common share options exercised	25,507	66,945
Restricted shares units converted	4,200	16,731
Common shares repurchased	(165,900)	(561,379)
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Balance – March 31, 2024	58,525,644	489,786,078

Share exchange

During the three months ended March 31, 2024, 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, 2024, the Company repurchased and cancelled 165,900 (2023 – 68,400) common shares for total consideration of \$561,379 (2023 – \$183,966).

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, 2024 was \$374,679 (2023 – \$549,162). The total revenue from external customers in the following regions is as follows:

	March 31, 2024 \$	March 31, 2023 \$
Americas	1,311,849	1,105,428
EMEA	1,666,062	1,215,760
Asia Pacific	1,707,908	740,320
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	4,685,819	3,061,508

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March 31, 2024 and 2023

(expressed in US dollars)

The revenue has been assigned to each jurisdiction, based on the location of the customer. During the three months ended March 31, 2024, revenue attributable to individual countries representing greater than 10% of total revenue included Japan and Lithuania, which represented 36% and 14%, respectively.

During the three months ended March 31, 2023, revenue attributable to individual countries representing greater than 10% of total revenue included Japan, Canada, the United States, Lithuania and Finland, which represented 22%, 18%, 17%, 16% and 11%, respectively.

Sales to major customers

During the three months ended March 31, 2024, the Company derived a significant portion of its revenue from two customers, representing 36% and 14%, respectively, of total revenue (2023 – 22%, 16%, 16%, 11% and 11% from five customers). The concentrations listed do not necessarily apply to the same customer year over year.

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, 2024 \$	December 31, 2023 \$
Canada	2,307,573	2,275,728
United States of America	16,137	789,591
The Netherlands	1,837,932	1,203,501
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	4,161,642	4,268,820

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, 2024 \$	March 31, 2023 \$
Salaries and benefits	908,791	823,343
Share-based compensation	202,379	163,632
Depreciation	304,199	487,894
Foreign exchange loss (gain)	16,369	(5,098)

12 Comparative figures

Certain comparative figures have been restated to conform to the current period's presentation.