

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 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 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, 2024 \$	December 31, 2023 \$
Assets		
Current assets		
Cash	3,938,613	4,915,445
Term deposits (note 2)	29,261,823	28,366,765
Accounts receivable (note 3)	1,471,402	1,549,443
Inventory (note 4)	2,497,785	3,642,923
Prepaid expenses	170,755	91,917
	<u>37,340,378</u>	<u>38,566,493</u>
Property, plant and equipment (note 5)	<u>4,273,773</u>	<u>4,268,820</u>
Total assets	<u>41,614,151</u>	<u>42,835,313</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	1,861,608	1,607,140
Lease liability (note 7)	<u>84,707</u>	<u>258,278</u>
Total liabilities	<u>1,946,315</u>	<u>1,865,418</u>
Shareholders' Equity		
Common shares (note 9)	490,236,615	490,263,781
Contributed surplus	10,281,751	10,253,411
Accumulated deficit	<u>(460,850,530)</u>	<u>(459,547,297)</u>
Total shareholders' equity	<u>39,667,836</u>	<u>40,969,895</u>
Total liabilities and shareholders' equity	<u>41,614,151</u>	<u>42,835,313</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, 2024 and June 30, 2023

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2024 \$	2023 \$	2024 \$	2023 \$
Net sales (note 10)	3,183,961	2,954,114	7,869,780	6,015,622
Cost of sales (notes 5 and 11)	2,325,682	2,404,239	5,876,611	4,849,824
Gross profit on sales	858,279	549,875	1,993,169	1,165,798
Expenses (notes 5 and 11)				
Selling, general and administrative	1,440,705	1,162,370	3,163,173	2,412,544
Research and development	640,330	626,056	1,089,147	1,230,866
	2,081,035	1,788,426	4,252,320	3,643,410
Loss from operations	(1,222,756)	(1,238,551)	(2,259,151)	(2,477,612)
Net interest income (note 2)	448,869	258,330	865,918	509,136
Gain on disposal of property, plant and equipment (note 5)	90,000	-	90,000	-
Net loss and comprehensive loss for the period	(683,887)	(980,221)	(1,303,233)	(1,968,476)
Basic and diluted loss per common share	(0.01)	(0.02)	(0.02)	(0.03)
Weighted average number of common shares outstanding	58,705,545	59,098,730	58,659,345	59,183,414

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, 2024 and June 30, 2023

(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	-	326,224	-	326,224
Restricted share units converted	39,339	(12,472)	-	26,867
Common shares repurchased	(927,967)	-	-	(927,967)
Net loss and comprehensive loss for the period	-	-	(1,968,476)	(1,968,476)
Balance – June 30, 2023	<u>490,811,431</u>	<u>10,395,208</u>	<u>(458,694,726)</u>	<u>42,511,913</u>
Balance – January 1, 2024	490,263,781	10,253,411	(459,547,297)	40,969,895
Share-based compensation (note 8)	-	401,419	-	401,419
Common share options exercised (note 9)	1,066,807	(356,348)	-	710,459
Common shares repurchased (note 9)	(1,110,704)	-	-	(1,110,704)
Restricted share units converted	16,731	(16,731)	-	-
Net loss and comprehensive loss for the period	-	-	(1,303,233)	(1,303,233)
Balance – June 30, 2024	<u>490,236,615</u>	<u>10,281,751</u>	<u>(460,850,530)</u>	<u>39,667,836</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 and six months ended June 30, 2024 and June 30, 2023

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2024 \$	2023 \$	2024 \$	2023 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss for the period	(683,887)	(980,221)	(1,303,233)	(1,968,476)
Items not affecting cash				
Depreciation (note 5)	238,433	298,885	542,632	786,779
Share-based compensation (note 8)	199,040	162,592	401,419	326,224
Other	1,426	(53,319)	(11,657)	(41,152)
Gain on disposal of property, plant and equipment (note 5)	(90,000)	-	(90,000)	-
Changes in non-cash working capital				
Accounts receivable (note 3)	585,299	115,649	78,041	1,700,457
Inventory (note 4)	201,858	1,613,355	1,096,126	1,909,432
Prepaid expenses	(78,055)	(68,683)	(78,838)	(81,502)
Trade accounts payable and accrued liabilities (note 6)	(757,995)	(109,951)	168,925	(1,408,323)
Interest on term deposits				
Interest received on term deposits	141,712	106,455	402,162	372,472
Accrued interest on term deposits (note 2)	(414,570)	(210,917)	(797,220)	(430,197)
	(656,739)	873,845	408,357	1,165,714
Investing activities				
Purchase of property, plant and equipment (note 5)	(260,329)	(140,796)	(412,715)	(521,696)
Proceeds on disposal of property, plant and equipment (note 5)	90,000	-	90,000	-
Receipts on mature term deposits (note 2)	2,700,000	7,143,300	15,300,000	13,677,744
Purchase of term deposits (note 2)	(3,000,000)	(6,182,840)	(15,800,000)	(11,482,840)
	(470,329)	819,664	(822,715)	1,673,208
Financing activities				
Payments made on lease liability (note 7)	(81,088)	(70,777)	(160,973)	(141,361)
Common shares repurchased (note 9)	(549,325)	(744,001)	(1,110,704)	(927,967)
Exercise of common share options (note 9)	665,498	-	710,459	26,867
	35,085	(814,778)	(561,218)	(1,042,461)
Effect of exchange rate changes on cash	(3,577)	48,985	(1,256)	36,300
Change in cash during the period	(1,095,560)	927,716	(976,832)	1,832,761
Cash – Beginning of period	5,034,173	5,713,651	4,915,445	4,808,606
Cash – End of period	3,938,613	6,641,367	3,938,613	6,641,367

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2024 and June 30, 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 and six-month periods ended June 30, 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 July 30, 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, 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 and net interest income

The Company has non-redeemable guaranteed investment certificates maturing between July 2024 and June 2025 at annual interest rates between 5.82% and 6.34%. All term deposits are held with two large chartered Canadian banks. The carrying value of all term deposits includes accrued interest and is recorded at amortized cost using the effective interest method.

	June 30, 2024 \$	December 31, 2023 \$
Redeemable short-term deposits	-	2,776,455
Non-redeemable short-term deposits	29,261,823	25,590,310
	<u>29,261,823</u>	<u>28,366,765</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)

June 30, 2024 and June 30, 2023

(expressed in US dollars)

	Three months ended June 30		Six months ended June 30	
	2024 \$	2023 \$	2024 \$	2023 \$
Interest earned on term deposits	414,570	210,917	797,220	430,197
Interest earned on cash deposits	41,519	59,296	84,340	103,580
Interest expense on lease liability	(7,220)	(11,883)	(15,642)	(24,641)
	<u>448,869</u>	<u>258,330</u>	<u>865,918</u>	<u>509,136</u>

3 Accounts receivable

	June 30, 2024 \$	December 31, 2023 \$
Trade accounts receivable	1,252,507	1,108,883
Commodity taxes receivable	215,453	320,241
Other receivables	3,442	114,651
Government grant receivables	-	5,668
	<u>1,471,402</u>	<u>1,549,443</u>

4 Inventory

	June 30, 2024 \$	December 31, 2023 \$
Raw materials	700,238	846,417
Finished goods	1,797,547	2,796,506
	<u>2,497,785</u>	<u>3,642,923</u>

The Company had a recorded provision of \$107,721 against finished goods and raw materials inventory as at June 30, 2024 (December 31, 2023 – \$108,883).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2024 and June 30, 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	498,573	-	-	498,573
Disposals	(2,096,620)	-	-	(2,096,620)
June 30, 2024	15,437,863	1,766,413	20,479	17,224,755
Accumulated depreciation				
December 31, 2023	(13,278,980)	(1,254,523)	(20,479)	(14,553,982)
Depreciation expense	(353,802)	(139,818)	-	(493,620)
Disposals	2,096,620	-	-	2,096,620
June 30, 2024	(11,536,162)	(1,394,341)	(20,479)	(12,950,982)
Net carrying amount				
December 31, 2023	3,756,930	511,890	-	4,268,820
June 30, 2024	3,901,701	372,072	-	4,273,773

For the three and six months ended June 30, 2024, depreciation expense of \$130,998 and \$363,534 (2023 – \$194,715 and \$576,543) has been charged to cost of sales and \$107,435 and \$179,098 (2023 – \$104,170 and \$210,236) has been charged to research and development. For the six months ended June 30, 2024, depreciation expense of \$49,012 was expensed from inventory (2023 – \$13,130 depreciation expense was capitalized into inventory).

There was \$202,288 of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at June 30, 2024 (December 31, 2023 – \$116,430).

During the three months ended June 30, 2024, the Company disposed of machinery and equipment. All disposed assets had a carrying value of \$nil. On certain disposals of machinery and equipment, cash proceeds were received of \$90,000 and a corresponding gain on disposal of property, plant and equipment was recorded in the interim consolidated statements of operations and comprehensive loss.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2024 and June 30, 2023

(expressed in US dollars)

6 Trade accounts payable and accrued liabilities

	June 30, 2024 \$	December 31, 2023 \$
Trade accounts payable	733,721	831,463
Short-term lease liability	325,768	326,083
Customer deposit	340,000	-
Accrued liabilities	462,119	449,594
	<u>1,861,608</u>	<u>1,607,140</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 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, 2024 \$	December 31, 2023 \$
Lease liability		
Short-term	325,768	326,083
Long-term	84,707	258,278
	<u>410,475</u>	<u>584,361</u>

For the three and six months ended June 30, 2024, total cash payments of \$88,308 and \$176,615 (2023 – \$82,660 and \$166,002) were made on the lease liability. Cash payments for the three and six months ended June 30, 2024 include interest expense of \$7,220 and \$15,642 (2023 – \$11,883 and \$24,641), which has been recognized in net interest income on the interim consolidated statements of operations and comprehensive loss, and principal payments of \$81,088 and \$160,973 (2023 – \$70,777 and \$141,361).

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2024 and June 30, 2023

(expressed in US dollars)

8 Share-based compensation

As at June 30, 2024, the Company had outstanding share options to purchase 2,072,893 shares of the Company. The share options 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	(494,504)	1.96
Outstanding – June 30, 2024	<u>2,072,893</u>	<u>3.39</u>

9 Common shares

	Number of common shares	Share capital \$
Balance – December 31, 2023	58,661,837	490,263,781
Common share options exercised	494,504	1,066,807
Restricted share units converted	4,200	16,731
Common shares repurchased	(326,200)	(1,110,704)
Balance – June 30, 2024	<u>58,834,341</u>	<u>490,236,615</u>

Share exchange

During the six months ended June 30, 2024, 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, 2024, the Company repurchased and cancelled 160,300 and 326,200 (2023 – 348,400 and 416,800) common shares for a total consideration of \$549,325 and \$1,110,704 (2023 – \$744,001 and \$927,967).

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, 2024 and June 30, 2023

(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, 2024 was \$497,219 and \$871,898 (2023 – \$413,411 and \$962,573). The total revenue from external customers in the following regions was as follows:

	Three months ended June 30		Six months ended June 30	
	2024 \$	2023 \$	2024 \$	2023 \$
Americas	1,133,077	822,599	2,444,926	1,928,027
EMEA	1,533,035	1,526,104	3,199,097	2,741,864
Asia Pacific	517,849	605,411	2,225,757	1,345,731
	<u>3,183,961</u>	<u>2,954,114</u>	<u>7,869,780</u>	<u>6,015,622</u>

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

During the three months ended June 30, 2024, revenue attributable to individual countries reporting greater than 10% of total revenue included Canada, Germany, Hungary and Japan, which represented 16%, 14%, 14% and 14%, respectively. 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 six months ended June 30, 2024, revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, Lithuania, Canada and Germany, which represented 28%, 11%, 11% 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, Lithuania, Canada, the United States and Finland, which represented 21%, 18%, 16%, 15% and 11%, respectively.

Sales to major customers

During the three months ended June 30, 2024, the Company derived a significant portion of its revenue from four customers, representing 15%, 14%, 14% and 11% of total revenue (2023 – 20%, 20%, 13% and 11% from four customers). During the six months ended June 30, 2024, the Company derived a significant portion of its revenue from two customers, representing 28% and 11% of total revenue (2023 – 21%, 18%, 14% and 11% from four 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, 2024 and June 30, 2023

(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, 2024 \$	December 31, 2023 \$
Canada	2,553,384	2,275,728
United States of America	-	789,591
The Netherlands	1,720,389	1,203,501
	<u>4,273,773</u>	<u>4,268,820</u>

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	
	2024 \$	2023 \$	2024 \$	2023 \$
Salaries and benefits	911,690	844,694	1,820,481	1,668,037
Share-based compensation	199,040	162,592	401,419	326,224
Depreciation	238,433	298,885	542,632	786,779
Foreign exchange loss (gain)	(7,963)	(4,962)	8,406	(10,060)

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, 2024 primarily relates to monetary assets and liabilities denominated in Canadian dollars.

12 Comparative figures

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