

EcoSynthetix Inc.

Interim Consolidated Financial Statements
(Unaudited)

September 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 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, 2022 \$	December 31, 2021 \$
Assets		
Current assets		
Cash	9,182,319	42,226,816
Term deposits (note 2)	17,581,074	-
Accounts receivable (note 3)	2,534,130	1,912,390
Inventory (note 4)	4,726,961	2,073,800
Government grants receivable	24,443	6,676
Prepaid expenses	136,518	91,930
	<u>34,185,445</u>	<u>46,311,612</u>
Term deposits (note 2)	10,101,490	-
Property, plant and equipment (note 5)	<u>4,069,909</u>	<u>4,670,089</u>
	<u>14,171,399</u>	<u>4,670,089</u>
	<u>48,356,844</u>	<u>50,981,701</u>
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities (note 6)	2,313,726	2,363,630
Lease liability (note 7)	<u>568,714</u>	<u>820,045</u>
	<u>2,882,440</u>	<u>3,183,675</u>
Shareholders' Equity		
Common shares (note 9)	491,218,118	492,297,041
Contributed surplus	10,331,862	9,851,991
Accumulated deficit	<u>(456,075,576)</u>	<u>(454,351,006)</u>
	<u>45,474,404</u>	<u>47,798,026</u>
	<u>48,356,844</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 nine months ended September 30, 2022 and September 30, 2021

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Net sales (note 10)	5,019,650	4,705,917	13,425,443	13,276,471
Cost of sales (notes 5 and 11)	3,984,789	3,602,241	10,193,057	10,318,220
Gross profit on sales	1,034,861	1,103,676	3,232,386	2,958,251
Expenses (notes 5 and 11)				
Selling, general and administrative	1,146,576	1,394,430	3,862,642	3,888,241
Research and development	434,103	483,455	1,366,268	1,364,810
	1,580,679	1,877,885	5,228,910	5,253,051
Loss from operations	(545,818)	(774,209)	(1,996,524)	(2,294,800)
Net interest income	156,968	10,317	271,954	51,927
Net loss and comprehensive loss	(388,850)	(763,892)	(1,724,570)	(2,242,873)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.03)	(0.04)
Weighted average number of common shares outstanding	58,809,507	57,277,143	58,866,452	57,251,786

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, 2022 and September 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	-	647,262	-	647,262
Common share options exercised	161,917	(56,573)	-	105,344
Restricted share units converted	177,697	(177,697)	-	-
Deferred share units converted	228,463	(228,463)	-	-
Common shares repurchased	(797,998)	-	-	(797,998)
Net loss and comprehensive loss	-	-	(2,242,873)	(2,242,873)
Balance – September 30, 2021	490,030,002	10,567,863	(453,414,139)	47,183,726
Balance – January 1, 2022	492,297,041	9,851,991	(454,351,006)	47,798,026
Share-based compensation (note 8)	-	709,301	-	709,301
Common share options exercised (note 9)	202,166	(65,934)	-	136,232
Restricted share units converted (note 9)	163,496	(163,496)	-	-
Common shares repurchased (note 9)	(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

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, 2022 and September 30, 2021

(expressed in US dollars)

	Three months ended September 30		Nine months ended September 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(388,850)	(763,892)	(1,724,570)	(2,242,873)
Items not affecting cash				
Depreciation (note 5)	228,313	357,902	741,172	1,056,445
Share-based compensation (note 8)	186,034	300,300	709,301	647,262
Other	66,996	13,675	77,532	80,529
Changes in non-cash working capital				
Accounts receivable (note 3)	(830,624)	(250,459)	(621,740)	(457,356)
Inventory (note 4)	(1,914,302)	45,548	(2,586,046)	(498,296)
Government grants receivable	(7,889)	31,447	(17,767)	99,735
Prepaid expenses	26,785	(27,273)	(44,588)	(62,459)
Trade accounts payable and accrued liabilities (note 6)	622,350	344,174	(22,039)	1,217,589
Interest on term deposits				
Interest received on term deposits	-	-	-	358,740
Accrued interest on term deposits	(76,043)	-	(182,564)	(14,165)
	(2,087,230)	51,422	(3,671,309)	185,151
Investing activities				
Purchase of property, plant and equipment	(34,975)	(107,154)	(233,461)	(345,502)
Receipts of government grants related to property, plant and equipment (note 5)	-	67,418	-	67,418
Receipts on mature term deposits (note 2)	-	-	-	25,000,000
Purchase of term deposits (note 2)	(7,500,000)	-	(27,500,000)	-
	(7,534,975)	(39,736)	(27,733,461)	24,721,916
Financing activities				
Payments made on lease liability (note 7)	(68,499)	(63,443)	(200,134)	(185,638)
Common shares repurchased (note 9)	(442,369)	(400,105)	(1,444,585)	(797,998)
Exercise of common share options	136,232	40,262	136,232	260,355
	(374,636)	(423,286)	(1,508,487)	(723,281)
Effect of exchange rate changes on cash	(113,692)	(40,727)	(131,240)	(69,685)
Change in cash during the period	(10,110,533)	(452,327)	(33,044,497)	24,114,101
Cash – Beginning of period	19,292,852	41,203,589	42,226,816	16,637,161
Cash – End of period	9,182,319	40,751,262	9,182,319	40,751,262

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

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited) September 30, 2022 and September 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 nine-month periods ended September 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 November 1, 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 (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, 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.

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.

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

September 30, 2022 and September 30, 2021

(expressed in US dollars)

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 4.5%. All term deposits are held with two large chartered Canadian banks 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.

	September 30, 2022 \$	December 31, 2021 \$
Short-term deposits	17,581,074	-
Long-term deposits	10,101,490	-
	<u>27,682,564</u>	<u>-</u>

3 Accounts receivable

	September 30, 2022 \$	December 31, 2021 \$
Trade accounts receivable	2,357,229	1,716,442
Commodity taxes receivable and other	176,901	195,948
	<u>2,534,130</u>	<u>1,912,390</u>

4 Inventory

	September 30, 2022 \$	December 31, 2021 \$
Raw materials	2,515,763	1,016,108
Finished goods	2,211,198	1,057,692
	<u>4,726,961</u>	<u>2,073,800</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2022 and September 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 September 30, 2022					
Additions	208,107	-	-	-	208,107
Disposals	(229,240)	-	-	-	(229,240)
Depreciation	(622,227)	-	(186,060)	-	(808,287)
Accumulated depreciation on disposals	229,240	-	-	-	229,240
Closing net book value	3,304,993	-	764,916	-	4,069,909
As at September 30, 2022					
Cost	16,320,769	828,005	1,661,759	90,091	18,900,624
Accumulated depreciation	(13,015,776)	(828,005)	(896,843)	(90,091)	(14,830,715)
Net book value	3,304,993	-	764,916	-	4,069,909

For the three and nine months ended September 30, 2022, depreciation expense of \$119,182 and \$429,992 (2021 – \$203,683 and \$590,803) has been charged to cost of goods sold and \$109,131 and \$311,180 (2021 – \$154,219 and \$465,642) has been charged to research and development. For the nine months ended September 30, 2022, depreciation expense of \$67,115 was capitalized into inventory (2021 – \$73,446 was expensed from inventory).

There was \$nil of property, plant and equipment additions included in trade accounts payable and accrued liabilities as at September 30, 2022 (2021 – \$29,117).

6 Trade accounts payable and accrued liabilities

	September 30, 2022 \$	December 31, 2021 \$
Trade accounts payable	1,497,916	959,601
Accrued liabilities	562,391	1,148,099
Lease liability – short-term	253,419	255,930
	2,313,726	2,363,630

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2022 and September 30, 2021

(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, 2022 \$	December 31, 2021 \$
Lease liability		
Short-term	253,419	255,930
Long-term	568,714	820,045
	<u>822,133</u>	<u>1,075,975</u>

For the three and nine months ended September 30, 2022, total cash payments of \$82,635 and \$245,885 (2021 – \$81,975 and \$241,297) were made on the lease liability. Cash payments for the three and nine months ended September 30, 2022 include interest expense of \$14,136 and \$45,751 (2021 – \$18,532 and \$55,659), which has been recognized in net interest income on the interim consolidated statements of operations and comprehensive loss, and principal payments of \$68,499 and \$200,134 (2021 – \$63,443 and \$185,638).

8 Share-based compensation

As at September 30, 2022, the Company had outstanding share options to purchase 2,892,604 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 exercised	(130,622)	1.36
Share options expired	(4,000)	5.33
	<u>2,892,604</u>	<u>2.47</u>

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements (Unaudited) September 30, 2022 and September 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
Common share options exercised	130,622	202,166
Restricted share units converted	115,466	163,496
Common shares repurchased	(361,200)	(1,444,585)
Balance – September 30, 2022	58,814,127	491,218,118

Share exchange

During the nine months ended September 30, 2022, 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, 2022, the Company repurchased and cancelled 133,600 and 361,200 (2021 – 90,800 and 200,400) common shares for total consideration of \$442,369 and \$1,444,585 (2021 – \$400,105 and \$797,998).

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, 2022 was \$759,376 and \$2,175,666 (2021 – \$678,768 and \$2,022,714). The total revenue from external customers in the following regions was as follows:

	Three months ended September 30		Nine months ended September 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Americas	1,867,955	1,826,552	4,766,041	5,120,506
EMEA	1,312,689	1,371,223	4,674,287	4,011,964
Asia Pacific	1,839,006	1,508,142	3,985,115	4,144,001
	5,019,650	4,705,917	13,425,443	13,276,471

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2022 and September 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 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 three months ended September 30, 2021 revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Germany and Canada, which represented 29%, 22%, 16% and 14%, 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. During the nine months ended September 30, 2021 revenue attributable to individual countries reporting greater than 10% of total revenue included Japan, the United States, Germany and Canada, which represented 30%, 21%, 17% and 15%, respectively.

Sales to major customers

During the three months ended September 30, 2022, the Company derived a significant portion of its revenue from three customers, representing 36%, 14% and 11% of total revenue (2021 – three customers representing 28%, 14% and 14% of total revenue). During the nine months ended September 30, 2022, the Company derived a significant portion of its revenue from two customers, representing 28% and 15% of total revenue (2021 – three customers representing 30%, 15% and 14% 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, 2022 \$	December 31, 2021 \$
Canada	1,086,311	1,397,491
United States	1,555,272	1,588,379
The Netherlands	1,428,326	1,684,219
	4,069,909	4,670,089

EcoSynthetix Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

September 30, 2022 and September 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:

	Three months ended September 30		Nine months ended September 30	
	2022 \$	2021 \$	2022 \$	2021 \$
Salaries and benefits	731,766	1,043,409	2,460,536	3,083,148
Government grants	(19,377)	(25,496)	(29,538)	(284,597)
Share-based compensation	186,034	300,300	709,301	647,262
Depreciation	228,313	357,902	741,172	1,056,445
Foreign exchange loss	92,212	17,730	162,883	55,800

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, 2022 primarily relates to monetary assets and liabilities denominated in Canadian dollars.