MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis ("**MD&A**") dated August 10, 2011 is intended to assist the readers in understanding EcoSynthetix Inc. ("**EcoSynthetix**" or the "**Company**"), its business environment, strategies and performance and risk factors. It should be read in conjunction with the unaudited interim consolidated financial statements, including the related notes for the three and six month periods ended June 30, 2011 and June 30, 2010. It should also be read in conjunction with the consolidated financial statements for fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008 and related notes, management's discussion and analysis and the US GAAP reconciliations, which can be found in the Company's supplemented prospectus dated July 27, 2011 available on SEDAR at www.sedar.com.

This is the Company's first reporting period since becoming a reporting issuer. The Company directly or indirectly now owns a majority of the equity interest in each of EcoSynthetix Ltd. ("**EcoSynthetix U.S.**"), EcoSynthetix B.V., EcoSynthetix Technologies Inc. and EcoSynthetix Corporation. The Company, together with its consolidated subsidiaries, is referred to as the "Company", "we", "us", or "our".

All references to "Fiscal 2008" are to EcoSynthetix U.S.' fiscal year ended December 31, 2008, to "Fiscal 2009" are to EcoSynthetix U.S.' year ended December 31, 2009 and to "Fiscal 2010" are to EcoSynthetix U.S.' year ended December 31, 2010. Our functional and reporting currency is the U.S. dollar. Unless otherwise indicated, all references to "$" and "dollars" in this discussion and analysis mean U.S. dollars.

Financial data has been prepared in conformity with International Financial Reporting Standards ("**IFRS**"). Certain measures used in this MD&A do not have any standardized meaning under IFRS. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. It is unlikely that these measures could be compared to similar measures presented by other companies. See "IFRS and non-IFRS Measures".

Forward-looking statements are included in this MD&A. See "Forward-Looking Statements" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of the risks relating to the Company, refer to the "Risk Factors" section of this MD&A and the "Risk Factors" section of the Company's supplemented prospectus.

Forward-looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These statements relate to, but are not limited to, future events or future performance, our expectations regarding the Company's growth, results of operations, estimated future revenues, requirements for additional capital, production costs, future demand for latex-based products, business prospects and opportunities. Forward-looking statements are often, but not always, identified by use of words such as ''may'', ''will'', ''should'', ''could'', ''seek'', ''anticipate'', ''contemplate'', ''continue'', ''expect'', ''intend'', ''plan'', ''potential'', ''budget'', ''target'', ''believe'', ''estimate'' and similar expressions. Such statements reflect our current views and beliefs with respect to future events, are subject to risks and uncertainties, and are based upon a number of estimates and assumptions that, while considered reasonable by us, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements.

We have made material assumptions regarding, among other things: that our intellectual property rights are adequately protected; our ability to obtain the materials necessary for the production of our products; our ability to market products successfully to our customers; that we will continue to face no direct competition; changes in demand for and prices of our products or the materials required to produce those products; labour and material costs remaining consistent with our current expectations; and that we do not and will not infringe third party intellectual property rights. Some of our assumptions are based upon internal estimates and analyses of current market conditions and trends, management plans and strategies, economic conditions and other factors and are necessarily subject to risks and uncertainties inherent in projecting future conditions and results.

Some of the risks that could affect our future results and could cause those results to differ materially from those expressed in the forward-looking information include, among other things:: an inability to protect, defend, enforce or use our intellectual property and/or infringement of third-party intellectual property; dependence on certain customers and changes in customer demand; the availability and price of natural feedstocks used in the production of our products; the inability to effectively expand our production facilities; variations in our financial results; increase in industry competition; the risk of volatility in global financial conditions, as well as significant decline in general economic conditions; our ability to effectively commercially market and sell our products; our ability to protect our know-how and trade secrets; company growth and the impact of significant operating and capital cost increases; changes in the current political and regulatory environment in which we operate; the inability to retain key personnel; changes to regulatory requirements, both regionally and internationally, governing development, production, exports, taxes, labour standards, waste disposal, and use, environmental protection, project safety and other matters; enforcement of intellectual property rights; a significant decrease in the market price of petroleum; a shortage of supplies, equipment and parts; the inability to secure additional government grants; a deterioration in our cash balances or liquidity; the inability to obtain equity or debt financing; the ability to acquire intellectual property; the risk of litigation; changes in government regulations and policies relating to our business; losses from hedging activities and changes in hedging strategy; insufficient insurance coverage; the inability to expand technology; the impact of issuance of additional equity securities on the trading price of the Common Shares; the impact of ethical, legal and social concerns relating to genetically modified organisms and the food versus fuel debate; the risk of business interruptions; the impact of changes in interest rates; the impact of changes in foreign currency exchange; and credit risk, as well as the factors identified in the “Risk Factors” section of the Company’s supplemented prospectus dated July 27, 2011. Such factors are not intended to represent a complete list of the factors that could affect us. These factors should be considered carefully and prospective investors should not place undue reliance on forward-looking information.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those anticipated in such forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what we believe to be reasonable assumptions, there can be no assurance that such forward-looking information will prove to be accurate and we cannot assure that actual results will be consistent with these forward looking statements. Accordingly, readers should not place undue reliance on forward-looking statements. The information contained in this document, including the information provided under the heading ‘‘Risk Factors’’, identifies additional factors that could affect the Company’s operating results and performance. Forward-looking information contained in this MD&A is made as of August 10, 2011 and we disclaim any obligation to update any forward-looking information, whether as a result of new information, future events or results, except as may be required by applicable securities laws. Accordingly, potential investors should not place undue reliance on forward-looking information.

IFRS and Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These non-IFRS measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of results of operations of the Company from management’s perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the financial information of the Company reported under IFRS. We use non-IFRS measures such as Adjusted EBITDA to provide investors with a supplemental measure of operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also use non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet its capital expenditure and working capital requirements. The reader is referred to “Summary of Quarterly Results” for the definition and reconciliation of Adjusted EBITDA used and presented by us to the most directly comparable IFRS measures.

Subsequent Events

Initial Public Offering

On August 4, 2011, the Company completed an initial public offering of 11,150,000 common shares issued from treasury at a price of Cdn$9.00 per share for gross proceeds of Cdn$100,350,000. The estimated expenses, including underwriters’ fees, on closing of the offering are expected to total approximately Cdn$10,300,000. As of June 30, 2011 the Company has deferred approximately $2.2 million of share issuance costs related to the initial public offering.

The Company granted to the underwriters an over-allotment option, exercisable, in whole or in part, at the sole discretion of the underwriters, for a period of 30 days from the closing of the offering to purchase up to an additional 1,672,500 common shares at a price of Cnd$9.00 per share for aggregate gross proceeds of Cdn$115,402,500.

In connection with the offering, EcoSynthetix U.S., which as of June 30, 2011 currently owns, either directly or indirectly, through its subsidiaries, all of the asset and operations relating to the EcoSynthetix business, was acquired by the Company from certain of the existing shareholders in exchange for approximately 33,640,663 Common Shares assuming no exercise of the over-allotment option. The remaining approximately 23% of the outstanding shares of common stock of EcoSynthetix U.S. will continue to be held by retained interest holders (the "**Retained Interest Holders**").

On August 4, 2011, in connection with the initial public offering, the Retained Interest Holders and the Company entered into a put/call agreement. Pursuant to the put/call agreement, the Retained Interest Holders will be entitled to sell their shares of common stock of EcoSynthetix U.S. and shares of common stock of EcoSynthetix U.S. issued upon exercise of warrants (the "**Covered Shares**") to the Company at any time prior to the date that is five years following the Closing (the "**Put Expiry Date**") in exchange for common shares of the Company on the basis of seven common shares for one Covered Share, subject to adjustment. In addition, the Company will be entitled to purchase the Covered Shares held by the Retained Interest Holders at any time from the period commencing one year following the Put Expiry Date to the date that is two years following the Put Expiry Date in exchange for seven common shares for one Covered Share, subject to adjustment. In addition, the Company will be entitled to exercise its right to purchase the Covered Shares in the event of a change of control of the Company or a bankruptcy event of the Company or EcoSynthetix U.S. that occurs prior to the Put Expiry Date. Assuming all the Retained Interest Holders exchanged their shares of common stock of EcoSynthetix U.S. for Common Shares, an additional approximately 10,132,297 common shares will be issued by the Company.

In conjunction with the initial public offering, the preferred shares of EcoSynthetix U.S. were automatically converted to common shares. As a result, the liability of EcoSynthetix U.S. relating to preferred shares will be re-classified into common shares on August 4, 2011. Furthermore, warrants to acquire preferred shares will be automatically converted to warrants to acquire common shares. As a result, the liability of EcoSynthetix U.S. relating to warrants to acquire preferred shares will be re-classified into a separate component of shareholders' equity on August 4, 2011.

On August 4, 2011 the Company, in connection with the initial public offering mentioned above, provided certain retained interest shareholders an indemnity that covers potential shareholder tax liabilities. The potential liability related to this indemnity is approximately $5 million. The indemnity is terminated on the date that is five years following the closing date.

Overview

We are a renewable chemicals company specializing in biomaterials. Biomaterials are commonly used as inputs in industrial manufacturing for a wide range of end products. We have commercial bio-based products that have superior performance and cost advantages compared to currently available petroleum-based products. Our strategy is to commercialize a broad range of bio-based polymer and monomer products across a wide range of industries. We have developed processes that leverage "green" technology to produce bio-based materials from natural feedstock, such as corn, tapioca and dextrose from cornstarch as an alternative to petroleum-derived feedstocks. To date, we have developed the following two bio-based technology platforms that support broad application across industries: (i) a biopolymer nanosphere technology that has been fully scaled and validated; and (ii) a bio-based sugar macromer technology that has been validated on a pilot scale and is being developed for pre-commercialization plant stage. Based on our two bio-based technology platforms, our current product families are ECOSPHERE BIOLATEX polymers, ECOMER and ECOSTIX. Our lead product, ECOSPHERE BIOLATEX binders, has achieved commercialization in the coated paper, paperboard and personal care industries. While our technology platform offers a significantly reduced carbon footprint, we market our products to customers on the basis of reduced cost, stable pricing and superior product performance.

Factors Affecting the Results of Operation

Commercialization

A major source of our revenue has resulted from the conversion of customer evaluations of our products into commercial production. Generally, the adoption of our products by customers is evaluated in three stages prior to acceptance of the product on a commercial basis: (i) laboratory evaluation; (ii) pilot scale production testing; and (iii) mill trials representing full scale production.

Following a period of evaluations, we first achieved commercial production in the first quarter of 2008. We are currently operating on a commercial basis in the coated paper and paperboard industry. Manufacturers representing greater than 60% of the global paper and paperboard market are either evaluating or commercial with our ECOSPHERE BIOLATEX binders. Due to the low capital input switching barriers, reduced cost, improved performance, better product offerings, and a significantly reduced carbon footprint, our experience suggests volume demand can be relatively steady post-conversion which creates the potential for continuous recurring revenue.

Our performance will be influenced by our success in converting prospects from lab and pilot testing phases into full commercial clients. Since entering commercial production, we have achieved significant sales growth. Total revenue for the fiscal year ended December 31, 2010 was $15.9 million, an increase of 554% compared to $2.4 million for the year ended December 31, 2009. Given our past record of successfully converting a high number of evaluations into commercial clients, we expect that the conversion of current and future product evaluations into recurring commercial sales will be a continuous source of growth for us.

Our objective is to achieve significant growth across multiple industries. To sustain our growth, we expect to continuously innovate new bio-based polymer and monomer products using widely available raw materials and our scalable production techniques. We also intend to continue expanding the functionalities and applications of our existing products, which are readily applicable across numerous markets where petroleum-based polymers and monomers currently dominate.

Net Sales

Our sales are primarily from the sale of our products to our customers. Net sales are measured based on the price specified in the sales contract, net of discounts and estimated returns at the time of sale.

Cost of sales and gross profit

Our gross profit is derived from our net sales less our cost of sales. Costs of sale include costs for materials, contract manufacturing costs, transportation costs and depreciation and amortization on manufacturing equipment. Direct materials consist of the costs of cornstarch feedstock and process chemicals. Cost of sales is mainly affected by the cost of cornstarch and contract manufacturing costs. Cornstarch is the most significant raw material cost.

Selling, general and administrative

Selling, general and administrative expense consists of personnel costs, including stock-based compensation, hiring and training costs, consulting and service provider expenses (including patent counsel related costs) marketing costs, corporate insurance costs, occupancy-related costs, depreciation and amortization expenses on property and equipment not used in our product development programs or recorded in cost of goods sold, and travel and relocation expenses. After completion of the initial public offering, which was completed August 4, 2011, we anticipate incurring significant increases in selling and general and administrative expenses as we incur additional compliance costs as a public company. These increases will likely include increased costs for insurance, costs related to the hiring of additional personnel and payment to outside consultants, lawyers and accountants. We also expect to incur significant costs to comply with the corporate governance, internal controls and similar requirements applicable to public companies.

Research and development

Our research and development expenses consist of expenses incurred to develop and test our products, and include personnel and related costs, stock-based compensation, consultants, facility costs, supplies, cost of inventory consumed in product development and depreciation and amortization expenses on property and equipment used in product development, and other associated product development expenses. We expect our research and development expense to grow as we focus on enhancing and expanding our product lines.

Other Factors Affecting the Results of Operations and Financial Conditions

Our financial condition and results of operations are influenced by a variety of factors, including:

- Optimizing the formulation of existing products to allow higher substitution rates by current and new clients and the ability to effectively develop products for new markets could be a significant source of revenue growth in the future. As result, we made a significant investment in a new research and development facility located in

Burlington, Ontario, Canada that opened in January 2011. This facility has a laboratory and pilot production line for use in the advanced development of new or significantly enhanced products.

- Pricing of petroleum substitutes for our products. During the six months ended June 30, 2011, supply-demand is working in combination with the high oil price to drive up latex prices driving demand for our products.

- Feedstock, other input and production costs. Cost of sales is mainly affected by the cost of cornstarch and contract manufacturing costs. Cornstarch is generally the most significant raw material cost. During the year we observed a significant increase in the cost of cornstarch, which is increasing the manufacturing cost of our products.

- Future growth is currently limited by our 75 million pounds of annual production capacity. In response, we are adding new production lines at our contract manufacturing facilities in Europe and USA to better align production capacity with potential customer demand. As a result of these expansions, new production lines are expected to be commissioned in late 2011, increasing our overall annualized production capacity by 160 million pounds thereby increasing our total annualized production capacity to 235 million pounds to service potential customer demand.

Analysis for the quarter ended June 30, 2011

Results of Operations

Summary of Results

The following table sets forth a summary of our results of operations for the quarters ended June 30, 2011 and 2010:

	Quarters ended June 30, ($ except per share figures)		Quarter-over-Quarter Change	
	2011	2010	$	%
Net Sales…………………………………………………………..	$5,609,095	$3,547,891	$2,061,204	58%
Gross profit………………………………………………………..	1,354,593	1,039,420	$315,173	30%
Operating expenses……………………………………………..…	2,476,272	1,672,652	$803,620	48%
Loss from operations………………………………………………	(1,121,679)	(633,232)	($488,447)	77%
Net loss and comprehensive loss………………………………..	(192,018,852)	(18,991,589)	(173,027,263)	911%
Basic and diluted loss per common share……………………..	($177.95)	($23.85)	($154.10)	646%

Note:

(1) As a result of the initial public offering completed on August 4, 2011 the common shares issued and outstanding as at June 30, 2011, and prior to that date have been adjusted to reflect the exchange ratio applied, being seven common shares of EcoSynthetix for one share of common stock of EcoSynthetix U.S.

Comparison of Quarters ended June 30, 2011 and 2010

Net Sales

Total net sales for the quarter ended June 30, 2011 was $5,609,095, an increase of 58%, or $2,061,204, compared to $3,547,891 for the quarter ended June 30, 2010. Recurring sales to current customers representing 95% of revenue for the quarter ended June 30, 2011 was a key driver of growth in the quarter. The remaining 5% was attributable to revenue from new customers. Given our past record of successfully converting a high number of evaluations into commercial clients, we expect that the conversion of current and future product evaluations into recurring commercial sales will be a continuous source of growth for us.

Gross profit

Gross profit for the quarter ended June 30, 2011 was $1,354,593 or 24% of sales compared to $1,039,420 or 29% of sales during the quarter ended June 30, 2010. Gross profit as a percentage of sales decreased from 29% in prior year to 24% for the quarter ended June 30, 2011. The decrease was primarily due to increase in cornstarch costs partly offset by sales price increases.

Operating Expenses

The following table sets forth the breakdown of our operating expenses by category and the change from the quarter ended June 30, 2010 to the quarter ended June 30, 2011:

	Quarter ended June 30, ($)		Quarter-over-Quarter Change	
	2011	2010	$	%
Selling, general and administrative…………………………..	2,002,791	1,038,011	964,780	93%
Research and development………………………………….	313,678	234,256	79,422	34%
Stock-based compensation………………………………….	217,667	352,730	(135,063)	-38%
Depreciation and amortization …………………………….	46,827	15,528	31,299	202%
Foreign currency exchange gain……………………………..	(104,691)	32,127	(136,818)	-426%
Total…………………………………………………………..	2,476,272	1,672,652	803,620	48%

Overall operating expenses for the quarter ended June 30, 2011 increased by 48%, or $803,620 to $2,476,272, compared to $1,672,652 over the same period in 2010. The significant increase in operating expenses is primarily due to the increase in the number of employees in sales, marketing and higher research and development costs. This increase in operating expenses is consistent with the growth in the business and reflects our investment in sales, marketing and research and development capabilities.

Selling, general and administrative (excluding stock-based compensation, amortization and foreign currency exchange gain/loss described below) — selling, general and administrative costs increased by 93% or $964,780 to $2,002,791 for the quarter ended June 30, 2011 compared to $1,038,011 for the same period in 2010. The increase from the prior year reflects the growth in the average employee count of approximately 90% during the quarter due to an increased level of resources dedicated to selling and administration activities required for the Company's growth.

Research and development (excluding stock-based compensation and amortization described below) — Research and development expenses, increased 34%, or $79,422, to $313,678 for the quarter ended June 30, 2011 compared to $234,256 for the same period in 2010. The increase represented higher investment in research and development net of higher levels of governmental assistance during the quarter ended June 30, 2011. During the quarter ended June 30, 2011 we continued to commission a pilot production line at our new research and development facility located in Burlington, Ontario, Canada. This facility houses a laboratory and the pilot production line will be used in the advanced development of new or significantly enhanced products. The pilot production line is expected to be operational by September 2011. Our research and development activities are focused on developing new products and significantly enhancing our existing products.

Stock-based compensation — Stock-based compensation decreased $135,063 during the quarter to $217,667 compared to $352,730 for quarter ended June 30, 2010. This decrease related largely to the options issued in 2010 to the guarantors of the pension liability, of which during the three months ended June 2010 the Company recognized $274,685. This difference was partially offset by the cost of options issued during 2011.

Depreciation and Amortization — depreciation and amortization of property and equipment for the quarter ended June 30, 2011 was $46,827, compared to $15,528 for the same period in 2010, representing an increase of 202%. The increase in depreciation and amortization is due to our overall growth in infrastructure to support the growth in our business and additional amortization on assets acquired for the new headquarters and research and development facility in Burlington, Ontario, Canada.

Foreign currency exchange gain/loss — Foreign exchange represents the monthly revaluation of monetary assets and liabilities denominated in foreign currencies. For the quarter ended June 30, 2011 our foreign exchange gain was $104,691 compared to a loss of $32,127 in the previous period. The change in the foreign exchange impact was the result of fluctuations in exchange rates between the U.S. dollar (our functional currency) and the Canadian dollar. From June 30, 2010 to June 30, 2011 the U.S. dollar weakened by approximately 7.4% against the Canadian dollar, which results in a foreign exchange gain on some of our working capital balances such as Canadian dollar cash equivalents and Canadian dollar government assistance receivable.

Operating Loss

We reported an operating loss of $1,121,679, for the quarter ended June 30, 2011 compared to an operating loss of $633,232 for the quarter ended June 30, 2010. The $488,447 increase in net loss was primarily due to significant growth in operating expenses that were offset by growth in revenues and gross profit.

Interest income and other finance charges, net

Interest income increased $32,599 to $27,941 during the quarter ended June 30, 2011 in comparison to ($4,658) for the quarter ended June 30, 2010 due to higher cash and cash equivalents held during the same period.

Loss related to change in fair value of warrants and redeemable preferred shares

The redeemable preferred shares and warrants have been designated as financial liabilities. They are measured at fair value, with changes in fair value recognized directly in earnings. For the quarter ended June 30, 2011 our loss related to change in the fair value of warrants and redeemable preferred shares was $190,925,114 compared to $18,353,699 in the previous quarter as a result of increased fair values of the warrants and preferred shares. All preferred shares may be voluntarily converted at any time at the option of the holder to common shares, and shall automatically convert upon a qualified initial public offering to common shares on a one preferred share for one common share basis. Therefore, these liabilities, redeemable preferred shares and warrants, were eliminated upon the initial public offering completed on August 4th, 2011 as the preferred shares were converted to common shares and the warrants were converted to warrants that are only exercisable into common shares.

Net Loss and comprehensive loss

We reported a net loss of $192,018,852, or $177.95 per common share (basic and fully diluted), for the quarter ended June 30, 2011 compared to a loss of $18,991,589, or $23.85 per share (basic and fully diluted), for the quarter ended June 30, 2010. The $173,027,263 increase in net loss was primarily due to the change in the fair value of the warrants and redeemable preferred shares.

Liquidity and Capital Resources

Our growth is financed through a combination of the cash flows from operations and the issuance of equity. We believe that ongoing operations, working capital and associated cash flow in addition to our cash resources provide sufficient liquidity to support our ongoing business operations for at least the next 12 months.

Below is a summary of our cash flows from (used in) operating activities, financing activities and investing activities for the periods indicated:

	Quarter-ended June 30, ($)		Quarter-over-Quarter Change	
	2011	2010	$	%
Net cash flows provided by (used in) operating activities…………………	(4,204,699)	(1,876,188)	2,328,511	124%
Net cash flows provided by (used in) investing activities ……………….	(2,494,011)	(401,343)	(2,092,668)	521%
Net cash flows provided by (used in) financing activities…………………	540,408	415,000	125,408	-
Net increase (decrease) in cash ………………………………………………	(6,158,302)	(1,862,531)	(4,295,771)	231%
Beginning cash ………………………………………………………………	33,906,734	8,304,764	25,601,970	308%
Ending cash …………………………………………………………………	27,748,432	6,442,233	21,306,199	331%

Net cash flows from (used in) operating activities

Net cash flows used in operating activities increased by $2,328,511 for the quarter ended June 30, 2011 to $4,204,699 compared to a net use of cash from operating activities of $1,876,188 for the quarter ended June 30, 2010. This increase is mainly from the increase in non-cash working capital items including increases in inventory and deferred share issuance costs offset by increases in accounts payable. During the quarter additional finished goods and raw material inventory was acquired in anticipation of potential customer demand.

Net cash flows from (used in) investing activities

For the quarter ended June 30, 2011, net cash used in investing activities was $2,494,011, compared to cash used of $401,343 for the same period in 2010, an increase of $2,092,668. Our investment in machinery and equipment to increase production capacity and research development activities was the main driver of this increase during the quarter.

Net cash flows from (used in) financing activities

Net cash flows from financing activities increased $125,400 from $415,000 for the quarter ended June 30, 2010 to $540,408 for the quarter ended June 30, 2011. The increase was primarily due to government assistance provided by the Province of Ontario under its Innovation Demonstration Fund and from the Canadian Federal Sustainable Technology Canada Fund. This was partly offset by share issuance costs incurred during the quarter in 2011.

Capital Management

Our objective in managing capital is to ensure sufficient liquidity to pursue our growth strategy, fund research and product development, while at the same time taking a conservative approach towards managing financial risk. Our capital is composed of common stock and the net proceeds from the issuance of redeemable preferred shares. Our primary uses of capital are financing operations, increasing on-cash working capital and capital expenditures. We currently fund these requirements from existing cash resources and cash raised through share issuances. Our objectives when managing capital are to ensure that we will continue to have enough liquidity so that we can provide our products and services to our customers and return to our shareholders. We monitor our capital on the basis of the adequacy of our cash resources to fund our business plan. In order to maximize the capacity to finance our ongoing growth, we do not currently pay a dividend to holders of our common shares.

Contractual Obligations

Our contractual obligations include operating leases for premises. The following table summarizes our cash commitments as of December 31, 2010 for operating leases.

2011	$160,910
2012	321,820
2013	321,820
2014	321,820
2015	321,820
Thereafter	1,677,210
Total	$3,125,400

In addition, as at Jun 30, 2011, we are committed to property and equipment purchases in the approximate amount of $3.5 million over the next twelve months. This commitment is mainly a result of our investment in machinery and equipment additional production capacity and our investment in the new research and development pilot line located in Burlington, Ontario, Canada. These investments will significantly enhance our research and development and production capabilities later this year.

Summary of Quarterly Results

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended June 30, 2011. This information has been prepared on the same basis as the annual financial statements and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the quarterly financial statements of the Company and the related notes to those statements.

Our quarterly operating results have historically fluctuated significantly and may continue to fluctuate significantly in the future. Therefore, we believe that past operating results and period-to-period comparisons should not be relied upon as an indication of our future performance. See “Risk Factors” outlined elsewhere in this document.

	Quarters Ended ($, except share figures) (Unaudited)							
	June 30, 2011	March 31, 2011	Dec.31, 2010	Sept.30, 2010	June 30, 2010	Mar.31, 2010	Dec. 31, 2009	Sept. 30, 2009
Net Sales……………………………………………	5,609,095	6,159,132	5,861,880	4,828,696	3,547,891	1,640,613	1,340,781	151,755
Gross Profit…………………………………………	1,354,593	1,490,626	1,396,191	1,028,625	1,039,420	487,759	231,104	41,494
Loss from operations……………………………	(1,121,679)	(168,272)	(372,870)	(347,227)	(633,232)	(588,004)	(1,150,380)	(909,144)
Net loss and comprehensive loss………………………	(192,018,852)	(56,054,747)	(10,899,394)	(18,236,407)	(18,991,589)	(1,066,641)	(9,297,304)	(899,937)
Weighted average number of shares outstanding (1).	1,079,036	796,278	796,278	796,278	796,278	796,278	796,278	796,278
Basic and diluted Loss per share………………………	(177.95)	(70.40)	(13.69)	(22.90)	(23.85)	(1.34)	(11.68)	(1.13)
Adjusted EBITDA (2)……………………………	**(730,097)**	**189,404**	**24,846**	**83,807**	**(217,627)**	**(378,077)**	**(983,104)**	**(745,426)**

Note:

(1) As a result of the initial public offering completed on August 4, 2011 the common shares issued and outstanding as at June 30, 2011, and prior to that date have been adjusted to reflect the exchange ratio applied, being seven common shares of EcoSynthetix for one share of common stock of EcoSynthetix U.S.

(2) Adjusted EBITDA is not a measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. See "IFRS and Non-IFRS Measures." The Company presents Adjusted EBITDA because the Company believes it facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting relative interest expense), the book amortization of intangibles (affecting relative amortization expense) and the age and book value of property and equipment (affecting relative depreciation expense). The Company also presents Adjusted EBITDA because it believes it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. Adjusted EBITDA as presented herein are not recognized measures under IFRS and should not be considered as an alternative to operating income or net income as measures of operating results or an alternative to cash flows as measures of liquidity. Adjusted EBITDA is defined as consolidated net income (loss) before interest expense, income taxes, depreciation, amortization, accretion, other non-cash expenses and charges deducted in determining consolidated net income (loss), including movement in the unrealized gains and losses on the Company's financial liabilities and stock-based compensation expense. The following table reconciles net income (loss) to Adjusted EBITDA:

	Quarters Ended ($, except share figures) (Unaudited)							
	June 30, 2011	March 31, 2011	Dec.31, 2010	Sept.30, 2010	June 30, 2010	Mar.31, 2010	Dec. 31, 2009	Sept. 30, 2009
	($, except share figures) (Unaudited)							
Net loss and comprehensive loss	(192,018,852)	(56,054,747)	(10,899,394)	(18,236,407)	(18,991,589)	(1,066,641)	(9,297,304)	(899,937)
Depreciation and amortization	145,974	146,060	79,895	81,583	67,533	122,460	57,668	55,551
Stock based compensation	217,667	193,668	320,426	337,039	352,730	85,716	109,859	109,859
Changes in value of warrants and preferred shares	190,925,114	55,904,423	10,523,919	17,901,593	18,353,699	480,388	8,146,673	(10,898)
Adjusted EBITDA	**(730,097)**	**189,404**	**24,846**	**83,807**	**(217,627)**	**(378,077)**	**(983,104)**	**(745,426)**

Key factors that account for the fluctuations in quarterly results include the growth in the Company's revenue and the pace at which the Company's sales and administrative personnel are expanding.

Adjusted EBITDA

Adjusted EBITDA is ($730,097) for the quarter ended June 30, 2011 compared to $189,404 for the quarter ended March 31, 2011. This decrease is mainly attributable to the increases in operating expenses during the quarter ended June 30, 2011 compared to the quarter ended March 31st, 2011.

Analysis for the six months period ended June 30, 2011

Results of Operations

Summary of Results

The following table sets forth a summary of our results of operations for the six months period ended June 30, 2011 and 2010:

	Year-to-date June 30, ($ except per share figures)		Period-over-Period Change	
	2011	**2010**	**$**	**%**
Net Sales……………………………………………………………..	$11,768,227	$5,188,504	$6,579,723	127%
Gross profit………………………………………………………….	2,845,219	1,527,179	$1,318,040	86%
Operating expenses……………………………………………...…	4,135,170	2,748,415	$1,386,755	50%
Loss from operations………………………………………………	(1,289,951)	(1,221,236)	($68,715)	6%
Net loss and comprehensive loss………………………………..	(248,073,599)	(20,058,230)	(228,015,369)	1137%
Basic and diluted loss per common share……………………..	($264.57)	($26.35)	($238)	904%

	As at, ($)		Period-over-Period Change	
	30-Jun-11	**31-Dec-10**	**$**	**%**
Total Current Assets……………………………………………..	40,544,777	40,977,830	(433,053)	-1%
Total Assets……………………………………………………….	45,156,338	42,712,214	2,444,124	6%
Total Current Liabilities…………………………………………	8,327,421	5,096,128	3,231,293	63%
Total Long-term Liabilities……………………………………..	383,527,264	136,697,726	246,829,538	181%

Note:

(1) As a result of the initial public offering completed on August 4, 2011 the common shares issued and outstanding as at June 30, 2011, and prior to that date have been adjusted to reflect the exchange ratio applied, being seven common shares of EcoSynthetix for one share of common stock of EcoSynthetix U.S.

Comparison of Periods ended June 30, 2011 and 2010

Net Sales

Total net sales for the six months period ended June 30, 2011 was $11,768,227, an increase of 127%, or $6,579,723, compared to $5,188,504 for the period ended June 30, 2010. The increase was primarily due to higher shipments to existing customers during the period which represented 81% of revenue. The remaining 19% was attributable to revenue from new customers. Given our past record of successfully converting a high number of evaluations into commercial clients, we expect that the conversion of current and future product evaluations into recurring commercial sales will be a continuous source of growth for us.

Gross profit

Gross profit for the six months period ended June 30, 2011 was $2,845,219 compared to $1,527,179 during the same period in 2010, an increase of $1,318,040. The increase in gross profit is primarily attributable to higher volume and higher sales prices, partly offset by increased raw material input costs related to cornstarch. Gross profit as a percentage of sales decreased from 29% in the prior year to 24% for the six month period ended June 30, 2011. The decrease was primarily due to increases in cornstarch costs partly offset by sales price increases.

Operating Expenses

The following table sets forth the breakdown of our operating expenses by category and the change from the period ended June 30, 2011 to the period ended June 30, 2010:

	Year-to-date June 30, ($)		Period-over-Period Change	
	2011	2010	$	%
Selling, general and administrative…………………………..	3,049,248	1,738,612	1,310,636	75%
Research and development………………………………….	733,285	494,714	238,571	48%
Stock-based compensation………………………………….	411,335	438,446	(27,111)	-6%
Depreciation and amortization …………………………….	93,038	60,769	32,269	53%
Foreign currency exchange loss (gain)………………………	(151,736)	15,874	(167,610)	-1056%
Total……………………………………………………..	4,135,170	2,748,415	1,386,755	50%

Overall operating expenses for the six month period ended June 30, 2011 increased by 50%, or $1,386,755 to $4,135,170, compared to $2,748,415 over the same period in 2010. The significant increase is primarily due to higher salaries and benefits associated with an increase in the number of employees and higher research and development costs. This increase in operating expenses is consistent with the growth in the business and reflects our investment in sales, marketing and research and development capabilities.

Selling, general and administrative (excluding stock-based compensation, amortization and foreign currency exchange gain/loss described below) — selling, general and administrative costs increased by 75% or $1,310,636 to $3,049,248 for the period ended June 30, 2011 compared to $1,738,612 for the same period in 2010. The increase from the prior year reflects the growth in the average employee count of 90% during the period due to an increased level of resources dedicated to sales, marketing and administration activities required for the Company's growth.

Research and development — Research and development expenses, increased 48%, or $238,571, to $733,285 for the six month period ended June 30, 2011 compared to $494,714 for the same period in 2010. The increase represented higher investment in research and development net of higher levels of governmental assistance during the period ended June 30, 2011. During the period ended June 30, 2011 we continued to commission a pilot production line at our new research and development facility located in Burlington, Ontario, Canada. This facility houses a laboratory and the pilot production line will be used in the advanced development of new or significantly enhanced products. The pilot production line is expected to be operational by September 2011. Our research and development activities are focused on developing new products and significantly enhancing our existing products.

Stock-based compensation — Stock-based compensation decreased $27,211 during the six month period to $411,335 compared to $438,446 for period ended June 30, 2010. The decrease related to the options issued in 2010 to the guarantors of the pension liability, of which during the three months ended June 2010 the Company recognized $274,685. This variance was partially offset by the costs of options issued during the period.

Depreciation and amortization — depreciation and amortization of property and equipment and intangible assets for the six month period ended June 30, 2011 was $93,038, compared to $60,769 for the same period in 2010, representing an increase of 53%, or $32,269. The increase is due to our continued investment in infrastructure to support growth in our business and additional depreciation on assets acquired for the new research and development facility in Burlington, Ontario, Canada.

Foreign currency exchange gain/loss — Foreign exchange represents the monthly revaluation of monetary assets and liabilities denominated in foreign currencies. For the six month period ended June 30, 2011 our foreign exchange gain was $151,736 compared to a loss of $15,874 in the previous period. This is primarily due to favorable revaluation foreign exchange gains on cash and government assistance receivable denominated in Canadian dollars during the period. During the same period, the Canadian dollar strengthened relative to the US dollar by approximately 7%.

Operating Loss

We reported an operating loss of $1,289,951, for the six month period ended June 30, 2011 compared to an operating loss of $1,221,236 for six month period ended June 30, 2010. The $68,715 increase in net loss was primarily due to increased operating expenses that were partially offset by higher revenues and gross profit.

Interest income and other finance charges, net

Interest income increased $48,745 to $45,889 during the six month period ended June 30, 2011 compared to interest expense of $2,856 in the same period in 2010. The favorable increase was due to higher cash balances maintained during the same period.

Loss related to change in fair value of warrants and redeemable preferred shares

The redeemable preferred shares and warrants have been designated as financial liabilities. They are measured at fair value, with changes in fair value recognized directly in net loss and comprehensive loss. For the six month period ended June 30, 2011 our loss related to change in the fair value of warrants and redeemable preferred shares was $246,829,537 compared to $18,834,138 in the previous period as a result of an increase in fair values. All preferred shares may be voluntarily converted at any time at the option of the holder to common shares, and shall automatically convert upon the qualified initial public offering completed on August 4^{th}, 2011 to common shares on a one preferred share for one common share basis. Therefore, these liabilities, redeemable preferred shares and warrants, were eliminated upon the initial public offering as the preferred shares converted to common shares and the warrants converted to warrants that are only exercisable into common shares.

Net Loss and comprehensive loss

We reported a net loss of $248,073,599, or $264.57 per common share (basic and fully diluted), for the six month period ended June 30, 2011 compared to a loss of $20,058,230, or $26.35 per share (basic and fully diluted), for the six month period ended June 30, 2010. The $228,015,369 increase in net loss was primarily due to the change in the fair value of the warrants and redeemable preferred shares.

Total Current Assets

Total current assets decreased $433,053 from $40,977,830 as at December 31, 2010 to $40,544,777 as at June 30, 2011. The decrease was due to lower cash partly offset by increased inventories and deferred share issuance costs.

Total Assets

Total assets increased by $2,444,124, from $42,712,214 as at December 31, 2010 to $45,156,338 as at June 30, 2011. The increase is mainly attributable to purchases of property, machinery and equipment partly offset by lower current assets.

Total Current Liabilities

Total current liabilities increased $3,231,293 from $5,096,128 as at December 31, 2010 to $8,327,421 as at June 30, 2011. This increase was primarily due to significant purchases and deposits related to machinery and equipment in addition to the increase in payables due to the deferred share issuance costs. This investment has resulted in an additional 160 million pounds of annualized capacity which will be commissioned during the fourth quarter of 2011.

Total Long-Term Liabilities

The Company has redeemable preferred shares that have a component designated as financial liabilities and warrants that are designated as financial liabilities. During the six month period ended June 30, 2011, the increase in long-term liabilities of $246,829,538 was due to the change in the fair value of the redeemable preferred shares and warrants. These changes resulted in an ending balance of $383,527,264 as at June 30, 2011 compared to $136,697,726 as at December 31, 2010. All preferred shares may be voluntarily converted at any time at the option of the holder to common shares, and shall automatically convert upon a qualified initial public offering to common shares on a one preferred share for one common share basis. Therefore, these liabilities, redeemable preferred shares and warrants, will be eliminated upon initial public offering as the preferred shares will convert to common shares and the warrants will convert to warrants that are only exercisable into common shares.

Liquidity and Capital Resources

As of June 30, 2011, we held cash of $27,748,432, compared to $35,193,037 at December 31, 2010. As of June 30, 2011 total current assets have exceeded the total current liabilities by $32,217,356.

Below is a summary of our cash flows from (used in) operating activities, financing activities and investing activities for the periods indicated:

	Year-to-date June 30, ($)		Period-over-Period Change	
	2011	2010	$	%
Net cash flows provided by (used in) operating activities…………………	(3,716,381)	(2,913,754)	802,627	28%
Net cash flows provided by (used in) investing activities ……………….	(5,472,114)	(843,405)	4,628,709	549%
Net cash flows provided by (used in) financing activities…………………	1,743,890	649,258	1,094,632	169%
Net increase (decrease) in cash ………………………………………………	(7,444,605)	(3,107,901)	4,336,704	140%
Beginning cash …………………………………………………………………	35,193,037	9,550,134	25,642,903	269%
Ending cash ………………………………………………………………….	27,748,432	6,442,233	21,306,199	331%

Net cash flows from (used in) operating activities

Net cash flows used in operating activities increased $802,627 to $3,716,381 for the six month period ended June 30, 2011 compared $2,913,754 for the same period in 2010. The increase was primarily due to higher investments in working capital partly offset by increased gross profit.

Net cash flows from (used in) investing activities

For the period ended June 30, 2011, net cash used in investing activities was $5,472,114, compared to cash used in investing activities of $843,405 for the same period in 2010, an increase of $4,628,709. The increase was due to investments in machinery and equipment to increase production capacity and research and development capabilities.

Net cash flows from (used in) financing activities

Net cash flows from financing activities increased $1,094,632 to $1,743,890 for the six month period ended June 30, 2011 from $649,258 for the six month period ended June 30, 2010. The increase was primarily due to government funding received by the Province of Ontario under its Innovation Demonstration Fund and from the Canadian Federal Sustainable Technology Canada Fund. This was partially offset by share issuance costs that were paid during the six months ended June 30, 2011 period.

Capital Management and Contractual Obligations

Refer to the 'capital management' and 'contractual obligations' discussion under the analysis for the quarter ended June 30, 2011.

Critical Accounting Policies and Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies and historical experience, and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our financial statements. We believe that there have been no significant changes in our critical accounting estimates for the time periods presented in our interim financial statements.

Redeemable Preferred Shares and Warrants

Our redeemable preferred shares have liability component that has been designated a financial liability, and outstanding warrants that are convertible into such shares that have also been designated as financial liabilities. They are measured at fair value, with changes in fair value recognized directly in earnings. The redeemable preferred shares contain a redemption feature which allows the holders of the preferred stock at any time on or after June 30, 2012, on written request of at least a majority of the outstanding shares of preferred stock voting rights together as a single class, to require the Company to redeem all of the shares of preferred stock then outstanding for cash. The redemption price is calculated based on the greater of (i) the principal balance plus all unpaid dividends, accrued annually from the date of issuance or (ii) the fair market value of the preferred shares as if converted to common stock. As a result, the redeemable preferred shares contain both a liability and an equity component. On issuance of each series, the value of the liability component was determined and measured at fair value with the subsequent changes recorded directly in earnings. All preferred shares may be voluntarily converted at any time at the option of the holder to common shares, and shall automatically convert upon a qualified initial public offering to common shares on a one preferred share for one common share basis. The redeemable preferred shares do not have a quoted price in an active market.

Determining the fair value of the convertible redeemable preferred shares and warrants requires making complex and subjective judgments regarding projected financial and operating results, the unique business risks, the value and liquidity of the common shares and the operating history and prospects of the Company. Therefore, these fair values are inherently uncertain and highly subjective. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Changes to these estimates and assumptions could result in significant change in the fair value of the convertible redeemable preferred shares and warrants.

Stock-based compensation

We have a stock-based compensation plan which is described in note 12 to the interim financial statements. We account for all stock-based payments using the fair value-based method.

We use a Black-Scholes option pricing model to determine fair value of stock options at the grant date, electing to use the minimum value valuation model. This pricing model requires management to make highly subjective assumptions with respect to volatility, dividend yield, expected life and risk free interest rate. Changes in the input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of our stock options. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. On exercise of stock options, the related amount in contributed surplus is transferred to capital stock.

Valuation of Future Income Tax Assets

Significant management judgment is required in determining the valuation allowance recorded against our net income tax assets. We record a valuation allowance to reduce our future income tax assets recorded on our consolidated balance sheet to the amount of future income tax benefit that is more likely than not to be realized. We have recorded a full valuation allowance to reflect the uncertainties associated with the realization of our future income tax assets based on management's best estimates as to the certainty of realization

Risk Factors

For a detailed description of the risk factors associated with the Company, refer to the "Risk Factors" section of the supplemented prospectus dated July 27, 2011. The Company is not aware of any significant changes to the Company's risk factors from those disclosed at that time.

Additional Information

Additional information relating to EcoSynthetix Inc., including continuous disclosure documents, is available on SEDAR at www.sedar.com.

Common Share Trading Information

The Company's common shares trade on the Toronto Stock Exchange under the symbol "ECO" and commenced trading on August 4, 2011. As at August 10, 2011, the Company had the equivalent of 44,790,663 common shares issued and outstanding (assuming no exercise of the over-allotment option). Assuming conversion of all rights pursuant to the put/call agreement, exercise of all outstanding warrants and exercise of all outstanding stock options, there would be the equivalent of 61,370,159 common shares (assuming conversion and assuming no exercise of the over-allotment option) issued and outstanding on a fully diluted basis as at August 10, 2011.