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

The following management's discussion and analysis ("**MD&A**") dated May 14, 2012 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 for the three months ended March 31, 2012 and the audited annual consolidated financial statements and MD&A for the fiscal year ended December 31, 2011. Financial data has been prepared in conformity with International Financial Reporting Standards ("**IFRS**").

The Company directly or indirectly 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". Our functional currency 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.

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 Annual Information Form for the fiscal year ended December 31, 2011.

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 Annual Information Form for the fiscal year ended December 31, 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 May 14, 2012 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 or 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. Adjusted EBITDA is defined as consolidated net income (loss) before interest, income taxes, depreciation, amortization, accretion, other non-cash charges deducted in determining consolidated net income (loss), including the movement of unrealized gains and losses on the Company's redeemable preferred shares and warrants that were designated as financial liabilities prior to the initial public offering and share based compensation expense.

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 equal or superior performance and significant 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 the pre-commercialization plant stage. Our two bio-based technology platforms have generated three product families to date, namely ECOSPHERE BIOLATEX polymers, ECOMER and ECOSTIX. Our lead product, ECOSPHERE BIOLATEX binders, has achieved commercialization in the coated paper, paperboard, personal care and most recently in the fiberglass insulation industry. 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 sales. 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 sales in the first quarter of 2008. We are currently operating on a commercial scale 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 expenditure required to switch to our products, reduced cost, improved performance 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 the mill trial phase into full commercial clients. The mill trial stage is an important part of the sales cycle; it requires potential customers to invest significant resources, including labour and operating expenditures, and the product must meet or surpass rigorous qualification procedures. Successfully reaching the mill trial stage with a potential customer reflects substantial interest and commitment with which the potential customer is evaluating the product.

Since entering commercial production, we have achieved significant sales growth. Our lead product, ECOSPHERE BIOLATEX binders, is used commercially by 5 of the global top 20 manufacturers in the coated paper and paperboard industry and an additional 9 of the global top 20 manufacturers are currently in the process of evaluating the Company's products. 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 derived 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. Sales are generally recognized at the time of shipment.

Cost of sales and gross profit

Our gross profit is derived from our net sales less our cost of sales. Cost of sales includes raw material costs, contract manufacturing costs, freight costs and depreciation related to 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 primarily relates to personnel costs, including salaries & benefits, share-based compensation, recruitment and training costs, professional fees, marketing costs, corporate insurance costs, occupancy-related costs, depreciation on property, plant and equipment not utilized in our production process, amortization of intangible assets, and travel and relocation expenses. We anticipate incurring increases in selling and general and administrative expenses as we incur additional compliance costs following the initial public offering on August 4, 2011. These increases include increased costs for insurance, costs related to the hiring of additional personnel and payment to third-party consultants, lawyers and accountants. In addition, we anticipate additional increases in selling, general and administrative expenses as we make additional investments to further develop our marketing and sales organizations.

Research and development

Research and development costs are expensed as incurred. Our research and development expenses consist of expenses incurred to develop and test our products, and include personnel and related costs, share-based compensation, consultants, facility costs, supplies and other associated product development expenses. These costs are partially offset by government grants recorded related to such expenditures. We expect our research and development expense to increase as we focus on continued product development and look to expand into new markets.

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 which 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. This facility has a laboratory and pilot production line for use in the advanced development of new or significantly enhanced products and to support sales activities.

- Pricing of petroleum substitutes 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. We observed a significant increase in the cost of cornstarch, which is increasing the manufacturing cost of our products in the three months ended March 31, 2012 compared to the same period in fiscal 2011.

Results of operations

The following is a summary of our results of operations for the three months ended March 31, 2012 and 2011:

	Three months ended		Change	
	March 31, 2012	March 31, 2011	$	%
Net sales	3,978,347	6,159,132	(2,180,785)	-35%
Gross profit	759,814	1,490,626	(730,812)	-49%
Loss from operations	(3,033,113)	(168,272)	(2,864,841)	1703%
Net loss	(2,939,492)	(56,054,747)	53,115,255	-95%
Weighted average number of shares outstanding	55,248,203	796,278	54,451,925	6838%
Basic and diluted loss per share	(0.05)	(70.40)	70.34	-100%
Adjusted EBITDA	(2,553,696)	171,456	(2,725,152)	-1589%

Net Sales – Net sales for the three months ended March 31, 2012 were $4.0 million compared to $6.2 million in the comparable period in fiscal 2011, a decrease of $2.2 million or 35%. The decrease was primarily due to lower sales in Asia Pacific of $3.1 million primarily attributable to decreased purchases from a major customer in this region compared to prior year. This decrease was partially offset by higher sales from the commercialization of three new mills during the quarter; including two new mills in Asia, which included one mill at a new global top 20 paper and paperboard customer. Lower sales in Asia Pacific were also partially offset by a $0.4 million sales increase in North America, $0.3 million sales increase in EMEA and a $0.2 million sales increase in Latin America. Excluding the impact of the decreased sales to the major Asian customer, sales increased by 80% during the quarter compared to the same period in fiscal 2011. In addition to the three new paper mills commercialized during the quarter, we announced our first commercial shipment to a top 5 insulation manufacturer in the United States. Overall, sales to new customers accounted for 21% of our total sales in the first quarter of 2012.

Although mill trail activity remained at robust levels during the quarter, in the short-term, the rate of adoption for our products continues to be impacted by the capacity rationalization that many paper companies are undertaking in response to weaker economic conditions. We expect that as industry capacity normalizes paper manufacturers will place increased emphasis on operational improvements such as those offered by our low cost, bio-based products.

Gross profit – Gross profit for the three months ended March 31, 2012 was $0.8 million or 19.1% of sales compared to $1.5 million or 24.2% of sales in the comparable period of fiscal 2011. The decrease in gross profit was primarily attributable to lower sales volume, increased manufacturing depreciation and higher raw material input costs related to corn starch, partially offset by an increase in selling price. The increase of manufacturing depreciation in gross profit was due to the completion of our production facility expansion in the Netherlands in the fourth quarter of fiscal 2011 and lower absorption of manufacturing depreciation into inventory due to lower levels of production in the first quarter of 2012. Depreciation related to manufacturing equipment is expected to increase reflecting the impact of commissioning a new 80 million pound production line within our existing manufacturing facility in Tennessee which was announced subsequent to the quarter. Gross profit adjusted for manufacturing depreciation (non-cash item) as a % of sales was 24.4% for the three months ended March 31, 2012 compared to 25.8% in the comparable period of fiscal 2011.

Operating Expenses

The following table sets forth the breakdown of our operating expenses by category for the three months ended March 31, 2012 compared to the three months ended March 31, 2011:

	Three months ended March 31,		**Change**	
	2012	**2011**	**$**	**%**
Selling, general and administrative[1]	2,422,032	1,046,369	1,375,663	131%
Research and development	1,076,494	419,607	656,887	157%
Share-based compensation	240,000	193,668	46,332	24%
Depreciation and amortization	30,324	46,299	(15,975)	-35%
Foreign exchange loss (gain)	24,077	(47,045)	71,122	-151%
Total operating expenses	3,792,927	1,658,898	2,134,029	129%

[1] *For the purposes of this MD&A, selling, general and administrative expenses excludes share-based compensation, depreciation and amortization and foreign exchange loss (gain)*

Total operation expenses for the three months ended March 31, 2012 were $3.8 million compared to $1.7M in the comparable period in prior year, an increase of $2.1 million or 129%. The increase in total operating expenses was principally due to increased selling, general and administrative costs and research and development costs. The increase in total operating expenses is consistent with our growth strategy through continued investment in developing sales, marketing and research and development capabilities.

Selling, general and administrative[1] **-** Selling, general and administrative costs increased $1.4 million or 131% from $1.0 million in the three months ended March 31, 2011 to $2.4 million in the current quarter. The increase was principally due to higher salaries and benefits and overhead costs associated with approximately 100 percent increased headcount compared to the period ended March 31, 2011.

Research and development **–** Research and development costs were $1.1 million for the three months ended March 31, 2012 compared to $0.4 million for the same period in fiscal 2011, an increase of $0.7 million or 157%. The increase represents continued investment in research and development net of government assistance recognized and additional costs related to our Centre of Innovation (COI) which was commissioned in the fourth quarter of fiscal 2011. Product development is a key focus of EcoSynthetix as it pursues the enhancement of ECOSPHERE BIOLATEX, as well as the development of its new offerings, ECOMER and ECOSTIX, to support market expansion. We expect our research and development costs to increase as we continue to displace petrochemical polymers by further penetrating the paper and paperboard industry and expanding into new markets with our low cost, bio-based alternatives.

Share-based compensation **-** Share-based compensation was $0.24 million for the three months ended March 31, 2012 compared to $0.2 million for the same period in fiscal 2011, a slight increase of $0.04M. The increase in expense was primarily due to options issued during fiscal 2011.

Depreciation and Amortization - Depreciation of property, plant and equipment and amortization of intangible assets for the three months ended March 31, 2012 was $0.03 million compared to $0.05 million in the same period in fiscal 2011, a decrease of $0.02 million. The decrease was principally due to lower amortization of intangible assets in the current quarter compared to prior year.

Foreign currency exchange loss (gain) **-** Foreign exchange represents the revaluation of monetary assets and liabilities denominated in foreign currencies. For the three months ended March 31, 2012, we incurred a foreign exchange revaluation loss of $0.02 million compared to a foreign exchange revaluation gain of $0.05 million for the same period in fiscal 2011. The change in foreign exchange revaluation gains are primarily related to foreign exchange rate fluctuations between the U.S. dollar, which is our functional currency, and the Canadian dollar on our net monetary position in Canadian dollars.

Loss from operations – Our loss from operations for the three months ended March 31, 2012 was $3.0 million compared to a loss from operations of $0.2 million in the same period of fiscal 2011. The loss increased due to higher operating expenses and lower gross profit.

Interest income – Interest income increased from $0.02 million during the three months ended March 31, 2011 to $0.1 million in the first quarter of 2012, an increase of $0.08 million. The increase in interest income was principally due to higher cash balances during the three months ended March 31, 2012 compared to the same period in prior year primarily due to cash generated from the initial public offering on August 4, 2011.

Loss related to change in fair value of warrants and redeemable preferred shares – Prior to the initial public offering (IPO) on August 4, 2011, the Company's redeemable preferred shares and warrants were treated as financial liabilities which were measured at fair value with changes recognized directly in net income (loss). For the three months ended March 31, 2011, our loss related to these fair value changes were $55.9 million. In conjunction with the initial public offering on August 4, 2011, the Company's preferred shares were automatically converted to common shares on a one to one basis. As a result, the Company's liability relating to its preferred shares were re-classified into common shares on August 4, 2011. Furthermore, warrants to acquire preferred shares were automatically converted to warrants to acquire common shares. Accordingly, the Company's liability relating to warrants to acquire preferred shares were reclassified to a separate component of shareholders' equity. Our loss related to preferred shares and warrants for the three months ended March 31, 2012 was nil.

Net Loss – We incurred a net loss of $2.9 million or $0.05 per common share for the three months ended March 31, 2012 compared to a net loss of $56.0 million or $70.4 per common share for the same period in fiscal 2011. The decrease in net loss is primarily due to a lower loss related to the change in fair value of warrants and redeemable preferred shares partly offset by increased loss from operations.

Financial condition

	March 31, 2012	December 31, 2011	Change $	%
Total current assets	112,703,282	119,896,087	(7,192,805)	-6%
Total assets	125,403,019	130,662,211	(5,259,192)	-4%
Total current liabilities	3,566,821	6,142,668	(2,575,847)	-42%

Total current assets – Total current assets decreased from $119.9 million at December 31, 2011 to $112.7 million at March 31, 2012, a decrease of $7.2 million or 6%. The decrease was principally due to lower cash of $5.8 million attributable to cash utilized in operations and capital expenditures during the three months ended March 31, 2012.

Total assets – Total assets decreased from $130.7 million at December 31, 2011 to $125.4 million at March 31, 2012, a decrease of $5.3 million or 4%. The decrease was due to lower current assets partly offset by an increase in property, plant and equipment during the three months ended March 31, 2012. The capital asset additions in the current quarter were primarily related to the expansion of production capacity in our Tennessee facility which was announced subsequent to March 31, 2012.

Total Current Liabilities – Total current liabilities at March 31, 2012 was $3.6 million compared to $6.1 million at December 31, 2011, a decrease of $2.6 million or 42%. The decrease was principally due to lower trade payables related to capital asset expenditures and inventory purchases.

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 used in operating activities, financing activities and investing activities for the three months ended March 31, 2012 and 2011

	Three months ended March 31, 2012	2011	Change $	%
Cash provided by (used in) operating activities	(2,520,050)	488,318	(3,008,368)	-616%
Cash used in investing activities	(3,310,899)	(2,978,103)	(332,796)	11%
Cash provided by financing activities	16,147	1,203,482	(1,187,335)	-99%
Net decrease in cash	(5,814,802)	(1,286,303)	(4,528,499)	352%
Beginning cash	105,713,705	35,193,037	70,520,668	200%
Ending cash	**99,898,903**	**33,906,734**	**65,992,169**	**195%**

Cash provided by (used in) operating activities – Cash used in operating activities was $2.5 million for the three months ended March 31, 2012 compared to cash provided by operating activities of $0.5M for the same period in prior year, a decrease of $3.0 million. The decrease was due to increased loss from operations and lower cash flow from working capital.

For the three months ended March 31, 2012, working capital increased $0.1 million from December 31, 2011 as lower accounts payable and accrued liabilities were partly offset by lower accounts receivables and inventory. For the three months ended March 31, 2011, working capital decreased due to increased accounts payables and accrued liabilities partially offset by higher accounts receivable, increased inventories and lower deferred government assistance.

Cash used in investing activities – Cash used in investing activities was $3.3 million for the three months ended March 31, 2012 compared to 3.0 million for the comparable period in fiscal 2011, an increase of $0.3 million. The increase principally related to the purchases of capital equipment related to the expansion of our global production capacity to 235 million pounds which was completed during the quarter.

Cash provided by financing activities – Cash flows from financing activities during the three months ended March 31, 2012 was nil compared $1.2 million during the same period in fiscal 2011. The decrease is due to government grants received during the first quarter of 2011 that did not recur in the three months ended March 31, 2012.

Capital Management

Our objective in managing capital is to ensure sufficient liquidity to pursue our growth strategy and fund research and product development, while at the same time taking a conservative approach towards managing financial risk. Our capital is composed of common shares and the net proceeds from the issuance of common shares redeemable preferred shares. Our primary uses of capital are financing operations, increasing non-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 a 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 March 31, 2012 for operating leases.

2012	271,683
2013	362,244
2014	356,904
2015	378,318
2016	378,318
Thereafter	1,540,781
Total	3,288,248

In addition, as at March 31, 2012, we are committed to equipment purchases in the approximate amount of $0.9 million over the next twelve months. This commitment is primarily due to purchases of equipment as we continue to make additional investments in our production facilities and our Centre of Innovation (COI).

Summary of Quarterly Results

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which is the three months ended March 31, 2012. 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.

Historically, our quarterly operating results have 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.

	Three months ended (unaudited)							
	March 31, 2012	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**	**December 31, 2010**	**September 30, 2010**	**June 30, 2010**
Net sales	3,978,347	3,719,129	5,282,495	5,609,095	6,159,132	5,861,880	4,828,696	3,547,891
Gross profit	759,814	796,474	1,331,328	1,354,593	1,490,626	1,396,191	1,028,625	1,039,420
Loss from operations	(3,033,113)	(2,421,212)	(2,350,475)	(1,121,679)	(168,272)	(372,870)	(347,227)	(633,232)
Net loss	(2,939,492)	(2,345,937)	(2,288,612)	(192,018,852)	(56,054,747)	(10,899,394)	(18,236,407)	(18,991,589)
Weighted average number of shares outstanding	55,248,203	55,239,412	34,406,703	1,079,036	796,278	796,278	796,278	796,278
Basic and diluted loss per share	(0.05)	(0.04)	(0.07)	(177.95)	(70.40)	(13.69)	(22.90)	(23.85)
Adjusted EBITDA	(2,553,696)	(1,886,654)	(2,020,697)	(758,038)	171,456	27,450	71,395	(212,969)

The following table reconciles net income (loss) to Adjusted EBITDA for the three months ended:

	March 31, 2012	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**	**December 31, 2010**	**September 30, 2010**	**June 30, 2010**
Net loss	(2,939,492)	(2,345,937)	(2,288,612)	(192,018,852)	(56,054,747)	(10,899,394)	(18,236,407)	(18,991,589)
Depreciation and amortization	239,417	258,341	33,005	145,974	146,060	79,894	81,583	67,533
Share-based compensation	240,000	276,217	296,773	217,667	193,668	320,426	337,039	352,730
Change in value of warrants and preferred shares	-	-	-	190,925,114	55,904,423	10,523,868	17,901,593	18,353,699
Interest expense (income)	(93,621)	(75,275)	(61,863)	(27,941)	(17,948)	2,656	(12,413)	4,658
Adjusted EBITDA *(1)*	(2,553,696)	(1,886,654)	(2,020,697)	(758,038)	171,456	27,450	71,395	(212,969)

Notes:

(1) The common shares issued and outstanding reported prior to the initial public offering completed on August 4, 2011 have been adjusted to reflect the exchange ratio applied, being seven common shares of EcoSynthetix for one share of common share 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 net interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including both the movement in the unrealized gains and losses on the Company's redeemable preferred shares and warrants that were designated as financial liabilities prior to the IPO and share-based compensation.

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 for the three months ended March 31, 2012 was a loss of $2.6 million compared to a profit of $0.2 million in the comparable period in 2011. Adjusted EBITDA was lower due to increased operating expenses and lower gross profit.

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.

Inventory

Inventory valuation assessments are performed periodically or when indicators of impairment are present. These assessments may involve significant uncertainty and are subject to change in that they could require the use of forward looking assumptions such as estimating the amount and timing of revenues as well as projecting the likelihood of an item becoming obsolete or unusable in the future. Recognition of inventory valuation provisions may have a material impact on our net income and the value of our inventory.

Impairment of long-lived assets

Long-lived assets (including property, plant and equipment and intangible assets with definite lives) are reviewed for impairment at each reporting date to determine whether there is an indication that an asset may be impaired. If any indication exists we estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for individual assets unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and it is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate the reflects current market assessments of the time value of money and this risks specific to the asset. Asset impairment assessments involve significant uncertainty and are susceptible to change they require the use of forward looking assumptions such as sales, costs, foreign exchange rates and market growth rats. Recognition of impairment may have a material impact on our net income and the value of our long-lived assets. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, a long-lived asset or asset group is required to be tested for possible impairment.

Redeemable Preferred Shares and Warrants

Upon completion of our IPO on August 4, 2011, all of the redeemable preferred shares were automatically converted into common shares and warrants to acquire redeemable preferred shares were automatically converted to warrants to acquire common shares. As a result the Company's liability relating to redeemable preferred shares were reclassified into common shares and warrants were reclassified to a separate component of shareholders' equity (deficiency). Prior to the conversion on August 4, 2011, our redeemable preferred shares had a liability component that was designated a financial liability, and outstanding warrants that were convertible into such shares that were also designated as financial liabilities. They were measured at fair value, with changes in fair value recognized directly in earnings.

Share-based compensation

We have a share-based compensation plan which is described in note 11 to the consolidated financial statements. We account for all share-based payments using the fair value-based method.

We use a Black-Scholes option pricing model to determine fair value of share 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 share options. Share-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. On exercise of share options, the related amount in contributed surplus is transferred to common shares.

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.

Internal control over financial reporting

There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

The world needs to reduce its dependence on oil. The global economy is predicated on cheap oil and many of the consumer goods we rely on are manufactured using petroleum-based synthetic polymers. The market for these polymers uses up to 15% of global oil production every year and is worth approximately $600 billion on an annual basis. In addition, environmental and health concerns have come to the forefront not only in relation to the extraction of fossil fuels, but also in relation to their use in certain products.

We expect strong demand for our products over the coming years. Not only are we low cost relative to petroleum based latex alternatives, but we are also performance-equivalent and based on sustainable, green chemistry. It is the only case we know of where customers don't have to pay-up or trade product performance for green.

Currently, we are focused on winning market share in the $6.0 billion annual coated paper and paperboard binder market and we expect to see significant growth from this segment. This is a commodity market, which means that the low cost provider will win the largest market share. We are the low cost provider in this market already, and with consumers increasingly concerned about making sustainable decisions, our product is well positioned from an environmental standpoint as well.

In the short term, there are three primary factors that are impacting the rate of adoption. The first is that industry overcapacity has caused manufacturers to focus on rationalizing production before adopting ongoing operating cost saving measures. This industry is no stranger to capacity rationalization and we expect a shift to EcoSphere to be the first item on the agenda once this round of consolidation is complete. The second item is that this is a slow moving industry. Particularly in the Western world, mills have been working with roughly the same ingredients in their coating mixture for 50 years or more. Given the margin sensitivity of these businesses, it takes time for them to get comfortable with switching, even in the face of large potential cost savings. The third hindrance has been that what we are offering is not an exact replica of existing latexes. Our product performs the same or better than what they are already using but it takes additional sales effort and trialing time to win business because we are selling a different product than what they are used to.

We expect to see a meaningful increase in volumes in the years to come and we are prepared for this growth. During the past year, we have strengthened our sales, R&D and management teams, increased production capacity to 235 million pounds capacity and strengthened our balance sheet. We have scaled our production process and have produced and sold greater than 50 million pounds of EcoSphere biolatex to date.

We have also recently announced the shipment of our first commercial volumes of EcoSphere biolatex for use as a binder in fiberglass insulation. The global fiberglass insulation market is large, representing approximately $8.7 billion of annual revenue; in the United States, this market is concentrated in the hands of five large players, which makes it an easier market to penetrate. For EcoSynthetix, building products represents an addressable market size of approximately $1.0 billion annually and the fiberglass insulation market is a key segment of this market, which is being driven by regulation and consumer aversion to formaldehyde binders, which are the current standard.

Risk Factors

For a detailed description of the risk factors associated with the Company, refer to the "Risk Factors" section of the Annual Information Form for the fiscal year ended December 31, 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 May 14, 2012, the Company had the equivalent of 55,250,010 common shares issued and outstanding. Assuming conversion of all rights pursuant to the put/call agreement, exercise of all outstanding warrants and exercise of all outstanding share options, there would be the equivalent of 61,469,928 common shares issued and outstanding on a fully diluted basis as at May 14, 2012.