ECOSYNTHETIX®

the essence of sustainability

this is the end.

this is the end of cheap oil.

Why else do we need to drill far and deep into the ocean floor? Or try to separate it from thick, heavy sand buried hundreds of meters beneath the Earth's surface? The fact is, after more than 50 years of unprecedented consumption, the easy oil is long gone.

The result? Higher prices at the pump. Higher costs of paper, plastics and rubber—all of which have oil-based products in them, called polymers. At the start of a new millennium, we find ourselves in a difficult spot. We're addicted to cheap oil.

Our very economy in large part is predicated on it...or is it?

a new idea.

A new idea can change everything. The wheel. The printing press. The microchip. We cannot think of this world now without them. Can oil or products derived from it be replaced? It seems unimaginable.

Not anymore. A brand new idea has arrived. A bio-based polymer made from a renewable source. And it is ready to replace $60 billion of petroleum polymers. We started with natural polymers and broke them down into the very essence of their strength using nanotechnology. It's as if we had started with something the size of a basketball and ended up with something the size of a single grain of rice.

The result? Our nanoparticle polymers deliver improved or equal performance at a lower or equal cost than petroleum polymers. And, of course, significant carbon footprint reduction as well.

it works.

It's not the same as a petroleum polymer. But it does the same thing. It replaces petroleum with starch as a source material. The applications are almost endless.

Paper producers use it to add gloss and strength to paper and cardboard without any loss of performance. It's also in cosmetics, like hair gel, and building materials, like insulation. After 17 years in the lab, in pilot tests, in field tests. After $70 million in dream capital. Our special polymer has arrived and is already replacing petroleum polymers, without a single drop of crude.

it's practical.

Big ideas only have impact when they lead to change. Like it or not, idealism has to be cost-effective. We get it. While our special polymer is remarkable, it's also lower cost. Why? To make it, we don't need to build plants that cost a lot. And when we're making it, we don't have to stop and start. Continuous-flow manufacturing is what it's called.

Add it all up and it means we can deliver a green product to our clients while saving them some green at the same time.

it's real.

When something works. When it's affordable—more affordable in fact than any alternative. When it's also better for the planet, you're onto something. That is why we have **not one but four** manufacturing lines around the world with capacity to produce 235 million pounds of our nanoparticle polymer per year. That is why four of the largest global paper companies are using our polymer right now. That is why investors just entrusted us with $100 million, the largest clean-tech IPO ever on the TSX. That's why we are growing.

in the field.

it works

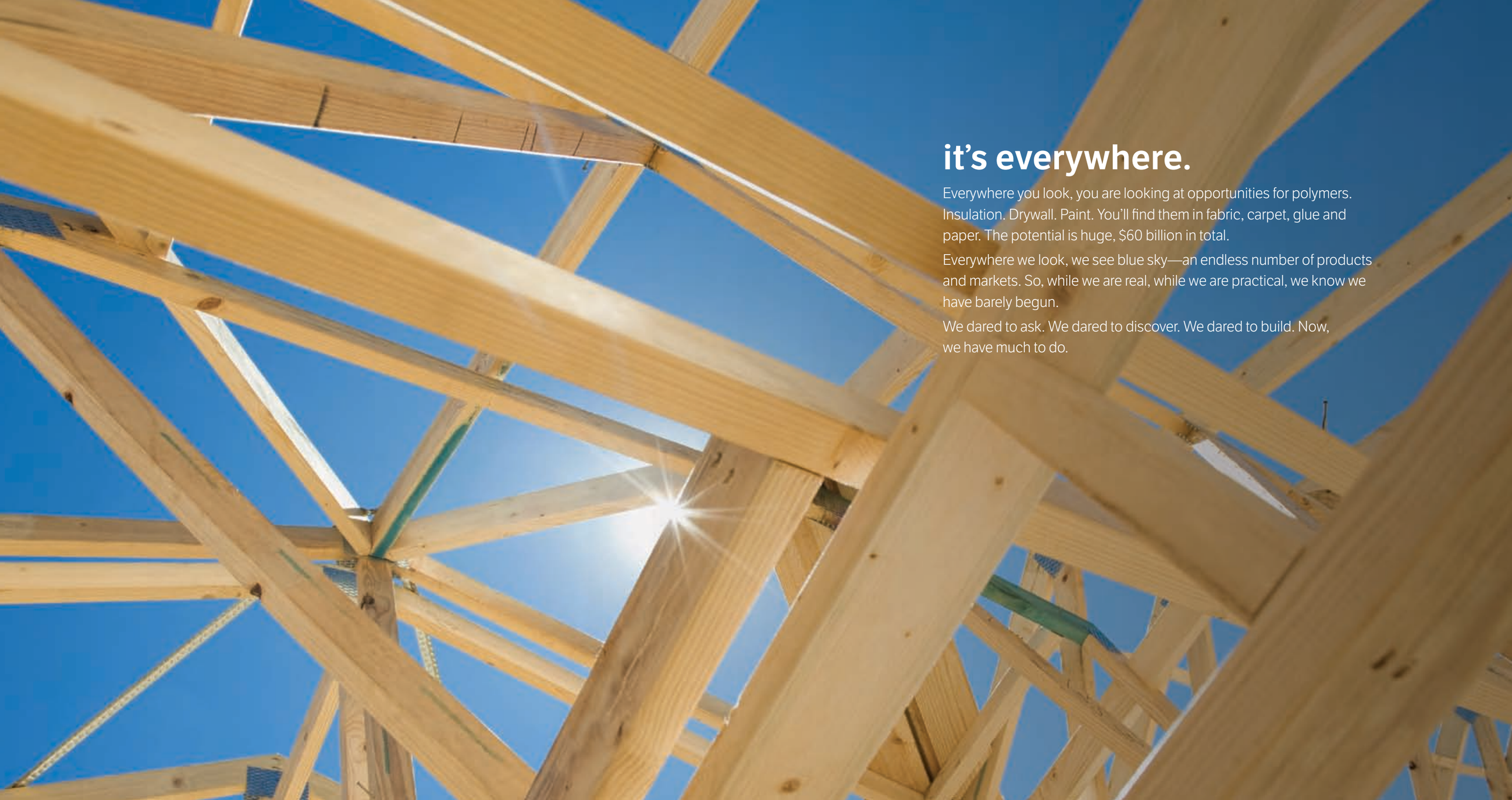
Independent testing shows that our product functions as well or better than petroleum polymers. But the proof is on the loading dock. It's in our repeat business. In 2009, we commercialized our biolatex product at a top 20 paper producer. Today, we are selling into three of their mill facilities and conducting mill trials with many other clients.

it's practical

In a commodity market, the low cost provider wins market share. In 2011, we won nine new customers in a cost-focused industry. Our successful business model demonstrates that we can deliver cost savings for customers and value for shareholders. That's what we call a win-win.

it's real

You can't win a commercial customer with an idea. You need to demonstrate your performance and economic benefit. You need experts from the field telling your story. In the past three years, we have attracted the best and the brightest from the petrochemicals industry. Performance. Economics. People. That's why we've already sold over 50 million pounds of our polymer.



it's everywhere.

Everywhere you look, you are looking at opportunities for polymers. Insulation. Drywall. Paint. You'll find them in fabric, carpet, glue and paper. The potential is huge, $60 billion in total.

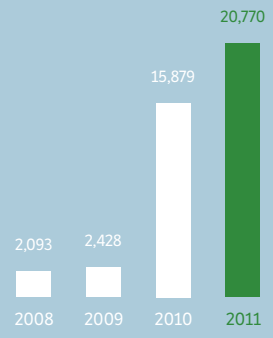
Everywhere we look, we see blue sky—an endless number of products and markets. So, while we are real, while we are practical, we know we have barely begun.

We dared to ask. We dared to discover. We dared to build. Now, we have much to do.


this is just the beginning.

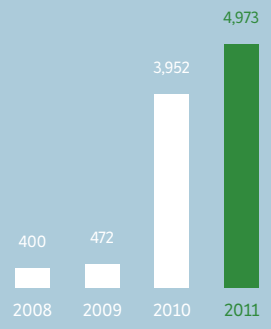
Financial Highlights

Revenue ($ 000)



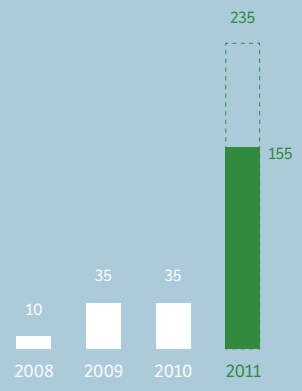
31%
Increase in revenue YOY

Gross Profit ($ 000)



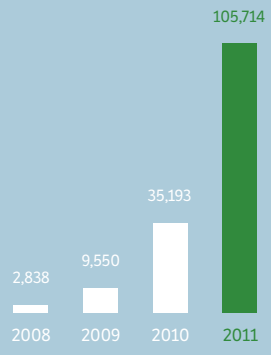
26%
Increase in gross profit YOY

Production Capacity (mm lb)



235mm
Pounds of capacity
as of March 2012

Ending Cash Balance ($ 000)



$105.7mm
In cash as of December 31, 2011

Operational Highlights

- Completed an IPO on the TSX, which raised over $100 million in additional capital to fund growth.
- Added 120 million pounds of production capacity, bringing company-wide capacity to 155 million pounds at year-end.
- Commissioned a state-of-the-art pilot production line at the Burlington Centre of Innovation to accelerate product prototyping and sales activities.
- Won nine new mill customers during the year.
- Grew R&D and sales headcount by approximately 50% to accelerate product development and drive sales penetration in new and existing markets.
- Commercial with four of the top 20 coated paper and paperboard manufacturers in the world and trialing with an additional 10.

Dear fellow shareholders,

Seventeen years ago, with oil at $20 per barrel, we started this company with the idea that we could produce sustainable alternatives to petroleum-based polymers. We knew at that time that our product would be better for the environment, but we also knew that if we couldn't find a way to be cost competitive, we would never experience the breakout growth that would allow our products to make a real difference in the world at large.

Now, with oil trading at over $100 per barrel and petrochemical derivatives reaching for new highs, the need for alternatives is stronger than ever. Whether oil companies look to the oil sands, deep sea drilling or politically risky environments to grow production, **the cheap oil is gone**. This is a problem for more than the price of gasoline. Paper, packaging, insulation, personal care products, adhesives, inks, toners, paints and many more of the products we rely on every day are produced using petroleum-based polymers. These polymers consume up to 15% of global oil production each year and the market for them is worth approximately $600 billion annually. For those with the creativity and capability to develop viable alternatives, the substitution potential is enormous.

EcoSynthetix has a low cost, bio-based solution **that is working today**.

What started **as an idea** has become a proprietary technology that is competing head-to-head with petroleum-based polymers and winning on both performance and cost. This is what we call revolutionary rather than evolutionary. Our polymers are already successfully replacing petroleum-based products in a growing number of industrial applications and we are generating commercial revenue. We sold over $20 million worth of product in 2011 compared with roughly $2 million in 2008. We have sold well over 50 million pounds of our flagship product EcoSphere® biolatex® polymers since commercialization, making us one of the fastest growing technology companies in North America.

During 2011, we continued to gain traction in the $5.6 billion coated paper and paperboard binder market. This is a commodity market, which means that the low cost provider will ultimately win the largest market share. It is also a conservative industry where companies have been using more or less the same coating formulations for the better part of 50 years. While the substitution hurdles are high in this market segment, our successful commercial track record confirms our value proposition and demonstrates that the marketplace wants and needs these new alternative bio-based products. We expect to sell significantly more volume into this market in the future, because none of our competitors can match our price advantage while maintaining the strong performance and sustainability benefits that we offer.

This year, we continued to demonstrate that **our value proposition is both real and compelling** by winning nine new mills and conducting over 90 mill trials. The top 20 paper and paperboard manufacturers control over half of industry volume and we are engaged with the majority of them. Four of the global top 20 have already become our commercial customers and 10 more are currently conducting mill trials with our product. While it takes time for a conservative industry to warm up to new ideas, the repeat orders we see year after year from our current customers prove that once a company switches to EcoSphere®, the tendency is to look for ways to use more throughout their organization.

This is just the beginning. Based on our two existing technology platforms alone, our addressable market is worth $60 billion annually. During 2011, we concentrated on building our production and staffing levels to be able to produce at a far higher level than what we are currently delivering. In October, we commissioned a state-of-the-art pilot production line in our Burlington facility. This line will help us accelerate product development for new markets and will also allow us to rapidly prototype new variations of existing products to fulfill additional customer demands. We recruited a number of sales professionals this year with significant experience in either the petrochemical industry or directly within our target end markets. These individuals are out in the field every day familiarizing potential customers with the cost savings and performance benefits we can bring to their operations.

We are successfully entering new markets and winning business with our bio-based polymers. In March, we announced that EcoSynthetix was selling commercial quantities of a new EcoSphere® product designed to meet the needs of the insulation market. Globally, the fiberglass insulation market is worth approximately $8.7 billion annually, which translates into an addressable binder market of roughly $1.0 billion. This market is similar to the paper and paperboard market since capacity is highly consolidated, making it easier to win market share with a streamlined, highly knowledgeable salesforce. Regulation is forcing manufacturers to reduce formaldehyde content in their insulation products and this represents a very powerful driver towards performance-equivalent green solutions. Our product allows manufacturers to retain the integrity of their product and cost parity with competitive offerings, while gaining a significant environmental advantage.

In preparation for much higher demand, we have grown production capacity to 235 million pounds, which is a significant increase from the 35 million pounds that we had in place at the end of 2010. While we are still at an early stage in our development, the revolutionary nature of our products and our mill trial activity suggests that it pays to prepare for demand early. The opportunity cost of not building capacity now is high and our capital light business model allows us the flexibility to be prepared. We strongly feel it is only a matter of time before large-scale adoption in multiple markets takes hold and we are now well positioned for it.

This is an exciting time for EcoSynthetix. We are successfully winning market share from petroleum-based products on a head-to-head basis, **without subsidies**. We have built our organization from a production and personnel standpoint to handle far higher volumes than what we are currently delivering. With a highly experienced sales force in place and traction in three large markets, we have never been more optimistic about the prospects for our company than we are today.

John van Leeuwen,
Chairman & CEO

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

The following management's discussion and analysis ("**MD&A**") dated March 7, 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 audited annual consolidated financial statements. 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". All references to "Fiscal 2009" and "Fiscal 2010" are to EcoSynthetix U.S.' year ended December 31, 2009 and 2010, respectively. 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 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 March 7, 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.

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. During the fiscal year-ended December 31, 2011, the Company recognized approximately $10.8 million of share issuance costs in equity 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 Cdn$9.00 per share. On September 12, 2011 the Company

announced that the underwriters had purchased an additional 300,000 common shares of the Company at a price of Cdn$9.00 per share. The Company did not receive any proceeds from the sale of these additional shares.

In connection with the offering, EcoSynthetix U.S., which previously owned, either directly or indirectly, through its subsidiaries, all of the asset and operations relating to the EcoSynthetix business, was acquired by EcoSynthetix Inc. (Ontario) through an acquisition of 77% of the outstanding shares of common stock of EcoSynthetix U.S. 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 Company's preferred shares were automatically converted to common shares. 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 will be automatically converted to warrants to acquire common shares. As a result, the Company's liability relating to warrants to acquire preferred shares was re-classified into a separate component of shareholders' equity on August 4, 2011.

On August 4, 2011 the Company completed a share exchange of its issued and outstanding common shares in conjunction with its initial public offering resulting in a ratio of seven post-exchange shares for every 1 pre-exchange share. The Company has amended the disclosures in the consolidated financial statements to reflect the share exchange as if it had occurred on December 31, 2009.

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 $4 million. The indemnity is terminated on the date that is five years following the closing date. The Company has assessed the likelihood of incurring a liability as remote and accordingly has not recorded a provision as at December 31, 2011.

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 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 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. During 2011, we have conducted approximately 90 mill trials with approximately 50 potential customers, of which 9 mills have become customers during the year. Since entering commercial production, we have achieved significant sales growth. Our lead product, ECOSPHERE BIOLATEX binders, is used commercially by 4 of the global top 20 manufacturers in the coated paper and paperboard industry and an additional 10 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.

Cost of sales and gross profit

Our gross profit is derived from our net sales less our cost of sales. Cost of sales include 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 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 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. During the year we observed a significant increase in the cost of cornstarch, which is increasing the manufacturing cost of our products.

Results of operations

The following is a summary of selected consolidated annual information extracted from the Company's audited consolidated financial statements over the latest three year period.

	Fiscal year-ended December 31		
	2011	**2010**	**2009**
Net sales	20,769,851	15,879,080	2,428,052
Gross Profit	4,973,021	3,951,995	472,457
Operating expenses	11,034,659	5,893,328	4,231,201
Loss from operations	(6,061,638)	(1,941,333)	(3,758,744)
Net loss	(252,708,148)	(49,194,031)	(13,987,090)
Basic and diluted loss per share	(10.93)	(61.78)	(21.32)
Total current assets	119,896,087	40,977,830	11,519,400
Total assets	130,662,211	42,712,214	12,245,604
Total current liabilities	6,142,668	5,096,128	2,428,704
Total non-current financial liabilities	-	136,697,726	64,643,764

Fiscal year ended December 31, 2011 compared to fiscal year ended December 31, 2010

Net Sales – In fiscal 2011 net sales were $20.8 million compared to $15.9 million in fiscal 2010, an increase of $4.9 million or 31%. 25% of this sales increase was generated from the commercialization of nine new mills in 2011. From a geographic perspective, sales increased $3.6 million in North America, $1.0 million in Latin America and $0.6 million in EMEA. These increases were partially offset by lower sales in Asia Pacific of $0.3 million. Price increases and higher sales volume in North America, Latin America and EMEA offset lower sales volume experienced in Asia Pacific in fiscal 2011 compared to the prior year. Lower sales volume in Asia Pacific was primarily due to a major customer that has reduced their raw material inventories and general market weakness in the paper and paper board industry.

The paper industry continues to face severe challenges due to high raw material costs and overcapacity. As a result, one of our commercial mills from a global top 20 coated paper and paperboard manufacturer was closed during the year. These industry challenges have made cost cutting a primary focus for coated paper and paperboard manufacturers which we believe over time will play directly into our value proposition.

Gross profit – Gross profit in fiscal 2011 was $5.0 million or 23.9% of sales compared to $4.0 million or 24.9% of sales in fiscal 2010, an increase of $1.0 million or 25.8%. The increase in gross profit was primarily due to sales price increases and higher sales volume partially offset by an increase in raw material input costs primarily related to cornstarch. The decrease in gross profit as a percentage of sales was primarily due to sales price increases, which were more than offset by higher raw material input costs and depreciation expenses related to manufacturing equipment. Depreciation related to manufacturing equipment is expected to increase in 2012 reflecting the full year effect of equipment purchases related to our production facility expansions in the Netherlands and in Tennessee. Gross profit adjusted for non-cash items (manufacturing depreciation) as a percentage of sales was 25.5% in fiscal 2011 compared to 26.3% in fiscal 2010.

Operating Expenses

The following table sets forth the breakdown of our operating expenses by category in fiscal 2011 compared to fiscal 2010:

	Fiscal year-ended December 31		**Change**	
	2011	**2010**	**$**	**%**
Selling, general and administrative[1]	7,320,603	3,689,095	3,631,508	98%
Research and development	2,516,360	1,051,810	1,464,550	139%
Share-based compensation	984,325	1,095,911	(111,586)	-10%
Depreciation and amortization	249,872	122,460	127,412	104%
Foreign exchange loss (gain)	(36,501)	(65,948)	29,447	-45%
Total operating expenses	11,034,659	5,893,328	5,141,331	87%

[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 operating expenses in fiscal 2011 were $11.0 million compared to $5.9 million in fiscal 2010, an increase of $5.1 million or 87%. The increase in total operating expenses was principally due to an increase in selling, general and administrative expenses and research and development costs. The increase in total operating expenses is consistent with the growth in the business and reflects our continued investment in developing sales, marketing and research and development capabilities.

Selling, general and administrative[1] **-** Selling, general and administrative costs increased $3.6 million or 98% from $3.7 million in fiscal 2010 to $7.3 million in fiscal 2011. The increase was principally due to higher salaries and benefits and office administration costs associated with increased headcount compared to the prior year. Our headcount increased 80% in fiscal 2011 compared to fiscal 2010. In addition, we incurred increased professional costs associated with operating as a public company.

Overall selling, general and administration activities are expected to increase as the Company grows and as we incur costs related to corporate governance, internal controls and similar requirements applicable to public companies.

Research and development **–** Research and development costs were $2.5 million in fiscal 2011 compared to $1.1 million in fiscal 2010, an increase of $1.5 million or 139%. The increase represents continued investment in research and development net of higher levels of government assistance. 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. In 2011 we commissioned a new pilot production line at our Centre of Innovation (COI) in Burlington. The pilot plant is being used for research and development purposes to support new product development. 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 alternative.

Share-based compensation - Share-based compensation was $1.0 million in fiscal 2011 compared to $1.1 million in the prior year, a slight decrease of $0.1 million. In 2010 we incurred $0.8 million of share-based compensation expense related to stock options provided to the guarantors of a liability to purchase an annuity related to a key employee. This expense did not recur in fiscal 2011. This was partially offset by an increase in share-based compensation expense related to stock options issued in the current fiscal year.

Depreciation and Amortization - Depreciation of property, plant and equipment and amortization of intangible assets in fiscal 2011 was $0.2 million compared to $0.1 million in fiscal 2010, an increase of $0.1 million or 104%. The increase was primarily related to higher amortization of intangible assets in addition to depreciation related to equipment located at the Company's Center of Innovation (COI) which was commissioned in the fourth quarter of 2011.

Foreign currency exchange loss (gain) - Foreign exchange represents the revaluation of monetary assets and liabilities denominated in foreign currencies. In fiscal 2011 foreign exchange revaluation gains were $0.04 million compared to foreign exchange revaluation gains of $0.07 million in prior year. The change in foreign exchange revaluation gains are primarily related to foreign exchange rate fluctuations between the U.S. dollar (our functional currency) and the Canadian dollar on our net monetary position in Canadian dollars.

Loss from operations – Our loss from operations in fiscal 2011 was $6.1 million compared to $1.9 million in fiscal 2010, an increase of $4.1 million. The increase in loss from operations was due to increased operating expenses, partially offset by higher gross profit.

Interest income – Interest income increased $0.18 million from $0.007 million in fiscal 2010 to $0.18 million in fiscal 2011. The increase in interest income was principally due to higher cash balances during 2011 resulting from the initial public offering on August 4, 2011 compared to our cash balances during fiscal 2010.

Loss related to change in fair value of warrants and redeemable preferred shares - 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 previous liability relating to warrants to acquire preferred shares are included as a separate component of shareholders' equity as at December 31, 2011. Prior to the initial public offering on August 4, 2011, the redeemable preferred shares and warrants were designated as financial liabilities. They were measured at fair value with the changes in fair value recognized directly in earnings. In fiscal 2011, our loss related to warrants and preferred shares was $246.8 million compared to $47.3 million in the prior year.

Net Loss - We incurred a net loss of $252.7 million or $10.93 per common share in fiscal 2011 compared to a net loss of $49.2 million or $61.78 per common share in fiscal 2010. The increase in net loss is principally due to a higher loss related to the change in fair value of warrants and redeemable preferred shares and increased operating expenses partly offset by higher gross profit.

Fiscal year ended December 31, 2010 compared to fiscal year ended December 31, 2009

Net Sales - Net sales in fiscal 2010 were $15.9 million compared to $2.4 million in fiscal 2009, an increase of $13.5 million. The increase was a result of increased shipments to existing customers and $12.2 million of shipments to new customers in fiscal 2010. The 2010 net sales growth was a result of successfully converting a high number of customer evaluations into commercial production, and we expect the conversion of current and future product evaluations into commercial production will be a continuous source of growth for us.

Gross profit - Gross profit in fiscal 2010 was $4.0 million or 24.9% of net sales, compared to $0.5 million or 19.4% of net sales in fiscal 2009. The increase in gross profit was the result of increased net sales of $13.5 million during fiscal 2010 compared to fiscal 2009. The increase in gross profit as a percent of net sales in fiscal 2010 over fiscal 2009 is primarily the result of improved production efficiencies from higher production volumes and higher sale prices.

Operating Expenses - The following table sets forth the breakdown of our operating expenses by category and the change from fiscal 2009 to 2010:

	Fiscal year-ended December 31		Change	
	2010	**2009**	**$**	**%**
Selling, general and administrative[1]	3,689,095	2,608,007	1,081,088	41%
Research and development	1,051,810	1,143,180	(91,370)	-8%
Share-based compensation	1,095,911	439,434	656,477	149%
Depreciation and amortization	122,460	74,135	48,325	65%
Foreign exchange loss (gain)	(65,948)	(33,555)	(32,393)	97%
Total operating expenses	5,893,328	4,231,201	1,662,127	39%

[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)*

Overall operating expenses in fiscal 2010 increased 39%, or $1.7 million, to $5.9 million compared to $4.2 million over the same period in fiscal 2009. The significant increase in operating expenses is primarily due to the increase in the number of employees as well as higher stock based compensation expense as described below. Our average employee count grew 63% in 2010 compared to 2009. The increase in operating expenses is consistent with the growth in the business and reflects our investment in sales and marketing capabilities.

Selling, general and administrative — Selling, general and administrative costs increased 41% or $1.1 million to $3.7 million in fiscal 2010 to compared to $2.6 million in fiscal 2009. The increase from the prior year reflects the growth in the average employee count dedicated to selling and administration activities as required due to the growth of the business.

Research and development — Research and development expenses, declined 8%, or $0.1 million to $1.1 million in fiscal 2010 compared to fiscal 2009. The decline represented higher levels of assistance from government agencies during the year. Our research and development is focused on developing new products and significantly enhancing our existing products.

Stock based compensation — Stock based compensation increased $0.7 million to $1.1 million in fiscal 2010 compared to $0.4 million in fiscal 2009. We were required to purchase an annuity in 2011 in the amount equal to a pension that a key employee would have received from a former employer had he continued his employment with that employer. We have limited our obligations under this agreement to a maximum pension payment limit of Cdn$1,000,000 (US$1,005,371). The Chief Executive Officer and a major shareholder (collectively the "guarantors") issued respective guarantees to the employee, guaranteeing among other matters, that if the required pension payment exceeded our pension payment limit, the guarantors would personally pay the excess to this employee on the basis that the guarantors would share the key employee's stock options with the company in proportion to the amount of the pension payment contribution made by each. In fiscal 2010, the Company incurred $750,000 of stock based compensation for the stock options provided to the guarantors of the liability.

Depreciation and amortization — Depreciation and amortization of property and equipment in fiscal 2010 was $0.12 million, compared to $0.07 million for the same period in fiscal 2009, representing an increase of 65%. The increase in amortization is due to our overall growth in infrastructure to support the growth of our business which required the acquisition of machinery and equipment during 2010 of $2.5 million compared to 2009 of $0.2 million.

Foreign currency exchange gain/loss — In fiscal 2010 our foreign exchange gain was $0.07 million compared to $0.03 million in the previous year. The change in the foreign exchange impact was the result of significant fluctuations in exchange rates between the U.S. dollar (our functional currency) and the Canadian dollar. From the end of fiscal 2009 to the end of fiscal 2010, the U.S. dollar weakened by approximately 6% against the Canadian dollar from Cdn$1.05 to Cdn$0.99, which resulted in a foreign exchange gain on some of our working capital balances such as Canadian dollar cash and Canadian dollar government assistance receivable.

Loss from operations - We reported a loss from operations of $1.9 million in fiscal 2010 compared to $3.8 million in fiscal 2009. The $1.8 million decrease in loss from operations was primarily due to significant growth in revenues and gross profit offset by increases in selling and administrative costs.

Interest income and other finance charges, net - Net interest income and other finance charges, net was $6,901 in fiscal 2010 compared to $4,645 in the previous year, representing an increase of 49%. The increase was primarily a result of higher average cash and cash equivalent balances.

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 year ended December 31, 2010 our loss related to change in fair value of warrants and redeemable preferred shares was $47.3 million compared to $10.2 million in the previous year as a result of increased fair values of the warrants and preferred shares.

Net Loss - We reported net loss and comprehensive loss of $49.2 million or $61.78 per common share (basic and fully diluted), in fiscal 2010 compared to a loss of $14.0 million, or $21.32 per share (basic and fully diluted), in fiscal 2009. The $35.2 million increase in net loss was mainly due to the loss related to change in fair value of warrants and redeemable preferred shares, and offset by the lower loss from operations.

Financial condition

Fiscal year ended December 31, 2011 compared to fiscal year ended December 31, 2010

Total current assets – Total current assets increased $78.9 million from $41.0 million at December 31, 2010 to $119.9 million at December 31, 2011. The increase was mainly due to an increase in cash of $70.5 million principally due to the proceeds received from the IPO on August 4, 2011 and an increase in inventories of $8.3 million.

Total assets – Total assets at December 31, 2011 were $130.7 million compared to $42.7 million at December 31, 2010, an increase of $88.0 million. The increase was primarily due to higher current assets of $78.9 million and an increase in property, plant and equipment as we continued to invest in our COI facility in Burlington, Ontario and additional production lines in Tennessee and The Netherlands. These investments are further described under the 'liquidity and capital resources' section.

Total current liabilities – Total current liabilities increased from $5.1 million at December 31, 2010 to $6.1 million at December 31, 2011, an increase of $1.0 million. The increase is primarily due to increased trade payables related to equipment purchases, partly offset by lower liabilities related to deferred government grants and accrued compensation. As at December 31, 2010, we were required to purchase an annuity of $1.0 million which was settled during 2011.

Total long-term liabilities – Long-term liabilities as at December 31, 2011 were nil compared to long-term liabilities of $136.7 million as at December 31, 2010. As noted earlier, in conjunction with the IPO, our redeemable preferred shares were converted to common shares and our warrants excercisable for preferred shares were converted to warrants excercisable for common shares. Accordingly, the liability with respect to the redeemable preferred shares were reclassified to common shares and the warrants excercisable for common shares (previously for preferred shares) were reclassified to a component of shareholders' equity.

Fiscal year ended December 31, 2010 compared to fiscal year ended December 31, 2009

Total Current Assets - Total current assets increased by $29.5 million from $11.5 million at December 31, 2009 to $41.0 million at December 31, 2010. This increase is mainly attributable to a financing completed in November of 2010 resulting in net cash proceeds of $28.4 million as well as an increase in accounts receivable and inventory.

Total Assets - Total assets increased by $30.5 million from $12.2 million at December 31, 2009 to $42.7 million at December 31, 2010. This increase is mainly attributable to a financing completed in November of 2010 resulting in cash proceeds of $28.4 million as well as an increase in working capital items, and machinery and equipment.

Total Current Liabilities - Total current liabilities increased $2.7 million from $2.4 million at December 31, 2009 to $5.1 million at December 31, 2010. This increase was mainly due to a significant increase in the purchases of machinery and equipment mainly for the Center of Innovation during the fourth quarter of 2010 as well as increases in the number of employees year over year.

Total Long-Term Liabilities - We have redeemable preferred shares that have a financial liability component and warrants that are treated as financial liabilities. The December 31, 2009 to December 31, 2010 increase in long-term liabilities of $72.1 million was mainly due to the changes in the fair value of the redeemable preferred shares and warrants of $47.3 million and issuance of the additional redeemable preferred shares of $28.4 million. These changes resulted in an ending balance of $136.7 million as at December 31, 2010 compared to $64.6 million as at December 31, 2009.

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 fiscal year ended December 31, 2011 and 2010:

	Fiscal year-ended December 31		Change	
	2011	2010	$	%
Cash used in operating activities	(13,776,207)	(1,635,154)	(12,141,053)	743%
Cash used in investing activities	(10,012,325)	(2,535,582)	(7,476,743)	295%
Cash provided by financing activities	94,309,200	29,813,639	64,495,561	216%
Net increase in cash	70,520,668	25,642,903	44,877,765	175%
Beginning cash	35,193,037	9,550,134	25,642,903	269%
Ending cash	105,713,705	35,193,037	70,520,668	200%

Cash used in operating activities – In fiscal 2011, $13.8 million of cash was utilized in operating activities compared to $1.6 million in the previous year, an increase of $12.1 million. The increase in utilization of cash in operations was principally due to higher investments in working capital and increased loss from operations.

During fiscal 2011, working capital increased $9.5 million compared to a working capital increase of $1.1 million in fiscal 2010. The increase in working capital in fiscal 2011 was primarily attributable to an increase in inventory of $8.3 million from $2.0 million as at December 31, 2010 to $10.2 million as at December 31, 2011 in addition to a reduction in accrued compensation of $1.0 million.

In fiscal 2010, the working capital increase was primarily related to an increase in accounts receivable, inventory and government assistance receivable partially offset by higher accounts payable and accrued liabilities. The increase in accounts receivable was due to a higher amount of sales recognized in December 2010 compared to December 2009. The increase in accounts payable and accrued liabilities was primarily due to higher trade payables as a result of increased purchases of property, plant and equipment and raw materials inventory.

Cash used in investing activities – Cash used in investing activities during fiscal 2011 was $10.0 million compared to $2.5 million during fiscal 2010, an increase of $7.5 million. The increase was due to purchases of capital equipment as we continue to make additional investments in our production capacity and our research facility which was completed during 2011. We have made significant investments to expand our production facilities. In the first quarter of 2011 we commissioned a European facility in the Netherlands with an annualized capacity of 40 million pounds. Subsequent to this initial increase in annualized capacity, we announced on November 4, 2011 the commissioning of a new 80 million pound (annualized) production line within the existing facility in the Netherlands, bringing the Company's current annualized capacity to 155 million pounds. In addition we are commissioning an additional 80 million pound production line at our operating facility in Tennessee increasing total annualized operating capacity to 235 million pounds. Having additional capacity puts us in a stronger position as we build our customer base globally.

Cash provided by financing activities – Cash flows from financing activities during fiscal 2011 were $94.3 million compared to $29.8 million during fiscal 2010, an increase of $64.5 million. The increase was due to proceeds received on the issuance of common shares, net of share issuance costs, through the initial public offering (IPO) on August 4, 2011 and government grants in association with our COI. In 2010 we raised proceeds of $28.4 million on the issuance of preferred shares which were subsequently converted to common shares upon completion of the IPO in 2011.

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 December 31, 2011 for operating leases.

2012	362,244
2013	362,244
2014	356,904
2015	378,318
2016	378,318
Thereafter	1,450,220
Total	3,288,248

In addition, as at December 31, 2011, 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.

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 December 31, 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.

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)							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Net sales	3,719,129	5,282,495	5,609,095	6,159,132	5,861,880	4,828,696	3,547,891	1,640,613
Gross profit	796,474	1,331,328	1,354,593	1,490,626	1,396,191	1,028,625	1,039,420	487,759
Loss from operations	(2,421,212)	(2,350,475)	(1,121,679)	(168,272)	(372,870)	(347,227)	(633,232)	(588,004)
Net loss	(2,345,937)	(2,288,612)	(192,018,852)	(56,054,747)	(10,899,394)	(18,236,407)	(18,991,589)	(1,066,641)
Weighted average number of shares outstanding	55,239,412	34,406,703	1,079,036	796,278	796,278	796,278	796,278	796,278
Basic and diluted loss per share	(0.04)	(0.07)	(177.95)	(70.40)	(13.69)	(22.90)	(23.85)	(1.34)
Adjusted EBITDA	(1,886,654)	(2,020,697)	(758,038)	171,456	27,450	71,395	(212,969)	(379,828)

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

	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Net loss & comprehensive loss	(2,345,937)	(2,288,612)	(192,018,852)	(56,054,747)	(10,899,394)	(18,236,407)	(18,991,589)	(1,066,641)
Depreciation and amortization	258,341	33,005	145,974	146,060	79,894	81,583	67,533	122,460
Share-based compensation	276,217	296,773	217,667	193,668	320,426	337,039	352,730	85,716
Change in value of warrants and preferred shares	-	-	190,925,114	55,904,423	10,523,868	17,901,593	18,353,699	480,439
Interest expense (income)	(75,275)	(61,863)	(27,941)	(17,948)	2,656	(12,413)	4,658	(1,802)
Adjusted EBITDA *(1)*	(1,886,654)	(2,020,697)	(758,038)	171,456	27,450	71,395	(212,969)	(379,828)

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 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.

Fourth Quarter Results

	Three months ended		Change	
	December 31, 2011	December 31, 2010	$	%
Net sales	3,719,129	5,861,880	(2,142,751)	-37%
Gross profit	796,474	1,396,191	(599,717)	-43%
Loss from operations	(2,421,212)	(372,870)	(2,048,342)	549%
Net loss	(2,345,937)	(10,899,394)	8,553,457	-78%
Weighted average number of shares outstanding	55,239,412	796,278	54,443,134	6837%
Basic and diluted loss per share	(0.04)	(13.69)	13.65	-100%
Adjusted EBITDA	(1,886,654)	27,450	(1,914,104)	-6973%

Net sales – Sales in the fourth quarter of 2011 decreased $2.1 million from $5.9 million in the fourth quarter of 2010 to $3.7 million. From a geographic perspective, sales increased $0.9 million, $0.5 million and $0.3 million in North America, Latin America and EMEA, respectively. In addition, a new customer added to the continued market growth in Latin America in the fourth quarter of 2011. These increases were more than offset by lower sales volume in Asia Pacific of $3.8 million. Price increases and higher sales volume in North America, Latin America and EMEA helped mitigate the lower sales volume experienced in Asia Pacific in the fourth quarter of 2011 compared to the same period last year. The lower year-over-year sales volume experienced in Asia Pacific is primarily related to a major customer that has reduced their raw material inventories and general market weakness in the paper and paper board industry.

Gross profit – Gross profit decreased from $1.4 million or 23.8% sales in the fourth quarter of 2010 to $0.8 million or 21.4% of sales in the fourth quarter of 2011, a decrease of $0.6 million or 43%. The decrease in gross profit and decline in gross profit as a percentage of sales is primarily due to lower sales volume, increased raw material input costs related to corn starch and higher depreciation expense related to manufacturing equipment. These decreases were partially offset by an increase in sales prices. Depreciation related to manufacturing equipment is expected to increase in 2012 reflecting the full year effect of equipment purchases related to our production facility expansions in The Netherlands and in Tennessee. Gross profit adjusted for non-cash items (manufacturing depreciation) as a percentage of sales was 25.2% in the fourth quarter of 2011 compared to 24.9 % in 2010.

Operating Expenses

The following table sets forth the breakdown of our operating expenses by category for the fourth quarter of 2011 compared to the fourth quarter of 2010:

	Three months ended		Change	
	December 31, 2011	December 31, 2010	$	%
Selling, general and administrative[1]	1,843,284	1,133,144	710,140	63%
Research and development	1,088,845	313,757	775,088	247%
Share-based compensation	276,217	320,426	(44,209)	-14%
Depreciation and amortization	117,872	13,561	104,311	769%
Foreign exchange loss (gain)	(108,532)	(11,827)	(96,705)	818%
Total operating expenses	3,217,686	1,769,061	1,448,625	82%

[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 operating expenses in the fourth quarter of 2011 were $3.2 million compared to $1.8 million for the same period in 2010, an increase of $1.4 million. The increase was principally due to higher selling, general and administration costs and research and development costs. The increase in total operating expenses is consistent with the growth in the business and reflects our continued investment in developing sales, marketing and research and development capabilities.

Selling, general and administrative[1] **–** Selling, general and administration expenses increased $0.7 million from $1.1 million in the fourth quarter of 2010 to $1.8 million in the fourth quarter of 2011. The increase was primarily due to higher salaries and benefits, professional fees and other administration costs directly related to the increase in headcount.

Research and development – Research and development costs were $1.1 million in the fourth quarter of 2011 compared to $0.3 million for the same period in prior year, an increase of $0.8 million. In the fourth quarter of 2010 we recognized approximately $0.3 million of government grants against research and development costs which did not recur in the fourth quarter of 2011. The balance of the increase in research and development costs represents our ongoing investment in further penetrating the paper and paperboard industry and efforts to expand into new markets, as we continue to displace petrochemical polymers with our low cost, bio-based alternative.

Share-based compensation - Share-based compensation was $0.28 million in the fourth quarter of 2011 compared to $0.32 million in the same period last year, a decrease of $0.04 million or 14%. The slight decrease was due to additional share-based compensation expense incurred in 2010 related to stock options provided to the guarantors of a liability to purchase an annuity related to a key employee. This expense did not recur in fiscal 2011. This was partially offset by an increase in share-based compensation related to stock options issued in the current fiscal year.

Depreciation and Amortization - Depreciation of property, plant and equipment and amortization of intangible assets in the fourth quarter of 2011 was $0.1 million compared to $0.01 million in the same period in prior year. The increase was primarily related to an increase in amortization of intangible assets and increase in depreciation expense of equipment related to the COI, which was commissioned in the fourth quarter of 2011.

Foreign currency exchange loss (gain) **-** Foreign exchange represents the revaluation of monetary assets and liabilities denominated in foreign currencies. In the fourth quarter of 2011 foreign exchange revaluation gains were $0.1 million compared to foreign exchange revaluation gains of $0.01 million. The change in foreign exchange revaluation gains in the fourth quarter of 2011 compared to the same period in prior year were primarily related to foreign exchange rate fluctuations between the U.S. dollar (our functional currency) and the Canadian dollar on our net monetary position in Canadian dollars.

Loss from operations – Our loss from operations in the fourth quarter of 2011 was $2.4 million compared to a loss from operations in the same period in prior year of $0.4 million, an increase of $2.0 million. The increase was due to higher operating expenses and lower gross profit.

Interest income – Interest income in the fourth quarter of 2011 was $0.1 million compared to nil in the fourth quarter of 2010. The increase in interest income is due to higher cash balances during the fourth quarter in 2011 compared to the same period in 2010.

Loss related to change in fair value of warrants and redeemable preferred shares - 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 was 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 previous liability relating to warrants to acquire preferred shares are included as a separate component of shareholders' equity as at August 4, 2011. Prior to the initial public offering on August 4, 2011, the redeemable preferred shares and warrants were designated as financial liabilities. They were measured at fair value with the changes in fair value recognized directly in earnings. As a result the change in the fair value of warrants and preferred shares was nil in the fourth quarter of 2011 compared to a loss of $10.5 million in the fourth quarter of 2010.

Net Loss – We incurred a net loss of $2.3 million or ($0.04) per common share in the fourth quarter of 2011 compared to a net loss of $10.9 million or ($13.69) per common share in the fourth quarter of 2010. The decrease in net loss of $8.6 million was principally due to a lower loss related to the change in fair value of warrants and redeemable preferred shares partly offset by an increase in operating expenses and lower gross profit.

Liquidity

Below is a summary of our cash flows from (used in) operating activities, financing activities and investing activities for the three months ended December 31, 2011 and 2010:

	Three months ended December 31		Change	
	2011	2010	$	%
Cash provided by (used in) operating activities	(2,782,135)	281,106	(3,063,241)	-1090%
Cash used in investing activities	(3,766,427)	(866,608)	(2,899,819)	335%
Cash provided by financing activities	15,454	29,166,183	(29,150,729)	-100%
Net increase in cash	(6,533,108)	28,580,681	(35,113,789)	-123%
Beginning cash	112,246,813	6,612,356	105,634,457	1598%
Ending cash	105,713,705	35,193,037	70,520,668	200%

Cash provided by (used in) operating activities – Cash used in operations in the fourth quarter of 2011 was $2.8 million compared to cash provided by operating activities of $0.3 million, a decrease in cash provided by operations of $3.1 million. The decrease was principally due to a higher loss from operations of $2.0 million and higher investment in working capital of $1.0 million in the fourth quarter of 2011 compared to cash provided by working capital of $0.3 million over the same period in 2010.

For the three months ended December 31, 2011, the increase in working capital was due to increased inventory partially offset by lower accounts receivable. Accounts receivable decreased principally due to lower trade receivables and commodity taxes receivable.

For the three months ended December 31, 2010, working capital decreased principally due to increased government assistance receivable, higher inventory and accounts receivable more than offset by higher accounts payable and accrued liabilities and deferred government assistance.

Cash used in investing activities – Cash used in investing activities increased from $0.9 million in the fourth quarter of 2010 to $3.8 million in the fourth quarter of 2011, an increase of $2.9 million. The increase was due to purchases of capital equipment as we continue to make additional investments in our production capacity and our research facility which was completed during 2011. We have made significant investments to expand our production facilities. On November 4, 2011 we announced the commissioning of a new 80 million pound (annualized) production line within the existing facility in The Netherlands, bringing the Company's current annualized capacity to 155 million pounds. In addition an additional 80 million pound production line is being commissioned at our operating facility in Tennessee, which will increase total annualized operating capacity to 235 million pounds. Having additional capacity puts us in a stronger position as we build our customer base globally.

Cash provided by financing activities – Cash provided by financing activities in the fourth quarter of 2011 was $0.01 million compared to $29.2 million in the fourth quarter of 2010 which was generated through the issuance of preferred shares which were subsequently converted to common shares upon completion of the IPO in 2011.

Adjusted EBITDA

Adjusted EBITDA in the fourth quarter of 2011 was a loss of $1.9 million compared to a profit of $0.03 million in the fourth quarter of 2010. The decrease in adjusted EBITDA is primarily due to higher 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 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 14 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

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosures. Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

As required by National Instrument 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings), the Executive Chairman, as Chief Executive Officer and the Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of such internal controls over financial reporting using the framework as established by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2011.

In designing such controls, it should be noted that due to inherent limitations, any controls, no matter how well designed and operated can provide reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally management is necessarily required to use judgment in evaluating controls and procedures.

There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2011 that have materially affected, or are reasonable 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 $5.6 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 2011 we strengthened our sales, R&D and management teams, added 120 million pounds of 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, this represents an addressable market size of approximately $1.0 billion annually and it is being strongly 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 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 March 7, 2012, the Company had the equivalent of 55,248,260 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 61,370,159 common shares issued and outstanding on a fully diluted basis as at March 7, 2012.

EcoSynthetix Inc.

Consolidated Financial Statements
December 31, 2011
(expressed in US dollars)

March 7, 2012

Independent Auditor's Report

To the Shareholders of
EcoSynthetix Inc.

We have audited the accompanying consolidated financial statements of EcoSynthetix Inc. and its subsidiaries, which comprise the consolidated balance sheets at December 31, 2011 and 2010 and the consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency) and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, Chartered Accountants
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EcoSynthetix Inc. and its subsidiaries at December 31, 2011 and 2010 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

EcoSynthetix Inc.

Consolidated Balance Sheets

At December 31

(expressed in US dollars)

	2011	2010
Assets		
Current assets		
Cash	105,713,705	35,193,037
Accounts receivable (note 5)	3,116,445	2,739,570
Inventory (note 6)	10,243,410	1,990,383
Government grants receivable (note 7)	639,685	973,751
Prepaid expenses	182,842	81,089
	119,896,087	40,977,830
Non-current assets		
Intangible assets (note 8)	-	44,315
Property, plant and equipment (note 9)	10,766,124	1,690,069
Total assets	130,662,211	42,712,214
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	6,142,668	3,603,796
Deferred government grant (note 7)	-	486,961
Accrued compensation	-	1,005,371
	6,142,668	5,096,128
Non-current liabilities		
Redeemable preferred shares (note 11)	-	135,196,431
Warrants (note 11)	-	1,501,295
Total liabilities	6,142,668	141,793,854
Shareholders' Equity (Deficiency)		
Common shares (note 14)	492,353,321	143,213
Equity component of redeemable preferred shares (note 11)	-	19,793,287
Contributed surplus	6,073,080	2,180,570
Accumulated deficit	(373,906,858)	(121,198,710)
Total shareholders' equity (deficiency)	124,519,543	(99,081,640)
Total shareholders' equity (deficiency) and liabilities	130,662,211	42,712,214

Approved by the Board of Directors

(Signed) John van Leeuwen, Director

(Signed) John E. Barker, Director

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

EcoSynthetix Inc.

Consolidated Statements Operations and Comprehensive Loss

For the years ended December 31

(expressed in US dollars, unless otherwise noted)

	2011	2010
Net sales	20,769,851	15,879,080
Cost of sales	15,796,830	11,927,085
Gross profit on sales	4,973,021	3,951,995
Expenses		
Selling, general and administrative	8,518,299	4,841,518
Research and development	2,516,360	1,051,810
	11,034,659	5,893,328
Loss from operations	(6,061,638)	(1,941,333)
Interest income	183,027	6,901
Loss related to change in value of warrants and redeemable preferred shares (note 11)	(246,829,537)	(47,259,599)
Net loss and comprehensive loss	(252,708,148)	(49,194,031)
Basic and diluted loss per common share (note 19)	(10.93)	(61.78)
Weighted average number of common shares outstanding (note 19)	23,125,647	796,278

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

EcoSynthetix Inc.

Consolidated Statements of Shareholders' Equity (Deficiency)

For the years ended December 31

(expressed in US dollars)

	Common shares	Equity component of redeemable preferred shares	Contributed surplus	Accumulated deficit	Total
Balance - January 1, 2010	143,213	15,949,943	1,084,659	(72,004,679)	(54,826,864)
Preferred share warrants exercised	-	3,843,344	-	-	3,843,344
Share-based compensation	-	-	1,095,911	-	1,095,911
Net loss and comprehensive loss	-	-	-	(49,194,031)	(49,194,031)
Balance - December 31, 2010	143,213	19,793,287	2,180,570	(121,198,710)	(99,081,640)
Balance - January 1, 2011	143,213	19,793,287	2,180,570	(121,198,710)	(99,081,640)
Issuance of common shares - net of share issuance costs	91,658,551	-	-	-	91,658,551
Conversion of preferred shares and warrants	400,055,391	(19,793,287)	3,265,161	-	383,527,265
Warrants exercised	334,649	-	(305,155)	-	29,494
Common share options exercised	161,517	-	(51,821)	-	109,696
Share-based compensation	-	-	984,325	-	984,325
Net loss and comprehensive loss	-	-	-	(252,708,148)	(252,708,148)
Balance - December 31, 2011	492,353,321	-	6,073,080	(373,906,858)	124,519,543

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

EcoSynthetix Inc.

Consolidated Statements of Cash Flows

For the years ended December 31

(expressed in US dollars)

	2011	2010
Cash provided by (used in)		
Operating activities		
Net loss	(252,708,148)	(49,194,031)
Items not affecting cash		
Depreciation and amortization	583,380	351,470
Share-based compensation (note 13)	984,325	1,095,911
Change in value of warrants and redeemable preferred shares	246,829,537	47,259,599
Changes in non-cash working capital		
Accounts receivable	(376,875)	(1,722,598)
Inventory	(8,055,027)	(1,075,867)
Government grants receivable (note 7)	334,066	(973,751)
Prepaid expenses	(101,753)	(43,311)
Accounts payable and accrued liabilities	226,620	2,126,420
Accrued compensation	(1,005,371)	54,043
Deferred government assistance	(486,961)	486,961
	(13,776,207)	(1,635,154)
Investing activities		
Purchase of intangible assets and property and equipment (notes 8 and 9)	(10,012,325)	(2,535,582)
Financing activities		
Common share issuance costs (note 14)	(10,792,531)	-
Issuance of common shares (note 14)	102,451,082	-
Exercise of stock options	109,696	-
Exercise of common share warrants	29,494	-
Exercise of preferred share warrants	-	232,456
Proceeds from issuance of preferred shares, net of transaction costs (note 11)	-	28,405,251
Increase in government grant (note 7)	2,511,459	1,175,932
	94,309,200	29,813,639
Increase in cash during the year	70,520,668	25,642,903
Cash - Beginning of year	35,193,037	9,550,134
Cash - End of year	105,713,705	35,193,037
Non-cash financing activities		
Conversion of redeemable preferred shares and related warrants to common shares	383,527,263	-

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

(expressed in US dollars, unless otherwise noted)

1 Business operations

EcoSynthetix Inc. (EcoSynthetix or the company) is engaged in the development and commercialization of ecologically friendly, bio-based technologies as replacement solutions for synthetic, petrochemical-based adhesives and other related products in North America, Latin America, Europe, Middle East and Africa (EMEA), and Asia Pacific. EcoSynthetix is incorporated and domiciled in Canada. The address of its registered office is 3365 Mainway, Burlington, Ontario, Canada.

2 Summary of significant accounting policies

Basis of preparation and adoption of International Financial Reporting Standards (IFRS)

Statement of compliance

These consolidated financial statements have been authorized for issuance by the board of directors of the company on March 7, 2012.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except that financial instruments at fair value through profit or loss (FVTPL) are measured at fair value, and liabilities for share-based payment arrangements are measured at fair value.

Use of estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates are based on management's best knowledge of current events and actions that the company may undertake in the future. Actual results may differ from those estimates.

Significant estimates made by the company include estimates of share-based compensation, valuation of redeemable preferred shares and related warrants, potentially uncollectible accounts receivable, provisions for inventory that are carried in excess of net realizable value, and the realizability of deferred income tax assets.

Basis of consolidation

The financial statements of the company consolidate the accounts of EcoSynthetix and all of its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities controlled by the company.

(expressed in US dollars, unless otherwise noted)

Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each consolidated entity in the company's consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the company's reporting currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign currency exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an organization's functional currency are recognized in the consolidated statements of operations and comprehensive loss.

Cash

Cash consists of cash on hand and deposits held with banks.

Trade receivables

Trade receivables are amounts due from customers for products sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for impairment.

Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously.

(expressed in US dollars, unless otherwise noted)

At initial recognition, the company classifies its financial instruments in the following categories, depending on the purpose for which the financial instruments were acquired:

i) Financial assets and financial liabilities at FVTPL

A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of operations and comprehensive loss within other gains and losses in the year in which they arise. Financial assets and financial liabilities at FVTPL are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet dates, which is classified as non-current.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise trade receivables and cash and cash equivalents and are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet dates, which is classified as non-current. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

iii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include trade payables and term debt. Trade and other payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost, using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Derivative financial instruments

Derivatives are classified as held-for-trading, and are classified as current or non-current based on the contractual terms specific to the instrument. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value, with changes being recorded in the consolidated statements of operations and comprehensive loss.

(expressed in US dollars, unless otherwise noted)

Impairment of financial assets

At each reporting date, the company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the company recognizes an impairment loss on financial assets carried at amortized cost as follows. The loss is the difference between the amortized cost of the receivable and the present value of the estimated future cash flows, discounted using the financial instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent years if the amount of the loss decreases and the decrease can be related objectively to an event's occurring after the impairment was recognized.

Inventory

Raw materials, work-in-process and finished goods are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Inventory costs include the costs of material, labour, variable overhead and an allocation of fixed manufacturing overhead, including depreciation based on normal production volumes. Net realizable value is the estimated selling price less applicable selling expenses.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of operations and comprehensive loss during the year in which they are incurred.

Depreciation is calculated on a straight-line method to reduce the cost of the asset to its residual value over its estimated useful life. The depreciation rates applicable to each category of property, plant and equipment are as follows:

Leasehold improvements	remaining lease term
Computer hardware	3 years
Machinery and equipment	2 to 10 years

Useful lives and residual values are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the consolidated statements of operations and comprehensive loss.

(expressed in US dollars, unless otherwise noted)

Intangible assets

Computer software costs are amortized on a straight-line basis over their estimated useful lives, which are approximately three years.

Impairment of non-financial assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets that have been impaired previously are reviewed for possible reversal of impairment at each reporting date.

Provisions

Provisions are recognized when the company has a present legal or constructing obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Redeemable preferred shares

The company's redeemable preferred shares are compound financial instruments. The liability component of the redeemable preferred shares is recognized initially at the fair value of a similar liability. The equity conversion option is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. In conjunction with the initial public offering (the offering) on August 4, 2011, the redeemable preferred shares and related warrants were automatically converted to common shares.

Research and product development costs

Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are expensed as incurred, unless they meet the capitalization criteria of International Accounting Standard (IAS) 38, Intangible Assets.

Government grants

Government grants include funding for government research and product development support. Research and product development funding is recognized when there is reasonable assurance that the company has complied

(expressed in US dollars, unless otherwise noted)

with the conditions attached to the funding arrangement and is recognized as the applicable costs are incurred. Research and product development funding is presented as a reduction in research and product development expenses, unless it is for reimbursement of an asset, in which case, it is accounted for as a reduction in the carrying amount of the applicable asset.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the company and delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. These criteria are generally met at the time the product is shipped and risk and rewards have passed to the customer. Revenue is measured based on the price specified in the sales contract, net of discounts and estimated returns at the time of sale. Historical experience is used to estimate and provide for discounts and returns.

Cost of sales

Cost of sales includes costs related to shipping and handling and the cost of the finished goods inventory.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity (deficiency). The company has classified all outstanding exchangeable shares of its subsidiaries as issued and outstanding of the parent company.

Share-based compensation

The company grants share options to certain employees, advisers and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Income taxes

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations and comprehensive loss, except to the extent that they relate to items recognized directly in shareholders' equity (deficiency), in which case the income taxes are also recognized directly in shareholders' equity (deficiency).

Current income taxes are the expected income taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years.

In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

(expressed in US dollars, unless otherwise noted)

Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the consolidated balance sheet dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Loss per share

Basic loss per common share is calculated based on the weighted average number of common shares outstanding for the year. Diluted loss per common share is calculated using the weighted average number of common shares outstanding for the year for basic net loss per common share plus the weighted average number of potential dilutive common shares that would have been outstanding during the year had potentially all common shares been issued at the beginning of the year or when the underlying share options or warrants were granted, if later, unless they were anti-dilutive.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease (net of any incentives received from the lessor) are recognized in the consolidated statements of operations and comprehensive loss on a straight-line basis over the period of the lease.

Operating segments

The company operates in one operating segment and is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The chief executive officer has authority for resource allocation and assessment of the company's performance and is, therefore, the CODM.

(expressed in US dollars, unless otherwise noted)

3 Risk management and financial instruments

Financial instruments are classified into one of the following categories: held-for-trading; held-to-maturity; available-for-sale; loans and receivables; and other financial liabilities. The following table summarizes information regarding the carrying amounts of the company's financial instruments:

	2011	2010
Loans and receivables (i)	108,830,150	37,932,607
Other financial liabilities (ii) - amortized cost	6,142,668	4,609,167
Other financial liabilities (iii) - FVTPL	-	136,697,726

i) Includes cash and cash equivalents and accounts receivable
ii) Includes financial liabilities included within accounts payable and accrued liabilities and accrued compensation
iii) Includes redeemable preferred shares and warrants

Liquidity

The company has sustained losses and negative cash flows from operations since its inception. Liquidity risk is the risk that the company will encounter difficulty in meeting its financial obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The company is exposed to significant liquidity risk as it continues to have net cash outflows to support its operations. The company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. The company achieves this by maintaining sufficient cash and cash equivalents. The company monitors its financial position on a monthly basis and updates its expected use of cash resources based on the latest available data. The company's accounts payable and accrued liabilities will be paid within the next 12 months.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The company is exposed to credit risk from customers. At December 31, 2011, the company's two largest customers accounted for 52% (2010 - 47%) of accounts receivable. In order to minimize the risk of loss for trade receivables, the company's extension of credit to customers involves a review and approval by senior management. The majority of the company's sales are invoiced with payment terms between 20 and 60 days. The company's objective is to minimize its exposure to credit risk from customers in order to prevent losses on financial assets by performing regular monitoring of overdue balances and to provide an allowance for potentially uncollectible accounts receivable.

The company's trade receivables have a carrying amount of $2,510,783 at December 31, 2011 (2010 - $2,687,877), representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within 20 to 60 days. An insignificant number of these receivables were past due at December 31, 2011. The company's exposure to credit risk for trade receivables by geographic area at December 31 was as follows:

(expressed in US dollars, unless otherwise noted)

	2011 %	2010 %
North America	29	11
Latin America	21	13
EMEA	7	-
Asia Pacific	43	76
	100	100

The company believes the credit quality is high for trade receivables, which are neither past due nor impaired, based on prior experience of collections of accounts within 0-60 days of billing.

The company may also have credit risk relating to cash, which it manages by dealing with large chartered Canadian and US banks. The company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investments in lower risk deposits of these chartered banks. The company's cash carrying amount is $105,713,705 at December 31, 2011 (2010 - $35,193,037), representing the maximum exposure to credit risk of these financial assets. Approximately 99% (2010 - 99%) of the company's cash at December 31, 2011 was held by one financial institution. The company's exposure to credit risk relating to cash segmented by geographic area at December 31 was as follows:

	2011 %	2010 %
Canada	98.5	99.0
United States of America	1.0	1.0
The Netherlands	0.5	-
	100.0	100.0

Foreign currency risk

Foreign currency risk arises because of fluctuations in foreign currency exchange rates. The company conducts a significant portion of its business activities in currencies other than the functional currency of the parent company (US dollars). This primarily includes Canadian dollar transactions. The company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by converting foreign denominated financial assets into US dollars to the extent practical to match the obligations of its financial liabilities. Financial assets and financial liabilities denominated in foreign currencies will be affected by changes in the exchange rate between the functional currency and these foreign currencies. This primarily includes cash, accounts receivable and trade payables, which are denominated in foreign currencies. The company recognized foreign currency exchange gains in the years ended December 31, 2011 and 2010 of $36,501 and $65,948, respectively.

If a shift in the Canadian dollar relative to the US dollar of 10% were to occur, the foreign currency exchange gain or loss on the net financial assets could be plus or minus $34,084 (2010 - $245,140) due to exchange rate fluctuations and this amount would be recorded in the consolidated statements of operations and comprehensive loss.

(expressed in US dollars, unless otherwise noted)

If a shift in the euro relative to the US dollar of 10% were to occur, the exchange gain or loss on the net financial assets would be nominal (2010 - $48,393) due to exchange rate fluctuations and this amount would be recorded in the consolidated statements of operations and comprehensive loss.

Interest rate risk

Interest rate risk arises because of the fluctuation in market interest rates. The company's objective in managing interest rate risk is to maximize the return on its cash and restricted cash. The company is subject to interest rate risk on its cash. The company is not subject to interest rate risk on the redeemable preferred shares, as these have a fixed interest rate. If a shift in interest rates of 10% were to occur, the impact on the consolidated statements of operations and comprehensive loss for the year is not significant.

Fair value

The carrying amounts of cash, accounts receivable and trade payables approximate their fair values given their short-term nature.

Fair value measurement recognized in the consolidated balance sheets

Financial instruments that are measured at fair value are grouped into levels 1 to 3, based on the degree to which their fair value is observable.

- Level 1 - Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities.
- Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the financial asset or financial liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the financial asset or financial liability that are not based on observable market data (unobservable inputs).

The redeemable preferred shares and warrants of the company are measured at fair value at the end of each reporting period and are categorized as level 3, based on the degree to which their fair value is observable. There were no transfers between levels 1 and 2 during the year. The company's redeemable preferred shares were automatically converted into common shares in connection with the offering on August 4, 2011.

4 Capital management

The company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund research and product development, while at the same time, taking a conservative approach toward financial leverage and management of financial risk. The company's capital is composed of the net cash received related to common shares, preferred shares, warrants and shareholder option exercises. The total capital at December 31, 2011 is $158,959,227 (2010 - $67,161,486). The company's primary uses of capital are financing operations, increasing non-cash working capital and capital expenditures. The company currently funds these

(expressed in US dollars, unless otherwise noted)

requirements from existing cash resources and cash raised through share issuances. The company's objectives when managing capital are to ensure the company will continue to have enough liquidity so that it can provide its products and services to its customers and returns to its shareholders. The company monitors its capital on the basis of the adequacy of its cash resources to fund its business plan. In order to maximize the capacity to finance the company's ongoing growth, the company does not currently pay a dividend to holders of its common shares.

5 Accounts receivable

	2011	2010
Trade accounts receivable - net	2,510,783	2,687,877
Commodity taxes receivable	605,662	51,693
	3,116,445	2,739,570

The company has recorded a $82,000 provision for bad debts at December 31, 2011, which is included in trade accounts receivable - net. No provisions for bad debts were recognized at December 31, 2010.

The aging of accounts receivable at each reporting date was as follows:

	2011	2010
Current	2,671,616	1,508,745
Past due 1-30 days	357,782	1,196,200
Past due 31-60 days	34,309	765
Past due 61-90 days	6,498	-
Past due greater than 91 days	46,240	33,860
Balance at December 31	3,116,445	2,739,570

6 Inventory

	2011	2010
Raw materials	994,440	1,379,736
Finished goods	9,248,970	610,647
	10,243,410	1,990,383

7 Government grants

The company has a forgivable loan agreement with the Province of Ontario under its Innovation Demonstration Fund Program (Ontario) (IDF), pursuant to which, Ontario will provide a forgivable loan up to a maximum of approximately $3.1 million for a specific technology demonstration project. This loan is forgivable in the event no conditions of default have occurred, the technology is not commercialized outside the Province of Ontario and various other documentation requirements. Management has determined that there is reasonable assurance that the company will comply with these conditions and, therefore, has recognized this forgivable

(expressed in US dollars, unless otherwise noted)

loan as a government grant receivable at December 31, 2011. The loan is collateralized by a general security agreement over all of the assets of EcoSynthetix Corporation, a subsidiary company, and by the company's guarantee. In the event that the company is required to repay this funding, the company will be obligated to repay the funding plus interest charged at a rate of 4.55% per annum.

The company also has a non-repayable government grant agreement with the Canadian federal government's Sustainable Development Technology Fund (the Fund or SDTF), pursuant to which the Fund will provide up to a maximum of approximately $1.7 million for a specific research and demonstration project.

The company has recognized the maximum total amount of government incentives of $4.8 million under the IDF and SDTF programs, of which $2.5 million (2010 - $1.2 million) was recorded against capital expenditures and $0.7 million (2010 - $0.3 million) was recorded against operating expenses during 2011. At December 31, 2011, the company has collected $4.1 million and expects to receive the remaining $0.7 million in the next 12 months.

8 Intangible assets

The composition of the net carrying amount of the company's intangible assets is presented in the following table:

	Computer software
Cost	
December 31, 2010	129,684
Additions	65,157
December 31, 2011	194,841
Accumulated depreciation	
December 31, 2010	(85,369)
Amortization	(109,472)
	(194,841)
Carrying amount	
December 31, 2010	44,315
December 31, 2011	-

Amortization expense has been charged to selling, general and administrative.

(expressed in US dollars, unless otherwise noted)

9 Property, plant and equipment

The composition of the net carrying amount of the company's property, plant and equipment is presented in the following table:

	Machinery and equipment	Leasehold improvements	Computer hardware	Construction-in-process and deposits placed on property and equipment	Total
Cost					
January 1, 2010	946,095	-	39,454	-	985,549
Additions	1,085,701	-	336,295	1,401,689	2,523,685
Government grants	-	-	-	(1,175,932)	(1,175,932)
January 1, 2011	2,031,796	-	75,749	225,757	2,333,302
Additions	(865,220)	91,009	67,366	10,454,808	9,747,963
Transfers	6,653,237	680,783	-	(7,334,020)	-
December 31, 2011	7,819,813	771,792	143,115	3,346,545	12,081,265
Accumulated depreciation					
January 1, 2010	(302,339)	-	(32,500)	-	(334,839)
Additions	(308,394)	-	-	-	(308,394)
January 1, 2011	(610,733)	-	(32,500)	-	(643,233)
Depreciation expense	(560,083)	(75,547)	(36,278)	-	(671,908)
December 31, 2011	(1,170,816)	(75,547)	(68,778)	-	(1,315,141)
Net carrying amount					
December 31, 2010	1,421,063	-	43,249	225,757	1,690,069
December 31, 2011	6,648,997	696,245	74,337	3,346,545	10,766,124

The company incurred $9.7 million in capital asset additions for the year ended December 31, 2011, net of $2.5 million in government grants. The additions primarily relate to both the manufacturing equipment required for the company's production expansion and the company's research and development facility in Burlington, Ontario. Approximately $2.3 million of capital asset additions were included in accounts payable and accrued liabilities at December 31, 2011.

10 Trade payables and accrued liabilities

	2011	2010
Trade payables	4,335,632	2,659,378
Accrued liabilities	1,807,036	944,418
	6,142,668	3,603,796

(expressed in US dollars, unless otherwise noted)

11 Redeemable preferred shares

The movement of redeemable preferred shares for the years ended December 31, 2011 and 2010 are as follows:

	Series A-3-C preferred shares	Series A-3-B preferred shares	Series A-3-A preferred shares	Series A-2 preferred shares	Series A-1 preferred shares	Total
Opening balance - January 1, 2010	-	7,867,030	9,794,813	17,517,172	28,562,130	63,741,145
Issuances	24,799,363	-	79,400	-	-	24,878,763
Charges	2,055,437	2,593,656	4,206,466	14,183,562	23,537,402	46,576,523
Closing balance - December 31, 2010	26,854,800	10,460,686	14,080,679	31,700,734	52,099,532	135,196,431
Opening balance - January 1, 2011	26,854,800	10,460,686	14,080,679	31,700,734	52,099,532	135,196,431
Issuances	-	2,464,560	-	-	-	2,464,560
Charges	24,324,893	14,568,254	24,598,765	67,448,022	111,661,177	242,601,111
Conversion to equity	(51,179,693)	(27,493,500)	(38,679,444)	(99,148,756)	(163,760,709)	(380,262,102)
Closing balance - December 31, 2011	-	-	-	-	-	-

On June 30, 2011, the company issued 273,841 Series A-3-B preferred shares to certain holders of the company's preferred shares for $nil. The preferred shares were issued pursuant to the original A-3-B preferred share agreement, whereby if the company did not complete a qualified event by June 30, 2011, the Series A-3-B preferred shares would be issued. The company has expensed $2,464,560 in the year ended December 31, 2011 related to this issuance. The expense is included in the consolidated statements of operations and comprehensive loss, loss related to warrants and redeemable preferred shares.

Charges related to the warrants for the years ended December 31, 2011 and 2010 were $1,763,865 and $683,076, respectively.

On August 4, 2011, the company's redeemable preferred shares were automatically converted into common shares in connection with the offering. Further, 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 was reclassified into common shares and warrants were reclassified to a separate component of shareholders' equity (deficiency).

12 Related party transactions

Key management personnel includes those individuals having authority and responsibility for planning, directing and controlling the activities of the company directly or indirectly. Key management personnel includes the directors, chief executive officer, chief financial officer and other key members of the executive team. The compensation paid or payable to key management personnel for employee services is shown below:

(expressed in US dollars, unless otherwise noted)

	2011	2010
Salaries and other short-term employee benefits	1,797,249	1,433,855
Share-based payments	666,873	240,738
	2,464,122	1,674,593

13 Common share options

The company has issued share options to employees, directors, officers, advisers and consultants under its two share option plans. The 2001 plan is an incentive share option plan, which provides for granting incentive share options, as defined under current income tax laws for common shares. The share options are exercisable at fixed prices established at the date of the grant. The 2003 plan provides for granting both incentive share options and non-statutory stock options, as determined by the administrator, at the date of the grant. Employees and officers become vested in their share option rights at a rate of 25% per year, following the date of the grant of the share options. Certain share option agreements also have accelerated vesting periods in the event of a sale of the company or change of control. Vested share options may be exercised at any time before the expiration date. These share options expire ten years from the date of the grant or later if extended further by the board of directors in accordance with the terms of the plans.

At December 31, 2011, the company had outstanding share options to purchase 5,837,640 common shares of the company. The share options expire at various dates through August 31, 2020.

	Number of share options outstanding	Weighted average exercise price
Outstanding - December 31, 2010	5,741,484	0.36
Share options cancelled	-	-
Share options granted	981,453	3.00
Share options exercised	(885,297)	(0.12)
Outstanding - December 31, 2011	5,837,640	0.80

The weighted average contractual life of the outstanding share options at December 31, 2011 is 3.02 years (2010 - 3.35 years). The total number of share options exercisable at December 31, 2011 is 4,158,257 (2010 - 4,499,572), which have a weighted average exercise price of $0.31 (2010 - $0.21) per share.

	Number
Range of exercise prices	
$0.01 - $0.50	2,897,048
$0.56 - $1.00	1,702,717
$1.01 - $10.00	1,237,875
	5,837,640

(expressed in US dollars, unless otherwise noted)

For the years ended December 31, the company determined the fair values of share options using the Black-Scholes option pricing model with the following assumptions for share option grants:

	2011	2010
Expected dividend yield	-	-
Risk-free interest rate	1.2% to 2.2%	1.40% to 1.80%
Expected share option life (in years)	5	5
Volatility	50% - 70%	70%

The aggregate fair value of share options granted during the year is $1,681,376 (2010 - $191,967). The weighted average fair value of the share options is $1.72 (2010 - $0.71) per share.

For the year ended December 31, 2011, expected volatility is based on a review of historical volatilities for the company and similar publicly listed companies.

The expected share option life is based on the employees' historical exercise behaviour.

The risk-free interest rate used for each grant is equal to the US Treasury's yield curve and Canadian treasury bill rates in effect at the date of grant for instruments with a term similar to the expected life of the related share option.

14 Common shares

	2011	2010
Common shares (unlimited number of shares authorized, 55,242,741 (2010 - 796,278) shares issued and outstanding)	492,353,321	143,213

On August 4, 2011, the company completed its offering by issuing 11,150,000 common shares at a price of CA$9.00 per share, for aggregate gross proceeds of CA$100,350,000, subject to the terms of an underwriting agreement.

The company granted to the underwriters of the offering 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. On September 12, 2011, the company announced that the underwriters had purchased an additional 300,000 common shares of the company at a price of CA$9.00 per share, pursuant to the partial exercise of the over-allotment option granted to the underwriters in connection with the offering, discussed above. The company did not receive any proceeds from the sale of these additional shares.

Concurrent with the closing of the offering, the company acquired 77% of the issued and outstanding common shares of EcoSynthetix US in exchange for 33,640,663 common shares of the company, assuming no exercise of the over-allotment option. The remaining 23% of the outstanding common shares of the company continue to be held by certain securityholders of the company that are US holders (the retained interest holders).

(expressed in US dollars, unless otherwise noted)

Pursuant to a put/call agreement entered into by the company and the retained interest holders, the retained interest holders will be entitled to sell their common shares of EcoSynthetix US and common shares of EcoSynthetix US issued on exercise of warrants (the covered shares) to the company at any time prior to the date that is five years following the closing of the offering (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 that occurs prior to the put expiry date. The shares held by the retained interest holders have been presented on an as "exchanged basis" as outstanding common shares of the company effective August 4, 2011.

Share exchange

On August 4, 2011, the company completed a share exchange of its issued and outstanding common shares with EcoSynthetix (EcoSynthetix US) in conjunction with the offering with a ratio of seven post-exchange shares for every one pre-exchange share. The company has amended the disclosures in the consolidated financial statements to reflect the share exchange as if it had occurred on January 1, 2010.

Conversion of redeemable preferred shares to common shares and related warrants

On August 4, 2011, the company's redeemable preferred shares were automatically converted into common shares in connection with the offering. Further, 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 was reclassified into common shares and warrants were reclassified to a component of shareholders' equity (deficiency).

Outstanding warrants

During the year ended December 31, 2011, 37,240 warrants were exercised into common shares, generating proceeds of $29,494. At December 31, 2011, the company had outstanding warrants for the purchase of 361,228 common shares of the company, exercisable at $0.81 per share. These shares are exercisable up to February 28, 2014.

(expressed in US dollars, unless otherwise noted)

15 Income taxes

The difference between income tax expense and the income taxes, as computed, based on the statutory rate, is as follows:

	2011	2010
Net loss before income taxes	(252,708,148)	(49,194,031)
Income tax benefit at statutory rate	(66,335,889)	(16,725,971)
Cost (benefit) resulting from		
Redeemable preferred share losses, net of foreign tax rate differential	65,277,327	15,941,108
Research and development credit	(212,000)	(58,226)
Income tax assets expired	100,000	218,000
Valuation allowance and other	1,170,562	625,089
Income tax expense	-	-

Estimated temporary differences in the timing of recognition of expenses for accounting and income tax purposes at December 31 result in deferred income taxes as follows:

	2011	2010
Estimated deferred income tax assets attributable to		
Net operating loss carry-forwards	11,583,331	9,253,243
Research and development credits	934,869	602,030
Deferred compensation and other	2,575,614	486,700
Deferred income tax assets	15,093,814	10,341,973
Valuation allowance	(15,093,814)	(10,341,973)
Net deferred income tax assets	-	-

(expressed in US dollars, unless otherwise noted)

The estimated net operating loss carry-forwards and estimated research and development credits expire as follows:

	United States of America		Canada and the Netherlands	Canada
	Net operating loss carry-forwards	Research and development credits	Net operating loss carry-forwards	Research and development credits
Year ending December 31,				
2012	-	-	74,101	-
2013	-	-	102,869	-
2014	-	-	17,766	-
2015	-	-	410,651	-
2016	252,561	-	8,389	-
2017	317,961	-	9,094	-
2018	1,009,888	-	11,850	-
2019	1,561,172	25,236	13,162	-
2020	2,063,163	42,132	50,259	-
2021	2,564,511	55,822	-	-
2022	1,338,594	52,731	-	-
2023	1,321,285	44,965	-	-
2024	1,532,264	46,333	-	-
2025	1,629,456	47,245	-	-
2026	1,562,856	41,905	397,347	-
2027	2,011,361	35,351	-	-
2028	2,717,038	69,118	1,512,105	-
2029	2,854,334	63,226	-	-
2030	1,207,399	96,302	-	98,735
2031	4,055,465	-	5,554,415	208,850
	27,999,308	620,366	8,162,008	307,585

(expressed in US dollars, unless otherwise noted)

16 Commitments

a) The company has entered into a real property operating lease with the following commitments:

Year ending December 31, 2012	362,244
2013	362,244
2014	356,904
2015	378,318
2016	378,318
Thereafter	1,450,220
	3,288,248

b) At December 31, 2011, the company is committed to property, plant and equipment purchases or equipment rental commitments in the approximate amount of $90,000.

17 Segmented information and enterprisewide disclosures

Segmented reporting

The company operates in one reportable segment.

Sales by geographic location

The company is domiciled in Canada. Revenue from external customers located in Canada is $nil (2010 - $nil). The total revenue from external customers in the following regions is as follows:

	2011	2010
North America	4,193,156	630,290
Latin America	2,063,238	1,005,250
EMEA	599,493	-
Asia Pacific	13,913,964	14,243,540
	20,769,851	15,879,080

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

Sales to major customers

The company derives a significant portion of its revenues from two customers, representing 26% and 23% of total revenue for the year ended December 31, 2011 (2010 - 37% and 17%). The concentrations listed do not necessarily apply to the same customer year over year.

(expressed in US dollars, unless otherwise noted)

Property, plant and equipment and intangible assets

The company's property, plant and equipment and intangible assets, reported at net carrying amount, are located in the following countries:

	2011	2010
Canada	1,971,731	480,298
United States of America	4,277,777	912,000
The Netherlands	4,516,616	342,086
	10,766,124	1,734,384

18 Expenses by nature

Additional information on the nature of amounts included in cost of sales, selling, general and administrative and research and development is as follows:

	2011	2010
Wages and salaries	5,624,771	3,193,045
Share-based compensation	984,325	1,095,911
Depreciation and amortization	583,980	351,470

19 Loss per share

Basic loss per share is calculated by dividing the profit attributable to equityholders of the company by the weighted average number of common shares in issue during the year.

Diluted loss per share is equivalent to basic loss per share, as the consideration of potentially dilutive securities would be anti-dilutive.

20 Contingencies and guarantees

In connection with the offering (note 14), the company agreed to provide an indemnity to each of the retained interest holders for any (i) loss of deferral of US income taxes attributable to the execution of the put/call agreement that are incurred by a retained interest holder before the third anniversary of the closing of the offering; (ii) interest and penalties paid that are attributable to any US federal, state or local income tax liability of a retained interest holder that arises as a result of a final determination by any US taxing authority relating to the execution of the put/call agreement (taxes); and (iii) certain reasonable fees, costs and expenses paid by a retained interest holder to defend any demand, claim or notice from a US taxing authority with respect to taxes. The company's liability under the indemnity will not exceed the indemnity cap, which is determined based on $2.72 per covered share (which equates to $0.3885 per common share into which each covered share may be exchanged), representing a maximum liability to the company under the indemnity of approximately $4 million. The indemnity will terminate on the fifth anniversary of the closing. The company has assessed the

(expressed in US dollars, unless otherwise noted)

likelihood of incurring the liability as remote and, accordingly, has not recorded a provision at December 31, 2011.

21 Comparative balances

Certain comparative balances have been reclassified to conform to the consolidated financial statement presentation adopted in the current year.

Corporate Directory

Board of Directors

John van Leeuwen
Chairman

David W. Colcleugh

John E. Barker

Dr. Arthur Carty

John Varghese

Management

John van Leeuwen
Chairman & Chief Executive Officer

Dr. Steven Bloembergen
EVP Technology

Robert Haire
Chief Financial Officer

Ted van Egdom
VP Manufacturing

Dr. Peter van Ballegooie
VP Marketing & Business Development

Legal Counsel

Cassels Brock & Blackwell LLP
2100 Scotia Plaza, 40 King Street West
Toronto, Ontario, Canada M5H 3C2

www.casselsbrock.com

Auditors

PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto, Ontario, Canada M5J 0B2

www.pwc.com

Transfer Agent

Canadian Stock Transfer Company Inc.
320 Bay Street, 3rd Floor
Toronto, Ontario, Canada M5H 4A6

Corporate Office

EcoSynthetix Inc.
3365 Mainway
Burlington, Ontario, Canada L7M 1A6

www.ecosynthetix.com

Exchange Listing

EcoSynthetix Inc. is listed on the Toronto Stock Exchange under the symbol “ECO”

Investor Relations

Ross Marshall
TMX Equicom
416-815-0700 x238
rmarshall@equicomgroup.com

www.equicomgroup.com

Annual General Meeting

May 14th, 2012, at 10:00 am ET
Cassels Brock & Blackwell LLP
2100 Scotia Plaza, 40 King Street West
Toronto, Ontario, Canada M5H 3C2

EcoSynthetix Inc.
TSX:ECO

3365 Mainway
Burlington, Ontario, Canada
L7M 1A6
www.ecosynthetix.com

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