

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

The following management's discussion and analysis ("**MD&A**") dated November 5, 2012 is intended to assist the readers in understanding EcoSynthetix Inc. ("**EcoSynthetix**" or the "**Company**"), its business environment, strategies and performance and risk factors. It should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2012 and the audited annual consolidated financial statements and MD&A for the fiscal year ended December 31, 2011. Financial data has been prepared in conformity with International Financial Reporting Standards ("**IFRS**").

The Company directly or indirectly owns a majority of the equity interest in each of EcoSynthetix Ltd. ("**EcoSynthetix U.S.**"), EcoSynthetix B.V., EcoSynthetix Technologies Inc. and EcoSynthetix Corporation. The Company, together with its consolidated subsidiaries, is referred to as the "Company", "we", "us", or "our". Our functional currency and reporting currency is the U.S. dollar. Unless otherwise indicated, all references to "\$" and "dollars" in this discussion and analysis mean U.S. dollars.

Certain measures used in this MD&A do not have any standardized meaning under IFRS. When used, these measures are defined in such terms as to allow the reconciliation to the closest IFRS measure. It is unlikely that these measures could be compared to similar measures presented by other companies. See "IFRS and non-IFRS Measures".

Forward-looking statements are included in this MD&A. See "Forward-Looking Statements" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of the risks relating to the Company, refer to the "Risk Factors" section of this MD&A and the "Risk Factors" section of the Company's Annual Information Form for the fiscal year ended December 31, 2011.

Forward-looking Statements

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

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

Some of the risks that could affect our future results and could cause those results to differ materially from those expressed in the forward-looking information include, among other things: an inability to protect, defend, enforce or use our intellectual property and/or infringement of third-party intellectual property; dependence on certain customers and changes in customer demand; the availability and price of natural feedstocks used in the production of our products; the inability to effectively expand our production facilities; variations in our financial results; increase in industry competition; the risk of volatility in global financial conditions, as well as significant decline in general economic conditions; our ability to effectively commercially market and sell our products; our

ability to protect our know-how and trade secrets; Company growth and the impact of significant operating and capital cost increases; changes in the current political and regulatory environment in which we operate; the inability to retain key personnel; changes to regulatory requirements, both regionally and internationally, governing development, production, exports, taxes, labour standards, waste disposal, and use, environmental protection, project safety and other matters; enforcement of intellectual property rights; a significant decrease in the market price of petroleum; a shortage of supplies, equipment and parts; the inability to secure additional government grants; a deterioration in our cash balances or liquidity; the inability to obtain equity or debt financing; the ability to acquire intellectual property; the risk of litigation; changes in government regulations and policies relating to our business; losses from hedging activities and changes in hedging strategy; insufficient insurance coverage; the inability to expand technology; the impact of issuance of additional equity securities on the trading price of the Common Shares; the impact of ethical, legal and social concerns relating to genetically modified organisms and the food versus fuel debate; the risk of business interruptions; the impact of changes in interest rates; the impact of changes in foreign currency exchange; and credit risk, as well as the factors identified in the "Risk Factors" section of the Company's Annual Information Form for the fiscal year ended December 31, 2011. Such factors are not intended to represent a complete list of the factors that could affect us. These factors should be considered carefully and prospective investors should not place undue reliance on forward-looking information.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those anticipated in such forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what we believe to be reasonable assumptions, there can be no assurance that such forward-looking information will prove to be accurate and we cannot assure that actual results will be consistent with these forward looking statements. Accordingly, readers should not place undue reliance on forward-looking statements. The information contained in this document, including the information provided under the heading "Risk Factors", identifies additional factors that could affect the Company's operating results and performance. Forward-looking information contained in this MD&A are made as of November 5, 2012 and we disclaim any obligation to update any forward-looking information, whether as a result of new information, future events or results, except as may be required by applicable securities laws. Accordingly, potential investors should not place undue reliance on forward-looking information.

IFRS and Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These non-IFRS measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of results of operations of the Company from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of the financial information of the Company reported under IFRS. We use non-IFRS measures such as Adjusted EBITDA to provide investors with a supplemental measure of operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also use non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet its capital expenditure and working capital requirements. Adjusted EBITDA is defined as consolidated net income (loss) before interest, income taxes, depreciation, amortization, accretion, other non-cash charges deducted in determining consolidated net income (loss), including the movement of unrealized gains and losses on the Company's redeemable preferred shares and warrants that were designated as financial liabilities prior to the initial public offering and share based compensation expense.

Overview

We are a renewable chemicals company specializing in biomaterials. Biomaterials are commonly used as inputs in industrial manufacturing for a wide range of end products. We have commercial bio-based products that have equal or superior performance and significant cost advantages compared to currently available petroleum-based products. Our strategy is to commercialize a broad range of bio-based polymer and monomer products across a wide range of industries. We have developed processes that leverage "green" technology to produce bio-based materials from natural feedstock, such as corn, tapioca and dextrose from cornstarch as an alternative to

petroleum-derived feedstocks. To date, we have developed the following two bio-based technology platforms that support broad application across industries: (i) a biopolymer nanosphere technology that has been fully scaled and validated; and (ii) a bio-based sugar macromer technology that has been validated on a pilot scale and is being developed for the pre-commercialization plant stage. Our two bio-based technology platforms have generated three product families to date, namely ECOSPHERE BIOLATEX polymers, ECOMER and ECOSTIX. Our lead product, ECOSPHERE BIOLATEX binders, has achieved commercialization in the coated paper, paperboard, personal care and in the fiberglass insulation industry. While our technology platform offers a significantly reduced carbon footprint, we market our products to customers on the basis of reduced cost, stable pricing and superior product performance.

Factors Affecting the Results of Operation

Commercialization

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

Following a period of evaluations, we first achieved commercial sales in the first quarter of 2008. We are currently operating on a commercial scale in the coated paper and paperboard industry. Manufacturers representing greater than 60% of the global paper and paperboard market are either evaluating or commercial with our ECOSPHERE BIOLATEX binders. Due to the low capital expenditure required to switch to our products, reduced cost, improved performance and a significantly reduced carbon footprint, our experience suggests volume demand can be relatively steady post-conversion, which creates the potential for continuous recurring revenue. Despite certain customer mills having unique material handling requirements, we have the capability of rapidly designing and delivering state-of-the art dry material handling solutions for our customers resulting in a seamless integration of our ECOSPHERE BIOLATEX binders.

Our performance will be influenced by our success in converting prospects from the mill trial phase into full commercial clients. The mill trial stage is an important part of the sales cycle; it requires potential customers to invest significant resources, including labour and operating expenditures, and the product must meet or surpass rigorous qualification procedures. Successfully reaching the mill trial stage with a potential customer reflects substantial interest and commitment with which the potential customer is evaluating the product.

Since entering commercial production, we have achieved significant sales growth. Our lead product, ECOSPHERE BIOLATEX binders, is used commercially by 5 of the global top 20 manufacturers in the coated paper and paperboard industry and an additional 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. Sales are recorded when significant risks and rewards of ownership have passed on to the buyer, which generally occurs at the time of shipment.

Cost of sales and gross profit

Our gross profit is derived from our net sales less our cost of sales. Cost of sales includes raw material costs, contract manufacturing costs, freight costs and depreciation related to manufacturing equipment. Direct materials consist of the costs of cornstarch feedstock and process chemicals. Cost of sales is mainly affected by the cost of cornstarch and contract manufacturing costs. Cornstarch is the most significant raw material cost.

Selling, general and administrative

Selling, general and administrative expense primarily relates to personnel costs, including salaries & benefits, share-based compensation, recruitment and training costs, professional fees, marketing costs, corporate insurance costs, occupancy-related costs, depreciation on property, plant and equipment not utilized in our production process, amortization of intangible assets, and travel and relocation expenses. We have incurred 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 incurred 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 costs and development are expensed as incurred. Our research and development expenses consist of expenses incurred to develop and test our products, and include personnel and related costs, share-based compensation, consultants, facility costs, supplies and other associated product development expenses. These costs are partially offset by government grants recorded related to such expenditures. We expect our research and development expense to increase as we focus on continued product development and look to expand into new markets.

Other Factors Affecting the Results of Operations and Financial Conditions

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

- Optimizing the formulation of existing products to allow higher substitution rates by current and new clients and the ability to effectively develop products for new markets which could be a significant source of revenue growth in the future.
- Pricing of petroleum substitutes for our products.
- Feedstock, other input and production costs. Cost of sales is mainly affected by the cost of cornstarch and contract manufacturing costs. Cornstarch is generally the most significant raw material cost. We observed a significant increase in the cost of cornstarch, which is increasing the manufacturing cost of our products for the three and nine months ended September 30, 2012 compared to the same period in fiscal 2011.

Results of operations

The following is a summary of our results of operations for the three and nine months ended September 30, 2012 and 2011:

	Three months ended		Change	
	September 30, 2012	September 30, 2011	\$	%
Net sales	5,915,571	5,282,495	633,076	12%
Gross profit	1,280,527	1,331,328	(50,801)	-4%
Loss from operations	(2,410,005)	(2,350,475)	(59,530)	3%
Net loss	(2,324,278)	(2,288,612)	(35,666)	2%
Weighted average number of shares outstanding	55,324,997	34,406,703	20,918,294	61%
Basic and diluted loss per share	(0.04)	(0.07)	0.03	-40%
Adjusted EBITDA	(1,804,122)	(2,020,697)	216,575	-11%

	Nine months ended		Change	
	September 30, 2012	September 30, 2011	\$	%
Net sales	13,628,684	17,050,722	(3,422,038)	-20%
Gross profit	2,665,105	4,176,547	(1,511,442)	-36%
Loss from operations	(8,311,381)	(3,640,426)	(4,670,955)	128%
Net loss	(8,036,378)	(250,362,211)	242,325,833	-97%
Weighted average number of shares outstanding	55,273,916	12,213,476	43,060,440	353%
Basic and diluted loss per share	(0.15)	(20.50)	20.35	-99%
Adjusted EBITDA	(6,786,462)	(2,607,279)	(4,179,183)	160%

Net Sales – Net sales for the three months ended September 30, 2012 were \$5.9 million compared to \$5.3 million in the comparable period of fiscal 2011, an increase of \$0.6 million or 12% as a result of higher volumes. During the quarter, sales increased \$0.5 million in EMEA, \$0.3 million in North America and Asia Pacific. These increases were partly offset by a \$0.5 million decrease in Latin America. Asia Pacific sales increased during the quarter despite lower purchases from a major customer in this region compared to the prior year. Excluding the impact of lower sales to this major customer in Asia, sales in Asia Pacific increased \$0.6 million or 23% while total consolidated sales increased \$1.0 million or 20%.

In the second quarter of 2012 net sales were negatively impacted due to a major fire at a paper mill in April 2012. This customer resumed operations in the current quarter accounting for 12% of total revenues during the period.

For the nine months ended September 30, 2012, net sales decreased \$3.4 million or 20% from \$17.1 million in the comparable period of fiscal 2011 to \$13.6 million in the current period. The decrease was primarily due to lower sales of \$5.6 million and \$0.2 million in Asia Pacific and Latin America, respectively, partly offset by an increase of \$1.3 million in North America and a \$1.2 million increase in EMEA. Sales decreased in Asia Pacific principally due to lower purchases from a major customer in this region. Excluding the impact of this major customer, sales increased \$3.8 million or 39% during the nine months ended September 30, 2012 compared to the same period in fiscal 2011. We have won 9 new customers during the current fiscal period which have accounted for 17% and 19% of total sales for the three and nine months ended September 30, 2012, respectively. Subsequent to the quarter, we commercialized one new paper mill bringing the total new customers won during 2012 to ten.

Sales volume to our existing customers grew 13% in the current fiscal year compared to the same period in fiscal 2011 when adjusting for the impact of lower purchases from a significant customer in Asia Pacific. In addition on August 3, 2012, the Company announced that it signed a three-year contract for 2.45 million lbs annually with FutureMark Paper Company resulting in higher potential sales volumes and further demonstrating our ability to deliver material handling solutions and increased substitution rates with existing customers.

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

Gross profit – Gross profit for the three months ended September 30, 2012 was \$1.3 million compared to gross profit of \$1.3 million in the same period of fiscal 2011. Gross profit as a percentage of sales decreased from 25.2% for the three months ended September 30, 2011 to 21.6% in the current quarter. Decreases in gross profit due to increased manufacturing depreciation, lower sales prices and higher cornstarch costs were offset by increases in gross profit due to lower contract manufacturing production costs and higher sales volume. Manufacturing depreciation increased as a result of commissioning two 80 million pound production lines in our existing contract manufacturing facilities in Tennessee and in the Netherlands in the second quarter of fiscal 2012 and fourth quarter of fiscal 2011, respectively. Gross profit adjusted for manufacturing depreciation as a percentage of sales was 26.2% for the three months ended September 30, 2012 compared to 25.1% in the comparable period of fiscal 2011. The increase was principally due to lower contract manufacturing production costs, partially offset by lower sales prices and higher cornstarch costs.

Gross profit for the nine months ended September 30, 2012 was \$2.7 million compared to \$4.2 million for the same period in fiscal 2011, a decrease of \$1.5 million or 36%. As a percentage of sales, gross profit decreased from 24.5% for the nine months ended September 30, 2011 to 19.6% for the comparable period in fiscal 2012. The decrease in gross profit was principally due to lower sales volume, increased manufacturing depreciation and increased cornstarch costs, partially offset by lower contract manufacturing production costs. Gross profit adjusted for manufacturing depreciation as a percentage of sales was 24.7% for the nine months ended September 30, 2012 compared to 25.6% in the comparable period of fiscal 2011.

Operating Expenses

The following table sets forth the breakdown of our operating expenses by category for the three and nine months ended September 30, 2012 and 2011

	Three months ended September 30,		Change	
	2012	2011	\$	%
Selling, general and administrative ¹	2,551,083	2,428,032	123,051	5%
Research and development	832,441	694,230	138,211	20%
Share-based compensation	285,000	296,773	(11,773)	-4%
Depreciation and amortization	42,255	39,001	3,254	8%
Foreign exchange loss (gain)	(20,247)	223,767	(244,014)	-109%
Total operating expenses	3,690,532	3,681,803	8,729	0%

	Nine months ended September 30		Change	
	2012	2011	\$	%
Selling, general and administrative ¹	7,283,670	5,477,280	1,806,390	33%
Research and development	2,863,938	1,427,515	1,436,423	101%
Share-based compensation	702,104	708,108	(6,004)	-1%
Depreciation and amortization	105,307	132,039	(26,732)	-20%
Foreign exchange loss (gain)	21,467	72,031	(50,564)	-70%
Total operating expenses	10,976,486	7,816,973	3,159,513	40%

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 for the three months ended September 30, 2012 were \$3.7 million compared to \$3.7 million for the same period in fiscal 2011. Increases in selling, general and administrative and research and

development costs were offset by favorable foreign exchange revaluation compared to prior year. For the nine months ended September 30, 2012 operating expenses were \$11.0 million compared to \$7.8 million during the comparable period in fiscal 2011, an increase of \$3.2 million or 40%. The increase was principally due to higher, selling, general and administrative costs and research and development costs as we make additional investments to further develop our marketing, sales and research and development organizations.

*Selling, general and administrative*¹ - Selling, general and administrative costs increased from \$2.4 million during the three months ended September 30, 2011 to \$2.6 million during the third quarter of 2012, an increase of \$0.1 million or 5%. For the nine months ended September 30, 2012, selling, general and administrative expenses were \$7.3 million compared to \$5.5 million in the same period in fiscal 2011, an increase of \$1.8 million or 33%. The increase was principally due to higher salaries & benefits and overhead costs related to an increase in headcount partly offset by lower variable compensation expense and costs incurred during the third quarter of fiscal 2011 related to the initial public offering on August 4, 2011.

Research and development – Research and development costs were \$0.8 million for the three months ended September 30, 2012 compared to \$0.7 million for the same period in fiscal 2011, an increase of \$0.1 million or 20%. For the nine months ended September 30, 2012, research and development costs increased from \$1.4 million during the third quarter of fiscal 2011 to \$2.9 million, an increase of \$1.4 million or 101%. The increase represents continued investment in research and development and additional costs related to our Centre of Innovation (COI) which was commissioned in the fourth quarter of fiscal 2011.

For the three and nine months ended September 30, 2012, we recognized nil and \$0.2M of government assistance compared to \$0.2M and \$0.8M for the same periods in fiscal 2011, respectively.

Product development is a key focus of the Company as it pursues the enhancement of ECOSPHERE BIOLATEX, as well as the development of its new offerings, ECOMER and ECOSTIX, to support market expansion. We expect our research and development costs to increase as we continue to displace petrochemical polymers by further penetrating the paper and paperboard industry and expanding into new markets with our low cost, bio-based alternatives.

Share-based compensation – For the three and nine months ended September 30, 2012, share-based compensation remained comparable to the same periods in fiscal 2011.

Depreciation and amortization – For the three and nine months ended September 30, 2012, depreciation and amortization of intangible assets remained comparable to the same periods in fiscal 2011.

Foreign currency exchange loss (gain) – Foreign exchange represents the revaluation of monetary assets and liabilities denominated in foreign currencies. For the three months ended September 30, 2012, we incurred a nominal foreign exchange revaluation gain of \$0.02 million compared to a foreign exchange revaluation loss of \$0.2 million for the same period in fiscal 2011. For the nine months ended September 30, 2012, we incurred a nominal foreign exchange loss of \$0.02 million compared to a foreign exchange loss of \$0.1 million in the comparable period of fiscal 2011. The change in foreign exchange revaluation gains and losses are primarily related to foreign exchange rate fluctuations between the U.S. dollar, which is our functional currency, and the Canadian dollar on our net monetary position in Canadian dollars.

Loss from operations – Our loss from operations during the three months ended September 30, 2012 was \$2.4 million compared to a loss from operations of \$2.4 million in the same period of fiscal 2011. For the nine months ended September 30, 2012, our loss from operations increased from \$3.6 million during the nine months ended September 30, 2011 to \$8.3 million. The increase in loss from operations was due to higher operating expenses and lower gross profit.

Interest income – Interest income of \$0.1 million for the three months ended September 30, 2012 remained comparable to interest income earned during the three months ended September 30, 2011. For the nine months ended September 30, 2012, interest income increased \$0.2 million compared to the same period last year to \$0.3 million. The increase in interest income was principally due to higher cash balances during the nine months ended September 30, 2012 compared to the same periods in fiscal 2011 primarily due to cash generated from the initial public offering on August 4, 2011.

Loss related to change in fair value of warrants and redeemable preferred shares – Prior to the initial public offering (IPO) on August 4, 2011, the Company's redeemable preferred shares and warrants were treated as financial liabilities which were measured at fair value with changes recognized directly in net income (loss). For the nine months ended September 30, 2011, our loss related to these fair value changes were \$246.8 million. In conjunction with the initial public offering on August 4, 2011, the Company's preferred shares were automatically converted to common shares on a one to one basis. As a result, the Company's liability relating to its preferred shares were re-classified into common shares on August 4, 2011. Furthermore, warrants to acquire preferred shares were automatically converted to warrants to acquire common shares. Accordingly, the Company's liability relating to warrants to acquire preferred shares were reclassified to a separate component of shareholders' equity. Our loss related to preferred shares and warrants for the three and nine months ended September 30, 2012 was nil.

Net Loss – For the three months ended September 30, 2012, our net loss was \$2.3 million or \$0.04 per common share compared to a net loss of \$2.3 million or \$0.07 per common share in the comparable period of fiscal 2011. For the nine months ended our net loss was \$8.0 million or \$0.15 per share compared to a net loss of \$250.4 million or \$20.50 per common share. The decrease in net loss is primarily due to a lower loss related to the change in fair value of warrants and redeemable preferred shares partly offset by increased loss from operations.

Financial Condition

	September 30 2012	December 31, 2011	Change \$	%
Total current assets	107,331,779	119,896,087	(12,564,308)	-10%
Total assets	120,717,230	130,662,211	(9,944,981)	-8%
Total current liabilities	3,911,906	6,142,668	(2,230,762)	-36%

Total current assets – Total current assets decreased from \$119.9 million at December 31, 2011 to \$107.3 million at September 30, 2012, a decrease of \$12.6 million or 10%. The decrease was principally due to lower cash of \$11.1 million and lower inventories of \$2.6 million partly offset by an increase in accounts receivable of \$1.3 million. The decrease in cash was attributable to cash utilized in operations and capital expenditures during the nine months ended September 30, 2012.

Total assets – Total assets decreased from \$130.7 million at December 31, 2011 to \$120.7 million at September 30, 2012, a decrease of \$9.9 million or 8%. The decrease was due to lower current assets partly offset by an increase in property, plant and equipment during the nine months ended September 30, 2012. Capital asset additions during the nine months ended September 30, 2012 were \$5.3 million and primarily related to the completion of our expansion of production capacity in our Tennessee facility which was announced during the second quarter of 2012.

Total current liabilities – Total current liabilities at September 30, 2012 was \$3.9 million compared to \$6.1 million at December 31, 2011, a decrease of \$2.2 million or 36%. The decrease was principally due to lower trade payables related to capital asset expenditures and inventory purchases.

Liquidity and Capital Resources

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

Below is a summary of our cash flows used in operating activities, financing activities and investing activities for the three months and nine months ended September 30, 2012 and 2011:

	Three months ended September 30		Change	
	2012	2011	\$	%
Cash used in operating activities	(1,659,981)	(6,344,578)	4,684,597	-74%
Cash used in investing activities	(626,805)	(3,333,578)	2,706,773	-81%
Cash provided by (used in) financing activities	(398,266)	94,176,537	(94,574,803)	-100%
Net increase (decrease) in cash	(2,685,052)	84,498,381	(87,183,433)	-103%
Beginning cash	97,299,476	27,748,432	69,551,044	251%
Ending cash	94,614,424	112,246,813	(17,632,389)	-16%

	Nine months ended September 30		Change	
	2012	2011	\$	%
Cash used in operating activities	(5,374,537)	(10,994,072)	5,619,535	-51%
Cash used in investing activities	(5,344,799)	(6,245,898)	901,099	-14%
Cash provided by (used in) financing activities	(379,945)	94,293,746	(94,673,691)	-100%
Net increase (decrease) in cash	(11,099,281)	77,053,776	(88,153,057)	-114%
Beginning cash	105,713,705	35,193,037	70,520,668	200%
Ending cash	94,614,424	112,246,813	(17,632,389)	-16%

Cash provided by operating activities – Cash used in operating activities was \$1.7 million for the three months ended September 30, 2012 compared to cash used in operating activities of \$6.3 million, a decrease of \$4.7 million or 74%. The decrease was principally due to higher cash flow from lower working capital balances.

For the nine months ended September 30, 2012 cash used in operating activities was \$5.4 million compared to cash used in operating activities of \$11.0 million for the comparable period in fiscal 2011 as an increase in cash flow from lower working capital balances were partially offset by an increase in loss from operations adjusted for non-cash items. For the nine months ended September 30, 2012, working capital decreased \$1.1 million compared to an increase in working capital of \$8.5 million for the nine months ended September 30, 2011. The decrease in working capital for the nine months ended September 30, 2012 was principally due to lower inventories partly offset by higher accounts receivable. The increase in working capital for the nine months ended September 30, 2011 was due to higher inventory and accounts receivable.

Cash used in investing activities – Cash used in investing activities was \$0.6 million for the three months ended September 30, 2012 compared to \$3.3 million for the same period in fiscal 2011, a decrease of \$2.7 million or 81%. For the nine months ended September 30, 2012 cash used in investing activities was \$5.3 million compared to \$6.2 million for the nine months ended September 30, 2011, a decrease of \$0.9 million or 14%. The decrease principally relates to the completion of the Company's production expansion in our facilities located in Tennessee and the Netherlands in the second quarter of 2012 and fourth quarter of 2011, respectively.

Cash provided by financing activities – Cash provided by financing activities decreased from \$94.2 million during the three months ended September 30, 2011 to cash used in financing activities of \$0.4 million for the three months ended September 30, 2012. For the nine months ended September 30, 2012 cash used in financing activities was \$0.4 million compared to cash provided by financing activities of \$94.3 million in the comparable period of fiscal 2011. Cash provided by financing activities for the three and nine months ended September 30, 2011 was primarily generated from the Company's IPO completed on August 4, 2011.

On August 17, 2012, the Company announced its intention to make a normal course issuer bid to repurchase a certain number of its outstanding common shares. The number of shares to be purchased during the period of the bid between August 20, 2012 to August 19, 2013 will not exceed 2.3 million shares. For the three and nine months ended September 30, 2012 the Company repurchased 145,800 shares resulting in a cash outflow of \$0.5 million.

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 September 30, 2012 for operating leases.

2012.....	90,561
2013.....	362,244
2014.....	362,904
2015.....	378,318
2016.....	378,318
Thereafter	<u>1,721,903</u>
Total.....	<u>3,294,248</u>

In addition, as at September 30, 2012, we are committed to equipment purchases in the approximate amount of \$0.2 million over the next twelve months. This commitment is primarily due to purchases of equipment as we continue to make additional investments in our production facilities and our Centre of Innovation (COI).

Summary of Quarterly Results

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which is the three months ended September 30, 2012. This information has been prepared on the same basis as the annual financial statements and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the quarterly financial statements of the Company and the related notes to those statements.

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

	Three months ended (unaudited)							
	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Net sales	5,915,571	3,734,766	3,978,347	3,719,129	5,282,495	5,609,095	6,159,132	5,861,880
Gross profit	1,280,527	624,764	759,814	796,474	1,331,328	1,354,593	1,490,626	1,396,191
Loss from operations	(2,410,005)	(2,868,263)	(3,033,113)	(2,421,212)	(2,350,475)	(1,121,679)	(168,272)	(372,870)
Net loss	(2,324,278)	(2,772,608)	(2,939,492)	(2,345,937)	(2,288,612)	(192,018,852)	(56,054,747)	(10,899,394)
Weighted average number of shares outstanding	55,324,997	55,248,933	55,248,203	55,239,412	34,406,703	1,079,036	796,278	796,278
Basic and diluted loss per share	(0.04)	(0.05)	(0.05)	(0.04)	(0.07)	(177.95)	(70.40)	(13.69)
Adjusted EBITDA	(1,804,122)	(2,428,644)	(2,553,696)	(1,886,654)	(2,020,697)	(758,038)	171,456	27,450

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

	Three months ended (unaudited)							
	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Net loss	(2,324,278)	(2,772,608)	(2,939,492)	(2,345,937)	(2,288,612)	(192,018,852)	(56,054,747)	(10,899,394)
Depreciation and amortization	320,883	262,515	239,417	258,341	33,005	145,974	146,060	79,894
Share-based compensation	285,000	177,104	240,000	276,217	296,773	217,667	193,668	320,426
Change in value of warrants and preferred shares	-	-	-	-	-	190,925,114	55,904,423	10,523,868
Interest expense (income)	(85,727)	(95,655)	(93,621)	(75,275)	(61,863)	(27,941)	(17,948)	2,656
Adjusted EBITDA ⁽¹⁾	(1,804,122)	(2,428,644)	(2,553,696)	(1,886,654)	(2,020,697)	(758,038)	171,456	27,450

Notes:

- (1) The common shares issued and outstanding reported prior to the initial public offering completed on August 4, 2011 have been adjusted to reflect the exchange ratio applied, being seven common shares of EcoSynthetix for one share of common share of EcoSynthetix U.S.
- (2) Adjusted EBITDA is not a measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. See "IFRS and Non-IFRS Measures." The Company presents Adjusted EBITDA because the Company believes it facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting relative interest expense), the book amortization of intangibles (affecting relative amortization expense) and the age and book value of property and equipment (affecting relative depreciation expense). The Company also presents Adjusted EBITDA because it believes it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. Adjusted EBITDA as presented herein are not recognized measures under IFRS and should not be considered as an alternative to operating income or net income as measures of operating results or an alternative to cash flows as measures of liquidity. Adjusted EBITDA is defined as consolidated net income (loss) before net interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss), including both the movement in the unrealized gains and losses on the Company's redeemable preferred shares and warrants that were designated as financial liabilities prior to the IPO and share-based compensation.

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

Adjusted EBITDA

Adjusted EBITDA for the three months ended September 30, 2012 was a loss of \$1.8 million compared to a loss of \$2.0 million in the comparable period of 2011. Adjusted EBITDA was higher principally due to a lower loss from operations adjusted for non-cash items.

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 that reflects current market assessments of the time value of money and the 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 rates. Recognition of impairment may have a material impact on our net income and the value of our long-lived assets. Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, a long-lived asset or asset group is required to be tested for possible impairment.

Redeemable Preferred Shares and Warrants

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

Share-based compensation

We have a share-based compensation plan which is described in note 13 to the consolidated financial statements for the fiscal year ended December 31, 2011. We account for all share-based payments using the fair value-based method.

We use a Black-Scholes option pricing model to determine fair value of share options at the grant date, electing to use the minimum value valuation model. This pricing model requires management to make highly subjective

assumptions with respect to volatility, dividend yield, expected life and risk free interest rate. Changes in the input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of our share options. Share-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. On exercise of share options, the related amount in contributed surplus is transferred to common shares.

Valuation of Future Income Tax Assets

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

Internal control over financial reporting

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

Our bio-based materials provide customers an alternative to petroleum-based products, with performance equivalence or improvements at a reduced and more stable price point. The sustainability benefits of our biolatex[®] and ECOMER platforms overlay these performance and price benefits. It is the only case we know of where customers do not have pay-up or trade product performance for green benefits.

Based on these tangible advantages we anticipate growing demand for our bio-based products. Our first commercial market, the US\$6 billion coated paper and paperboard, continues to deal with high and volatile prices for petroleum-based latex products that our binders replace. The binder market for coated paper and paperboard is a commodity market, which means that the low cost provider will win the largest market share. We are already the low cost provider in this market. We believe that as paper companies complete their rationalization processes as a result of the economic slowdown and overcapacity, our EcoSphere[®] biolatex binders are well positioned to be one of the first operating decisions they can deploy to drive further cost savings.

The investments we have made to our global sales force are starting to pay dividends with the acquisition of ten new customer accounts to date in 2012 across a number of countries. Similarly our investment in dry material handling solutions is driving wider adoption with customers that require a seamless transition to our binders.

Coated paper and paperboard is only our first market. While new markets, such as personal care and building products are still in their infancy, we anticipate they can drive additional revenue growth and profitability going forward.

Within each of these markets adoption is driven by different mix of product characteristics. Performance equivalence or improvement is critical. But changing health regulations, cost and price stability, and a greater emphasis on sustainability provide a growing market for our pipeline of bio-based products to replace various petroleum-based chemicals over the next couple of years. We will continue to invest in developing these new products for an addressable global market that exceeds \$60 billion. Our proven, fully-scaled, manufacturing capability and world-class R&D facility are key assets and differentiators in a market with an irreversible trend towards adopting economical, sustainable, green and safer bio-based industrial products.

Risk Factors

For a detailed description of the risk factors associated with the Company, refer to the "Risk Factors" section of the Annual Information Form for the fiscal year ended December 31, 2011. The Company is not aware of any significant changes to the Company's risk factors from those disclosed at that time.

Additional Information

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

Common Share Trading Information

The Company's common shares trade on the Toronto Stock Exchange under the symbol "ECO" and commenced trading on August 4, 2011. As at November 2, 2012, the Company had the equivalent of 55,255,585 common shares issued and outstanding, assuming conversion of all rights pursuant to the put/call agreement. In addition, if all outstanding warrants and all outstanding share options are exercised, there would be the equivalent of 61,388,098 common shares issued and outstanding on a fully diluted basis as at November 2, 2012.