



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

FOR THE YEAR ENDED OCTOBER 31, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis ("MD&A") was prepared as of January 31, 2007 and should be read in conjunction with the Corporation's comparative audited annual consolidated financial statements for the year ended October 31, 2006 and the notes contained therein. The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the Corporation's reporting currency is the Canadian dollar. Synodon is a reporting issuer in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia. The Corporation's shares trade on the TSX Venture Exchange under the symbol "SYD".

Additional information relating to the Corporation is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at www.sedar.com.

This MD&A contains forward-looking statements. Please see the section "Note Regarding Forward-looking Statements" for a discussion of the risks, uncertainties and assumptions relating to those statements.

Overview

Synodon Inc. is an advanced remote sensing technology company which has developed a proprietary platform technology called realSens™ (the "Technology") that may be capable of measuring very small ground-level gas concentrations from an aircraft flying up to 300 meters in altitude.

The underlying technology and detection principle of realSens™ was developed and proven through Canada's Space Program by the University of Toronto and Canadian Space Agency and then further refined by Synodon's scientists. The Technology is capable of passively and remotely sensing ground-level concentrations of a wide variety of gases such as methane, ethane and other hydrocarbon based gases as well as ammonia, carbon monoxide and nitrogen oxides. Unlike the space technology on which it is based, which measures gases from instruments located in earth's orbit (typically 100 to 700 km altitude), realSens™ is intended to do so from within the atmosphere.

The potential applications for realSens™ are very broad as it could be applied to various circumstances that require the remote measurement of ground-level gas concentrations such as: hydrocarbon emissions, pollution monitoring, industrial emission inventory, hazardous gas monitoring during emergencies, greenhouse gas emission inventory, illegal drug manufacturing detection, chemical weapon monitoring and other military and security based applications. For each one of these applications, a targeted, slightly modified version of the Technology could be used as each specific instrument can be built to measure one to four primary gases such as ammonia, benzene, nitrogen oxides and carbon monoxide.

The first gas sensing market targeted by Synodon is the detection of hydrocarbon emissions from the world's oil and gas industries, of which the market is estimated at \$1.6 billion a year. Synodon's first commercial detection instrument is currently being built and is tuned to detect ethane, which enables a broad range of applications in the natural gas industry while a subsequently planned benzene measuring instrument will be deployed for sensing opportunities in the oil sectors.

The first vertical market Synodon will focus its efforts upon will be the natural gas pipeline market. This market consists of pipeline operators who own or control gathering, transmission and distribution lines. In this sector, Synodon has already achieved a number of successful tests of the realSens™ technology with its strategic partners. The gas leak detection service that Synodon will provide is expected to offer a lower priced and potentially more accurate gas leak sensing solution compared to current inspection methods in this market sector.

The realSens™ technology has a number of competitive features that are expected to make it a more economic and effective leak detection application than currently existing natural gas leak detection technologies. The primary feature is the fact that realSens™ has been developed for use on aircraft allowing it to have an inspection speed that is 70 - 80 times faster when compared to current ground deployed solutions.

Since inception, Synodon has expended nearly \$4.2 million primarily for product research and development but also for initial marketing, advertising, promotion and public relations activities. All start-up costs have been expensed, and research and development costs have not been capitalized. The Corporation has no long-term debt. The Corporation has not been profitable since its inception and expects to incur further losses in continuing the development of its product. The Corporation does not expect to generate significant revenues until the completion of initial product development and related testing in 2007. The Corporation is currently developing marketing and sales strategies for its product.

The Corporation has expensed all research and development and prototype expenditures as incurred with no development expenditures being capitalized. The Corporation has not yet met the specific criteria under Canadian Generally Accepted Accounting Principles (CGAAP) related to technical, market and financial feasibility to allow for the capitalization of development costs. At October 31, 2006 the Corporation has approximately \$2,660,600 of non-capital losses available to reduce future taxable income and \$3,300 of investment tax credits available to reduce income taxes payable. In addition, the Corporation has \$533,439 of scientific research and experimental development ("SR&ED") expenditures available to reduce net income for Canadian tax purposes in the future.

Summary of Quarterly Results

The Corporation became a reporting issuer on September 28, 2006 and is required to report quarterly financial information as of that date unless it has prepared financial statements for quarters prior to this date. No quarterly financial statements have been prepared prior to April 30, 2006 other than as comparative information for the periods ended October 31, 2006 and July 31, 2006.

Quarterly Statement of Income	Three Months Ended,	
	October 31, 2006 (\$)	July 31, 2006 (\$)
Revenue	-	-
Net loss for the period	(231,601)	(124,496)
Loss per share (basic and diluted)	(0.01)	(0.01)

Selected Financial Information

Statements of Loss and Deficit, Years ended October 31,	2006	2005	2004
	(\$)	(\$)	(\$)
Total revenue	—	—	—
Research and development costs, net of government assistance	(205,312)	(803,811)	(35,513)
Stock-based compensation expenses	(92,400)	(447,500)	(132,000)
Office and general administrative expenses	(516,210)	(454,945)	(376,364)
Other expenses	(31,675)	(194,505)	(29,355)
Net loss for the year	(845,597)	(1,900,761)	(573,232)
Loss per share (basic and diluted)	(0.05)	(0.18)	(0.06)
Deficit, at end of year	(3,947,070)	(3,101,473)	(1,200,712)

Balance Sheets	October 31,		
	2006	2005	2004
	(\$)	(\$)	(\$)
Total assets	807,307	116,922	267,455
Total liabilities	1,146,778	855,756	210,813
Share capital	3,285,593	1,776,483	1,119,848
Contributed surplus	322,006	586,156	137,506
Deficit, at end of year	(3,947,070)	(3,101,473)	(1,200,712)

Comparison of Years Ended October 31, 2006 and 2005*Results of Operations*

An operating loss of \$845,597 or \$0.05 per share was incurred for the year ended October 31, 2006, which compares to an operating loss of \$1,900,761 or \$0.18 per share for the year ended October 31, 2005. The decrease in expenses is attributable primarily to additional government assistance to reduce research and development costs, a decrease in stock based compensation and a decrease in financing costs.

Research and Development Expenses

In 2006, the Corporation continued to dedicate significant resources to research and development of its technology, particularly through third party contractors. Gross research and development costs incurred during 2006 were \$1,134,846 compared to \$1,088,947 in 2005. A portion of the 2006 expenses were recovered through three government programs (two government programs in

2005) as described below. Research and development costs, net of these government contributions, were \$205,312 in 2006 and \$803,811 in 2005.

Research and development costs are comprised of two main categories: wages and benefits and third party subcontractors and materials.

For the years ended October 31	2006	2005	2004
	(\$)	(\$)	(\$)
Wages and benefits	371,475	445,048	288,658
Subcontractors and materials	763,371	643,899	114,997
Gross research and development costs	1,134,846	1,088,947	403,655
Less			
Investment tax credit benefits recorded	305,751	47,591	219,947
IERD funding	194,663	237,545	148,195
SDTC funding	429,120	-	-
Research and development costs, net	205,312	803,811	35,513

The decrease in wages and benefits was due to the deletion of one scientist staff position and the leave of absence for three months of an operations engineer. The subcontractor costs increased due to additional ramping up of a commercial instrument design and manufacturing contract with a U.S. based supplier.

The Corporation anticipates that remaining development costs to bring the technology to commercialization will be approximately \$900,000.

Recoveries of Research and Development Expenses

The Corporation recorded investment tax credits ("ITC") of \$305,751 for the year ended October 31, 2006, earned on qualifying SR&ED activities for Canadian tax purposes, as a reduction of research and development costs. During the year ended October 31, 2005, the Corporation recorded a benefit of \$47,591 as a reduction of research and development costs for ITCs earned.

The Corporation has been receiving assistance from a government program called Industry Energy Research and Development Program ("IERD"). For the year ended October 31, 2006, \$194,663 of IERD funding was included as a reduction of research and development costs. For the year ended October 31, 2005 the amount was \$237,545. The maximum amount of funding available to Synodon for this project is \$582,379 and as of October 31, 2006 there was \$42,379 of available funding remaining to be claimed. The advances are non-interest bearing and are only repayable upon revenue earned from the funded technology, at an amount of 3% of revenue earned in connection with this project.

During the year, the Corporation entered into a funding agreement with Canada Foundation for Sustainable Development Technology ("SDTC") for the purpose of fostering the development and adoption of technologies that contribute to a sustainable development technology

infrastructure in Canada by contributing to the rapid development, demonstration and pre-commercialization of technological solutions which address climate change and air quality. Upon the Corporation attaining pre-determined milestones, SDTC will advance non-repayable funds totalling the lesser of \$650,000 and 24.77% of the eligible project costs, less 10% holdbacks on each advance. As at October 31, 2006, Milestone #1 was earned and the Corporation received \$137,835 (\$153,150 less 10% holdback) for this milestone. The Corporation received an advance of \$391,320 (\$434,800 less 10% holdback) for Milestone #2. As at October 31, 2006, the Corporation earned \$275,970 of the Milestone #2 funding. The balance has been recorded as a government assistance advance. Milestone #3 for field testing, in the maximum amount of \$62,050 is anticipated to be completed by May, 2007.

Stock Based Compensation Expenses

Stock-based compensation has decreased to \$92,400 in 2006 from \$447,500 in 2005. In 2006, a smaller number of stock options were issued to key management employees. In 2005, the increase was primarily due to a new executive management position for which the compensation was exclusively stock based rather than cash as well as due to issuance of stock options to key management employees.

Office and General Administrative Expenses

Office and administrative expenses increased to \$516,209 in 2006 versus \$454,945 in 2005 primarily as a result of increases in auditing fees and recruitment fees for staff and directors. The table below outlines the key components that comprise office and administrative expenses.

For the years ended October 31,	2006		2005		2004	
	(\$)		(\$)		(\$)	
Legal and professional fees	86,072	17%	26,400	6%	82,987	22%
Consulting	154,173	30%	87,916	19%	27,910	7%
Travel	35,037	7%	56,169	12%	37,937	10%
Wages	130,256	25%	144,676	32%	108,763	29%
Rent and utilities	62,707	12%	64,750	14%	51,870	14%
Other	47,965	9%	75,034	17%	66,897	18%
Total	516,210	100%	454,945	100%	376,364	100%

Legal and professional fees were up considerably in 2006 compared to 2005 primarily due to an increase in auditing fees and costs related to the public listing process. The consulting fee increase in 2006 was primarily due to fees incurred to recruit new officers and directors of the Corporation and the completion of a \$66,700 market analysis consulting contract. In 2006, travel expenses decreased dramatically since no costs were incurred for tradeshow or travel costs for financing activities. Wages decreased slightly due to a decrease in accounting staff, but with a corresponding increase in subcontract costs for accounting.

Other Expenses

Financing charges and interest costs, which make up most of the other expenses category, dropped dramatically to \$26,187 in 2006 versus \$174,098 in 2005. In 2006, the interest expenses mainly related to interest-bearing debt instruments. The large amount of interest expense in 2005 stems from financing a significant part of the operation in the year through interest-bearing debt

instruments. In particular, a \$506,300 convertible promissory note bearing 8% annual interest, with a maturity date of May 31, 2007 was drawn upon by April 2005. In October 2005, the note plus accrued interest to May 31, 2007 was converted to 2,759,800 Common Shares.

Capital Resources and Liquidity

The Corporation's financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

The Corporation has incurred significant losses since incorporation and as at October 31, 2006, the Corporation has an accumulated deficit of \$3,947,070. The Corporation's ability to continue as a going concern is dependent upon achieving profitable operations, the continued financial support of its lenders and the ability to obtain additional debt or equity financing. The outcome of these matters cannot be predicted at this time. Subsequent to the year end, the Corporation completed a \$1,403,750 initial public offering which provided net proceeds of \$937,166.

Funds used in operations, being net loss adjusted for non-cash operating items and changes in non-cash working capital items, was \$849,024 for the year ended October 31, 2006 compared to \$566,647 for the year ended 2005.

Since inception, Synodon has financed its working capital requirements primarily through proceeds received from equity and debt financing. Financing activities during the year ended October 31, 2006 consisted primarily of cash in the amount of \$1,079,341 from the issuance of two separate private placements as well as the issuance of promissory notes totalling \$112,000. Financing activities during the year ended October 31, 2005 consisted primarily of cash received from the issuance of a convertible note for proceeds of \$506,300.

Investing activities during this two-year period ended October 31, 2006 related primarily to the acquisition of various capital assets such as computers, software and research and development tools. In the year ended October 31, 2006, investing expenditures related to these items were incurred in the amount of \$5,590 while in 2005 the amount was \$7,310.

Related Party Transactions

In 2006, a director and officer provided services to the Corporation through consulting and lease agreements. In addition, in 2006 interest was incurred on debt outstanding to directors of the Corporation. These related party transactions occurred during the normal course of the Corporation's operations and are measured at their exchange amounts, which is the consideration amount established and agreed upon between the Corporation and the related parties.

The Corporation leased facilities used by the Corporation from an officer who is also a shareholder. Total rental payments for the year ended October 31, 2006 were \$4,500 and for the year ended October 31, 2005 were \$6,000.

The Corporation paid \$Nil during fiscal 2006 [2005 - \$66,700] to a director for consulting services.

In the year ended October 31, 2006, the Corporation borrowed \$52,000 from six of its directors to be used in the normal course of operations. The Corporation incurred interest expense related to this financing provided during the year in the amount of \$653.

Outstanding Share Data

As at January 31, 2007 there were 20,063,050 Common Shares issued and outstanding as well as 1,590,000 options and 2,429,431 warrants to purchase Common Shares.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Corporation. Based on an evaluation of the Corporation's disclosure controls and procedures as of the end of the year covered by this MD&A, certain weaknesses have been identified which needed to be corrected. As a consequence, the Corporation developed and adopted a series of policies and procedures which management believes are effective in providing reasonable assurances that material items requiring disclosure are identified and reported in a timely manner.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurances regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP. Management's documentation and assessment of the design of the Corporation's ICFR is underway as of the date of this MD&A. Management has identified certain areas where it can enhance process controls, such as a lack of segregation of duties because of limited staff resources, and intends to incorporate such enhancements into the ICFR over the next twelve months. However, the Corporation believes that these control weaknesses have not caused any material information to be withheld in its financial disclosure, or impacted reported financial results.

Critical Accounting Estimates

In preparing the Corporation's financial statements in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Critical accounting estimates identified by management include the amount of development expenditures expensed as opposed to capitalized; the estimate for ITCs recoverable; the fair value of options and common share purchase warrants; the allocation of proceeds on the issuance of convertible promissory notes; and the income tax valuation allowance.

All costs of research activities are expensed in the period in which they are incurred.

Development costs are charged as an expense in the period incurred unless a development project meets stringent criteria for cost deferral and amortization. The Corporation assesses whether these costs have met the relevant criteria for deferral and amortization at each reporting date. No development costs have been deferred to date.

The Corporation is required to estimate the recoverability of ITCs claimed. The claims are subject to approval by the Canada Revenue Agency. The Corporation records its best estimate of ITCs earned as a reduction of expenditures in the year in which they are earned and when there is likely assurance of their recovery. The Corporation's estimate for ITCs earned is based on actual research and development expenditures incurred and the Corporation's historical assessments by the CRA for similar expenditures.

An estimate is made of the cost of the Corporation's stock-based compensation and other stock-based payments made in exchange for goods and services. The Corporation has adopted the Black-Scholes model for its fair value base method of accounting for stock options. Option-pricing models require the input of highly subjective assumptions regarding expected volatility. Changes in 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 the Corporation's stock options at the date of grant.

The convertible notes bear interest at rates of 8%. Because of the convertible nature of the notes that is at the option of the holder, there is a debt and equity component to the notes. In calculating the separate component for the convertible notes with fixed maturity dates, the residual method was used whereby the fair value of the debt was calculated using an appropriate discount rate and the residual portion was considered equity. The discount rate used was 18%, being a reasonable rate for comparable non-convertible debt.

With respect to income taxes, the Corporation has a net tax benefit resulting from non-capital losses carried forward, pools of scientific research and experimental development expenditures and investment tax credits. In view of the Corporation's losses since inception and expected future losses, we are of the opinion that it is unlikely that these tax assets will be realized in the foreseeable future and hence, a full valuation allowance has been recorded against these income tax assets. Accordingly, no future income tax assets or liabilities are recorded on the balance sheets.

Financial Instruments

Fair Value

Canadian generally accepted accounting principles require that the Corporation disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The Corporation's financial instruments consist of cash, accounts receivable, share subscription receivable, investment tax credits recoverable, accounts payable and accrued liabilities, notes payable, deposit on share subscription and deposit on distribution rights. The Corporation estimates that the fair value of these financial instruments approximate their carrying values due to the relatively short periods to maturity of these instruments.

Off-Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements.

Pending Accounting Pronouncements

In June 2005, the CICA issued Handbook Section 3831, Non-Monetary Transactions, which establishes that all non-monetary transactions be measured at their fair value unless, generally, they lack commercial substance or their fair value is not reliably measurable. This new Section is effective for non-monetary transactions initiated in periods beginning on or after January 1, 2006.

The extent of the impact on the Corporation will depend on the extent and nature of future non-monetary transactions.

In an effort to harmonize Canadian GAAP with US GAAP, the Canadian Accounting Standards Board has issued the following sections:

- 1530, Comprehensive Income;
- 3855, Financial Instruments - Recognition and Measurement; and
- 3865, Hedges.

Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables and investments that are intended to be held to maturity and certain equity investments, which should be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are held for trading or they are derivatives. Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exception of gains and losses arising from:

- Financial assets held for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and
- Certain financial instruments that qualify for hedge accounting. Sections 3855 and 3865 of the CICA Handbook make use of "other comprehensive income".

Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net income. Unrealized gains and losses on qualifying hedging instruments, translation of self-sustaining foreign operations, and unrealized gains or losses on financial instruments held for sale will be included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components will be a required disclosure under the new standard. These new standards are effective for fiscal years beginning on or after October 1, 2006 and early adoption is permitted. Management has not yet determined the impact of the adoption of these standards on the presentation of the Corporation's results from operations or financial position.

Contractual Obligations

The Corporation has entered into lease and other agreements in the normal course of business which obligate it to undertake certain activities and make payments over the term of these agreements.

Note on Forward-Looking Statements

This MD&A includes forward-looking statements about Synodon Inc including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as 'expects', 'anticipates', 'intends', 'plans', 'believes' or negative versions thereof and similar expressions. In addition, any statements that may be made concerning future financial performance (including revenues, earnings and growth rates), ongoing business strategies and prospects, and possible future action on the Corporation's part, are also forward-looking statements and reflect our current beliefs and are based on information currently available to us and on assumptions we believe are reasonable. Actual results and developments

may differ materially from the results and developments discussed in the forward-looking statements as they are subject to a number of significant risks and uncertainties which can be beyond our control. The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. We are under no obligation (and expressly disclaim such obligation) to update or alter the forward-looking statements whether as a result of new information, future events or otherwise unless otherwise required by applicable securities legislation.