

Synodon Inc.
Interim Financial Statements
For the First Quarter Ended January 31, 2008 and 2007
Unaudited

Notice: These management prepared, unaudited interim financial statements have not been reviewed by the Company's auditors

Synodon Inc.
(a development stage enterprise)
BALANCE SHEETS
(see note 1 – basis of presentation)
(unaudited)

As at	<u>January 31,</u> 2008	<u>October 31,</u> 2007
	\$	\$
ASSETS		
Current		
Cash	336	4,943
Accounts receivable	128,975	114,827
Prepaid expenses and deposits	7,803	10,697
	137,114	130,467
Property and equipment <i>[note 3]</i>	14,657	15,970
Long-term deposits	19,324	18,786
	171,095	165,223
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities	981,629	725,837
Government assistance advance <i>[note 7]</i>	—	11,790
Notes payable <i>[note 4]</i>	108,000	33,000
Current portion of obligations under capital lease	33,122	30,569
Deposit on distribution rights	65,875	65,875
	1,188,626	867,071
Obligations under capital lease	12,300	17,064
	1,200,926	884,135
Shareholders' equity (deficiency)		
Share capital <i>[note 5]</i>	4,271,564	4,239,464
Warrants on issue of units	256,634	256,634
Contributed surplus <i>[note 6]</i>	555,297	538,248
Deficit	(6,113,326)	(5,753,258)
	(1,029,831)	(718,912)
	171,095	165,223

See accompanying notes

On behalf of the Board:

(signed) "Adrian Banica"

Adrian Banica, President and Chief
Executive Officer

(signed) "Nimal Rodrigo"

Nimal Rodrigo, Chief Financial
Officer

Synodon Inc.
(a development stage enterprise)
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS AND
DEFICIT
(unaudited)

	Three months ended	
	January 31,	
	2008	2007
REVENUE	—	—
EXPENSES		
Research and development costs, net of government assistance <i>[note 8]</i>	178,130	209,358
Amortization	1,313	1,380
Financing charges and interest	20,502	4,197
Foreign exchange (gains)	29,368	(365)
Stock-based compensation	17,049	66,191
Office and general administrative	113,706	171,232
	360,068	451,993
Loss and comprehensive loss for the period	(360,068)	(451,993)
Deficit, beginning of the period	(5,753,258)	3,947,070)
Deficit, end of the period	(6,113,326)	(4,399,063)
Loss per share		
- Basic and diluted	(0.02)	(0.02)
Weighted-average number of shares outstanding	20,757,137	18,297,213

See accompanying notes

Synodon Inc.
(a development stage enterprise)
STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended	
	January 31,	
	2008	2007
	\$	\$
	(unaudited)	
OPERATING ACTIVITIES		
Loss and comprehensive loss for the period	(360,068)	(451,993)
Add charges to operations not requiring a current cash payment:		
Stock-based compensation	17,049	66,191
Amortization	1,313	1,380
	(341,706)	(384,422)
Net change in non-cash working capital balances related to operations:		
Accounts receivable	(14,148)	(23,529)
Investment tax credits recoverable	—	(65,354)
Prepaid expenses and deposits	2,894	(44,867)
Accounts payable and accrued liabilities	255,792	(531,784)
Government assistance advance	(11,790)	(90,597)
Cash used in operating activities	(108,958)	(1,140,553)
INVESTING ACTIVITIES		
Purchase of property and equipment	—	(360)
Cash used in investing activities	—	(360)
FINANCING ACTIVITIES		
Repayments of obligations under capital lease	(2,211)	—
Long-term deposits	(538)	—
Repayment of notes payable	—	(3,000)
Issuance of notes payable	75,000	12,000
Issuance of shares	32,100	1,431,150
Share issuances costs	—	(158,304)
Cash provided by financing activities	104,351	1,281,846
Net increase (decrease) in cash during the period	(4,607)	140,933
Cash, beginning of period	4,943	305
Cash, end of period	336	141,238
Supplemental cash flow information		
Interest paid	689	806

See accompanying notes

Synodon Inc.
(a development stage enterprise)
NOTES TO FINANCIAL STATEMENTS
Interim Financial Statements as at January 31, 2008
(unaudited)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

These 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 Company has incurred significant losses since incorporation and as at January 31, 2008, the Company has an accumulated deficit of \$6,113,326. The Company's ability to continue as a going concern is dependant 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. These financial statements do not include any adjustment to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements should be read in conjunction with the October 31, 2007 annual financial statements as disclosures provided in the interim financial statements do not conform in all respects to the requirements of GAAP for annual financial statements. In management's opinion, the interim financial statements include all adjustments necessary to present fairly such interim financial statements. The same accounting policies and methods are used as in the 2007 financial statements except for new accounting standards adopted during the quarter.

CHANGES IN ACCOUNTING POLICIES

Effective November 1, 2007, the Company adopted the following new accounting policies:

CICA 1506 – Accounting Changes

This new standard allows an entity to change an accounting policy only if the change is required by a primary source of GAAP or if the new policy results in more reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. This standard is effective for interim and annual periods related to fiscal years beginning on or after January 1, 2007. The adoption of this standard did not have any effect on the Company.

CICA 1535 – Capital Disclosures

This new standard requires an entity to provide disclosures related to its capital and how it is managed. The standard is effective for interim and annual periods related to fiscal years beginning on or after October 1, 2007.

The Company's objective in managing its capital is to ensure that it has appropriate financial resources to continue to further its technology toward commercialization. The Company has been primarily dependent upon the issue of common shares and units comprising common shares and a portion of a common share purchase warrant as sources of capital as market conditions and the stage of the Company's technology development have allowed. During certain times when market conditions have not been suitable for issuing units or common shares, the Company has accessed lease financing and issued notes payable as short to medium term sources of capital.

The Company is not currently subject to any externally imposed capital requirements.

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Subsequent to January 31, 2008, the Company entered into an agreement with an agent to undertake an offering of units on a “best efforts” basis (note 10).

CICA 3862 – Financial Instruments – Disclosure

This new standard establishes standards for disclosure about financial instruments and non-financial derivatives. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Credit risk

The Company’s accounts receivable as presented on its balance sheet represent its total exposure to credit risk and are comprised primarily of holdbacks related to government assistance programs. These holdbacks are expected to be released upon the Company filing appropriate final reports including external auditors’ reports on certain financial information of the related program. The Company expects to collect the holdbacks on filing of the final reports required under the programs.

CICA 3863 – Financial Instruments – Presentation

This new standard supersedes and carries forward unchanged the presentation standards of CICA 3861 Financial Instruments – Presentation and Disclosure. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. There was no effect on the Company of adopting this standard.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public companies will be required to adopt International Financial Reporting Standards for years beginning on or after January 1, 2011. The Company has not yet evaluated the effect of this change in standards on its financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	January 31, 2008		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer equipment	36,735	32,419	4,316
Computer software	6,521	6,370	150
Laboratory equipment	7,271	2,780	4,491
Furniture and fixtures	12,873	7,174	5,700
	63,400	48,743	14,657

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	October 31, 2007		
	Cost \$	Accumulated amortization \$	Net book value \$
Computer equipment	36,735	31,692	5,043
Computer software	6,521	6,321	200
Laboratory equipment	7,271	2,544	4,727
Furniture and fixtures	12,873	6,873	6,000
	63,400	47,430	15,970

4. NOTES PAYABLE

The notes payable consist of the following:

	<u>January 31,</u> 2008 \$	<u>October 31,</u> 2007 \$
Demand promissory notes		
Notes, bearing interest at 8% per annum	108,000	33,000
	108,000	33,000

During the three-month period ended January 31, 2008, the Corporation issued demand promissory notes with a face value of \$75,000. The balance of promissory notes at the end of the period is \$108,000, is payable on demand and includes \$103,000 payable to directors of the Corporation.

5. SHARE CAPITAL

	<u>January 31,</u> 2008 \$	<u>October 31,</u> 2007 \$
Authorized		
Unlimited number of Class A voting common shares		
Unlimited number of Class B voting common shares		
Unlimited number of Class C non-voting common shares		
Unlimited number of Class D non-voting common shares		
Unlimited number of Class E non-voting, redeemable, retractable preferred shares		
Issued and outstanding		
20,808,609 Class A common shares	4,271,564	
20,746,571 Class A common shares		4,135,973

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5. SHARE CAPITAL (CONTINUED)

The following table sets out the change in share capital:

	Number of shares	Total \$
Balance, October 31, 2006	17,255,550	3,285,593
Issued in IPO, net of costs of issuance of \$441,694 and net of fair value of warrants of \$294,787	2,807,500	667,269
Issued in private placement, net of costs of issuance of \$20,070 and net of fair value of warrants of \$51,688	492,271	198,993
Issued for cash on the exercise of warrants	11,250	6,750
Issued for cash from exercise of options	50,000	25,000
Issued on conversion of notes payable and accrued interest	130,000	51,350
Reclassify from contributed surplus on exercise of options	—	4,509
Balance, October 31, 2007	20,746,571	4,239,464
Issued for cash on the exercise of broker warrants	4,000	2,000
Issued for cash on the exercise of warrants	58,038	30,100
	62,038	32,100
Balance, January 31, 2008	20,808,609	4,271,564

Warrants

At January 31, 2008 the Company had 2,122,222 (2007 – 2,425,431) common share purchase warrants outstanding, as follows:

Exercise price \$	Expiry date	Number outstanding and exercisable
0.65	January – October 2008	2,838
0.65 US	December 31, 2009	98,500
0.60 – 0.75	December 28, 2008	1,365,000
0.60 – 0.75	December 28, 2008	65,000
0.50	December 28, 2008	278,750
0.65	May 15, 2009	66,000
0.80	September 13, 2009	246,134
		2,122,222

During the three month period ended January 31, 2008, a total of 62,038 common share purchase warrants were exercised for gross proceeds to the Company of \$32,100. In addition, 613,055 warrants expired by January 31, 2008 and 2,000 new warrants were issued on the exercise of broker warrants.

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Share options

Under the Company's share option policy, options to purchase common shares may be granted by the Board of Directors to directors, officers and employees. The Company has reserved up to 1,540,000 shares available for the settlement of options. The exercise price per share and the vesting period shall be determined at the time of grant by the Board. Except for the first grant, which vested when specific performance criteria were met, options granted prior to October 31, 2006 have vested immediately. Options granted subsequent to October 31, 2006 generally vest over a period of three years. The option period for options granted as compensation to directors, officers and employees shall be a period of time fixed by the Board not to exceed five years. The option period for options granted in exchange for services is specified by the Board at the time of grant and ranged from three to ten years for options granted prior to April 30, 2006. If an option has lapsed, the board may grant new options covering the shares not purchased. If a participant ceases to be an employee or provider, the participant has 90 days to exercise his options or they are cancelled.

The following table summarizes information about share options outstanding at January 31, 2008:

Exercise price \$	Year of grant	Number outstanding and exercisable	Weighted-average remaining contractual life [years]	Weighted-average exercise price \$
0.45	2005	400,000	1.9	0.45
0.40	2006	550,000	1.9	0.40
0.50	2006	100,000	3.3	0.50
0.50	2007	490,000	4.0	0.50
\$0.40 – 0.50		1,540,000	2.7	0.4513

The weighted-average fair value of share options is determined at the date of grant using the Black-Scholes option pricing model. For the period ended January 31, 2008, \$17,049 [period ended January 31, 2007 - \$66,191] has been recorded as compensation expense with an equal amount reflected in contributed surplus.

6. CONTRIBUTED SURPLUS

The following table sets out the change in contributed surplus:

	Three Months January 31, 2008 \$	Year ended October 31, 2007 \$
Balance, beginning of period	538,248	322,006
Stock-based compensation	17,049	131,619
Issuance of warrants	—	89,132
Transfer to share capital on exercise of options	—	(4,509)
Balance, end of period	555,297	538,248

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7. GOVERNMENT ASSISTANCE

SDTC funding

During fiscal 2006 the Company 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 Company attaining pre-determined milestones, SDTC advances 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, 2007, Milestone #1 and #2 were earned and the Company received \$529,155 (\$587,950 less 10% holdback) for these milestones. The Company also received an advance of \$55,845 (\$62,050 less 10% holdback) for Milestone #3. As at October 31, 2007, the Company earned \$50,260 of the Milestone #3 funding. During the quarter ended January 31, 2008, the remaining \$11,790 was earned and has been included as a reduction of research and development costs.

Investment tax credits

As of December 29, 2006 the Company ceased to be considered a Canadian-Controlled Private Corporation for the purpose of earning refundable Investment Tax Credits (ITC’s). Instead, the Company will file ITC claims on qualified expenditures at a rate of 20% and will apply them in the future towards taxes payable.

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs and reductions due to government assistance are summarized as follows:

	Three months ended January 31, 2008	Three months ended January 31, 2007
	\$	\$
Research and development expenditures	189,920	365,309
Investment tax credit <i>[note 7]</i>	—	(65,354)
SDTC government assistance <i>[note 7]</i>	(11,790)	(90,597)
Research and development costs, net of government assistance	178,130	209,358

9. RELATED PARTY TRANSACTIONS

Officers, directors and shareholders provided promissory notes as well as services to the Company through rental agreements. The related party transactions occurred during the normal course of the Company’s operations and are measured at their exchange amounts, which is the consideration amount established and agreed upon with the related parties.

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- (a) The Company leased facilities from an officer who is also a shareholder. Total rental payments for the three-month period ended January 31, 2008 were \$1,000 [three-month period ended January 31, 2007 - \$1,500].
- (b) The Company incurred interest on promissory notes in the amount of \$1,373 during the three-month period ended January 31, 2008 [three-month period ended January 31, 2007 - \$1,230] payable to directors of the Company as noted in note 4.

10. SUBSEQUENT EVENTS

Options grant

On February 12, 2008, the Company granted 300,000 options to purchase common shares to officers and employees which vest over a two year period and are exercisable at \$0.78 per option.

Issuance of common shares for debt

On February 12, 2008, the Company issued 64,103 common shares to a supplier in satisfaction of a liability to that supplier incurred during December, 2007. The issuance of these shares is subject to approval of the TSX Venture Exchange.

Issuance of promissory notes

Subsequent to January 31, 2008, the Company issued \$17,000 worth of promissory notes of which \$3,000 was to a director of the Company. These promissory notes bear interest at 8% and are repayable on demand.

Private Placement

The agreement that the Company entered into with Paradigm Capital and was disclosed as a subsequent event in the October 31, 2007 financial statements is no longer being pursued in its described form.