Synodon Inc.
Interim Financial Statements

For the Quarter Ended January 31, 2009 and 2008
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 – going concern communication]
(unaudited)

As at

	January 31, 2009	October 31, 2008
	$	$
ASSETS Current		
Cash	**21,110**	32,476
Cash held in trust	**—**	111,683
Accounts receivable *[note 7]*	**70,092**	65,948
Prepaid expenses and deposits	**40,724**	39,675
	131,925	249,782
Property and equipment	**12,462**	12,786
Long-term deposits	**—**	7,876
	144,387	270,444
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	**1,697,115**	1,313,303
Deferred government assistance *[note 7]*	**79,574**	128,799
Notes payable *[note 3]*	**27,500**	32,500
Loans from Directors *[note 4]*	**2,700**	2,700
Current portion of obligations under capital lease	**30,364**	38,086
Deposit on distribution rights option *[note 5]*	**65,875**	65,875
	1,903,127	1,581,263
Obligations under capital lease	**—**	1,456
	1,903,127	1,582,719
Commitments and contingencies *[notes 5 and 7]*		
Shareholders' deficiency		
Share capital *[note 6]*	**4,845,322**	4,845,322
Warrants on issue of units *[note 6]*	**336,551**	528,743
Contributed surplus *[note 6]*	**895,401**	633,661
Deficit	**(7,836,015)**	(7,320,001)
	(1,758,740)	(1,312,275)
	144,387	270,444

See accompanying notes

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

For the three months ended January 31

	2009	**2008**
	$	$
EXPENSES		
Research and development costs, net of government assistance *[notes 7 and 8]*	**161,239**	178,130
Amortization	**1,403**	1,313
Sales and marketing	**35,951**	1,800
Financing charges and interest	**23,692**	21,463
Foreign exchange losses (gains)	**52,411**	29,368
Stock-based compensation	**69,548**	17,049
Office and general administrative	**171,770**	110,945
	516,014	360,068
Loss from operations	**(516,014)**	(360,068)
Other income	—	—
Net loss and comprehensive loss for the period	**(516,014)**	(360,068)
Deficit, beginning of period	**(7,320,001)**	(5,753,258)
Deficit, end of period	**(7,836,015)**	(6,113,326)
Loss per share - basic and diluted	**(0.02)**	(0.02)
Weighted average number of shares outstanding	**22,697,143**	20,757,137

See accompanying notes

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

For the three months ended January 31

	2009 $	**2008** $
OPERATING ACTIVITIES		
Net loss for the period	**(516,013)**	(360,068)
Add charges to operations not requiring a current cash payment		
Stock-based compensation	**69,548**	17,049
Amortization	**1,403**	1,313
	(445,062)	(341,706)
Net change in non-cash working capital balances related to operations		
Accounts receivable	**(4,144)**	(14,148)
Prepaid expenses and deposits	**6,827**	2,356
Accounts payable and accrued liabilities	**383,812**	255,792
Deferred government assistance	**(49,225)**	(11,790)
Cash used in operating activities	**(107,792)**	(109,496)
INVESTING ACTIVITIES		
Purchase of property and equipment	**(1,079)**	**—**
Cash used in investing activities	**(1,079)**	**—**
FINANCING ACTIVITIES		
Repayment of notes payable	**(5,000)**	75,000
Repayment of obligations under capital lease	**(9,178)**	(2,211)
Issuance of shares and warrants	—	32,100
Cash (used in) provided by financing activities	**(14,178)**	104,889
Net decrease in cash during the period	**(123,049)**	(4,607)
Cash, beginning of period	**144,159**	4,943
Cash, end of period	**21,110**	336

Supplemental cash flow information		
Interest paid	**3,610**	689

See accompanying notes

1. NATURE OF BUSINESS AND GOING CONCERN COMMUNICATION

Nature of business

Synodon Inc. (the "Company") is an advanced remote sensing technology company which has developed a proprietary platform technology called realSens™ that has been proven to be capable of measuring small ground-level gas concentrations from an aircraft flying up to 300 metres in altitude. The Company is in the final stages of completing the prototype manufacturing of the realSens™ instrument and developing its plan for commercialization and as such is considered a development stage company.

Going concern communication

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") 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, 2009, the Company has an accumulated deficit of $7,836,015. At present, the Company does not have sufficient cash to continue its activities in the normal course of business. 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, 2008 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 2008 financial statements except for the new accounting standard adopted during the quarter as noted below.

CICA 3064 – Goodwill and Intangible Assets

Effective November 1, 2008, the Company adopted CICA 3064 - Goodwill and Intangible Assets that supersedes CICA 3062 - Goodwill and Other Intangibles and CICA 3450 - Research and Development Costs. CICA 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs be deferred only when relating to an item meeting the asset definition. This new accounting standard is effective for interim or annual financial statements relating to fiscal years beginning on or after October 31, 2008. There was no effect on the Company of adopting this standard.

Recent accounting pronouncements issued but not yet adopted

In January 2009, the CICA issued CICA 1582, Business Combinations which requires that all assets and liabilities of an acquired business be recorded at fair value at acquisition. Obligations for contingent considerations will also be recorded at fair value at the acquisition date. CICA 1582 also states that acquisition-related costs be expensed as incurred and that restructuring charges be expensed in the periods after the acquisition date. CICA 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. The Company does not expect that the adoption of this standard will have an effect on its financial statements.

In January 2009, the CICA issued CICA 1601, Consolidations and CICA 1602, Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after Janary 1, 2011. The Company does not expect that the adoption of this standard will have an effect on its financial statements.

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 is currently evaluating the effect of this change in standards on its financial statements.

3. NOTES PAYABLE

	January 31, 2009 $	October 31, 2008 $
Demand promissory notes		
Notes, bearing interest at 8% per annum	**27,500**	32,500
	27,500	32,500

During the quarter ended January 31, 2009, the Company repaid promissory notes with a face value of $5,000.

4. LOANS FROM DIRECTORS

The loans from Directors consist of the following:

	January 31, 2009 $	October 31, 2008 $
Demand promissory notes		
Notes, bearing interest at 8% per annum	**2,700**	2,700
	2,700	2,700

5. DEPOSIT ON DISTRIBUTION RIGHTS OPTION

On May 10, 2004, the Company granted a third party the right to purchase the distribution rights in the Saudi Arabian peninsula region in consideration for a fee of $65,875. The distribution rights option expired on July 31, 2007. However, both parties have agreed to extend the option until the realSens™ technology is commercialized. On November 15, 2008, the Company was notified by the third party that it had declined to exercise its option to become a distributor and accordingly has requested its original deposit of $65,875 under the distribution rights option agreement to be converted into shares of the Company, subject to applicable board and regulatory approvals.

6. SHARE CAPITAL

	January 31, 2009 $	October 31, 2008 $
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		
22,697,143 Class A common shares	**4,845,322**	—
22,697,143 Class A common shares	—	4,845,322

	Number of shares #	Total $
Balance, October 31, 2007	20,746,571	4,239,464
Issued in private placement, net of fair value of warrants of $284,589	1,517,853	398,445
Issued on exchange of notes payable and accrued interest	306,578	137,960
Costs of issuance of private placement	—	(15,737)
Issued for cash on the exercise of warrants	62,038	32,100
Transfer from warrants issued on issue of units on exercise of warrants	—	3,840
Issued on conversion of debt, net of costs of issuance of $750 *[note 14]*	64,103	49,250
Balance, January 31, 2009 and October 31, 2008	**22,697,143**	**4,845,322**

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 2,267,714 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 of Directors. 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 of Directors not to exceed five years. The option period for options granted in exchange for services is specified by the Board of Directors at the time of grant and ranged from three to ten years for options granted prior to April 30, 2006. There have not been any options granted in exchange for services after April 30, 2006. If an option has lapsed, the Board of Directors 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.

	Three months ended **January 31, 2009**		Year ended **October 31, 2008**	
	Number of shares	**Weighted average exercise price** $	**Number of shares**	**Weighted average exercise price** $
Outstanding, beginning of period	2,060,000	0.5383	1,540,000	0.4513
Granted	300,000	0.3000	600,000	0.7650
Exercised	—	—	—	—
Cancelled	(100,000)	0.5900	(80,000)	0.5500
Outstanding, end of period	2,260,000	0.5066	2,060,000	0.5383
Options exercisable at end of period	1,810,000	0.4689	1,275,000	0.4451

The following table summarizes information about share options outstanding at January 31, 2009:

Exercise price $	**Year of grant**	**Number outstanding and exercisable**	**Weighted average remaining contractual life** [years]	**Weighted average exercise price** $
0.45	2005	400,000	.9	0.450
0.40	2006	500,000	.9	0.400
0.50	2006	100,000	2.3	0.500
0.50	2007	410,000	3.0	0.500
0.75-0.78	2008	550,000	4.1	0.764
0.30	2008	300,000	4.8	0.300
		2,260,000	2.6	0.5066

On November 15, 2008, the Company cancelled 100,000 options to purchase common shares to employees of which 50,000 were exercisable at $0.40 and 50,000 were exercisable at $0.78.

On November 28, 2008, the Company issued 300,000 options to purchase common shares to officers and employees which vest over a thirteen month period and are exercisable at $0.30 per option.

The weighted average fair value of share options is determined at the date of grant using the Black-Scholes option pricing model. For the quarter ended January 31, 2009, $69,548 [2007 - $17,049] has been recorded as compensation expense with an equal amount reflected in contributed surplus.

Options grant

The following assumptions were used to calcualate the estimated fair value of options granted during the quarter ended January 31, 2009:

Exercise price	$0.30
Expected dividend yield	0.00%
Risk-free interest rate	2.44%
Expected volatility	72.4%
Average expected life	5.0 years

Warrants

At January 31, 2009, the Company had 2,238,026 (October 31, 2008 – 3,946,776) common share purchase warrants outstanding, as follows:

Exercise price $	**Expiry date**	**Number outstanding and exercisable** $
0.65 US	December 31, 2009	98,500
0.65	May 15, 2009	66,000
0.80	September 13, 2009	246,134
0.45	October 7, 2010	2,961
0.75	October 7, 2010	1,824,431
		2,238,026

On December 28, 2008 1,708,750 warrants expired, resulting in a reclassification of $192,192 from warrants issued on units to contributed surplus.

Warrants on issue of units

The following table sets out the change in warrants on issue of units:

	Three months ended **January 31, 2009** $	Year ended **October 31, 2008** $
Balance, beginning of period	**528,743**	256,634
Warrants issued on private placement units, net of issuance costs of $8,640	—	275,949
Transfer to share capital on exercise of warrants	—	(3,840)
Warrants expired on IPO units, net of issuance costs of $3,840	(192,192)	—
Balance, end of period	**336,551**	528,743

Contributed surplus

The following table sets out the change in contributed surplus:

	Three months ended January 31, 2009 $	**Year ended October 31, 2008** $
Balance, beginning of period	**633,661**	538,248
Stock-based compensation	**69,548**	95,413
Transfer on expiry of warrants on issue of units	**192,192**	—
Balance, end of period	**895,401**	633,661

7. GOVERNMENT ASSISTANCE

SDTC funding

During fiscal 2008, 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 will fund the lesser of $332,813 or 32.47% of the eligible project costs, less a 10% holdback. The Company has received an advance of $299,532 ($332,813 less 10% holdback) for the project. As at January 31, 2009, the Company had earned $257,958 of the project funding. The balance of $41,574 has been recorded as deferred government assistance at January 31, 2009. The completion of the project is scheduled for September 30, 2009. During the period ended January 31, 2009, $87,225 [2008 - $11,790 representing the final amount related to a similar program entered into in 2006] of SDTC funding has been included as a reduction of research and development costs.

On December 12, 2008, the Company signed a contribution agreement with SDTC to receive $110,000 of funding to be used towards the costs of Environmental Technology Verification Certification in Canada and the U.S. On December 19, 2008, the Company received the first advance on the contract of $38,000. The entire $38,000 has been recorded as deferred government assistance and will be expensed as earned.

At January 31, 2009, included in accounts receivable is a $65,000 holdback associated with the SDTC contract signed in 2006. The $33,281 holdback associated with the 2008 contract will be recorded as accounts receivable when the full amount of government assistance has been earned.

AVAC funding
On December 18, 2008, AVAC Ltd., through its Capacity Builder program, committed a $1.3 million contribution to the realSens™ project. The funds will be dispersed on a completed milestone basis over the next 12 months. The contribution will be used to support the deployment of the technology into the commercial marketplace.

The funding is milestone based and is received upon successful completion of technical and marketing milestones. The contribution is repayable by way of a royalty based on 1.5% of revenue earned, beginning in October 2009 up to a maximum of two times the contribution.

During the quarter ended January 31, 2009, the Company received $318,000 under this program towards the completion of the technical Milestone #1 and thus appears as a reduction to research and development expenses.

8. RESEARCH AND DEVELOPMENT COSTS

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

	Three months ended January 31, 2009	**Three months ended January 31, 2008**
	$	$
Research and development expenditures	**566,464**	189,920
Less government assistance		
SDTC	**(87,225)**	(11,790)
AVAC	**(318,000)**	—
	161,239	178,130

9. RELATED PARTY TRANSACTIONS

Officers, Directors and shareholders provided promissory notes *[note 4]* 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 established and agreed upon with the related parties.

(a) The Company leased facilities from an officer who is also a shareholder. Total rental payments for period ended January 31, 2009 were $1,500 [2008 - $1,000].
(b) The Company incurred interest on promissory notes in the amount of $54 [2008 - $1,373] during the period ended January 31, 2009 to Directors of the Company.

10. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

11. SUBSEQUENT EVENTS

Signing of a Distribution Option Agreement for Latin America

On March 2, 2009 the Company signed a realSensTM service distribution option agreement with the U.S. subsidiary of an international services company (“Third Party”) and received the associated sign up fee. The agreement gives the Third Party the option to purchase the realSensTM pipeline leak detection rights for Venezuela, Mexico, Colombia, Guatemala, Belize, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Ecuador. The distributorship will be for a period of three years which can be automatically renewed for a further five years upon successful completion of annual performance targets. The Third Party also receives a first right of refusal on Argentina, Peru, Brazil, Bolivia, Chile, Spain and Portugal, if the first three years’ annual performance targets are met and an expanded territory fee is paid.

The option expires August 30, 2009. In the event of expiry, the Third Party can elect to receive common shares of Synodon at prevailing market prices by giving notice of such intention by August 30, 2009.