

Synodon Inc.
Interim Financial Statements
For the Quarter Ended January 31, 2010 and 2009
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]

As at

| | January 31, 2010 | October 31, 2009 |
|--|-----------------------------|-----------------------------|
| | \$ | \$ |
| ASSETS [note 4] | | |
| Current | | |
| Cash | 406,599 | 994,198 |
| Accounts receivable [note 4] | 127,613 | 111,777 |
| Prepaid expenses and deposits | 88,878 | 45,989 |
| | 623,090 | 1,151,964 |
| Property and equipment | 23,734 | 13,886 |
| Intangible assets | 6,111 | — |
| | 652,935 | 1,165,850 |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY) | | |
| Current | | |
| Accounts payable and accrued liabilities | 162,550 | 319,795 |
| Deposits on distribution rights option | 80,240 | 80,431 |
| | 242,790 | 400,226 |
| Commitments and contingencies [note 4] | | |
| Shareholders' equity (deficiency) | | |
| Share capital [note 3] | 6,577,383 | 6,529,182 |
| Warrants on issue of note payable [note 3] | 39,998 | 39,998 |
| Warrants on issue of units [note 3] | 1,346,044 | 1,346,044 |
| Contributed surplus [note 3] | 1,782,089 | 1,173,714 |
| Deficit | (9,335,369) | (8,323,314) |
| | 410,145 | 765,624 |
| | 652,935 | 1,165,850 |

See accompanying notes

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

For the three months ended January 31

| | 2010 | 2009 |
|--|--------------------|-------------|
| | \$ | \$ |
| Revenue | 14,280 | — |
| Cost of Sales | 7,166 | — |
| | 7,114 | — |
| EXPENSES | | |
| Research and development, net of government assistance [note 4] | 168,967 | 161,239 |
| Amortization | 1,936 | 1,403 |
| Sales and marketing | 28,864 | 35,951 |
| Financing charges and interest | 11,035 | 23,692 |
| Foreign exchange losses (gains) | 1,139 | 52,411 |
| Stock-based compensation | 626,576 | 69,548 |
| Office, general and administrative | 180,652 | 171,770 |
| | 1,019,169 | 516,014 |
| Loss from operations | (1,012,055) | (516,014) |
| Net loss and comprehensive loss for the period | (1,012,055) | (516,014) |
| Deficit, beginning of period | (8,323,314) | (7,320,001) |
| Deficit, end of period | (9,335,369) | (7,836,015) |
| Loss per share - basic and diluted | \$(0.03) | \$(0.02) |
| Weighted average number of common shares outstanding | 29,387,284 | 22,697,143 |

See accompanying notes

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

For the three months ended January 31

| | 2010 | 2009 |
|--|--------------------|---------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss for the period | (1,012,055) | (516,013) |
| Add charges to operations not requiring a current cash payment | | |
| Stock-based compensation | 626,576 | 69,548 |
| Amortization | 1,936 | 1,403 |
| | (383,543) | (445,062) |
| Changes in non-cash working capital balances related to operations | | |
| Accounts receivable | (15,836) | (4,144) |
| Deposits on distribution rights option | (191) | — |
| Prepaid expenses and deposits | (42,889) | 6,827 |
| Accounts payable and accrued liabilities | (157,245) | 383,812 |
| Deferred government assistance | — | (49,225) |
| Cash used in operating activities | (599,704) | (107,792) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (11,519) | (1,079) |
| Purchase of intangible assets | (6,376) | — |
| Cash used in investing activities | (17,895) | (1,079) |
| FINANCING ACTIVITIES | | |
| Repayment of notes payable | — | (5,000) |
| Repayment of obligations under capital lease | — | (9,178) |
| Exercise of options | 30,000 | — |
| Cash provided by financing activities | 30,000 | (14,178) |
| Net decrease in cash during the period | (587,599) | (123,049) |
| Cash, beginning of period | 994,198 | 144,159 |
| Cash, end of period | 406,599 | 21,110 |
| Supplemental cash flow information | | |
| Interest paid | 2,485 | 3,610 |

Other non-cash transactions *[note 3]*
See accompanying notes

Synodon Inc.

(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

January 31, 2010 and 2009

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™ 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, on August 14, 2000, and as at January 31, 2010, the Company has an accumulated deficit of \$9,335,369. The Company's ability to continue as a going concern is dependent upon achieving profitable operations 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements should be read in conjunction with the October 31, 2009 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 2009 financial statements except for the new accounting standard adopted during the quarter as noted below.

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 fiscal years beginning on or after January 1, 2011. The Company is currently in the process of completing the scoping phase of its IFRS conversion plan that includes analyzing key differences and providing training to all finance and accounting staff. The Company is the process of developing a conversion plan and preparing a detailed timeline assessing: further training requirements, the impact on current accounting policies, information systems, internal controls over financial reporting and business activities.

Synodon Inc.

(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

January 31, 2010 and 2009

3. SHARE CAPITAL

| | January 31, 2010 | October 31, 2009 |
|--|-------------------|------------------|
| | \$ | \$ |
| 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 | | |
| 29,429,675 Class A common shares | 6,577,383 | — |
| 29,329,675 Class A common shares | — | 6,529,182 |
| | Number | Total |
| | of shares | \$ |
| | # | \$ |
| Balance, October 31, 2008 | 22,697,143 | 4,845,322 |
| Issued on conversion of distribution rights option [note 7] | 146,389 | 65,875 |
| Issued in private placement, net of costs of issuance of \$236,724 and net of fair value of warrants of \$1,204,000 | 6,486,143 | 1,617,985 |
| Balance, October 31, 2009 | 29,329,675 | 6,529,182 |
| Issued on exercise of stock options | 100,000 | 48,201 |
| Balance, January 31, 2010 | 29,429,675 | 6,577,383 |

On December 8, 2009, 100,000 share options were exercised at \$0.30 per option. The amounts transferred from contributed surplus related to these options were \$18,201.

Share options

Under the Company's incentive stock option plan (the "Plan"), options to purchase common shares may be granted by the Board of Directors to directors, officers, employees or consultants of the Company, or its subsidiaries. The Company has reserved up to 3,404,571 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, employees or consultants 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,

Synodon Inc.

(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

January 31, 2010 and 2009

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 is dismissed as an officer, employee or consultant by the Company for cause, all unexercised option rights of that participant under the Plan shall terminate immediately upon such dismissal. If a participant ceases to be an officer, employee or consultant of the Company as a result of reasons other than for cause (as set forth in the Plan) such participant shall have the right for a period not exceeding one year from the date of ceasing to be an officer, employee, consultant or director to exercise the option under the Plan with respect to all optioned shares of such participant to the extent they were exercisable on the date of ceasing to be an officer, employee, consultant or director.

| | Three Months Ended | | Year Ended | |
|--------------------------------------|----------------------------------|---|----------------------------------|---|
| | January 31, 2010 | | October 31, 2009 | |
| | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Outstanding, beginning of period | 2,915,000 | 0.5112 | 2,060,000 | 0.5383 |
| Granted | 1,150,000 | 0.6000 | 955,000 | 0.4556 |
| Exercised | (100,000) | 0.3000 | — | — |
| Cancelled | (900,000) | 0.5900 | (100,000) | 0.5900 |
| Outstanding, end of period | 3,065,000 | 0.5775 | 2,915,000 | 0.5112 |
| Options exercisable at end of period | 2,850,000 | 0.5819 | 2,260,000 | 0.5040 |

The following table summarizes information about share options outstanding at January 31, 2010:

| Range of exercise prices \$ | Year of grant | Number outstanding | Number exercisable | Weighted average remaining contractual life [years] | Weighted average exercise price \$ |
|--|--------------------------|-------------------------------|-------------------------------|--|---|
| 0.50 | 2006 | 100,000 | 100,000 | 1.3 | 0.500 |
| 0.50 | 2007 | 410,000 | 410,000 | 2.0 | 0.500 |
| 0.75-0.78 | 2008 | 550,000 | 550,000 | 3.2 | 0.764 |
| 0.30-0.61 | 2009 | 2,005,000 | 1,790,000 | 4.7 | 0.546 |
| | | 3,065,000 | 2,850,000 | 3.9 | 0.578 |

On December 2, 2009, the Company cancelled 900,000 share options previously granted to officers of the Company. These options were exercisable at an average price of \$0.42 per option and were set to expire on December 31, 2009.

On December 2, 2009, the Company issued to officers of the Company 1,150,000 share options to purchase common shares, exercisable at \$0.60 per option. The options have been issued pursuant to the Company's Plan and will vest immediately.

Synodon Inc.

(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTSJanuary 31, 2010 and 2009

The weighted average fair value of share options is determined at the date of grant using the Black-Scholes option pricing model. For the three month period ended January 31, 2010, \$626,576 [2009 - \$69,548] has been recorded as compensation expense with an equal amount reflected in contributed surplus.

The following assumptions were used to calculate the estimated fair value of options granted during the quarter ended January 31, 2010:

| | |
|--------------------------------|------------------|
| Exercise price | \$0.60 |
| Expected dividend yield | 0.00% |
| Risk-free interest rate | 2.39% |
| Expected volatility | 115% |
| Weighted average expected life | 5.0 years |

Warrants

At January 31, 2010, the Company had 5,707,938 (2008 - 2,238,026) common share purchase warrants outstanding, as follows:

| Exercise price | Expiry date | Number outstanding and exercisable |
|-----------------------|--------------------|---|
| \$ | | \$ |
| 0.45 | October 7, 2010 | 2,961 |
| 0.75 | October 7, 2010 | 1,824,431 |
| 0.39 | July 1, 2011 | 200,000 |
| 0.75 | August 10, 2011 | 269,016 |
| 0.45 | October 9, 2011 | 299,880 |
| 0.75 | October 9, 2011 | 2,477,225 |
| 0.45 | October 29, 2011 | 64,400 |
| 0.75 | October 29, 2011 | 570,026 |
| | | 5,707,938 |

On December 31, 2009 98,500 warrants expired.

Synodon Inc.

(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

January 31, 2010 and 2009

Warrants on issue of units

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

| | Three months ended January 31, 2010 | Year ended October 31, 2009 |
|---|--|--|
| | \$ | \$ |
| Balance, beginning of period | 1,346,044 | 528,743 |
| Warrants issued on private placement units, net of issuance costs of \$130,905 | — | 1,070,095 |
| Transfer to share capital on exercise of warrants | — | — |
| Expiry of warrants issued on IPO units | — | (239,144) |
| Expiry of warrants issued on conversion of promissory notes and accrued interest | — | (13,650) |
| Balance, end of period | 1,346,044 | 1,346,044 |

The Company uses the treasury stock method to calculate loss per share and under this method options that are anti-dilutive are excluded from the calculation of diluted loss per share. For the three month period ended January 31, 2010 and the year ended October 31, 2009, all outstanding options are considered anti-dilutive when the Company has recorded a loss available to common shareholders.

Warrants on issue of note payable

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

| | Three months ended January 31, 2010 | Year ended October 31, 2009 |
|--|--|--|
| | \$ | \$ |
| Balance, beginning of period | 39,998 | — |
| Warrants issued on note payable, net of issuance costs of \$660 | — | 39,998 |
| Balance, end of period | 39,998 | 39,998 |

Synodon Inc.

(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

January 31, 2010 and 2009

Contributed surplus

The following table sets out the change in contributed surplus:

| | Three months ended January 31, 2010 | Year ended October 31, 2009 |
|--|--|--------------------------------|
| | \$ | \$ |
| Balance, beginning of period | 1,173,714 | 633,661 |
| Stock-based compensation | 626,576 | 287,259 |
| Exercise of options | (18,201) | — |
| Expiry of warrants issued on IPO units | — | 239,144 |
| Expiry of warrants issued on conversion of promissory notes and accrued interest | — | 13,650 |
| Balance, end of period | 1,782,089 | 1,173,714 |

4. GOVERNMENT ASSISTANCE**SDTC funding**

The Company has entered into a number of funding agreements since 2006 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. For the year ended October 31, 2009, the Company recorded \$204,302 as a reduction of research and development costs related to SDTC assistance earned during the year.

As at January 31, 2010, included in accounts receivable are \$102,504 in holdbacks associated with all SDTC contracts signed since 2006. The required documentation for release of the holdbacks is in the process of being filed.

AVAC funding

On December 18, 2008, AVAC Ltd. (“AVAC”), through its Capacity Builder program, committed a \$1.3 million contribution to the realSens™ project. As part of the contribution, the Company signed a General Security Agreement with AVAC, giving AVAC first right on all of the Company's assets in the event of default. 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.

For the three month period ended January 31, 2010, the Company has received nil under this program and owes \$214 in royalties.

Synodon Inc.

(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTSJanuary 31, 2010 and 2009

IERD funding

In 2004, the Company qualified for funding under the Industry Energy Research and Development Program ("IERD"). Under this government funding program, IERD advanced to the Company an amount equal to 28% of eligible costs incurred, up to a maximum of \$600,000. The advances were non-interest bearing and only repayable at an amount of 3% of revenue earned in connection with the project. As at October 31, 2009, the project has been completed and all monies owing have been received by the Company, totalling \$600,000. For the three month period ended January 31, 2010, the Company owes \$428 in royalties.

Investment tax credits

The Company claims research and development deductions and the related investment tax credits for income tax purposes based on management's interpretation of the applicable legislation under the Income Tax Act (Canada). These claims are subject to technical and expenditure review by the Canada Revenue Agency.

5. RESEARCH AND DEVELOPMENT

Since inception the Company has incurred \$6,041,769 of research and development expenses in developing its technologies. Research and development costs and reductions due to government assistance in each of the past two years are summarized as follows:

| | Three months ended January 31, 2010 | Three months ended January 31, 2009 |
|--|--|--|
| | \$ | \$ |
| Research and development expenses | 168,325 | 566,464 |
| Add royalty expense | | |
| IERD | 428 | — |
| AVAC | 214 | — |
| Less government assistance | | |
| SDTC | — | (87,225) |
| IERD | — | — |
| AVAC | — | (318,000) |
| | 168,967 | 161,239 |

6. RELATED PARTY TRANSACTIONS

Officers, directors and shareholders provided promissory notes [note 5] 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 by the related parties.

- (a) The Company leased facilities from an officer who is also a shareholder. Total rental payments for fiscal 2010 were \$nil [2009 - \$1,500].

Synodon Inc.

(a development stage enterprise)

NOTES TO FINANCIAL STATEMENTS

January 31, 2010 and 2009

(b) The Company incurred interest on promissory notes in the amount of \$nil [2009 - \$54] to directors of the Company.

7. RECLASSIFICATION OF COMPARATIVE FIGURES

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

8. SUBSEQUENT EVENTS

On February 19, 2010, the Company issued to employees and officers of the Company 325,000 share options to purchase common shares, exercisable at \$0.46 per option. The options have been issued pursuant to the Company's Plan and will vest over an 11 month period.