

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

**FOR THE QUARTER ENDED JULY 31, 2010**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management's discussion and analysis ("MD&A") was prepared as of September 27, 2010 and should be read in conjunction with Synodon Inc.'s ("Synodon" or the "Company") interim financial statements for the three month and nine month periods ended July 31, 2010. In addition, this MD&A should be read in conjunction with the Company's MD&A and the audited annual financial statements for the year ended October 31, 2009 and the notes contained therein. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and in the Company's reporting currency which is the Canadian dollar. Synodon is a reporting issuer in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia. The Company's shares trade on the TSX Venture Exchange under the symbol "SYD".*

*Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at [www.sedar.com](http://www.sedar.com).*

*This MD&A contains forward-looking statements. Please see the section "Note Regarding Forward-Looking Statements" beginning on page 23 of this MD&A for a discussion of the risks, uncertainties and assumptions relating to those statements.*

### Overview

This section is forward-looking by nature. It is qualified entirely by the section "Note Regarding Forward-Looking Statements", beginning on page 23 of this MD&A. It is also qualified by the section "Risks Relating to the Business", beginning on page 18 of this MD&A.

Synodon is an advanced remote sensing technology company which has developed a proprietary platform technology called realSens™ (the "Technology") 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 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 designed to be 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.

Under the current instrument implementation, Synodon has demonstrated the ability to measure and detect two gases, ethane and methane. The three initial markets that are currently being targeted with these two gases are the oil and gas, waste management and agricultural sectors.

The first vertical Synodon is focusing its marketing efforts upon is the natural gas pipeline sector, part of the broader, \$1.6 billion hydrocarbon emissions detection 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 prototype tests of the realSens™ technology with its strategic partners. The gas leak detection service that Synodon provides is price competitive in this market sector and potentially offers a 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 competitive 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 \$10.4 million primarily for product research and development but also for initial marketing, advertising, promotion and public relations activities. The Company has not been profitable since its inception and expects to incur further losses in continuing the development and testing of its product. The Company has started to generate revenues in fiscal year 2010 now that its realSens™ technology is in final field trials and customer demonstrations. The Company is currently implementing marketing and sales strategies for its product.

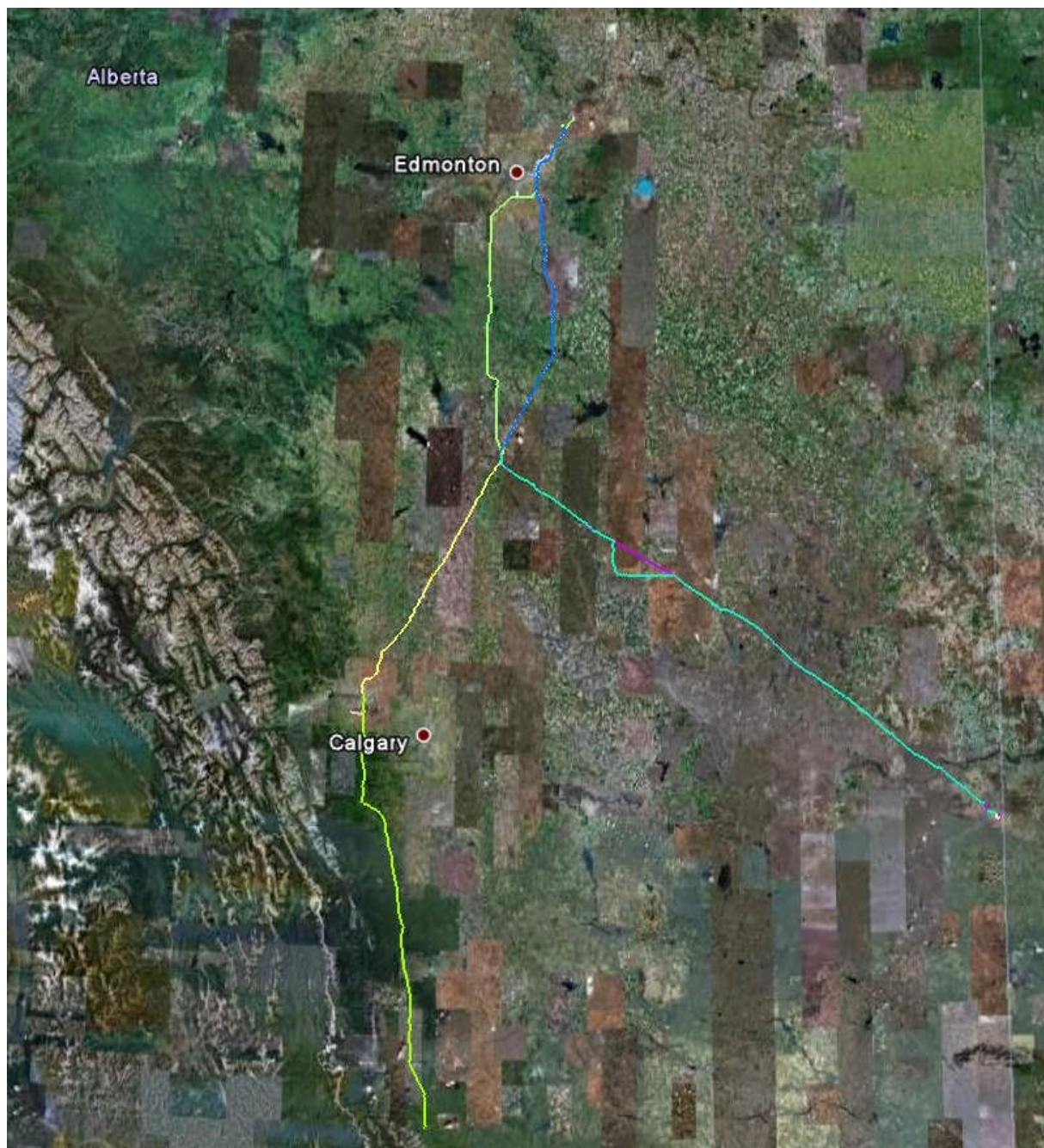
The Company has expensed all research and development and prototype costs as incurred with no development costs being capitalized. The Company has not yet met the specific criteria under Canadian GAAP related to technical, market and financial feasibility to allow for the capitalization of development costs. At October 31, 2009, the Company had approximately \$6,220,000 of non-capital losses available to reduce future taxable income and \$175,800 of investment tax credits available to reduce income taxes payable.

### **Main Accomplishments during the Period**

This section is forward-looking by nature. It is qualified entirely by the section “Note Regarding Forward-looking Statements”, beginning on page 23 of this MD&A. It is also qualified by the section “Risks Relating to the Business”, beginning on page 18 of this MD&A.

#### *NOVA Chemicals Follow-on Contract*

During the quarter ended July 31, 2010, the Company began to deliver on the contract signed on March 25, 2010 with Nova Chemicals. The contract was a 3-year, follow-on commercial contract for a 3 year term with Nova Chemicals for the survey of their entire 1,500 kilometer pipeline network that carries ethane. The section scheduled for survey during the 2010 season is roughly 30% of NOVA Chemicals pipeline network. The figure below outlines the extent of this network in Alberta.



*Waste Management Greenhouse Gas Emissions Measurement Project*

During the quarter ended July 31, 2010, the Company continued to deliver on the contract signed on March 9, 2010 with Edmonton Waste Management Centre of Excellence (“EWMCE”). Under the agreement with Edmonton Waste Management Centre of Excellence (“EWMCE”), the Company will perform a series of field measurements with the realSens™ airborne gas sensing instrument over a variety of waste treatment facilities. The facilities will include closed and active landfill sites, biosolids lagoons and composting sites. The primary gas of interest to be measured during these trials will be methane (as compared to ethane which is the primary gas being measured during natural gas pipeline surveys).

EWMCE will participate in the evaluation and interpretation of the results and their correlation to concomitant ground level measurements. One of the main goals of these trials is to collect sufficient information and understanding of plume behaviour so as to enable the development of a potential methane emissions quantification protocol for waste management facilities. The work may result in the publication of technical papers or conference presentations.

EWMCE (<http://www.ewmce.com>) is a not-for-profit corporation established to meet solid waste and wastewater challenges worldwide. EWMCE is a collaborative hub for innovative research, technology development and training. The focus is on developing practical, sustainable solutions to apply locally and globally. EWMCE's members are the City of Edmonton, the University of Alberta, Alberta Innovates – Technology Futures (formerly the Alberta Research Council), AMEC Earth and Environmental Ltd., Northern Alberta Institute of Technology and EPCOR Water Services Inc.

Canada has 10,000 landfills, of which 200 are major landfills, emitting anaerobically produced methane, a strong greenhouse gas. In 2007, solid waste landfills in Canada and the United States emitted nearly 177.3 Mtonnes CO<sub>2</sub> equivalent of methane representing 26% of the total methane emissions and 2.7% of the two countries total greenhouse gas emissions.

#### *Latin America Distribution Option Extended*

On March 12, 2009, The Company announced the signing of a realSens™ service distribution option for the Latin American territory (which also includes Spain and Portugal) with a Mexican based natural gas service provider. The marketing by the option holder that followed this announcement resulted in initial discussions with a number of pipeline operators as well as a live demonstration near Barcelona, Spain which was attended by Spain's three largest gas companies. This process allowed the Company to test-run its international deployment processes and operating procedures and gather invaluable feedback and intelligence about foreign markets and regulations. The initial option agreement was due to expire on March 31, 2010 but due to the progress shown by the option holder in their marketing and customer presentation activities, the option was extended until December 31, 2010. It should be noted that the activities related to the markets covered by this agreement are in parallel to the main customers the Company is pursuing in Canada and the US and are not core to the business plan execution over the next two years.

#### *New Customer Contracts*

In June 2010, the Company has announced that it has secured initial service contracts with two natural gas pipeline operators, Keyera Energy (“Keyera”) and TransGas Limited (“TransGas”), a wholly owned subsidiary of SaskEnergy Incorporated (“SaskEnergy”). Both contracts will be executed over the summer and fall of 2010 and will allow the pipeline operations departments in both companies to integrate the various datasets provided by the realSens™ survey into their systems. The Company expects to have follow-on work discussions after the execution of the initial contracts.

Keyera ([www.keyera.com](http://www.keyera.com)) provides a range of gathering, processing, fractionation, storage, transportation and marketing services to the oil and gas industry. As a “midstream” business, Keyera is not engaged in exploration and production; rather focuses on providing essential services to producers and delivering natural gas liquids and other related products to key markets across North America.

TransGas Limited ([www.transgas.com](http://www.transgas.com)) is a wholly owned subsidiary of SaskEnergy that provides natural gas transportation and storage services in Saskatchewan. TransGas currently has over 14,000 kilometres of gathering and transmission pipelines within the Province of Saskatchewan while its parent, SaskEnergy, operates a further 67,000 kilometers of distribution lines.

On August 31, 2010, the Corporation announced a new contract with ATCO Pipelines to inspect a section of their network near the city of Calgary. ATCO Pipelines operates more than 8,500 kilometers of natural gas transmission pipelines throughout the province of Alberta. The contract will be completed in the fall of 2010.

#### *realSens™ Technology Patents*

On August 6, 2010, the Corporation announced that the European Patent Office has issued a notification of its intent to grant Synodon a patent that includes 9 claims covering a combination of a Gas Filter Correlation Radiometer (“GFCR”) embodiment and its application for the detection of gas leaks from underground pipelines by sensing ethane. The novelty and advancement with respect to the GFCR relates to the inclusion of a bi-prism optical element that allows for the collocation of the two radiometer chains into one optical path. This provides significant improvements in instrument stability, reliability, noise and, most importantly, in gas detection sensitivity while costs of manufacturing and system complexity are reduced. Traditionally, pipeline leak detection was focused around measuring methane emissions, a 95% constituent of natural gas. A variety of naturally occurring methane sources always added a level of uncertainty to these measurements however, as there was no easy way to distinguish between them and the pipeline gas. The improved gas sensitivity that realSens™ achieves, makes it possible to detect ethane instead, a small constituent of natural gas and other hydrocarbon products. As there are no naturally occurring sources of ethane, the presence of this gas in the vicinity of a pipeline or oil and gas operation positively identifies a leak from these facilities without any false alarms.

On August 13, 2010, the Corporation also announced that the United States Patent Office has issued a notice of allowance for a patent that includes 9 claims covering a combination of a GFCR embodiment and its application for the detection of gas leaks from underground pipelines by sensing ethane. Similar to the patent that Synodon received from the European Union, the novelty and advancement with respect to the GFCR relates to the inclusion of a bi-prism optical element that allows for the collocation of the two radiometer chains into one optical path. This provides significant improvements in instrument stability, reliability, noise and, most importantly, in gas detection sensitivity while costs of manufacturing and system complexity are reduced.

#### *New realSens™ Instrument*

Since announcing the completion of its first commercial realSens™ instrument in December 2008, the Company has been operating with just one system. Each realSens™ system can survey on average 65,000 kilometers in a year and therefore the Company does not anticipate the need to actively require a second operating system until 2011. However, the Company had to mitigate the risk of any potential instrument downtime due to any unforeseen circumstances and to be able to respond to large customer contracts that could be signed with certain pipeline operators that the Company continues to have discussions with. Part of the proceeds from the private placement completed in October 2009 were dedicated to the manufacturing of a second realSens™ detector unit, the most critical component of the system. A number of enhancements were also made to the design during this process which proved to be successful at improving the realSens™ instrument performance. The new system has been fully tested and commissioned during June 2010 and entered field operations in July 2010.

#### *Organizational Capability*

The Company has started to add organizational capability as it moves toward commercialization. In January 2010, the Company hired a Vice President of Sales to lead the customer acquisition effort and a

Lead Scientist to add more strength to data analyses and the scientific team. The Company has also hired an instrumentation specialist as well as a junior data analysis scientist.

**Next Steps**

The Company is focusing its efforts primarily on introducing the realSens™ service to the marketplace and acquiring customers. The foregoing sentence contains forward-looking statements. It is qualified entirely by the section “Note Regarding Forward-looking Statements”, on page 23 of this MD&A. It is also qualified by the section “Risks Relating to the Business”, beginning on page 18 of this MD&A.

## Summary of Quarterly Results

Quarterly Statement of Loss	Three Months Ended							
	31/07/2010 (\$)	30/04/2010 (\$)	31/01/2010 (\$)	31/10/2009 (\$)	31/07/2009 (\$)	30/04/2009 (\$)	31/01/2009 (\$)	31/10/2008 (\$)
Net (loss) /income for the period	(\$507,643)	(\$572,517)	(\$1,012,055)	(\$334,739)	\$56,835	(\$209,396)	(\$516,014)	(\$447,315)
Loss per share (basic and diluted) (1)	(\$0.02)	(\$0.02)	(\$0.03)	(\$0.01)	\$0.00	(\$0.01)	(\$0.02)	(\$0.02)
Weighted-average shares outstanding	30,540,787	29,704,332	29,387,284	24,386,237	22,697,143	22,697,143	22,697,143	21,348,651

(1) Quarterly earnings per share are not additive and may not equal the annual earnings per share reported. This is due to the effect of shares issued during the year on the weighted average number of shares outstanding.

## Selected Financial Information

Balance Sheets	July-31-10	October-31-09
	(\$)	(\$)
Total assets	210,950	1,165,850
Total liabilities	527,808	400,226
Share capital	6,731,012	6,529,182
Warrants on issue of note payable	39,998	39,998
Warrants on issue of units	1,429,230	1,346,044
Contributed surplus	1,898,431	1,173,714
Deficit, at end of period	(10,415,529)	(8,323,314)

Statements of Loss and Deficit, Three-Month Periods Ended	July-31-10	July-31-09
	(\$)	(\$)
Total revenue	—	—
Research and development costs, net of government assistance	(231,437)	197,662
Stock-based compensation expenses	(42,728)	(39,762)
Office and general administrative expenses	(169,662)	(164,199)
Sales and marketing expenses	(60,863)	27,200
Other revenue and expenses	(2,953)	35,934
Net (loss)/income for the quarter	(507,643)	56,835
Loss per share (basic and diluted)	(0.02)	—
Deficit, at end of period	(10,415,529)	(7,988,576)

**Comparison of Three Month Periods Ended July 31, 2010 and July 31, 2009***Results of Operations*

An operating loss of \$507,643 or \$0.02 per share was incurred for the three month period ended July 31, 2010, which compares to an operating income of \$56,835 or \$0.00 per share in the corresponding period in 2009. The increase in the operating loss is primarily attributable to increases in research and development spending, sales and marketing expenses and stock based compensation, which is offset by decreases in government assistance for research and development and other expenses.

*Research and Development Expenses*

During the three month period ended July 31, 2010, gross research and development costs incurred were \$245,187 compared to \$175,755 in the corresponding period in 2009. A portion of these expenses were recovered through government assistance in each year as described below. Research and development costs, net of these government contributions, represented an expense of \$231,437 in the three month period ended July 31, 2010 and a recovery of \$197,662 in the corresponding period in 2009. Research and development costs are comprised of two main categories: wages and benefits and third party subcontractors and materials.

For the three month periods ended	July-31-10		July-31-09	
	(\$)		(\$)	
Wages and benefits	137,929	60%	79,866	-40%
Subcontractors and materials	107,258	46%	95,889	-49%
<b>Gross research and development costs</b>	<b>245,187</b>	<b>106%</b>	<b>175,755</b>	<b>-89%</b>
<b>Add</b>				
IERD royalty	0	0%	0	0%
AVAC royalty	0	0%	0	0%
<b>Less</b>				
Alberta Ingenuity funding	(13,750)	(6%)	-	0%
SDTC funding	-	0%	-	0%
IERD funding	-	0%	-	0%
AVAC funding	0	0%	(373,417)	189%
<b>Research and development costs, net</b>	<b>231,437</b>	<b>100%</b>	<b>(197,662)</b>	<b>100%</b>

Wages and benefits costs increased by \$58,063 in the three month period ended July 31, 2010 as compared to the corresponding period in 2009 (\$137,929 vs. \$79,866 respectively) as a result of increasing the staffing levels by three.

The subcontractor and material costs increased due to the costs incurred in the process of making design refinements for a second realSens™ instrument.

*Recoveries of Research and Development Expenses*

On April 12, 2010, the Company was notified that it had been awarded a two year grant through the Alberta Innovates Technology Futures (“Alberta Ingenuity”) program. The grant is designed to fund research and development wages to help bring technical solutions to commercialization. The total grant of \$124,000 has two components. The first is \$110,000 to be paid in 24 monthly instalments and \$14,000 to be paid annually on April 1, 2010 and April 1, 2011. The Company recorded \$13,750 in the quarter ended July 31, 2010 as a reduction of research and development expenses and will continue to record the monies when due as a reduction of research and development expenses.

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. During the three month period ended July 31, 2010, the Company recorded \$nil as a reduction of research and development costs related to SDTC assistance earned during the period (2009 - \$nil).

On December 18, 2008, AVAC Ltd. (“AVAC”), 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 a period of approximately 18 months. The contribution has been 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 three months ended July 31, 2010, the Company received \$nil under this program (2009 - \$373,417).

*Stock-Based Compensation Expenses*

Stock-based compensation has increased to \$42,728 in the three month period ended July 31, 2010 as compared to \$39,762 in the corresponding period in 2009. The increase is in part due to the issuance and vesting of 325,000 stock options to employees and officers of the Company in the three month period ended April 30, 2010 (2009 – nil).

*Office and General Administrative Expenses*

Office and administrative expenses increased to \$169,662 in the three month period ended July 31, 2010 versus \$164,199 in the corresponding period in 2009 primarily as a result of the increases in wages and insurance expenses offset by a reduction in legal and professional fees expense. The table below outlines the key components that comprise office and administrative expenses.

For the three month period ended	July-31-10		July-31-09	
	(\$)		(\$)	
Legal and professional fees	33,434	20%	40,957	25%
Insurance	10,720	6%	5,997	4%
Travel	10,647	6%	7,289	4%
Wages	73,395	43%	70,781	43%
Rent and utilities	23,756	14%	20,935	13%
Other	17,710	10%	18,240	11%
<b>Total</b>	<b>169,662</b>	<b>100%</b>	<b>164,199</b>	<b>100%</b>

Insurance expense increased in the three month period ended July 31, 2010 as a result of increasing the insurance coverage related to the increase in shipping and flying of the realSens™ instrument. The increased insurance expenses are expected to be incurred on an annual basis as the Company does more flights. The foregoing sentence contains forward-looking statements. It is qualified entirely by the section “Note Regarding Forward-looking Statements”, on page 23 of this MD&A. It is also qualified by the section “Risks Relating to the Business”, beginning on page 18 of this MD&A.

Wages expense has increased as a result of relocation costs associated with the hiring of a new employee. Legal and professional fees expense has decreased as a result of costs incurred in 2009 for patent filings.

#### *Sales and Marketing Expenses*

Sales and marketing expenses were \$60,863 for the quarter ended July 31, 2010 compared to an expense recovery of \$27,200, as a result of government assistance received from AVAC for reimbursement of prior marketing expenses incurred of \$39,583, in the same corresponding period last year. The increase in expenses is due to the costs associated with the salary of a Vice President of sales who was hired in January 2010 and an increase in investor relations activities in 2010. Sales and marketing costs will continue to become more significant as the Company moves into its operational phase.

#### *Other Expenses*

Foreign exchange movements during the quarter resulted in a gain of \$1,055 in the three month period ended July 31, 2010 versus a gain of \$91,153 in the corresponding period last year. The gain was as a result of \$US denominated purchases made in the quarter that were payable as at July 31, 2010. The change of \$90,098 year over year for the three months ended July 31, 2010 was a result of a decrease of U.S. denominated payables. The Company paid off all overdue supplier balances with the proceeds of the October 2009 private placement.

The financing charges and interest expense decreased by \$52,401 in the three month period ended July 31, 2010 versus the corresponding period last year. The Company paid off all overdue supplier balances with the proceeds of the October 2009 private placement.

**Comparison of Nine Month Periods Ended July 31, 2010 and July 31, 2009**

Statements of Loss and Deficit, Nine-Month Periods Ended	July-31-10 (\$)	July-31-09 (\$)
Total revenue	—	—
Research and development costs, net of government assistance	<b>(671,568)</b>	<b>66,896</b>
Stock-based compensation expenses	<b>(742,919)</b>	<b>(155,546)</b>
Office and general administrative expenses	<b>(523,782)</b>	<b>(508,574)</b>
Sales and marketing expenses	<b>(141,811)</b>	<b>(22,547)</b>
Other revenue and expenses	<b>(19,249)</b>	<b>(48,804)</b>
Net loss for the period	<b>(2,092,215)</b>	<b>(668,575)</b>
Loss per share (basic and diluted)	<b>(0.07)</b>	<b>(0.03)</b>
Deficit, at end of period	<b>(10,415,529)</b>	<b>(7,988,576)</b>

*Results of Operations*

An operating loss of \$2,092,215 or \$0.07 per share was incurred for the nine month period ended July 31, 2010, which compares to an operating loss of \$668,575 or \$0.03 per share in the corresponding period in 2009. The increase in the operating loss is primarily attributable to increases in research and development spending, sales and marketing expenses and stock based compensation, which is offset by decreases in government assistance for research and development and other expenses.

*Research and Development Expenses*

During the nine month period ended July 31, 2010, gross research and development costs incurred were \$696,259 compared to \$944,746 in the corresponding period in 2009. In addition to the gross research and development costs in the nine month period ended July 31, 2010, Synodon had to begin to pay back contributions made by AVAC Ltd. (“AVAC”) and Industry Energy Research and Development Program (“IERD”) in the form of royalties. A portion of the research and development expenses were recovered through government assistance in 2009 and 2010 as described below. Research and development costs, net of these government contributions, represented an expense of \$671,568 in the nine month period ended July 31, 2010 and a recovery of \$66,896 in the corresponding period in 2009. Research and development costs are comprised of two main categories: wages and benefits and third party subcontractors and materials.

For the nine month periods ended	July-31-10 (\$)		July-31-09 (\$)	
Wages and benefits	355,502	53%	208,237	-311%
Subcontractors and materials	340,757	51%	736,509	-1101%
<b>Gross research and development costs</b>	<b>696,259</b>	<b>104%</b>	<b>944,746</b>	<b>-1412%</b>
<b>Add</b>				
IERD royalty	428	0%	0	0%
AVAC royalty	214	0%	0	0%
<b>Less</b>				
Alberta Ingenuity funding	(25,333)	(11%)	-	0%
SDTC funding	0	0%	(87,225)	130%
IERD funding		0%		0%
AVAC funding	0	0%	(924,417)	1382%
<b>Research and development costs, net</b>	<b>671,568</b>	<b>100%</b>	<b>(66,896)</b>	<b>100%</b>

Wages and benefits costs increased by \$147,265 in the nine month period ended July 31, 2010 as compared to the corresponding period in 2009 (\$355,502 vs. \$208,237 respectively) as a result of increasing the staffing levels by three.

The subcontractor and material costs decreased significantly due to the costs incurred last year in the purchase of the realSens<sup>TM</sup> instrument sensors (~\$400,000).

#### *Royalty payments*

The Company has received assistance from a government program called Industry Energy Research and Development Program. The total amount of the assistance received was \$600,000. 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 nine months ended July 31, 2010, the Company paid royalties of \$428 under this program (2009 - \$nil).

On December 18, 2008, AVAC, through its Capacity Builder program, committed a \$1.3 million contribution to the realSens<sup>TM</sup> project. The funds will be dispersed on a completed milestone basis over a period of approximately 18 months. The contribution has been 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 nine months ended July 31, 2010, the Company paid royalties of \$214 under this program (2009 - \$nil).

*Recoveries of Research and Development Expenses*

On April 12, 2010, the Company was notified that it had been awarded a two year grant through the Alberta Innovates Technology Futures (“Alberta Ingenuity”) program. The grant is designed to fund research and development wages to help bring technical solutions to commercialization. The total grant of \$124,000 has two components. The first is \$110,000 to be paid in 24 monthly instalments and \$14,000 to be paid equally on April 1, 2010 and April 1, 2011. The Company recorded \$25,333 in the nine month period ended July 31, 2010 as a reduction of research and development expenses and will continue to record the monies when received as a reduction of research and development expenses.

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. During the nine month period ended July 31, 2010, the Company recorded \$nil as a reduction of research and development costs related to SDTC assistance earned during the period (2009 - \$87,225).

The AVAC 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 nine months ended July 31, 2010, the Company received \$nil under this program (2009 - \$924,417).

*Stock-Based Compensation Expenses*

Stock-based compensation has increased to \$742,919 in the nine month period ended July 31, 2010 as compared to \$155,545 in the corresponding period in 2009. The increase is due to the issuance and immediate vesting of 1,150,000 stock options to officers of the Company in the six month period ended April 30, 2010 (2009 – 100,000) after cancelling 900,000 stock options to those officers that were due to expire on December 31, 2009. The issuance of stock options were exercisable at \$0.60 per option, while the cancelled options were exercisable at an average price of \$0.42 per option and a further issuance of 325,000 stock options to other employees and officers of the Company.

*Office and General Administrative Expenses*

Office and administrative expenses increased to \$523,782 in the nine month period ended July 31, 2010 versus \$508,574 in the corresponding period in 2009. This increase is primarily a result of increases in insurance and freight expenses offset by decreases in legal and professional fees expense. The table below outlines the key components that comprise office and administrative expenses.

For the nine month periods ended	July-31-10		July-31-09	
	(\$)		(\$)	
Legal and professional fees	92,969	18%	119,877	24%
Insurance	31,163	6%	17,992	4%
Travel	43,382	8%	39,520	8%
Wages	229,652	44%	219,913	43%
Rent and utilities	72,707	14%	65,042	13%
Other	53,909	10%	46,230	9%
<b>Total</b>	<b>523,782</b>	<b>100%</b>	<b>508,574</b>	<b>100%</b>

Freight expenses increased in the nine month period ended July 31, 2010 as a result of the Company getting a Carnet from the Canadian government which allows the realSens™ instrument to be shipped to any participating country with expedited customs clearance processes. Insurance expense increased in the nine month period ended July 31, 2010 as a result of increasing the insurance coverages related to the increase in shipping and flying of the realSens™ instrument. The increased freight and insurance expenses are expected to be incurred on an annual basis as the Company does more flights. Legal and professional fees expense has decreased as a result of costs incurred in 2009 for a distribution option agreement with a U.S. subsidiary of an International Services company (giving an option for the right to be the Latin American distributor of the realSens technology for the purpose on natural gas pipeline leak detection) and patent filings. The foregoing paragraph contains forward-looking statements. It is qualified entirely by the section “Note Regarding Forward-looking Statements”, on page 23 of this MD&A. It is also qualified by the section “Risks Relating to the Business”, beginning on page 18 of this MD&A.

#### *Sales and Marketing Expenses*

Sales and marketing expenses were \$141,811 for the nine months ended July 31, 2010 compared to an expense of \$22,547 in the same corresponding period last year. The increase in expenses is due to the wages of the Vice President of Sales (hired in January 2010) and an increase in investor relations activities in 2010 offset by the fact that costs associated with a “go to market” - sales and marketing plan that were incurred in 2009. Sales and marketing costs will continue to become more significant as the Company moves into its operational phase.

#### *Other Expenses*

Foreign exchange movements during the period resulted in a loss of \$5,426 in the nine month period ended July 31, 2010 versus a gain of \$56,458 in the corresponding period last year. The loss was as a result of a 5% increase in the Canadian dollar relative to the U.S. dollar and a decrease of U.S. denominated payables, approximately \$383,000 decrease. The Company paid off all overdue supplier balances with the proceeds of the October 2009 private placement.

The financing charges and interest expense decreased to \$7,047 in the nine month period ended July 31, 2010 versus an expense of \$101,281 for the corresponding period last year. The Company paid off all overdue supplier balances with the proceeds of the October 2009 private placement.

**Comparison of Balance Sheets Dated July 31, 2010 and October 31, 2009***Total Assets*

The decrease in total assets as of July 31, 2010 of \$954,900 was primarily due to the use of cash for the purchase of some parts required for a second realSens<sup>TM</sup> instrument along with normal business expenses.

*Total Liabilities*

The increase of \$127,582 in liabilities from \$400,226 at October 31, 2009 to \$527,808 at July 31, 2010 was primarily related to an increase in trade payables (approximately \$178,000) and increase in accrued liabilities, (approximately \$40,000) primarily related to accrued, unpaid wages offset by a decrease in government remittances owing (approximately \$86,000). Accrued unpaid wages at July 31, 2010 are approximately \$114,000 versus \$30,000 at October 31, 2009. Government remittances owing at July 31, 2010 were approximately \$27,000 versus \$113,000 at October 31, 2010. The \$527,808 balance is comprised of \$450,408 in current trade payables and accrued liabilities and a deposit on distribution rights option given to a Latin American firm of \$77,400.

**Capital Resources and Liquidity**

The Company's financial statements have been prepared by management in accordance with Canadian 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 July 31, 2010, the Company has an accumulated deficit of \$10,415,529. The Company's ability to continue as a going concern is dependent upon achieving profitable operations, the continued financial support of its investors and the ability to obtain additional debt or equity financing. The outcome of these matters cannot be predicted at this time. The Company anticipates a further need to raise capital in the fall of 2010. The foregoing sentence contains forward-looking statements. It is qualified entirely by the section "Note Regarding Forward-looking Statements", on page 23 of this MD&A. It is also qualified by the section "Risks Relating to the Business", beginning on page 18 of this MD&A.

Funds provided (used) in operations, being net loss adjusted for non-cash operating items, was \$(462,440) for the three month period ended July 31, 2010 compared to \$105,900 for the corresponding period in 2009. The Company believes that funds used in operations, which does not have a standardized meaning under GAAP, is a useful supplemental measure as it provides an indication of cash flow used in our operations during the quarter. This non-GAAP measure may not be comparable to similar measures presented by other companies.

A reconciliation of cash used in operating activities to funds used in operations for the three months ended July 31 is as follows:

	<b>July-31-10</b>	<b>July-31-09</b>
	<b>\$</b>	<b>\$</b>
Cash used in operating activities	<u>(209,384)</u>	<u>24,624</u>
Add (deduct) changes in non-cash operating working capital	<u>253,056</u>	<u>(81,276)</u>
Funds used in operations	<b>(462,440)</b>	<b>105,900</b>

On April 13, 2010, the Company closed a non-brokered private placement for gross proceeds of \$250,000. The closing was comprised of 1,111,112 units at a price of \$0.225 per unit. Each Unit is comprised of one Class A common share and one half of a Class A common share purchase warrant (the

“Warrants”). Each full Warrant entitles the holder to purchase one additional Class A common share of the Company at a price of \$0.3375 per share up to April 8, 2012.

The Warrants have an accelerated exercise provision under which, if the volume weighted average closing price of the Shares, as traded on the TSX Venture Exchange, equals or exceeds \$1.05 per Share for a period of 10 trading days, then the warrants must be exercised or will expire 30 calendar days after notice of such event is mailed to the warrant-holders. Both the Class A common shares issued as part of the Units and any Class A common shares issued upon exercise of the Warrants are subject to a hold period, which expires on August 9, 2010 and, such Class A common shares may not be traded until August 9, 2010. The Company has not paid any commissions or finder fees for this transaction.

The fair value of the Warrants issued of \$0.16 per warrant was determined using the Black-Scholes option pricing model for warrants assuming a risk-free interest rate of 1.85%, a dividend yield of 0%, an expected volatility of 105.7% and an expected life of the warrants of two years. The resulting fair value of \$87,817 is included in the warrants on issue of Units. Costs of issuance were allocated to these Warrants in the amount of \$4,631.

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 holdback outstanding is currently \$102,504 (representing the minimum 10% of project funds required by contract) associated with all SDTC contracts signed since 2006. The required documentation for release of the holdbacks is in the process of being filed and the final project audit has been completed.

On December 18, 2008, AVAC, through its Capacity Builder program, committed a \$1.3 million contribution to the realSens™ project. As part of the contribution, Synodon signed a General Security Agreement with AVAC, giving AVAC first right on all of Synodon's assets in the event of default. The funds will be dispersed on a completed milestone basis over the next 12 months. The investment will be used to support the deployment of the technology into the commercial marketplace. During the period ended July 31, 2010, the Company has received \$nil under this program. In August 2010, the Company received a \$180,000 partial payment towards milestone #4.

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.

In August 2010, the Company issued demand promissory notes with a face value of \$50,000 and bearing interest at 8% per annum to directors of the Company.

### **Related Party Transactions**

During the nine month period ended July 31, 2010, interest of \$nil (2009 - \$162) was incurred on debt outstanding to directors of the Company. These related party transactions occurred during the normal course of the Company's operations and are measured at their exchange amounts, which is the amount established and agreed upon between the Company and the related parties.

The Company leased facilities used by the Company from the Chief Science Officer who is also a shareholder. Total rental payments for the nine month period ended July 31, 2010 were \$nil (2009 - \$1,500).

**Outstanding Share Data**

As at September 27, 2010, there were 30,540,787 Class A common shares issued and outstanding, as well as 3,390,000 options and 6,263,495 warrants to purchase Class A common shares.

**Subsequent Events**

In August 2010, the Company issued demand promissory notes with an aggregate face value of \$50,000 and bearing interest at 8% per annum to directors of the Company.

In August 2010, the Company received \$180,000 from AVAC as a partial Milestone #4 payment.

In September 2010, the Company received confirmation from SDTC that a payment of \$204,259 will be disbursed in the last week of September to close out the project. This amount is in excess of the \$102,504 holdback included in accounts receivable due to the final reconciliation of project based expenditures.

**Risks Relating to the Business***Reliance on Third Parties*

The Company has entered into contracts with certain third parties for the manufacture and enhancement of its products. Thus, the Company is dependent on the financial health and ongoing operational capabilities of these third parties for its own success. The Company may experience a delay in commercialization and a decline in revenues and profitability may be impacted if its manufacturing needs cannot be met.

*Failure to Provide Adequate Service*

The Company's ability to provide quality service and to meet the demand for its services depends upon its ability to retain an adequate number of trained personnel. The Company operates in an industry characterized by highly competitive labour markets and, similar to many of its competitors, it may experience high employee turnover. It is possible that the Company's labour expenses may increase due to a shortage in the supply of skilled field technicians and the Company's efforts to reduce employee turnover. The Company cannot be certain that it will be able to improve its employee retention rates or maintain an adequate skilled labour force necessary to operate efficiently and to support its growth strategy. Failure to do so could impair its ability to operate efficiently and to retain current customers and prospective customers, which could cause the Company's business to suffer materially.

*Failure to Manage Growth Successfully*

The Company's growth will place demands on its managerial and operations resources. If the Company is unable to manage its growth effectively, this could have a material adverse effect on its financial condition and the results of its operations.

*Dependence on Key Employees*

The success of the Company is dependent upon the retention of certain key executives and employees. Specifically, the Company's continued success and future development of its technology is dependent on Dr. Boyd Tolton who is the inventor of the Company's realSens™ technology. The future success of the Company will be dependent upon the Company's ability to attract and retain additional qualified

personnel to manage the daily operations of the Company as well as identify, investigate and negotiate future acquisitions and manage, oversee and staff acquired operations.

### *Litigation*

The Company may be involved in disputes with other parties in the future, which may result in litigation. If the Company is unable to resolve these disputes favourably, its business may be materially and adversely affected.

### *Intellectual Property*

The Company's success will depend, in part, on its ability to obtain valid patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties or having third parties circumvent the Company's rights. The patent positions of technology companies can be highly uncertain and involve complex legal and factual questions. Thus, there can be no assurance that any patent applications made by or on behalf of the Company will result in the issuance of patents, that the Company will develop additional proprietary products that are patentable, that any patents issued or licensed to the Company will provide the Company with any competitive advantages or will not be challenged by any third parties, that the patents of others will not be able to circumvent the patents assigned or licensed to the Company. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or, if patents are issued and licensed to the Company, design around the patented products developed for the benefit of the Company.

To date, the Company is unaware of infringement claims made or being made against it. As the development of its products continue and increase, the potential uses of its products may overlap with other products and, as a result, may increasingly become subject to claims of infringement. There can be no assurance that third parties will not assert infringement claims against the Company in the future or require the Company to obtain a license for the intellectual property rights of third parties. There can be no assurance that such licenses, if required, will be available on reasonable terms, or at all. If the Company does not obtain such licenses, it could encounter delays in the introduction of products or could find that the development, manufacture or sale of products requiring such licenses could be prohibited. In addition, the Company could incur substantial costs in defending itself in suits brought against the Company on patents it might infringe on, or in filing suits against others to have such patents declared invalid.

Much of the Company's know-how and technology may not be patentable. To protect its rights, the Company will require employees, consultants, advisors and collaborators to enter into confidentiality agreements. There can be no assurance, however, that these agreements will provide meaningful protection for the Company's trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure.

Litigation may be necessary to enforce patents issued or assigned to the Company, or to determine the scope and validity of a third party's proprietary rights. The Company could incur substantial costs if litigation is required to defend itself in patent suits brought by third parties, or if the Company initiates patent suits or participates in such suits brought against or initiated by its subsidiaries or collaborators, and there can be no assurance that funds or resources or collaborators would prevail in any such action. An adverse outcome in litigation or in an interference or other proceeding in a court or patent office could subject the Company to significant liabilities, require disputed rights to be licensed from other parties or require the Company to cease using certain technology or products, and of which may have a material adverse effect on the Company.

*Limited Operating History*

The Company was founded in August 2000 and has been focusing its activities at developing its realSens™ technology. Accordingly, there is a limited operating history upon which to base an evaluation of the Company and its business and future prospects. In addition, the Company has no history of generating revenue or track record of selling its services. The Company's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets. There can be no assurance that Synodon will be successful in doing what is required to address such concerns.

*Product Testing*

Results of testing of the Company's product have not yet been independently verified. Although there have been tests performed by the Company that demonstrated the technology's ability at detecting natural gas remotely and at fulfilling the requirements of the target customer base, no independent party has verified the efficacy or accuracy of such test results.

*International Sales*

Sales outside of Canada are anticipated to represent a substantial portion of the Company's total gross revenues. Management believes that for the Company to grow and become profitable, it will require sales in foreign markets. To the extent that the Company is unable to expand international sales in a timely and cost-effective manner, its business, operating results, and financial condition could be materially adversely affected. In addition, even with the successful recruitment of such additional personnel and international resellers, there can be no assurances that the Company will be successful in maintaining or increasing international market demand for its products.

*Currency Risk*

A substantial portion of the Company's revenue is expected to be realized in currencies other than Canadian dollars. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material effect on the Company's results of operations. To the extent the Company may seek to implement substantial hedging techniques in the future with respect to its foreign currency transactions, there can be no assurances that the Company will be successful in such hedging activities.

*Need to Enhance Management Systems*

The Company anticipates a period of significant growth in personnel that in time will place strain upon its management systems and resources. In addition, as the Company experiences the anticipated growth in sales, the Company will be required to continue to improve its financial and management controls, reporting systems and procedures on a timely basis and to expand, train and manage its employee work force. There can be no assurances that the Company will be able to effectively manage such growth. The Company's failure to do so could have a material adverse effect upon its business, operating results, and financial condition.

*Negative Cash Flow and Absence of Profits*

The Company has not earned profits to date and has incurred significant losses through its product development phase. There are no assurances that it will earn profits in the future, or that profitability, if achieved, will be sustained. A significant portion of the Company's financial resources have been, and will continue to be, directed to the development of its products and services and marketing activities. The

success of the Company will ultimately depend on its ability to generate revenues from its operations, such that the business development and marketing activities may be financed by revenues from operations instead of external financing. There are no assurances that future revenues will be sufficient to generate the required funds to continue the business development and marketing activities.

#### *Additional Financing*

Additional financing is required to fund the Company's operations, further research and development activities, costs of commercializing the Technology as well as capital requirements for future growth through acquisitions. There can be no assurance that such financing will be available on reasonable terms, or at all, to meet future requirements. If any such additional financing is obtained, it could entail a dilution of the net tangible book value of the common shares. If additional financing is not available, the Company may be required to curtail its activities and may not be able to continue in business. The current economic climate is an additional risk and may have an impact on the Company's ability to raise future financings.

#### **Disclosure Controls and Procedures**

Management is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Company. Based on an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this MD&A, the management of the Company believe that the current policies and procedures 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 Company's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP. 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 Company 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 Company's financial statements in conformity with Canadian GAAP, 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 fair value of common share options, common share purchase warrants and other stock based payments; 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 criteria for cost deferral and amortization. The Company 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.

An estimate is made of the cost of the Company's stock-based compensation, warrants and other stock-based payments made. The Company has adopted the Black-Scholes model for its fair value based method of accounting for stock options and warrants. Option-pricing models require the input of highly subjective assumptions including expected volatility, life of the option and number of options that will

ultimately vest. 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 Company's stock options and warrants at the date of grant.

With respect to income taxes, the Company 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 Company's losses since inception and expected future losses, we believe 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 are recorded on the balance sheets.

## **Financial Instruments**

### ***Fair Value***

Canadian GAAP requires that the Company 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 Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, notes payable, loans from Directors and deposit on distribution rights. The Company 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 Company does not have any off-balance sheet arrangements

## **CHANGES IN ACCOUNTING POLICIES**

### **Work in progress**

Work in progress, which is comprised of costs of labour and expenses incurred during the execution of customer contracts and prior to the completion of the contracts, is recorded at the lower of cost and net realizable value.

### **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 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.

**Note Regarding 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, ongoing business strategies and prospects, and possible future action on the Company’s part, are also forward-looking statements that reflect our current beliefs and are based on information currently available to us and on assumptions that we believe are reasonable. These assumptions include, but are not limited to, the readiness of the realSens™ technology to commercialize by the end of 2010 and the Company’s ability to predict market demand for our products and services. 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; which include, but are not limited to, general economic conditions in the countries that the Company is pursuing contracts in, currency fluctuations and other changes in the competitive environment that Synodon operates. For more information, please see the discussion on the principal risks that could affect our results under section “Risks Relating to the Business”, beginning on page 18 of this MD&A. 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.