

**Synodon Inc.**  
**Interim Financial Statements**  
*For the Quarter Ended January 31, 2011 and 2010*  
*Unaudited*

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

**Synodon Inc.****BALANCE SHEETS**

[see note 1 – going concern communication]

As at

	January 31, 2011	October 31, 2010
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	926,787	49,893
Accounts receivable	55,775	36,860
Unbilled revenue	—	32,610
Prepaid expenses and deposits	35,789	45,370
Work in progress	—	27,819
Current deferred charges	—	19,727
	<b>1,018,351</b>	212,279
Equipment	30,624	25,041
Intangible assets	16,529	11,345
	<b>1,065,505</b>	248,665
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	314,313	801,961
Deposits on distribution rights option [note 3]	—	76,417
	<b>314,313</b>	878,378
<b>Commitments and contingencies [note 5]</b>		
<b>Shareholders' equity (deficiency)</b>		
Share capital [note 4]	7,800,447	6,730,692
Warrants on issue of note payable [note 4]	39,998	39,998
Warrants on issue of units [note 4]	1,892,064	1,153,281
Contributed surplus [note 4]	2,342,603	2,257,269
Deficit	(11,323,920)	(10,810,953)
	<b>751,192</b>	(629,713)
	<b>1,065,505</b>	248,665

*See accompanying notes*

**Synodon Inc.**  
**STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**

For the three months ended January 31

	2011	2010
	\$	\$
<b>REVENUE</b> <i>[note 3]</i>	<b>120,762</b>	14,280
<b>COST OF SALES</b>	<b>46,809</b>	7,166
	<b>73,953</b>	7,114
<b>EXPENSES</b>		
Research and development, net of government assistance	170,068	168,967
Amortization of intangibles	1,409	266
Amortization of equipment	2,374	1,670
Sales and marketing	98,373	28,864
Financing charges and interest	341	11,035
Foreign exchange losses	2,340	1,139
Stock-based compensation	103,535	626,576
Office, general and administrative	209,080	181,252
Other income and expenses	(600)	(600)
<b>Net loss and comprehensive loss for the period</b>	<b>(512,967)</b>	(1,012,055)
Deficit, beginning of period	(10,810,953)	(8,323,314)
<b>Deficit, end of period</b>	<b>(11,323,920)</b>	(9,335,369)
<b>Loss per share - basic and diluted</b>	<b>\$(0.01)</b>	\$(0.03)
<b>Weighted average number of common shares outstanding</b>	<b>39,162,268</b>	29,387,284

*See accompanying notes*

**Synodon Inc.**  
**STATEMENTS OF CASH FLOWS**

For the three months ended January 31

	2011 \$	2010 \$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(512,967)	(1,012,055)
Add charges to operations not requiring a current cash payment		
Stock-based compensation	103,535	626,576
Amortization of equipment	2,374	1670
Amortization of intangibles	1,409	266
	<b>(405,649)</b>	<b>(383,543)</b>
Changes in non-cash working capital balances related to operations		
Accounts receivable	(18,915)	(15,836)
Unbilled revenue	32,610	—
Deposits on distribution rights option	(76,417)	(191)
Prepaid expenses and deposits	9,581	(42,889)
Work in progress	27,819	—
Accounts payable and accrued liabilities	(491,586)	(157,245)
Deferred charges	19,727	—
Cash used in operating activities	<b>(898,892)</b>	<b>(599,704)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(7,957)	(11,519)
Purchase of intangible assets	(6,593)	(6,376)
Cash used in investing activities	<b>(14,550)</b>	<b>(17,895)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of shares	1,160,395	—
Share issuance costs	(239,664)	—
Issuance of warrants	839,605	—
Exercise of options	30,000	30,000
Cash provided by financing activities	<b>1,790,336</b>	<b>30,000</b>
<b>Net increase/(decrease) in cash during the period</b>	<b>876,894</b>	<b>(587,599)</b>
Cash, beginning of period	49,893	994,198
Cash, end of period	<b>926,787</b>	<b>406,599</b>
<b>Supplemental cash flow information</b>		
Interest paid	53	2,485

Other non-cash transactions [note 6]  
See accompanying notes

**Synodon Inc.**  
**NOTES TO FINANCIAL STATEMENTS**  
January 31, 2011 and 2010

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**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 was previously 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, 2011, the Company has an accumulated deficit of \$11,323,920. 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, 2010 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 2010 financial statements except for the new accounting standards adopted during the quarter as noted below.

**Equipment**

Equipment is recorded at cost less accumulated amortization. Management assesses the carrying value of all equipment using its best estimate of undiscounted future cash flows whenever conditions arise which could indicate a possible impairment. Any impairment is recognized when it is identified and is measured by the amount by which the carrying value of the asset exceeds its estimated fair value.

Amortization is provided over the estimated useful lives of the assets and commences when assets are available for use, using the following methods and rates with half-year amortization provided in the year of acquisition:

Computer equipment	3 years straight-line
Laboratory equipment	20% declining balance
Furniture and fixtures	20% declining balance
RealSens instrument	10% declining balance

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**Intangible assets**

Intangible assets are recorded at cost less accumulated amortization. Management assesses the carrying value of all fixed lived intangible assets using its best estimate of undiscounted future cash flows whenever conditions arise which could indicate a possible impairment. Any impairment is recognized when it is identified and is measured by the amount by which the carrying value of the asset exceeds its estimated fair value.

Amortization is provided over the estimated useful lives of the assets using the following method and rate with half-year amortization provided in the year of acquisition:

Computer software	3 years straight-line
RealSens software	3 years straight-line

**Revenue recognition**

The Company's services are generally sold based upon purchase orders or contracts with customers that include fixed or determinable prices based upon kilometres surveyed. Contract revenue is recognized on a percentage of completion basis as the ratio of completed hours spent to estimated total hours for each contract. Unbilled revenue represents the revenue recognized on a percentage of completion basis for contracts in process. Provisions for estimated losses on all incomplete contracts are made in the period in which such losses are determined. The percentage of completion basis is based on management's best estimate of the total estimated costs to complete each contract, it is therefore possible that changes in future conditions could require a material change in the recognized amounts.

The Company recognizes revenue on distribution rights options at the expiry of the term of the option. Up until that point, the amounts are carried as deposits on distribution rights options on the balance sheet.

**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 commenced its conversion project in 2009 and is in the process of implementing the project plan that will enable the Company to begin reporting its financial statements in accordance with IFRS on a comparative basis beginning November 1, 2011. The IFRS conversion project consists of three phases: scoping and diagnostic; analysis and development; and implementation and review.

The first phase, which has been completed, involved project planning, a high level review of key accounting policy differences between Canadian GAAP and IFRS, as well as determining policy choices and elections allowed under IFRS. The areas identified to have the highest potential to significantly impact the Company are stock based compensation, equipment, intangible assets, the process for testing impairment of assets, and initial adoption of IFRS under the provisions of IFRS 1 "First Time Adoption of IFRS". The second phase, which involves detailed analysis and evaluation of options available under IFRS, the financial impact of these options, and the impact on internal controls over financial reporting is in progress. Policy choices are currently being reviewed and it is expected that the determination of policy choices will be completed in the third quarter of 2011.

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Until the analysis is fully completed, the impact on the Company's future results of operations and financial position is not determinable. The Company anticipates that there will be a significant increase in disclosure resulting from the adoption of IFRS. The Company also expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

**3. DEPOSITS ON DISTRIBUTION RIGHTS OPTION**

On March 2, 2009 the Company signed a realSens™ service distribution option agreement with the U.S. subsidiary of an international services company and received the associated sign-up fee of U.S. \$75,000 or Cdn. \$75,051. The agreement gives the option holder the option to purchase the realSens™ 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 option holder 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 original option expired August 30, 2009 and was extended under the same terms until March 31, 2010.

The option had been further extended under the same terms until December 31, 2010.

A new extension agreement was signed on January 1, 2011 on a non-exclusive perpetual basis. As a result of the agreement, the associated sign-up fee has been recognized as revenue.

**4. SHARE CAPITAL**

	<b>January 31, 2011</b>	<b>October 31, 2010</b>
	\$	\$
<hr/>		
<b>Authorized</b>		
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		
<b>Issued and outstanding</b>		
40,164,597 Class A common shares	<b>7,800,447</b>	—
30,540,787 Class A common shares	—	6,730,692

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	<b>Number of shares #</b>	<b>Total \$</b>
Balance, October 31, 2009	29,329,675	6,529,182
Issued on exercise of options	100,000	48,201
Issued in private placement, net of costs of issuance of \$13,596 and net of fair value of warrants of \$83,185	1,111,112	153,309
Balance, October 31, 2010	30,540,787	6,730,692
Issued on exercise of options	100,000	48,201
Issued in private placement, net of costs of issuance of \$239,665 and net of fair value of warrants of \$738,783	9,523,810	1,021,554
<b>Balance, January 31, 2011</b>	<b>40,164,597</b>	<b>7,800,447</b>

On January 4, 2011, 100,000 share options were exercised at \$0.30 per option. The amounts transferred from contributed surplus related to these options were \$18,201.

On November 9, 2010, the Company closed its brokered private placement for gross proceeds of \$2,000,000. The closing was comprised of 9,523,810 "Units" at \$0.21 per Unit. The Units are comprised of one Class A common share (a "Share") and one-half of one Share purchase warrant. Each whole warrant (a "Warrant") entitles the holder to purchase one Share of the Corporation at an exercise price of \$0.30 per Share until November 9, 2012.

The Warrants are subject to an accelerated exercise provision pursuant to which, in the event that the volume weighted average closing price of the Class A common shares, as traded on the TSX Venture Exchange, equals or exceeds \$0.50 per Share for a period of 20 consecutive trading days, then the Warrants must be exercised or will expire 30 calendar days after the notice of such event is mailed to the warrant holders.

The Shares and Warrants comprising the Units are subject to a four month statutory hold period which expires on March 10, 2011.

The Company issued 625,000 broker warrants (the "Broker Warrants") and paid cash commissions totalling \$135,118 in connection with the sale of the Units. Each such broker warrant entitles the holder to subscribe for one Share and one-half of one Warrant of the Corporation at a price of \$0.21 for a period of two years from the date of issue. Each whole underlying Warrant will entitle the holder to purchase one Share at a price of \$0.30 per Share until November 9, 2012. The Warrants underlying the broker warrants are not subject to an acceleration provision.

The fair value of the warrants issued of \$0.16 per warrant and \$0.11 per broker warrant were determined using the Black-Scholes option pricing model for warrants assuming a risk-free interest rate of 1.6%, a dividend yield of 0%, an expected volatility of 102.4% and an expected life of the warrants of two years. The resulting fair value of \$839,605 (\$768,957 for warrants and \$70,648 for broker warrants) is included in the warrants on issue of Units. Costs of issuance were allocated to these warrants in the amount of \$100,822.

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**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 4,581,118 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, 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.

	<b>Three Months Ended</b>		<b>Year Ended</b>	
	<b>January 31, 2011</b>		<b>October 31, 2010</b>	
	<b>Number</b>	<b>Weighted</b>	<b>Number</b>	<b>Weighted</b>
	<b>of</b>	<b>average</b>	<b>of</b>	<b>average</b>
	<b>options</b>	<b>exercise price</b>	<b>options</b>	<b>exercise price</b>
		\$		\$
Outstanding, beginning of period	<b>3,990,000</b>	<b>0.5119</b>	2,915,000	0.5112
Granted	<b>200,000</b>	<b>0.3100</b>	2,075,000	0.4639
Exercised	<b>(100,000)</b>	<b>0.3000</b>	(100,000)	0.3000
Cancelled/Expired	<b>(300,000)</b>	<b>0.7500</b>	(900,000)	0.4222
Outstanding, end of period	<b>3,790,000</b>	<b>0.4880</b>	3,990,000	0.5119
Options exercisable at end of period	<b>3,590,000</b>	<b>0.4979</b>	2,950,000	0.5778

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The following table summarizes information about share options outstanding at January 31, 2011:

<b>Range of exercise prices</b> \$	<b>Fiscal Year of grant</b>	<b>Number outstanding</b>	<b>Number exercisable</b>	<b>Weighted average remaining contractual life</b> [years]	<b>Weighted average exercise price</b> \$
0.50	2006	100,000	100,000	0.3	0.500
0.50	2007	410,000	410,000	1.0	0.500
0.75-0.78	2008	250,000	350,000	1.9	0.780
0.30-0.61	2009	755,000	755,000	3.5	0.497
0.205-0.60	2010	2,075,000	2,075,000	4.0	0.498
0.31	2011	200,000	0	4.7	0.310
		<b>3,790,000</b>	<b>3,590,000</b>	<b>3.3</b>	<b>0.488</b>

On November 1, 2010, the Company issued 200,000 options to an investor relations firm. The options are exercisable at \$0.31 for a period of five years and vest in four equal tranches over a period of 12 months (50,000 options every three months).

On January 31, 2011, 300,000 options that were previously granted at \$0.75 expired.

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, 2011, \$103,535 [2010 - \$626,576] 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 quarters ended January 31:

	<b>2011</b>	<b>2010</b>
Exercise price	<b>\$0.31</b>	\$0.60
Expected dividend yield	<b>0.00%</b>	0.00%
Risk-free interest rate	<b>2.42%</b>	2.39%
Expected volatility	<b>107%</b>	115%
Weighted average expected life	<b>5.0 years</b>	5.0 years

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**Warrants and Broker Warrants**

At January 31, 2011, the Company had 9,823,008 (2010 - 5,707,938) common share purchase and broker warrants outstanding, as follows:

Exercise price \$	Expiry date	Number outstanding and exercisable \$
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
0.34	April 8, 2012	555,556
0.21	November 9, 2012	625,000
0.30	November 9, 2012	4,761,905
		9,823,008

**Warrants on issue of units**

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

	Three months ended January 31, 2011 \$	Year ended October 31, 2010 \$
Balance, beginning of period	1,153,281	1,346,044
Warrants issued on private placement units, net of issuance costs of \$100,822	738,783	—
Warrants issued on private placement units, net of issuance costs of \$4,632	—	83,186
Expiry of warrants issued on 2008 private placement units	—	(275,949)
<b>Balance, end of period</b>	<b>1,892,064</b>	1,153,281

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, 2011 and year ended October 31, 2010, all outstanding options are considered anti-dilutive when the Company has recorded a loss available to common shareholders.

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**Warrants on issue of note payable**

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

	<b>Three months ended January 31, 2011</b>	<b>Year ended October 31, 2010</b>
	\$	\$
Balance, beginning of period	<b>39,998</b>	39,998
	—	—
<b>Balance, end of period</b>	<b>39,998</b>	39,998

**Contributed surplus**

The following table sets out the change in contributed surplus:

	<b>Three months ended January 31, 2011</b>	<b>Year ended October 31, 2010</b>
	\$	\$
Balance, beginning of period	<b>2,257,269</b>	1,173,714
Stock-based compensation	<b>103,535</b>	825,807
Exercise of options	<b>(18,201)</b>	(18,201)
Expiry of warrants issued on 2008 private placement units	—	275,949
<b>Balance, end of period</b>	<b>2,342,603</b>	2,257,269

**5. GOVERNMENT ASSISTANCE**

**Government of Alberta**

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 2011. The Company recorded \$13,750 for the three months ended January 31, 2011, 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.

**AVAC funding**

On December 18, 2008, AVAC Ltd., 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 Ltd., giving AVAC Ltd. first right on all of the Company's assets in the event of default. The funds will continue to be dispersed on a completed milestone basis. The contribution will be used to support the deployment of the technology into the commercial marketplace.

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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 invoiced, beginning in October 2009, up to a maximum of two times the contribution.

During the three month period ended January 31, 2011, the Company owed \$1,175 in royalties (2010 - \$214).

**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 invoiced in connection with the project. As at October 31, 2010, the project has been completed and all monies owing have been received by the Company, totalling \$586,437. For the three month period ended January 31, 2011, the Company owed \$2,350 in royalties [2010 - \$428].

**6. NON-CASH TRANSACTIONS**

The Company entered into the following non-cash transactions which are not reflected in the statements of cash flows:

Three months ended January 31, 2011

- (a) Issued to the broker of the Company's private placement, 625,000 broker warrants at a price of \$0.21 as described in note 4. These broker warrants were valued at \$70,648.