Labrador®

TECHNOLOGIES INC.

LTX on the TSX.V

(Formerly Sterne Stackhouse Inc.)

THIRD QUARTER

2005

For the period ended July 31, 2005

Corporate Profile

Labrador Technologies Inc. (LTI), formerly known as Sterne Stackhouse Inc. (SSI), specializes in building connections between companies and the data they invest in. Since 1981, LTI has been developing Data-Flow Management™ (DFM) and data retrieval, reporting, and analysis software primarily for the Oil and Gas industry.

Focused on Data-Flow Management™ , Labrador Technologies Inc., has the ability to retrieve and deliver data to the right place, at the right time. Whether delivering data to a Labrador® application, a third-party application, an enterprise service bus, or a portal, Labrador® gets the job done efficiently. LTI's DFM™ software and services help software vendors, data vendors, and company developers deliver data to their target audiences by 'plugging' users in, and eliminating the need for expensive and ongoing manual intervention.

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Information on Labrador Technologies Inc.
is available through our
Internet site at

www.labradortechnologies.com

LABRADOR TECHNOLOGIES INC.

THIRD QUARTER FISCAL 2005 INTERIM REPORT

FOR THE NINE MONTHS ENDED JULY 31, 2005

MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the interim financial statements of Labrador Technologies Inc ("LTI") for the quarter ended July 31, 2005 and the audited financial statements of LTI for the year ended October 31, 2004. Additional information with respect to LTI can be found on the Company's website at www.labradortechnologies.com or on SEDAR at www.sedar.com. The reporting and measurement currency is the Canadian dollar.

Certain statements in the MD&A constitute forward-looking statements that involve various risks and uncertainties. These risks and uncertainties include, but are not restricted to, the Company's continuing ability to promote and license its products, the Company's ability to attract and retain key employees, and the Company's ability to raise capital on acceptable terms when needed. These uncertainties may cause actual results to differ from information contained herein. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. These forward-looking statements are based on the estimates and opinions of management on the dates they are made and are expressly qualified in their entirety by this notice. The Company assumes no obligation to update forward-looking statements should circumstances, management's estimates, or opinions change.

This MD&A is dated as of September 27, 2005

Overall Performance

Overview

Since 1981, LTI has been a recognized leader in developing 'stand-alone' software products and 'embeddable' software components for direct sale to oil and gas companies, and for distribution by oil and gas software service and supply companies. In short, LTI helps distribution partners/clients manage and integrate the "flow" of the data its partners and clients invest in. Currently, LTI is laying the groundwork to again expand its markets beyond oil and gas.

Effective July 1st, 2005, LTI established a new streamlined organizational structure that included, amongst other things, acquiring two senior software architects/programmers, with over 35 years of combined software development experience, including over 20 years of focused oil and gas software development.

As well, LTI successfully completed, on August 17th, an over-subscribed private placement, which raised $275,000 of equity financing. LTI has used a small portion of the proceeds to completely overhaul and update its network and development environment to economical, yet 'state-of-the-art' development standards. LTI plans to use the bulk of the remaining proceeds to continue to fund its corporate strategy as outlined below.

LTI continues to drive its business forward on a platform of software excellence, reliability, integrity, and particularly… persistence. As a result, the company remains committed to its business strategy to exploit 25 years of intellectual property, by transforming these assets and experience into revenue generating distribution agreements. As a follow-up to LTI's Second Quarter Report (referencing an exploratory "pilot" project with a multi-national oil and gas service company), LTI has successfully completed this assignment, which has allowed the company to progress to higher levels of negotiations with this potential distribution partner. LTI hopes to be able to report on the results, positive or not, of any potential agreement before the fiscal year end.

Also of major significance is the impact of the expiration, on September 30th, 2005, of LTI's non-competition agreement, with the purchaser, in 2000, of the Canadian Petro-LAB™ software. As a result, LTI plans to aggressively re-enter the Calgary oil and gas software market, by endeavouring to re-establish its historically highly successful relationships with Calgary's prominent oil and gas Data Centres – using Labrador® to "move" data, at will, for Data Centre clients. LTI will also be working closely with industry and market experts to identify and develop critical Data-Flow Management™ (DFM) software components, where revenue opportunities exist. Design and development of these products/components will begin on October 1st, 2005.

With the above-mentioned private placement now completed, the Company can maintain its current level of operations through April of 2006 without generating any other sources of cash. Management and the Board of Directors continue to review opportunities to develop an ongoing source of revenue. At July 31, 2005 the Company had cash of $110,150, no long-term debt and a working capital balance of $114,147. While management believes that the Company has sufficient cash to discharge its obligations in the normal course of operations through April 2006, future operations will regardless be dependent upon the successful ongoing development and marketing of the Company's DFM™ technology and the corresponding generation of future cash flows.

Results of Operations

Revenue

Revenue is classified into three categories: licensee fees earned from customers and distribution partners for the licensing of LTI's proprietary products; royalty income earned from royalty payments arising from the sale of Petro-LAB™ to Qbyte/IBM; and, consulting fees earned for custom software development. Interest income arises from the investment of excess cash not required for short-term operations.

Revenue from the sale of licenses as well as revenue attributable to undelivered elements, including maintenance and other post-customer support services, is recognized ratably over the contract period. Revenue from consulting services is recognized when the services are performed and/or when earned.

Having completed the December 18th, 2003 transaction with Qbyte/IBM, the Company has no current ongoing sources of revenue.

LTI's total revenue for the three months ended July 31, 2005 was $590 (nine months - $31,750) compared to $3,084 for the three months ended July 31, 2004 (nine months - $3,084), a decrease of $2,494. The revenue for the current period was comprised entirely of interest income.

FINANCIAL SUMMARY

	Three months ended		Nine months ended	
	July 31 2005	July 31 2004	July 31 2005	July 31 2004
		(restated - note 2)		(restated - note 2)
Revenue	**$ 590**	$ 3,084	**$ 31,750**	$ 3,084
License fees	**—**	—	**—**	—
Royalty income	**—**	—	**—**	—
Consulting fees	**—**	—	**28,840**	—
Interest income	**590**	3,084	**2,910**	3,084
Expenses	**147,808**	284,413	**520,757**	965,429
Loss from operations	**(147,218)**	(281,329)	**(489,007)**	(962,345)
Other income: Gain on sale of Petro-LAB	**—**	—	**—**	1,653,849
Net income (loss)	**(147,218)**	(281,329)	**(489,007)**	691,504
Net income (loss) per share	**(0.02)**	(0.03)	**(0.06)**	0.08
Outstanding shares	**8,378,506**	8,289,685	**8,378,506**	8,289,685

Expenses

General and administrative

This category of expenses is comprised primarily of office rent, office equipment rentals, administrative salaries, corporate expenses related to shareholder reporting, and professional fees. General and administrative expenses for the three months ended July 31, 2005 were $70,113 (nine months - $277,013) compared to $130,660 for the three months ended July 31, 2004 (nine months - $462,366), a decrease of $60,547. The decrease is due to a reduction in administrative salaries of $42,859 and minor variations in various other accounts.

Computer and related costs

Computer and related costs include programmer's salaries, software costs, and telecommunication costs. This category of expenses totaled $44,159 for the three months ended July 31, 2005 (nine months - $150,946) compared to $88,616 for the three months ended July 31, 2004 (nine months - $302,797), a decrease of $44,457. The decrease is due to a reduction of programmer's salaries of $56,313 and minor variations in various other accounts.

Sales and marketing

Sales and marketing expenses include expenses for sales and support salaries/consulting fees, and promotion/ advertising. For the three months ended July 31, 2005, sales and marketing expenses were $21,936 (nine months - $56,798) compared to $57,037 for the three months ended July 31, 2004 (nine months - $169,266), a decrease of $35,101. The decrease is due to a reduction in salaries/consulting fees of $40,046 and minor variations in various other accounts.

Stock-based compensation

LTI issued 100,000 share options to an employee during the three-month period ended July 31, 2005 and nothing for the three-month period ended July 31, 2004. Accordingly, stock-based compensation expense of $5,600 has been recorded for the period based on an estimate of the fair value of the options calculated using the Black-Scholes option-pricing model with the following parameters: no dividends; volatility of 60% per annum; a risk free rate of return of 5%; an expected life of 5 years; and, an exercise price of $0.10 per share, equal to the market value of the common stock at the date that the options were issued.

For the nine-month period ended July 31, 2004, LTI issued 60,000 share options to an employee with an exercise price of $0.20 per share (the market price of the shares at the time the options were issued), an exercise period of five (5) years and no vesting period. In the prior period, LTI followed the settlement method of accounting for stock options whereby no compensation expense was recorded. For comparative purposes, a compensation expense of $6,700 was recorded using the fair value method as a result of retroactively adopting the fair value method of accounting for all stock options granted on November 1, 2002 and subsequently and the Black-Scholes option pricing model and the following parameters: risk free rate of interest of 5%; exercise price of $0.20; exercise period of five (5) years; expected volatility of 60%; and, no dividend payments.

Depreciation

Depreciation expense for the three months ended July 31, 2005 was $6,000 (nine months - $18,000) compared to $8,100 for the three months ended July 31, 2004 (nine months - $24,300). The reduction in the depreciation expense is due to the declining balance of the net asset value of the depreciable assets.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the balance sheet and its tax basis using income tax rates enacted at the balance sheet date. The effect of changes in rates on future income tax liabilities and assets is recognized in the period that the change occurs. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

For the current period, LTI's current and future tax liability is $nil.

Working capital

At July 31, 2005, LTI had cash of $110,150, no debt, and working capital of $114,147. The Company has no current sources of ongoing revenue and is relying on future sales to generate additional revenue. As a result, the Company's ability to maintain its operations in the future is dependent on its ability to generate sufficient revenue in the future to continue to fund its strategic business plan. Please refer to "Subsequent Events" on page 7 for information on LTI's recently completed private placement.

Financing and Investing

During the three-month period ended July 31, 2005, the Company's cash position decreased by $137,582. During the period, the Company raised $6,256 from the issuance of 48,821 shares to an employee of the Company in lieu of salary.

SUMMARY OF QUARTERLY RESULTS

Fiscal 2005	1-QTR	2-QTR	3-QTR	4-QTR
Revenue	**30,987**	173	590	n/a
License fees	**—**	—	—	n/a
Royalty income	**—**	—	—	n/a
Consulting fees	**28,840**	—	—	n/a
Interest income	**2,147**	173	590	n/a
Expenses	**213,464**	159,485	147,808	n/a
Net income (loss)	**(182,477)**	(159,312)	(147,218)	n/a
Net income (loss) per share	**(0.02)**	(0.02)	(0.02)	n/a
Outstanding shares	**8,289,685**	8,329,685	8,378,506	n/a

Fiscal 2004	1-QTR	2-QTR	3-QTR	4-QTR
Revenue	**—**	—	—	—
License fees	**—**	—	—	—
Royalty income	**—**	—	—	—
Consulting fees	**—**	—	—	—
Interest income	**—**	—	3,084	9,898
Expenses	**337,554**	343,462	284,413	256,140
Income (loss) before the following	**(337,554)**	(343,462)	(281,329)	(246,242)
Other income: gain on sale of Petro-LAB	**1,653,849**	—	—	—
Net income (loss)	**1,316,295**	(343,462)	(281,329)	(246,242)
Net income (loss) per share	**0.16**	(0.04)	(0.03)	(0.03)
Outstanding shares	**8,249,685**	8,249,685	8,289,685	8,289,685

Fiscal 2003	1-QTR	2-QTR	3-QTR	4-QTR
Revenue	**383,497**	81,313	220,670	198,125
License fees	**—**	—	—	3,420
Royalty income	**382,687**	81,313	220,670	194,705
Consulting fees	**810**	—	—	—
Interest income	**—**	—	—	—
Expenses	**484,108**	446,871	417,450	519,558
Net income (loss)	**(100,611)**	(365,558)	(196,780)	(321,433)
Net income (loss) per share	**(0.01)**	(0.04)	(0.02)	(0.04)
Outstanding shares	**8,549,685**	8,549,685	8,549,685	8,249,685

* The quarterly results have been restated for stock-based compensation where applicable.

Liquidity

At July 31, 2005, LTI had cash of $110,150, no debt, and working capital of $114,147. The Company has no current sources of ongoing revenue and is relying on future sales to generate additional revenue. As a result, the Company's ability to maintain its operations in the future is dependent on its ability to generate sufficient cash in the future. In August, the Company completed a private placement of 2,750,000 common shares at $0.10 per share to raise $275,000 to continue to fund its strategic business plan.

LTI has two contractual obligations: an operating lease for a vehicle supplied to an officer of the Company; and, an operating lease for office space. The vehicle lease is for a two-year term ending July 2006 and has a monthly cost of $1,043 (including GST). The office space lease is for a one-year term ending August 2006 and has a monthly cost of $8,440 (including GST). LTI has prepaid $7,352 of the August 2006 lease cost.

Financial Instruments

As of July 31, 2005, LTI has financial instruments as detailed on the balance sheet. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the fair value of these financial instruments approximates their carrying values.

From time to time, LTI may invest excess cash in short-term low-risk interest bearing instruments such as Guaranteed Investment Certificates ("GIC"). As at September 27, 2005 LTI has $100,000 on deposit in a 1 year prime-linked cashable GIC with the Royal Bank of Canada with an interest rate of 2.0% per annum. It is management's opinion that the Company is not exposed to any interest, currency or credit risk arising from this particular financial instrument and that the fair value is equal to the carrying value.

Capital Resources

As of the date of this MD&A, LTI has no debt.

Off-balance Sheet Arrangements

As of the date of this MD&A, LTI has no off-balance sheet arrangements.

Related Party Transactions

As of the date of this MD&A, LTI has no related party transactions.

Proposed Transaction

As of the date of this MD&A, LTI has no proposed transactions.

Changes in Accounting Policies

Effective November 1, 2002, the Company adopted the new Canadian accounting standard relating to stock-based compensation. Under this standard, the Company followed the settlement method of accounting for stock options granted to employees whereby the proceeds received on the exercise of options were included in capital stock and no compensation expense was recognized. For stock-based compensation to non-employees, the Company calculated a fair value using an option-pricing model, and recorded the expense to earnings over the term of the option.

In September 2003, the CICA issued an amendment to Section 3870 – Stock Based Compensation and Other Stock Based Payments. The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that all companies measure any stock based payments using the fair value method of accounting and recognize the compensation expense in the financial statements. The Company has chosen to implement this amendment beginning with the current financial year beginning November 1, 2004. As a result, the Company is required to restate the financial results from the previous year to comply with the amended policy for comparison purposes. As a result of this requirement, the Company's Deficit at July 31, 2005 has increased by $24,620.

Outstanding Share Data

On October 28, 2003, LTI cancelled 300,000 shares issued to a previous employee. The shares were pledged as collateral for an indebtedness and were repossessed and cancelled in settlement of the indebtedness. After the cancellation, LTI had 8,249,685 shares outstanding.

On March 26, 2004, LTI issued 40,000 shares upon the exercise of stock options for the amount of $6,400. After the issue of shares, LTI had 8,289,685 shares outstanding.

On March 22, 2005, LTI issued 40,000 shares upon the exercise of stock options for the amount of $4,800. After the issue of shares, LTI had 8,329,685 shares outstanding.

On June 8, 2005, LTI issued 100,000 share options to an employee of the Company.

On June 30, 2005, LTI issued 22,154 shares to an employee of the Company in lieu of salary. After the issue of shares, LTI had 8,351,839 shares outstanding.

On July 31, 2005, LTI issued 26,667 shares to an employee of the Company in lieu of salary. After the issue of shares, LTI had 8,378,506 shares outstanding.

On August 17, 2005, LTI issued 2,750,000 shares in a private placement. After the issue of shares, LTI had 11,128,506 shares outstanding.

On August 31,2005 LTI issue 26,667 shares to an employee in lieu of salary and 20,000 shares to a consultant in lieu of consulting fees. After the issue of shares, LTI had 11,175,173 shares outstanding.

As at September 27, 2005, LTI had 11,175,173 common shares and 770,000 options to acquire common shares outstanding.

Subsequent Events

On August 17, 2005, the Company completed a private placement of 2,750,000 common shares at $0.10 per share to raise $275,000.

H. Ronald Sterne

President & Chief Executive Officer
Labrador Technologies Inc.

Darryl K. Stackhouse

Chief Financial Officer
Labrador Technologies Inc.

Financial Statements of

LABRADOR TECHNOLOGIES INC.

(formerly Sterne Stackhouse Inc.)

Three and nine months ended July 31, 2005 and 2004

Unaudited Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors, KPMG LLP, have not reviewed the unaudited financial statements for the three and nine month periods ended July 31, 2005.

Notice to the Reader of the Interim Financial Statements

The interim financial statements of Labrador Technologies Inc., consisting of the interim balance sheet, the interim statement of operations and deficit, and the interim statement of cash flows for the three and nine month periods ended July 31, 2005 are the responsibility of the Company's management.

The interim financial statements have been prepared by management and include the appropriate accounting principles, judgments and estimates necessary to prepare these interim financial statements in accordance with Canadian generally accepted accounting principles. In addition, these interim financial statements have been reviewed and have been approved by the Company's Audit Committee and Board of Directors.

Ron Sterne

President & Chief Executive Officer

Labrador Technologies Inc.

D K Stallwood

Chief Financial Officer

Labrador Technologies Inc.

September 26, 2005

LABRADOR TECHNOLOGIES INC.

Balance Sheets
(Unaudited)

	July 31 2005	October 31 2004
		(restated – note 2)
Assets		
Current assets:		
Cash and cash equivalents (note 1)	**$ 110,150**	$ 538,695
Accounts receivable	**—**	7,000
Prepaid expenses	**7,352**	32,949
	117,502	578,644
Property, plant and equipment	**36,648**	53,612
	$ 154,150	$ 632,256
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 3,355**	$ 21,151
Shareholders' equity:		
Share capital (note 1 & 4)	**4,920,341**	4,909,284
Contributed surplus	**226,714**	208,714
Deficit	**(4,996,260)**	(4,507,253)
	150,795	610,745
Future operations and subsequent events (note 1)		
	$ 154,150	$ 632,256

See accompanying notes to financial statements.

Darryl K. Stackhouse, Director

Jeffrey A. Howe, Director

LABRADOR TECHNOLOGIES INC.

Statements of Operations and Deficit
(Unaudited)

	Three months ended July 31 2005	Three months ended July 31 2004	Nine months ended July 31 2005	Nine months ended July 31 2004
		(restated - note 2)		(restated - note 2)
Revenues				
Consulting fees	**$ —**	$ —	**$ 28,840**	$ —
Interest income	**590**	3,084	**2,910**	3,084
	590	3,084	**31,750**	—
Expenses:				
General and administrative	**70,113**	130,660	**277,013**	462,366
Computer and related costs	**44,159**	88,616	**150,946**	302,797
Sales and marketing	**21,936**	57,037	**56,798**	169,266
Stock-based compensation (note 3)	**5,600**	—	**18,000**	6,700
Depreciation	**6,000**	8,100	**18,000**	24,300
	147,808	284,413	**520,757**	965,429
Loss before the following	**(147,218)**	(281,329)	**(489,007)**	(962,345)
Other income:				
Gain on the sale of Petro-LAB (note 5)	**—**	—	—	1,653,849
Net income (loss)	**(147,218)**	(281,329)	**(489,007)**	691,504
Deficit, beginning of period, restated (note 2)	**(4,849,042)**	(3,979,682)	**(4,507,253)**	(4,952,515)
Deficit, end of period	**$(4,996,260)**	$(4,261,011)	**$(4,996,260)**	$(4,261,011)
Net income (loss) per share:				
Basic and diluted	**$ (0.02)**	$ (0.03)	**$ (0.06)**	$ 0.08

See accompanying notes to financial statements.

LABRADOR TECHNOLOGIES INC.

Statements of Cash Flows
(Unaudited)

	Three months ended July 31 2005	Three months ended July 31 2004	Nine months ended July 31 2005	Nine months ended July 31 2004
		(restated - note 2)		(restated - note 2)
Cash provided by (used in):				
Operating activities:				
Net income (loss)	**$(147,218)**	$ (281,329)	**$(489,007)**	$ 691,504
Items not involving cash:				
Gain on sale of Petro-LAB (note 5)	**—**	—	**—**	(1,653,849)
Depreciation	**6,000**	8,100	**18,000**	24,300
Stock-based compensation (note 3)	**5,600**	—	**18,000**	6,700
	(135,618)	(273,229)	**(453,007)**	(931,345)
Changes in non-cash working capital	**(7,184)**	(17,687)	**14,442**	52,175
	(142,802)	(290,916)	**(438,565)**	(879,170)
Financing activities:				
Issuance of share capital (note 3)	**6,256**	—	**11,056**	6,400
Investing activities:				
Proceeds on the sale of Petro-LAB	**—**	—	**—**	1,591,038
Property, plant and equipment	**(1,036)**	(2,090)	**(1,036)**	(13,157)
	(1,036)	(2,090)	**(1,036)**	1,577,881
Net increase (decrease) in cash and cash equivalents	**(137,582)**	(293,006)	**(428,545)**	705,111
Cash and cash equivalents, beginning of period	**247,732**	1,087,542	**538,695**	89,425
Cash and cash equivalents, end of period	**$ 110,150**	$ 794,536	**$ 110,150**	$ 794,536

See accompanying notes to financial statements.

Nine months ended July 31, 2005

Labrador Technologies Inc. (the “Corporation”) is engaged in the research and development and marketing of data retrieval technology for customers.

1. Future operations and subsequent events:

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

The Corporation’s ability to maintain its current level of operations is dependent on its ability to generate sufficient cash to fund its strategic business plan. To date, the Corporation has no ongoing source of revenue. At July 31, 2005 the Corporation had cash of $110,150, no long-term debt and a working capital balance of $114,147. In August, the Corporation completed a Private Placement of 2,750,000 common shares at $0.10 per share resulting in cash of $275,000. Based on the Corporation’s current level of expenditures, the Corporation estimates that it has enough cash to continue the current operations through April 2006. Management and the Board of Directors continue to review alternatives to develop an ongoing source of revenue.

While management believes that the Corporation has sufficient cash to discharge its obligations in the normal course of operations through April 2006, future operations will regardless be dependent upon the successful ongoing development and marketing of the Corporation’s data retrieval technology and the corresponding generation of future cash flows. Management believes the going concern assumption is appropriate for these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments might be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the balance sheet classifications used.

2. Significant accounting policies:

These unaudited interim financial statements have been prepared using accounting policies that, except with respect to the adoption of the amended accounting standard relating to stock-based compensation as described below, are consistent with the policies used in preparing the Corporation’s annual report for the year ended October 31, 2004, and should be read in conjunction with the annual financial statements. Certain of the significant policies are as follows:

(a) Revenue recognition:

Revenue from the sale of licenses as well as revenue attributable to undelivered elements, including maintenance and other post-customer support services, is recognized ratably over the contract period. Revenue from consulting services is recognized when the services are performed and/or when earned.

(b) Stock based compensation plan:

Effective November 1, 2002, the Corporation adopted the new Canadian accounting standard relating to stock-based compensation. Under this standard the Corporation followed the settlement method of accounting for stock options granted to employees whereby the proceeds received on the exercise of options were included in capital stock and no compensation expense was recognized. For stock-based compensation to non-employees, the Corporation calculated a fair value using an option-pricing model, and recorded the expense to earnings over the term of the option.

In September 2003, the CICA issued an amendment to Section 3870 – Stock based compensation and other stock based payments. The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in the financial statements. The Company has chosen to implement this amendment beginning with the current financial year beginning November 1, 2004. As a result, the Company is required to restate the financial results from the previous year to comply with the amended policy for comparison purposes.

2. Significant accounting policies (continued):

(c) Per share amounts:

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments.

(d) Income taxes:

The Corporation uses the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability on the balance sheet and its tax basis using income tax rates enacted at the balance sheet date. The effect of changes in rates on future income tax liabilities and assets is recognized in the period that the change occurs. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

3. Stock-based compensation

During the three month period ended July 31, 2005, 100,000 share options were granted to an employee of the Corporation. Accordingly, stock-based compensation expense has been recorded for the period based on an estimate of the fair value of the options calculated using the Black-Scholes option-pricing model with the following assumptions: no dividends; volatility of 60% per annum; a risk free rate of return of 5%; an expected life of 5 years; and, an exercise price equal to the market value of the common stock at the date the options were issued.

4. Share capital:

(a) Authorized:

Unlimited preferred shares, Series A and Series B; and

Unlimited common shares.

(b) Issued and outstanding:

	July 31, 2005		Oct 31, 2004	
Common shares	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	8,289,685	$4,909,284	8,249,685	$4,902,884
Share issued for service	48,821	6,256		
Exercise of options	40,000	4,800	40,000	6,400
Balance, end of period	8,378,506	$4,920,340	8,289,685	$4,909,284

As at September 26, 2005, the Corporation has 11,175,173 common shares and 770,000 stock options to purchase common shares outstanding.

(c) Stock option plan:

The Corporation has a stock option plan for its directors, officers and employees. Details of the stock option plan are as follows

	Number	Exercise price	Weighted average exercise price
Outstanding at October 31, 2004	530,000	$ 0.12 – 0.35	0.28
Cancelled	(105,000)	0.16	0.16
Exercised	(40,000)	0.12	0.12
Granted	385,000	0.10 – 0.12	0.11
Outstanding at July 31, 2005	770,000	$ 0.12 – 0.35	$0.23

Exercise price outstanding	Options outstanding and exercisable: Number outstanding at July 31, 2005	Weighted average remaining contractual life
		(months)
$0.10	100,000	58
0.12	245,000	16
0.12	40,000	34
0.35	345,000	17
0.35	40,000	20
	770,000	23

5. Sale of Petro-LAB

On December 18, 2003 the Corporation terminated its royalty agreement with the purchaser of the Petro-LAB software resulting in the Corporation receiving a final cash payment, including adjustments, of approximately $1,591,000 and the settlement of accounts payable and accrued liabilities totaling approximately $63,000. As a result, a total gain on termination of the agreement and royalty payments of approximately $1,654,000 was recorded in the first quarter of fiscal 2004. As such, the Corporation has not and will receive no further royalty payments from the purchaser of the Petro-LAB software.

Labrador®
TECHNOLOGIES INC.

LTX on the TSX.V

CORPORATE INFORMATION

For further information on Labrador Technologies Inc., please visit our website at www.labradortechnologies.com.

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K. Garry Cook*, Calgary, Alberta
Jeff Howe*, Toronto, Ontario
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Darryl K. Stackhouse, Chief Financial Officer

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Stock Exchange
The TSX Venture Exchange
Trading Symbol: LTX