

Quarterly Report of

# **LABRADOR TECHNOLOGIES INC.**

First Quarter ended January 31, 2006 and 2005

# LABRADOR TECHNOLOGIES INC.

THREE MONTHS ENDED JANUARY 31, 2006

## MANAGEMENT'S DISCUSSION & ANALYSIS

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

This MD&A is dated as of March 23, 2006.

### Overall Performance

#### CEO'S REPORT TO SHAREHOLDERS

##### Everything Has Changed...

Strange as it may seem, everything has changed for LTI, and yet nothing has changed at all. The Labrador® suite of products, with its flagship, the incomparable LABengine™, remain as the primary intellectual property of the Company, albeit a little buffed up and shinier than before. Without question, it was the intrinsic value of the Labrador® family of products that attracted Tim Breitreutz, LTI's Chief Technology Officer, to the Company – and the competitive value of these products has been well documented on the LTI web-site, as well as in the 2004 Annual Report. In a nutshell, Labrador® provides users, in everyday business language, with the ability to generate "ad hoc" or "on-demand" queries, in highly optimized SQL, and this sets us apart from all other software vendors.

What has changed is that the Company's **non-compete**, with Qbyte Services (now owned by P2 Energy Solutions), **expired** on September 30<sup>th</sup>, 2005, finally allowing the company to re-enter the Calgary oil and gas market with Labrador®, after a five year hiatus. Whether we like it or not, being able to put an application's "face" on Labrador® has proven to be a critical success factor in marketing Labrador®'s unique strengths as embeddable components – simply because seeing the results of deploying something (somewhat abstract) such as Labrador® in action, as a "living, breathing" entity is compelling. And hence, on October 1<sup>st</sup>, 2005, we initiated an intense, full-out effort to create Labrador® eTrieve™, as "proof of our Labrador® pudding".

#### Labrador® eTrieve

As of this writing, Labrador eTrieve™ is a secure, web-based, generic data retriever, which thrives in complex database environments, such as the oil and gas industry. Importantly, eTrieve™ will offer its users the proven strengths of LTI's dynamic Labrador® query back-bone to access the most current data available, with all of the features of the Web 2.0 framework, popularized by Google's™ successes. As a web-based offering, eTrieve™ requires no installation, no CD updates, and no maintenance, while providing "minimal-

click” search, reporting, and exporting capabilities – and employing Microsoft®’s impressive Virtual Earth satellite imagery mapping. eTrieve™ licensing is facilitated with an easily readable, straight-forward “Click Wrap Agreement.”

## **A Major Advancement**

LTI has already achieved a major advancement with its eTrieve™ product – going well beyond conventional oil and gas web access – to provide wireless data retrieval for proven hand-held devices, such as BlackBerries™, Palm@ Treos™, and Microsoft® Windows Mobile™ Smart Phones.

For staff on-the-move, field personnel, and anyone requiring information ‘on-demand’, eTrieve™ provides a single, cross-platform, hand-held solution, so its clients can stay productive on the road, in meetings, during lunch, or anywhere else. Now, users can enjoy the same real-time access to their oil and gas data-stores through their wireless browsers, as they do sitting at their desks. Said Tim Breikreutz, C.T.O. of Labrador, “the opportunity to have all of your oil and gas data, available at your fingertips, is highly convenient – the ability to have an oil and gas “well-ticket”, right in the palm of your hand, borders on the revolutionary.”

This expanded, mobile accessibility to data broadens significantly eTrieve™’s market by now providing all of the field service companies, industry analysts and stock brokers, as well as the field geologists, field engineers, and particularly the landmen – with easily affordable, wireless access to current oil and gas data, such as the data offered by the geoLOGIC Data Center (gDC). The gDC is Calgary’s first Data Centre to request that eTrieve™ services be made available for the gDC’s data clients, and eTrieve™ is now commercially available at the gDC, accessing the drilling and producing well datasets.

Land data is now eTrieve™’s “Number 1 Priority”, with emphasis on providing seamless access to proprietary Land, in order to complement the gDC’s Land database. Moreover, and as quickly as possible, LTI will continue to model further datasets with Labrador Modeller™, the Company’s unique capability to make relational databases – both proprietary and public – rapidly accessible. Thus, on an ongoing basis, all of these additional databases will be prioritized, and made eTrieve™ accessible, based on client requests and the Data Centres which they choose to have access to.

## **The Value Proposition**

Thanks to Google™, and the other Web 2.0 pioneers, the eTrieve service has a “rich”, friendly ‘look and feel’ that surpasses the old client/server standards. Thanks to Microsoft®’s Virtual Earth satellite imagery mapping, eTrieve provides stunningly impressive geographic context for an oil and gas industry, which is “map-centric” by nature. When one combines this with Labrador® and our hand-held technology, eTrieve provides the ultimate in customer convenience, at a very economical price, in a society where the so-called “CrackBerry” has become a way of life. Needless to say, the prospect of returning again to monthly cash-flow, after the expiration of the Petro-LAB™ non-compete, is extremely attractive to the Company.

But, equally importantly for LTI, eTrieve™ puts an exceptionally friendly, compelling “face” on the Labrador® technology, which is LTI’s unique competitive advantage. And, as eTrieve™ is generic, it positions LTI to sell into other verticals, such as healthcare, pharmaceuticals, and insurance, all of which have complex database environments.

## **Significant Event After 1<sup>st</sup> Quarter, 2006**

As has been previously documented, the company engaged, on January 24<sup>th</sup>, 2006, in a fully subscribed Private Placement to raise \$400,000, at 10 cents per LTI Unit, which was filled by February 28<sup>th</sup>, 2006, and closed on March 2<sup>nd</sup>. Apart from general working capital, the Company intends to use these funds to enhance the already “rapid-fire” eTrieve™ development process, as well as the means to employ more aggressive marketing/sales strategies to kick-start eTrieve™’s revenue generation.

“signed”

H. Ronald Sterne,  
President & C.E.O.

## Results of Operations

### Revenue

Revenue has, historically, been 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 agreements with third parties; 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.

Currently, the Company has no current ongoing sources of revenue, although it launched commercially its Labrador® eTriever™ software service on February 22<sup>nd</sup>, 2006.

LTI's total revenue for the three month period ended January 31, 2006 was \$1,784 compared to \$30,987 for the three month period ended January 31, 2005, a decrease of \$29,203. The revenue for the current period was comprised entirely of interest income while the revenue for the corresponding period for the prior year was comprised of \$28,840 of consulting fees and \$2,147 of interest income.

### Financial Summary

	Three months ended	
	January 31, 2006	January 31, 2005
Revenues	\$ 1,784	\$ 30,987
License fees	—	—
Royalty income	—	—
Consulting fees	—	28,840
Interest income	1,784	2,147
Expenses	190,768	213,464
Net loss	(188,984)	(182,477)
Net loss per share	(0.02)	(0.02)
Outstanding shares	11,488,508	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 month period ended January 31, 2006 were \$107,224 compared to \$110,662 for the three month period ended January 31, 2005, a decrease of \$3,438. The decrease is due to a reduction in office rent and parking of \$11,453, a reduction in accounting fees of \$11,176, a reduction in legal fees of \$3,141, an increase in administrative salaries of \$6,940, an increase in equipment rental of \$5,164, an increase in office expenses of \$3,880, an increase in promotion expenses of \$3,074, and minor variations in various other accounts.

#### Computer and related costs

Computer and related costs include programmers' salaries, software costs, and telecommunication costs. This category of expenses totaled \$61,003 for the three month period ended January 31, 2006 compared to \$65,369 for the three month period ended January 31, 2005, a decrease of \$4,366. The decrease is due to a

reduction of programmers' salaries/consulting fees of \$8,801, an increase in telecommunication expenses of 3,736, 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 month period ended January 31, 2006, sales and marketing expenses were \$16,541 compared to \$19,033 for the three month period ended January 31, 2005, a decrease of \$2,492. The increase is due to a reduction in salaries/consulting fees of \$7,540, an increase in promotion expenses of \$4,717, and minor variations in various other accounts.

### **Stock-based compensation**

There were no share options issued (2005 – 285,000 share options) during the three month period ended January 31, 2006. Accordingly, there was no stock-based compensation expense recorded for the three month period ended January 31, 2006 compared to compensation expense of \$12,400 recognized during the three month period ended January 31, 2005.

### **Depreciation**

Depreciation expense for the three month period ended January 31, 2006 was \$6,000 which was the same amount for the three month period ended January 31, 2005. The amount remained constant as there were no significant additions or dispositions during the period.

### **Income taxes**

The Company uses the asset and 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 was \$nil.

### **Working capital**

At January 31, 2006, LTI had cash of \$84,359, no debt, and working capital of \$82,168. Apart from the commercial release of Labrador eTriever™ on February 22<sup>nd</sup>, 2006, 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 "Liquidity & Capital Resources" for current details on the success of LTI's January 24<sup>th</sup>, 2006 private placement announcement.

### **Financing and Investing**

During the three month period ended January 31, 2006, the Company's cash position decreased by \$171,799. Please refer to "Liquidity & Capital Resources" for current details on the success of LTI's January 24<sup>th</sup>, 2006 private placement announcement.

## Summary of Quarterly Results

<b>Fiscal 2006</b>	<b>1-QTR</b>	<b>2-QTR</b>	<b>3-QTR</b>	<b>4-QTR</b>
Revenue	1,784	N/A	N/A	N/A
License fees	—	N/A	N/A	N/A
Royalty income	—	N/A	N/A	N/A
Consulting fees	—	N/A	N/A	N/A
Interest income	1,784	N/A	N/A	N/A
Expenses	190,768	N/A	N/A	N/A
Net income (loss)	(188,984)	N/A	N/A	N/A
Net income (loss) per share	(0.02)	N/A	N/A	N/A
Outstanding shares	11,488,508	N/A	N/A	N/A

<b>Fiscal 2005</b>	<b>1-QTR</b>	<b>2-QTR</b>	<b>3-QTR</b>	<b>4-QTR</b>
Revenue	30,987	173	590	—
License fees	—	—	—	—
Royalty income	—	—	—	—
Consulting fees	28,840	—	—	—
Interest income	2,147	173	590	—
Expenses	213,464	159,485	147,808	149,652
Net income (loss)	(182,477)	(159,312)	(147,218)	(149,652)
Net income (loss) per share	(0.02)	(0.02)	(0.02)	(0.01)
Outstanding shares	8,289,685	8,329,685	8,378,506	11,268,507

<b>Fiscal 2004</b>	<b>1-QTR</b>	<b>2-QTR</b>	<b>3-QTR</b>	<b>4-QTR</b>
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

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

## Liquidity and Capital Resources

As of the date of this MD&A, March 23, 2006, the Company was successful in raising additional funds through the private placement of 4,000,000 Units of the Company at \$0.10 per unit for proceeds of \$400,000. Apart from the commercial release of Labrador eTriever™ on February 22<sup>nd</sup>, 2006, 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.

LTI has three contractual obligations: an operating lease for a vehicle supplied to an officer of the Company; an equipment lease for computer equipment, 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 equipment lease has a two year term ending November 2008 and has a monthly cost of \$249 (including GST). The office space lease is for a one-year term ending August 2006 and has a monthly cost of \$8,558 (including GST). LTI has prepaid \$7,352 of the August 2006 lease cost.

## **Financial Instruments**

As of the date of this MD&A, the Company has no investments in any financial instruments. As a result, it is management's opinion that the Company is not exposed to any interest, currency, or credit risks.

From time to time, LTI may invest excess cash in short-term low-risk interest bearing instruments such as Guaranteed Investment Certificates ("GIC"). 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.

## **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, the only related party transaction is the sale of shares to insiders through the private placement of 4,000,000 Units of the Company, at \$0.10 per Unit. Of the 4,000,000 Units sold, 500,000 Units were sold to an Officer and Director of the Company, and 500,000 Units were sold to a Director of the Company.

## **Proposed Transactions**

There are no proposed transactions at the date of the MD&A.

## **Changes in Accounting Policies**

There have been no changes in accounting policy during the period covered by this MD&A.

## **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 issued 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.

On September 31, 2005 LTI issued 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 11,221,840 shares outstanding.

On October 31, 2005 LTI issued 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 11,268,507 shares outstanding.

On November 30, 2005 LTI issued 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 11,315,174 shares outstanding.

On December 31, 2005 LTI issued 66,667 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 11,401,841 shares outstanding.

On January 31, 2006 LTI issued 66,667 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 11,488,508 shares outstanding.

On February 28, 2006 LTI issued 66,667 shares to an employee in lieu of salary and 40,000 shares to a consultant in lieu of consulting fees. After the issue of shares, LTI had 11,595,175 shares outstanding.

On March 3, 2006, LTI issued 4,000,000 shares in a private placement. After the issue of shares, LTI had 15,595,175 shares outstanding.

On March 10, 2006, LTI issued 40,000 shares upon the exercise of stock options for the amount of \$4,800. After the issue of shares, LTI had 15,635,175 shares outstanding.

As of March 23, 2006, LTI had 15,635,175 common shares and 680,000 options to acquire common shares outstanding.

## **Subsequent Events**

On January 24, 2006, the Company announced a private placement of 4,000,000 Units of the Company at \$0.10 per Unit, to be closed on or before February 28, 2006. Each Unit consists of one common share and one-half share purchase warrant. One whole share purchase warrant entitles the holder to purchase one common share of the Company at \$0.20 per share. The warrants expire one year from the closing date of the private placement. As of the date of this MD&A, the Company was successful in selling all 4,000,000 Units, and had received all of the proceeds of \$400,000. Of the 4,000,000 Units subscribed for, 500,000 Units were subscribed by an Officer and Director of the Company, and 500,000 Units were subscribed by a Director of the Company.

H. Ronald Sterne

Darryl K. Stackhouse

**“signed”**

**“signed”**

President & Chief Executive Officer  
Labrador Technologies Inc.

Chief Financial Officer  
Labrador Technologies Inc.

Financial Statements of

**LABRADOR TECHNOLOGIES INC.**

First Quarter ended January 31, 2006 and 2005

## **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 month period ended January 31, 2006.

## **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 month period ended January 31, 2006 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.

Darryl Stackhouse  
Chief Financial Officer  
Labrador Technologies Inc.

March 23, 2006

# LABRADOR TECHNOLOGIES INC.

## Balance Sheets

	January 31 2006	October 31 2005
	(Unaudited)	(Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 84,359	\$ 256,158
Prepaid expenses	7,352	7,352
	91,711	263,510
Property and equipment	41,558	44,304
	\$ 133,269	\$ 307,814
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,543	\$ 14,504
Shareholders' equity:		
Common shares (note 4)	5,199,308	5,179,908
Share purchase warrants (note 4)	31,500	31,500
Contributed surplus (note 4)	227,814	227,814
Deficit	(5,334,896)	(5,145,912)
	123,726	293,310
Going concern (note 1)		
Subsequent event (note 5)		
	\$ 133,269	\$ 307,814

See accompanying notes to financial statements.

On behalf of the Board:

"signed"  
Jeff Howe  
Director

"signed"  
George Wilson  
Director

# LABRADOR TECHNOLOGIES INC.

## Statements of Operations and Deficit

(Unaudited)

	Three months ended	
	January 31 2006	January 31 2005
Revenues:		
Consulting fees	\$ —	\$ 28,840
Interest income	1,784	2,147
	<u>1,784</u>	<u>30,987</u>
Expenses:		
General and administrative	107,224	110,662
Computer and related costs	61,003	65,369
Sales and marketing	16,541	19,033
Stock-based compensation (note 3)	—	12,400
Depreciation	6,000	6,000
	<u>190,768</u>	<u>213,464</u>
Net loss	(188,984)	(182,477)
Deficit, at beginning of period	(5,145,912)	(4,507,253)
Deficit, at end of period	<u>\$(5,334,896)</u>	<u>\$ (4,689,730)</u>
Net loss per share:		
Basic and diluted	\$ (0.02)	\$ (0.02)

See accompanying notes to financial statements.

# LABRADOR TECHNOLOGIES INC.

## Statements of Cash Flows

(Unaudited)

	Three months ended	
	January 31 2006	January 31 2005
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (188,984)	\$ (182,477)
Items not involving cash:		
Depreciation	6,000	6,000
Stock-based compensation	—	12,400
Shares for services performed	19,400	—
	<u>(163,584)</u>	<u>(164,077)</u>
Changes in non-cash working capital	<u>(4,961)</u>	<u>8,008</u>
	<b>(168,545)</b>	<b>(156,069)</b>
Investing activities:		
Property and equipment purchases	(3,254)	—
Decrease in cash and cash equivalents		
	<b>(171,799)</b>	<b>(156,069)</b>
Cash and cash equivalents, beginning of period	<b>256,158</b>	<b>538,695</b>
Cash and cash equivalents, end of period	<b>\$ 84,359</b>	<b>\$ 382,626</b>

See accompanying notes to financial statements.

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements

Three months ended January 31, 2006

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

## 1. Going concern:

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 throughout fiscal 2006 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 January 31, 2006, the Corporation had cash of \$84,359, no long-term debt, an accumulated deficit of \$5,334,896, and a working capital balance of \$82,168. During the 3 month period ended January 31, 2006 the Corporation incurred a net loss totaling \$188,984 and utilized funds from operations totaling \$163,584. On January 24, 2006, the Corporation announced a private placement of up to 4,000,000 units at \$0.10 per unit for proceeds of \$400,000. Each unit consists of one common share and one-half share purchase warrant with each whole warrant exercisable at a price of \$0.20 per common share, for a period of 12 months following the closing date of the private placement. As at March 2, 2006, the Corporation had received signed subscriptions for the entire private placement of 4,000,000 units and had received all of the \$400,000 of proceeds to the Corporation from the private placement. Based on the Corporation's current level of expenditures, the Corporation estimates that it has enough cash to continue the current operations throughout fiscal 2006. Management and the Board of Directors continue to review alternatives to develop ongoing sources of revenue.

While management believes that the Corporation has sufficient cash to discharge its obligations in the normal course of operations through this fiscal year, 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:

The financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. In the preparation of these financial statements, management has made estimates and assumptions that affect the recorded amounts of certain of the Corporation's assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. While it is the opinion of management that these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below, actual results could differ from the estimates made.

### (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) Per share amounts:

Basic net loss per share is computed by dividing net 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.

### (c) Income taxes:

The Corporation uses the asset and 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.

### 3. Stock-based compensation:

Effective November 1, 2004, the Corporation retroactively adopted the amended standard with respect to stock-based compensation, which requires the use of the fair value method for valuing all stock options granted whether they be to employees, directors or non-employees. During the three month period ended January 31, 2006, there were no options granted and consequently no stock-based compensation expense was recognized (2005 - \$12,400).

### 4. Share capital:

(a) Authorized:

Unlimited preferred shares, Series A and Series B; and

Unlimited common shares.

(b) Common shares issued:

	Three months ended January 31, 2006		Year ended October 31, 2005	
	Number of shares	Amount	Number of shares	Amount
Common shares				
Balance, beginning of period	11,268,507	\$ 5,179,908	8,289,685	\$ 4,909,284
Exercise of options	—	—	40,000	4,800
Sale of units	—	—	2,750,000	243,500
Shares for services performed	220,001	19,400	188,822	22,324
Balance, end of period	11,488,508	\$ 5,199,308	11,268,507	\$ 5,179,908

During the year ended October 31, 2005, the Corporation completed a private placement of 2,750,000 units at a price of \$0.10 per unit. Each unit consists of one common share and one-half share purchase warrant. One whole share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.20 per share. The warrants expire one year from the closing date of the private placement. Of the 2,750,000 units issued under the private placement, 1,000,000 units were issued to directors and/or officers of the Corporation. Of the proceeds raised, totaling \$275,000, \$243,500 was allocated to common share capital and \$31,500 was allocated to share purchase warrants.

On January 24, 2006, the Corporation announced a private placement of 4,000,000 units of the Corporation at \$0.10 per unit to be closed on or before February 28, 2006. Each unit consists of one common share and one-half share purchase warrant. One whole share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.20 per share. The warrants expire one year from the closing date of the private placement. As at March 2, 2006, the Corporation had received signed subscriptions for the entire private placement of 4,000,000 units and had received all of the \$400,000 of proceeds to the Corporation from the private placement. Of the subscription agreements signed, 1,000,000 units were with directors and/or officers of the Corporation.

As of March 23, 2006, an additional 106,667 common shares for services performed have been issued to an employee and to a consultant of the Corporation at a price of \$0.06 per share. Based on the existing one-year service agreements, the Corporation will continue to issue a maximum of

106,667 common shares for services performed every month, until the contracts expire, or are renegotiated.

As at March 23, 2006, the Corporation had 15,595,175 common shares, 3,375,000 warrants and 720,000 stock options outstanding.

(c) Share purchase warrants issued:

Common shares	January 31, 2006		October 31, 2005	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	1,375,000	\$ 31,500	—	\$ —
Sale of units	—	—	1,375,000	31,500
Balance, end of year	1,375,000	\$ 31,500	1,375,000	\$ 31,500

One whole share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.20 per share. The warrants expire on August 18, 2006, one year from the closing date of the private placement.

The fair value of the warrants was estimated using the Black-Scholes option-pricing model with the following assumptions:

	Warrants
Dividend yield	0%
Expected volatility	60%
Risk free rate of return	5%
Expected option life	1 year
Weighted average option value	\$ 0.02

(d) Stock option plan:

The Corporation has a stock option plan for its directors, officers and employees. Details of the stock options outstanding and exercisable under this plan were as follows:

	Number	Exercise price	Weighted average exercise price
Outstanding at October 31, 2005	720,000	\$ 0.10 – 0.35	\$ 0.23
Granted	—	—	—
Expired	—	—	—
Exercised	—	—	—
Cancelled	—	—	—
Outstanding at January 31, 2006	720,000	\$ 0.10 – 0.35	\$ 0.23

#### 4. Share capital (continued):

(d) Stock option plan (continued):

Exercise price		Exercisable and outstanding at January 31, 2006	Weighted average remaining contractual life (months)
\$	0.10	100,000	52
	0.12	215,000	10
	0.12	40,000	28
	0.35	325,000	11
	0.35	40,000	14
		720,000	18

(e) Stock-based compensation:

During the three month period ended January 31, 2006, there were no options granted (2005 - \$12,400) and consequently no stock-based compensation expense was recognized.

(f) Contributed surplus:

	Jan 31, 2006	Oct 31, 2005
Beginning of period	\$ 227,814	\$ 208,714
Stock-based compensation	—	19,100
End of period	\$ 227,814	\$ 227,814

#### **4. Share capital (continued):**

(g) Per share amounts:

The weighted average number of common shares outstanding during the 3 month period ended January 31, 2006 was 11,331,551 (2005 – 8,289,685).

There is no dilutive effect from the options and warrants for the 3 month period ended January 31, 2006 (2005 – nil).

#### **5. Subsequent event:**

On January 24, 2006, the Corporation announced a private placement of 4,000,000 units of the Corporation at \$0.10 per unit to be closed on or before February 28, 2006. Each unit consists of one common share and one-half share purchase warrant. One whole share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.20 per share. The warrants expire one year from the closing date of the private placement. As at March 2, 2006, the Corporation had received signed subscriptions for the entire private placement of 4,000,000 units and had received all of the \$400,000 of proceeds to the Corporation from the private placement. Of the subscription agreements signed, 1,000,000 units were with directors and/or officers of the Corporation.

## **Corporate Information**

For further information on Labrador Technologies Inc., please visit our website at [www.labradortechnologies.com](http://www.labradortechnologies.com).

### **Head Office**

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Calgary, Alberta, Canada T2G 0Y1

### **Board of Directors**

H. Ronald Sterne, Calgary, Alberta  
Darryl K. Stackhouse, Calgary, Alberta  
George A. Wilson\*, Q.C., Toronto, Ontario  
K. Garry Cook\*, Calgary, Alberta  
Jeff Howe\*, Toronto, Ontario

\* - members of the Audit Committee

### **Executives and Officers**

H. Ronald Sterne, President & Chief Executive Officer  
Darryl K. Stackhouse, Chief Financial Officer

### **Auditors**

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Chartered Accountants  
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### **Transfer Agent**

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### **Solicitors**

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### **Stock Exchange**

The TSX Venture Exchange  
Trading Symbol: LTX