

# **LABRADOR TECHNOLOGIES INC.**

## **THIRD QUARTER FISCAL 2006 INTERIM REPORT FOR THE NINE MONTHS ENDED JULY 31, 2006**

### **MANAGEMENT'S DISCUSSION & ANALYSIS**

The following Management's Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 52-109F2, 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 September 28, 2006.

#### **Overall Performance**

##### **CEO'S REPORT TO SHAREHOLDERS**

###### **The Benefit of Experience**

Since 1981, the Company has been moderately successful, having withstood the National Energy Program, the crash of oil prices to \$7 in 1986, and a whole host of other challenges that high-tech companies face in the market-place. LTI has always stuck to fundamentals. It has controlled expenses, provided an excellent value proposition with its clients and partners, and maintained an unrelenting attention to detail.

An aberration occurred during the DOT.COM hysteria. Financial analysts were routinely exposed to Enron's financial results as a target for a successfully run company, and I made an error in judgment – I tried to grow the Company much too quickly, attempting to accomplish overly ambitious marketing, sales, and software development plans.

###### **The Benefit of Solid Advice**

After going public in 1997, the Company was fortunate enough to engage with an extraordinarily successful businessman who has continually proven excellent results over time, and whose significant investment in our Company is unlike his "blue chip" investment portfolio. This particular gentleman gave me ready telephone access, solid advice, and was very disappointed that I had allowed myself to take a meticulously grown, organic company down a path of unrealistic growth expectations, with excessive expenses, and disappointing results. He told me so, quite bluntly, and I vowed never to make that mistake again. To this day, I have not spoken to him again, but his sound fundamentals never leave my mind.

## **The Labrador Tool Design Validation & eTrieve™**

To successfully re-launch the Company in October 2005, following the expiration of the 5-year Qbyte/IBM non-compete (a condition of the sale of Canadian Petro-LAB™ for \$8.2 Million), the Company's Labrador® Tool Suite had to be reintroduced into the Calgary marketplace. In the course of this re-launch, it has already been reported that the Company has attracted a number of highly accomplished software developers. The primary reason for this, in Calgary's almost insanely competitive market, is the perceived uniqueness of a set of "data-plumbing" tools that were conceived purely by the mother of necessity. In other words, each tool was invented/created by LTI to service aspects of the complex, but practical, everyday data requirements of multi-nationals.

In my opinion, and this is shared by experienced developers who have joined the Company over the past year, Labrador®'s simple, elegant architecture and practical, efficient utilities/tools are the design work of a genius who worked for the Company for 25 years – who remains both a shareholder and a stalwart supporter of the Company. He has generously given his spare time so that LTI's senior programmers fully understand what has been independently described as a "very clean" code-base, which can be integrated into the newest and best database "plumbing"/integration technologies of today. As I have stated many times, the main purpose of our latest web-based software service, Labrador® eTrieve™, is to fully exploit Labrador®'s unique query/reporting and data integration capabilities in a web-based framework that Google® and many other major technology players have proven can securely service the biggest companies in the world.

## **The Learning Curve in a New Partnership & One Chance to Demonstrate Competitive Advantage**

As reported, geoLOGIC Systems Ltd. has created a new data service, named the geoLOGIC Data Center (gDC); and LTI has been working with the gDC to combine eTrieve's exciting, BlackBerry proficient, data query, reporting, and exporting capabilities with the gDC's oil and gas added-value data, which is well regarded in the industry. However, it is important to note that, as already has been evidenced by the success of Canadian Petro-LAB™, Labrador®'s search engine, the LABEngine™, can query every nook and cranny in complex databases. Thus, the need for an infrastructure to support Labrador's unequaled ad-hoc query capabilities has taken longer than anticipated. It is one thing to retrieve data from common, hard-coded queries – it is quite another to allow users to explore every facet of complex databases with a product like Labrador® eTrieve™. And, many of our prospective clients have made it clear that they want the LABEngine's ad hoc query/reporting capabilities in the early releases of eTrieve™.

Unfortunately, this delay to ensure Labrador®'s unrivalled query/reporting capabilities are integrated seamlessly at the gDC is simply a fact of life, and the co-operation between our companies to achieve mutual excellence for our clients has positively evolved on a weekly basis. In today's marketplace, which is frenetically busy, a software vendor has one chance to successfully introduce something new, no matter how innovative, practical and exciting. As mentioned above, we have been enriched by the benefits from being around for over 25 years. Sam Walton once said something like, "it took 20 years to create an overnight success!" The hard truth is that, for those clients who insist on Labrador's "on-demand" query/reporting capabilities in eTrieve, we do not expect that eTrieve, at the gDC, will be ready for release before November 2006. Thereafter, we plan to rapidly introduce phased advancements, as eTrieve's web-based environment allows the Company to provide users with newly requested enhancements, in a compressed timeframe, which our previous client/service environment could not even contemplate.

In the background, the Company continues, under Non-Disclosure provisions, to pursue licensing the Labrador® Tools/eTrieve™, on a non-exclusive basis. In addition, as previously reported, the Labrador Tools have been designed to service any industry (like the oil and gas industry) which needs to access a series of separate, but inter-related complex databases, such as insurance, health-care, and government – where "joining" data elements together in single reports, from different sources, has substantial value. Thus, to fully exploit Labrador's generality, the Company is using its growing shareholder/partner network to pursue distribution channels with the necessary expertise in industries in which the Company has, to date, only limited experience.

## A Company for Patient Investors

For those of you who have been following the Company closely, you may have noticed that there has been an absence of announcements, as we are rigorously pursuing a policy of Press Releases of substance only, at the expense of creating possible shareholder apprehension, when shareholders customarily expect regular announcements from a public company – this is direct result of what we have learned over years of public company life, and is certainly part of the LTI learning from the “**Solid Advice**” section, as referenced above. We are staying the course, executing our Business Plan, with a rigorously controlled burn-rate, and raising equity financing ONLY as required. The Company just converted 84% of warrants (raising \$230,000) associated with share units issued in a Private Placement in August of 2005. Another Private Placement was recently completed raising an additional \$235,000 at 35 cents per unit. More warrants may be exercised on or before March, 2007, and then again in August, 2007. Management, with no debt whatsoever, continues to employ a policy of containing dilution to an absolute minimum, while allowing LTI’s software development environment to flourish.

Accordingly, the Company, after being public since 1997, still has only approximately 17 million shares outstanding. In conjunction with its day-to-day responsibilities, management has been taking LTI’s story to singular, patient investors, who have the financial wherewithal to either invest through Private Placement, or replace previous investors through the open market. Thus, LTI’s shareholder profile has changed dramatically in the last ten months, as has been evidenced by some unusually high volumes of LTI/LTX trading.

Management’s message is simple. LTI has built a software foundation which will support a “building of any height”, as it has evolved practical, up-to-date tools, applicable in any industry which needs “surgical” access to specific data housed around the world. With eTrieve™, we have the additional benefit, for the first time, of selling quality software that “sizzles” at a **nominal** price... with the potential for maximum profitability. Bluntly speaking, the Company is positioned to patiently build (revenue) “floor”, upon “floor”, unless it can be convinced to sell and/or merge at an LTI “building height” yet to be determined. The timing of such a decision will simply be a function of when our shareholders can reap the maximum benefits from a company that has learned to wait for the opportune time to exploit an extraordinarily long period of conscientious software development.

“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® eTrierer™ software service on February 22<sup>nd</sup>, 2006, for drilling and production data only.

### Financial Summary

	Three months ended		Nine months ended	
	July 31	July 31	July 31	July 31
	2006	2005	2006	2005
Revenue	\$ —	\$ 590	\$ 1,783	\$ 31,750
Consulting fees	—	—	—	28,840
Interest income	—	590	1,783	2,910
Expenses	243,308	147,808	726,616	520,757
Net loss	(243,308)	(147,218)	(724,833)	(489,007)
Net loss per share	(0.02)	(0.02)	(0.05)	(0.06)
Outstanding shares	16,594,016	8,378,506	16,594,016	8,378,506

### 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 July 31, 2006 were \$113,689 (nine months - \$389,347) compared to \$70,113 for the three month period ended July 31, 2005 (nine months - \$277,013), an increase of \$43,576. The increase can be attributed to an increase in administrative salaries of \$31,542, an increase in consulting fees of \$3,450, an increase in travel and promotion expenses of \$2,380, an increase in subscriptions & membership fees of \$2,095, an increase in transfer agent and filing fees of \$2,264 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 \$89,305 for the three month period ended July 31, 2006 (nine months - \$242,605) compared to \$44,159 for the three month period ended July 31, 2005 (nine months - \$150,946), an increase of \$45,146. The increase is due to the addition of personnel and corresponding salaries/consulting fees of \$44,304, and an increase in telecommunications expenses of \$842.

#### 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 July 31, 2006, sales and marketing expenses were \$34,314 (nine months - \$69,964) compared to \$21,936 for the three month period ended July 31, 2005 (nine months - \$56,798), an increase of \$12,378. The increase is due to an increase in salaries/consulting fees of \$21,347, an increase in promotion expenses of \$7,956 and a decrease in support salary expenses of \$16,925.

### Stock-based compensation

During the nine month period ended July 31, 2006, there were 950,000 options granted (2005 - 100,000). Accordingly, there was \$6,700 compensation expense recorded for the nine month period ended April 30, 2006.

### Depreciation

Depreciation expense for the three month period ended July 31, 2006 was \$6,000 which was the same amount for the three month period ended July 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 July 31, 2006, LTI had cash of \$240,095, no debt, and working capital of \$235,857. Apart from the commercial release of Labrador eTriever™ on February 22<sup>nd</sup>, 2006, for drilling and production data only, 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, and/or raise sufficient capital, in the future to continue to fund its strategic business plan. Please refer to "Subsequent Events" for current details on LTI's June 21st, 2006 private placement announcement.

### Financing and Investing

During the three month period ended July 31, 2006, the Company's cash position increased by \$5,434. Please refer to "Liquidity & Capital Resources" for details on the success of the private placement announced in the 3rd quarter of fiscal 2006. Please refer to the 'Subsequent Events' for details on the closing of the private placement dated August 4, 2006.

## 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
Interest income	1,784	—	—	N/A
Expenses	190,768	292,541	243,308	N/A
Net loss	(188,984)	(292,541)	(243,308)	N/A
Net loss per share	(0.02)	(0.02)	(0.02)	N/A
Outstanding shares	11,488,508	15,794,678	16,594,016	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	—
Consulting fees	28,840	—	—	—
Interest income	2,147	173	590	—
Expenses	213,464	159,485	147,808	149,652
Net loss	(182,477)	(159,312)	(147,218)	(149,652)
Net 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	—	—	—	—
Interest income	—	—	3,084	9,898
Expenses	337,554	343,462	284,413	256,140
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**

At July 31, 2006, LTI had cash of \$240,095, no debt and working capital of \$235,857. On June 21, 2006, the Corporation announced a private placement of up to 1,248,571 units at \$0.35 per unit for proceeds of up to \$500,000. Each unit consists of one common share and one-half share purchase warrant exercisable at \$0.45 per common share for a period of 12 months following the closing of the private placement. As at July 31, 2006, the Corporation had signed subscriptions for 457,142 units and \$160,000 in cash. As at August 4, 2006, the Corporation had received signed subscription agreements for an additional 214,429 units and \$75,000 in cash in connection with this private placement. In addition, and subsequent to July 31, 2006, the Corporation received cash of \$190,000 from the exercise of 950,000 share purchase warrants. Accordingly, subsequent to July 31, 2006, the cash in the Corporation was supplemented by an aggregate additional amount of \$265,000 from the subscription of the units mentioned above and the exercise of share purchase warrants. Based on the Corporation's current level of expenditures, the Corporation estimates that it has enough cash to continue the current operation through April 2007.

LTI has two contractual obligations: an equipment lease for computer equipment, and an operating lease for office space. 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 three-year term ending August 2009 and has a monthly cost of \$8,560. LTI has prepaid \$7,352 of the August 2009 lease cost.

## **Financial Instruments**

As at July 31, 2006 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 6, 2006 LTI has \$100,000 on deposit in a 1 year cashable GIC with the Royal Bank of Canada with an interest rate at prime. 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

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

## Changes in Accounting Policies

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

## Outstanding Share Data

On May 31, 2006 LTI issued 36,666 shares to employees in lieu of salary and 20,000 shares to a consultant in lieu of consulting fees. After the issue of shares, LTI had 15,851,344 shares outstanding.

On June 21, 2006 LTI issued 45,000 shares upon the exercise of stock options for the amount of \$5,400. After the issue of shares, LTI had 15,896,344 shares outstanding.

On June 30, 2006 LTI issued 3,226 shares to an employee in lieu of salary and 19,355 shares to a consultant in lieu of consulting fees. After the issue of shares, LTI had 15,918,925 shares outstanding.

On July 26, 2006 LTI issued 890,000 share options to employees, consultants and directors of the Company.

On July 31, 2006 LTI issued: 200,000 shares upon the exercise of warrants for the amount of \$40,000, 2,564 shares to an employee in lieu of salary and 15,385 shares to a consultant in lieu of consulting fees. After the issue of shares, LTI had 16,594,016 shares outstanding.

As of August 31, 2006 LTI has 17,760,406 common shares, 2,335,785 warrants and 1,480,000 options to acquire common shares outstanding.

## Subsequent Events

At July 31, 2006, LTI had cash of \$240,095, no debt and working capital of \$235,857. On June 21, 2006, the Corporation announced a private placement of up to 1,248,571 units at \$0.35 per unit for proceeds of up to \$500,000. Each unit consists of one common share and one-half share purchase warrant exercisable at \$0.45 per common share for a period of 12 months following the closing of the private placement. As at July 31, 2006, the Corporation had signed subscriptions for 457,142 units and \$160,000 in cash. As at August 4, 2006, the Corporation had received signed subscription agreements for an additional 214,429 units and \$75,000 in cash in connection with this private placement. In addition, and subsequent to July 31, 2006, the Corporation received cash of \$190,000 from the exercise of 950,000 share purchase warrants. Accordingly, subsequent to July 31, 2006, the cash in the Corporation was supplemented by an aggregate additional amount of \$265,000 from the subscription of the units mentioned above and the exercise of share purchase warrants. Based on the Corporation's current level of expenditures, the Corporation estimates that it has enough cash to continue the current operation through April 2007.

H. Ronald Sterne

Jeff Howe

"signed"

"signed"

President & Chief Executive Officer  
Labrador Technologies Inc.

Chief Financial Officer  
Labrador Technologies Inc.

Unaudited Financial Statements of

**LABRADOR TECHNOLOGIES INC.**

Third Quarter ended July 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 nine month period ended July 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 nine month period ended July 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 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.

H. Ronald Sterne  
President & Chief Executive Officer  
Labrador Technologies Inc.

Jeff Howe  
Chief Financial Officer  
Labrador Technologies Inc.

September 28, 2006

# LABRADOR TECHNOLOGIES INC.

Balance Sheets  
(Unaudited)

	July 31 2006	October 31 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 240,095	\$ 256,158
Prepaid expenses	7,352	7,352
	<u>247,447</u>	<u>263,510</u>
Property and equipment	39,320	44,304
	<u>\$ 286,767</u>	<u>\$ 307,814</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,590	\$ 14,504
Shareholders' equity:		
Share capital (note 3)	5,830,268	5,179,908
Share purchase warrants (note 3)	81,140	31,500
Contributed surplus (note 3)	234,514	227,814
Deficit	(5,870,745)	(5,145,912)
	<u>275,177</u>	<u>293,310</u>
Going concern (note 1)		
Subsequent events (note 5)		
	<u>\$ 286,767</u>	<u>\$ 307,814</u>

See accompanying notes to financial statements.

"signed"  
Trevor Skinner

"signed"  
George Wilson

# LABRADOR TECHNOLOGIES INC.

Statements of Operations and Deficit  
(Unaudited)

	Three months ended		Nine months ended	
	July 31	July 31	July 31	July 31
	2006	2005	2006	2005
<b>Revenues:</b>				
Consulting fees	\$ —	\$ —	\$ —	\$ 28,840
Interest income	—	590	<b>1,783</b>	2,910
	—	590	<b>1,783</b>	31,750
<b>Expenses:</b>				
General and administrative	<b>113,689</b>	70,113	<b>389,347</b>	277,013
Computer and related costs	<b>89,305</b>	44,159	<b>242,605</b>	150,946
Sales and marketing	<b>34,314</b>	21,936	<b>69,964</b>	56,798
Stock-based compensation (note 3)	—	5,600	<b>6,700</b>	18,000
Depreciation	<b>6,000</b>	6,000	<b>18,000</b>	18,000
	243,308	147,808	726,616	520,757
Net loss	<b>(243,308)</b>	(147,218)	<b>(724,833)</b>	(489,007)
Deficit, beginning of period	<b>(5,627,437)</b>	(4,849,042)	<b>(5,145,912)</b>	(4,507,253)
Deficit, end of period	<b>\$(5,870,745)</b>	\$(4,996,260)	<b>\$(5,870,745)</b>	\$(4,996,260)
Net loss per share:				
Basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.05)	\$ (0.06)

See accompanying notes to financial statements.

# LABRADOR TECHNOLOGIES INC.

Statements of Cash Flows  
(Unaudited)

	Three months ended		Nine months ended	
	July 31	July 31	July 31	July 31
	2006	2005	2006	2005
Cash provided by (used in):				
<b>Operating activities:</b>				
Net loss	\$ (243,308)	\$ (147,218)	\$ (724,833)	\$ (489,007)
Items not involving cash:				
Shares for services performed	31,000	—	89,800	—
Depreciation	6,000	6,000	18,000	18,000
Stock-based compensation (note 3)	—	5,600	6,700	18,000
	(206,308)	(135,618)	(610,333)	(453,007)
Changes in non-cash working capital	6,342	(7,184)	(2,914)	14,442
	(199,966)	(142,802)	(613,247)	(438,565)
<b>Financing activities:</b>				
Issuance of share capital	—	6,256	—	11,056
Proceeds from exercise of options	5,400	—	10,200	—
Proceeds from exercise of warrants	40,000	—	40,000	—
Proceeds from sale of shares and warrants (note 3)	160,000	—	560,000	—
	205,400	6,256	610,200	11,056
<b>Investing activities:</b>				
Property, plant and equipment	—	(1,036)	(13,016)	(1,036)
Net increase (decrease) in cash and cash equivalents	5,434	(137,582)	(16,063)	(428,545)
Cash and cash equivalents, beginning of period	234,661	247,732	256,158	538,695
Cash and cash equivalents, end of period	\$ 240,095	\$ 110,150	\$ 240,095	\$ 110,150

See accompanying notes to financial statements.

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements  
(Unaudited)

Nine months ended July 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 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, 2006, the Corporation had cash of \$240,095, no long-term debt, an accumulated deficit of \$5,870,745, and a working capital balance of \$235,857. During the nine month period ended July 31, 2006 the Corporation incurred a net loss totaling \$724,833 (three month period then ended - \$243,308 and utilized funds from operations totaling \$613,247 (three month period then ended - \$199,966).

On June 21, 2006, the Corporation announced a private placement of up to 1,248,571 units at \$0.35 per unit for proceeds of up to \$500,000. Each unit consists of one common share and one-half share purchase warrant exercisable at \$0.45 per common share for a period of 12 months following the closing of the private placement. As at July 31, 2006, the Corporation had signed subscriptions for 457,142 units and \$160,000 in cash. The cash received from these subscriptions is included in cash and cash equivalents and the corresponding amount has been recorded in share capital and share purchase warrants (note 3). As at August 4, 2006, the Corporation had received signed subscription agreements for an additional 214,429 units and \$75,000 in cash in connection with this private placement. In addition, and subsequent to July 31, 2006, the Corporation received cash of \$190,000 from the exercise of 950,000 share purchase warrants. Accordingly, subsequent to July 31, 2006, the cash in the Corporation was supplemented by an aggregate additional amount of \$265,000 from the subscription of the units mentioned above and the exercise of share purchase warrants. Based on the Corporation's current level of expenditures, the Corporation estimates that it has enough cash to continue the current operation through April 2007. Management and the Board of Directors continue to review alternatives to develop ongoing sources of revenue.

While the Corporation has sufficient cash to discharge its obligations in the normal course of operations through April 2007, 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. Basis of presentation:

Management prepared the interim financial statements of the Corporation in accordance with accounting principles generally accepted in Canada and following the same accounting policies and methods of computation used in the Corporation's financial statements for the year ended October 31, 2005. The following disclosure is incremental to the disclosure included in the annual financial statements and should be read in conjunction with the financial statements and notes thereto in the Corporation's annual report for the year ended October 31, 2005.

## 3. Share capital:

### (a) Authorized:

Unlimited preferred shares, Series A and Series B; and

Unlimited common shares.

### (b) Common shares issued and to be issued:

	9 months ended July 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	85,000	10,200	40,000	4,800
Sale of units	4,000,000	397,350	2,750,000	243,500
Shares for services performed	583,367	89,800	188,822	22,324
Exercise of warrants	200,000	44,410	—	—
Balance	16,136,874	5,721,668	—	—
Sale of units to be issued	457,142	108,600	—	—
Balance, end of period	16,594,016	\$ 5,830,268	11,268,507	\$ 5,179,908

During the six months ended April 30, 2006, the Corporation completed a private placement of 4,000,000 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 subscription agreements signed, 1,000,000 units were issued to directors and/or officers of the Corporation. Of the proceeds raised, totaling \$400,000, \$397,350 was allocated to common share capital and \$2,650 was allocated to share purchase warrants.

During the three months ended July 31, 2006, the Corporation received funds from a private placement, which closed on August 4, 2006. Of the total 671,571 units subscribed, consisting of one common share and one-half share purchase warrants, 457,142 units were subscribed for proceeds of \$160,000 prior to July 31, 2006. One whole share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.45 per share. The warrants expire on August 4, 2007, one year from the closing date of the private placement.

(c) Share purchase warrants issued and to be issued:

	9 months ended July 31, 2006		Year ended October 31, 2005	
	Number of shares	Amount	Number of shares	Amount
Common shares				
Balance, beginning of year	1,375,000	\$ 31,500	—	\$ —
Sale of units	2,335,785	54,050	1,375,000	31,500
Exercise of warrants		(4,410)		
Balance, end of period	3,710,785	\$ 81,140	1,375,000	\$ 31,500

335,785 of the units above were issued subsequent to July 31, 2006.

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

(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 Outstanding	Number Exercisable	Exercise Price	Weighted average exercise price
October 31, 2005	720,000	720,000	\$ 0.10 - 0.35	\$ 0.23
Granted	950,000	60,000	0.20 - 0.43	0.42
Exercised	(85,000)	(85,000)	0.12	0.12
Cancelled	(105,000)	(105,000)	0.35	—
July 31, 2006	1,480,000	590,000	\$ 0.10 - 0.43	\$ 0.35

### 3. Share capital (continued):

(d) Stock option plan (continued):

Exercise price	Outstanding at July 31, 2006	Weighted average remaining contractual life (months)
\$ 0.10	100,000	46
0.12	130,000	4
0.12	40,000	22
0.20	60,000	56
0.35	220,000	5
0.35	40,000	8
0.43	890,000	36
	1,480,000	29

(e) Stock-based compensation:

During the nine month period ended July 31, 2006, there were 950,000 options granted (2005 – 100,000).

(f) Contributed surplus:

	July 31, 2006	Oct 31, 2005
Beginning of period	\$ 227,814	\$ 208,714
Stock-based compensation	6,700	19,100
End of period	\$ 234,514	\$ 227,814

### 4. Commitments:

The Corporation has lease commitments for its premises through August 2009 with minimum annual payments as follows:

2006	\$ 17,100
2007	100,000
2008	100,000
2009	85,600

## **5. Subsequent events:**

As at July 31, 2006, the Corporation had signed subscriptions for 457,142 units and \$160,000 in cash in connection with the private placement announced June 21, 2006 (note 1). As at August 4, 2006, the Corporation had received signed subscription agreements for an additional 214,429 units and \$75,000 in cash in connection with this private placement. In addition, and subsequent to July 31, 2006, the Corporation received cash of \$190,000 from the exercise of 950,000 share purchase warrants. Accordingly, subsequent to July 31, 2006, the cash in the Corporation was supplemented by an aggregate additional amount of \$265,000, from the subscription of the units mentioned above and the exercise of share purchase warrants.

## **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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### **Board of Directors**

H. Ronald Sterne, Calgary, Alberta  
Trevor Skinner\*, 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  
Jeff Howe, Chief Financial Officer

### **Auditors**

KMPG LLP  
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