

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements  
(Unaudited)

Nine months ended July 31, 2011 and 2010

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## LABRADOR TECHNOLOGIES INC.

NINE MONTHS ENDED JULY 31, 2011

### 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 "Corporation") for the year ended October 31, 2010. Additional information with respect to LTI can be found on the Corporation's website at [www.labradortechnologies.com](http://www.labradortechnologies.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Forward-looking Information

Certain information included in this MD&A is forward-looking. Forward-looking information includes statements that are not statements of historical fact and which address activities, events or developments that the Corporation expects or anticipates will or may occur in the future. This includes such things as the development plans and status of the Corporation's software development projects, the Corporation's intentions, results of operations, levels of activity, future capital and other expenditures, including the amount, nature and sources of funding thereof, business prospects and opportunities, research and development timetable, and future growth and performance. When used in this MD&A, statements to the effect that the Corporation or its management 'believes', 'expects', 'plans', 'may', 'will', 'projects', 'anticipates', 'predicts', 'intends' or similar statements, including 'potential', 'opportunity', or variations thereof are not statements of historical fact and should be construed as forward-looking information. These statements reflect management's current beliefs with respect to future events and are based on information currently available to the management of the Corporation. The Corporation believes that the expectations reflected in such forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

With respect to the forward-looking information contained in this MD&A, we have made assumptions regarding the following:

- Future software license sales
- The continued ability of the Corporation to raise operating capital
- Ability to continue current development and new product development
- Ability to retain and recruit qualified staff

Forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are describe herein. Many factors could cause the Corporation's actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking information including, without limitation, the following factors:

- Economic conditions in the oil and gas industry
- Reliance on key partner
- Increased competition

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- Reliance on employees with specialized skills and knowledge
- Protection of proprietary rights

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievement may vary materially from those expressed or implied by the forward-looking information contained in this MD&A. These factors should be carefully considered and readers are cautioned not to place undue reliance on forward-looking information, which speaks only as of the date of the MD&A.

This MD&A is dated as of September 28, 2011.

## Overall Performance

### CEO'S REPORT TO SHAREHOLDERS

Management continues to be quite pleased with the Company's progress. As alluded to in the Q2 M,D&A, the Company announced the completion of another financing, this time for \$1.015 MM, the proceeds of which are being focused on R&D, increased sales collaboration with our partners, and general working capital. Imaginative program development is being combined with gradual improvements in sales, despite summer vacation times, and we are now directing our focus and efforts to the seasonal increase of Oil & Gas activity typically experienced in the 4th Quarter. Public announcements of material events will continue to be the Company's style until a more augmented approach to reporting is warranted by sales activity.

Respectfully,

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

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## Results of Operations

### Revenue

Currently, the Corporation has no significant ongoing sources of revenue. The Corporation, however, has received US\$240,000 in connection with a distribution agreement with IHS which has been recorded as deferred revenue (see note 1, note 7 in the financial statements). The Corporation is also starting to generate license fee sales in connection with that agreement.

### Financial Summary

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	Three months ended		Nine months ended	
	July 31	July 31	July 31	July 31
	2011	2010	2011	2010
Revenue				
Licence fees	\$ 10,198	4,000	20,531	4,000
Consulting fees	—	85,963	—	179,446
Data modeling	20,942	—	62,826	—
	31,140	89,963	83,357	183,446
Expenses				
General and administrative	88,823	105,647	314,681	375,790
Development and related costs	108,712	101,829	252,108	330,148
Other expenses	161,279	32,827	254,011	109,846
	358,814	240,303	820,800	815,784
Net loss	(327,674)	(150,340)	(737,443)	(632,338)
Net loss per share, fully and diluted	\$ (0.01)	(0.01)	(0.01)	(0.01)
Outstanding shares	52,626,137	36,793,495	52,626,137	36,793,495
Total assets	\$ 141,296	119,934	141,296	119,934

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### 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, 2011 were \$88,823 compared to \$105,647 for the three month period ended July 31, 2010, a decrease of \$16,824. This is primarily due to a decrease in general administration and staff expenses. For the nine month period ended July 31, 2011 expenses were \$314,681 compared to \$375,790 for the nine month period ended July 31, 2010, a decrease of \$61,109. This decrease was primarily due to a reduction in consulting and legal fees.

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## **Development and related costs**

Computer and related costs include programmers' salaries, software costs, and telecommunication costs. This category of expenses totaled \$108,712 for the three month period ended July 31, 2011 compared to \$101,829 for the three month period ended July 31, 2010, an increase of \$6,883. The increase is primarily due to an increase in programmer/consultant costs. For the nine month period ended July 31, 2011 expenses were \$252,108 compared to \$330,148 for the nine month period ended July 31, 2010, a decrease of \$78,040. This decrease was primarily due to a reduction in development staff and consulting costs.

## **Marketing and sales**

Marketing and sales expenses include expenses for sales and support salaries/consulting fees, and promotion/advertising. For the three month period ended July 31, 2011, marketing and sales expenses were \$62,241 compared to \$30,028 for the three month period ended July 31, 2010, an increase of \$32,213. The increase is due to the addition of marketing staff. For the nine month period ended July 31, 2011 expenses were \$130,852 compared to \$102,604 for the nine month period ended July 31, 2010, an increase of \$28,248. This increase was primarily due to the addition of marketing staff.

## **Interest expense**

Interest expense includes mainly interest paid on loans advance to the Corporation by its directors. For the nine months ended July 31, 2011, interest expense was \$41,149 compared to \$(21) for 2010, an increase of \$41,170 (three months ended July 31, 2011 - \$22,248 and July 31, 2010 - \$(21), an increase of \$22,269). The increase is primarily due to additional financing and other charges required during the year.

## **Stock-based compensation**

LTI issued 3,460,000 stock options during the three month period ended July 31, 2011 (2010 – nil). Stock-based compensation expense of \$74,180 was recorded for the three month period ended July 31, 2011 (2010 – nil), based on an estimate of the fair value of the options calculated using the Black-Scholes option-pricing model.

## **Amortization**

Amortization expense for the three month period ended July 31, 2011 was \$2,610 compared to \$2,820 for the three month period ended July 31, 2010. There were no additions to property and equipment in the period (2010 - nil). For the nine month period ended July 31, 2011 the expense was \$7,830 compared to \$8,460 for the nine month period ended July 31, 2010. There were no additions to property and equipment in the nine month period (2010 - nil).

## **Working capital**

At July 31, 2011, LTI had cash of \$104,980, no debt, and negative working capital of \$859,169. The Corporation has not had any significant sources of ongoing revenue for many years as it has been developing its eTriever web application. In November 2009, received US\$240,000 in connection with a distribution agreement with IHS Inc. (see notes 1 and note 7 in the financial statements) and is relying on future sales from this agreement to generate additional cash. The Corporation entered into a nine month agreement with IHS for consulting fees to cover certain programming expenses. (see note 9 in the financial statements) As a result, the Corporation's ability to maintain its operations in the future is still dependent on its ability to generate sufficient revenue, and/or raise sufficient capital to continue to fund its strategic business plan.

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## Financing and Investing

During the three month period ended July 31, 2011, the Corporation's cash position decreased by \$274,393 (three months ended July 31, 2010 - increase \$58,648) primarily as a result of utilizing the private placement funds raised to March 29, 2011 offset by the loss of \$327,674 from operations.

On February 22, 2011, the Corporation announced a non-brokered private placement for up to 15,000,000 common shares at a price of \$0.05 per Common Share, for proceeds up to \$750,000. The Offering received all necessary regulatory approvals. LTI paid a finder's fee of 8% of gross proceeds, consisting of \$30,000 cash and 600,000 common shares, to qualified persons pursuant to available securities laws exemptions. On March 29, 2011, the Corporation closed the private placement having received signed Subscriptions Agreements for 15,000,000 common shares and \$750,000 in proceeds.

On August 18, 2011, the Corporation announced a non-brokered private placement for up to 20,000,000 units and proceeds up to \$1,000,000. Each unit consists of one common share at a price of \$0.05 per common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.10 per share and expires three years from the closing date of the private placement. LTI paid a finder's fee of 10% of gross proceeds, consisting of \$101,500 cash and 20,300 purchase warrants to qualified persons pursuant to available securities laws exemptions. On August 26, 2011, the Corporation closed the private placement having received signed Subscriptions Agreements for 20,300,000 units and \$1,015,000 in proceeds.

## Summary of Quarterly Results

<b>Fiscal 2011</b>	<b>1-QTR</b>	<b>2-QTR</b>	<b>3-QTR</b>	<b>4-QTR</b>
Revenue				
License fees	3,333	7,000	10,198	N/A
Data modeling	20,942	20,942	20,942	N/A
	24,275	27,942	31,140	N/A
Expenses				
General and administration	88,492	137,367	88,823	N/A
Development and related costs	49,956	94,439	108,712	N/A
Other expenses	43,221	48,511	169,279	N/A
	181,669	280,317	358,814	
Net loss	(157,394)	(252,375)	(327,674)	N/A
Net loss per share, basic and diluted	\$ (0.00)	(0.01)	(0.01)	N/A
Outstanding shares	37,026,137	52,626,137	52,626,137	N/A
Total assets	\$ 44,945	410,250	141,296	N/A

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<b>Fiscal 2010</b>	<b>1-QTR</b>	<b>2-QTR</b>	<b>3-QTR</b>	<b>4-QTR</b>
Revenue				
Consulting fees	—	93,483	85,963	53,887
License fees	—	—	4,000	(1,333)
Data modeling	—	—	—	82,571
	—	93,483	89,963	135,125
Expenses				
General and administration	165,155	101,159	105,647	113,704
Development and related costs	115,214	113,105	101,829	122,055
Other expenses	41,210	39,873	32,827	55,665
	321,579	254,137	240,303	291,424
Net loss	(321,579)	(160,654)	(150,340)	(156,299)
Net loss per share, basic and diluted	\$ (0.01)	(0.01)	(0.00)	(0.00)
Outstanding shares	30,733,730	30,804,606	36,793,495	36,978,175
Total assets	\$ 90,163	90,963	119,934	35,215
<b>Fiscal 2009</b>	<b>1-QTR</b>	<b>2-QTR</b>	<b>3-QTR</b>	<b>4-QTR</b>
Revenue	—	—	—	—
License fees	\$ 1,875	2,500	2,083	—
Expenses	381,401	481,683	249,303	245,344
Net loss	(379,526)	(479,183)	(247,220)	(245,344)
Net loss per share, fully and diluted	\$ (0.01)	(0.02)	(0.01)	(0.01)
Outstanding shares	25,237,677	25,266,804	28,351,496	30,717,969
Total assets	\$ 62,675	61,604	60,887	54,958

## Liquidity and Capital Resources

At July 31, 2011, LTI had cash of \$104,980, no debt and negative working capital of \$859,169. To date, the Corporation has had minimal revenue and is now, in the short term, dependent on the raising of sufficient capital and/or generating sufficient revenue from the licensing of its eTriever software, which is expected to occur primarily through the corporation's agreement with IHS Inc., to discharge its obligations, including the working capital deficiency of \$0.85 million as at July 31, 2011. During the nine month period ended July 31, 2011, the Corporation incurred a net loss of \$ 737,443 (2010 - \$632,338) and used cash in operations totalling \$697,501 (2010 - \$410,353).

In November 2009, the Corporation received US\$240,000 in connection with a distribution agreement with IHS Inc. (see notes 1 and note 7 in the financial statements) and is relying on future sales to generate additional cash. As a result, the Corporation's ability to maintain its operations in the future is dependent on its ability to generate sufficient revenue, and/or raise sufficient capital to continue to fund its strategic business plan.

On February 22, 2011, the Corporation announced a non-brokered private placement for up to 15,000,000 common shares at a price of \$0.05 per Common Share, for proceeds up to \$750,000. The Offering received

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all necessary regulatory approvals. LTI paid a finder's fee of 8% of gross proceeds, consisting of \$30,000 cash and 600,000 common shares, to qualified persons pursuant to available securities laws exemptions. On March 29, 2011, the Corporation closed the private placement having received signed Subscriptions Agreements for 15,000,000 common shares and \$750,000 in proceeds.

On August 18, 2011, the Corporation announced a non-brokered private placement for up to 20,000,000 units and proceeds up to \$1,000,000. Each unit consists of one common share at a price of \$0.05 per common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.10 per share and expires three years from the closing date of the private placement. LTI paid a finder's fee of 10% of gross proceeds, consisting of \$101,500 cash and 2,030,000 purchase warrants to qualified persons pursuant to available securities laws exemptions. On August 26, 2011, the Corporation closed the private placement having received signed Subscriptions Agreements for 20,300,000 units and \$1,015,000 in proceeds, an oversubscription of 300,000 units and \$15,000.

For the past 2 fiscal years, the Corporation has been using cash in operations at rate of approximately \$270,000 per quarter. This has been with nominal revenues from the sale of its eTrier software and, accordingly, this use of cash has been financed primarily through the raising of capital in the form of private placements, debt to equity conversions, and loans. As at October 31, 2009, the working capital deficit was \$0.7 million. As at October 31, 2010, the working capital deficit was \$0.9 million. The increase of \$0.2 million has resulted primarily from the cash used in operations exceeding the amount that has been raised through financing activities. At July 31, 2011 the working capital deficiency was \$0.9 million and at September 28, 2011, it is a surplus of \$0.1 million, a decrease of \$1.0 million as a result of a successful private placement. (see note 3 in the financial statements)

In the future, the Corporation's use of cash in operations per quarter will be dependent on many variables, including primarily (i) the rate of sales of licences of its eTrier software through its global strategic agreement with IHS Inc. ("IHS") to distribute Labrador's eTrier web application bundled with IHS Canadian Oil and Gas Critical Information; and (ii) the level of staff and support infrastructure necessary to support those eTrier software sales and any new development and sales initiatives.

While management and the Board of Directors are considering all possible options in order to have sufficient cash to discharge its obligations in the normal course of operations for the foreseeable future, future operations are entirely dependent upon the raising of sufficient capital in the short-term and/or generating sufficient revenue from the licensing of its eTrier software, which is expected to occur primarily through the Corporation's agreement with IHS. In addition, future operations in the longer term will be dependent on the development and marketing of the Corporation's Web-based data retrieval technology and the corresponding generation of future cash flows, and the raising of capital, as required.

## Financial Instruments

As of the date of this MD&A, the Corporation had no financial instruments other than cash, accounts receivable and accounts payable.

## Loans Payable and Related Party Transactions

During the period, three directors advanced separate loans to the Corporation totalling \$70,000. These loans bear interest at 12% per year, are unsecured and due on demand. A further loan was advanced to the Corporation by a shareholder for \$50,000 under the same terms. Director loans totalling \$15,000 were repaid in the period.

As at July 31, 2011, the fair value of these loans and transactions approximated their carrying values due to the short term nature of these items.

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## Subsequent Events

On August 18, 2011, the Corporation announced a non-brokered private placement for up to 20,000,000 units and proceeds up to \$1,000,000. Each unit consists of one common share at a price of \$0.05 per common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.10 per share and expires three years from the closing date of the private placement. The Offering received all necessary regulatory approvals. LTI paid a finder's fee of 10% of gross proceeds, consisting of \$101,500 cash and 2,030,000 purchase warrants to qualified persons pursuant to available securities laws exemptions. On August 26, 2011, the Corporation closed the private placement having received signed Subscriptions Agreements for 20,300,000 units and \$1,015,000 in proceeds, an oversubscription of 300,000 units and \$15,000.

## Outstanding Share Data

As of July 31, 2011, LTI had 52,626,137 common shares, 1,800,000 warrants and 4,460,000 options to acquire common shares outstanding.

As of September 28, 2011, LTI had 72,926,137 common shares, 3,830,000 warrants and 4,460,000 options to acquire common shares outstanding.

H. Ronald Sterne

"signed"

President & Chief Executive Officer  
Labrador Technologies Inc.

Jeffrey Howe

"signed"

Chief Financial Officer  
Labrador Technologies Inc.