



LTX on the TSX.V

(formerly Sterne Stackhouse Inc.)

ANNUAL REPORT
2004

For the

YEARS ENDED

October 31, 2004 and 2003

Corporate Profile

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

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

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AGM

The Annual General Meeting of the Shareholders of Labrador Technologies Inc. will be held at 2:00 p.m. on April 29th, 2005 in the LTI Corporate Office at 350, 229 - 11th Avenue S.E., Calgary, Alberta. All shareholders are encouraged to attend and participate. Those who are unable to attend are requested to return their proxies to the registrar within the times specified in the Notice of Meeting.

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

www.labradortechnologies.com

LABRADOR TECHNOLOGIES INC.

CEO'S REPORT TO SHAREHOLDERS

Aggressive Market Launch of Embeddable Labrador® Products Planned

Over the past few years, Labrador Technologies Inc. ("LTI") has developed several products into embeddable data query, reporting, analysis, and integration software technologies. These products are highly effective as embeddable components within oil and gas applications developed by other companies, as well as within LTI's U.S./International Petro-LAB™.

Over the past six months, the Company has successfully demonstrated its Labrador® embeddable products to senior management of major international oil and gas software service and supply companies. The next step, currently in progress, is to engage in due diligence and/or pilot projects. As management is confident in its products' suitability for oil and gas markets, LTI is now ready to aggressively market its embeddable products to the oil and gas industry in Canada and the U.S.

Technical Overview

Notably, the code-base of each product is relatively small, yet powerful in scope. As a result, LTI's products are much easier to embed/integrate into software environments, needful of LTI's capabilities, than the more unwieldy code-bases of its competitors. In brief, LTI's embeddable products can add value to any oil and gas software environment that has a need for optimizing data retrieval, querying, analyzing, and integration.

Namely, these LTI products/components include:

Model-LAB™;
QueryJoiner™; and
The Java LABengine™

Of particular applicability to international oil and gas software service companies, Model-LAB™ can be used to significantly automate the process of modelling/flattening existing relational databases, so that they can be integrated and accessed by other software applications, including U.S./International Petro-LAB™. Model-LAB™, with its interactive Entity-Relationship Diagrams (ERDs), is uniquely positioned to create a practical method to access the diversity of unregulated, relational database structures that dominate the U.S. oil and gas industry.

LTI's embeddable tools can also be used to perform challenging data integration functions, such as the often talked about, but seldom achieved, 'joins-across-servers', (QueryJoiner™) – functions which otherwise could be too complex, or too time consuming, to undertake. QueryJoiner™ is an exceptionally useful, general-purpose tool that can query across data sources and output/format the results to various mediums, including web pages, flat files and MS Excel™ spreadsheets. Data sources that can be accessed include, amongst others, HTML/web sources, CSV files, XML files, LAB files, and relational databases such as SQL Server and Oracle. Further, QueryJoiner™, is equipped with flexible visualization components, including dynamic and live workflow and query builders.

The central component to this product suite is LTI's remarkable Java LABengine™. The LABengine's™ primary feature is its ability to automatically generate optimized SQL queries, as it understands and navigates, dynamically, the underlying databases of interest. The LABengine™ minimizes the need for dedicated SQL report writers, and regular IT maintenance.

Getting the Job Done

Thus, LTI is actively pursuing, both in Canada and the United States, oil and gas distribution agreements for the above-mentioned embeddable products. To this end, the Board of Directors is currently exploring private placement funding sufficient to afford management the ability to aggressively pursue these agreements, without undue shareholder dilution.

Clearly, the Company is making a logical, but fundamental, shift from developing broad, enterprise-wide applications to offering its distribution partners the opportunity to embed and exploit LTI's pivotal technologies – technologies born of the critical need for a small software company, servicing majors over many years, to be enormously efficient. It is management's goal to create royalty revenue, and other proceeds from sales, including service agreements, that will fund ongoing research and development, as well as provide shareholders with a return on their investment in LTI.

Continued Cost Cutting a Given

In order to realize on LTI's unique technology, management has again reduced fixed management salaries, this time to \$2500 cumulative compensation per month. Effective November 1st, 2004, Ron Sterne is paid on a straight commission basis, with no base salary, and effective January 1st, 2005, Darryl Stackhouse is paid \$2500 monthly, for accounting services only.



Chief Executive Officer
Labrador Technologies Inc.


March 6, 2005

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Labrador Technologies Inc. (formerly Sterne Stackhouse Inc.) as at October 31, 2004 and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Handwritten signature of KPMG LLP in black ink.

Calgary, Canada
March 16, 2005

MANAGEMENT'S DISCUSSION & ANALYSIS, OCTOBER 31, 2004

The following discussion should be read in conjunction with the financial statements presented in accordance with accounting principles generally accepted in Canada. All amounts are stated in Canadian dollars.

Corporate Profile

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

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

Cash Flow Analysis

During the year, the Company incurred a net increase in cash of \$449,270 while expenses during the year were reduced by \$635,200 compared to the previous year.

Cash Flow Analysis

	Years ended	
	October 31	October 31
	<u>2004</u>	<u>2003</u>
Sources of cash		
Operations	\$ 474,916	\$ 0
Decrease in accounts receivable – Qbyte/IBM	119,684	565,322
Decrease in prepaid expenses	2,647	—
Increase in accounts payable and accrued liabilities	—	26,702
Proceeds received on the sale of capital assets	—	22,719
Issuance of share capital	6,400	—
	<hr/>	<hr/>
	\$ 603,647	\$ 614,743
Uses of cash		
Operations	—	902,501
Increase in accounts receivable - other	7,000	—
Increase in prepaid expenses	—	9,299
Decrease in accounts payable and accrued liabilities	131,721	—
Capital asset additions	15,656	21,024
	<hr/>	<hr/>
	\$ 154,377	\$ 932,824
Sources of cash minus uses of cash	<hr/>	<hr/>
	449,270	\$ (318,081)
Cash balance at the beginning of the year	\$ 89,425	\$ 407,506
Cash balance at the end of the year	\$ 538,695	\$ 89,425

In the foregoing table, cash used in operations is equal to the net income (loss) shown on the Statement of Operations and Deficit adjusted for: depreciation and amortization, deferred revenue and contributed surplus. These adjustments are shown in the following table.

Cash Used in Operations

	Years ended	
	October 31 <u>2004</u>	October 31 <u>2003</u>
Operations:		
Revenue	\$ 12,982	\$ 883,605
Other income: Gain on sale of Petro-LAB	1,653,849	—
Expenses	<u>(1,214,869)</u>	<u>(1,850,067)</u>
Net income (loss)	\$ 451,962	\$ (966,462)
Non-cash adjustments		
Depreciation	\$ 22,954	\$ 58,161
Contributed surplus	—	5,800
Cash used in operations	<u>\$ 474,916</u>	<u>\$ (902,501)</u>

Results of Operations

Financial Summary

	Years ended	
	October 31 <u>2004</u>	October 31 <u>2003</u>
Revenue	\$ 12,982	\$ 883,605
Expenses	1,214,869	1,850,067
Loss before other income	(1,201,887)	(966,462)
Other income: Gain on sale of Petro-LAB	1,653,849	0
Net income (loss)	451,962	(966,402)
Net income (loss) per share	0.05¢	(0.12)¢
Outstanding shares	8,289,685	8,249,685
	October 31	October 31
	<u>2004</u>	<u>2003</u>
Cash balance	\$ 538,965	\$ 89,425
Shareholders' equity	610,745	152,383
Total assets	<u>632,256</u>	<u>305,615</u>

Revenue

LTI's total revenue for the year ended October 31, 2004 was \$12,982 compared to \$883,605 for the previous year ended October 31, 2003, a decrease of \$870,623. The decrease in revenue is due to a reduction in license renewal revenue as a result of the accelerated purchase of the Petro-LAB™ software by Qbyte/IBM. On December 18, 2003, the Company completed a transaction with Qbyte/IBM to accelerate the purchase of the Petro-LAB™ software by Qbyte/IBM. The transaction also included a termination of the royalty agreement with Qbyte/IBM. As a result of this transaction, the Company will no longer receive any payments from Qbyte/IBM and, as a result, the Company has no ongoing revenues. A more detailed explanation of the transaction is contained in the Financial Liquidity section.

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 year ended October 31, 2004 were \$598,372 compared to \$1,027,724 for the year ended October 31, 2003, a decrease of \$429,352. The decrease is primarily due to a reduction of \$249,007 in office rent, a decrease in administrative salaries of \$99,991 and a reduction of \$29,502 for equipment rental. The remainder of the difference is due to minor changes in various miscellaneous accounts.

Sales and marketing

Sales and marketing expenses include expenses for sales and support salaries/consulting fees, sales commissions, and promotion/advertising. For the year ended October 31, 2004, sales and marketing expenses were \$192,190 compared to \$248,493 for the year ended October 31, 2003, a decrease of \$56,303. The decrease is due to a reduction in sales and support salaries/consulting fees of \$41,711, a reduction in promotional/advertising expenses of \$14,571 and minor changes to other miscellaneous accounts .

Computer and related costs

Computer and related costs include hardware maintenance, programmer's salaries, and software costs. This category of expenses totaled \$401,352 for the year ended October 31, 2004, compared to \$509,889 for the year ended October 31, 2003, a decrease of \$108,537. The decrease is due to a decrease in programmer's salaries of \$50,316 and a reduction in third party software costs of \$45,061. The remainder of the difference is due to small changes in various miscellaneous accounts.

Depreciation

Depreciation expense for the year ended October 31, 2004 was \$22,954 compared to \$58,161 for the previous fiscal year. The reduction of \$35,207 is due primarily to the write-off of capital assets from the reorganization and related costs from a prior year.

Financing and Investing

During the year ended October 31, 2004, the Company's cash position increased by \$449,270. During the year, the Company did not undertake any financing activities but did receive \$6,400 from the exercise of share options.

Financial Condition, Liquidity and Requirements Outlook

At October 31, 2004, LTI had cash of \$538,695, no debt, and working capital of \$557,133.

On December 18, 2003, the Company completed a transaction with Qbyte/IBM to accelerate the purchase of the Petro-LAB™ software by Qbyte/IBM. The transaction also included a termination of the royalty agreement with Qbyte/IBM. As a result of this transaction, the Company received a cash payment of approximately \$1,591,000, including adjustments and the settlement of accounts receivables. As a result of the transaction, the Company has no ongoing revenue and is relying on future sales to generate additional revenue. The cash received from the transaction gives the Company enough cash to continue operations through to September 30, 2005. Based on the current level of expenditures, the Company has an average cash usage rate of approximately \$45,000 per month.

Forward Looking Statements

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

H. Ronald Sterne



Chief Executive Officer
Labrador Technologies Inc.

Darryl K. Stackhouse



Director, & Chief Financial Officer
Labrador Technologies Inc.

March 6, 2005

LABRADOR TECHNOLOGIES INC.*(formerly Sterne Stackhouse Inc.)*

Balance Sheets

October 31, 2004 and 2003

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 538,695	\$ 89,425
Accounts receivable (note 6)	7,000	119,684
Prepaid expenses	32,949	35,596
	<u>578,644</u>	<u>244,705</u>
Property, plant and equipment (note 3)	53,612	60,910
	<u>\$ 632,256</u>	<u>\$ 305,615</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 21,511	153,232
Shareholders' equity:		
Share capital (note 4)	4,909,284	4,902,884
Contributed surplus (note 4)	184,094	184,094
Deficit	(4,482,633)	(4,934,595)
	<u>610,745</u>	<u>152,383</u>
Going concern (note 1)		
Commitments (note 8)		
	<u>\$ 632,256</u>	<u>\$ 305,615</u>

See accompanying notes to financial statements.

On behalf of the Board:



Jeffrey A. Howe



George A. Wilson, Q.C.,

LABRADOR TECHNOLOGIES INC.*(formerly Sterne Stackhouse Inc.)*

Statements of Operations and Deficit

Years ended October 31, 2004 and 2003

	2004	2003
REVENUES:		
Royalty income	\$ —	\$ 879,375
Consulting fees	—	810
License fees	—	3,420
Interest income	12,982	—
	12,982	883,605
EXPENSES:		
General and administration	598,372	1,027,724
Computer and related costs	401,353	509,889
Sales and marketing	192,190	248,493
Depreciation	22,954	58,161
Stock-based compensation (note 4)	—	5,800
	1,214,869	1,850,067
Loss before the following	(1,201,887)	(966,462)
Other income:		
Gain on the sale of Petro-LAB (note 6)	1,653,849	—
Net income (loss)	451,962	(966,462)
Deficit, beginning of year	(4,934,595)	(3,968,133)
Deficit, end of year	\$ (4,482,633)	\$ (4,934,595)
Net income (loss) per share (note 4):		
Basic and diluted	\$ 0.05	\$ (0.12)

See accompanying notes to financial statements.

LABRADOR TECHNOLOGIES INC.*(formerly Sterne Stackhouse Inc.)*

Statements of Cash Flows

Years ended October 31, 2004 and 2003

	2004	2003
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ 451,962	\$ (966,462)
Items not involving cash:		
Gain on sale of Petro-LAB	(1,653,849)	–
Depreciation	22,954	58,161
Stock-based compensation	–	5,800
	(1,178,933)	(902,501)
Changes in non-cash working capital (note 7)	46,421	582,725
	(1,132,512)	(319,776)
Investing activities:		
Proceeds on the sale of Petro-LAB	1,591,038	–
Proceeds received on the sale of property, plant and equipment	–	22,719
Property, plant and equipment additions	(15,656)	(21,024)
	1,575,382	1,695
Financing activities:		
Issuance of share capital	6,400	–
Increase (decrease) in cash and cash equivalents	449,270	(318,081)
Cash and cash equivalents, beginning of year	89,425	407,506
Cash and cash equivalents, end of year	\$ 538,695	\$ 89,425

See accompanying notes to financial statements.

LABRADOR TECHNOLOGIES INC.

(formerly Sterne Stackhouse Inc.)

Notes to Financial Statements

Years ended October 31, 2004 and 2003

Labrador Technologies Inc. (the "Corporation") is engaged in the research and development and marketing of data retrieval technology for customers. During the year ended October 31, 2004 the Corporation changed its name from Sterne Stackhouse Inc. to Labrador Technologies Inc.

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. On December 18, 2003, the Corporation completed a transaction to sell its royalty interest in the Petro-LAB™ software to a purchaser and to terminate its royalty agreement (see note 6). As a result of the transaction, the Corporation will no longer receive royalty payments from the purchaser. To date, the Corporation has generated no alternative source of revenue. At October 31, 2004 the Corporation had cash of \$538,695, no long-term debt and a working capital balance of \$557,133. Based on the Corporation's current level of expenditures, the Corporation has enough cash to continue operations through to September 30, 2005. Management and the Board of Directors continue to review alternatives to maintain the current level of operations past the current fiscal year.

While management believes that the Corporation has sufficient cash to discharge its obligations in the normal course of operations through to September 2005, 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 and from royalties are recognized when the services are performed and/or royalty is earned.

LABRADOR TECHNOLOGIES INC.

(formerly *Sterne Stackhouse Inc.*)

Notes to Financial Statements

Years ended October 31, 2004 and 2003

2. Significant accounting policies (continued):

(b) Property, plant and equipment:

Property, plant and equipment are recorded at cost upon acquisition. Depreciation is provided annually over the estimated useful lives of the assets as follows:

Asset	Basis	Rate
Computer equipment	Declining balance	30%
Furniture and equipment	Declining balance	20%
Purchased computer software	Declining balance	50%
Leasehold improvements	Straight line	2 years

(c) Stock based compensation plan:

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

(d) Per share amounts:

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

(e) Income taxes:

The Corporation uses the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability 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.

LABRADOR TECHNOLOGIES INC.*(formerly Sterne Stackhouse Inc.)*

Notes to Financial Statements

Years ended October 31, 2004 and 2003

3. Property, plant and equipment:

2004	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 463,690	\$ 437,673	\$ 26,017
Furniture and equipment	182,092	167,894	14,198
Purchased computer software	298,082	286,415	11,667
Leasehold improvements	80,306	78,576	1,730
	\$ 1,024,170	\$ 970,558	\$ 53,612
2003			
Computer equipment	\$ 453,447	\$ 428,706	\$ 24,741
Furniture and equipment	182,092	164,344	17,748
Purchased computer software	291,469	278,054	13,415
Leasehold improvements	81,506	76,500	5,006
	\$ 1,008,514	\$ 947,604	\$ 60,910

4. Share capital:

(a) Authorized:

Unlimited preferred shares, Series A and Series B; and

Unlimited common shares.

(b) Issued and outstanding:

	2004		2003	
	Number of shares	Amount	Number of shares	Amount
Common shares				
Balance, beginning of year	8,249,685	\$ 4,902,884	8,549,685	\$ 5,081,178
Cancelled	–	–	(300,000)	(178,294)
Exercise of options	40,000	6,400	–	–
Balance, end of year	8,289,685	\$ 4,909,284	8,249,685	\$ 4,902,884

During the year ended October 31, 2003 the Corporation cancelled 300,000 common shares for \$nil proceeds. As a result, the weighted average book value of the common shares cancelled totaling \$178,294 was transferred to contributed surplus.

LABRADOR TECHNOLOGIES INC.*(formerly Sterne Stackhouse Inc.)*

Notes to Financial Statements

Years ended October 31, 2004 and 2003

4. Share capital (continued):

(c) Stock option plan:

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

	Number	Exercise price	Weighted average exercise price
Outstanding at October 31, 2002	760,000	\$ 0.25 – 1.50	\$ 0.38
Granted	294,969	0.12 – 0.20	0.17
Expired	(110,000)	0.25 – 1.50	0.59
Cancelled	(200,000)	0.25 – 0.80	0.34
Outstanding at October 31, 2003	744,969	0.12 – 0.35	0.28
Granted	60,000	0.20	0.20
Exercised	(40,000)	0.16	0.16
Cancelled	(234,969)	0.16 – 0.20	0.19
Outstanding at October 31, 2004	530,000	\$ 0.12 – 0.35	\$ 0.32

Options outstanding and exercisable			
Exercise price outstanding	Number outstanding at October 31, 2004	Weighted average remaining contractual life (months)	
\$ 0.12	40,000	43	
0.16	40,000	3	
0.35	40,000	3	
0.35	25,000	4	
0.35	345,000	26	
0.35	40,000	29	
	530,000	23	

Subsequent to October 31, 2004, 285,000 options exercisable at \$0.12 per share were granted to certain employees and directors and 105,000 options exercisable at prices ranging from \$0.16 to \$0.35 per share expired.

LABRADOR TECHNOLOGIES INC.*(formerly Sterne Stackhouse Inc.)*

Notes to Financial Statements

Years ended October 31, 2004 and 2003

4. Share capital (continued):

(d) Stock-based compensation:

The Corporation does not record compensation expense when stock options are issued to employees, officers and directors.

Had compensation expense been determined based on the fair value at the grant dates, the net loss and loss per share would be as shown in the pro forma amounts indicated below:

	2004	2003
Stock-based compensation expense	\$ 6,700	\$ 16,744
Net income (loss):		
As reported	\$ 451,962	\$ (966,462)
Pro-forma	\$ 445,262	\$ (983,206)
Net loss per share (basic and diluted):		
As reported	\$ 0.05	\$ (0.12)
Pro-forma	\$ 0.05	\$ (0.12)

The Corporation recognized compensation expense of \$5,800 for stock option granted to consultants and non-employees for the year ended October 31, 2003. The fair value of stock options granted during the years ended October 31, 2004 and 2003 was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003
Dividend yield	0%	0%
Expected volatility	60%	60%
Risk free rate of return	5%	5%
Expected option life	5 years	2 – 5 years
Weighted average option value	\$ 0.11	\$ 0.09

(e) Warrants:

Information with respect to the outstanding warrants is as follows:

Outstanding at October 31, 2002	150,000
Expired	(150,000)
Outstanding at October 31, 2004 and 2003	–

(f) Per share amounts:

The weighted average number of common shares outstanding during the year ended October 31, 2004 was 8,273,018 (2003 – 8,547,219).

The dilutive effect of options and warrants for the year ended October 31, 2004 was nil (2003 – nil) and nil (2003 – nil), respectively.

LABRADOR TECHNOLOGIES INC.*(formerly Sterne Stackhouse Inc.)*

Notes to Financial Statements

Years ended October 31, 2004 and 2003

5. Income taxes:

Total income taxes are different from the amount computed by applying the combined expected Canadian federal and provincial income tax rate of 34.4% (2003 – 37.2%) to income before income taxes and other items. The reasons for the difference are as follows:

	2004	2003
Computed expected tax recovery	\$ 155,000	\$ (360,000)
Add (deduct) the following:		
Non-deductible expenses	7,000	20,000
Net increase/(decrease) in valuation allowance	(162,000)	340,000
	\$ –	\$ –

The components of the future income tax assets and liabilities at October 31, 2004 are as follows:

	2004	2003
Future income tax assets:		
Share issue costs	\$ –	\$ 19,000
Non-capital losses	1,438,000	1,677,000
Capital assets	40,000	85,000
	1,478,000	1,781,000
Less valuation allowance	(1,478,000)	(1,781,000)
Net future income tax asset (liability)	\$ –	\$ –

As at October 31, 2004, the Corporation has investment tax credits carryforward of approximately \$363,000 (2003 - \$363,000), which may be used to offset federal taxes payable in future years. These investment tax credits expire in the years 2007 to 2010. As at October 31, 2004, the Corporation has federal non-capital losses totalling approximately \$4,182,000, and Alberta non-capital losses totalling approximately \$3,351,000, which expire in the years 2007 to 2010. The potential income tax benefit arising from these amounts has not been reflected in these financial statements.

LABRADOR TECHNOLOGIES INC.

(formerly Sterne Stackhouse Inc.)

Notes to Financial Statements

Years ended October 31, 2004 and 2003

6. Gain on sale of Petro-LAB™:

During the year ended October 31, 2001 the Corporation closed a transaction with a provider of software to the Canadian oil and gas industry which resulted in the sale of the Corporation's Petro-LAB™ software. The rights to use Petro-LAB™ outside of Canada have not been sold and have been retained by the Corporation. Under the terms of the agreement, the Corporation received an immediate \$1,500,000 royalty pre-payment and received additional royalty payments which were contingent upon sales made by the purchaser to customers of the Corporation that existed prior to the sale of the Petro-LAB™ software.

As a result of the transaction, the Corporation recognized a gain on the sale of the Petro-LAB™ assets totaling \$4,480,619 based upon the minimum level of cash to be received. Amounts received subsequent to the sale of the Petro-LAB™ software were recorded as royalty income.

As a result of the Corporation's sale of Petro-LAB™, substantially all the Corporation's revenues during the year ended October 31, 2003 were derived from one customer. As such, accounts receivable from this customer totaled \$119,684 as at October 31, 2003.

On December 18, 2003 the Corporation entered into an agreement to terminate its royalty agreement with the purchaser of the Petro-LAB™ software resulting in the Corporation receiving a final cash payment, including adjustments, of approximately \$1,591,000 and the settlement of accounts payable and accrued liabilities totaling approximately \$63,000. As a result, a total gain on termination of the agreement and royalty payments of approximately \$1,654,000 was recorded in fiscal 2004. As such, the Corporation will receive no further royalty payments from the purchaser of the Petro-LAB™ software.

LABRADOR TECHNOLOGIES INC.*(formerly Sterne Stackhouse Inc.)*

Notes to Financial Statements

Years ended October 31, 2004 and 2003

7. Supplemental cash flow disclosure:

(a) Changes in non-cash working capital are as follows:

	2004	2003
Accounts receivable	\$ 112,684	\$ 565,322
Prepaid expenses	2,647	(9,299)
Accounts payable and accrued liabilities	(68,910)	26,702
	46,421	582,725

(b) The following cash payments were made:

	2004	2003
Interest	\$ -	\$ -

8. Commitments:

The Corporation has leases on its premises and certain computer and office equipment. Minimum annual payments under the leases are approximately as follows:

2005	\$ 95,000
2006	9,000

9. Fair values:

As at October 31, 2004 and 2003, the fair values of the Corporation's monetary assets and liabilities approximated their carrying values.



LTX on the TSX.V

CORPORATE INFORMATION

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

Head Office

Labrador Technologies Inc.
350, 229 – 11th Avenue S.E.
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
Jeffrey A. Howe*, Toronto, Ontario

* members of the Audit Committee

Executives and Officers

H. Ronald Sterne, Chief Executive Officer
and Chief Operating Officer
Darryl K. Stackhouse, Chief Financial Officer

Auditors

KMPG LLP
Chartered Accountants
1200, 205 – 5th Avenue S.W.
Calgary, Alberta, Canada T2P 4B9

Transfer Agent

Computershare Trust Company of Canada
Sixth Floor
530 – 8th Avenue S.W.
Calgary, Alberta, Canada T2P 3S8

Solicitors

Burstall Winger LLP
Barristers & Solicitors
Suite 3100 Home Oil Tower
324 – 8th Avenue S.W.
Calgary, Alberta, Canada T2P 2Z2

Stock Exchange

The Toronto Venture Exchange
Trading Symbol: LTX