

**LABRADOR TECHNOLOGIES INC.**

**2007 ANNUAL REPORT**

**YEAR ENDED OCTOBER 31, 2007**

# LABRADOR TECHNOLOGIES INC.

YEAR ENDED OCTOBER 31, 2007

## MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the audited financial statements of Labrador Technologies Inc. ("LTI" or the "Corporation") for the years ended October 31, 2007 and 2006. 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). 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 Corporation's continuing ability to promote and license its products, the Corporation's ability to attract and retain key employees, and the Corporation'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 February 26, 2008.

### Overall Performance

#### CEO'S REPORT TO SHAREHOLDERS

##### Two Years of Evolution, Refinement, and the Extraordinary

Our Company remains resolutely focused on our goal to create a web-based 'market-maker'. A market-maker is, by definition, in a class by itself, and management recognized the challenges involved, despite a stream of successful products since 1981. Accordingly, management alerted shareholders (to the work ahead of us) in its 2006 Annual Report, as follows: "The going has been slower than expected to release eTriever into Calgary's marketplace. As a result, LTI has been reluctant to aggressively market eTriever until the research, which is being routinely undertaken, proves that eTriever has enough 'meat on its bones', such that oil & gas related companies can use it to make informed decisions... Management will do whatever is necessary, including a willingness to take whatever time is required, to ensure that Labrador® eTriever™ is ready and able to establish itself as a force in the market-place."

No shareholder is more impatient for eTriever's market presence than LTI's staff. However, first and foremost, our Company listens to its prospective clients and, after two years of painstaking evolution and refinement, clients have told us that eTriever is finally ready for market. As shareholders are only too well aware, we had hoped to be here long before, but the truth is that the market-making capabilities of eTriever are pushing Web 2.0 to its limits, and this has been a very complex development process. In essence, prospective clients have insisted on the creation of an extraordinary product to ensure market adoption.

## **Complementary Product Positioning and Efficient Workflow**

In our 3<sup>rd</sup> Quarter Report, we defined eTrievers' product positioning as follows: "Experience has taught us that mainstream oil & gas users want to be able to meaningfully browse/view a cross-section of inter-related databases, using virtually unlimited search capabilities, then view the selected data, graphically and/or in tabular form, and then be able to export data subsets to any analytical product of choice." Prospective clients have confirmed that eTrievers' web-based ability to continuously 'float' over data, and drill-down, enabling the export of data for analysis at will, creates efficient workflow, and provides a valuable, extremely cost effective complement to the oil & gas industry's most popular desktop/analysis applications.

## **Mainstream Appeal for a Web-Based Data Browser**

A fundamental aspect of creating a 'market-maker', in today's world of information immediacy, is the need to exploit the web environment for mainstream appeal. Again, as recorded in our 3<sup>rd</sup> Quarter Report: "We believe that the now robust web environment provides distinct advantages over conventional client/server Desktop applications. It minimizes maintenance, and maximizes mobility and flexibility, in a world where the Smartphone/BlackBerry have become a way of life. As well, our prospects have confirmed that eTrievers' 'friendly' user interface surpasses anything available. Further, not only are we adding weekly the types of day-to-day capabilities that oil & gas mainstream users insist on, we have also made eTrievers<sup>TM</sup>'s fully scalable interface look/feel like a Desktop application. In essence, we are combining all of the advantages of a 'thin client' web application, with an innovative approach to representing oil & gas data, which will satisfy all of the historical Desktop data browsing requirements, and then go beyond." The Company continues to work diligently at this central objective, to create all of the capabilities necessary in eTrievers, to galvanize mainstream user appeal, for a web-based data browser.

## **Incremental Product Deployment and a Strengthened Sales Team**

Since 1981, the Company has employed an incremental method of product deployment. In essence, what we try to do is bring our products to a point where they become useful, in a practical way, to a segment of the market, and then target market accordingly. The purpose of this strategy is to evolve our products in the context of meaningful, client feedback. At the time of this reporting, eTrievers only provides access to drilling and production data, in a satellite mapping backdrop, with pipelines and facilities almost there. However, eTrievers already has capabilities ideally suited for Acquisitions & Divestitures, and we are now targeting this segment of the market. In this regard, eTrievers' ease of use and its ability to quickly 'surf' oil & gas assets are proving to be useful to senior management, a portion of the market we have never penetrated in the past. This is particularly timely in light of Calgary's rather lively climate of buying and selling oil & gas properties.

The company has employed two full-time sales people and, for extra penetration and networking, has retained two experienced senior sales consultants to assist with the execution of our Sales Plan. Gradually, our target marketing will broaden its scope as, over the coming months, phased eTrievers access to pipelines, facilities, raster logs, and land data will allow our sales team to expand our target market to users who require these additional data browsing activities. Importantly, although the Company has been focusing on selling to "acquisitive" Junior Oil & Gas Companies, eTrievers' scalable, web-based architecture, its unique user interface, and its workflow advantages are also attracting the interest of Major Oil & Gas Companies. Thus, in order to meet the requirements of an emerging market demand, the Company is actively searching for experienced software developers to augment and strengthen what has proven to be a very able, dedicated team.

## **A Major Subsequent Event, Patient Money and a Brighter Future**

For all of the reasons outlined above, the Company has initiated a Private Placement and, at the time of this reporting, has raised \$575,000, at 25 cents a common share, with ½ share warrants, exercisable within one year of closing. Our maximum target for this Private Placement is \$1,500,000, with an expected Closing Date of on, or before, March 31<sup>st</sup>, 2008. This has been an arduous journey. Through a lengthy stream of prospective clients and discerning investors, some of whom have visited several times to evaluate eTrievers' progress, we have remained cautious and selective. It is always much more difficult to raise funds when the Company clearly states that it is seeking 'patient money', to allow eTrievers sufficient time to generate revenue traction and a loyal following of clients who want to contribute to eTrievers' R&D direction.

What is particularly noteworthy about the profile of investors attracted to the Company is their well established oil & gtgas business acumen and proven, if not remarkable, track records.

Thus, the Company's future is looking much brighter, as we have the distinct advantage of growing our Company with the help of clear winners from the industry in which we have always demonstrated success. Some will be providing consulting expertise on a path towards full employment, and we anticipate several investors forming an Advisory Council to assist with product direction and public markets. We are taking all of the steps necessary to enable the Company to grow to an entirely different level of enhanced operations.

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

## Results of Operations

At October 31, 2007, the Corporation had cash of \$163,767, no long-term debt, and a working capital balance of \$116,571.

During the year ended on October 31, 2007, the Corporation completed one private placement for proceeds of \$361,600. In addition, warrants and options exercised during the year generated additional funds of \$400,000 and \$13,200, respectively. In fiscal 2008, in addition to any capital raised from any new financings, there are 803,556 share purchase warrants exercisable at \$0.55 expiring on May 19, 2008. Each share purchase warrant is exercisable into one common share. Future operations will be dependent upon the successful ongoing development and marketing of the Corporation's data retrieval technology, and the corresponding generation of future cash flows and/or raising of additional capital.

## Revenue

Currently, the Corporation has no current ongoing sources of revenue.

LTI had interest income of \$6,813 compared to \$3,238 for 2006.

## Financial Summary

|                    | 2007            | 2006            | 2005             |
|--------------------|-----------------|-----------------|------------------|
| Revenues           |                 |                 |                  |
| Consulting fees    | —               | —               | 28,840           |
| Interest income    | 6,813           | 3,238           | 2,910            |
|                    | <u>\$ 6,813</u> | <u>\$ 3,238</u> | <u>\$ 31,750</u> |
| Expenses           | 1,269,452       | 931,570         | 670,409          |
| Net loss           | (1,269,639)     | (928,332)       | (638,659)        |
| Net loss per share | (0.06)          | (0.06)          | (0.07)           |
| Outstanding shares | 20,808,872      | 17,863,347      | 11,268,507       |

## **Expenses**

### **General and administration**

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 administration expenses for the current year were \$595,644 compared to \$492,713 for 2006, an increase of \$102,931. The difference is primarily attributed to increases in administrative salaries and related expenses of \$72,779, professional fees of \$32,876, consulting fees of \$4,893, and office rent of \$6,092 offset by a decrease in office miscellaneous expenses of \$7,175.

### **Computer and related costs**

Computer and related costs include programmers' salaries, software costs, and telecommunication costs. This category of expenses totaled \$330,422 for the year compared to \$288,705 for 2006, an increase of \$41,717. The increase is due primarily to the addition of personnel and corresponding salaries/consulting fees.

### **Sales and marketing**

Sales and marketing expenses include expenses for sales and support salaries/consulting fees, and promotion/advertising. For the year, sales and marketing expenses were \$87,903 compared to \$87,366 for 2006, an increase of \$537. The increase is due to an increase in salaries/consulting fees of \$2,783, offset by a decrease in travel and promotion expenses of \$2,090 and variations in various other accounts.

### **Stock-based compensation**

LTI issued 880,000 share options to various employees, officers, directors and consultants during the year compared to 950,000 share options issued in 2006. Stock-based compensation expense of \$241,826 and \$44,699 was recorded for 2007 and 2006, respectively, based on an estimate of the fair value of the options calculated using the Black-Scholes option-pricing model.

### **Depreciation**

Depreciation expense for the year was \$13,657 compared to \$18,087 for 2006. The amount remained consistent as there were no significant additions or dispositions during the year.

### **Working capital**

At year end, LTI had cash of \$163,767, no debt, and working capital of \$116,571. The Corporation has no current sources of ongoing revenue and is relying on future sales to generate additional revenue. 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, in the future to continue to fund its strategic business plan. Please refer to "Subsequent Events" for current details on LTI's December 28, 2007 private placement offering.

### **Financing and Investing**

During the year, the Corporation's cash position decreased by \$183,769 from the previous year end. The Corporation completed one private placement in 2007 for proceeds of \$361,600 and warrants and options exercised during the year generated an additional \$400,000 and \$13,200, respectively. In fiscal 2008, in addition to any capital raised from any new financings, there are 803,556 share purchase warrants exercisable at \$0.55 expiring on May 19, 2008. Each share purchase warrants is exercisable into one common share. Please refer to "Subsequent Events" for current details on LTI's December 28, 2007 private placement offering.

## Summary of Quarterly Results

| <b>Fiscal 2007</b> | <b>1-QTR</b> | <b>2-QTR</b> | <b>3-QTR</b> | <b>4-QTR</b> |
|--------------------|--------------|--------------|--------------|--------------|
| Revenue            | —            | —            | —            | —            |
| Interest income    | —            | —            | —            | —            |
| Expenses           | 247,531      | 332,441      | 321,049      | 361,618      |
| Net loss           | (247,531)    | (332,441)    | (321,049)    | (361,618)    |
| Net loss per share | (0.01)       | (0.02)       | (0.02)       | (0.02)       |
| Outstanding shares | 17,983,837   | 20,463,247   | 20,792,803   | 20,808,872   |

| <b>Fiscal 2006</b> | <b>1-QTR</b> | <b>2-QTR</b> | <b>3-QTR</b> | <b>4-QTR</b> |
|--------------------|--------------|--------------|--------------|--------------|
| Revenue            | 1,784        | —            | —            | 1,454        |
| Interest income    | 1,784        | —            | —            | 1,454        |
| Expenses           | 190,768      | 292,541      | 243,308      | 204,953      |
| Net loss           | (188,984)    | (292,541)    | (243,308)    | (203,499)    |
| Net loss per share | (0.02)       | (0.02)       | (0.02)       | (0.01)       |
| Outstanding shares | 11,488,508   | 15,794,678   | 16,594,016   | 17,863,347   |

## Liquidity and Capital Resources

As at the date of the MD&A, LTI had cash of \$455,000, no debt and working capital of \$447,000. The Corporation has no current sources of ongoing revenue and is relying on future sales to generate additional revenue. As a result, the Corporation's ability to maintain its operations in the future is dependent on its ability to generate sufficient cash in the future.

As at the date of the MD&A, LTI has two contractual obligations: an operating lease for office space and a lease for a vehicle supplied to an officer of the Corporation. The office space lease is for a three-year term ending August 2009 and has a monthly cost of \$8,824. LTI has prepaid \$7,352 of the August 2009 lease cost. The vehicle lease is for a three-year term ending January 2010 and has a monthly cost of \$491.

## Financial Instruments

As of October 31, 2007, LTI had \$100,000 on deposit in a one year cashable GIC with the Royal Bank of Canada with an interest rate at prime. It is management's opinion that the Corporation 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.

## Related Party Transactions

Of the 2,000,000 warrants exercised, 550,000 units were exercised by directors and/or officers of the Corporation. During the year ended October 31, 2007, \$30,000 in consulting fees were paid to a director of the Corporation. This was measured at the exchange amount.

## **Outstanding Share Data**

As of July 31, 2007 LTI had 20,792,803 common shares, 737,563 warrants and 1,810,000 options to acquire common shares outstanding.

On September 13, 2007 LTI issued 1,250 shares to an employee in lieu of salary and 8,288 shares to a consultant in lieu of fees. After the issue of shares, LTI had 20,802,341 shares outstanding.

On October 1, 2007 LTI issued 1,618 shares to an employee in lieu of salary and 4,913 shares to a consultant in lieu of fees. After the issue of shares, LTI had 20,808,872 shares outstanding.

As of October 31, 2007 LTI had 20,808,872 common shares, 803,566 warrants and 1,620,000 options to acquire common shares outstanding.

On November 2, 2007 LTI issued 1,250 shares to an employee in lieu of salary. After the issue of shares, LTI had 20,810,122 shares outstanding.

On November 5, 2007 LTI issued 4,057 shares to a consultant in lieu of fees. After the issue of shares, LTI had 20,814,179 shares outstanding.

On December 5, 2007 LTI issued 1,965 shares to an employee in lieu of salary and 5,328 shares to a consultant in lieu of fees. After the issue of shares, LTI had 20,821,472 shares outstanding.

## **Subsequent Events**

On February 25, 2008, the Corporation announced the terms of a private placement for between 2,000,000 and 6,000,000 units at a price of \$0.25 per unit with an expected closing date of on or before March 31, 2008. Each unit consists of one common share and one half share purchase warrant. One share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.45 per share and expires one year from the closing date of the private placement. As at February 26, 2008, the Corporation had received signed subscription agreements for 2,300,000 units and had received \$575,000 in proceeds.

## **Disclosure Controls and Procedures**

Management, including the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Corporation's disclosure controls and procedures as of the end of the year covered by the annual filings and has concluded that the disclosure controls are effective in ensuring that all material information required to be filed has been made known to them in a timely fashion. The required information was effectively recorded, processed, summarized and reported within the time period necessary to prepare the annual filings. The disclosure controls and procedures are effective in ensuring that information required to be disclosed pursuant to applicable securities laws are accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## **New Accounting Policies**

Effective November 1, 2006, the Corporation adopted CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Section 3855 prescribes when a financial asset, financial liability, or non-financial derivatives is to be recognized on the balance sheet and the measurement of such amount. It also specifies how financial instrument gains and losses are to be presented. On adoption of this standard, the Corporation designated its cash and cash equivalents as held for trading, which is measured at fair value and accounts receivable as loans and receivables, which are measured at amortized cost. The corporation's accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

## Internal Controls Over Financial Reporting

Management, including the CEO and CFO of the Corporation, are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. We have assessed the design of our internal control over financial reporting and during this process we identified certain weaknesses in internal controls over financial reporting which are as follows:

- a) due to the limited number of staff at the Corporation, it is not feasible to achieve complete segregation of incompatible duties;
- b) due to the limited number of staff, the Corporation does not have a sufficient number of finance personnel with all the technical accounting knowledge to address all complex and non-routine accounting transactions that may arise.

Management and the board of directors work to mitigate the risk that results from these weaknesses as follows:

- a) increased oversight and diligence by the CEO, CFO and the Board to ensure that the risk of a misstatement resulting from this weakness is minimized;
- b) the Corporation will, as necessary, consider engaging qualified consultants to assist with the accounting for any complex and non-routine accounting transactions that may arise.

H. Ronald Sterne

“signed”

President & Chief Executive Officer  
Labrador Technologies Inc.

Jeff Howe

“signed”

Chief Financial Officer  
Labrador Technologies Inc.

Financial Statements of

**LABRADOR TECHNOLOGIES INC.**

Years ended October 31, 2007 and 2006

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying financial statements and related financial information have been prepared by management, which is responsible for the integrity, objectivity and reliability of the data presented. This responsibility includes selecting appropriate accounting principles and making judgments and estimates consistent with Canadian generally accepted accounting principles. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Corporation's systems of internal accounting control. These systems are designed to provide reasonable cost effective assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements.

Ultimate responsibility for the financial statements rests with the Board of Directors, who is informed regularly by management. The Board is assisted in discharging this responsibility by an Audit Committee, consisting of directors who are not officers or employees of the Corporation. This Committee reviews the financial statements and recommends them for approval by the Board. In addition, the Audit Committee reviews the recommendations of the shareholders' auditors for improvements in internal control, if any, and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the Committee reviews the audit plan with the shareholders' auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The external auditors have direct access to the Audit Committee.

KPMG LLP, independent auditors appointed by the shareholders, have audited the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. Their report details the nature of their audit and expresses their opinion on the financial statements of the Corporation.

H. Ronald Sterne

Jeffrey A. Howe

"signed"

"signed"

President & Chief Executive Officer  
Labrador Technologies Inc.  
February 26, 2008

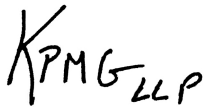
Chief Financial Officer  
Labrador Technologies Inc.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Labrador Technologies Inc. as at October 31, 2007 and 2006 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The letters are stylized and slanted to the right.

Chartered Accountants

Calgary, Canada  
February 25, 2008

# LABRADOR TECHNOLOGIES INC.

## Balance Sheets

As at October 31

|   | 2007              | 2006              |
|---|-------------------|-------------------|
| <b>Assets</b>                               |                   |                   |
| Current assets:                             |                   |                   |
| Cash and cash equivalents                   | \$ 163,767        | \$ 347,536        |
| Accounts receivable                         | 20,919            | 7,458             |
| Prepaid expenses (note 7)                   | 7,352             | 7,352             |
|   | <u>192,038</u>    | <u>362,346</u>    |
| Property and equipment (note 3)             | 34,462            | 44,673            |
|   | <u>\$ 226,500</u> | <u>\$ 407,019</u> |
| <b>Liabilities and Shareholders' Equity</b> |                   |                   |
| Current liabilities:                        |                   |                   |
| Accounts payable and accrued liabilities    | \$ 75,467         | \$ 20,292         |
| Shareholders' equity:                       |                   |                   |
| Common shares (note 4)                      | 6,840,197         | 6,141,283         |
| Share purchase warrants (note 4)            | 93,636            | 52,850            |
| Contributed surplus (note 4)                | 554,083           | 266,838           |
| Deficit                                     | (7,336,883)       | (6,074,244)       |
|   | <u>151,033</u>    | <u>386,727</u>    |
| Going concern (note 1)                      |                   |                   |
| Commitments (note 7)                        |                   |                   |
| Subsequent event (note 9)                   |                   |                   |
|   | <u>\$ 226,500</u> | <u>\$ 407,019</u> |

See accompanying notes to financial statements.

Approved by the Board:

H. Ronald Sterne

"signed"

Director

George A. Wilson, Q.C.

"signed"

Director

# LABRADOR TECHNOLOGIES INC.

## Statements of Operations and Deficit

Years ended October 31

|                                   | 2007                 | 2006                 |
|-----------------------------------|----------------------|----------------------|
| Expenses:                         |                      |                      |
| General and administration        | 595,644              | 492,713              |
| Computer and related costs        | 330,422              | 288,705              |
| Stock-based compensation (note 4) | 241,826              | 44,699               |
| Marketing and sales               | 87,903               | 87,366               |
| Depreciation                      | 13,657               | 18,087               |
| Interest income                   | (6,813)              | (3,238)              |
|                                   | 1,262,639            | 928,332              |
| Net loss                          | (1,262,639)          | (928,332)            |
| Deficit, beginning of year        | (6,074,244)          | (5,145,912)          |
| Deficit, end of year              | <u>\$(7,336,883)</u> | <u>\$(6,074,244)</u> |
| Net loss per share:               |                      |                      |
| Basic and diluted                 | <u>\$ (0.06)</u>     | <u>\$ (0.06)</u>     |

See accompanying notes to financial statements.

# LABRADOR TECHNOLOGIES INC.

## Statements of Cash Flows

Years ended October 31

|  | 2007              | 2006              |
|--|-------------------|-------------------|
| Cash provided by (used in):                      |                   |                   |
| Operating activities:                            |                   |                   |
| Net loss   | \$(1,262,639)     | \$ (928,332)      |
| Items not involving cash:                        |                   |                   |
| Shares for services performed                    | 10,319            | 91,800            |
| Stock-based compensation                         | 241,826           | 44,699            |
| Depreciation                                     | 13,657            | 18,087            |
|  | <u>(996,837)</u>  | <u>(773,746)</u>  |
| Changes in non-cash working capital (note 6)     | 41,714            | (1,670)           |
|  | <u>(955,123)</u>  | <u>(775,416)</u>  |
| Investing activities:                            |                   |                   |
| Additions to property and equipment              | (3,446)           | (18,456)          |
| Financing activities:                            |                   |                   |
| Proceeds from the sale of shares and warrants    | 361,600           | 635,050           |
| Proceeds from the exercise of warrants           | 400,000           | 230,000           |
| Proceeds from the exercise of options            | 13,200            | 20,200            |
|  | <u>774,800</u>    | <u>885,250</u>    |
| Increase (decrease) in cash and cash equivalents | (183,769)         | 91,378            |
| Cash and cash equivalents, beginning of year     | 347,536           | 256,158           |
| Cash and cash equivalents, end of year           | <u>\$ 163,767</u> | <u>\$ 347,536</u> |
| <b>Cash and cash equivalents consist of:</b>     |                   |                   |
| Cash   | 63,767            | 247,536           |
| Short-term deposits                              | 100,000           | 100,000           |
|  | <u>\$ 163,767</u> | <u>\$ 347,536</u> |

See accompanying notes to financial statements.

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements

Years ended October 31, 2007 and 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 upon its ability to generate sufficient cash to fund its strategic business plan. To date, the Corporation has no ongoing source of revenue. At October 31, 2007, the Corporation had cash of \$163,767, no long-term debt and a working capital balance of \$116,571. During the year, the Corporation incurred a net loss of \$1,262,639 (2006 - \$928,332) and utilized funds in operations totaling \$955,123 (2006 - \$775,416). As at February 26, 2008, the Corporation had received \$575,000 in proceeds related to a private placement (note 9) and the Corporation's cash balance as at February 26, 2008 was \$455,000.

During the year, the Corporation completed one private placement for proceeds of \$361,600. In addition, warrants and options exercised during the year generated additional funds of \$400,000 and \$13,200, respectively.

While management believes that the Corporation will have sufficient cash to discharge its obligations in the normal course of operations for the foreseeable future, future operations will continue to be dependent upon the raising of sufficient capital and the 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, adjustments would 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. Significant areas requiring the use of management estimates include valuation of stock based compensation and share purchase warrants. However, actual results could differ from the estimates made.

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, Page 2

Years ended October 31, 2007 and 2006

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(a) Revenue recognition:

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

(b) Property and equipment:

Property 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%  |

(c) Per share amounts:

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

(d) Income taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities 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 substantively 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.

(e) Cash and cash equivalents:

The Corporation considers cash equivalents to be highly liquid investments with maturity of three months or less from the date of purchase and are readily convertible into known amounts of cash.

(f) Adoption of new accounting standards:

Effective November 1, 2006, the Corporation adopted CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Section 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and the measurement of such amount. It also specifies how financial instrument gains and losses are to be presented. On adoption of this new standard, the Corporation

# LABRADOR TECHNOLOGIES INC.

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Years ended October 31, 2007 and 2006

designated its cash and cash equivalents as held for trading, which is measured at fair value and accounts receivable as loans and receivables, which are measured at amortized cost. The Corporation's accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

### 3. Property and equipment:

|                             | Cost       | Accumulated depreciation | Net book value |
|-----------------------------|------------|--------------------------|----------------|
| 2007                        |            |                          |                |
| Computer equipment          | \$ 489,025 | \$ 467,996               | \$ 21,029      |
| Furniture and equipment     | 186,903    | 176,170                  | 10,733         |
| Purchased computer software | 302,408    | 299,708                  | 2,700          |
|                             | \$ 978,336 | \$ 943,874               | \$ 34,462      |
| 2006                        |            |                          |                |
| Computer equipment          | \$ 485,579 | \$ 459,722               | \$ 25,857      |
| Furniture and equipment     | 186,903    | 173,486                  | 13,417         |
| Purchased computer software | 302,408    | 297,009                  | 5,399          |
|                             | \$ 974,890 | \$ 930,217               | \$ 44,673      |

### 4. Share capital:

#### (a) Authorized:

Unlimited preferred shares, none of which were issued at October 31, 2007, Series A and Series B; and

Unlimited common shares.

#### (b) Common shares issued:

|  | 2007             |              | 2006             |              |
|--|------------------|--------------|------------------|--------------|
|  | Number of shares | Amount       | Number of shares | Amount       |
| Common shares  |                  |              |                  |              |
| Balance, beginning of year                                     | 17,863,347       | \$ 6,141,283 | 11,268,507       | \$ 5,179,908 |
| Sale of units  | 803,556          | 267,964      | 4,671,571        | 582,200      |
| Exercise of warrants   | 2,000,000        | 402,650      | 1,150,000        | 256,345      |
| Shares for service performed                                   | 31,969           | 10,319       | 588,269          | 91,800       |
| Exercise of options  | 110,000          | 13,200       | 185,000          | 20,200       |
| Transfer from contributed surplus on exercise of stock options | —                | 4,781        | —                | 10,830       |
| Balance, end of year   | 20,808,872       | \$ 6,840,197 | 17,863,347       | \$ 6,141,283 |

# LABRADOR TECHNOLOGIES INC.

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Years ended October 31, 2007 and 2006

During the year ended October 31, 2007, the Corporation completed one private placement as follows:

- May 19, 2007: 803,556 units at a price of \$0.45 per unit for total proceeds of \$361,600. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.55 per share and expires one year from the date of the private placement. Of the proceeds raised, \$267,964 was allocated to common share capital and \$93,636 was allocated to share purchase warrants. The value of these share purchase warrants was estimated using the Black-Scholes options-pricing model using the assumptions described in note 4(e).

(c) Share purchase warrants issued:

| Warrants                   | 2007               |           | 2006               |           |
|----------------------------|--------------------|-----------|--------------------|-----------|
|                            | Number of warrants | Amount    | Number of warrants | Amount    |
| Balance, beginning of year | 2,335,785          | \$ 52,850 | 1,375,000          | \$ 31,500 |
| Sale of units              | 803,556            | 93,636    | 12,335,785         | 52,850    |
| Exercise of warrants       | (2,000,000)        | (2,650)   | (1,150,000)        | (26,345)  |
| Expired warrants           | (335,786)          | (50,200)  | (225,000)          | (5,155)   |
| Balance, end of year       | 803,555            | \$ 93,636 | 2,335,785          | \$ 52,850 |

Of the 2,000,000 warrants exercised, 550,000 units were exercised by directors and/or officers of the Corporation.

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Notes to Financial Statements, Page 5

Years ended October 31, 2007 and 2006

(d) 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, 2005 | 720,000   | \$0.10 – \$0.35 | 0.23                            |
| Granted                         | 950,000   | 0.20 – 0.43     | 0.42                            |
| Expired                         | (105,000) | 0.35            | 0.35                            |
| Exercised                       | (185,000) | 0.10 – 0.12     | 0.11                            |
| Outstanding at October 31, 2006 | 1,380,000 | 0.10 – 0.43     | \$ 0.34                         |
| Granted                         | 880,000   | 0.50            | 0.50                            |
| Expired                         | (530,000) | 0.20 – 0.50     | 0.15                            |
| Exercised                       | (110,000) | 0.12            | 0.12                            |
| Outstanding at October 31, 2007 | 1,620,000 | \$0.10 – \$0.50 | 0.44                            |

| Exercise price                                | Number of Options | Weighted average remaining contractual life (months) |
|---|-------------------|--|
| \$ 0.12                                       | 40,000            | 7  |
| 0.43  | 800,000           | 21   |
| 0.50  | 225,000           | 14   |
| 0.50  | 175,000           | 16   |
| 0.50  | 60,000            | 30   |
| 0.50  | 140,000           | 31   |
| 0.50  | 120,000           | 32   |
| 0.50  | 60,000            | 34   |
| Stock options outstanding at October 31, 2007 | 1,620,000         | 22   |
| Exercisable at October 31, 2007               | 873,333           | 15   |

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Years ended October 31, 2007 and 2006

(e) Stock-based compensation:

During the year, 880,000 (2006 – 950,000) stock options were granted to employees, officers, directors and consultants of the Corporation. Of these granted options, 250,000 vested immediately, 50,000 vest within 6 months, 377,500 vest within 12 months and the remaining 202,500 vest within 24 months. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions:

|                               | 2007    | 2006        |
|-------------------------------|---------|-------------|
| Dividend yield                | 0%      | 0%          |
| Expected volatility           | 90%     | 60% - 90%   |
| Risk free rate of return      | 5%      | 5%          |
| Expected option life          | 3 years | 3 – 5 years |
| Weighted average option value | \$ 0.50 | \$ 0.25     |

(f) Contributed surplus:

|                          | 2007       | 2006       |
|--------------------------|------------|------------|
| Beginning of year        | \$ 266,838 | \$ 227,814 |
| Stock-based compensation | 241,826    | 44,699     |
| Expired warrants         | 50,200     | 5,155      |
| Exercise of options      | (4,781)    | (10,830)   |
| End of year              | \$ 554,083 | \$ 266,838 |

(g) Weighted average shares outstanding:

The weighted average number of common shares outstanding during the year was 19,810,973 (2006 – 14,821,902).

There is no dilutive effect from the options and warrants for the years ended October 31, 2007 and 2006.

# LABRADOR TECHNOLOGIES INC.

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Years ended October 31, 2007 and 2006

## 5. Income taxes:

Total income tax recovery is different from the amount computed by applying the combined expected Canadian Federal and Provincial tax rate of 32.1% (2006– 32.7%) to loss before income taxes and other items. The reasons for the difference are as follows:

|  | 2007         | 2006         |
|--|--------------|--------------|
| Computed expected tax recovery                 | \$ (405,000) | \$ (305,000) |
| Add (deduct) the following:                    |              |              |
| Expiry of tax losses during the year           | 1,076,000    | –            |
| Net increase (decrease) in valuation allowance | (716,000)    | 35,000       |
| Permanent items                                | 84,000       | 22,000       |
| Impact of reduction of future tax rate         | (39,000)     | 248,000      |
|  | \$ –         | \$ –         |

The components of the future income tax assets and liabilities at October 31, 2007 were as follows:

|   | 2007       | 2006         |
|---|------------|--------------|
| Future income tax assets:               |            |              |
| Non-capital losses                      | \$ 880,000 | \$ 1,599,000 |
| Property and equipment                  | 48,000     | 45,000       |
|   | 928,000    | 1,644,000    |
| Less: valuation allowance               | (928,000)  | (1,644,000)  |
| Net future income tax asset (liability) | \$ –       | \$ –         |

At October 31, 2007, the Corporation has investment tax credit carry-forwards of approximately \$284,000 (2006 - \$363,000) that may be used to offset federal taxes payable in future years. These investment tax credits expire at the end of the years 2008 to 2010. As at October 31, 2007, the Corporation has non-capital losses totaling approximately \$3,035,000, which expire in the years 2010 to 2027. The potential income tax benefit arising from these amounts has not been reflected in these financial statements.

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, Page 8

Years ended October 31, 2007 and 2006

## 6. Supplemental cash flow disclosure:

Changes in non-cash working capital are as follows:

|  | 2007        | 2006       |
|--|-------------|------------|
| Accounts receivable                      | \$ (13,461) | \$ 3,836   |
| Prepaid expenses                         | —           | —          |
| Accounts payable and accrued liabilities | 55,175      | (5,506)    |
|  | \$ 41,714   | \$ (1,670) |

During the year, the Corporation received interest payments of \$1,784 (2006 – nil).

## 7. Commitments:

The Corporation has lease commitments with minimum annual payments as follows:

|      |            |
|------|------------|
| 2008 | \$117,550  |
| 2009 | 98,500     |
| 2010 | 700        |
|      | \$ 216,750 |

Prepaid expenses of \$7,352 (2006 - \$7,352) relate to the premises lease commitment.

## 8. Fair values:

As at October 31, 2007 and 2006, the fair values of the Corporation's monetary assets and liabilities approximated their carrying values due to the short term maturity of these items.

## 9. Subsequent event:

On February 25, 2008, the Corporation announced the terms of a private placement for between 2,000,000 and 6,000,000 units at a price of \$0.25 per unit with an expected closing date of on or before March 31, 2008. Each unit consists of one common share and one half share purchase warrant. One share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.45 per share and expires one year from the closing date of the private placement. As at February 26, 2008, the Corporation had received signed subscription agreements for 2,300,000 units and had received \$575,000 in proceeds.

## 10. Related party transaction:

During the year ended October 31, 2007, \$30,000 in consulting fees was paid to a director of the Corporation. The consulting fees were measured at the exchange amount.