

LABRADOR TECHNOLOGIES INC.

2008 ANNUAL REPORT

YEAR ENDED OCTOBER 31, 2008

LABRADOR TECHNOLOGIES INC.

YEAR ENDED OCTOBER 31, 2008

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, 2008 and 2007. Additional information with respect to LTI can be found on the Corporation's website at www.labradortechnologies.com or on SEDAR at 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

The Remaking of a Company

On October 1st, 2005, Labrador Technologies Inc. (LTI), formerly Sterne Stackhouse Inc. (SSI), started work on Labrador® eTrierer™. This was the first day after the Non-Competition Agreement had elapsed, which was executed between PwC/QByte and Sterne Stackhouse, regarding the sale of Canadian Petro-LAB™ to PwC/QByte. The old SSI Company, which started doing business in 1981, and had evolved into an enterprise-focused, desktop software company, then made the "disruptive" decision to build its future around Web 2.0... along with Google® and the 21st Century. SSI became known as Labrador Technologies Inc. and its software philosophy was based on "less is more", exploiting Web 2.0's infrastructure to develop fast, easy to use, easy to upgrade and release, fully mobile products. Importantly, SSI/LTI had retained all of the Intellectual Property Rights to the Labrador® Tools Suite, which fundamentally reinforces and expands Labrador® eTrierer's market potential exponentially.

eTrierer: a Disruptive Technology to Incumbents

A disruptive technology, or disruptive innovation, is a technological innovation that improves a product/service in ways that the market does not expect. The Canadian Oil & Gas Industry did not expect the frugally priced eTrierer web service, which focuses solely on fast, agile workflow, data browsing, and is a perfect complement to the established desktop analytical tools, and particularly, geoLOGIC Systems Ltd.'s

geoSCOUT™. The combination of geoSCOUT and eTrieveer addresses the majority of functionality required by today's Oil & Gas software users, and is a highly effective means to cut other software related expenses dramatically. In this severe economic downturn, both eTrieveer's appeal to mainstream users and its cost-cutting reality have raised its profile considerably, and eroded significantly the entrenchment of incumbent products.

A Model Client/Partner

I, personally, have taken a great deal of legitimate "heat" from shareholders because I did not know, (after over 32 years in this business) when the intersection point between eTrieveer functionality and minimum client requirements would occur, in order to generate eTrieveer sales. We knew that eTrieveer's re-engineered user interface and speed were a slam-dunk winner, but we literally had to parade potential client after potential client in front of eTrieveer capabilities until we got a sale, and that water-shed event occurred this past summer. Until we had a sale to a large, respected company, we had no undeniable proof that our vision had the kind of "legs" to create a true paradigm shift to the web and... a potential blockbuster success.

However, although this ideal client paid up-front for the eTrieveer service, our deal was that we had to deliver such critical functions as DLS/NTS gridding, raster logs, and proximity/radial searching on satellite maps, without compromising eTrieveer's unique speed and ease of use. In late January 2009, we delivered all of this key functionality for mainstream users. And, remarkably enough, the combination of the gripping need to cut expenses in an economic downturn and eTrieveer's now market-ready functionality have potential clients calling us back to revisit eTrieveer. Labrador eTrieveer has finally earned its (sales) spurs, and the much requested land data will be available in March 2009.

Equity Financing is the Key

We are not the first company to have the perfect product, at the perfect time, and to be extremely cash-strapped. There is no need for dramatic recitals about how difficult it is to raise equity financing when the media giants are fanning the flames of their own demise by negative proclamations. Whatever they say on CNN, this horrendous time will pass, but LTI's opportunity is now.

We have built a very skilled development team, an exceptional sales team, and we are executing a proven Business Plan, based on establishing stellar "early adopter" clients, immediately to be followed by our aggressive sales/marketing plan. Although I had hoped that this would happen sooner, I make no apologies for the time it takes to create business excellence. Every time we do an investor presentation, and we are doing them almost every day, with skeptical questions coming at break-neck speed, I am more and more convinced that we are the right Company, at the right time. Winston Churchill said, "Give us the tools and we will finish the job". In LTI's equation, tools mean money, and that's all we need now to "finish the job".

"signed"

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

Results of Operations

At October 31, 2008, the Corporation had cash of \$107,239, no long-term debt, and a working capital balance of \$20,371.

During the year ended on October 31, 2008, the Corporation completed two private placements for proceeds of \$1,000,000. In addition, options exercised during the year generated additional funds of \$4,800. In fiscal 2009, in addition to any capital raised from any new financings, there are 803,555 share purchase warrants exercisable at \$0.55 expiring on May 19, 2009 and 2,000,000 warrants exercisable at \$0.45 expiring July 25, 2009. 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 significant ongoing sources of revenue.

LTI had interest income of \$4,771 compared to \$6,813 for 2007.

Financial Summary

	2008	2007	2006
Revenues			
License fees	\$ 1,458	\$ —	\$ —
	1,458	—	—
Expenses	1,137,689	1,262,639	928,332
Net loss	(1,136,231)	(1,262,639)	(928,332)
Net loss per share	(0.05)	(0.06)	(0.06)
Outstanding shares	25,215,010	20,808,872	17,863,347

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 \$490,111 compared to \$595,644 for 2007, a decrease of \$105,533. The difference is primarily attributed to decreases in administrative staff and related expenses of \$79,634, professional fees of \$37,954, travel and promotion of \$26,552 and consulting fees of \$8,943, offset by increases in recruitment expense of \$38,900 and office rent of \$9,533.

Development and related costs

Development and related costs include programmers' salaries, software costs, and telecommunication costs. This category of expenses totaled \$385,424 for the year compared to \$330,422 for 2007, an increase of \$55,002. 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 \$239,617 compared to \$87,903 for 2007, an increase of \$151,714. The increase is primarily due to an increase in sales staff and associated salaries of \$147,245, including a reallocation of 50% of the CEO's salary to this expense group, and travel and promotion of \$37,155, offset by a decrease consulting fee expense of \$33,895.

Stock-based compensation

LTI issued 260,000 share options to various employees, officers, directors and consultants during the year compared to 880,000 share options issued in 2007. Stock-based compensation expense of \$13,134 and \$241,826 was recorded for 2008 and 2007, 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 \$14,174 compared to \$13,657 for 2007. The amount remained consistent as there were no significant additions or dispositions during the year.

Working capital

At year end, LTI had cash of \$107,239, no debt, and working capital of \$20,371. The Corporation has started to generate revenue and will continue to rely on future sales for 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 order to continue to fund its strategic business plan. Please refer to "Subsequent Events" for current details on LTI's February 17, 2009 private placement offering.

Financing and Investing

During the year, the Corporation's cash position decreased by \$56,528 from the previous year end. The Corporation completed two private placements in 2008 for proceeds of \$1,000,000 and options exercised during the year generated an additional \$4,800. In fiscal 2009, in addition to any capital raised from any new financings, there are 803,555 share purchase warrants exercisable at \$0.55 expiring on May 19, 2009 and 2,000,000 share purchase warrants exercisable at \$0.45 expiring July 26, 2009. Each share purchase warrant is exercisable into one common share. Please refer to "Subsequent Events" for current details on LTI's February 17, 2009 private placement offering.

Summary of Quarterly Results

Fiscal 2008	1-QTR	2-QTR	3-QTR	4-QTR
Revenue	—	—	—	—
License fees	—	—	—	1,458
Expenses	\$ 226,131	264,782	275,810	370,966
Net loss	(226,131)	(264,782)	(275,810)	(369,508)
Net loss per share	(0.01)	(0.01)	(0.01)	(0.01)
Outstanding shares	20,831,145	24,267,922	24,936,037	25,215,010

Fiscal 2007	1-QTR	2-QTR	3-QTR	4-QTR
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

Liquidity and Capital Resources

Over the course of the past few years, and since the Corporation's non-compete with Qbyte Services (now owned by P2 Energy Solutions) expired on September 30, 2005, the Company has been raising capital in order to fund the development of its Web-based oil and gas data retrieval software, eTrieve. The Corporation has been successful at raising over \$3.0 million from the period August 1, 2005 through February 26, 2009, including \$1.0 million in fiscal 2008 and \$0.2 million to date in fiscal 2009. The

Corporation's fundraising efforts, however, have been hampered a great deal by the recent global economic crisis and, as at February 26, 2009, the Corporation has no cash, no long term debt and a working capital deficiency of \$0.3 million.

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 had minimal revenue and is now, in the short term, entirely dependent on the raising of sufficient capital to discharge its obligations, including the working capital deficiency of \$0.3 million as at February 26, 2009. At October 31, 2008, the Corporation had cash of \$107,239, no long term debt and a working capital balance of \$20,371. During 2008, the Corporation incurred a net loss of \$1,136,231 (2007 - \$1,262,639) and utilized funds in operations totaling \$1,047,216 (2006 - \$955,123). As at February 26, 2008, the Corporation had received \$200,000 in proceeds related to a private placement.

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. 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.

In the circumstances, management believes the going concern assumption is still appropriate for these financial statements but is contingent upon successful completion of the current private placement and the raising of capital in the future, as required. This assumption will be reviewed on an ongoing basis by management and the Board of Directors. 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.

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 \$9,314. 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 the date of this MD&A, the Corporation had no financial instruments other than cash, accounts receivable and accounts payable.

Related Party Transactions

During the year ended October 31, 2007, \$7,500 in consulting fees were paid to a director of the Corporation. This was measured at the exchange amount. Of the 260,000 stock options granted during the year, 100,000 were granted to a director of the Corporation.

Outstanding Share Data

As of October 31, 2007 LTI had 20,808,872 common shares, 803,565 warrants and 1,620,000 options to acquire common shares outstanding.

As of October 31, 2008 LTI had 25,215,010 common shares, 2,803,565 warrants and 1,275,000 options to acquire common shares outstanding.

As of February 26, 2009 LTI had 25,244,704 common shares, 2,803,565 warrants and 1,525,000 options to acquire shares outstanding.

Subsequent Events

On February 17, 2009, the Corporation announced the terms of a private placement for between 100,000 and 20,000,000 units at a price of \$0.10 per unit with an expected closing date of on or before April 3, 2009. Each unit consists of one common share and one half share purchase warrant. One whole share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.20 per share and expires one year from the closing date of the private placement. As at February 26, 2009, the Corporation had received signed subscription agreements for 2,000,000 units and had received \$200,000 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

As of November 1, 2007, the Corporation has adopted CICA Handbook Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". The new standards have been adopted on a prospective basis with no restatement of prior periods. Section 1535 requires additional disclosures regarding the Corporation's capital management, while Section 3862 addresses financial instruments and the nature, extent and management of risks arising from financial instruments to which the Corporation may be exposed. The adoption of Section 3863 had no effect on the presentation of the Corporation's financial instruments.

International Financial Reporting Standards (IFRS)

Effective for the 2011 fiscal year, the Corporation will be required to adopt IFRS. The Corporation is currently evaluating and developing a plan to address this issue.

H. Ronald Sterne

"signed"

President & Chief Executive Officer
Labrador Technologies Inc.

Jeffrey Howe

"signed"

Chief Financial Officer
Labrador Technologies Inc.

Financial Statements of

LABRADOR TECHNOLOGIES INC.

Years ended October 31, 2008 and 2007

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, 2009

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, 2008 and 2007 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, 2008 and 2007 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

KPMG LLP

Calgary, Canada
February 26, 2009

LABRADOR TECHNOLOGIES INC.

Balance Sheets

As at October 31

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 107,239	\$ 163,767
Accounts receivable	9,786	20,919
Prepaid expenses (note 7)	16,904	7,352
	<u>133,929</u>	<u>192,038</u>
Property and equipment (note 3)	34,400	34,462
	<u>\$ 168,329</u>	<u>\$ 226,500</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 113,558	\$ 75,467
Shareholders' equity:		
Common shares (note 4)	7,827,902	6,840,197
Share purchase warrants (note 4)	135,466	93,636
Contributed surplus (note 4)	564,517	554,083
Deficit	(8,473,114)	(7,336,883)
	<u>54,771</u>	<u>151,033</u>
Going concern (note 1)		
Commitments (note 7)		
Subsequent event (note 11)		
	<u>\$ 168,329</u>	<u>\$ 226,500</u>

See accompanying notes to financial statements.

Approved by the Board:

H. Ronald Sterne

George A. Wilson, Q.C.

Director

Director

LABRADOR TECHNOLOGIES INC.

Statements of Operations and Deficit

Years ended October 31

	2008	2007
Income		
License fees	1,458	—
Expenses:		
General and administration	490,111	595,644
Development and related costs	385,424	330,422
Stock-based compensation (note 4)	13,134	241,826
Marketing and sales	239,617	87,903
Depreciation	14,174	13,657
Interest income	(4,771)	(6,813)
	1,137,689	1,262,639
Net loss	(1,136,231)	(1,262,639)
Deficit, beginning of year	(7,336,883)	(6,074,244)
Deficit, end of year	\$(8,473,114)	\$(7,336,883)
Net loss per share:		
Basic and diluted (note 4 (g))	\$ (0.05)	\$ (0.06)

See accompanying notes to financial statements.

LABRADOR TECHNOLOGIES INC.

Statements of Cash Flows

Years ended October 31

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net loss	\$(1,136,231)	\$(1,262,639)
Items not involving cash:		
Shares issued for services performed	22,035	10,319
Stock-based compensation	13,134	241,826
Depreciation	14,174	13,657
	(1,086,888)	(996,837)
Changes in non-cash working capital (note 6)	39,672	41,714
	(1,047,216)	(955,123)
Investing activities:		
Additions to property and equipment	(14,112)	(3,446)
Financing activities:		
Proceeds from the sale of shares and warrants	1,000,000	361,600
Proceeds from the exercise of warrants	—	400,000
Proceeds from the exercise of options	4,800	13,200
	1,004,800	774,800
Decrease in cash and cash equivalents	(56,528)	(183,769)
Cash and cash equivalents, beginning of year	163,767	347,536
Cash and cash equivalents, end of year	\$ 107,239	\$ 163,767
Cash and cash equivalents consist of:		
Cash	107,239	63,767
Short-term deposits	—	100,000
	\$ 107,239	\$ 163,767

See accompanying notes to financial statements.

LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements

Years ended October 31, 2008 and 2007

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.

Over the course of the past few years, and since the Corporation's non-compete with Qbyte Services (now owned by P2 Energy Solutions) expired on September 30, 2005, the Company has been raising capital in order to fund the development of its Web-based oil and gas data retrieval software, eTrieveR. The Corporation has been successful at raising over \$3.0 million from the period August 1, 2005 through February 26, 2009, including \$1.0 million in fiscal 2008 and \$0.2 million to date in fiscal 2009. The Corporation's fundraising efforts, however, have been hampered a great deal by the recent global economic crisis and, as at February 26, 2009, the Corporation has no cash, no long term debt and a working capital deficiency of \$0.3 million.

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 had minimal revenue and is now, in the short term, entirely dependent on the raising of sufficient capital to discharge its obligations, including the working capital deficiency of \$0.3 million as at February 26, 2009. At October 31, 2008, the Corporation had cash of \$107,239, no long term debt and a working capital balance of \$20,371. During 2008, the Corporation incurred a net loss of \$1,136,231 (2007 - \$1,262,639) and utilized funds in operations totaling \$1,047,216 (2007 - \$955,123). As at February 26, 2008, the Corporation had received \$200,000 in proceeds related to a private placement (note 9).

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. 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.

In the circumstances, management believes the going concern assumption is still appropriate for these financial statements but is contingent upon successful completion of the current private placement and the raising of capital in the future, as required. This assumption will be reviewed on an ongoing basis by management and the Board of Directors. 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.

(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 year. 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) Stock-based compensation

The Corporation accounts for stock-based compensation using the fair value method. This method requires that stock-based payments to non-employees and direct awards of stock to employees and non-employees are accounted for at fair value method of accounting and expensed over the estimated service period.

(g) Adoption of new accounting standards:

As of November 1, 2007, the Corporation has adopted CICA Handbook Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". The new standards have been adopted on a prospective basis with no restatement of prior periods. Section 1535 requires additional disclosures regarding the Corporation's capital management (note 10), while Section 3862 addresses financial instruments and the nature, extent and management of risks arising from financial instruments to which the Corporation may be exposed (note 8). The adoption of Section 3863 had no effect on the presentation of the Corporation's financial instruments.

(h) Measurement uncertainty:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and revenues and expenses for the period reported. Actual results could differ from these estimates. Significant estimates and assumptions include those related to the estimated useful lives of capital assets, determination as to whether costs are expensed or capitalized, stock-based compensation valuations, and future income tax assets and liabilities.

3. Property and equipment:

	Cost	Accumulated depreciation	Net book value
2008			
Computer equipment	\$ 498,530	\$ 478,213	\$ 20,317
Furniture and equipment	191,510	178,777	12,733
Purchased computer software	302,408	301,058	1,350
	\$ 992,448	\$ 958,048	\$ 34,400
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

4. Share capital:

(a) Authorized:

Unlimited preferred shares, none of which were issued at October 31, 2008, Series A and Series B;
and

Unlimited common shares.

(b) Common shares issued:

Common shares	2008		2007	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	20,808,872	\$ 6,840,197	17,863,347	\$ 6,141,283
Sale of units	4,000,000	958,170	803,556	267,964
Exercise of warrants	—	—	2,000,000	402,650
Shares for service performed	114,138	22,035	31,969	10,319
Exercise of options	40,000	4,800	110,000	13,200
Finder fee shares issued	252,000	63,000	—	—
Share issue costs	—	(63,000)	—	—
Transfer from contributed surplus on exercise of stock options	—	2,700	—	4,781
Balance, end of year	25,215,010	\$ 7,827,902	20,808,872	\$ 6,840,197

On September 15, 2008, 252,000 common shares were issued as a finder's fee. This arrangement was approved by the TSX in conjunction with the Corporation's private placements.

The Corporation completed a private placement on May 26, 2008 for between 3,400, units at \$0.25 per. Each unit consists of one common share and one half common share purchase warrant. Each whole 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 October 31, 2008, the Corporation had received \$850,000 in proceeds and had issued 3,400,000 units. Of the proceeds raised, \$809,000 was allocated to common share capital and \$41,000 was allocated to share purchase warrants.

The Corporation completed a private placement on July 25, 2008 for 600,000 units at \$0.25 per unit with a closing date of July 25, 2008. Each unit consists of one common share and one half common share purchase warrant. Each whole 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 October 31, 2008, the Corporation had received \$150,000 in proceeds through the issuance of 600,000 units. Of the proceeds raised, \$830 was allocated to share purchase warrants.

(c) Share purchase warrants issued:

Warrants	2008		2007	
	Number of warrants	Amount	Number of warrants	Amount
Balance, beginning of year	803,555	\$ 93,636	2,335,785	\$ 52,850
Sale of units	2,000,000	41,830	803,556	93,636
Exercise of warrants	—	—	(2,000,000)	(2,650)
Expired warrants	—	—	(335,786)	(50,200)
Balance, end of year	2,803,555	\$ 135,466	803,555	\$ 93,636

(d) Stock option plan:

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

	Number	Exercise price	Weighted average exercise price
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	0.12 – 0.50	\$ 0.44
Granted	260,000	0.43 – 0.50	0.42
Forfeited	(565,000)	0.43 – 0.50	0.49
Exercised	(40,000)	0.12	0.12
Outstanding at October 31, 2008	1,275,000	\$0.35 – \$0.50	0.44

Exercise price	Number of Options	Weighted average remaining contractual life (months)
\$ 0.35	100,000	29
0.43	765,000	9
0.50	50,000	4
0.50	200,000	2
0.50	160,000	27
Stock options outstanding at October 31, 2008	1,275,000	12
Exercisable at October 31, 2008	1,065,000	8

(e) Stock-based compensation:

During the year, 260,000 (2007 – 880,000) stock options were granted to employees, officers, directors and consultants of the Corporation. Of these stock options granted, 50,000 stock options vested immediately, 130,000 stock options vest within 12 months and the remaining 80,000 vest within 24 months. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007
Dividend yield	0%	0%
Expected volatility	90%	90%
Risk free rate of return	5%	5%
Expected option life	3 years	3 years
Weighted average option value	\$ 0.44	\$ 0.50

(f) Contributed surplus:

	2008	2007
Beginning of year	\$ 554,083	\$ 266,838
Stock-based compensation	13,134	241,826
Expired warrants	—	50,200
Exercise of options	(2,700)	(4,781)
End of year	\$ 564,517	\$ 554,083

(g) Weighted average shares outstanding:

The weighted average number of common shares outstanding during the year was 22,874,375 (2007 – 19,810,973). There is no dilutive effect from the options and warrants for the years ended October 31, 2008 and 2007.

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 29.9% (2007– 32.1%) to loss before income taxes and other items. The reasons for the difference are as follows:

	2008	2007
Computed expected tax recovery	\$ (340,000)	\$ (405,000)
Add (deduct) the following:		
Expiry of tax losses during the year	—	1,076,000
Net increase (decrease) in valuation allowance	144,000	(716,000)
Permanent items	14,000	84,000
Impact of reduction of future tax rate	182,000	(39,000)
	\$ —	\$ —

The components of the future income tax assets and liabilities at October 31, 2008 were as follows:

	2008	2007
Future income tax assets:		
Non-capital losses	\$ 1,027,000	\$ 880,000
Property and equipment	45,000	48,000
	1,072,000	928,000
Less: valuation allowance	(1,072,000)	(928,000)
Net future income tax asset (liability)	\$ —	\$ —

As at October 31, 2008, the Corporation has non-capital losses totaling approximately \$4,108,000, which expire in the years 2009 to 2029. The potential income tax benefit arising from these amounts has not been reflected in these financial statements.

6. Supplemental cash flow disclosure:

Changes in non-cash working capital are as follows:

	2008	2007
Accounts receivable	\$ 11,133	\$ (13,461)
Prepaid expenses	(9,552)	—
Accounts payable and accrued liabilities	38,091	55,175
	<u>\$ 39,672</u>	<u>\$ 41,714</u>

7. Commitments:

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

2008	\$99,814
2009	1,565
2010	291
	<u>\$ 101,670</u>

Prepaid expenses of \$7,352 (2007 - \$7,352) relate to the premises lease commitment.

8. Financial Instruments and Financial Risk Management:

As at October 31, 2008 and 2007, the carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments.

9. Capital Management

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern so that it can continue to provide returns for shareholders and other stakeholders, to maintain an optimal structure to reduce the cost of capital and to facilitate the growth strategy of the Corporation.

The Corporation monitors its capital management through analysis of near-term and mid-term cash flow expectations to ensure an adequate amount of liquidity and through the monthly review of financial results and business expectations. The Corporation considers the shareholders' equity to be the capital of the Corporation.

10. Related party transaction:

During the year ended October 31, 2008, \$7,500 (2007 - \$30,000) in consulting fees were paid to a director of the Corporation. The consulting fees were measured at the exchange amount.

11. Subsequent event:

On February 17, 2009, the Corporation announced the terms of a private placement for between 100,000 and 20,000,000 units at a price of \$0.10 per unit with an expected closing date of on or before April 3, 2009. Each unit consists of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Corporation at \$0.20 per share and expires one year from the closing date of the private placement. As at February 26, 2009, the Corporation had received signed subscription agreements for 2,000,000 units and had received \$200,000 in proceeds.