

LABRADOR TECHNOLOGIES INC.

2009 ANNUAL REPORT

YEAR ENDED OCTOBER 31, 2009

LABRADOR TECHNOLOGIES INC.

YEAR ENDED OCTOBER 31, 2009

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, 2009 and 2008. 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, 2010.

Overall Performance

CEO'S REPORT TO SHAREHOLDERS

An Incredible Partnership

The Deal

On November 6th, 2009, Labrador Technologies Inc. (LTI) signed a global strategic agreement with IHS Inc. (IHS) to distribute LTI's eTrieve™ web application bundled with IHS Canadian Oil and Gas Critical Information. LTI has been singularly focussed on securing a high quality data supply as well as the means to distribute eTrieve worldwide, and is therefore extremely pleased with this agreement. (See http://press.ihs.com/article_display.cfm?article_id=4158)

IHS (NYSE: IHS) is a leading global source of critical information and insight for more than a dozen industries including Energy. It celebrated its 50th anniversary in 2009 and employs approximately 4,000 people in 20 countries. IHS' Canadian Oil & Gas products include AccuMap™, mapping, data management and analysis software, and PETRA™, a geological, engineering and petrophysical analysis package. The Calgary office of IHS has 280 employees of whom 40 are Sales and Support.

A Scalable Agreement

The combination of LTI's innovative web-based data browsing technology and IHS' market-leading Oil & Gas data introduces a ground-breaking way for IHS' customers to work. IHS' Marketing, Sales and Support resources provide maximum opportunity for eTrieve exposure and market penetration. (See <http://energy.ihs.com/products/etrieve/index.htm>)

Importantly, although eTrieveer currently offers only IHS' Canadian Oil & Gas Critical Information, the agreement creates the framework to include additional IHS Oil & Gas Critical Information on a world-wide basis. With IHS marketing, selling and supporting eTrieveer, LTI is now able to focus almost entirely on continuing R&D on eTrieveer and the Labrador® Product Suite.

Financing

LTI has streamlined its G&A in order to fully support this critical partnership with IHS. Accordingly, LTI continues to explore financing alternatives aimed at providing working capital to eliminate accrued liabilities and underwrite continued eTrieveer development to support this company-changing partnership.

"signed"

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

Results of Operations

At October 31, 2009, the Corporation had cash of \$9,418, no long-term debt, and a working capital deficit of \$732,015.

During the year ended on October 31, 2009, the Corporation completed two private placements for proceeds of \$516,375. 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 \$53 compared to \$4,771 for 2008.

Financial Summary

	2009	2008	2007
Revenues			
License fees	\$ 6,458	\$ 1,458	\$ —
	6,458	1,458	—
Expenses	1,357,731	1,137,689	1,262,639
Net loss	(1,351,273)	(1,136,231)	(1,262,639)
Net loss per share	(0.05)	(0.05)	(0.06)
Outstanding shares	30,717,969	25,215,010	20,808,872

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 \$492,170 compared to \$490,111 for 2008, an increase of \$2,059. The difference is attributed to an increase in professional fees offset by a decrease in administration salaries.

Development and related costs

Development and related costs include programmers' salaries, software costs, and telecommunication costs. This category of expenses totaled \$504,180 for the year compared to \$385,424 for 2008, an increase of \$118,756. 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 \$280,755 compared to \$239,617 for 2008, an increase of \$41,138. The increase is primarily due to an increase in sales staff and associated costs.

Interest expense (revenue)

Interest expense (revenue) includes mainly interest paid on loans advance to the corporation by its directors. For the year, Interest expense (revenue) was \$14,031 compared to \$(4,771) for 2008, a net increase of \$18,802. The increase is primarily due additional financing required during the year.

Stock-based compensation

LTI issued 2,500,000 share options to various employees, officers, directors and consultants during the year compared to 260,000 share options issued in 2008. Stock-based compensation expense of \$55,210 and \$13,134 was recorded for 2009 and 2008, 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 \$11,385 compared to \$14,174 for 2008. The amount remained consistent as there were no significant additions or dispositions during the year.

Working capital

At year end, LTI had cash of \$9,418, no debt, and working capital deficit of \$732,015. 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.

Financing and Investing

During the year, the Corporation's cash position decreased by \$97,821 from the previous year end. The Corporation completed two private placements in 2009 for proceeds of \$516,375.

Summary of Quarterly Results

Fiscal 2009	1-QTR	2-QTR	3-QTR	4-QTR
Revenue	—	—	—	—
License fees	1,875	2,500	2,083	—
Expenses	\$ 381,401	481,683	249,303	245,344
Net loss	(379,526)	(479,183)	(247,220)	(245,344)
Net loss per share	(0.01)	(0.02)	(0.01)	(0.01)
Outstanding shares	25,237,677	25,266,804	28,351,496	30,717,969

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

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, eTriever. The Corporation has been successful at raising over \$3.5 million from the period August 1, 2005 through February 26, 2010, including \$1.0 million in fiscal 2008 and \$0.5 million 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, 2010, the Corporation has no cash, no long term debt and a working capital deficiency of \$0.8 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 \$0.8 million as at February 26, 2010. During 2009, the Corporation incurred a net loss of \$1,351,273 (2008 - \$1,136,231) and utilized funds in operations totaling \$758,988 (2008 - \$1,047,216).

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.

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, a director of the Corporation loaned the Corporation \$62,500 bearing interest at 12% per annum and collateralized by a general security agreement. The loan is repayable in monthly installments of \$650 with the balance due on March 31, 2010. In addition, other directors of the Corporation loaned the Corporation \$100,000 during the year, bearing interest at 12% per annum. These loans are unsecured and are repayable on demand.

During the year ended October 31, 2009, nil consulting fees (2008 - \$7,500) were paid to a director of the Corporation. The consulting fees were measured at the exchange amount.

Outstanding Share Data

As of October 31, 2008 LTI had 25,215,010 common shares, 2,803,565 warrants and 1,620,000 options to acquire common shares outstanding.

As of October 31, 2009 LTI had 30,717,969 common shares, 2,581,875 warrants and 1,410,000 options to acquire common shares outstanding.

As of February 26, 2010 LTI had 30,717,969 common shares, 2,581,875 warrants and 1,410,000 options to acquire shares outstanding.

International Financial Reporting Standards (IFRS)

Effective for the 2011 fiscal year, the Corporation will be required to adopt IFRS. The Corporation is currently assessing the next steps necessary to achieve compliance by 2011. The process is expected to be completed by the end of the 2010 fiscal year.

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, 2009 and 2008

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Labrador Technologies Inc. as at October 31, 2009 and 2008 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, 2009 and 2008 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 25, 2010

LABRADOR TECHNOLOGIES INC.

Balance Sheets

As at October 31

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,418	\$ 107,239
Accounts receivable	10,968	9,786
Prepaid expenses	8,578	16,904
	<u>28,964</u>	<u>133,929</u>
Property and equipment (note 3)	36,961	34,400
	<u>\$ 65,925</u>	<u>\$ 168,329</u>
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 602,241	\$ 113,558
Loans payable (note 9)	158,738	—
	<u>760,979</u>	<u>113,558</u>
Shareholders' equity (deficit):		
Common shares (note 4)	8,359,320	7,827,902
Share purchase warrants (note 4)	14,820	135,466
Contributed surplus (note 4)	755,193	564,517
Deficit	(9,824,387)	(8,473,114)
	<u>(695,054)</u>	<u>54,771</u>
Going concern (note 1)		
Subsequent event (note 1)		
	<u>\$ 65,925</u>	<u>\$ 168,329</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

	2009	2008
Income		
License fees	6,458	1,458
Expenses:		
General and administration	492,170	490,111
Development and related costs	504,180	385,424
Marketing and sales	280,755	239,617
Stock-based compensation (note 4)	55,210	13,134
Depreciation	11,385	14,174
Interest expense (income)	14,031	(4,771)
	1,357,731	1,137,689
Net loss and comprehensive loss	(1,351,273)	(1,136,231)
Deficit, beginning of year	(8,473,114)	(7,336,883)
Deficit, end of year	\$(9,824,387)	\$(8,473,114)
Net loss per share:		
Basic and diluted (note 4 (g))	\$ (0.05)	\$ (0.05)

See accompanying notes to financial statements.

LABRADOR TECHNOLOGIES INC.

Statements of Cash Flows

Years ended October 31

	2009	2008
Cash provided by (used in):		
Operating activities:		
Net loss	\$(1,351,273)	\$(1,136,231)
Items not involving cash:		
Shares issued for services performed	29,863	22,035
Stock-based compensation	55,210	13,134
Depreciation	11,385	14,174
	(1,254,815)	(1,086,888)
Changes in non-cash working capital (note 6)	495,827	39,672
	(758,988)	(1,047,216)
Investing activities:		
Additions to property and equipment	(16,665)	(14,112)
Financing activities:		
Proceeds from the sale of shares and warrants	516,375	1,000,000
Proceeds from the exercise of options	—	4,800
Proceeds from loan advances	182,500	—
Loan repayments	(23,762)	—
Proceeds from disposal of assets	2,719	—
	677,832	1,004,800
Decrease in cash and cash equivalents	(97,821)	(56,528)
Cash and cash equivalents, beginning of year	107,239	163,767
Cash and cash equivalents, end of year	\$ 9,418	\$ 107,239
Cash and cash equivalents consist of:		
Cash	9,418	107,239
Short-term deposits	—	—
	\$ 9,418	\$ 107,239

See accompanying notes to financial statements.

LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements

Years ended October 31, 2009 and 2008

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 assumes 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 October 31, 2009, including \$1.0 million in 2008 and \$0.5 million in 2009. The Corporation's fundraising efforts, however, have been hampered a great deal by the recent global economic crisis and, as at February 26, 2010, the Corporation has no cash, no long term debt and a working capital deficiency of \$0.8 million.

There is significant doubt about the appropriateness of using the going concern assumption because the Corporation's ability to continue as a going concern 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 \$0.8 million as at February 26, 2010. At October 31, 2009, the Corporation had cash of \$9,418, no long term debt and a working capital deficiency of \$732,015. During 2009, the Corporation incurred a net loss of \$1,351,273 (2008 - \$1,136,231) and utilized cash in operations totaling \$758,988 (2008 - \$1,047,216).

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.

On November 10, 2009, the Corporation announced a global strategic agreement with IHS Inc. ("IHS") to distribute Labrador's eTriever web application bundled with IHS Canadian Oil and Gas Critical Information. In connection with this agreement, the Corporation received a US\$240,000 payment as an advance on software fees to be paid to the Corporation by IHS.

In the circumstances, management believes the going concern assumption is still appropriate for these financial statements but is contingent upon the successful raising of sufficient 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. 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. 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 standard

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 8), 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 7). The adoption of Section 3863 had no effect on the presentation of the Corporation's financial instruments.

3. Property and equipment:

2009	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 506,716	\$ 484,576	\$ 22,140
Furniture and equipment	191,510	181,324	10,186
Purchased computer software	307,688	303,053	4,636
	\$ 1,005,914	\$ 968,953	\$ 36,961

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

4. Share capital:

(a) Authorized:

Unlimited preferred shares, none of which were issued at October 31, 2009, Series A and Series B; and

Unlimited common shares.

(b) Common shares issued:

Common shares	2009		2008	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	25,215,010	\$ 7,827,902	20,808,872	\$ 6,840,197
Sale of units	5,163,750	501,555	4,000,000	958,170
Shares for service performed	279,209	29,863	114,138	22,035
Finder fee shares issued	60,000	6,000	252,000	63,000
Exercise of options	—	—	40,000	4,800
Share issue costs	—	(6,000)	—	(63,000)
Transfer from contributed surplus on exercise of stock options	—	—	—	2,700
Balance, end of year	30,717,969	\$ 8,359,320	25,215,010	\$ 7,827,902

The Corporation completed a private placement on May 12, 2009 for 3,000,000 units at \$0.10 per unit. 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 \$0.20 per share and expires one year from the closing date of the private placement. Of the proceeds raised, \$298,800 was allocated to common share capital and \$1,200 was allocated to share purchase warrants. In connection with this private placement, 60,000 common shares were issued as a finder's fee.

The Corporation completed a second private placement on October 14, 2009 for 2,163,750 units at \$0.10 per unit. 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 \$0.20 per share and expires one year from the closing date of the private placement. Of the proceeds raised, \$202,755 was allocated to share capital and \$13,620 was allocated to share purchase warrants.

(c) Share purchase warrants issued:

Warrants	2009		2008	
	Number of warrants	Amount	Number of warrants	Amount
Balance, beginning of year	2,803,555	\$ 135,466	803,555	\$ 93,636
Sale of units	2,581,875	14,820	2,000,000	41,830
Expired warrants	(2,803,555)	(135,466)	—	—
Balance, end of year	2,581,875	\$ 14,820	2,803,555	\$ 135,466

(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, 2007	1,620,000	\$0.12 – \$0.50	\$0.44
Granted	260,000	0.43 – 0.50	0.42
Expired	(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
Granted	2,500,000	0.10 – 0.25	0.12
Expired	(1,015,000)	0.43 – 0.50	0.44
Forfeited	(1,350,000)	0.10 – 0.50	0.16
Outstanding at October 31, 2009	1,410,000	\$0.10 – \$0.50	0.13

Exercise price	Number of Options	Weighted average remaining contractual life (months)
\$ 0.10	250,000	36
0.10	1,000,000	29
0.35	100,000	17
0.50	60,000	15
Stock options outstanding at October 31, 2009	1,410,000	29
Exercisable at October 31, 2009	880,000	27

(e) Stock-based compensation:

During the year, 2,500,000 (2008 – 260,000) stock options were granted to employees, officers, directors and consultants of the Corporation. Of these stock options granted, 1,250,000 stock options vest within 12 months and the remaining 250,000 vest within 24 months. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2009	2008
Dividend yield	0%	0%
Expected volatility	90%	90%
Risk free rate of return	1.5%	5%
Expected option life	3 years	3 years
Weighted average option value	\$ 0.13	\$ 0.44

(f) Contributed surplus:

	2009	2008
Beginning of year	\$ 564,517	\$ 554,083
Stock-based compensation	55,210	13,134
Expired warrants	135,466	—
Exercise of options	—	(2,700)
End of year	\$ 755,193	\$ 564,517

(g) Weighted average shares outstanding:

The weighted average number of common shares outstanding during the year was 26,816,533 (2008 – 22,874,375). There is no dilutive effect from the options and warrants for the years ended October 31, 2009 and 2008.

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 29.1% (2008– 29.9%) to loss before income taxes and other items. The reasons for the difference are as follows:

	2009	2008
Computed expected tax recovery	\$ (403,000)	\$ (340,000)
Add (deduct) the following:		
Net increase in valuation allowance	319,000	144,000
Non deductible expenses	32,000	14,000
Impact of reduction of future tax rate	52,000	182,000
	\$ —	\$ —

The components of the future income tax assets and liabilities at October 31, 2009 were as follows:

	2009	2008
Future income tax assets:		
Non-capital losses	\$ 1,343,000	\$ 1,027,000
Property and equipment	48,000	45,000
	1,391,000	1,072,000
Less: valuation allowance	(1,391,000)	(1,072,000)
Net future income tax asset (liability)	\$ —	\$ —

As at October 31, 2009, the Corporation has non-capital losses totaling approximately \$5,372,000, which expire in the years 2010 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:

	2009	2008
Accounts receivable	\$ (1,182)	\$ 11,133
Prepaid expenses	8,326	(9,552)
Accounts payable and accrued liabilities	488,683	38,091
	\$ 495,827	\$ 39,672

7. Financial instruments and financial risk management:

As at October 31, 2009 and 2008, 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.

8. 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.

9. Loans payable and related party transaction:

During the year, a director of the Corporation loaned the Corporation \$62,500 bearing interest at 12% per annum and collateralized by a general security agreement. The loan is repayable in monthly installments of \$650 with the balance due on March 31, 2010. In addition, other directors of the Corporation loaned the Corporation \$100,000 during the year, bearing interest at 12% per annum. These loans are unsecured and are repayable on demand.

During the year ended October 31, 2009, nil consulting fees (2008 - \$7,500) were paid to a director of the Corporation. The consulting fees were measured at the exchange amount.