

LABRADOR TECHNOLOGIES INC.

2010 ANNUAL REPORT

YEAR ENDED OCTOBER 31, 2010

LABRADOR TECHNOLOGIES INC.

YEAR ENDED OCTOBER 31, 2010

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, 2010 and 2009. 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.

Forward-looking Information

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

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

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

Forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are describe herein. Many factors could cause the Corporation's actual

results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking information including, without limitation, the following factors:

- Economic conditions in the oil and gas industry
- Reliance on key partner
- Increased competition
- Reliance on employees with specialized skills and knowledge
- Protection of proprietary rights

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

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

Overall Performance

CEO'S REPORT TO SHAREHOLDERS

Oil & Gas Industry Embraces iPad™ Type Mobile Devices

Timing is everything in sales and eTrierer™'s device-independent capabilities are now becoming front-row centre as the Oil & Gas Industry moves to adopt wireless, mobile devices. Of these, the ample screen "real estate" size of iPad-like devices is extremely well suited for web-mapping, particularly from remote locations. Further, eTrierer's remarkable speed and query functionality, together with its economical pricing, make it ideal for mobile devices generally.

Financing Progress

On February 28th, the Company announced that it has closed the first tranche of its previously announced Private Placement for up to 15 million common shares of Labrador, at a price of 5 cents per common share, for proceeds of up to \$750,000. The first tranche consisted of 3 million common shares for gross proceeds of \$150,000.

The proceeds from the closing of this Private Placement will be used for expanding the current successful eTrierer market launch into all sectors of the oil & gas industry, for increasing and broadening eTrierer R&D, and for general working capital. This critical eTrierer deployment phase will be bolstered significantly by LTI's logical growth and extension with its partners into accessing data from proprietary databases, a stronghold of Labrador expertise.

Respectfully,

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

Results of Operations

At October 31, 2010, the Corporation had cash of \$7,481, no long-term debt, and a working capital deficit of \$928,532.

During the year ended October 31, 2010, the Corporation completed two private placements for proceeds of \$360,000. 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. The Corporation, however, has received US\$240,000 in connection with a distribution agreement with IHS, of which a portion has been recorded as deferred revenue (see note 1, note 10 in the financial statements). During the period, the Corporation also entered into a nine month consulting contract with IHS. The fees covered certain programming/consulting fees provided by LTI in the context of the distribution agreement with IHS (see note 1 in the financial statements). This contract was for a maximum of \$245,000 CDN and terminated on July 31, 2010. The total amount has been recorded in revenue during the fiscal year (see note 10 in the financial statements).

Financial Summary

	2010	2009	2008
Revenues			
License fees	\$ 2,667	\$ 6,458	\$ 1,458
Consulting fees	233,333	—	—
Data modeling	82,571		
	318,571	6,458	1,458
Expenses			
General and administration	485,665	492,170	490,111
Development and related costs	452,203	504,180	385,424
Other expenses	169,575	361,381	262,154
	1,107,443	1,357,731	1,137,689
Net loss	(788,872)	(1,351,273)	(1,136,231)
Net loss per share	(0.02)	(0.05)	(0.05)
Outstanding shares	36,978,175	30,717,969	25,215,010

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 \$485,665 compared to \$492,170 for 2009, a decrease of \$6,505. The difference is attributed to increases in professional fees offset by decreases in recruitment expense, administration salaries and other office related expenses.

Development and related costs

Development and related costs include programmers' salaries, software costs, and telecommunication costs. This category of expenses totaled \$452,203 for the year compared to \$504,180 for 2009, a decrease of \$51,977. The decrease is due primarily to the reduction 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 \$138,740 compared to \$280,755 for 2009, a decrease of \$142,015. The decrease is primarily due to a reduction in sales staff and associated costs.

Interest expense

Interest expense includes mainly interest paid on loans advanced to the Corporation by its directors. For the year, interest expense was \$18,612 compared to \$14,031 for 2009, an increase of \$4,581. The increase is due to continued outstanding and additional financing required during the year.

Stock-based compensation

LTI granted no stock options during the year ended October 31, 2010 (2009 – 2,250,000). Stock-based compensation expense of \$1,227 and \$55,210 was recorded for 2010 and 2009, respectively, based on an estimate of the fair value of the options calculated using the Black-Scholes option-pricing model.

Amortization

Depreciation expense for the year was \$10,997 compared to \$11,385 for 2009. The amount remained consistent as there were no significant additions or dispositions during the year.

Working capital

At year end, LTI had cash of \$7,481, no debt, and negative working capital of \$928,532. The Corporation has not had any sources of ongoing revenue for many years as it has been developing its eTriever web application. During the year, the Corporation received US\$240,000 in connection with a distribution agreement with IHS Inc. (see notes 1 and note 10 in the financial statements) and is relying on future sales from this agreement to generate additional cash. The Corporation also entered into a nine month agreement with IHS for consulting fees to cover certain programming expenses. As a result, the Corporation's ability to maintain its operations in the future is still dependent on its ability to generate sufficient revenue, and/or raise sufficient capital to continue to fund its strategic business plan.

In addition, on March 17, 2010, certain creditors of the Company provided written consent to convert \$215,000 of current liabilities into common shares at a price of \$0.09 per common share. TSX approval was received to complete these transactions and common shares were issued to the creditors on May 17, 2010.

Financing and Investing

During the year, the Corporation's cash position decreased by \$1,937 (2009 - decrease \$97,821) primarily as a result of funds raised from the Private Placement and certain creditors converting their liabilities to equity (see below).

On March 17, 2010, the Corporation announced the terms of a private placement up to 5,000,000 units at a price of \$0.10 per unit with an expected closing date of on or before May 17, 2010. 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 two year from the closing date of the private placement. At the closing date of May 17, 2010, the Corporation had received signed subscription agreements for 3,600,000 units and had received \$360,000 in proceeds.

As at March 17, 2010, certain creditors of the Company had provided written consent to convert \$215,000 of aggregate liabilities into common shares at a price of \$0.09 per common share. The breakdown of the \$215,000 by creditor category is as follows: employees \$100,000 (recorded in accounts payable and accrued liabilities), consultants \$90,000 (recorded in accounts payable and accrued liabilities), and directors \$25,000 (recorded in loans payable). As a result of this conversion, 2,388,889 new common shares were issued. TSX approval was received for this transaction and shares were issued to the creditors on May 17, 2010. In addition, as at September 13, 2010, a certain creditor of the Company had provided written consent to convert \$9,000 of aggregate liabilities into common shares. TSX approval was received for this transaction on September 20, 2010 and 150,000 shares were issued to the creditor on September 22, 2010.

Summary of Quarterly Results

Fiscal 2010	1-QTR	2-QTR	3-QTR	4-QTR
Revenue				
Consulting fees	—	93,483	85,963	53,887
License fees	—	—	4,000	(1,333)
Data modeling	—	—	—	82,571
	—	93,483	89,963	135,125
Expenses				
General and administration	165,155	101,159	105,647	113,704
Development and related costs	115,214	113,105	101,829	122,055
Other expenses	41,210	39,873	32,827	55,665
	321,579	254,137	240,303	291,424
Net loss	(321,579)	(160,654)	(150,340)	(156,299)
Net loss per share, basic and diluted	\$ (0.01)	(0.01)	(0.00)	(0.00)
Outstanding shares	30,733,730	30,804,606	36,793,495	36,978,175
Total assets	\$ 90,163	90,963	119,934	35,215

Fiscal 2009	1-QTR	2-QTR	3-QTR	4-QTR
Revenue	—	—	—	—
License fees	\$ 1,875	2,500	2,083	—
Expenses				
General and administration	115,344	131,560	92,300	153,506
Development and related costs	179,480	175,923	64,219	84,558
Other expenses	86,577	174,200	92,784	7,280
	381,401	481,683	249,303	245,344
Net loss	(379,526)	(479,183)	(247,220)	(245,344)
Net loss per share, basic and diluted	\$ (0.01)	(0.02)	(0.01)	(0.01)
Outstanding shares	25,237,677	25,266,804	28,351,496	30,717,969
Total assets	\$ 62,675	61,604	60,887	54,958

Liquidity and Capital Resources

At October 31, 2010, the Corporation had cash of \$7,481, no long term debt and a working capital deficiency of \$928,532. To date, the Corporation has had minimal revenue and is now, in the short term, dependent on the raising of sufficient capital and/or generating sufficient revenue from the licensing of its eTrievers software, which is expected to occur primarily through the corporation's agreement with IHS Inc., to discharge its obligations, including the working capital deficiency of \$0.9 million as at October 31, 2010. During the year ended October 31, 2010, the Corporation incurred a net loss of \$ 788,872 (2009 - \$1,351,273) and used cash in operations totaling \$276,199 (2009 – used \$758,988).

For the past 2 fiscal years, the Corporation has been using cash in operations at rate of approximately \$250,000 per quarter. This has been with nominal revenues from the sale of its eTrievers software and, accordingly, this use of cash has been financed primarily through the raising of capital in the form of private placements, debt to equity conversions, and loans. As at October 31, 2009, the working capital deficit was \$0.7 million. As at October 31, 2010, the working capital deficit was \$0.9 million. The increase of \$0.2 million has resulted primarily from the cash used in operations exceeding the amount that has been raised through financing activities.

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

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

Financial Instruments

As at October 31, 2010 and 2009, the fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and loans payable approximate their carrying value due to the relatively short periods to maturity of these instruments.

Credit risk:

Credit risk is the risk of financial loss resulting from a customer or counter party to a financial instrument failing to meet its obligation to the Corporation.

Management believes the Corporation's credit risk is minimal at this time as the accounts receivable consist of GST receivable only. As the Corporation increases its sales volume over the coming months, the credit risk will be analyzed and updated as needed.

Interest rate risk:

Interest rate risk is the risk that fair value of a financial instrument or its cash flows will fluctuate as a result of changes in interest rate.

The loans payable bear interest at a fixed rate of 12% thus the cash flows are not subject to interest rate risk. If market conditions deteriorate further, this rate may appear unreasonable under those circumstances. Management believes this risk to be minimal as the loans that have been advanced are considered short term in nature.

Loans Payable and Related Party Transactions

On March 12, 2009, 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 was repayable in monthly installments of \$650 with the balance due on March 31, 2010. The loan was repaid in full during the six month period ended April 30, 2010 for a total of \$58,738.

During 2010, \$20,000 of the amount included in Loans payable, which was owed to a director, was repaid by the company. Also during the year, \$25,000 included in Loans payable was converted to common shares. (note 4 b)

Another director of the Corporation loaned the Corporation \$9,000 in 2010. This loan bears interest at 12% per annum, is unsecured and repayable on demand.

As at October 31, 2010, the fair value of these loans and transactions approximated their carrying values due to the short term nature of these items.

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

As of October 31, 2010 LTI had 36,978,175 common shares, 1,800,000 warrants and 1,160,000 options to acquire common shares outstanding.

As of February 28, 2011 LTI had 37,026,137 common shares, 1,800,000 warrants and 1,100,000 options to acquire shares outstanding.

Subsequent Events

Subsequent to the year end, three directors (related parties) advanced separate loans to the corporation totalling \$70,000. These loans bear interest at 12% per year, are unsecured and due on demand. A further loan was advanced to the corporation by a shareholder for \$50,000 under the same terms.

On February 22, 2011, the Corporation announced a non-brokered private placement for up to 15,000,000 common shares at a price of \$0.05 per Common Share, for proceeds up to \$750,000. The Offering is subject to receipt of all necessary regulatory approvals. The securities issued pursuant to the Offering will be subject to a four month hold period from the date of the closing of the Offering. The Offering is being undertaken on a non-brokered basis; however, LTI may pay a cash finder's fee of 8% to qualified persons pursuant to available securities laws exemptions. As at February 28, 2011, the Corporation has received signed Subscriptions Agreements for 3,000,000 common shares and had received \$150,000 in proceeds.

IFRS

The CICA's Accounting Standards Board announced in 2008 that Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for fiscal years beginning on or after January 1, 2011 with appropriate IFRS financial information for 2010. The Corporation will report under IFRS commencing January 31, 2012.

The Company identified the areas that are expected to have an impact in terms of numerical change as stock-based compensation and presentation of the financial statements. A thorough review of the accounting differences between Canadian GAAP and IFRS to quantify the financial statement impact of the differences, evaluate transitional options available under IFRS and determining appropriate long-term accounting policies are the next steps.

The Company is required to make accounting policy choices and the first time adoption under IFRS allows optional and mandatory exceptions. No new polices have been drafted at this time. The Company plans on quantifying the impact of the transition to IFRS to its financial statement during the 2011 fiscal year. Currently, no impacts have been fully quantified or determined.

Future Accounting Policies

Since the Canadian Accounting Standard Board's announcement stating that IFRS will replace current Canadian GAAP for publically accountable enterprises effective January 1, 2011, the Corporation has been assessing the impact these accounting changes will have on the organization. The Corporation will continue to monitor developments as the final date of implementation approaches.

In January 2009, the following Handbook Sections were issued by the CICA:

Section 1582 – Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the Corporation's first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted. This section replaces 1581, Business Combinations, and harmonizes the Canadian standards with IFRS. The Corporation has evaluated the implications of this standard and it is not expected on have an impact.

Section 1601 – Consolidated Financial Statements, replacing the existing standard. This section is effective for periods beginning on or after January 1, 2011 and established the standards for preparing consolidated

financial statements. Early adoption is permitted. This standard has no impact on the Corporation as there is no need for the Corporation to prepare consolidated financial statements.

Section 1602 – Non-controlling Interests in Consolidated Financial Statements. This section specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. This section is effective for periods beginning on or after January 1, 2011. The Corporation currently has no non-controlling or minority interests. Adoption of this standard is not expected to have an impact.

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, 2010 and 2009

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 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, has 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, 2010 and 2009 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, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Accountants

Calgary, Canada
February 28, 2011

LABRADOR TECHNOLOGIES INC.

Balance Sheets

	October 31 2010	October 31 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,481	\$ 9,418
Accounts receivable	1,769	10,968
Prepaid expenses	—	8,578
	9,250	28,964
Property and equipment (note 3)	25,965	36,961
Total Assets	\$ 35,215	\$ 65,925
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 697,716	\$ 602,241
Loans payable (note 9)	64,000	158,738
Deferred revenue (note 10)	176,066	—
Total Liabilities	937,782	760,979
Shareholders' equity (deficit):		
Common shares (note 4)	8,884,352	8,359,320
Share purchase warrants (note 4)	55,100	14,820
Contributed surplus (note 4)	771,240	755,193
Deficit	(10,613,259)	(9,824,387)
Total Shareholders' Equity (Deficit)	(902,567)	(695,054)
Going concern (note 1)		
Subsequent events (note 11)		
Total Liabilities and Shareholders' Equity	\$ 35,215	\$ 65,925

See accompanying notes to financial statements.

On behalf of the Board:

H. Ronald Sterne
Director

George Wilson
Director

LABRADOR TECHNOLOGIES INC.

Statements of Operations and Deficit

Years ended October 31

	2010	2009
Income:		
License fees	2,667	6,458
Consulting fees	233,333	—
Data modeling	82,571	—
	318,571	6,458
Expenses:		
General and administration	485,665	492,170
Development and related costs	452,203	504,180
Marketing and sales	138,740	280,755
Stock-based compensation (note 4)	1,227	55,210
Depreciation	10,996	11,385
Interest expense	18,612	14,031
	1,107,443	1,357,731
Net loss and comprehensive loss	(788,872)	(1,351,273)
Deficit, beginning of year	(9,824,387)	(8,473,114)
Deficit, end of year	\$(10,613,259)	\$(9,824,387)
Net loss per share:		
Basic and diluted (note 4 (g))	\$ (0.02)	\$ (0.05)

See accompanying notes to financial statements.

LABRADOR TECHNOLOGIES INC.

Statements of Cash Flows

Years ended October 31

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (788,872)	\$(1,351,273)
Items not involving cash:		
Shares issued for services performed	12,132	29,863
Stock-based compensation	1,227	55,210
Depreciation	10,996	11,385
Debt to equity conversion	199,000	—
	(565,517)	(1,254,815)
Changes in non-cash working capital (note 6)		
	289,318	495,827
	(276,199)	(758,988)
Investing activities:		
Additions to property and equipment	—	(16,665)
Financing activities:		
Proceeds from the sale of shares and warrants	360,000	516,375
Share issue costs	(16,000)	—
Proceeds from loan advances	9,000	182,500
Loan repayments	(78,738)	(23,762)
Proceeds from disposal of assets	—	2,719
	473,262	677,832
Decrease in cash and cash equivalents		
	(1,937)	(97,821)
Cash and cash equivalents, beginning of year		
	9,418	107,239
Cash and cash equivalents, end of year		
	\$ 7,481	\$ 9,418
Interest paid		
	\$ 18,612	\$ 14,031
Taxes paid		
	\$ —	\$ —

See accompanying notes to financial statements.

LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements

Years ended October 31, 2010 and 2009

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 \$3.4 million from the period August 1, 2005 through October 31, 2010, including \$1.0 million in 2008, \$0.5 million in 2009 and \$0.4 million in 2010. In addition, and subsequent to the year-end, the company announced a private placement for up to \$750,000 in gross proceeds, of which \$150,000 had been subscribed for and proceeds received by February 28, 2011 (see Note 11).

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, dependent on the raising of sufficient capital and/or generating sufficient revenue from the licensing of its eTriever software, which is expected to occur primarily through the Corporation's agreement with IHS Inc. (see details below), to realize its assets and discharge its obligations, including the working capital deficiency of \$0.9 million as at October 31, 2010 (2009 - \$0.7 million). At year end, the Corporation had cash of \$7,481, no long term debt and a working capital deficiency of \$928,532. During the year ended October 31, 2010, the Corporation incurred a net loss of \$ 788,872 (2009 - \$1,351,273) and used cash in operations totaling \$475,199 (2009 – used \$758,988).

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 dependent upon the raising of sufficient operating capital in the short-term and sales of its eTriever software. 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 for data modeling and maintenance services to be provided to IHS. (note 10)

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,

LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements

Years ended October 31, 2010 and 2009

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 is not recognized until there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed and determinable and the collectability of outstanding amounts is considered possible. Revenue from consulting services is recognized when the services are performed and when earned. Revenue from data modeling services is recognized ratably over the term of the contract signed with the Corporation's distributor (note 10). Over the three year period of the contract, the Corporation has a continuing commitment to provide product development and maintenance.

(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.

LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements

Years ended October 31, 2010 and 2009

(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 using the fair value method of accounting and expensed over the estimated service period.

(g) Future changes in accounting policy

Since the Canadian Accounting Standard Board's announcement stating that IFRS will replace current Canadian GAAP for publicly accountable enterprises effective January 1, 2011, the Corporation has been assessing the impact these accounting changes will have on the organization. The Corporation will continue to monitor developments as the final date of implementation approaches.

In January 2009, the following Handbook Sections were issued by the CICA:

Section 1582 – Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the Corporation's first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted. This section replaces 1581, Business Combinations, and harmonizes the Canadian standards with IFRS. The Corporation has evaluated the implications of this standard and it is not expected to have an impact.

Section 1601 – Consolidated Financial Statements, replacing the existing standard. This section is effective for periods beginning on or after January 1, 2011 and established the standards for preparing consolidated financial statements. Early adoption is permitted. This standard has no impact on the Corporation as there is no need for the Corporation to prepare consolidated financial statements.

Section 1602 – Non-controlling Interests in Consolidated Financial Statements. This section specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. This section is effective for periods beginning on or after January 1, 2011. The Corporation currently has no non-controlling or minority interests. Adoption of this standard is not expected to have an impact.

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3. Property and equipment:

	Cost	Accumulated depreciation	Net book value
2010			
Computer equipment	\$ 506,716	\$ 491,218	\$ 15,498
Furniture and equipment	191,510	183,361	8,149
Purchased computer software	307,688	305,370	2,318
	\$ 1,005,914	\$ 979,949	\$ 25,965
2009			
Computer equipment	\$ 506,716	\$ 484,576	\$ 22,140
Furniture and equipment	191,510	181,324	10,186
Purchased computer software	307,688	303,053	4,635
	\$ 1,005,914	\$ 968,953	\$ 36,961

4. Share capital:

(a) Authorized:

Unlimited preferred shares, none of which were issued at October 31, 2010, Series A and Series B; and unlimited common shares.

(b) Common shares issued:

	2010		2009	
	Number of shares	Amount	Number of shares	Amount
Common shares				
Balance, beginning of period	30,717,969	\$ 8,359,320	25,215,010	\$ 7,827,902
Sale of units	3,600,000	360,000	5,163,750	501,555
Allocation to warrants	—	(55,100)	—	—
Shares for services performed	121,317	12,132	279,209	29,863
Debt to equity conversion	2,538,889	224,000	—	—
Finder fees shares issued	—	—	60,000	6,000
Share issue costs	—	(16,000)	—	(6,000)
Balance, end of period	36,978,175	8,884,352	30,717,969	8,359,320

On March 17, 2010, the Corporation announced the terms of a private placement of up to 5,000,000 units at a price of \$0.10 per unit with an expected closing date of on or before May 17, 2010. 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 two years from the closing date of the private placement. At the closing date of May 17, 2010, the Corporation had received signed subscription agreements for 3,600,000 units and had received \$360,000 in proceeds.

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As at March 17, 2010, certain creditors of the Company had provided written consent to convert \$215,000 of aggregate liabilities into common shares at a price of \$0.09 per common share. The detail of the \$215,000 by creditor category is as follows: employees \$100,000 (recorded in accounts payable and accrued liabilities), consultants \$90,000 (recorded in accounts payable and accrued liabilities), and directors \$25,000 (recorded in loans payable). As a result of this conversion, 2,388,889 new common shares were issued and working capital deficiency was reduced by \$215,000. TSX approval was received for this transaction and shares were issued to the creditors on May 17, 2010. In addition, on September 13, 2010, a certain creditor of the Company provided written consent to convert \$9,000 of aggregate liabilities into common shares. TSX approval was received for this transaction on September 20, 2010 and 150,000 shares were issued to the creditor on September 22, 2010.

(c) Share purchase warrants issued:

Warrants	2010		2009	
	Number of warrants	Amount	Number of warrants	Amount
Balance, beginning of period	2,581,875	\$ 14,820	2,803,555	\$ 135,466
Sale of units	1,800,000	55,100	2,581,875	14,820
Exercise of warrants	—	—	—	—
Expired warrants	(2,581,875)	(14,820)	(2,803,555)	(135,466)
Balance, end of period	1,800,000	\$ 55,100	2,581,875	\$ 14,820

(d) Stock option plan:

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

	Number	Exercise price	Weighted average exercise price
Outstanding at October 31, 2009	1,410,000	\$ 0.10 – 0.50	\$ 0.13
Granted	—	—	—
Forfeited	(250,000)	0.10	—
Outstanding at October, 31, 2010	1,160,000	\$ 0.10 – 0.50	\$ 0.14

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Exercise price	Number of Options	Weighted average remaining contractual life (months)
\$ 0.10	1,000,000	17
0.35	100,000	5
0.50	60,000	3
Stock options outstanding at October 31, 2010	1,160,000	15
Exercisable at October 31, 2010	1,160,000	15

(e) Stock-based compensation:

During the year, no stock options (2009 – 2,250,000) were granted to employees, officers, consultants and directors of the Corporation. The fair value of stock options granted was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2010	2009
Dividend yield	—	0%
Expected volatility	—	90%
Risk free rate of return	—	1.5%
Expected option life	—	3 years
Weighted average option value	\$ —	\$ 0.13

(f) Contributed surplus:

	2010	2009
Beginning of period	\$ 755,193	\$ 564,517
Stock-based compensation	1,227	55,210
Expired warrants	14,820	135,466
End of period	\$ 771,240	\$ 755,193

(g) Per share amounts:

The weighted average number of common shares outstanding during the year was 33,548,019 (2009 – 26,816,533). There is no dilutive effect from the options and warrants for the years ended October 31, 2010 and 2009.

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 28.2% (2009– 29.1%) to loss before income taxes and other items. The reasons for the difference are as follows:

LABRADOR TECHNOLOGIES INC.

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Years ended October 31, 2010 and 2009

	2010	2009
Computed expected tax recovery	\$ (222,000)	\$ (403,000)
Add (deduct) the following:		
Net increase in valuation allowance	39,000	319,000
Non deductible expenses	5,000	32,000
Impact of reduction of future tax rate	4,000	52,000
Expire of losses	174,000	—
	\$ —	\$ —

The components of the future income tax assets and liabilities at October 31, 2010 were as follows:

	2010	2009
Future income tax assets:		
Non-capital losses	\$ 1,376,000	\$ 1,343,000
Property and equipment	50,000	48,000
Share issue costs	3,000	—
	1,429,000	1,391,000
Less: valuation allowance	(1,429,000)	(1,391,000)
Net future income tax asset (liability)	\$ —	\$ —

As at October 31, 2010, the Corporation has non-capital losses totaling approximately \$5,510,000 (2009 - \$5,363,000), which expire in the years 2015 to 2030. 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:

	2010	2009
Accounts receivable and prepaid expenses	\$ 17,777	\$ 7,144
Accounts payable and accrued liabilities	95,475	488,683
Deferred revenue	176,066	—
	\$ 289,318	\$ 495,827

7. Financial instruments and financial risk management

As at October 31, 2010 and 2009, the fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and loans payable approximate their carrying value due to the relatively short periods to maturity of these instruments.

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Notes to Financial Statements

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Credit risk:

Credit risk is the risk of financial loss resulting from a customer or counter party to a financial instrument failing to meet its obligation to the Corporation.

Management believes the Corporation's credit risk is minimal at this time as the accounts receivable consist of GST receivable only. As the Corporation increases its sales volume over the coming months, the credit risk will be analyzed and updated as needed.

Interest rate risk:

Interest rate risk is the risk that fair value of a financial instrument or its cash flows will fluctuate as a result of changes in interest rate.

The loans payable bear interest at a fixed rate of 12% thus the cash flows are not subject to interest rate risk. If market conditions deteriorate further, this rate may appear unreasonable under those circumstances. Management believes this risk to be minimal as the loans that have been advanced are considered short term in nature.

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 funds received upon issuance of common shares to be the capital of the Corporation.

9. Loans payable and related party transaction:

On March 12, 2009, 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 was repayable in monthly installments of \$650 with the balance due on March 31, 2010. The loan was repaid in full during the period ended April 30, 2010.

During 2010, \$20,000 of the amount included in loans payable, which was owed to a director, was repaid by the company. Also during the year, \$25,000 included in loans payable was converted to common shares. (note 4 b)

Another director of the Corporation loaned the Corporation \$9,000 in 2010. This loan bears interest at 12% per annum, is unsecured and repayable on demand.

As at October 31, 2010, the fair value of these loans and transactions approximated their carrying values due to the short term nature of these items.

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10. Deferred revenue:

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 for data modeling services to ensure eTriever compatibility with the IHS Canadian Oil and Gas data. This amount is being deferred and recognized ratably over the three year term of the agreement as there is an on-going commitment to provide product upgrades and maintenance.

11. Subsequent Events

Subsequent to the year end, three directors (related parties) advanced separate loans to the Corporation totalling \$70,000. These loans bear interest at 12% per year, are unsecured and due on demand. A further loan was advanced to the Corporation by a shareholder for \$50,000 under the same terms.

On February 22, 2011, the Corporation announced a non-brokered private placement for up to 15,000,000 common shares at a price of \$0.05 per Common Share, for proceeds up to \$750,000. The Offering is subject to receipt of all necessary regulatory approvals. LTI may pay a cash finder's fee of 8% to qualified persons pursuant to available securities laws exemptions. As at February 28, 2011, the Corporation has received signed Subscriptions Agreements for 3,000,000 common shares and had received \$150,000 in proceeds.

LABRADOR TECHNOLOGIES INC.

Corporate Information

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

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George A. Wilson, Q.C., Toronto, Ontario
Jeffrey Howe*, Toronto, Ontario

* - members of the Audit Committee

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Jeffrey Howe, Chief Financial Officer

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The TSX Venture Exchange
Trading Symbol: LTX