

## **LABRADOR TECHNOLOGIES INC.**

**NINE MONTHS ENDED JULY 31, 2016**

### **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 unaudited financial statements of Labrador Technologies Inc. ("LTI" or the "Company") for the nine months ended July 31, 2016 and 2015. Additional information with respect to the Company can be found on the Company's website at [www.labradortechnologies.com](http://www.labradortechnologies.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). The functional reporting and measurement currency is the Canadian dollar.

#### **International Financial Reporting Standards**

The Company's unaudited financial statements for the nine months ending July 31, 2016 have been prepared in accordance with IFRS as published by the International Accounting Standards Board.

The Company also presented comparative information for nine months ending July 31, 2015, on an IFRS basis.

#### **Non-IFRS Measures**

To supplement our financial statements presented in accordance with IFRS, we use non-IFRS measures such as working capital. This measure is provided to enhance readers' overall understanding of our current use of cash resources and liquidity, and is included to provide investors and management with an alternative measure for assessing our financial position in a manner that is focused on the Company's current liquidity and capital position. This measure is based on the Statement of financial position. Working capital is determined using the period end current assets less current liabilities. These measures are not in accordance with and do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other entities.

#### **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 Company expects or anticipates will or may occur in the future. This includes such things as the development plans and status of the Company's software development projects, the Company'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 Company 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 Company. The Company 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 Company 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 Company'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 September 30, 2016.**

## **Outlook**

During the nine months ended July 31, 2016, the Company has been dependent on loans from Officers and Directors to meet its month to month financial obligations and cover its substantial Research and development (R&D) spend for the wellTrieve™ product.

### **wellTrieve Does Change the Game**

**wellTrieve** is Map-Centric and dramatically changes access to financial reporting. wellTrieve provides secure “bridges” between Financial Reports and Unique Well Identifiers (UWIs) on a map so that financial reports can be accessed quickly, remotely and **inexpensively**.

### **Meticulous Search for an Experienced Sales Person Rewarded**

With the software now commercially completed, the Company has secured the services of a sales person familiar with financial software and the need to make Financial Reports available to a much wider audience of vested personnel. The Company is also actively pursuing partnerships where wellTrieve’s map-centric front-end can provide a “launching-pad” for any company’s internal applications.

### **Oil & Gas Data Supply Agreement Renewed**

On June 23rd, 2016, the Company renewed its annual agreement with a major data vendor (IHS Inc.) to supply Oil & Gas data to the Company for a period of 1 (one) year from the Effective Date of July 1, 2016 for both wellTrieve™ and eTrieve™.

### **Continued Tight Management of Expenses and Use of Cash**

For the nine months ended July 31, 2016, the Company continued to carefully manage its expenses and use of cash. This approach, along with loans received from Management, enabled the Company to make significant improvements to its wellTrieve product to expand its sales reach. Other than the increased cost of R&D, expenses for the nine months ended July 31, 2016 were in line with the nine months ended July 31, 2015. The funding has been loaned by Management, and to continue to further minimize the use of cash, Officers of the Company are still not drawing salaries or Director’s Fees.

## Results of Operations

At July 31, 2016, the Company had cash of \$6,480 no long-term debt, a current year net and comprehensive loss of \$551,198, and a working capital deficit of \$3,017,773.

Future operations will be dependent upon the successful ongoing development and marketing of the Company's data retrieval technology and the corresponding generation of future cash flows and/or raising of additional capital.

## Revenue

The Company generated revenue of \$16,000 during the nine months ended July 31, 2016 from the sale of software license fees (2015 - \$23,968). This revenue is recognized ratably over the contract period, which ranges from four months to twelve months. The Company is continuing to dedicate its resources to further sales and marketing strategies to increase license fees revenues to sustainable levels.

Presently, the Company has no significant ongoing sources of revenue. The Company, however, has continued its research and development activities to streamline and repackage its eTrierer software by "cherry-picking" the best apps, reports and graphs of eTrierer and making them available to all consumers with an initial focus on the Oil & Gas industry's well and drilling data, under the banner of wellTrierer™ and provide a Map based platform to bring together public and proprietary well information via a single User Interface.

## Financial Summary

	Nine months ended	
	July 31, 2016	July 31, 2015
<b>Revenue</b>		
License fees	\$ 16,000	\$ 23,968
	<b>16,000</b>	23,968
<b>Expenses</b>		
General and administrative	186,523	210,592
Development and related costs	211,036	170,576
Marketing & sales	42,950	66,875
	<b>440,509</b>	448,043
<b>Operating loss</b>	<b>(424,509)</b>	(424,075)
Financing costs	126,261	70,317
<b>Net loss &amp; comprehensive loss</b>	<b>\$ (550,770)</b>	\$ (494,392)
Net loss per share	\$ (0.00)	\$ (0.00)
Outstanding shares	112,926,137	112,926,137

## **Expenses**

### **General and administrative**

This category of expenses is comprised primarily of office rent, office equipment rentals, administrative salaries, corporate expenses related to shareholder reporting, and professional fees. General and administrative expenses for the nine-month period ended July 31, 2016 were \$186,951 compared to \$210,592 for the nine-month period ended July 31, 2015, a decrease of 11% (\$23,641). The decrease was due to less salaries and legal fees incurred for the nine-month period ending July 31, 2016. This was offset by an increase in consulting costs and transfer agent and filing fees.

### **Development and related costs**

Computer and related costs include programmers' salaries, programmers' consulting fees, software costs, and telecommunication costs. This category of expenses totaled \$211,036 for the nine month period ended July 31, 2016 compared to \$170,576 for the nine month period ended July 31, 2015, an increase of 24% (\$40,460). The increase was the result of the Company investing further in the development of its wellTrieiver product.

### **Marketing & Sales Expenses**

Marketing & sales expenses include expenses for sales and support salaries/consulting fees, and promotion/advertising. For the nine-month period ended July 31, 2016, marketing & sales expenses were \$42,950 compared to \$66,875 for the nine-month period ended July 31, 2015, a decrease of 36% (\$23,925). The decrease is due to the reduction of sales contractors in the sales department.

### **Financing Costs**

Financing costs includes mainly interest paid on loans advanced to the Company by its officers, directors, former directors, and shareholders. For the nine months ended July 31, 2016, interest expense was \$126,261 compared to \$70,317 for 2015, an increase of 80% (\$55,944). The increase is primarily due to additional loan financing received by the Company.

### **Depreciation**

Amortization expense for the nine-month period ended July 31, 2016 was \$2,301 compared to \$3,096 for the nine-month period ended July 31, 2015. There were no additions to property, equipment and software in the period.

### **Working capital**

At July 31, 2016, the Company had cash of \$6,480, no long-term debt, and working capital deficiency of \$3,017,773. The Company received loan advances from Officers & Directors of \$346,713 for the nine months ended July 31, 2016 (2015 – \$382,265). The Company has not had any sources of ongoing revenue for many years as it has been developing its eTrieiver and wellTrieiver web applications. The Company'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.

## **Liquidity and Capital Resources**

During the three-month period ended July 31, 2016, the Company's cash position decreased \$3,014 compared to an increase of \$921 in the prior year. This was due to an increase in use of cash in operating activities of \$116,014 (2015 - \$84,344) offset by loan advances from Officers & Directors of \$113,000 (2015 - \$85,265).

## **Going Concern**

In recent years, the Company has raised capital in order to fund the development of its web-based oil and gas data retrieval software products, eTrieveer and wellTrieveer.

There is a material uncertainty that raises a significant doubt about the appropriateness of using the going concern assumption because the Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash to settle its existing liabilities and fund its strategic business plan. To date, the Company has had minimal revenue and is now, in the short term, dependent on the raising of sufficient capital to realize its assets and discharge its obligations, including the working capital deficiency of \$3.0 million as at July 31, 2016 (2015 - \$2.3 million). In addition, the Company will continue to license its eTrieveer software and to generate revenue from wellTrieveer, and license wellTrieveer Map-Service. Revenue realized through these additional sources will assist the Company in realizing its assets and discharging its obligations.

The Company received loan proceeds of \$346,713 (2015 - \$382,265) from officers and directors.

At the period end, the Company had cash of \$6,480, no long term debt and a working capital deficiency of \$3,017,773. During the nine months ended July 31, 2016, the Company incurred a net loss of \$551,198 (2015 - \$494,392) and used cash in operations totaling \$349,979 (2015 - \$367,079).

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. There can be no assurance that the steps management is taking will be successful. 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 may be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the balance sheet classifications used.

## **Capital Management**

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth to maximize the return to its shareholders. The capital structure of the Company consists of cash and shareholders' deficit. The Company does not have any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

The Company makes adjustments to its capital structure in light of general economic conditions and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may pay dividends, buy back shares or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions not in the ordinary course of business.

## Summary of Quarterly Results

<b>Fiscal 2016</b>	<b>1-QTR</b>	<b>2-QTR</b>	<b>3-QTR</b>	<b>4-QTR</b>
Revenue				
License fees	\$ 5,667	\$ 6,492	\$ 5,167	N/A
	5,667	6,492	5,167	N/A
Expenses				
General and administrative	63,193	63,996	51,748	N/A
Development and related costs	75,503	43,714	63,608	N/A
Marketing & sales	17,250	32,500	13,700	N/A
	155,946	140,210	129,056	N/A
Operating loss	(150,279)	(133,718)	(123,889)	N/A
Financing costs	45,142	27,097	43,050	N/A
Net loss & comprehensive loss	\$ 105,137	\$ 106,621	\$ 80,839	N/A
Net loss per share, basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	N/A
Outstanding shares	112,926,137	112,926,137	112,926,137	N/A
Total assets	\$ 25,487	\$ 28,095	\$ 25,755	N/A

## Financial Instruments and Financial Risk Management

### Classification of financial instruments:

	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Trade payables and accrued liabilities	Other financial liabilities	Amortized cost
Loan payables	Other financial liabilities	Amortized cost

#### i) Determination of fair values

The following table analyzes recurring assets and liabilities measured at fair value in the statement of financial position. The different levels are defined as follows:

- Level 1 - determined by reference to quoted process in active markets for identical financial assets and liabilities;
- Level 2 – inputs to the valuations, other than quoted prices, are observable for the financial assets and liabilities, whether directly or indirectly; and
- Level 3 – inputs to the valuations are based on inputs that are not observable for the financial assets and liabilities.

<b>Recurring measurements</b>	<b>July 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Financial assets				
Cash and cash equivalents		\$ 6,480	\$ –	\$ –

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

a) 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 rates.

The Company maintains its short-term deposits in instruments that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations.

The loans payable bear interest at a fixed rate of 12% and are due upon demand, thus the cash flows are not subject to interest rate risk.

b) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. Given that the Company does not have significant internally generated cash flow, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company on a timely basis. Refer to note 3 to the Financial Statements for details regarding the going concern assumption.

At July 31, 2016, the Company has cash balances of \$6,480 and a working capital deficiency of \$3,017,773. The Company has financial liabilities of \$3,033,986 classified as current liabilities.

### **Loans Payable and Related Party Transactions**

As at July 31, 2016, the Company had \$1,449,439 (2015 - \$956,466) of loans payable to certain officers, directors, former directors, and shareholders. These loans bear interest at 12% per year, are unsecured and due on demand. Total interest accrued and payable as at July 31, 2016 was \$367,240 (2015 - \$222,928) and is included in trade payable and accrued liabilities. During the nine months ended July 31, 2016 additional advances on these loans of \$346,713 (2015 - \$382,265) were made to the Company.

The fair value of these loans and transactions approximated their carrying values due to the short term nature of these items.

### **Outstanding Share Data**

As of July 31, 2016, LTI had 112,926,137 common shares.

**“Signed”**

H. Ronald Sterne

Chief Executive Officer

Labrador Technologies Inc.

**“Signed”**

Jeffrey Howe

Interim Chief Financial Officer

Labrador Technologies Inc.