

Financial Statements of

**Labrador Technologies Inc.**

Years ended October 31, 2016 and 2015



KPMG LLP  
205 5th Avenue SW  
Suite 3100  
Calgary AB  
T2P 4B9  
Telephone (403) 691-8000  
Fax (403) 691-8008  
www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Labrador Technologies Inc.

We have audited the accompanying financial statements of Labrador Technologies Inc., which comprise the statements of financial position as at October 31, 2016 and October 31, 2015, the statements of operations and comprehensive loss, changes in deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Labrador Technologies Inc. as at October 31, 2016 and October 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 3 to the financial statements which indicates that Labrador Technologies Inc. had a working capital deficiency of \$3,093,299 and a shareholders' deficit of \$3,084,754 as at October 31, 2016, and used cash in operations of \$429,191 and incurred a net loss of \$627,721 for the year then ended. These conditions, along with other matters as set forth in Note 3 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on Labrador Technologies Inc.'s ability to continue as a going concern.

*KPMG LLP*

Chartered Professional Accountants

February 21, 2017

Calgary, Canada

## Statement of financial position

| As At  | October 31,<br>2016 | October 31,<br>2015 |
|--|---------------------|---------------------|
| <b>ASSETS</b>                                      |                     |                     |
| Current Assets                                     |                     |                     |
| Cash   | \$ 8,268            | \$ 9,746            |
| Accounts Receivable                                | 9,207               | 16,603              |
| Prepaid Expenses                                   | 223                 | 4,262               |
|  | <b>17,698</b>       | <b>30,611</b>       |
| Property, Equipment, and Software (note 6)         | 8,545               | 11,843              |
| <b>Total Assets</b>                                | <b>\$ 26,243</b>    | <b>\$ 42,454</b>    |
| <b>Liabilities and Shareholders' Deficit</b>       |                     |                     |
| Current Liabilities                                |                     |                     |
| Trade Payables and Accrued Liabilities (note 7)    | \$ 1,572,850        | \$ 1,379,594        |
| Loans Payable (note 8)                             | 1,530,439           | 1,102,726           |
| Deferred Revenue (note 9)                          | 7,708               | 17,167              |
| <b>Total Liabilities</b>                           | <b>3,110,997</b>    | <b>2,499,487</b>    |
| Shareholders' Equity (Deficit)                     |                     |                     |
| Common Shares (note 10)                            | 10,374,250          | 10,374,250          |
| Contributed Surplus                                | 1,603,632           | 1,603,632           |
| Deficit  | (15,062,636)        | (14,434,915)        |
|  | <b>(3,084,754)</b>  | <b>(2,457,033)</b>  |
| <b>Total Liabilities and Shareholders' Deficit</b> | <b>\$ 26,243</b>    | <b>\$ 42,454</b>    |

Going concern (note 2 (c) and note 3)

See accompanying notes to financial statements

Approved by the Board

**“ Signed ”**

H. Ronald Sterne  
Director

**“ Signed ”**

Jeffrey A. Howe  
Director

## Statement of operations and comprehensive loss

| Years Ended                              | October 31,<br>2016 | October 31,<br>2015 |
|--|---------------------|---------------------|
| <b>Revenue</b>                           |                     |                     |
| License Fees (note 11)                   | \$ 23,659           | \$ 27,893           |
| <b>Expenses</b>                          |                     |                     |
| General & Administrative                 | 186,677             | 276,238             |
| Development & Related                    | 235,167             | 249,479             |
| Marketing & Sales                        | 62,850              | 81,375              |
|  | <b>484,694</b>      | <b>607,092</b>      |
| Operating Loss                           | <b>(461,035)</b>    | (579,199)           |
| Finance Costs (note 13)                  | <b>(171,876)</b>    | (91,279)            |
| Other Income (note 14)                   | <b>5,190</b>        | 1,564               |
| <b>Net Loss &amp; Comprehensive Loss</b> | <b>\$ (627,721)</b> | <b>\$ (668,914)</b> |
| <b>Loss per share</b>                    |                     |                     |
| Basic & diluted (note 10(e))             | <b>\$ (0.01)</b>    | <b>\$ (0.01)</b>    |

See accompanying notes to the financial statements

## Statement of changes in deficit

|                                    |    | Capital           | Contributed<br>Surplus | Deficit                | Total                 |
|------------------------------------|----|-------------------|------------------------|------------------------|-----------------------|
| <b>Balance at October 31, 2014</b> | \$ | <b>10,374,250</b> | \$ <b>1,603,632</b>    | \$ <b>(13,766,001)</b> | \$ <b>(1,788,119)</b> |
| Net loss and comprehensive<br>loss |    | -                 | -                      | (668,914)              | (668,914)             |
| <b>Balance at October 31, 2015</b> | \$ | <b>10,374,250</b> | \$ <b>1,603,632</b>    | \$ <b>(14,434,915)</b> | \$ <b>(2,457,033)</b> |
| Net loss and comprehensive<br>loss |    | -                 | -                      | (627,721)              | (627,721)             |
| <b>Balance at October 31, 2016</b> | \$ | <b>10,374,250</b> | \$ <b>1,603,632</b>    | \$ <b>(15,062,636)</b> | \$ <b>(3,084,754)</b> |

See accompanying notes to financial statements

## Statement of cash flows

| Years Ended                                      | Years ended         |                     |
|--|---------------------|---------------------|
|  | October 31,<br>2016 | October 31,<br>2015 |
| <b>Cash flows used in operating activities</b>   |                     |                     |
| Net Loss   | \$ (627,721)        | \$ (668,914)        |
| Adjustments for:                                 |                     |                     |
| Depreciation                                     | 3,298               | 3,201               |
| Finance costs                                    | 171,876             | 91,279              |
|  | <b>(452,547)</b>    | <b>(574,434)</b>    |
| Changes in non-cash working capital              |                     |                     |
| Accounts Receivable                              | 7,396               | (9,943)             |
| Prepaid Expenses                                 | 4,039               | (4,262)             |
| Accounts Payable and Accrued<br>Liabilities      | 24,160              | 77,379              |
| Deferred Revenue                                 | (9,459)             | 1,043               |
| Cash used in operating activities                | <b>(426,411)</b>    | <b>(510,218)</b>    |
| Interest paid                                    | <b>(2,780)</b>      | <b>(2,576)</b>      |
| <b>Net cash used in operating activities</b>     | <b>(429,191)</b>    | <b>(512,794)</b>    |
| <b>Cash flows from financing activities</b>      |                     |                     |
| Proceeds from loan advances                      | 427,713             | 528,525             |
| <b>Net cash provided by financing activities</b> | <b>427,713</b>      | <b>528,525</b>      |
| <b>Cash flows used in investment activities</b>  |                     |                     |
| Property and equipment                           | -                   | (6,710)             |
| <b>Net cash used in investment activities</b>    | <b>-</b>            | <b>(6,710)</b>      |
| Decrease in cash                                 | <b>(1,478)</b>      | 9,021               |
| Cash, beginning of year                          | 9,746               | 725                 |
| <b>Cash, end of year</b>                         | <b>\$ 8,268</b>     | <b>\$ 9,746</b>     |

See accompanying notes to financial statements

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, page 1

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

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## 1. Reporting entity:

Labrador Technologies Inc. (“LTI” or the “Company”) is a company domiciled in Alberta, Canada and is incorporated pursuant to the Business Corporations Act (Alberta), with its common shares listed on the TSX Venture Exchange under the symbol “LTX”. The address of LTI’s registered office is 350 - 229 11th Avenue S.E., Calgary, Alberta, Canada T2G 0Y1. The Company is engaged in the research and development and marketing of data retrieval technology for customers.

## 2. Basis of preparation:

### a) *Statement of compliance:*

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements as at and for the year ended October 31, 2016 were authorized for issuance by the Board of Directors on February 21, 2017.

### b) *Basis of measurement:*

The financial statements have been prepared on the historical cost basis.

### c) *Use of estimates and judgments:*

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses for the period. Estimates and underlying assumptions are based on historical experience and other assumptions that are considered reasonable in the circumstances and are reviewed on an ongoing basis. Actual results may differ from such estimates and it is possible that the differences could be material. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.



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(expressed in Canadian dollars)

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i) Key judgments in applying accounting policies:

The key judgments made in applying accounting policies, apart from those involving estimations (note 2(c)(ii) below), that have the most significant effect on the amounts recognized in these financial statements are as follows:

*Going Concern* – as discussed in note 3, the Company's cash is not sufficient to fund the Company's current and future contractual commitments, and is not sufficient to fund all planned business operations over the next year. In order to fund all current and future contractual commitments and planned business operations over the next year, the Company will have to raise additional capital. If the Company is not able to raise additional capital, the Company would have to reduce its cash requirements by eliminating or deferring spending on research, development and corporate activities. These conditions result in a degree of uncertainty which casts significant doubt on the Company's ability to continue as a going concern. Management has assessed the Company's ability to raise additional capital and continue as a going concern, and has concluded that the going concern basis of accounting is appropriate.

ii) Estimation uncertainty:

The following are the key sources of estimation uncertainty and key assumptions concerning the future, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year:

*Deferred income taxes* - assumptions and estimates are made regarding the amount and timing of realization and/or settlement of the temporary differences between the accounting carrying value of the Company's assets versus the tax basis of those assets, and the tax rates at which the differences will be recovered or settled in the future.

*Unrealized gain on revision of royalty estimate* – estimation of liability due to a former officer is based on forecast revenue for the Company's wellTrieve product (note 14). The obligation is calculated using probability weighted estimates of future revenues and discounted using a rate representative of the business risks associated with the wellTrieve product. The liability is adjusted annually for changes in estimates. Inputs utilized for estimation of the liability require significant judgments regarding future market conditions and risks associated with the continued development and marketability of the wellTrieve product.

d) *Functional and presentation currency:*

The financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency.

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Notes to Financial Statements, page 3

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

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### 3. Going concern:

These financial statements have been prepared in accordance with IFRS applicable to a going concern which contemplates that the Company 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.

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, eTriever and wellTriever. The Company has raised in excess of \$5.6 million during the period August 1, 2005 through October 31, 2016.

There is a material uncertainty that may cast 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 minimal revenue and is now, in the short term, dependent on raising sufficient capital to fund its obligations, including the working capital deficiency of \$3.1 million as at October 31, 2016 (2015 - \$2.5 million). In addition, the Company will continue to pursue opportunities to license its eTriever software and to generate revenue from the Company's new product, wellTriever. Revenue realized through these additional sources is expected to assist the Company in realizing its assets and discharging its obligations.

At the period end, the Company had cash of \$8,268, a working capital deficiency of \$3,093,299 and \$3,084,754 of shareholders' deficit. During the year ended October 31, 2016, the Company incurred a net loss of \$627,721 (2015 - \$668,914) and used cash in operations totaling \$429,191 (2015 – used \$512,794).

Management believes the going concern assumption is still appropriate for these financial statements but is dependent upon the successful raising of sufficient capital in the future as required, achieving and sustaining profitable operations, as well as the continued support from related parties and trade and other creditors. 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 would be necessary to the carrying value of assets and liabilities, reported revenues and expenses and the classifications used in the statement of financial position.

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Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

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## 4. Significant accounting policies:

- e) *Revenue recognition* - The timing of the transfer of risks and rewards varies depending on the individual terms of the sales contract. Revenue from the sale of eTrier licenses as well as revenue attributable to undelivered elements, including maintenance and other post-customer support services, is recognized ratably over the contract period, which generally has ranged from four months to twelve months. 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 reasonably assured. Revenue from consulting services is recognized when the services are performed and when earned. The revenue from the wellTrier product is on the "pay as you go basis". Clients' credit cards are charged a fee per each report purchased. Revenue from these transactions is recognized when the credit card is successfully charged.
- f) *Cash and cash equivalents* - cash and cash equivalents include cash at bank and on hand and short-term investments with original maturities of three months or less.
- g) *Equipment and software* - equipment and software are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is based on the cost of an asset and is recognized in the statement of operations and comprehensive income (loss) using the following annual rates and methods that are expected to depreciate the cost of the property and equipment over their estimated useful lives:

| Asset                       | Basis             | Rate |
|-----------------------------|-------------------|------|
| Computer equipment          | Declining balance | 30%  |
| Furniture and equipment     | Declining balance | 20%  |
| Purchased computer software | Declining balance | 50%  |

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the statement of comprehensive income (loss).

The estimated useful lives and depreciation methods are reviewed at each fiscal year-end and adjusted if appropriate.

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, page 5

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

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- h) *Stock based compensation* - the Company has a stock-based compensation plan that is described in note 10(d). The fair value of stock options is determined using the Black-Scholes valuation model as of the grant date and is expensed over the vesting period, with a corresponding increase in equity, based on the Company's estimate of the number of options that will actually vest. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest and recognizes the impact of any revision in the statement of comprehensive income (loss). When stock options are exercised, the Company records consideration received, together with amounts previously recognized in contributed surplus, as an increase in share capital.
- i) *Loss per share* - basic loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options and warrants.
- j) *Impairment:*
- i) *Financial assets* - a financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

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Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

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- ii) *Non-financial assets* - the carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated, and any impairment loss required is recognized in the statement of operations and comprehensive income (loss). An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.
- k) *Foreign currency translation* - transactions in foreign currencies are translated to Canadian dollars, the functional currency of the Company, at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the reporting date while non-monetary assets and liabilities that are measured in terms of cost are translated using the exchange rates at the dates of the transactions.

Revenues and expenses are translated at the rate of exchange in effect on the transaction dates. Realized and unrealized foreign exchange gains and losses are included in the statement of operations and comprehensive income (loss) in the period in which they occur.

- l) *Finance costs* - Finance costs comprise interest expense on borrowings, and impairment losses on financial assets. Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.
- m) *Income tax* - Income taxes comprise current and deferred tax.

Current tax is the expected tax payable or receivable based on taxable profit for the period calculated using tax rates that have been enacted or substantively enacted at the reporting date, and includes any adjustments to tax payable in respect of previous years. Taxable profit differs from profit as reported in the statement of operations and comprehensive income (loss) because of items that are taxable or deductible in other years and items that are never taxable and deductible.

Deferred taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes to the extent that it is probable that future taxable profits will be available against which the losses can be utilized. Deferred tax assets and liabilities are measured using the substantively enacted tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. Any change to the net deferred tax assets and liabilities is included in profit or loss in the period it occurs. Deferred tax assets and liabilities are offset only when a legally enforceable right of offset exists and the deferred tax assets and liabilities arise in the same tax jurisdiction and relate to the same taxable entity.

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Notes to Financial Statements, page 7

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

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- n) *Leases* - the Company leases its office premises on a month to month basis under contracts classified as operating leases since they do not transfer the risks and rewards of ownership to the Company. Payments made under operating leases are recognized in the statement of operations and comprehensive income (loss) on a straight-line basis over the term of the lease.
- o) *Financial instruments*
- i) *Non-derivative financial assets* - the Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company classifies non-derivative financial assets into the following categories:

*Financial assets at fair value through profit or loss ("FVTPL"):*

A financial asset is classified in this category when it is either held for trading or designated as such upon initial recognition.

FVTPL are measured initially and subsequently at fair value, and changes therein are recognized in the statement of operations and comprehensive income (loss). Transaction costs are recognized in the statement of operations and comprehensive income (loss) as incurred. The Company's only financial asset belonging to this category is cash.

*Loans and receivables:*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's trade and other receivables are classified as loans and receivables. Trade receivables are recognized initially at fair value plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method less any provision for impairment. The Company's trade and other receivables are classified as current assets. The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

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Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

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*ii) Non-derivative financial liabilities*

Financial liabilities at amortized cost include trade payables, accrued liabilities and loans payable. Such liabilities are initially recognized at fair value on the trade date at which the Company becomes a party to the contractual provisions of the instrument, represented by the amount required to be paid plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within a year; otherwise, they are classified as non-current liabilities. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

*iii) Share Capital*

Common Shares are classified as equity. Incremental costs directly attributable to the issue of Common Shares are recognized as a deduction from equity, net of any tax effects.

*p) Research and Development Costs:*

All costs of product research and development are expensed to profit or loss as incurred as the impact of both technological changes and competition require the Company to continually enhance its products on an annual basis.

## **5. Recent accounting pronouncements:**

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at November 1, 2016 and could have an impact on future periods.

*a) IFRS 9 Financial Instruments ("IFRS 9")*

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, page 9

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

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certain exemptions. The Company is in the process of assessing the impact of this standard on its financial statements

b) *IFRS 15 Revenue from Contracts with Customers ("IFRS 15")*

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgment thresholds have been introduced, which may affect the amount and/or time of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on November 1, 2018. The Company is not able at this time to estimate reasonably the impact that IFRS 15 will have on the financial statements.

c) *IFRS 16 Leases ("IFRS 16")*

On January 13, 2016, the IASB issued IFRS 16. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, Leases ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company is in the process of assessing the impact of this standard on its financial statements.

d) *Amendments to IAS 7 - Disclosure initiative:*

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on November 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.



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Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

e) *Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses:*

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on October 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

**6. Property, Equipment, and Software:**

| <b>Cost</b>                      | <b>Computer<br/>Equipment</b> | <b>Furniture<br/>and Office<br/>Equipment</b> | <b>Purchased<br/>Computer<br/>Software</b> | <b>Total</b>   |
|----------------------------------|-------------------------------|---|--|----------------|
| Balance at November 1, 2014      | \$ 502,978                    | \$ 191,510                                    | \$ 307,689                                 | \$ 1,002,177   |
| Additions                        | 6,710                         | -   | -  | 6,710          |
| Balance at October 31, 2015      | 509,688                       | 191,510                                       | 307,689                                    | 1,008,887      |
| Additions                        | -                             | -   | -  | -              |
| Balance at October 1, 2016       | \$ 509,688                    | \$ 191,510                                    | \$ 307,689                                 | \$ 1,008,887   |
| <b>Accumulated depreciation</b>  |                               |   |  |                |
| Balance at November 1, 2014      | \$ (498,198)                  | \$ (188,121)                                  | \$ (307,524)                               | \$ (993,843)   |
| Depreciation charge for the year | (2,440)                       | (678)   | (83)                                       | (3,201)        |
| Balance at October 31, 2015      | (500,638)                     | (188,799)                                     | (307,607)                                  | (997,044)      |
| Depreciation charge for the year | (2,715)                       | (542)   | (42)                                       | (3,298)        |
| Balance at October 1, 2016       | \$ (503,353)                  | \$ (189,341)                                  | \$ (307,649)                               | \$ (1,000,342) |
| <b>Carrying amount</b>           |                               |   |  |                |
| At October 31, 2015              | \$ 9,050                      | \$ 2,711                                      | \$ 82                                      | \$ 11,843      |
| At October 31, 2016              | \$ 6,335                      | \$ 2,169                                      | \$ 40                                      | \$ 8,545       |

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, page 11

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

## 7. Trade Payables and Accrued Liabilities:

| As at   | October 31,<br>2016 | October 31,<br>2015 |
|---|---------------------|---------------------|
| Trade Payables                                      | \$ 363,328          | \$ 436,964          |
| Employee salaries, commissions and benefits payable | 772,582             | 676,582             |
| Accrued interest                                    | 412,234             | 243,138             |
| Other accrued liabilities and other payables        | 24,706              | 23,180              |
|   | <b>\$ 1,572,850</b> | <b>\$ 1,379,594</b> |

Included in trade payables is \$63,691 (2015 - \$56,647) owing to an Officer and Directors.

All trade payables and accrued liabilities are currently due, and expected to be settled as funding allows.

## 8. Loans Payable and Related Party Transactions:

### a) *Related Party Transactions:*

As at October 31, 2016, the Company had \$1,530,439 (2015 - \$1,102,726) 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 October 31, 2016 was \$412,234 (2015 - \$243,138). During the year ended October 31, 2016 additional advances on these loans of \$427,713 (2015 - \$528,525) were made to the Company. Total interest expense of \$169,096 (2015 - \$89,182) on these loans was recognized.

### b) *Key Management Personnel Compensation*

The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. These individuals control approximately 16% (2015 - 27%) of the outstanding shares of the Company as at October 31, 2016.

In addition to their salaries and director fees, as applicable, directors and executive officers, along with certain employees of the Company, also participate in the Company's stock option plan (note 10(d)). Compensation expenses incurred with respect to key management personnel were as follows:

|                    | 2016      | 2015       |
|--------------------|-----------|------------|
| Salaries           | \$ 96,000 | \$ 160,000 |
| Total Compensation | \$ 96,000 | \$ 160,000 |

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, page 12

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

## 9. Deferred Revenue:

License fees received from the Company's eTriever product are recognized ratably over the term of the license fee. The deferred revenue balance as at October 31, 2016 represents eTriever license fees received but not yet recognized.

## 10. Share Capital:

### a) Authorized:

Unlimited preferred shares, series A and B, none of which were issued at October 31, 2016, and unlimited common shares.

### b) Common shares issued:

| Common Shares              | Year ended October 31, 2016 |               | Year ended October 31, 2015 |               |
|----------------------------|-----------------------------|---------------|-----------------------------|---------------|
|                            | Number of Shares            | Amount        | Number of Shares            | Amount        |
| Balance, beginning of year | 112,926,137                 | \$ 10,374,250 | 112,926,137                 | \$ 10,374,250 |
| Balance, end of period     | 112,926,137                 | \$ 10,374,250 | 112,926,137                 | \$ 10,374,250 |

### d) Stock option plan:

The Company has a stock option plan for its directors, officers, consultants and employees. Option vesting periods range from 1/2 upon grant and 1/2 after 6 months, to 1/3 immediately, 1/3 after 12 months, and 1/3 after 24 months. Options expire 3 years from date of grant. No options were issued in 2016 and 2015. All options expired in 2014.

### e) Per share amounts:

The weighted average number of common shares outstanding during the year ended October 31, 2016 was 112,926,137 (2015 – 112,926,137).

There was no dilutive effect of options and warrants for the years ended October 31, 2016 and 2015.

## 11. Revenue:

| Years ended October 31, | 2016      | 2015      |
|-------------------------|-----------|-----------|
| License Fee revenue     | \$ 23,659 | \$ 27,893 |

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, page 13

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

## 12. Personnel Expenses:

| <u>Years ended October 31,</u>                         | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Salaries, commissions and short-term employee benefits | \$ 96,000   | \$ 160,000  |

## 13. Finance Costs:

| <u>Years ended October 31,</u> | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------|-------------|
| Interest and fees              | \$ 171,876  | \$ 91,279   |

## 14. Other Income:

On October 31, 2013 the Company settled the employee liabilities owing to a former Officer and Director. The settlement agreement extinguished the employee liabilities and replaced it with a four-year royalty payment arrangement on the future revenue of wellTrieve revenue. During the year ended October 31, 2016, management revised their input estimates (as discussed in note 2(c)(ii)) underlying the royalty obligation which resulted in a gain of \$ 5,190 in 2016 and \$1,564 in the prior year.

## 15. Income and Other Taxes:

- a) The provision for income and other taxes reported differs from the amount computed by applying the combined Canadian Federal and Provincial statutory rate to the loss before income and other taxes. The reasons for this difference and the related tax effects are as follows:

| <u>Years ended October 31,</u>               | <u>2016</u>  | <u>2015</u>  |
|--|--------------|--------------|
| Loss before taxes                            | \$ (627,721) | \$ (668,914) |
| Combined statutory tax rate                  | 27%          | 26%          |
| Expected income tax                          | \$ (169,485) | \$ (173,918) |
| Non-deductible costs                         | -            | (126)        |
| Non-taxable other income                     | (1,401)      | (422)        |
| Change in unrecognized temporary differences | (168,084)    | (174,466)    |
|  | \$ -         | \$ -         |

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, page 14

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

- b) Deferred tax assets have not been recognized in respect of the following tax losses and temporary differences because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

|   | 2016         | 2015         |
|---|--------------|--------------|
| Non-Capital Tax Losses  | \$ 8,692,582 | \$ 8,919,556 |
| Property & Equipment  | 25,234       | 50,128       |
| Trade Payables and Accrued Liabilities (re: Wages payable)    | 772,582      | 324,582      |
| Trade Payables and Accrued Liabilities (re: Interest payable) | 62,718       | 38,886       |
| Share Issue Costs   | 103,698      | 103,698      |

The tax losses expire between 2027 and 2036.

## 16. 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.

## 17. Financial Instruments and Financial Risk Management:

- i) Classification of financial instruments:

|  | Classification              | Measurement    |
|--|-----------------------------|----------------|
| Cash                                   | 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 |

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, page 15

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

## ii) 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 prices in active markets for identical financial assets and liabilities.

- The fair value of loans payable approximates their carrying value as they are payable on demand.
- The fair value of trade payables and accrued liabilities approximates their carrying value due to their short term to maturity.

Level 2 - Inputs to the valuations, other than quoted prices, are observable for the financial assets and liabilities, either directly or indirectly.

Level 3 - Inputs to the valuations are based on inputs that are not observable for the financial assets and obligations.

| <b>Recurring Measurements</b>             | <b>October 31,<br/>2016</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|---|-----------------------------|----------------|----------------|----------------|
| Financial Assets                          |                             |                |                |                |
| Cash                                      | \$                          | 8,268          | \$ -           | \$ -           |
| Financial Liabilities                     |                             |                |                |                |
| Accounts payables and accrued liabilities | \$                          | 1,572,850      | \$ -           | \$ -           |
| Loans payable                             | \$                          | 1,530,439      | \$ -           | \$ -           |

## Overview

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.

# LABRADOR TECHNOLOGIES INC.

Notes to Financial Statements, page 16

Years ended October 31, 2016 and 2015  
(expressed in Canadian dollars)

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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 continues to use cash in operations, 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 for details regarding the going concern assumption.

At October 31, 2016, the Company has cash balances of \$8,268, and a working capital deficiency of \$3,093,299. The Company has financial liabilities of \$3,110,997 classified as current liabilities.

**18. Commitments:**

The Company leases its office premises under operating leases. Such leases run on a month to month basis. During the year the Company recognized \$66,500 (2015 - \$66,500) as an expense in profit and loss in respect of operating leases.

## **Corporate Information**

For further information on Labrador Technologies Inc., please visit our website at [www.labradortechnologies.com](http://www.labradortechnologies.com).

### **Head Office**

Labrador Technologies Inc.  
350 - 229 11<sup>th</sup> Avenue S.E.  
Calgary, Alberta, Canada T2G 0Y1

### **Board of Directors**

H. Ronald Sterne\*, Calgary, Alberta  
George A. Wilson\*, Q.C., Toronto, Ontario  
Jeffrey A. Howe\*, Toronto, Ontario

\*- members of the Audit Committee

### **Executives and Officers**

H. Ronald Sterne, Chief Executive Officer  
Jeffrey Howe, Interim Chief Financial Officer

### **Auditors**

KMPG LLP  
Chartered Accountants  
3100 - 205 5<sup>th</sup> Avenue S.W.  
Calgary, Alberta, Canada T2P 4B9

### **Transfer Agent**

Computershare Trust Company of Canada  
Sixth Floor  
530 8<sup>th</sup> Avenue S.W.  
Calgary, Alberta, Canada T2P 3S8

### **Solicitors**

Burstall Winger LLP  
Barristers & Solicitors  
Suite 1600 DomeTower  
333 7<sup>th</sup> Avenue S.W.  
Calgary, Alberta, Canada T2P 2Z1

### **Stock Exchange**

The TSX Venture Exchange  
Trading Symbol: LTX