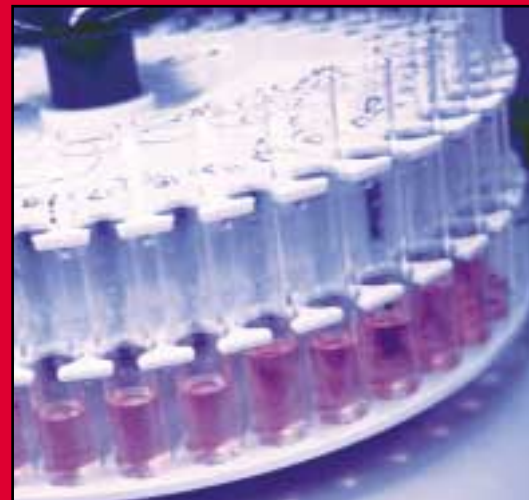




LAB Research

2007 **ANNUAL REPORT**

TO MEET BUILDING SUPPLY DEMAND





BUILDING TO MEET DEMAND

The market for Contract Research Organizations has seen several years of double-digit growth. The non-clinical segment, on which LAB Research is focused, has grown the most, with estimated revenues of \$3 billion in 2007. This market is expected to keep growing at an annual rate of 15% to 17%.

LAB Research **is a non-clinical contract research organization (CRO) that provides contract research services to the pharmaceutical, biotechnology, agro-chemical and industrial markets. LAB Research supports the development of its clients' products from three state-of-the-art facilities located in Canada, Denmark and Hungary. The shares of the Company trade on the TSX under the symbol LRI.**

Non-Clinical CRO Main Key Growth Drivers

Key Drivers	Trends
Pharmaceutical R&D spending	
Pharmaceutical CapEx spending	
Pharmaceutical outsourcing R&D spending	
Biotech venture capital funding	
Biotech R&D outsourcing spending	
Compounds in pre-clinical development	

SUPPLY

CROs require outstanding facilities, capabilities and personnel to be competitive. LAB Research has been very successful at building all three year after year. As a result, the Company is now a global player, serving nine of the top ten pharmaceutical companies in the world.

LAB Research operates state-of-the-art facilities located in Canada, Denmark and Hungary, respectively, and serves hundreds of active clients from five continents. All three facilities expanded over the past 15 months, leading to a total surface area of 344,000 ft². LAB Research Canada is undergoing another expansion, which will increase the Company's total surface area to 427,000 ft² by the end of 2008.

FACILITIES



The Company offers all preclinical services surrounding drug development, IND applications, and moving further into clinical trials.

CAPABILITIES



LAB Research employs more than 500 employees. Close to 450 of them are scientific professionals and technicians, of whom one-quarter hold Ph.D., M.Sc. or veterinary degrees. The Company continuously attracts and retains high-calibre scientific personnel, a key element to successful studies and growth.

PERSONNEL



MESSAGE FROM THE PRESIDENT

07

- Expansion of Hungarian and Danish facilities
- Buy-back and financing of Canadian facilities
- Termination of San Diego activities
- Initiation of additional Canadian site expansion
- Employees: 520
Facilities: 344,000 ft²
Revenues: \$55.1 M

06

- Initial public offering
- Expansion of Canadian facilities
- Employees: 460
Facilities: 286,000 ft²
Revenues: \$49.6 M

05

- Acquisition of Scantox (LAB Denmark)
- Employees: 400
Facilities: 258,000 ft²
Revenues: \$46.2 M

04

- Expansion of our Hungarian inhalation suite
- Employees: 250
Facilities: 186,000 ft²
Revenues: \$24.0 M

03

- Acquisition of Toxicological Research Center (LAB Hungary)
- Employees: 230
Facilities: 186,000 ft²
Revenues: \$15.0 M

02

- Opening of new facility in Laval (Quebec)
- Employees: 110
Facilities: 79,000 ft²
Revenues: \$10.6 M

Dear Shareholders, Clients and Employees of LAB Research Inc.,

I am honoured to share the Company's recent achievements, to comment on our current industry environment, and to inform you of the initiatives that we have put forward to optimize the Company's prosperity. In 2007, LAB Research's first full fiscal year as a stand-alone company, we made significant inroads on all fronts as part of an ambitious business plan to significantly strengthen the Company's worldwide presence, revenues and profitability.

Achievements on all fronts

Nine years after it was founded, LAB Research is already among the world's leading non-clinical contract research firms. Its rapid growth is the result of many accomplishments over the years, including those achieved during its 2007 fiscal year:

• EXPANDED FACILITIES

The completion of the expansion increased the surface area of our Danish facilities from 72,000 ft² to 93,000 ft² in July 2007. In October 2007, our Hungarian facilities expanded to 164,000 ft² from 107,000 ft². These major expansions, completed on time and on budget, follow the expansion of our Canadian facilities, which went from 59,000 ft² to 87,000 ft² in December 2006. The Company now ranks in the 8th place among the global providers of non-clinical services in the world, with a total surface area of 344 000 ft². In addition, our Canadian facilities began a second expansion phase during the last quarter of 2007 so that by the end of fiscal 2008, the Company's worldwide facilities will occupy a total surface area of 427,000 ft².

• EXCELLENT USE OF OUR CANADIAN AND DANISH FACILITIES

The surface area of LAB Canada and LAB Denmark's facilities increased by 47% in December 2006 and 29% in July 2007 respectively, while the combined net earnings of these two facilities increased by 50% in 2007.

• BUY-BACK AND FINANCING OF THE CANADIAN BUILDING

Thanks to the buy-back and financing of our Canadian building, which was ratified in April 2007, we took back full control of our Canadian facilities.

• INTERNALIZATION OF IT

We cancelled an IT service contract and took over the complete management of these strategic activities.

• **VIVARIUM CLOSURE IN THE UNITED STATES**

We ceased our vivarium management activities in the United States, a decision that meshed with our strategy to leverage the quality of our scientific know-how.

• **EXPANDED SERVICE OFFERING**

Our many expansions enabled us to introduce various new services that complement our core activities. These services will allow us to better meet the needs of our regional clients and to improve our profit margins.

• **STRONGER MANAGEMENT TEAM**

A number of high-calibre people joined our team during this fiscal year, and we are now very privileged to be able to rely on solid managers and scientists at each of our three sites.

• **MORE UNIFORM BRAND IMAGE**

Our three facilities now enjoy a coherent brand image, and we also improved and developed various communication tools to promote our global platform: a dynamic and informative Website, a quarterly newsletter, monthly scientific articles for our clients, etc.

• **NEW INFORMATION MANAGEMENT APPLICATION**

We are proud of the inroads we have made through the implementation of *Provantis*, an information management application that facilitates business processes linked to non-clinical studies. This cutting edge system enables users to integrate study-related data and to produce reports more efficiently. The Company-wide launch is expected in the first half of 2008.

• **SOLID FINANCIAL RESULTS**

Our revenues amounted to \$55.1 million in 2007, up 16% compared to 2006. LAB Research Hungary's lower than expected performance resulted in a 10% decrease in the Company's adjusted EBITDA (Earnings Before Interest, Taxes and Depreciation), which went from \$10.4 million in 2006 to \$9.4 million in 2007. Our net earnings followed the same course, amounting to \$2.2 million in 2007, compared to \$4.7 million in 2006. However, the combined adjusted EBITDA of LAB Research Canada and LAB Research Denmark increased by 43%, going from \$8.4 million to \$12.0 million in 2007. Also, the combined net earnings of both sites increased by 50%, going from \$3.3 million to \$5.0 million in 2007.

Expanded Service Offering to Better Meet the Growing Industry Demand

The demand for our services is strong and growing. Due to major barriers to entry (scientific and technical expertise, significant financial resources and solid credibility) and stringent industry regulations, only well-established non-clinical CROs such as LAB Research can meet this demand.

To optimize our market growth, we must periodically increase the capacity of our facilities, expand our service offering, and attract, train and retain the best employees. These three elements are critical to our prosperity.

Disciplined growth is beneficial in many respects. Indeed, increasing our business volume will primarily enable us to:

- Optimize the use of our material and human resources;
- Free up resources to conduct the most profitable studies;
- Internalize certain functions which were formerly outsourced; and
- Offer a more comprehensive service offering at each of our facilities.

Achieving a critical mass will undeniably help us improve our profit margins. It will also increase our efficiency, thereby reducing our break-even point and our business risks.



Striving to be the First Choice Service Provider

By continuing to strive for excellence in research, we aim to become the first choice service provider in the development of drugs and other regulated products. All the necessary ingredients are being put in place to help our scientific professionals leverage their know-how so that we can best meet the needs of our clientele. In 2008, we will:

- Complete the expansion of our Canadian facilities, which will increase from 87,000 ft² to 170,000 ft² in the fall of 2008. To finance this \$40 million project, we signed a \$21.1 million financing agreement with the National Bank of Canada (closing subject to customary conditions);
- Prepare for the expansion of our Danish facilities with the goal of increasing its surface area by 80,000 ft² in the next coming years;
- Offer more services at each of our facilities, including inhalation and drug degradation services in Canada, and immunology services in Denmark; and
- Launch new global initiatives aimed at promoting continuous enhancement of quality standards and methods.

Clear Improvement in our Profitability

The strong demand for contractual non-clinical research services and the initiatives that we have put forward over the recent fiscal years are paving the way for a sustained increase in our sales and profitability.

Firstly, we are working hard to improve LAB Research Hungary's profitability, an element that is critical to the Company's financial success.

We are also striving to optimize the new capacities of our European facilities. On this basis alone, we believe we will increase our revenues by more than 15% in 2008. Indeed, we had \$26.9 million in backlog at the end of 2007, up 45% compared to the same date in 2006.

Given the anticipated increase in our revenues and associated scale benefits, we expect a marked improvement in our EBITDA margin.

And finally, we remain on the lookout for acquisition opportunities with a view to increasing the scope of our services, our capacity and geographical coverage more rapidly.

Acknowledgments

Excellence in research is the sole objective of our 520 employees. I want to underscore the outstanding work performed by these dedicated men and women who are helping us build a world-class company. I would also like to take this opportunity to thank our clients for the trust they have placed in us. And last but not least, I want to acknowledge the support of our seasoned administrators.

Thank you for your ongoing support and interest in LAB Research.

Luc Mainville
President and Chief Executive Officer

OUR SERVICES ARE IN GREAT DEMAND

Drug testing is divided into two segments: non-clinical (tested on non-human models) and clinical (tested on humans). The non-clinical segment involves a wide range of services, including pharmacology (drug action), toxicology (drug safety) and pharmacokinetics (drug movement through the body) studies. Preclinical CRO services are in great demand. Some positive trends below:

Key Non-Clinical CROs Growth Drivers	Trends	Reasons
Pharmaceutical R&D spending		Pharmaceutical R&D spending, the primary driver for CROs, continues to increase, reflecting the focus on pipeline rejuvenation.
Pharmaceutical CapEx spending		Driven by consolidations and closures, there has been a decline in pharmaceutical renovation and expansion projects involving R&D facilities in recent years.
Pharmaceutical outsourcing R&D spending		With the soaring cost of bringing new drugs to market, pharma companies are making further use of on-demand CRO expertise and infrastructures.
Biotech venture capital funding		Over the past few years, there has been robust capital funding from VC and pharma companies for the biotech industry, a trend that should continue.
Biotech R&D outsourcing spending		Biotech R&D spending, which is almost always outsourced to CROs, has grown at a rate of close to 20% in recent years, but showed signs of slowing down in 2007.
Compounds in pre-clinical development		Following a softening in 2006, the number of preclinical compounds undergoing testing showed a 25% increase from November 2006 to November 2007.

LAB RESEARCH CANADA

Founded in: 1998
Employees: 210
Studies per year: 300

Services

Facility

2008 ↑



- Inhalation
- Bio-analysis
- ADME
- Reproductive toxicology

83,000 ft² expansion in 2008, bringing the total to 170,000 ft², including 80 rooms, 12 of which can accommodate inhalation testing

2007

- Analytical chemistry
- New immunology services
- Carcinogenicity
- Graft models



2006

- Toxicology
- Pharmacokinetics and toxicokinetics
- Immunology
- Safety pharmacology
- Efficacy

28,000 ft² expansion, bringing the total to 87,000 ft²

Site Accreditations

- AAALAC accredited
- CCAC accredited
- FDA inspected
- Inspected and licensed by German GLP regulators



Personnel



Denis Haché

B.Sc.

DIRECTOR, ANALYTICAL SERVICES

Denis brings more than 22 years of analytical and bioanalytical experience from the pharmaceutical industry to LAB Research. Over the course of his career, he has worked for various pre-clinical and clinical contract research organizations where he was primarily involved in setting up and managing laboratories for rapid growth.

“Joining LAB Research in 2007 was an excellent opportunity for me to build an Analytical Chemistry Laboratory that could deliver high-quality work. Since the laboratory is up and running, I am now focused on strengthening our team of analysts, developing procedures that comply with Good Laboratory Practices (GLP), and coordinating method development, method validation and test formulation analysis.”



Andrew Graham

B.Sc. in Microbiology

SENIOR DIRECTOR OF QUALITY ASSURANCE

Andrew has acquired 24 years of expertise working for CRO and pharmaceutical companies, 18 years of which have been in Quality Assurance (QA). Andrew has led various QA groups that have supported GLP research for submission to regulatory authorities throughout North America, Europe and Japan. He has extensive experience in hosting sponsor and government audits.

“LAB Research faces new and exciting challenges down the road as a result of expansion and the offering of new services to an increasingly large sponsor base. I joined in April 2007 to support LAB Research in building a QA team to navigate the regulatory and quality challenges. I intend to participate in the improvement of the procedures and processes at all LAB Research sites while promoting consistency and efficiency in regulated research monitoring.”



Debra Farrell

B.Sc.

PRINCIPAL SCIENTIST

After 20 years as Study Director for a large CRO organization, Debbie came to LAB Research with an extensive background in many areas of toxicology, including carcinogenicity studies, general toxicology, and infusion and bone/osteoporosis research. Her experience in handling full development programs for pharma and biotech companies strengthens LAB Research's strong group of Study Directors.

“LAB Research takes pride in its employees and offers many new and exciting challenges, which is what prompted me to join the Company in July 2007. As Principal Scientist, I am responsible for a variety of studies and train the scientific staff. My goal is to help our clients develop their programs and assist them with a wide range of studies so they can fulfill their regulatory requirements. I really appreciate being a resource point both within LAB and for our clients.”

LAB RESEARCH DENMARK

Founded in: 1978
Employees: 190
Studies per year: 200

Services

Facility

2008 ↑

- Immunology
- New services in safety pharmacology



77,000 ft²
future expansion
bringing the total
to 170,000 ft²

2007



21,000 ft² expansion,
bringing the total to 93,000 ft²
Rooms: 54

2006

- Toxicology studies
- Cyto and genotoxicity
- Medical device testing
- Immunology
- Minipig studies
- Pathology services
- Carcinogenicity toxicology
- Reproductive toxicology
- Safety pharmacology
- Pharmacokinetics
- Analytical chemistry

72,000 ft²

Site Accreditations

- GLP certified (Danish Medicines Agency and DANAK)
- GMP certified
- ISO 17025 certified



Personnel



Peter Bornaes

M.Sc. Strategy and Management
DIRECTOR OF HUMAN RESOURCES

Before joining LAB Research in September 2007, Peter spent 12 years working in the human resources field for some of the most successful companies in Denmark. He worked for several firms, including GlaxoSmithKline, where he developed and implemented a HR strategy for the Danish sales company and contributed to the design of its European HR strategy.

“LAB Research is going through an exciting period of growth which will bring many HR challenges. I joined the Company to strengthen its HR department and to make sure these challenges are met professionally. I really enjoy working in the pharmaceutical industry and see my role within the Company as an exciting opportunity to work with highly committed people and to participate in the development of new and more effective drugs.”



Henrik Soeborg

DVM
PATHOLOGIST TRAINEE

Henrik graduated with a veterinary degree from the Royal Veterinary and Agricultural University in Copenhagen, Denmark. He has mainly practised on large animals, an experience that has enabled him to acquire pathology experience.

“I joined LAB Research in January 2007 to use and further strengthen my experience in research and pathology, an interest that I developed during my final thesis on temperature regulation in prematurely born neonatal pigs as a model for prematurely born children. At LAB, my varied responsibilities include overseeing autopsies in regulatory studies, reading slides, and interpreting histopathological findings. I also advise Study Directors on the relevance of pathological findings and produce photomicrographs for clients.”



Nanna Grand

DVM
STUDY SUPERVISOR

Before joining LAB Research in October 2007, Nanna worked at Ellegaard Göttingen Minipigs A/S for five years as Chief Veterinarian. She then provided scientific advice on the use of the Göttingen Minipig in biomedical research, with a primary focus on toxicology. She has also participated in several conferences and helped to develop surgical courses focusing on Göttingen Minipigs.

“I joined LAB Research because it is the largest non-clinical CRO in Scandinavia and the leading user of minipigs in the world. My position enables me to use the knowledge and practical skills I acquired with Göttingen Minipigs and to expand my expertise with other species. As Study Supervisor, I help the Study Directors conduct regulatory and other types of studies. I intend to train in ophthalmoscopy and in electrocardiography, and apply my surgical skills to various studies.”

HUNGARY LAB RESEARCH

Founded in: 1974
 Employees: 120
 Studies per year: 1,000

Services

Facility

2008 ↑



- Expanded inhalation
- On-site pathology



2007

- REACH Ready
- Expanded large animal housing

57,000 ft² expansion,
 bringing the total to 164,000 ft²
 Rooms: 62

2006

- Toxicology
- Carcinogenicity
- Inhalation
- Reproductive toxicology
- Genetic toxicology
- Analytical chemistry
- Ecotoxicology
- Physical chemistry
- Bioanalysis

107,000 ft²

Site Accreditations

- AAALAC accredited
- GLP certified
- ISO 9001:2000



Personnel



Christopher Martin Banks

B.Sc.

MANAGING DIRECTOR

Chris's career in contract research has spanned three decades. He worked with LSR for 12 years prior to spending 19 years in Canada with Charles River Laboratories (CRL). Just before joining LAB Research in January 2008, he was responsible for the oversight and coordination of drug development programs for CRL Canada clients. He is also a Diplomat for the American Board of Toxicology.

"I joined the Company to help realize the full potential of LAB Research Hungary and its people. Being actively involved in the growth of this facility is extremely motivating. I ensure my team has sufficient training, equipment and support to meet clients and corporate goals as well as compliance with regulatory requirements. I am presently focusing our efforts on attracting a broader base of biotech and pharma clients in order to improve revenues and profitability."



Alyson Leyshon

B.Sc., M.Sc. Applied Toxicology

DIRECTOR OF TOXICOLOGY OPERATIONS

Alyson has a background in Toxicology, Biochemistry and Genetics. She brings 18 years of experience to the table, including several years in the academic world and experience in contract research in the UK and Canada. Alyson started her CRO career at Covance in the UK, worked as Director of Scientific Operations with Charles River Laboratories Canada, and most recently worked as a consultant for a Canadian-based CRO.

"I joined LAB Hungary in January 2008. As part of the Senior Management Committee identifying and developing a long-term strategy for growth, I am excited to be involved in shaping the future of this newly expanded site. As Director of Toxicology, I support the development of our scientific and technical staff, and aim to constantly improve working practices and procedures, with a focus on enhancing the quality of the work performed."



István Pásztor

VETERINARY OFFICER

István is a young, energetic veterinarian with over seven years of experience caring for animals. He started his career at the Agricultural Administration Office, Food Chain Security and Animal Health Directorate in Veszprém, where he spent more than six years. He also worked at the Kittenberger Zoo in Veszprém for two years as a general veterinarian and has been running his own private veterinary practice since 2001.

"I joined LAB Hungary in February 2008 to maintain and enhance the animal care procedures at the facility and to ensure the ethical use of animals in all non-clinical experiments. I enjoy working with animals so much that I consider this a hobby rather than a job."

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") describes LAB Research Inc.'s ("LAB Research" or the "Company"), operations, performance and financial condition as at and for the three-month periods and years ended December 31, 2007 and 2006. For a complete understanding of our business environment, trends, risks and uncertainties and the effect of our accounting estimates on the results of our operations and financial condition, this MD&A should be read in conjunction with the audited consolidated and combined carve-out financial statements and related notes of the Company. It is important to note that unless otherwise indicated, the forward-looking statements expressed in this MD&A describe our expectations as of March 6, 2008. All the information contained in this MD&A and audited consolidated and combined carve-out financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The audited consolidated and combined carve-out financial statements and this MD&A were reviewed by our Audit Committee and were approved by our Board of Directors.

Additional information about LAB Research is available on our website at www.labresearch.com and on the SEDAR web site at www.sedar.com.

This document includes forward-looking statements, which are qualified in reference to, and which should be read together with the "Forward-looking statements cautionary" on page 27 of this MD&A.

Overview

LAB Research provides non-clinical contract research services to clients in the pharmaceutical, biotechnology, agro-chemical, petro-chemical and industrial markets. LAB Research supports the development of its clients' products from its three state-of-the-art-facilities located in Canada, Denmark and Hungary.

Up until its Initial Public Offering ("IPO") completed on August 3, 2006, LAB Research operated as a separate operating segment within its former parent company, LAB International Inc., now called "Akela Pharma Inc." ("Akela"). This segment included the assets and liabilities of LAB Pre-Clinical Research International Inc. pertaining to the non-clinical Canadian contract research business of the group ("LAB Research Canada" or "LAB Canada"), and the direct and indirect wholly-owned subsidiaries of Akela involved in the non-clinical contract business, LAB Research A/S, ("LAB Research Denmark" or "LAB Denmark"), LAB Research Ltd. ("LAB Research Hungary" or "LAB Hungary"), and LAB Research International, Inc. ("LAB Research US" or "LAB US"). Subsequent to the IPO, the Company operated these same businesses as a stand-alone entity. Refer to note 2 of our audited consolidated and combined carve-out financial statements as at December 31, 2007 for the basis of presentation of our financial information.

The following summarizes the Company's performance from continuing operations for the referenced periods:

For the fourth quarter of 2007:

- Our revenues amounted to \$13.2 million, up 3.1% compared to the same period of 2006;
- Our adjusted EBITDA amounted to \$0.4 million, compared to \$3.2 million in 2006;
- Our net loss amounted to \$1.7 million, compared to net earnings of \$1.9 million in 2006;
- Net loss per share was \$0.09, compared to a net income of \$0.11 per share in 2006. The net loss is attributable to lower than anticipated revenues, a reserve for doubtful accounts receivable from a major LAB Hungary customer of \$0.03 per share, as well as a loss of \$0.02 per share resulting from a decrease in future Canadian federal tax rates which negatively impacted our future tax assets; and
- Our book to bill ratio (as defined below) for the quarter was 1.31.

For the year ended December 31, 2007:

- Our revenues amounted to \$55.1 million, up 15.5% compared to 2006;
- Our adjusted EBITDA amounted to \$9.4 million, down 9.8% compared to \$10.4 million in 2006;
- Our net earnings amounted to \$2.2 million, down 53.7% compared to \$4.7 million in 2006;
- Net diluted earnings per share amounted to \$0.12, compared to \$0.30 in 2006 due to a weaker performance of the Hungarian site and the charges recorded in the fourth quarter noted above. The net combined earnings generated by LAB Canada and LAB Denmark increased by 50.0%. We expect that the recent expansion in Hungary and the hiring of new senior management will have a significant impact on the site's ability to sustain growth in revenues and drive the expected profitability;
- Our backlog rose to \$26.9 million up 45.4% compared to \$18.5 million as at December 31, 2006; and
- Our book to bill ratio for the year was 1.15.

On January 24, 2008, the Company's announced preliminary results for its fourth quarter and year end 2007. The loss per share for the fourth quarter was estimated to be between \$0.06 and \$0.08. The actual loss of \$0.09 includes a loss per share of \$0.02 resulting from a decrease in future Canadian federal tax rates, which was not projected at the time of disclosure. The actual revenues of \$55.1 million compares to estimated revenues of \$55.9 million. The negative variance of \$0.8 million was due to a reclassification of a grant to direct costs to properly classify the amount against the related expenditures. The reclassification had no effect on earnings.

We have recently become involved in various litigation matters and we refer you to the "Litigation" section further in this document.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LAB Research has three reportable operating segments: LAB Canada, LAB Denmark and LAB Hungary. LAB US was previously part of the LAB North America segment. As a result of the closure of LAB US, the current and prior period segment disclosures are stated to exclude these operations. With the exception of LAB Research Corporate, all these segments provide non-clinical contract research services. The Corporate segment is responsible for the Company's financial and corporate direction and also includes general expenses which cannot be directly attributable to a specific segment.

In 2006, the Company proceeded, in Canada, with a series of organizational changes to its scientific and business development staff to prepare for its next phase of growth. In 2007, following those changes, LAB Canada increased its revenues by 54.2% compared to 2006 and has now begun a new phase of expansion to add capacity by year-end 2008. Similarly, in 2007, following the completion of our Hungarian expansion, we made a series of organizational changes to the senior management and the scientific team to better serve the needs of the lucrative pharmaceutical and biotechnology markets in addition to the agro-chemical and industrial markets which constitute most of our active clientele. Consequently, we feel very confident about our ability to strengthen our operating results in Hungary and prepare for another period of strong growth similar to our historical revenue growth. The Canadian turnaround in 2007 demonstrates the soundness of our Hungarian plan and amplifies the necessity to have our respective sites adapt early to phases of strong growth.

Highlights

During 2007, LAB Research completed a series of initiatives to increase its sites' capacities and fuel its organic growth.

- On April 17, 2007, the Company announced that it had entered into an agreement to purchase the property it occupies in Laval, Canada (the "Buy-back"). The property was subject to a sale-leaseback transaction in 2005 when the Company operated as a subsidiary of Akela. The purchase price for the property was \$23.0 million. Of this amount, \$10.5 million was deducted from the purchase price for amounts owing to LAB Research by the landlord, consisting mainly of construction costs funded by LAB Research for the expansion of the property completed in December 2006. The balance of the purchase price was covered by a mortgage loan from a Canadian bank of \$17.0 million. Other credit facilities totalling \$10.0 million have also been made available to LAB Research as part of this transaction.
- On July 18, 2007, we announced that the expansion at our Danish site had been completed on time and on budget. This expansion has increased the site's large animal housing capacity by more than 50%, leveraged LAB Research's world leading expertise in the conduct of mini-pig toxicology studies and generated an overall site capacity increase of 25%.
- On August 28, 2007, we announced a new expansion project for our Canadian site, which was initiated during the fourth quarter of 2007. Following completion, anticipated in late 2008, this expansion will increase the site's animal housing capacity from 36 to 80 rooms including 12 multi-purpose rooms to be used for inhalation toxicology. Our total space will increase from 87,000 to 170,000 square feet for an initial cost of \$24.0 million including equipment. We plan to invest an additional \$16.0 million over the following two years for additional equipment aimed at maximizing the site's revenue capacity. We also announced on January 31, 2008 that we had entered into an agreement with respect to a \$21.1 million financing from a Canadian bank to support this expansion subject to customary conditions. Once fully equipped, the new expansion site should provide a three-fold increase in our revenue generating capacity.
- On October 2, 2007, we announced the completion of our 59,000 square feet Hungarian facility expansion bringing the total capacity of the site to 164,000 square feet and adding 30 rooms capable of housing 480 large animals. The new facility was designed to meet and exceed new European animal welfare standards, which came into play during the course of 2007.

On April 30, 2007, the Company ceased its vivarium management activities in San Diego in the United States by terminating its existing lease. Some of the capital assets were sold to a local third party for their net book value of less than \$0.1 million. All other remaining assets have been transferred to the Canadian facility and will reduce the fixed asset requirements over the coming periods. This decision is consistent with the Company's strategy to focus on its core non-clinical activities by leveraging the quality of its research expertise.

On July 18, 2007, we also announced that our former parent company, LAB International Inc., had changed its name to Akela Pharma Inc. As a result, LAB Research secured the exclusive rights to its name and trademark as agreed in 2006, as part of the IPO.

On August 31, 2007, LAB Research Canada terminated the Information Technology Services Agreement ("IT Agreement") it had entered into upon closing of the IPO with a company affiliated with certain directors and shareholders of Akela, and took full control of its information technology activities by creating its own internal group. An early termination fee of \$0.2 million was paid to the service provider.

On October 31, 2007, we announced that Mr. Christopher Banks and Mrs. Alyson Leyshon, former senior managers of one of the world's largest non-clinical contract research organization ("CRO"), had been hired as Managing Director and Director of Toxicology, respectively, for our Hungarian site. Mr. Banks and Mrs. Leyshon bring a combined 50 years of toxicology experience to LAB Research. Both have spent most of their careers with global pre-clinical CROs and will add significant value to our Hungarian site management as we expand the site's service offering to better serve the biotech and pharmaceutical market.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of the Results by Business Segment

Summarized financial information from continuing activities by business segment for the three-month periods ended December 31, 2007 and 2006 and the years ended December 31, 2007, 2006 and 2005 is presented below.

(in thousands of dollars, except per share data)	2007					2006					Variation 2007-2006	
	LAB Canada	LAB Denmark	LAB Hungary	Corporate	TOTAL	LAB Canada	LAB Denmark	LAB Hungary	Corporate	TOTAL	\$	%
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Revenues	5,614	6,412	1,217	—	13,243	3,642	5,902	3,299	—	12,843	400	3.1%
Direct costs	3,449	4,316	1,559	—	9,324	2,196	3,617	1,546	—	7,359	1,965	26.7%
Selling, general and administrative	1,058	834	1,026	327	3,245	1,070	1,064	362	522	3,018	(227)	(7.5)%
Stock-based compensation	19	9	14	104	146	12	21	11	11	55	(91)	(165.5)%
Amortization	352	556	162	3	1,073	182	173	174	—	529	(544)	(102.8)%
Interest, net	325	124	37	(69)	417	40	61	29	(62)	68	(349)	(513.2)%
Foreign exchange	(215)	50	339	—	174	(170)	66	(330)	—	(434)	(608)	(140.1)%
Income taxes	766	123	(187)	(136)	566	226	203	110	(233)	306	(260)	(85.0)%
Net earnings (loss)	(140)	400	(1,733)	(229)	(1,702)	86	697	1,397	(238)	1,942	(3,644)	(187.6)%
EBITDA	1,303	1,203	(1,721)	(362)	423	534	1,134	1,710	(471)	2,907	(2,484)	(85.4)%
Adjusted EBITDA	1,303	1,203	(1,721)	(362)	423	795	1,134	1,710	(471)	3,168	(2,745)	(86.6)%
EPS											0.11	
Diluted EPS											0.11	

(in thousands of dollars, except per share data)	2007					2006					2005					Variation 2007-2006		Variation 2006-2005	
	LAB Canada	LAB Denmark	LAB Hungary	Corporate	TOTAL	LAB Canada	LAB Denmark	LAB Hungary	Corporate	TOTAL	LAB Canada	LAB Denmark	LAB Hungary	Corporate	TOTAL	\$	%	\$	%
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	\$	%
Revenues	22,831	24,789	7,488	—	55,108	14,805	23,159	9,742	—	47,706	17,010	19,826	7,790	—	44,626	7,402	15.5%	3,080	6.9%
Direct costs	13,763	16,270	5,342	—	35,375	9,061	14,570	4,655	—	28,286	9,477	13,221	4,508	—	27,206	(7,089)	(25.1)%	(1,080)	(4.0)%
Selling, general and administrative	2,943	2,914	2,233	1,927	10,017	3,415	3,625	1,822	1,473	10,335	2,566	3,639	1,674	1,239	9,118	318	3.1%	(1,217)	(13.3)%
Stock-based compensation	65	73	49	335	522	50	40	17	109	216	91	10	22	—	123	(306)	(141.7)%	(93)	(75.6)%
Amortization	1,433	1,835	665	12	3,945	752	1,372	626	—	2,750	783	1,839	534	—	3,156	(1,195)	(43.5)%	406	12.9%
Interest, net	937	372	110	(217)	1,202	196	243	123	(140)	422	325	345	134	—	804	(780)	(184.8)%	382	47.5%
Foreign exchange	(185)	100	433	—	348	(185)	20	(230)	—	(395)	(51)	—	(73)	—	(124)	(743)	188.1%	271	(218.5)%
Income taxes	1,456	686	(126)	(504)	1,512	631	864	341	(471)	1,365	1,219	173	217	(396)	1,213	(147)	(10.8)%	(152)	(12.5)%
Net earnings (loss)	2,419	2,539	(1,218)	(1,553)	2,187	885	2,425	2,388	(971)	4,727	2,600	599	774	(843)	3,130	(2,540)	(53.7)%	1,597	51.0%
EBITDA	6,245	5,432	(569)	(2,045)	9,063	2,464	4,904	3,478	(1,442)	9,404	4,927	2,956	1,659	(1,239)	8,303	(341)	(3.6)%	1,101	13.3%
Adjusted EBITDA	6,608	5,432	(569)	(2,045)	9,426	3,508	4,904	3,478	(1,442)	10,448	5,101	2,956	1,659	(1,239)	8,477	(1,022)	(9.8)%	1,971	23.3%
EPS																0.12			
Diluted EPS																0.12			
Total assets																92,644			
Total long-term financial liabilities																35,749			

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non GAAP Measures – Earnings before Interest, Income Taxes, Depreciation and Amortization (EBITDA), Adjusted EBITDA, and Gross Margin

We use certain non-GAAP measures, including Book to Bill, Backlog, EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, and Gross Margin, as financial performance indicators. The Company believes such measures provide meaningful information on its performance and operating results. However, readers are cautioned that non-GAAP measures do not have a standardized meaning under GAAP and are thus unlikely to be comparable to similar measures presented by other issuers.

(A) EBITDA

The following table reconciles our net earnings to our EBITDA and our Adjusted EBITDA from continuing activities by reporting periods.

	Three months ended December 31		Twelve months ended December 31	
	2007	2006	2007	2006
(in thousands of dollars)	\$	\$	\$	\$
Net earnings (loss) from continuing activities	(1,702)	1,942	2,187	4,727
Adjustments for:				
Income taxes	566	306	1,512	1,365
Interest on long-term debt	486	130	1,419	562
Amortization	1,073	529	3,945	2,750
EBITDA	423	2,907	9,063	9,404
Rent expense ¹	—	261	363	1,044
Adjusted EBITDA	423	3,168	9,426	10,448
Adjusted EBITDA margin %	3.2%	24.7%	17.1%	21.9%

¹ Lease expense on the Canadian facility, as a result of the sale-leaseback transaction from November 1, 2005 to April 16, 2007 (see below).

While operating as a segment of our former parent company, Akela, we entered into a sale-leaseback transaction on the Canadian facility, which took effect on November 1, 2005. On April 17, 2007, following the IPO, and in accordance with our strategic growth plan, we reacquired the property. Accordingly, prior to November 1, 2005 and after April 16, 2007, "amortization" includes amortization of the related building and "interest, net" includes interest expense on the long-term debt secured by the building. Between November 2005 and April 2007, while the sale-leaseback transaction was in effect, amortization and interest expense related to the building was replaced by "rent expense" in our statements of earnings.

(B) GROSS MARGIN

Gross margin refers to revenues less direct costs. Direct costs do not include depreciation expense of assets used in our direct operations.

The following table presents our gross margins from continuing activities by reporting periods.

	Three months ended December 31		Twelve months ended December 31	
	2007	2006	2007	2006
(in thousands of dollars)	\$	\$	\$	\$
Revenues	13,243	12,843	55,108	47,706
Direct costs	9,324	7,359	35,375	28,286
Gross margin	3,919	5,484	19,733	19,420
Gross margin %	29.6%	42.7%	35.8%	40.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Continuing Activities - Periods ended December 31, 2007 compared to the periods ended December 31, 2006

LAB Research posted revenues of \$13.2 million for the fourth quarter of 2007, up 3.1% compared to the \$12.8 million generated during the same period of 2006, but down 6.3% compared to the \$14.1 million achieved in the third quarter of 2007. For the year ended December 31, 2007, LAB Research posted revenues of \$55.1 million, compared to \$47.7 million for the same period of 2006, representing an increase of 15.5%. While LAB Canada and LAB Denmark's combined revenues, for the fourth quarter and the full year of 2007, increased by 26.0% and 25.4%, respectively, the performance of the Hungarian site was much weaker in 2007 than in 2006, with revenues declining by 63.1% during the fourth quarter of 2007 compared to the same period in 2006 and by 17.3% for the year 2007 compared to the year 2006.

LAB Research Canada posted revenues of \$5.6 million for the fourth quarter of 2007, up 54.1% compared to the \$3.6 million generated during the same period of 2006, but down 17.4% compared to \$6.8 million achieved during the third quarter of 2007. The decrease in revenues between the fourth and the third quarter of 2007 was mainly due to lower occupancy during the month of December due to a series of postponements. For the year ended December 31, 2007, LAB Research Canada posted revenues of \$22.8 million, up 54.2% compared to the \$14.8 million achieved in the same period in 2006. This revenue increase is attributable to optimizing the use of our site's capacity following the December 2006 expansion as well as improving our study mix following the 2006 reorganization of our business development and scientific staff. The expansion added approximately 28,000 square feet of capacity to our site, which has been used at close to full capacity since June 2007. Last August, we announced a new expansion project for our Canadian site which started during the fourth quarter of 2007. Following completion of the work, anticipated for the end of 2008, this expansion will increase the site's animal housing capacity from 36 to 80 rooms, including 12 multi-purpose rooms to be used for inhalation toxicology. Our total space will increase from 87,000 to 170,000 square feet for an initial cost of \$24.0 million including equipment. We plan to invest an additional \$16.0 million over the next two years for additional equipment aimed at maximizing the site's revenue capacity. Once completed and fully equipped, the new expansion site should provide a three-fold increase in our revenue generating capacity.

LAB Research Denmark posted revenues of \$6.4 million for the fourth quarter of 2007, up 8.6% compared to the \$5.9 million achieved during the same period of 2006, and up 8.3% compared to the \$5.9 million generated in the third quarter of 2007. The revenue increase is attributable to completing LAB Research Denmark 21,000 square foot facility expansion project in July 2007. The Danish Kroner depreciated by 3.2% relative to the Canadian dollar from the fourth quarter of 2006 compared to 2007 and by 1.1% between the third and the fourth quarters of 2007, thus negatively impacting our quarterly results. However, for the year ended December 31, 2007, LAB Research Denmark posted revenues of \$24.8 million compared to \$23.2 million for 2006, representing an increase of 7.0%, of which 4.6% relates to the appreciation of the Danish Kroner relative to the Canadian dollar.

LAB Research Hungary posted revenues of \$1.2 million for the fourth quarter of 2007, down 63.1% compared to the \$3.3 million generated in the same period of 2006, and 14.4% less than the \$1.4 million posted in the third quarter of 2007. Revenues for the year 2007 stood at \$7.5 million, compared to \$9.7 million for the same period of 2006, representing a decrease of 23.1%. Even though our revenues decreased in 2007, LAB Hungary performed 1,100 studies during the year, compared to 830 in 2006. The negative variance between 2007 and 2006 and the fourth quarters of the same years was mainly due to a change in revenue mix, which included \$2.9 million of revenues from high value inhalation studies in 2006 compared to \$0.6 million in 2007, representing a decrease of \$2.3 million. While the Hungarian forint depreciated by 2.6% relative to the Canadian dollar between the third and fourth quarters of 2007, and by 4.9% from the fourth quarter of 2006 compared to 2007, it appreciated by 7.7% between 2006 and 2007, thus offsetting partly the decrease in revenues. The majority of the revenues generated by LAB Hungary are denominated in Euros while their functional currency is the Hungarian Forint. Between the fourth quarter of 2006 and 2007, the Hungarian Forint depreciated by 1.8% relative to the Euro, while it appreciated by 4.4% between 2006 and 2007. LAB Research Hungary completed its building expansion project in October 2007, thereby increasing its large animal housing capacity by five fold. The addition of 30 large animal rooms was directly aimed at adapting the site capacity to better serve the more lucrative pharmaceutical and biotechnology markets. We expect that this expansion and the recent hiring of new senior management will have a significant impact on the site's ability to attract a broader base of biotech and pharmaceutical clients to complement its strong agro-chemical and industrial business, and will reduce our having to depend on a single contract and study mix to achieve the financial performance we seek.

Overall our gross margin (as previously defined) was 29.6% for the fourth quarter of 2007, compared to 42.7% generated in the same period of 2006. Since we operate in a highly fixed cost environment, our gross margin is directly impacted by the revenue level. In Denmark, our gross margin declined by 6.0% due to lower revenues, higher animal costs linked to the strong level of study starts during the quarter and higher personnel costs, while gross margin decreased slightly in Canada. Our gross margin also decreased in Hungary by 81.2% due to lower than anticipated revenues. Our year 2007 gross margin was 35.8%, compared to 40.7% for the same period in 2006. Our gross margin improved slightly in Canada comparing the year 2007 to 2006, while LAB Denmark's gross margin declined by 2.7%, as anticipated, due to the hiring and training of new staff to prepare for the additional activities to be generated from the building expansion. It is expected that over the coming quarters the site's gross margin will be back to historical levels. In Hungary, the gross margin decreased by 25.6% mainly due to lower revenues. The Company's strategy to increase the size of each of its sites up to their respective optimal size should provide the Company with significant benefits in the future as we seek to improve operational performance by way of improved scheduling flexibility and internalization of additional services.

Our selling, general and administrative ("SG&A") expenses were \$3.2 million for the fourth quarter of 2007, compared to \$3.0 million incurred during the same period in 2006, representing 24.5% and 23.5% of our revenues, respectively. The increase in SG&A expenses in the fourth quarter of 2007 compared to 2006 was principally due to the \$0.6 million reserve for doubtful accounts from a major client in Hungary. For 2007, our SG&A expenses were \$10.0 million, compared to \$10.3 million for the same period in 2006, representing 18.2% and 21.7% of our revenues, respectively. For 2006, our SG&A expenses included allocated costs (as described further below) of \$0.7 million. The decrease in SG&A expenses between 2007 and 2006 was attributable to lower sales commissions due to our new business development group in Canada, which is now less reliant on third party consultants, and a tighter control over expenses incurred at all our sites offset by a termination fee of \$0.2 million related to the early termination of the IT Agreement in Canada, as well as a reserve for doubtful accounts of \$0.4 million (\$0.6 million expense in the fourth quarter offset by the \$0.2 million recovery earlier in the year).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our EBITDA (as previously defined) for the fourth quarter of 2007 stood at \$0.4 million, compared to \$2.9 million for the same period of 2006. After adjusting for the impact of the Canadian facility's sale-leaseback transaction, our adjusted EBITDA for the fourth quarter of 2007 amounted to \$0.4 million, compared to \$3.2 million for the same period of 2006. Our adjusted EBITDA margins for the fourth quarter of 2007 and 2006 were 3.2% and 24.7%, respectively. Our EBITDA for the year 2007 was \$9.1 million, compared to \$9.4 million for the year 2006, while our adjusted EBITDA, for the same periods, were \$9.4 million, compared to \$10.4 million, representing 17.1% and 21.9% of revenues, respectively. The reconciliation of our net earnings to EBITDA and adjusted EBITDA is shown above. The combined adjusted EBITDA generated by the Canadian and Danish operations, for the fourth quarter and the year 2007, increased by 29.9% and 43.1%, respectively, compared to the same periods of 2006, while the adjusted EBITDA of the Hungarian operations decreased significantly during the fourth quarter and the year 2007, respectively due to a weaker revenue performance. The increase in the adjusted EBITDA margin of the Canadian operation was attributable to the increase in revenues following the completion of the expansion in December 2006 and the impact of reacquiring the building, the latter resulting in converting the "rent expense", included in the EBITDA calculation, before April 17, 2007 into "amortization and interest expenses", excluded from EBITDA calculation after such date, and lower SG&A expenses. This increase in adjusted EBITDA margin for the Danish operations was due to an increase in revenues derived from the expansion completed in July 2007 and tight control over the SG&A. The decrease in adjusted EBITDA margins for the Hungarian operations is attributable to a shortfall in revenue coupled with a reserve for doubtful accounts of \$0.6 million and foreign exchange losses of \$0.4 million.

Our amortization expense for the fourth quarter of 2007 amounted to \$1.1 million, compared to \$0.5 million for the same period of 2006. For the year 2007, such expense amounted to \$3.9 million, compared to \$2.8 million in 2006. This increase was due to additional amortization charges resulting from the April 2007 reacquisition of the Canadian building and the completion of building expansion projects in Denmark and Hungary.

Our net interest expense, for the fourth quarter of 2007, amounted to \$0.4 million, compared to \$0.1 million for the same period of 2006. For 2007, our net interest expense amounted to \$1.2 million, compared to \$0.4 million for the year 2006. This increase was primarily due to the additional debt incurred in connection with reacquiring the Canadian building in April 2007 and the expansions in Denmark and Hungary.

Our foreign exchange, for the fourth quarter of 2007, amounted to a loss of \$0.2 million, compared to a gain of \$0.4 million for the same period of 2006. For 2007, our foreign exchange loss was \$0.3 million, compared to a gain of \$0.4 million for the same period of 2006. This increase in foreign exchange expense occurred mainly in Hungary where most of our revenues are generated in Euros despite the fact that most of our expenses are incurred Hungarian Forints, our functional currency.

Our provision for income taxes in the fourth quarters of 2007 and 2006 stood at \$0.6 million and \$0.3 million, respectively, representing, 49.8% and 13.6% of our earnings before income taxes, respectively, compared to the combined Canadian federal and Quebec provincial income taxes rate of 32.2%. For the year 2007, our provision for income taxes amounted to \$1.5 million, representing 40.9% of our earnings before income taxes, compared to \$1.4 million for 2006, representing 22.4% of our earnings before income taxes, compared to the combined Canadian federal and Quebec provincial income taxes rate of 32.2%. The higher income taxes expense for the fourth quarter and the year 2007 was due to a re-evaluation of the Canadian future tax assets generating an additional provision of \$0.4 million and \$0.3 million, respectively, in relation to lower enacted future federal rates announced in December 2007 that caused a decrease in our future tax assets. Historically our consolidated income tax rate ranged between 20% and 25%. In the future, we expect the consolidated tax rate to range closer to 25% as a result of a greater proportion of our taxable income to be generated in Canada and Denmark, which have higher rates than Hungary.

Our net loss for the fourth quarter of 2007 amounted to \$1.7 million compared to net earnings of \$1.9 million for the same period of 2006. Our net earnings for the year 2007 were \$2.2 million, down 53.7% compared to net earnings of \$4.7 million for 2006. The Canadian and Danish operations generated net combined earnings of \$5.0 million in 2007 compared to \$3.3 million for the year 2006, representing an increase of \$1.6 million or 50.0%. These positive factors were offset by the weaker performance of our Hungarian site coupled with the net reserve for doubtful accounts receivable of \$0.4 million and the termination fee of \$0.2 million due to the early termination of the IT Agreement in Canada, which explain the negative variance of the net loss for 2007. Our loss per share for the fourth quarter of the 2007 amounted to \$0.09 per share on the basis of 18,049,844 weighted average shares outstanding, compared to earnings per share of \$0.11 per share for the same period in 2006 on the basis of 18,035,714 weighted average shares outstanding. For 2007, the earnings per share were \$0.12 per share (\$0.12 on a diluted basis) on the basis of 18,039,413 weighted average shares outstanding, compared to \$0.30 per share (\$0.30 on a diluted basis) on the basis of 15,753,325 weighted average shares outstanding for the same period of 2006.

Discontinued Operations - Periods ended December 31, 2007 compared to the periods ended December 31, 2006

On April 30, 2007, we discontinued the vivarium management activities conducted by LAB US. LAB US's activities were thus classified as discontinued operations and the results were reported as a separate element of income or loss for both current and prior periods, in the consolidated and combined carve-out statements of earnings.

LAB US's closure did not result in a significant gain or loss for the Company. As at December 31, 2007, the remaining net assets related to these operations were not material to the Company's consolidated balance sheet.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following represents financial information pertaining to our discontinued operations:

	Three months ended December 31		Twelve months ended December 31	
	2007	2006	2007	2006
(in thousands of dollars)	\$	\$	\$	\$
Revenues	—	278	391	1,787
Expenses				
Direct costs	(2)	174	295	987
Selling, general and administrative	19	68	163	523
Amortization of property and equipment	(1)	15	20	60
Write-off of property and equipment	—	—	5	—
Foreign exchange	—	9	—	9
Net earnings (loss)	(16)	12	(92)	208

Allocated Costs

Prior to August 3, 2006, the Company operated as a segment of Akela and was not a stand-alone company. Consequently, our historical combined carve-out financial statements include allocations of certain of Akela's expenses. Our allocated costs reflected costs incurred by Akela (the selling shareholder) with respect to LAB Research's revenue-producing activities, representing incremental costs that LAB Research needed to incur to operate independently as a separate public company. These costs included board fees, investors' relations expenses, professional fees, insurance costs and information technology support expenses. However, following the IPO on August 3, 2006, we began to operate independently with our own resources and thus, the allocated costs were no longer recorded.

For 2007, our allocated costs were nil, compared to \$0.7 million for the same period of 2006. The estimated costs we recorded prior to the IPO are not necessarily indicative of the costs that would have been incurred had LAB Research operated independently, nor are they indicative of the costs that it may incur in the future.

Liquidity and Capital Resources

As at December 31, 2007, our net cash position was \$6.8 million, compared to \$4.6 million as at September 30, 2007 and \$8.3 million as at December 31, 2006. Prior to the IPO, cash surpluses generated by LAB Research were used historically, in part, to fund Akela's drug development activities. Since the IPO, all funds generated by our business have been held to invest in our facilities and to pursue the development and expansion of our non-clinical research platform.

For 2007, cash flows generated by our operating activities from continuing operations amounted to \$4.4 million, compared to \$7.3 million for 2006. Lower net earnings and net changes in operating assets and liabilities principally explain the decrease in cash flows from operating activities.

Our cash flows from financing activities for 2007 amounted to \$27.1 million and included the following: issue of long-term debt of \$31.8 million, net of financing fees of \$0.4 million, offset by repayment of long-term debt, capital leases and bank facilities of \$4.7 million. For 2006, our cash flows from financing activities amounted to \$10.6 million and mainly included proceeds from the \$13.2 million common share issue from the IPO, net of share issue costs of \$1.9 million, net advances from companies under common control of \$0.4 million offset by repayment of long-term debt, bank facilities and capital leases of \$3.4 million.

For 2007 and 2006, we used \$33.4 million and \$13.8 million, respectively, of cash flows for investing activities. For 2007, major additions to property and equipment included: the building buy-back in Canada (\$12.7 million), the building expansions of the Danish (\$6.1 million) and Hungarian (\$6.2 million) facilities, \$3.5 million in laboratory equipment including equipment required for the expansion completed in 2006 in Canada (\$1.0 million), and \$1.4 million in computer hardware and software, which was mainly used to implement a new data management system. Due to the recent expansions of our three sites, which were completed in 2006 and 2007, we estimate that annual replacement or upgrades of capital expenditures will represent 3% to 5% of our revenues.

Our working capital ratio as at December 31, 2007 was 1.04:1, compared to 1:07:1 as at September 30, 2007, and 1.59:1 as at December 31, 2006. Our working capital ratio at December 31, 2006 included a note receivable of \$8.2 million from the landlord, which was applied against the purchase price of the Canadian building in the second quarter of 2007. Excluding the note receivable from the landlord, our working capital ratio would have been 1.17:1 as at December 31, 2006.

We typically invoice customers a percentage of the total contract upon signing. Our deferred revenues represent amounts that have been billed and/or collected without yet having been earned through the provision of service to our customers. As at December 31, 2007, our deferred revenues amounted to \$7.9 million, in line with those of September 30, 2007, compared to \$6.2 million as at December 31, 2006. This increase in deferred revenues was due to additional contracts signed but not yet executed (as evidenced by our growing backlog) arising from the expansions of the Canadian and Danish facilities and longer term studies signed in Canada and Denmark. Work in progress pertains to services rendered and only billable later in accordance with contractual terms.

We finance part of our property and equipment purchases with long-term debt. As at December 31, 2007 and December 31, 2006, this long-term debt amounted to \$35.9 million and \$8.8 million, respectively. These amounts represent a ratio of interest-bearing debt net of cash and cash equivalents to the annualized Adjusted EBITDA of 3.09 and 0.82:1, respectively. Excluding the net provision for doubtful accounts of \$0.4 million, the ratio of interest-bearing debt net of cash and cash equivalents to the annualized Adjusted EBITDA would have stood at 2.98. We fund repayments under these debt agreements from our operating cash flows. This increase in long-term debt was mainly due to the financing the building buy-back in Canada and the building expansions in Denmark and Hungary.

MANAGEMENT'S DISCUSSION AND ANALYSIS

While the Canadian dollar is the functional currency of the Company, most of our revenues are denominated in foreign currencies. To protect against the volatility of future foreign currency cash flows, we hedge anticipated third party cash flows derived from sales denominated in US dollars. As at December 31, 2007, we entered into forward hedging contracts to sell US dollars with a nominal amount of \$3.5 million at a weighted average rate of 1.0642 CND\$/US\$. These contracts mature at various dates to June 30, 2008.

Backlog and book to bill ratio

As at December 31, 2007, our backlog (representing the value of client contracts for services that have not yet been performed) rose to \$26.9 million, compared to \$22.8 million as at September 30, 2007 and \$18.5 million as at December 31, 2006, representing increases of 18.0% and 45.4%, respectively. As at December 31, 2007, our backlog represented 5 months of revenue for LAB Research Canada, 6 months for LAB Research Denmark and a little less than 2 months for LAB Research Hungary, which mostly serves the agro-chemical markets, where more short-term studies are conducted. The increase was due to contract signings in Canada and Denmark following the opening of the newly expanded facilities.

The book to bill ratio refers to the value of signed contracts (excluding any cancellations) in a particular period divided by the net revenue reported during the same period. For the fourth quarter of 2007, our book to bill ratio was 1.31 compared to 0.74 for the same period of 2006. For years 2007 and 2006, they were 1.15 and 1.01, respectively.

Contractual obligations

As at December 31, 2007, our future contractual commitments primarily consisted of obligations under term loans secured to acquire property and laboratory equipment, operating leases for facilities and office equipment, and service contracts.

As at December 31, 2007, we were not engaged in any speculative off-balance sheet activities. As indicated above, we have entered into forward contracts to manage our exposure to foreign currency variations. At December 31, 2007, the Company entered into forward contracts to sell US dollars with a nominal amount of \$3.5 million at weighted average of 1.0642 CND\$/US\$. These contracts mature at various dates to June 30, 2008.

The following table sets out our contractual obligations as at December 31, 2007:

	Total	2008	2009	2010	2011	2012	2013+
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$
Long-term debt ¹	35,936	2,111	3,336	1,890	1,945	2,105	24,549
Interest on long-term debt ¹	18,547	2,241	1,982	1,861	1,742	1,622	9,099
Service contracts	895	530	244	96	21	4	—
Lease obligations	491	214	147	68	50	12	—
Total contractual obligations	55,869	5,096	5,709	3,915	3,758	3,743	33,648

¹ Including obligations under capital lease

As at December 31, 2007, the Company was committed to \$16.1 million for construction-related costs related to the new expansion of the Canadian facilities started in December 2007.

Summary of Quarterly Results

This unaudited quarterly information was prepared on the same basis as the annual consolidated and combined carve-out financial statements. The quarterly results are not necessarily indicative of the results to be expected for any future period.

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(in thousands of dollars)	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	13,243	14,138	14,973	13,315	12,842	11,906	11,590	11,368
Net earnings	(1,718)	1,016	1,590	1,207	1,954	1,036	993	952
Earnings (loss) per share								
– basic	(0.09)	0.06	0.09	0.07	0.11	0.06	0.07	0.07
– diluted	(0.09)	0.05	0.09	0.07	0.11	0.06	0.07	0.07

The net loss incurred during the fourth quarter of 2007 was due to weaker performance of the Hungarian site, which generated lower than anticipated revenues and higher expenses including a \$0.6 million of reserve for doubtful account in Hungary, creating a net loss of \$1.7 million for LAB Hungary, and a \$0.4 million tax expense in relation with the decrease of the Canadian federal enacted future tax rates causing a negative re-valuation of our future tax assets.

Other than the first quarter of 2006, our quarterly results were not subject to a review by our auditors.

During the second quarter of 2007, we discontinued LAB US's operations. Revenues for prior quarters were restated to present revenues from continuing operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Related Party Transactions

Related party transactions in 2006 are transactions between the Company and other entities controlled by Akela. Akela ceased to be a related party on November 9, 2006.

As part of the corporate reorganization that took place prior to LAB Research's IPO, LAB Research and Akela entered into a number of agreements that took effect on August 3, 2006. Pursuant to the Preferred Supplier Agreement we entered into upon closing of the IPO, a wholly-owned subsidiary of Akela undertook to use LAB Research's services on an exclusive basis for a period of 60 months, for all pre-clinical research studies and related services in the area of toxicology and toxicokinetics. Under this agreement, the costs of the services provided by LAB Research are calculated on the basis of all direct costs as well as overhead and administration costs (representing 40% of direct costs) plus a variable profit margin based on the volume of services performed during any given year. Services performed on behalf of Akela amounted to \$0.1 million for the fourth quarter of 2006 and \$2.7 million for the year 2006. Akela and its affiliates ceased to be a related party on November 9, 2006.

The parties also entered into a Non-Competition and Non-Solicitation Agreement which stipulates that Akela cannot directly or indirectly carry on, operate, or be involved in a business in Canada, the U.S. or Europe (excluding Russia, Ukraine, Romania and Belarus), which provides pre-clinical contract research services in non-human subjects in the area of toxicology and toxicokinetics, nor solicit or hire LAB Research's employees within 60 months of closing of the IPO.

Upon closing the IPO, LAB Research also entered into an IT Agreement with a company affiliated with certain directors and shareholders of Akela. The IT Agreement set forth that this company would provide information technology services to LAB Research in consideration of a monthly fee of \$0.05 million. In accordance with the terms of the IT Agreement, LAB Research terminated the IT Agreement on August 31, 2007, giving a written notice of 180 days. On August 31, 2007, we reached an agreement with the Information Technology Services provider for the early termination of the contract and started to support the information technology with our own employees. A termination fee of \$0.2 million was paid to the service provider. Professional services were also rendered by firms connected to Akela Board's members. For 2006, these amounted to \$0.2 million.

Upon closing the IPO, LAB Research also entered into a Trade-Mark License Agreement with LAB International which set forth that, LAB Research granted Akela a royalty free, worldwide, non-exclusive license to use LAB Research's trademarks including the LAB name and logo for a period of up to 18 months after the closing of the IPO. On July 18, 2007, LAB International Inc. changed its name to Akela Pharma Inc. (TSX: AKL) and, consequently, LAB Research secured exclusive use to its name and trademark.

In April 2007, the Company disbursed a five-year \$0.3 million loan to the President and CEO, to finance the tax impact of the common shares issued to him following the closing of the IPO. The loan is bearing interest at the cost of borrowing for the Company or interest that the Company would have received on such amount, as the case may be. The interest is paid to the Company on a regular basis and no amount was outstanding at year-end.

Corporate Reorganization

LAB Research Inc. was incorporated on May 24, 2006 as a wholly-owned subsidiary of Akela to acquire Akela's non-clinical contract research services business. The corporate reorganization giving effect to these transactions was completed on July 27, 2006. Refer to our annual and interim consolidated and combined carve-out financial statements for further information on these transactions.

Outstanding share data

At March 6, 2008, the Company had 18,050,714 common shares issued and outstanding and 1,289,000 options outstanding representing 7.1% of all outstanding shares, of which 369,667 or 28.7% were vested. During the fourth quarter 2007, 10,000 options were exercised.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer and its Vice-President Finance are responsible for establishing and maintaining disclosure controls and procedures. Based on an evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Vice-President Finance have concluded that these disclosure controls and procedures were effective as of December 31, 2007. In addition, the Chief Executive Officer and the Vice-President Finance of the Company are responsible for designing internal controls over financial reporting or for causing it to be designed under their supervision. During the last fiscal year, they have had all existing systems documented and have corrected inadequacies, as the case may be. No changes that would have materially affected or would have reasonably likely affected the Company's internal control over financial reporting have occurred since the third quarter of 2007.

Litigation

On December 21, 2007, LAB Research was served with an introductory motion of suit from one of its former suppliers claiming an amount of \$1.4 million for the non-exercise of a right of first refusal. The file is at a very preliminary stage. An examination of the plaintiff's representative is scheduled in March 2008. The Company's management believes that the claim has no merit and, therefore, intends to vigorously defend its position. The ultimate resolution of this matter and the estimated amount of damages, if any, cannot be determined and accordingly, we have not recorded any provision in our financial statements for this matter.

On January 30, 2008, we were informed by one of our sponsors that they had received notice from the Food and Drug Administration ("FDA") that the studies conducted by LAB Research Hungary were deemed invalid due to Good Laboratory Practices ("GLP") deficiencies. The deficiencies mentioned by the FDA in their letter to the sponsor were highlighted and addressed by LAB Research Hungary in its final GLP report of the respective studies to the sponsor. LAB Research Hungary felt, when issuing its reports and is still of the opinion, that these deficiencies should not alter the results of the studies. The sponsor accepted our position and decided to file its Innovative New Drug filing with FDA. On February 20, 2008, LAB Research received a claim from the sponsor seeking recovery of the costs of the studies in the amount of \$4.2 million and reserved the right to claim future damages. Our insurer has been made aware of the sponsor's claim but has not confirmed that the claim is covered by the Company's policy. The ultimate resolution of this matter and the estimated amount of damages, if any, cannot be determined and accordingly, we have not recorded any provision in our financial statements for this matter.

LAB Research is party to other litigation arising in the normal course of operations. LAB Research does not expect the resolution of these other matters to have a materially adverse effect on the Company's financial position or operating results.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Subsequent events

On January 31, 2008, the Company announced that it had entered into an agreement with a Canadian bank to secure a \$21.1 million loan to finance its Canadian expansion. The loan consists of a \$13.7 million mortgage with a 16 year term and a \$7.4 million loan to finance equipment, repayable over 11 years. Under this agreement, no capital repayments are required before March 2009.

Effective February 25, 2008, LAB Hungary renewed its operating credit in the amount of \$0.6 million (0.4 million Euros). The facility will bear interest at the EONIA plus 2% and is due on demand. This facility expires in February 2009.

An employee share purchase plan (the "SPP") was established in February 2008. Under the SPP, the Company will contribute a cash amount equivalent to the price of one common share for each ten shares bought by the employee up to a maximum of 3% of the employee's salary. The common shares will be bought on the stock market, for and on behalf of each employee. The Company assumes the general administrative costs of the SPP and the costs associated to the purchase of the common shares. No shares can be issued from treasury under the SPP.

Critical Accounting Policies

In preparing LAB Research's consolidated and combined carve-out financial statements in conformity with GAAP, management is required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The accounting policies which we consider to be critical are those that require the most difficult, subjective, or complex judgments and that are the most important to aid in fully understanding and evaluating its consolidated and combined carve-out financial statements. These accounting policies are discussed in the following paragraphs.

Revenue for LAB Research consists of services rendered to customers and is recognized as the services are performed by LAB Research. Revenue is recorded by determining the status of work performed per contract in relation to the total services to be provided. Work in progress pertains to services rendered and only billable later in accordance with contractual terms. Our deferred revenues represent amounts that have been billed and/or collected without yet having been earned through the provision of service to our customers.

Revenues that include multiple elements are considered to be revenue arrangements with multiple deliverables. Under these arrangements, the identification of separate units of accounting is required and revenue is allocated among the separate units based on their relative fair values or using the residual method. Revenues for each unit of accounting are then recorded as described above.

Property, equipment and intangible assets are stated at cost and are amortized over their estimated useful lives on a straight-line basis. The Company regularly reviews property, equipment and intangible asset costs for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets exceed the sum of the expected cash flows from their uses and disposal. Management's judgment regarding the existence of impairment indicators is based on legal factors, market conditions and operating performances. Future events could cause management to conclude that impairment indicators exist and that the carrying values of LAB Research's property, equipment or intangible assets costs are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and results of operations.

Stock-based compensation is recorded using the fair value based method for all issued options. Under this method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. The Company uses the Black-Scholes options pricing model to calculate stock option values, which requires certain assumptions, including the future stock price volatility and expected time to exercise. Changes to any of these assumptions, or the use of a different option pricing model, could produce different fair values for stock-based compensation, which could have a material impact on the Company's earnings. The following table sets out our estimated stock-based compensation for the options outstanding at December 31, 2007:

	2007	2008	2009	2010	2011	2012
(in thousands of dollars)	\$	\$	\$	\$	\$	\$
	522	472	411	225	190	15

A total of 1,194,000 options were granted (net of options cancelled) at the date of IPO. Since the IPO, an additional 110,000 options have been granted. Starting 2010, when the options granted at IPO will be all vested, the stock-based compensation will decrease substantially.

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Management provides valuation allowances against the future tax assets for amounts which are not considered "more likely than not" to be realized. In assessing the realizability of tax assets, management considers whether it is more likely than not that some portion or all of the tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As part of the corporate reorganization to acquire the pre-clinical contract research services business from Akela, all the assets and liabilities of LAB Pre-Clinical Research Inc. related to the preclinical research business were transferred by Akela to a new wholly-owned subsidiary (LAB Research Inc.), except for all accumulated tax assets and attributes including, but not limited to, research tax credit receivable and unclaimed eligible research and development expenses. The tax assets and liabilities relating to LAB Research Denmark, LAB Research Hungary and LAB Research US were transferred to LAB Research Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Allocated Costs. The consolidated and combined carve-out financial statements include the direct revenue, costs and expenses that are solely attributable to LAB Research. The combined carve-out financial statements also include an allocation of corporate expenses incurred by Akela that were associated with the revenue producing activities of LAB Research and are therefore indirectly attributable to LAB Research. Such allocated costs include corporate overhead such as administration, accounting, investors' relations and information systems costs. These allocations are reflected in "allocated costs" in the consolidated and combined carve-out statement of earnings.

The costs allocated are not necessarily indicative of the costs that would have been incurred if LAB Research had performed the functions as a stand-alone company, nor are they indicative of the costs that will be incurred in the future. Subsequent to the Corporate Reorganization, LAB Research performed these functions using its own resources or purchased services.

Changes in Accounting Policies

Effective with the commencement of its 2007 fiscal year, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. Sections 3855, 3861 and 3865 provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Handbook Section 1530 also established standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income, but that are excluded from net income calculated in accordance with generally accepted accounting principles. A new financial statement has been presented in relation to Section 1530.

Handbook Section 3251 establishes standards for the presentation of equity and change in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from (i) net earnings; (ii) other comprehensive income; (iii) other changes in retained earnings; (iv) changes in contributed surplus and (v) changes in share capital. A consolidated statement of changes in shareholders' equity is presented in the consolidated financial statements.

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Upon initial recognition, all financial assets and liabilities are recognized at fair value. Subsequent to initial recognition, all financial instruments, including derivatives, are included on the consolidated balance sheet and are measured either at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification.

Held for trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value, unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The Company chose to review all contracts in place, or that were entered into after January 1, 2003, for any embedded derivative needed to be accounted for separately at fair value from the base contract.

As a result of the adoption of these standards, the Company classified its accounts and other receivables as loans and receivables. The Company also classified its long-term investments as available-for-sale and its accounts payable and accrued liabilities, holdback payable and long-term debt as other financial liabilities. On January 1, 2007, the impact of these changes in accounting policies is included as an increase to the opening deficit of \$0.3 million, net of income taxes of \$0.1 million and an increase to "Accumulated other comprehensive loss" of a nominal amount. Deferred financing costs of \$0.04 million as at January 1, 2007 related to long-term debt were reclassified from "deferred financing fees" to the related debt on the consolidated balance sheet. The adoption of these new standards also resulted in a reclassification of an amount of \$0.3 million previously recorded in "Cumulative translation adjustment" to "Accumulated other comprehensive loss".

Future Accounting Standards

Effective January 1, 2008, the Company will adopt the CICA Handbook Section 1535, *Capital Disclosures*, CICA Handbook Section 3862, *Financial Instruments – Disclosure*, and CICA Handbook Section 3863, *Financial Instruments – Presentation*. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. Sections 3862 and 3863 replace existing section 3861 and these standards are enhanced and expanded to complement the changes adopted in 2007. The Sections related to disclosure and presentation only and will not have an impact on our financial results.

In 2005, the Accounting Standards Board of Canada announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting standards with IFRS. In February 2008, the CICA confirmed the change over date from current Canadian "GAAP" to IFRS to be January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Company has not yet assessed the future impact of these new standards on our consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook

The growth of our business is driven by three main factors. Firstly, favorable industry trends are providing an excellent environment for pursuing organic growth initiatives.

Secondly, the sequential expansion of our three sites between 2006 and 2007 has provided a sustainable increase in our capacity to drive organic growth, thereby strengthening our operating margins as we increase our critical mass. Our overhead is heavily composed of fixed costs. The critical mass is important to deal with these high fixed costs of operating a non-clinical CRO. As the Company increases the scale of its respective operations, significant benefits, including lowering the breakeven level expressed in terms of capacity utilization, will be achieved as well as improving our ability to increase the utilization of our capacity through better scheduling. As we implement our growth initiatives aimed at improving our operating flexibility, we remain subject to a certain degree of volatility in our results due to the nature of the business, which include study postponements. The fourth quarter demonstrated the financial impact of lower revenues due to study delays. We remain focused on addressing these issues and as we increase scale, we will get more flexibility, thus enabling stronger operational margins. In the third quarter, we announced, another phase of expansion of our Canadian operations: A project that will double the square footage of our current facility (for a total of 170,000 square feet) to be completed by the fourth quarter of 2008, and that will increase three-fold the revenue generating capacity of the site when fully equipped. During the third quarter, as the building expansion was being completed, we began a corporate reorganization in Hungary to provide this operational unit with the staff required to sustain its organic growth and the expansion of its clientele (servicing more the biotechnology and pharmaceutical industries) in the next quarters. We believe that these changes could impact our results in a similar way as it did in Canada following the reorganization completed during the first quarter of 2007. However, the benefits of this reorganization will not be translated in our results before the end of the second half of 2008, even though the preceeding signs should be felt as early as the end of the first quarter of 2008.

And lastly, we continue our efforts to identify acquisition opportunities that would provide a strategic fit to our existing platform and extend our geographical coverage of the market or service offering. Considering the above, we are confident that our growth rate will exceed the industry's projected 15%, and that our earnings performance will return to historical levels.

Risk Factors

Purchasing our common shares involves a number of risks which prospective purchasers should consider, including the following:

A reduction in research and development budgets at pharmaceutical and biotechnology companies may adversely affect our business.

Our clients include researchers at pharmaceutical and biotechnology companies. Our ability to continue to grow and obtain new business is dependent in large part upon the ability and willingness of pharmaceutical and biotechnology companies to continue to invest in research and development. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our services. Research and development budgets fluctuate due to changes in available resources, spending priorities, institutional budgetary policies, as well as mergers of pharmaceutical and biotechnology companies. Our business could be adversely affected by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies. Similarly, economic factors and industry trends that affect our clients in these industries including the conditions of the biotechnology financing environment and the strength of capital markets, also affect our business.

The trend toward outsourcing activities in the pre-clinical stages of drug discovery and development may decrease, which could slow our growth.

Over the past several years, our business has grown significantly, in part as a result of the increase in outsourcing of pre-clinical research support activities by pharmaceutical and biotechnology companies. We believe that drug development, pharmaceutical and biotechnology companies choose to outsource some or all of these activities due to the significant investment in facilities and personnel that they require. By doing so, they can focus their resources on drug discovery. While industry analysts expect the outsourcing trend to continue for the next several years, a decrease in pre-clinical outsourcing activity could result in a diminished growth rate in our sales and adversely affect our financial condition and results of operations.

Changes in government regulation or in practices relating to the pharmaceutical or biotechnological industries, including potential health care reform, could decrease the need for the services we provide.

Governmental agencies throughout the world strictly regulate the drug development process. Our business involves helping pharmaceutical and biotechnology companies, among others, carry out the work required to submit new drugs to regulatory agencies. Changes in regulations, such as a relaxation in regulatory requirements or the introduction of simplified drug approval procedures, or an increase in regulatory requirements that we have difficulty satisfying or that make our services less competitive, could eliminate or substantially reduce the demand for our services.

Growing health care costs may give rise to health care reform. We are unable to predict what legislative proposals will be adopted in the future, if any. Implementation of health care reform legislation that regulates drug costs could limit the profits that can be made from the development of new drugs. This could adversely affect research and development expenditures by pharmaceutical and biotechnology companies, which could in turn decrease the business opportunities available to us. In addition, new laws or regulations may create a risk of liability, increase our costs or limit our service offerings.

Any failure by us to comply with existing regulations could harm our reputation and operating results.

Any failure on our part to comply with existing regulations could result in the termination of ongoing research or the disqualification of data for submission to the regulatory authorities. We could also be barred from providing pre-clinical services in the future or be subject to fines. In addition, we may have to repeat research or redo trials. We may be contractually required to take such action at no further cost to the client, but at a substantial cost to us. Any of these consequences could harm our reputation, our prospects for future work, our revenues and our gross margins.

Any disruption in our supply of animal models could cause delays in our studies, which could cause our operating results to suffer.

Some of the animal models that we use in our studies are supplied by companies that compete with us or by sole source vendors in the countries in which our facilities are located. In the event of a reduction or interruption of supply, we could be forced to delay or postpone studies and our revenues and results of operations would suffer. In addition, some of our clients may decide to choose a competing contract research organization and we could lose market share.

MANAGEMENT'S DISCUSSION AND ANALYSIS

We compete in a highly competitive market and if we do not compete successfully our business could be harmed.

We compete against other CROs. Such competitors include large, established, full-service and pre-clinical CROs, including Charles River Laboratories International, Inc., Covance Inc. and Huntingdon Life Sciences, a division of Life Sciences Research, Inc. as well as other companies that offer pre-clinical research services. We also compete with smaller niche companies operating in our local markets or within specific sectors. Some of our competitors have greater capital and other resources than we do at the present time. As a result of competitive pressures and the potential for economies of scale, the industry continues to experience consolidation. This trend, as well as a trend by pharmaceutical companies and other clients to limit outsourcing to fewer organizations, in some cases through preferred vendor relationships, is likely to result in increased worldwide competition among the larger CROs for clients and acquisition candidates. We do not provide clinical research services and as such, we may find reduced access to certain potential clients due to preferred vendor arrangements with competing CROs that offer clinical research services.

In addition, the CRO industry has attracted the attention of the investment community, and increased potential financial resources are likely to lead to increased competition among CROs. We compete in our industry by continuing to focus on the quality of our services, maintaining our therapeutic expertise, and investing in our quality management system.

The CRO industry is currently characterized by a significant increase in demand for pre-clinical services. While this has benefited our gross margins, the possibility of increased pricing pressure from our competitors as the industry adjusts to the demand for laboratory capacity may require us to reduce prices on certain services, which may result in lower gross margins on those services.

Our exposure to exchange rate fluctuations could adversely affect our results of operations.

We derive a significant portion of our revenue from operations outside of Canada, primarily from our operations in Hungary and Denmark, where significant amounts of revenues and expenses are recorded in local (non-Canadian) currency. Our financial statements are presented in Canadian dollars. Accordingly, changes in currency exchange rates, particularly between the Euro, Euro-pegged currencies, the U.S. dollar and the Canadian dollar will cause fluctuations in our reported financial results that could be material. In addition, certain of our contracts with foreign clients are denominated in currencies other than the currency in which we incur expenses related to those contracts. This is particularly the case with respect to our Canadian operations, where some contracts provide for invoicing clients in U.S. dollars but where our expenses are generally incurred in Canadian dollars. Where expenses are incurred in currencies other than those in which contracts are priced, fluctuations in the relative value of those currencies could have a material adverse effect on our margins. In Europe, we are also exposed to fluctuations between local currencies such as the Danish kroner and the Hungarian forint, and the Euro. We secure long-term debt denominated in local currencies for supporting the investments in each of our facilities. In Hungary, since most of our revenues are in Euro, we have fixed the loans in the Euro currency to ensure that we always have strong correlation ("natural hedge") between our debts and our revenues. However, while the Danish kroner is considered pegged to the Euro, the Hungarian forint continues to fluctuate significantly, thus causing quarterly impact on our results. Management believe that as long as our revenues per year in Euros will exceed the level of our debt denominated in that currency, our overall results are protected against foreign exchange risks, and thus do not require specific defensive hedging activities.

Circumstances beyond our control could cause the CRO industry's reputation to be damaged or other harm to the CRO industry that could result in an industry-wide reduction in demand for CRO services and this could harm our business.

Demand for our services may be affected by our clients' perceptions regarding the CRO industry as a whole. For example, other CROs could engage in behaviours that could render our clients less willing to do business with us or any CRO. Although to date no event has occurred causing industry-wide damage to the CRO industry or its reputation, one or more CROs could engage in or fail to detect malfeasance, such as the inadequate monitoring of sites, the production of inaccurate databases or analyses, the performance of incomplete lab work, or could take other actions that would reduce the confidence of our clients in the CRO industry. As a result, the willingness of pharmaceutical and biotechnology companies to outsource research and development services to CROs could diminish and our business could be harmed materially by events outside our control.

We depend on key personnel and may not be able to retain these employees or recruit additional qualified personnel, which would harm our business.

Our success depends to a significant extent on the continued services of our senior management, other members of management and our certified veterinarians and scientific personnel. Our current management team has significant experience in the administration of a CRO. If one or more members of our senior management team or our key scientific personnel were unable or unwilling to continue in their present positions, those vacant positions could be difficult to fill and our business could be harmed.

Because of the specialized scientific nature of our business, we are highly dependent upon qualified scientific, technical and managerial personnel. While we have an excellent record of employee retention, there is still strong competition for qualified personnel in the CRO industry, as well as in the pharmaceutical and biotechnology fields. Therefore, we may not be able to attract and retain the qualified personnel necessary for the development of our business. The loss of the services of existing personnel, as well as the failure to recruit additional key scientific, technical and managerial personnel in a timely manner, could harm our business.

Actions of animal rights activists may affect our business.

Our pre-clinical services utilize animals in the testing of the safety and efficacy of drugs. Such activities are required for the development of drugs under regulatory regimes in Canada, the U.S., Europe, Japan and other countries. Acts of vandalism and other acts by animal rights activists who object to the use of animals in drug development or any negative attention or threats directed against our animal research activities in the future could impair our ability to operate our business effectively. In addition, our business could be materially adversely affected if regulatory authorities were to mandate a significant reduction in safety testing procedures that utilize laboratory animals (as has been advocated by certain groups).

New technologies may be developed and validated leading to increased use that could reduce demand for some of our services.

For many years, groups within the scientific and research communities have attempted to develop models, methods and systems that would replace or supplement the use of living animals as test subjects. Companies have developed several techniques that have scientific merit. Alternative research methods could decrease the need for research models and we may not be able to develop new services effectively or in a timely manner to replace any lost sales.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our services are subject to evolving industry standards and rapid technological changes.

The markets for our services are characterized by rapidly changing technology, evolving industry standards and frequent introduction of new and enhanced services. To succeed, we must continue to introduce new services on a timely and cost-effective basis to meet evolving client requirements, while achieving market acceptance for these new services. Additionally, we must continue to enhance our existing services and to successfully integrate new services with those already being offered. It is imperative that we respond to emerging industry standards and other technological changes. If we fail to make the necessary enhancements to our business, systems and services to keep pace with evolving industry standards, our business could be harmed.

Our contracts are generally terminable on little or no notice. Termination of a large contract or multiple contracts could adversely affect our revenue and profitability.

Most of our contracts may be terminated without cause with little or no notice. Clients terminate or delay contracts for various reasons. We have experienced termination or cancellation by certain clients in the ordinary course of business.

The loss or delay of a program or large contract or the loss or delay of multiple smaller contracts could harm our business because such terminations could lower our level of staff utilization, which would reduce our profitability. In addition, the terminability of our contracts puts increased pressure on our quality control efforts, since not only can our contracts be terminated by clients as a result of poor performance, but any such termination as a result of poor performance may also affect our ability to obtain future contracts from the client involved and, possibly, others among the companies that sponsor trials. Because the contracts included in our backlog are generally terminable without cause, we do not believe that our backlog as of any date is necessarily a meaningful predictor of future results. When possible, we seek compensation for late cancellation and/or postponement. Most of our contracts include clauses to that effect.

Our contracts are generally fixed-price contracts. Under-pricing and significant cost overruns could adversely affect our revenue and profitability.

Most of our contracts are fixed price contracts. If we fail to adequately price our contracts or if we experience significant cost overruns, our gross margins on the contract would be reduced. We may have to commit unanticipated resources to complete projects, resulting in lower gross margins on those projects.

Our quarterly operating results may vary, which could negatively affect the market price of our common shares.

Our results of operations in any quarter may vary from quarter to quarter and are influenced by such factors as the number and scope of ongoing client engagements, the commencement, postponement, completion or cancellation of client contracts in the quarter, changes in the mix of our services, the extent of cost overruns, holiday patterns of our clients, budget cycles of our clients, and exchange rate fluctuations. We believe that operating results for any particular quarter are not necessarily a meaningful indication of future results. Nonetheless, fluctuations in our quarterly operating results could negatively affect the market price of our common shares.

Contract research services create a risk of liability.

As a CRO, we face a range of potential liabilities in contracting to work on drug development trials. These include:

- Risks that animals in our facilities may be infected with diseases that may be harmful and even lethal to themselves and humans despite preventive measures contained in our Company policies for the quarantine and handling of imported animals; and
- Errors and omissions during a trial that may undermine the usefulness of a trial or data from the trial.

We mitigate these risks to the best of our abilities by following various regulatory requirements and through our regimen of animal testing, quarantine, and veterinary staff vigilance, through which we seek to control the exposure of animal related disease or infections. Nonetheless, it is impossible to completely eradicate such risks.

We believe that our risks of liability in this area are generally reduced by contract provisions entitling us to be indemnified or limiting our liability and by insurance maintained by our clients, investigators, and by us.

Contractual indemnifications generally do not protect us against liability arising from certain of our own actions, such as negligence or misconduct. We could be materially and adversely affected if we were required to pay damages or bear the costs of defending any claim that is not covered by a contractual indemnification provision or that is beyond the level of our insurance coverage or in the event that a party who must indemnify us does not fulfill its indemnification obligations. Furthermore, there can be no assurance that we will be able to maintain our insurance coverage on terms acceptable to us.

Our business depends significantly on the continued effectiveness of our information technology infrastructure, and failure of such technology could harm our operations.

To remain competitive in our industry, we must employ information technologies that capture, manage, and analyse the large streams of data generated during our pre-clinical trials in compliance with regulatory requirements. In addition, because we provide services on a global scale, we rely extensively on our technology to allow the concurrent conduct of studies and work-sharing between sites. As with all information technology, our systems are vulnerable to potential damage or interruptions from fires, blackouts, telecommunications failures, and other unexpected events, as well as to break-ins, sabotage or intentional acts of vandalism. Given the extensive reliance of our business on this technology, any substantial disruption or loss of data that is not corrected or avoided by our backup measures, could harm our business.

We are subject to certain risks associated with our international operations.

We have offices and conduct business in three countries. Our revenues derived from non-Canadian operations represented 59% of our total revenues in 2007, 70% of our total revenues in 2006, and 62% of our total revenues in 2005. Certain risks are inherent in these international operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The risks related to our international operations that we face in the normal course of business include:

- Tax rates in certain foreign countries may exceed those in Canada, and foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls, or other restrictions, including restrictions on repatriation;
- Transfer pricing risks;
- Foreign clients may have longer payment cycles than clients in Canada;
- Potential trade restrictions and exchange controls;
- Unfavourable labour regulations;
- General economic and political conditions in the markets in which we operate;
- The difficulty of complying with a variety of foreign laws and regulations;
- The difficulty of enforcing agreements and collecting receivables through certain foreign legal systems; and
- The difficulties associated with managing an organization spread throughout various countries.

While we have not experienced any major problems to date with the acquisition or operation of our foreign entities, we may in the future encounter certain limitations inherent in the carrying out of pre-clinical development trials internationally, including difficulty in establishing effective communications, operating in various time zones, and dealing with incompatible technology.

As we continue to expand our business globally, our success will be dependent, in part, on our ability to anticipate and effectively manage these and other risks associated with foreign operations. There is no assurance that these and other factors will not have a material adverse effect on our international operations or our business, financial condition, or results of operations as a whole.

We could be adversely affected by tax law changes in Canada.

We have substantial operations in Canada that currently benefit from favourable corporate tax arrangements. We receive substantial tax credits in Canada from both the Canadian federal and Québec governments. Any reduction in the availability or amount of these tax credits or allowances would be likely to have a material adverse effect on profits and cash flow from our Canadian operations, and on our effective tax rate.

Our business could be harmed if we are unable to manage our growth effectively.

We have experienced rapid growth throughout our operations. We believe that sustained growth places a strain on operational, human, and financial resources. To manage our growth, we must continue to improve our operating and administrative systems and to attract and retain qualified management, professional, scientific, and technical operating personnel. We believe that maintaining and enhancing both our systems and personnel at reasonable cost are instrumental to our success in the CRO industry. There is no assurance that we will be able to enhance our current technology or obtain new technology that will enable our systems to keep pace with developments and the sophisticated needs of our clients. The nature and pace of our growth introduces risks associated with quality control and client dissatisfaction due to delays in performance or other problems. Failure to manage growth effectively could have an adverse effect on us.

Our business could be harmed if we cannot successfully integrate future acquisitions.

We may, in the course of our business, identify and review potential acquisition candidates and consider prospective acquisitions and business combination transactions with other parties and, from time to time, we may make strategic acquisitions. Acquisitions involve numerous risks, including the expenses incurred in connection with the acquisition, the difficulties in assimilating operations, the diversion of management's attention from other business concerns, and the potential loss of key employees of the acquired company. Acquisitions of foreign companies involve the additional risks of assimilating differences in foreign business practices, hiring and retaining qualified personnel, and overcoming language barriers. It is also possible that with any future acquisitions, we will assume the problems of the acquired entity. Although past acquisitions have not resulted in any significant integration problems, we may face these types of issues. There is no assurance that we will successfully integrate future acquisitions into our operations, be able to complete such transactions or be able to complete them on favourable financial terms.

We provide services to emerging companies that may be unable to pay us.

We incur costs in providing drug development services to our clients before we are paid. We provide drug development services to pharmaceutical and biotechnology companies, many of which are early-stage companies with relatively limited financial resources. If any of these companies were to cease operations before paying us for our services, or were otherwise unable to pay, our results of operations could suffer.

Contaminations in our animal populations can compromise our research and harm our reputation.

Our research models must be free of certain infectious agents such as certain viruses and bacteria as the presence of these contaminants may distort or compromise the quality of research results and could adversely impact human or animal health. The presence of these infectious agents in our service operations could disrupt our pre-clinical services and harm our reputation.

Contaminations expose us to risks that clients will request compensation for damages in excess of our contractual indemnification requirements. These contaminations are unanticipated and difficult to predict and could adversely impact our financial results. We have made significant capital expenditures designed to strengthen our biosecurity and have significantly improved our operating procedures to protect against such contaminations; however, contaminations may still occur.

MANAGEMENT'S DISCUSSION AND ANALYSIS

If we incur liability for hazardous material contamination, our business would be harmed.

Some of our activities have involved, and may continue to involve, the controlled use of hazardous materials and the creation of hazardous substances or wastes, including medical waste and other highly regulated substances. Although we believe that our safety procedures for handling the disposal of such materials comply with the standards prescribed by local environmental laws and regulations, our operations nevertheless pose the risk of accidental contamination or injury from these materials.

In the event of such an accident, we could be held liable for damages and cleanup costs which, to the extent not covered by existing insurance or indemnification, could harm our business. In addition, other adverse effects could result from such liability, including damage to our reputation resulting in the loss of additional business from certain clients. Our business could be materially harmed if we were required to pay damages beyond the level of any insurance coverage that may be in effect. To date, we have not been the subject of any investigations or claims related to the controlled use of hazardous materials or the creation of hazardous substances or wastes.

Forward-Looking Statements

Certain statements included in this MD&A may constitute "forward-looking statements" within the meaning of the Canadian securities legislation and regulations, and are subject to important risks, uncertainties and assumptions. This forward-looking information includes amongst others, information with respect to our objectives and the strategies to achieve these objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. Forward-looking statements generally can be identified by the use of conditional or forward-looking terminology such as "may", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe", or "continue" or the negatives of these terms or variations of them or similar terminology. We refer you to the Company's filings with the Canadian securities regulatory authorities, and the "Risks and Uncertainties" section of this MD&A, beginning on page 24 for a discussion of the various factors that may affect the Company's future results. Material factors and assumptions that were applied in drawing a conclusion or making a forecast or projection are also set out throughout this document.

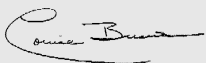
The results or events predicted in such forward-looking information may differ materially from actual results or events. Material factors, which could cause actual results or events to differ materially from a conclusion, forecast or projection in such forward-looking information, include, but are not limited to:

- Reduction in research and development budgets at the pharmaceutical and biotechnology companies, general economic conditions such as currency exchange rates, commodity prices and other factors over which we have no control;
- The impact of economic and business conditions, industry trends (including the trend toward outsourcing activities in the pre-clinical stages of drug discovery and development) and other external and political factors in the countries in which we operate;
- The intensity of competitive activity;
- Disruption in animal supply;
- Changes in environmental, tax, trade and other laws and regulations;
- Our ability to implement our strategies and plans;
- Changes in technologies and industry standards;
- Our ability to attract and retain key personnel;
- Changes in accounting policies and estimates; and
- Disruption on our activities due to bad weather, natural disasters and other unforeseen adverse events.

This may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the effect of business dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them.

We believe that the expectations represented by our forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. Furthermore, unless otherwise stated, the forward-looking statements contained in this report are made as of the date of this report, and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise unless required by applicable legislation or regulation. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

On behalf of Management,



Louise Bussières, CA
Vice-President Finance & Secretary
Laval, Quebec, Canada
March 6, 2008

MANAGEMENT'S REPORT

The accompanying consolidated financial statements have been prepared by management and were approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements and other sections of this Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. In preparing these consolidated financial statements, management selects appropriate accounting policies and uses its judgement and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information included throughout this Annual Report is prepared on a basis consistent with that of the financial statements.

To assist management in discharging these responsibilities, the Company maintains a system of internal controls which are designed to provide reasonable assurance that its assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

KPMG LLP, the Company's auditors, are appointed by the shareholders. They independently review the Company's system of internal controls and perform the necessary tests of accounting records and procedures to enable them to report their opinions as to the fairness of the consolidated financial statements and their conformity with generally accepted accounting principles.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through an Audit Committee composed of three Directors. The Audit Committee meets periodically with management and with the external auditors, to review audit recommendations and any matters that the auditors believe should be brought to the attention of the Board of Directors. The Audit Committee also reviews the consolidated financial statements and recommends to the Board of Directors that the statements be approved for issuance to the shareholders.



Luc Mainville, MBA
Chief Executive Officer
March 6, 2008



Louise Bussi eres, CA
Vice President, Finance

AUDITORS' REPORT

We have audited the consolidated balance sheets of Lab Research Inc. as at December 31, 2007 and 2006 and the consolidated and combined carve-out statements of earnings, comprehensive earnings, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 consolidated and combined carve-out financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Montréal, Canada
March 5, 2008

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

(in thousands of Canadian dollars)	December 31, 2007	December 31, 2006
	\$	\$
Assets		
Current assets:		
Cash and cash equivalents	6,825	8,516
Accounts and other receivables (NOTE 5)	9,450	16,661
Work in progress	2,913	2,209
Income taxes receivable	1,894	268
Prepaid expenses	1,361	1,104
Future income taxes (NOTE 16)	916	1,859
	23,359	30,617
Property and equipment (NOTE 6)	60,176	24,784
Intangible assets (NOTE 7)	2,076	2,748
Other assets (NOTE 8)	3,598	2,119
Future income taxes (NOTE 16)	3,435	3,306
	92,644	63,574
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank loan	—	223
Accounts payable and accrued liabilities	11,673	9,916
Holdback payable	203	913
Deferred revenue	7,949	6,194
Current portion of long-term debt (NOTE 10)	2,111	1,230
Deferred gain on sale of property (NOTE 4)	—	84
Future income taxes (NOTE 16)	585	692
	22,521	19,252
Deferred rent liability	—	253
Deferred gain on sale of property (NOTE 4)	—	1,501
Long-term debt (NOTE 10)	33,825	7,586
Future income taxes (NOTE 16)	1,924	2,039
Shareholders' equity:		
Share capital (NOTE 11 (a))	63,753	63,672
Additional paid-in capital	682	181
Accumulated other comprehensive loss	(1,186)	(263)
Deficit	(28,875)	(30,647)
	34,374	32,943
Commitments, contingencies and guarantees (NOTE 14)		
Subsequent events (NOTE 23)	92,644	63,574

Approved on behalf of the Board of Directors:



Luc Mainville, Director



Stephen R. Farrell, Director

See accompanying notes to consolidated and combined carve-out financial statements

CONSOLIDATED AND COMBINED CARVE-OUT STATEMENTS OF EARNINGS

Years ended December 31, 2007 and 2006

	2007	2006
(in thousands of Canadian dollars, except per share data)	\$	\$
Revenues	55,108	47,706
Expenses:		
Direct costs	35,375	28,286
Selling, general and administrative	10,017	10,335
Stock-based compensation (NOTE 12)	522	216
Amortization of property and equipment	3,428	2,249
Amortization of intangible assets	517	501
Interest, net	1,202	422
Foreign exchange	348	(395)
	51,409	41,614
Earnings before income taxes	3,699	6,092
Provision for income taxes (NOTE 16)	1,512	1,365
Net earnings from continuing operations	2,187	4,727
Net (loss) earnings from discontinued operations (NOTE 19)	(92)	208
Net earnings	2,095	4,935
Earnings per share (NOTE 13):		
Basic:		
Continuing operations	0.12	0.30
Discontinued operations	—	0.01
	0.12	0.31
Diluted:		
Continuing operations	0.12	0.30
Discontinued operations	(0.01)	0.01
	0.11	0.31

CONSOLIDATED AND COMBINED CARVE-OUT STATEMENTS OF COMPREHENSIVE EARNINGS

Years ended December 31, 2007 and 2006

	2007	2006
(in thousands of Canadian dollars)	\$	\$
Net earnings	2,095	4,935
Unrealized gain on available-for-sale financial assets	6	—
Foreign exchange adjustment on self-sustaining foreign operations	(921)	1,199
Comprehensive earnings	1,180	6,134

See accompanying notes to consolidated and combined carve-out financial statements

CONSOLIDATED AND COMBINED CARVE-OUT STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2007 and 2006

	Share capital [NOTE 11 (a)]	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Segment equity	Total
(in thousands of Canadian dollars)	\$	\$	\$	\$	\$	\$
Balance, December 31, 2005	—	—	(1,462)	—	7,337	5,875
Net earnings	—	—	—	2,990	1,945	4,935
Cumulative translation adjustment	—	—	1,199	—	—	1,199
Transfers of net assets from Akela	—	—	—	—	3,323	3,323
Tax benefit on transfer of assets from Akela	—	—	—	—	3,126	3,126
Issue of common shares in connection with spin-off	48,101	—	—	(32,370)	(15,731)	—
Stock-based compensation	—	181	—	—	—	181
Issue of common shares in connection with initial public offering and related share issue costs (net of income taxes of \$583)	15,000	—	—	(1,267)	—	13,733
Issue of common shares for services	571	—	—	—	—	571
Balance, December 31, 2006	63,672	181	(263)	(30,647)	—	32,943
Changes in accounting policies (NOTE 3 (m))	—	—	(8)	(323)	—	(331)
Net earnings	—	—	—	2,095	—	2,095
Exercise of options	81	(21)	—	—	—	60
Foreign exchange adjustment on self-sustaining foreign operations	—	—	(921)	—	—	(921)
Stock-based compensation	—	522	—	—	—	522
Unrealized gain on available-for-sale assets (NOTE 3 (m))	—	—	6	—	—	6
Balance, December 31, 2007	63,753	682	(1,186)	(28,875)	—	34,374

See accompanying notes to consolidated and combined carve-out financial statements

CONSOLIDATED AND COMBINED CARVE-OUT STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006

(in thousands of Canadian dollars)	2007 \$	2006 \$
Cash flows from operating activities:		
Net earnings	2,095	4,935
Net earnings from discontinued operations	92	(208)
Net earnings from continuing operations	2,187	4,727
Adjustments for:		
Amortization of property and equipment	3,428	2,249
Amortization of intangible assets	517	501
Write-off of property and equipment	24	3
Unrealized gain on foreign exchange	(365)	(98)
Stock-based compensation	522	216
Amortization of deferred gain of property	(20)	(86)
Deferred rent liability	72	216
Future income taxes	895	(1,823)
Other	29	38
Net changes in operating assets and liabilities (NOTE 17 (a))	(2,875)	1,351
Net cash from operations provided by discontinued operations	4,414	7,294
	96	374
	4,510	7,668
Cash flows from financing activities:		
Proceeds from issuance of common shares	60	15,000
Share issue costs	—	(1,850)
Proceeds from issuance of long-term debt	32,157	62
Repayment of long-term debt	(3,935)	(2,276)
Proceeds on issuance of capital leases	—	123
Repayment of capital leases	(541)	(703)
Financing fees	(397)	—
Changes in net assets not transferred to LAB Canada	—	3,339
Net advances companies under common control	—	(2,897)
Proceeds from bank facilities	—	223
Repayments under bank credit facilities	(223)	(432)
	27,121	10,589
Cash flows from investing activities:		
Payment of holdback payable	(835)	—
Additions to property and equipment	(32,427)	(6,122)
Proceeds from disposal of property and equipment	17	165
Costs incurred for the Canadian expansion to be reimbursed by the landlord	—	(8,500)
Loan receivable	(300)	—
Other	147	691
	(33,398)	(13,766)
Effect of exchange rate changes on cash	76	298
Net (decrease) increase in cash and cash equivalents	(1,691)	4,789
Cash and cash equivalents, beginning of year	8,516	3,727
Cash and cash equivalents, end of year	6,825	8,516

Supplemental cash flow disclosure **(NOTE 17)**

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

1. Nature of Operations and Organization

LAB Research Inc. ("LAB Research" or the "Company") and its wholly-owned subsidiaries, LAB Research A/S ("LAB Denmark") and LAB Research Ltd. ("LAB Hungary"), provide non-clinical contract research services to the pharmaceutical, biotechnology, agro-chemical, petro-chemical and industrial markets. On April 30, 2007, the Company ceased the operations of LAB Research International, Inc. ("LAB US"), its wholly-owned subsidiary located in the United States. Refer to note 19.

LAB Research was incorporated as a wholly-owned subsidiary of LAB International Inc., now called Akela Pharma Inc. ("Akela"), on May 24, 2006 to acquire the pre-clinical contract research services business from Akela. Subsequent to a series of transactions completed on June 30, 2006 and July 27, 2006, LAB Research acquired all of the assets and assumed the liabilities related to the pre-clinical contract research services business of LAB Pre-Clinical Research International Inc. ("LAB Canada") and acquired all of the outstanding shares of LAB Hungary, LAB Denmark and LAB US from Akela (the "Spin-off"). On August 3, 2006, the Company completed an initial public offering ("IPO") of common shares.

2. Basis of Presentation

(A) PRE IPO

The combined carve-out statement of earnings for the period prior to the IPO (August 3, 2006) has been derived from the accounting records of Akela using the historical results of operations of the segment subsequently transferred to the Company on a combined carve-out basis. Management believes the assumptions underlying the historical combined carve-out financial statements, including the allocations described below, are reasonable. However, the historical financial statements may not necessarily reflect the financial position, results of operations and cash flows or what the Company's past financial position, results of operations and cash flows would have been if LAB Research had been a stand-alone company prior to the IPO. To give effect to the continuity of Akela's interest in the assets and liabilities of the Company, all the assets and liabilities related to the period prior to the IPO were recorded at Akela's book values.

The financial results up to August 3, 2006 represent the combined results of operations and cash flows on a carve-out accounting basis. All significant inter-company balances and transactions have been eliminated. As the Company operated as a segment of Akela and was not a stand-alone company prior to August 3, 2006, its historical combined carve-out financial statements include cost allocations of Akela as described below.

Allocated costs

The allocated expenses are primarily for corporate overhead such as administration, accounting, investors' relations and information systems costs. Certain of the expenses presented in these consolidated and combined carve-out financial statements represent inter-company allocations and management estimates of the cost of services provided by Akela. These allocations and estimates are considered by management to be the best available approximation of the expenses that the Company would have incurred had it operated on a stand-alone basis over the periods presented.

The costs allocated are not necessarily indicative of the costs that would have been incurred had LAB Research performed the functions as a stand-alone company, nor are they indicative of the costs that will be incurred in the future. These allocations are reflected in "selling, general and administrative" in the consolidated and combined carve-out statement of earnings.

For the year ended December 31, 2007, the allocated costs amounted to \$nil (2006 - \$665). The allocated costs for the year ended December 31, 2006 cover the period to August 3, 2006, date of the IPO.

(B) POST IPO

The consolidated balance sheets as of December 31, 2007 and 2006 and the consolidated statements of earnings and cash flows for the year ended December 31, 2007, as well as from the period from August 4, 2006 to December 31, 2006 (post IPO), present the Company's consolidated financial position, results of operations and cash flows as a stand-alone entity. Following the IPO on August 3, 2006, the Company performed its corporate functions with its own resources or purchased services.

3. Significant Accounting Policies

(A) PRINCIPLES OF CONSOLIDATION

The consolidated and combined carve-out financial statements include the accounts of LAB Research, LAB Denmark, LAB Hungary and LAB US. Since the operations of LAB US ceased on April 30, 2007, the results of its operations and cash flows are presented under discontinued operations. All significant inter-company balances and transactions between these entities have been eliminated.

(B) CASH EQUIVALENTS

All highly liquid investments with an original maturity of three months or less are accounted for as cash equivalents.

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

3. Significant Accounting Policies (continued)

(C) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Assets under capital leases are recorded at the present value of minimum lease payments. Amortization is computed using the straight-line method over the following periods:

Buildings	11 to 33 years
Laboratory equipment and laboratory equipment under capital lease	5 to 10 years
Computer equipment and software and computer equipment and software under capital lease	3 to 5 years
Furniture and office equipment and furniture and office equipment under capital lease	3 to 7 years
Leasehold improvements	Over the term of the leases ranging from 7 to 20 years
Automotive equipment and automotive equipment under capital lease	5 to 7 years

(D) INTANGIBLE ASSETS

The customer contracts and relationships are amortized over the estimated useful life of seven years.

(E) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, consisting of property and equipment and intangible assets with definite useful lives, are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for long-lived assets, when the carrying amount of an asset to be held and used exceeds the sum of the undiscounted cash flows expected from its use and disposal; the impairment recognized is measured as the amount by which the carrying amount of the net asset exceeds its fair value. Fair value is the estimated value at which the asset would be bought or sold in a transaction between willing parties. The fair value against which the asset is measured may be established based on comparable information or transactions, or any other acceptable method of assessment.

(F) INCOME TAXES

The asset and liability method is used to account for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and the tax basis of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. A valuation allowance against future income tax assets is established if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

For the period prior to the IPO, income taxes were calculated as if LAB Research's operations had been separate tax paying legal entities. Research tax credits receivable and future income taxes assets prior to the IPO were not transferred to LAB Research as part of the transactions referred to in note 1. However, the consolidated and combined carve-out financial statements as at December 31, 2006 include the future tax asset related to the temporary difference arising from the "deferred gain on sale of property" recorded in the combined carve-out financial statements. In addition, the future tax benefit arising as a result of differences between the carrying value and tax amounts related to the items transferred were recorded as an adjustment to the combined carve-out statement of equity. Research tax credits earned by LAB Canada for the period from January 1 to August 2, 2006, as well as the future tax provisions or recoveries related to the pre-clinical contract research business, are recorded in the combined carve-out statements of earnings. The change in the net tax assets or liabilities not transferred to LAB Research for each of the periods presented has been recorded as an adjustment to the consolidated and combined carve-out statement of shareholders' equity. The tax assets and liabilities relating to LAB Denmark, LAB Hungary and LAB US remained unaffected and were transferred to LAB Research, as part of the transactions referred to in note 1.

(G) REVENUE RECOGNITION

The revenues consist of services rendered to customers and are recognized as the services are performed or delivered by the Company. Revenue is recorded by determining the status of work performed per contract in relation to the total services to be provided. Work in progress represents services rendered which only become billable in accordance with contractual payment terms. Deferred revenues represent amounts billed in accordance with customer contracts, but not yet earned.

Revenues that include multiple elements are considered to be revenue arrangements with multiple deliverables. Under these arrangements, the identification of separate units of accounting is required and revenue is allocated among the separate units based on their relative fair values or using the residual method. Revenues for each unit of accounting are then recorded as described above.

(H) GOVERNMENT ASSISTANCE

Amounts received resulting from government assistance programs, including grants and investments tax credits for research and development, are reflected as a reduction of the cost of the asset or expense to which they relate at the time the eligible expenditures are incurred. Tax credits are recorded in the accounts when reasonable assurance exists that they will be realized.

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

3. Significant Accounting Policies (continued)

(I) STOCK-BASED COMPENSATION

The Company records stock-based compensation related to employee and non-employee stock options granted using the fair value based method estimated using the Black-Scholes model. Under this method, compensation cost is measured at the date of grant and is expensed over the award's vesting period.

Prior to the IPO, the stock-based compensation in the consolidated and combined carve-out financial statements of earnings includes the Akela expense related to the fair value of awards held by employees of LAB Research. This expense is not necessarily indicative of what the expense would have been had LAB Research been a separate stand-alone company during the periods presented.

Post IPO, the stock-based compensation includes the expense at fair value of awards of the Company's options to its employees, consultants and Board members.

(J) FOREIGN CURRENCY TRANSLATION

(i) Domestic and integrated foreign operations

Assets and liabilities in foreign currencies related to integrated foreign operations are translated into Canadian dollars using current exchange rates for monetary assets and liabilities, historical exchange rates for non-monetary assets and liabilities, and the average exchange rate during the period for revenues and expenses, except for amortization, which is translated at the historical exchange rate of the corresponding non-monetary assets. Exchange gains and losses arising on translation are included in income in the period incurred.

(ii) Self-sustaining foreign operations

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars using the rate of exchange in effect at the balance sheet date. Revenue and expense items (including amortization) are translated at the average exchange rate for the period. Exchange gains and losses arising from the translation are included in the accumulated other comprehensive income or loss.

(K) EARNINGS PER SHARE

Basic earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per share are computed in a manner consistent with basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of options, if dilutive. The number of additional shares is calculated by assuming that outstanding options were exercised and that the proceeds from such exercises, including unrecognized compensation costs of stock-based option grants attributed to future services are used to repurchase common shares at the average share price for the reporting period.

(L) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses for the period reported. Significant areas requiring the use of management estimates include estimating the advancement of work on certain contracts for revenue recognition purposes, estimating the useful lives of long-lived assets, including property and equipment and intangible assets, estimating the fair value of assets and liabilities in connection with business combinations, estimating stock-based compensation, the recoverability of research tax credits earned and future income tax assets, as well as the recoverability of long-lived assets. The reported amounts and note disclosures are determined to reflect the most probable set of economic conditions and management's planned courses of action. Actual results could differ from those estimates.

(M) CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING STANDARDS

(i) Changes in accounting policies

Effective with the commencement of its 2007 fiscal year, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. Sections 3855, 3861 and 3865 provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Handbook Section 1530 also established standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income, but that are excluded from net income calculated in accordance with generally accepted accounting principles. A new financial statement has been presented in relation to Section 1530.

Handbook Section 3251 establishes standards for the presentation of equity and change in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from (i) net earnings; (ii) other comprehensive income; (iii) other changes in retained earnings; (iv) changes in contributed surplus and (v) changes in share capital. A consolidated statement of changes in shareholders' equity is presented in these consolidated financial statements.

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Upon initial recognition, all financial assets and liabilities are recognized at fair value. Subsequent to initial recognition, all financial instruments, including derivatives, are included on the consolidated balance sheet and are measured either at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification.

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

3. Significant Accounting Policies (continued)

Held for trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value, unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The Company chose to review all contracts in place, or that were entered into after January 1, 2003, for any embedded derivative needed to be accounted for separately at fair value from the base contract.

As a result of the adoption of these standards, the Company classified its accounts and other receivables as loans and receivables. The Company also classified its long-term investments as available-for-sale and its accounts payable and accrued liabilities, holdback payable and long-term debt as other financial liabilities. On January 1, 2007, the impact of these changes in accounting policies is included as an increase to the opening deficit of \$323, net of income taxes of \$144, and an increase to "Accumulated other comprehensive loss" of \$8. Deferred financing costs of \$40 as at January 1, 2007 related to long-term debt have been reclassified from "deferred financing fees" to the related debt on the consolidated balance sheet. The adoption of these new standards also resulted in a reclassification of an amount of \$263 previously recorded in "Cumulative translation adjustment" to "Accumulated other comprehensive loss".

(ii) Future accounting standards

Effective January 1, 2008, the Company will adopt the CICA Handbook Section 1535, *Capital Disclosures*, CICA Handbook Section 3862, *Financial Instruments – Disclosure*, and CICA Handbook Section 3863, *Financial Instruments – Presentation*. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. Sections 3862 and 3863 replace existing section 3861 and these standards are enhanced and expanded to complement the changes adopted in 2007 and referred to in note 3 (m) (i). The Sections related to disclosure and presentation only and will not have an impact on our financial results.

In 2005, the Accounting Standards Board of Canada announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting standards with IFRS. In February 2008, the CICA confirmed the change over date from current Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS to be January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Company has not yet assessed the future impact of these new standards on its consolidated financial statements.

4. Buy-Back of the Canadian Property

On April 17, 2007, the Company purchased the property it occupies in Canada (the "Buy-back"). The property was subject to a sale-leaseback transaction in 2005 when the Company operated as a segment of Akela. The purchase price was \$23,000. Of this amount, \$10,500 was deducted from the purchase price for amounts owing to the Company by the landlord as follows: \$500 of cash held in escrow, \$7,400 in costs incurred for the Canadian expansion, \$2,500 in short-term and long-term notes receivable and \$100 in deposits.

The Buy-back was financed with a conventional mortgage, bearing interest at the bank prime plus 0.4%, secured by a first ranking moveable hypothec on the building, repayable over 16 years with quarterly repayments in the amount of \$212 during the first four years and \$ 283 thereafter.

The carrying amounts of the deferred gain on sale of property and deferred rent, at the date of the Buy-Back, that resulted from the sale-leaseback transaction, were reversed and applied against the purchase price of the building.

5. Accounts and Other Receivables

	2007	2006
	\$	\$
Trade, net of allowance for doubtful accounts of \$584 (2006 -\$358)	8,230	7,428
Sales taxes	705	1,110
Note receivable ¹	—	680
Costs incurred for the Canadian expansion to be reimbursed by the landlord ²	—	7,400
Receivable from forward exchange contracts	332	—
Other	183	43
	9,450	16,661

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

5. Accounts and Other Receivables (continued)

¹ On October 17, 2005, LAB Canada entered into a sale and leaseback transaction for total proceeds of \$7,750. As part of this transaction, LAB Canada repaid the remaining mortgage on the building of \$3,908 and leased back the property over a twenty-one year term at current market rates.

Under the agreement, \$1,500 of the total proceeds was to be received by LAB Canada as follows: \$500 to be repaid at the earliest of payment of the holdback to the contractor or January 20, 2007, \$900 non-interest bearing note receivable to be repaid in equal installments over ten years and \$100 deposit to be reimbursed at the end of the lease period. At December 31, 2006, an amount of \$680 of the balance of sale was classified as a current asset and \$820 was classified as long-term and presented in "other assets". In 2007, these amounts were settled as explained in note 4.

The net gain on the sale of property of \$1,683 was deferred and was being amortized over the term of the lease as a reduction of rent expense. Rent expense was calculated on a straight-line expense over the term of the lease. An amount of \$86 was amortized into earnings for the year ended December 31, 2006. The remaining deferred gain on sale of property at December 31, 2006 is presented as follows on the balance sheet:

	2007	2006
	\$	\$
Current	—	84
Long-term	—	1,501
	—	1,585

² During the year 2006, the Company incurred costs in the aggregate amount of \$8,500 for the Canadian expansion of its premises of which \$7,400 was to be reimbursed by the landlord when the holdback payable was to be paid by the Company to the building contractor and \$1,100 was to be repaid in equal installments of \$110 over the next ten years. The completed expansion also formed part of a separate sale and leaseback transaction. In 2007, these amounts were settled as explained in note 4.

6. Property and Equipment

	Cost	Accumulated amortization	Net carrying amount
	\$	\$	\$
Land	1,449	—	1,449
Buildings	46,132	2,248	43,884
Laboratory equipment ¹	12,343	4,258	8,085
Laboratory equipment under capital lease	1,174	622	552
Computer equipment and software ²	4,412	1,666	2,746
Computer equipment and software under capital lease ³	1,667	503	1,164
Furniture and office equipment	1,485	708	777
Automotive equipment ⁴	209	43	166
Automotive equipment under capital lease	56	22	34
Construction in progress	1,319	—	1,319
	70,246	10,070	60,176

	Cost	Accumulated amortization	Net carrying amount
	\$	\$	\$
Land	61	—	61
Buildings	12,411	1,223	11,188
Laboratory equipment ¹	8,937	3,118	5,819
Laboratory equipment under capital lease	998	342	656
Computer equipment and software ²	2,975	1,517	1,458
Computer equipment and software under capital lease ³	1,689	446	1,243
Furniture and office equipment	1,089	454	635
Furniture and office equipment under capital lease	137	107	30
Leasehold improvements ¹	1,369	25	1,344
Automotive equipment ⁴	166	32	134
Automotive equipment under capital lease	60	14	46
Construction in progress	2,170	—	2,170
	32,062	7,278	24,784

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

6. Property and Equipment (continued)

¹ Laboratory equipment and leasehold improvements include amounts of nil (2006 - \$408) and nil (2006 - \$1,162) respectively that are not amortized. Amortization started in January 2007 when the property and equipment were put in service.

² Computer equipment and software include an amount of \$956 (2006 - \$667) that is not being amortized. Amortization will begin in 2008 when the computer equipment and software will be put into service.

³ Computer equipment and software under capital lease include an amount of nil (2006 - \$1,107) that is not being amortized. Amortization started in October 2007 when the computer equipment and software were put into service.

⁴ Automotive equipment includes an amount of nil (2006 - \$94) that is not being amortized. Amortization started in January 2007 when the automotive equipment was put into service.

Included in "amortization of property and equipment" on the consolidated and combined carve-out statement of earnings is amortization expense related to assets under capital leases of:

	2007	2006
	\$	\$
Amortization related to assets under capital lease	292	799

7. Intangible Assets

	Cost	Accumulated amortization	Net carrying amount
	\$	\$	\$
Customer contracts and relationships	3,559	1,483	2,076

	Cost	Accumulated amortization	Net carrying amount
	\$	\$	\$
Customer contracts and relationships	3,784	1,036	2,748

The carrying amount of customer contracts and relationships includes an adjustment due to foreign exchange of \$154 (2006 - \$305).

8. Other Assets

	2007	2006
	\$	\$
Long-term investments	98	126
Deferred financing fees, at cost, net of accumulated amortization of \$nil (2006 - \$44)	—	40
Long-term note receivable from landlord (NOTES 4 AND 5)	—	1,920
Long-term research tax credits recoverable ¹	3,143	—
Loan receivable from a senior executive ²	300	—
Other	57	33
	3,598	2,119

¹ Long-term research tax credits recoverable represents federal investment tax credits earned on eligible research activities that are reasonably assured of being realized. These tax credits can be used to reduce future federal income taxes payable and expire in 2027.

² On April 27, 2007, the Company signed a loan agreement with a senior executive for an amount of \$300, bearing interest at the cost of borrowing for the Company or interest that the Company would have received on such amount, as the case may be. The loan may be repaid at any time without penalty but no later than April 30, 2012. Until full and complete repayment of the loan, the common shares in the Company held by the senior executive must, at all times, be free and clear of any hypothec, lien or any other restriction on transfer of any kind. In the event that the senior executive sells all or any part of the common shares before the full and complete reimbursement of the loan, the Company will be reimbursed for an amount equal to the net after tax proceeds realized with respect to the sale of such shares.

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

9. Credit Facilities

- (a) LAB Canada has an operating line of credit available to finance current operations in the amount of \$4,000, which was not utilized at December 31, 2007 and 2006. The facility bears interest at the bank's prime rate plus 0.2% and is due on demand. This facility expires in May 2008, but is subject to renewal at that time.
- (b) LAB Denmark has an operating line of credit available to finance current operations in the amount of \$1,939 (10,000 DKK) which was not utilized at December 31, 2007 and 2006. The facility bears interest at the CIBOR 3 months plus 2.5% and is due on demand. This facility expires in April 2008, but is subject to renewal at that time.
- (c) LAB Hungary has an operating line of credit available to finance current operations in the amount of \$578 (400 Euros) which was not utilized at December 31, 2007 and 2006. The facility bears interest at the EONIA plus 1.5% and is due on demand. This facility expired in January 2008. See note 23 (b).

10. Long-Term Debt

	2007	2006
	\$	\$
Long-term debt:		
Bank loan in Canadian dollars, bearing interest at bank prime plus 0.4%, secured by a first ranking collateral mortgage on building located in Canada, repayable in quarterly installments of \$212 for the first four years and \$283 thereafter, maturing in April 2023	15,987	—
Equipment loan in Canadian dollars, bearing interest at bank prime plus 0.45%, secured by a first ranking moveable hypothec on equipment located in Canada, repayable in quarterly installments of \$75 for the first two years and \$228 thereafter, maturing in April 2012	2,580	—
Revolving loan in Euros (2007- €844; 2006 €nil), bearing interest at EURIBOR 1 month plus 1.5%, secured by a first ranking collateral mortgage on the building located in Hungary and repayable in January 2009	1,221	—
Bank loans in Euros (2007 - €3,280; 2006 - €nil), bearing interest at EURIBOR 1 month plus 1.6%, secured by a first ranking collateral mortgage on buildings and equipment located in Hungary, repayable in monthly installments varying from \$31 to \$50 from January 2008 to September 2016	4,742	—
Term loans in Swiss Francs (2007 - CHF 13; 2006 - CHF 18), bearing interest at rates ranging from 5.96% to 7.84%, secured by automotive equipment located in Hungary, repayable in 72 monthly installments of \$0.4, maturing in September 2010	11	17
Term loans in Hungarian Forints (2007 - HUF 10,216; 2006 - HUF 12,042), bearing interest at rates ranging from 5.5% to 5.96%, secured by automotive equipment located in Hungary, repayable in blended monthly installments of \$0.1, maturing in December 2011 and 2012	58	74
Bank loans in Danish Kroner (2007 - DKK 32,716; 2006 -DKK 20,391), bearing interest at the bank bond rate plus 0.6%, secured by a first ranking collateral mortgage on buildings located in Denmark, repayable in blended quarterly installments of \$64, maturing in December 2034 and 2037	6,344	4,202
Bank loans in Danish Kroner (2007 - DKK 20,911; 2006 -DKK nil), bearing interest at CIBOR 3 months plus 2.15%, secured by a first ranking collateral mortgage on buildings located in Denmark, repayable in blended quarterly installments of \$126, maturing from March 2017 and December 2022	3,868	—
Bank loans in Danish Kroner (2007 - DKK nil; 2006 - DKK 5,884), repaid in 2007	—	993
Bank loans in Canadian dollars repaid in 2007	—	609
Equipment loans in Euros (2007- nil; 2006 €857) repaid in 2007	—	1,317
Total long-term debt	34,811	7,212

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

10. Long-Term Debt (continued)

	2007	2006
	\$	\$
Total long-term debt	34,811	7,212
Obligations under capital leases:		
Obligations under capital leases, bearing interest at rates ranging from 9.3% to 10.9% and repayable in monthly blended installments of \$38, maturing from November 2008 to April 2010	708	1,085
Obligations under capital leases in Euros (2007 - €205; 2006 - €278) bearing interest at EURIBOR 3 months, repayable in monthly installments of \$10, maturing in September and October 2010	305	427
Obligations under capital leases in Danish Kroner (2007 - DKK 579; 2006 - DKK 174), bearing interest at 5.3% and 6.6%, repayable in monthly blended installments of \$2.6, maturing in September 2010 and December 2011	112	36
Obligation under capital lease in Danish Kroner (2007 - DKK nil; 2006 - DKK 271), bearing interest at 5.5%, matured in December 2007	—	56
Total obligations under capital leases	1,125	1,604
	35,936	8,816
Current portion of long-term debt	2,111	1,230
	33,825	7,586

The aggregate maturities of long-term debt and obligations under capital leases for each of the five years subsequent to December 31, 2007 are as follows: 2008 - \$2,111; 2009 - \$3,336; 2010 - \$1,890; 2011 - \$1,945; 2012 - \$2,105 and thereafter - \$24,549.

Minimum lease payments under capital leases are as follows: 2008 - \$617; 2009 - \$423; 2010 - \$189; 2011 - \$26. These include amounts representing interest of \$130.

As security for the bank loan referred to in note 9 (a) as well as the equipment loan denominated in Canadian dollars, LAB Research has granted the creditor with a first ranking movable hypothec over the universality of the assets of LAB Canada.

The Company's Canadian, Danish and Hungarian credit facilities are subject to various covenants. The Company was in compliance with these covenants at December 31, 2007.

Included in "interest, net" on the consolidated and combined carve-out statement of earnings is interest expense related to long-term debt and capital leases of:

	2007	2006
	\$	\$
Interest expense on long-term debt	1,348	396
Interest expense on capital lease	71	166

11. Share Capital

Authorized:
An unlimited number of:
- Common shares
- Preferred shares, non voting, issuable in one or more series, each series to consist of such number of shares as may be fixed by the Board of Directors. The directors shall determine the designation, rights, privileges, conditions, and restrictions attached to shares of each series including the amount or method of calculation of dividends.

(A) ISSUED AND OUTSTANDING

	2007	2006
	\$	\$
18,050,714 common shares (2006 - 18,035,714)	63,753	63,672

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

11. Share Capital (continued)

(A) ISSUED AND OUTSTANDING (CONTINUED)

Changes in the issued and outstanding common shares for the years ended December 31, 2007 and 2006 were as follows:

	Number	Common shares	Dollars
	#		\$
Balance, December 31, 2005	—		—
Incorporation on May 24, 2006	1		—
Issued in connection with the spin-off (NOTE 1)	14,142,856 ¹		48,101 ¹
Issued for services rendered in connection with the IPO	142,857 ²		571 ²
Issued in connection with the IPO	3,750,000 ³		15,000 ³
Balance, December 31, 2006	18,035,714		63,672
Exercise of options			
For cash	15,000		60
Ascribed value	—		21
Balance, December 31, 2007	18,050,714		63,753

¹ Effective June 30, 2006, the Company issued:

(i) 101,915 common shares and a note payable amounting to \$26,181 to LAB Pre-Clinical in consideration for the assets and undertakings of LAB Canada as well as the shares of LAB US that it held;

(ii) 2,015,713 common shares and \$14,000 note to Akela in consideration for all of the shares of LAB Denmark that it held;

On July 27, 2006, the Company issued

(iii) One common share and a note of \$7,841 to Akela in consideration for the shares in LAB Hungary that it held;

(iv) One common share and a note of \$79 to LAB Pre-Clinical in consideration for the transfer of all of the shares of LAB Hungary that it held.

Subsequent to these transactions, the Company issued 12,025,226 common shares having a stated value of \$48,101 in consideration for the cancellation of the notes referred to above. The difference between the value of the common shares issued and the segment equity at the date of the transaction was charged to the deficit.

² On June 30, 2006 the Company issued 142,857 common shares having a fair value of \$571 to the President and Chief Executive Officer in payment for services rendered in connection with the IPO. As these services were conducted when the President and CEO was employed by Akela, the amount was reimbursed to the Company by Akela.

³ On August 3, 2006, the Company issued 3,750,000 common shares for aggregate proceeds of \$15,000 in connection with its IPO. Share issue costs related to the offering of \$1,850 were charged to the deficit.

(B) STOCK OPTION PLAN

On July 5, 2006, the Board of Directors adopted a stock option plan (the "Plan"), which came into effect upon closing of the initial public offering. The Plan is designed to attract, retain and motivate directors, officers, employees and service providers of the Company and to advance the interests of the Company by providing such persons with the opportunity to participate in the long-term growth of the Company. The Plan is administered by the Company's Board of Directors and, subject to the provisions of the Plan, the number of shares subject to each option, the option price, the expiration date of each option, the extent to which options are exercisable from time to time and the terms and conditions relating to each such option shall be determined by the Board. The aggregate number of common shares available for issuance is 10% of the common shares outstanding. The number of common shares, which may be issued to any one person under the Plan, and any other stock compensation agreement, shall not exceed 10% of the Company's common shares on a non-diluted basis. The exercise price of options granted under the Plan is set by the Board at the time of the grant of the options, but cannot be less than (i) the closing trading price of the common shares on the TSX immediately preceding the day on which an option is granted; (ii) in the event that the common shares did not trade on the TSX or any other recognized stock exchange during the said trading day, the volume weighted average trading price of the common shares on the TSX or any other recognized stock exchange for the five trading days immediately preceding the day on which an option is granted; or (iii) in the event that the common shares are not listed or posted for trading on the TSX or any other recognized stock exchange, the fair market value of the common shares as determined by the Board in its discretion. Options vest over a period from three to five years. Options are granted for a term not exceeding ten years.

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

11. Share Capital (continued)

(B) STOCK OPTION PLAN (CONTINUED)

Changes in options issued under the Company's stock option plan for the years ended December 31, 2007 and 2006 were as follows:

	Number	Weighted average exercise price
	#	\$
Options outstanding as at December 31, 2005	—	—
Granted	1,346,500	4.03
Cancelled	(67,500)	4.00
Balance, December 31, 2006	1,279,000	4.03
Granted	25,000	7.86
Exercised	(15,000)	4.00
Balance, December 31, 2007	1,289,000	4.11
Options exercisable, December 31, 2007	369,667	4.08

The following table summarizes information about stock options outstanding and exercisable at December 31, 2007:

Exercise price	Options outstanding	Options exercisable	Weighted average remaining contractual life (years)
\$ 4.00	1,179,000	328,000	8.60
4.25	55,000	18,333	8.81
5.05	30,000	23,334	8.93
7.86	25,000	—	9.63
	1,289,000	369,667	8.63

(C) SHAREHOLDER'S RIGHTS PLAN

In 2007, the Company's shareholders approved a shareholder's rights plan ("Rights Plan"). The rights issued to the shareholders under the Rights Plan will be exercisable, under certain conditions, only when a person or an entity, acquires or announces his (its) intention to acquire more than twenty percent of the outstanding common shares of the Company without complying with the "permitted bid" provisions of the Rights Plan or without the approval of the Company's Board of Directors. Should such an acquisition occur, each right would, upon exercise, entitle a holder, other than person pursuing the acquisition, to purchase six common shares of the Company at a 50 percent discount to market price of the Company's shares.

12. Stock-Based Compensation

The Company recognized total stock-based compensation of \$522 (2006 - \$216), which includes an expense of \$nil (2006 -\$35) related to the fair value of awards granted by Akela to LAB Research employees.

The weighted average fair value of each option granted is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	2007	2006
Risk-free interest rate	4.49%	4.17%
Expected volatility	42.63%	30.55%
Expected life in years	5	5
Expected dividend yield	nil	nil

The following table summarizes the weighted average grant-date fair value per share for options granted during the years ended December 31, 2007 and 2006:

	Number of options	Weighted average grant-date fair value
	#	\$
Exercise price per share equal to market price per share:		
December 31, 2007	25,000	3.43
December 31, 2006	1,346,500	1.39

Dividend yield was excluded from the calculation since it is the present policy of the Company to retain all earnings to finance operations.

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

13. Earnings Per Share

The reconciliation between basic and diluted earnings per share for continuing operations is as follows:

	2007	2006
Basic:		
Basic weighted average number of common shares outstanding	18,039,413	15,753,325
Basic earnings per share	\$0.12	\$0.30
Diluted:		
Basic weighted average number of common shares outstanding	18,039,413	15,753,325
Plus impact of stock options	358,610	—
Diluted common shares	18,398,023	15,753,325
Diluted earnings per share	\$0.12	\$0.30

14. Commitments, Contingencies and Guarantees

(A) OPERATING LEASES

LAB Research has entered into operating leases for office and laboratory equipment, cars and service contracts related to property and equipment. Minimum lease payments under these agreements are as follows: 2008 - \$744; 2009 - \$391; 2010 - \$164; 2011 - \$71; and for 2012 - \$16.

(B) COMMITMENT FOR CANADIAN EXPANSION

Effective November 16, 2007, LAB Research entered into an agreement to expand its facility in Canada for an aggregate amount of \$17,345. At December 31, 2007, the expansion was in progress and an amount of \$16,095 was committed under this agreement.

(C) LITIGATION

On January 30, 2008, the Company was informed by one of its sponsors that it had received notice from the Food and Drug Administration ("FDA") that the animal inhalation toxicology studies conducted by LAB Hungary were deemed invalid due to Good Laboratory Practices ("GLP") deficiencies. The deficiencies mentioned by the FDA in their letter to the sponsor had been highlighted and addressed by LAB Hungary in its final GLP report of the respective studies to the sponsor. LAB Hungary felt, when issuing its reports and is still of the opinion, that these deficiencies did not alter the results of the studies. The sponsor accepted our position and decided to file its Investigational New Drug filing with FDA. On February 20, 2008, LAB Research received a claim from the sponsor seeking recovery of the cost of the studies in an amount of \$4,216 and reserved its rights to claim future damages. The Company's insurer has been made aware of the sponsor's claim, but has not confirmed that the claim is covered by the Company's policy. The ultimate resolution of this matter and the estimated damages, if any, cannot be determined and, accordingly, the Company has not recorded any provision in its financial statements for this matter.

On December 21, 2007, LAB Research was served with an introductory motion of suit from one of its former suppliers claiming an amount of \$1,370 for the non-exercise of a right of first refusal. The file is at a very preliminary stage. An examination of the plaintiff's representative is scheduled for March 2008. The Company's management believes that the claim has no merit and, therefore, intends to vigorously defend its position. The ultimate resolution of this matter and the estimated damages, if any, cannot be determined and, accordingly, the Company has not recorded any provision in its financial statements for this matter.

LAB Research is party to other litigation arising in the normal course of operations. LAB Research does not expect the resolution of these other matters to have a materially adverse effect on the Company's financial position or operating results .

(D) GUARANTEES

In connection with the spin-off referred to in note 1, the Company assumed a number of liabilities, commitments and contingencies pertaining to the operations of LAB Pre-Clinical. As a result, the Company may be required to indemnify Akela for claims that could be brought against Akela or for the defense of, or defend, legal actions that arise from time to time in the normal course of business. At December 31, 2007 and 2006, the Company had not recorded a liability with respect to this guarantee as the Company is not aware of any such claim related to the period prior to the Spin-off and does not expect to make any payments for the aforementioned items.

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

15. Supplemental Information

(a) Direct costs are net of related tax credits. The related tax credits were as follows:

	2007	2006
	\$	\$
Research tax credits	4,521	3,485

(b) Other

At December 31, 2007, the Company had entered into forward contracts to sell US dollars with a nominal amount of \$3,500 at a weighted average rate of 1.0642 Can\$/US\$. These contracts mature at various dates to June 30, 2008.

16. Income Taxes

The income tax provision differs from the amount computed by applying the combined Canadian federal and Quebec tax rates to earnings before income taxes. The reasons for the difference and the related tax effects are as follows:

	2007	2006
	\$	\$
Earnings before income taxes	3,699	6,092
Combined Canadian federal and Quebec provincial income taxes at 32% (2006- 32%)	1,184	1,950
Adjustments for		
Difference with foreign tax rates	(55)	(528)
Effect of changes in enacted rates	282	155
Stock-based compensation	167	69
Tax credits not taxable	(155)	(115)
Permanent differences and others	89	(166)
Income tax provision	1,512	1,365

The provision for income taxes is composed of the following:

	2007	2006
	\$	\$
Current income taxes	617	3,188
Future income taxes	895	(1,823)
	1,512	1,365

The future income tax balances are summarized as follows:

	2007	2006
	\$	\$
Future income tax assets:		
Non-capital losses	146	72
Research and development expenses	2,243	1,912
Share issue costs and financing fees	380	529
Eligible capital	2,496	3,017
Deferred gain on sale of property and deferred rent liability	—	568
Other	—	(3)
	5,265	6,095
Less valuation allowance	—	(69)
Balance carried forward	5,265	6,026

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

16. Income Taxes (continued)

	2007	2006
	\$	\$
Balance brought forward	5,265	6,026
Future income tax liabilities:		
Property and equipment	(2,613)	(2,077)
Intangible assets	(42)	(770)
Forward exchange contracts	(86)	—
Work in progress	(682)	(745)
	(3,423)	(3,592)
Net future income tax assets	1,842	2,434
Presented as:		
Short-term asset	916	1,859
Long-term asset	3,435	3,306
Current liabilities	(585)	(692)
Long-term liabilities	(1,924)	(2,039)
	1,842	2,434

The Company accumulated scientific research and experimental expenditures and non-capital losses which are available to reduce future years' taxable income. Details of the available deductions are as follows:

	Federal	Provincial	Foreign
	\$	\$	\$
Scientific research and experimental expenditures			
Available indefinitely	8,693	6,212	—
Non-capital losses			
Available indefinitely	—	—	797

17. Supplemental Cash Flow Disclosure

(A) NET CHANGES IN OPERATING ASSETS AND LIABILITIES

	2007	2006
	\$	\$
Accounts and other receivables	(1,201)	(998)
Work in progress	(826)	264
Income taxes receivable	(1,534)	(441)
Prepaid expenses	(296)	(189)
Research tax credits recoverable	(3,143)	—
Accounts payable and accrued liabilities	2,670	1,386
Deferred revenue	1,455	1,329
	(2,875)	1,351

(B) CASH PAID FOR

	2007	2006
	\$	\$
Interest	1,412	563

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

17. Supplemental Cash Flow Disclosure (continued)

(C) NON-CASH TRANSACTIONS

	2007	2006
	\$	\$
Property and equipment financed through capital leases	121	495
Issue of common shares in relation to spin-off	—	48,101
Holdback payable	125	913
Services rendered in exchange for shares	—	571
Transfer of net assets from Akela	—	3,919
Tax benefit from transfer from Akela	—	3,126

(D) CASH AND CASH EQUIVALENTS

	2007	2006
	\$	\$
Cash balances in bank	3,842	8,295
Short-term investments, yields ranging from 4.4% to 4.7% (2006 -5.4%), matured January 2008 (2006 –January 2007)	2,983	221
	6,825	8,516

18. Related Party Transactions

	2007	2006
	\$	\$
Companies under common control:		
Revenues	—	2,698
Direct costs	—	1,308
Other:		
Professional services rendered by firms connected with directors	—	246
Interest revenue on loan receivable from a senior executive	9	—

Related party transactions in 2006 are transactions between the Company and other entities controlled by Akela. Akela ceased to be a related party to the Company on November 9, 2006.

On August 3, 2006, as part of the corporate reorganization that took place prior to the IPO, LAB Research and Akela entered into a number of agreements. Pursuant to a Preferred Supplier Agreement entered upon closing of the IPO, a wholly-owned subsidiary of Akela has undertaken to use the services of LAB Research on an exclusive basis and for a period of 60 months for all pre-clinical research studies and related services in the field of toxicology and toxicokinetics.

The price for the services provided by LAB Research under the agreement are calculated on the basis of all direct costs as well as overhead and administration costs (representing 40% of direct costs) plus a profit margin to vary in accordance with the volume of services performed during any given year. The parties have also entered into a non-competition and non-solicitation agreement whereby Akela has undertaken not to, directly or indirectly, for a period of 60 months following the closing of the offering, carry on, operate or be engaged in any business in Canada, the U.S. or any country in Europe (excluding Russia, Ukraine, Romania and Belarus) which provides pre-clinical contract research services in non-human subjects in the field of toxicology and toxicokinetics. The agreement also provides that Akela may not solicit or hire any employees of LAB Research for a period of 60 months following the closing of the offering.

In addition, LAB Research has entered into an Information Technology Services Agreement upon closing of the IPO with a company affiliated with certain directors and shareholders of Akela pursuant to which this company will provide information technology services to LAB Research in consideration of a monthly fee of \$50. The initial term of the Agreement is 12 months. Thereafter, any party shall be entitled to terminate the agreement upon 180 days prior written notice. The contract was terminated on August 31, 2007.

In April 2007, the Company disbursed a five-year loan in the amount of \$300 to the President and CEO of the Company, bearing interest at the cost of borrowing for the Company or interest that the Company would have received on such amount, as the case may be. During the year ended December 31, 2007, the Company recognized interest revenue related to this loan in the amount of \$9 (2006 – \$nil).

These transactions are measured at the exchange amount which is the consideration established and agreed to by the related parties.

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

19. Discontinued Operations

On April 30, 2007, the Company ceased its vivarium management activities conducted by LAB US. The activities of LAB US have been classified as discontinued operations and the results have been reported as a separate element of earnings or loss for both current and prior periods on the consolidated and combined carve-out statements of operations. The closure of LAB US did not result in a significant gain or loss to the Company. At December 31, 2007, the remaining net assets related to these operations were not material to the Company's consolidated balance sheet.

The following represents financial information related to discontinued operations

	2007	2006
	\$	\$
Revenues	391	1,787
Expenses:		
Direct costs	295	987
Selling, general and administrative	163	523
Amortization of property and equipment	20	60
Write-off of property and equipment	5	—
Foreign exchange	—	9
Net (loss) earnings	(92)	208

20. Financial Instruments

(A) CREDIT RISK

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, and accounts and other receivables. Cash and cash equivalents are maintained with a high credit quality financial institution. For receivables, the Company performs periodic credit evaluations and typically does not require collateral. Allowances are maintained for potential credit losses consistent with the credit risk, historical trends, general economic conditions and other information.

(B) FOREIGN CURRENCY RISK

The Company is subject to foreign currency exchange risk as its revenues are primarily received in U.S. dollars and Euros while a significant portion of its expenses are paid in Canadian dollars. Its profitability could therefore be affected by the Canadian/U.S. dollar and Canadian/Euros exchange rates, which may fluctuate over time and cannot be accurately predicted. From time to time, the Company engages in the use of derivative financial instruments to manage its currency exposure. See also note 15 (B).

(C) INTEREST RATE RISK

The Company's exposure to interest rate fluctuations is with respect to the bank and equipment loans denominated in Canadian dollars, the bank and revolving loans denominated in Euros and certain bank loans denominated in Danish Kroners which bear interest at floating rates.

(D) FAIR VALUE DISCLOSURE

Fair value estimates are made as of a specific point in time using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company has determined that the carrying values of the Company's short-term financial assets and liabilities are reasonable estimates of their fair values due to the relatively short periods to maturity of these instruments.

The fair values of the bank and equipment loans denominated in Canadian dollars, as well as the bank and revolving loans denominated in Euros and the variable-rate loans denominated in Danish Kroner, approximate their carrying values because interest is based on market-related variable rates. The fair values of the other financial instruments are as follows:

	Carrying amount	2007 Fair value
	\$	\$
Long-term investments	98	98
Long-term receivable from a senior executive	300	300
Term loans in Swiss Francs (CHF 13)	11	11
Term loans in Hungarian Forints (HUF 10,216)	58	58
Obligations under capital leases (CDN \$708)	708	708
Obligations under capital lease (€ 205)	305	305
Obligations under capital lease (DKK 579)	112	112

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

20. Financial Instruments (continued)

	Carrying amount	2006 Fair value
	\$	\$
Long-term investments	126	126
Term loan in Canadian dollars (CDN \$5)	5	5
Term loans in Swiss Francs (CHF 18)	17	17
Term loans in Hungarian Forints (HUF 12,042)	74	74
Bank loan in Danish Kroner (DKK 3,853)	574	574
Obligations under capital leases (CDN \$1,085)	1,085	1,085
Obligations under capital lease (€ 278)	427	427
Obligations under capital lease (DKK 445)	92	92
Long-term note receivable from landlord	1,920	898

The long-term note receivable from landlord was recorded at an amount in excess of fair value at December 31, 2006 because the Company intended to hold this note to maturity and recover the carrying amount in full. Refer to note 4.

21. Segment Disclosures

LAB Research has three reportable operating segments: LAB Canada, LAB Denmark and LAB Hungary. The activities of these segments are described in note 1 to the consolidated and combined carve-out financial statements. LAB US was previously part of the LAB North America segment. As a result of the closure of LAB US, the current and prior period segment disclosures are stated to exclude these operations. The Corporate segment is responsible for the Company's financial and corporate direction and also includes general expenses which cannot be directly attributable to a specific segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Segment disclosures are as follows:

	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	2007 Total
	\$	\$	\$	\$	\$
Revenues:					
Third parties	22,831	24,789	7,488	—	55,108
Direct costs	13,763	16,270	5,342	—	35,375
Selling, general and administrative	2,943	2,914	2,233	1,927	10,017
Stock-based compensation	65	73	49	335	522
Amortization of property and equipment	1,433	1,318	665	12	3,428
Amortization of intangible assets	—	517	—	—	517
Interest, net	937	372	110	(217)	1,202
Foreign exchange	(185)	100	433	—	348
Income taxes provision (recovery)	1,456	686	(126)	(504)	1,512
Net earnings (loss) from continuing operations	2,419	2,539	(1,218)	(1,553)	2,187

	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	2006 Total
	\$	\$	\$	\$	\$
Revenues:					
Third parties	14,805	23,120	7,083	—	45,008
Related parties	—	39	2,659	—	2,698
Direct costs	9,061	14,570	4,655	—	28,286
Selling, general and administrative	3,415	3,625	1,822	1,473	10,335
Stock-based compensation	50	40	17	109	216
Amortization of property and equipment	752	871	626	—	2,249
Amortization of intangible assets	—	501	—	—	501
Interest, net	196	243	123	(140)	422
Foreign exchange	(185)	20	(230)	—	(395)
Income taxes provision (recovery)	631	864	341	(471)	1,365
Net earnings (loss) from continuing operations	885	2,425	2,388	(971)	4,727

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

21. Segment Disclosures (continued)

Revenues were derived from customers located in the following geographic areas:

	2007	2006
	\$	\$
United States	16,534	11,585
Denmark	9,780	10,371
Canada	6,286	3,923
Germany	3,702	4,130
United Kingdom	3,684	1,433
Sweden	2,729	2,382
Korea	2,691	323
Switzerland	1,927	2,781
Norway	1,637	2,102
Austria	1,322	826
Spain	888	1,000
Finland	809	2,966
Hungary	772	719
Taiwan	667	748
Europe – other	652	945
Belgium	628	1,007
Australia	183	364
France	143	16
Asia – other	46	85
South Africa	28	—
	55,108	47,706

Property and equipment and intangible assets by geographic areas are as follows:

	2007	2006
	\$	\$
Canada	29,548	5,956
Denmark	21,443	15,631
Hungary	11,261	5,704
United States	—	241
	62,252	27,532

	2007	2006
	\$	\$
Segmented assets:		
Canada	50,545	31,191
Denmark	29,521	23,425
Hungary	12,578	9,035
United States	—	(77)
	92,644	63,574

NOTES TO CONSOLIDATED AND COMBINED CARVE-OUT FINANCIAL STATEMENTS

Years ended December 31, 2007 and 2006 (in thousand of Canadian dollars, except share and per share data)

21. Segment Disclosures (continued)

	2007	2006
	\$	\$
Expenditures for segment property and equipment and intangible assets:		
Canada	17,130	1,778
Denmark	8,566	3,504
Hungary	6,731	840
	32,427	6,122

22. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted in current period.

23. Subsequent Events

- (a) On January 31, 2008, the Company announced that it had entered into an agreement with a Canadian bank to secure a \$21,120 loan to finance its Canadian expansion. The loan consists of a \$13,700 mortgage with a 16 year term and a \$7,420 loan to finance equipment, repayable over 11 years. Under this agreement, no capital repayments are required before March 2009. The completion of the financing is subject to customary conditions.
- (b) Effective February 25, 2008, LAB Hungary renewed its operating credit in the amount of \$578 (400 Euros). The facility will bear interest at the EONIA plus 2% and is due on demand. This facility expires in February 2009.
- (c) An employee share purchase plan (the "SPP") was established in February 2008. Under the SPP, the Company will contribute a cash amount equivalent to the price of one common share for each ten shares bought by the employee up to a maximum of 3% of the employee's salary. The common shares will be bought on the stock market, for and on behalf of each employee. The Company assumes the general administrative costs of the SPP and the costs associated to the purchase of the common shares. No shares can be issued from treasury under the SPP.

CORPORATE INFORMATION

Board of Directors

Karsten Skydsgaard ^{2,3}
Chairman of the Board
Vice President, Projects Development
Novo Nordisk A/S

Luc Mainville, MBA ³
President and Chief Executive Officer
LAB Research Inc.

Richard Lacombe ^{1,2}
Vice President, Regulatory Affairs
BioSyntech Inc.

Garth Likes ^{1,3}
Chief Executive Officer
Cyplasin Biomedical Ltd.

Stephen Farrell ¹
Consultant

¹ Audit Committee Member

² Corporate Governance and Human Resources Committee Member

³ Mergers and Acquisitions Committee Member

Officers

Luc Mainville MBA
President and Chief Executive Officer

Louise Bussi eres B.A.A., C.A.
Vice President, Finance and Secretary

Christopher Martin Banks B.Sc., DABT
Managing Director
LAB Research Hungary

Andrew Makin B.A., M.Sc.
Managing Director
LAB Research Denmark

Denis Pilon Ph.D., MBA
Chief Operating Officer
LAB Research Canada

Sites

LAB Research Canada
LAB Research Inc. – Head Office
445 Armand-Frappier Blvd.
Laval, Quebec H7V 4B3 Canada
Telephone: 450 973-2240
Fax: 450 973-2259

LAB Research Denmark
LAB Research A/S
36A Hestehavevej
Ejby, DK-4623 Lille Skensved, Denmark
Telephone: +45 56 86 15 00
Fax: +45 56 82 12 02

LAB Research Hungary
LAB Research Ltd
Szabads agpuszta, PO Box 348
Veszpr em, H-8201, Hungary
Telephone: +36 88 545 333
Fax: +36 88 545 301

Others

Auditors
KPMG LLP

Legal Counsel
Fasken Martineau Dumoulin LLP

Registrar and Transfer Agent
Computershare Trust Company of Canada

Investor Relations
Echoes Financial Network inc.

General Annual Meeting of Shareholders
Monday, May 12, 2008, at 10:00 AM
in the Hochelaga 3 room of the Fairmont
Queen Elizabeth hotel located at
900 Rene Levesque Blvd. West,
Montreal, Quebec

Stock Information
The shares of LAB Research are listed
on the TSX under the symbol LRI. As at
December 31, 2007, the Company held
18,050,714 issued and outstanding shares.

Shareholders wishing to obtain a copy of
the Annual Information Form, or any other
corporate documents, are invited to write,
fax (450 973-2259) or email
(ir@labresearch.com) their request
to the Company's head office.

www.labresearch.com



