

Consolidated and Combined Carve-Out Financial Statements of
(Unaudited)

LAB RESEARCH INC.

Periods ended September 30, 2006 and 2005

LAB RESEARCH INC.

Consolidated and Combined Carve-Out Financial Statements
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars)

Financial Statements

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LAB RESEARCH INC.

Consolidated and Combined Carve-Out Balance Sheets
(Unaudited)

September 30, 2006 and December 31, 2005
(in thousands of Canadian dollars)

	September 30, 2006	December 31, 2005
		(Audited)
Assets		
Current assets:		
Cash	\$ 12,466	\$ 3,727
Accounts and other receivables	13,516	6,923
Work in progress	1,631	2,314
Prepaid expenses	1,382	862
Advances to companies under common control (note 8)	922	-
	29,917	13,826
Property and equipment	19,283	17,937
Intangible assets	2,659	2,944
Other assets (note 3)	1,801	1,745
Future income taxes	479	578
	\$ 54,139	\$ 37,030
Liabilities and Shareholders' Equity and LAB International's Net Investment		
Current liabilities:		
Bank loan	\$ 223	\$ 432
Accounts payable and accrued liabilities	8,839	7,165
Income taxes payable	80	1,573
Deferred revenue	5,722	4,673
Current portion of long-term debt (note 4)	2,262	2,320
Deferred gain on sale of property	84	68
Future income taxes	174	517
Advances from companies under common control (note 8)	-	2,897
	17,384	19,645
Deferred rent liability	198	37
Deferred gain on sale of property	1,513	1,603
Long-term debt (note 4)	6,468	8,049
Future income taxes	2,249	1,821
Shareholders' equity and LAB International's net investment:		
Share capital (note 5 (a))	63,672	-
Additional paid in capital	126	-
Cumulative translation adjustment	(1,386)	(1,462)
Deficit	(36,085)	-
Segment equity	-	7,337
	26,327	5,875
Subsequent event (note 10)		
	\$ 54,139	\$ 37,030

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

Approved on behalf of the Board of Directors:

LAB RESEARCH INC.

Consolidated and Combined Carve-Out Balance Sheets
(Unaudited)

September 30, 2006 and December 31, 2005
(in thousands of Canadian dollars)

_____ Director

_____ Director

LAB RESEARCH INC.

Consolidated and Combined Carve-Out Statements of Earnings
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Revenues	\$ 12,319	\$ 12,087	\$ 36,451	\$ 35,462
Expenses:				
Direct costs	7,246	6,692	21,741	21,224
Selling, general and administrative	2,612	2,531	7,771	7,515
Stock-based compensation	126	47	161	96
Amortization of property and equipment	572	635	1,895	2,142
Amortization of intangible assets	125	119	371	317
Write-off of property and equipment	-	-	-	518
Interest on long-term debt	142	279	432	728
Foreign exchange	116	(20)	39	(71)
	10,939	10,283	32,410	32,469
Earnings before income taxes	1,380	1,804	4,041	2,993
Provision for income taxes	343	495	1,059	814
Net earnings	\$ 1,037	\$ 1,309	\$ 2,982	\$ 2,179
Earnings per share:				
Basic	\$ 0.06	\$ 0.09	\$ 0.20	\$ 0.15
Diluted	0.06	0.09	0.20	0.15
Weighted average number of shares outstanding:				
Basic	16,639,363	14,142,857	14,772,112	14,142,857
Effect of dilutive options	-	-	-	-
Diluted	16,639,363	14,142,857	14,772,112	14,142,857

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

LAB RESEARCH INC.

Consolidated and Combined Carve-Out Statements of Shareholders' Equity and LAB International's Net Investment
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars)

	Share Capital (note 5)	Additional paid-in capital (note 5(b))	Cumulative translation adjustment	Deficit	Segment Equity
Balance, December 31, 2005	\$ -	\$ -	\$ (1,462)	\$ -	\$ 7,337
Net earnings to June 30, 2006 prior to corporate reorganization	-	-	-	-	1,945
Cumulative translation adjustment	-	-	(20)	-	-
Transfers to LAB International Inc.	-	-	-	-	(596)
Balance, June 30, 2006	-	-	(1,482)	-	8,686
Transfers from LAB International (note 2(b))	-	-	-	-	3,990
Issue of common shares in connection with spin-off	48,101	-	-	(35,425)	(12,676)
Net earnings for the three-month period ended September 30, 2006	-	-	-	1,037	-
Cumulative translation adjustment	-	-	96	-	-
Stock-based compensation	-	126	-	-	-
Issue of common shares in connection with initial public offering and related share issue costs	15,000	-	-	(1,697)	-
Issue of common shares for services	571	-	-	-	-
Balance, September 30, 2006	\$ 63,672	\$ 126	\$ (1,386)	\$ (36,085)	\$ -

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

LAB RESEARCH INC.

Consolidated and Combined Carve-Out Statements of Cash Flows

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net earnings	\$ 1,037	\$ 1,309	\$ 2,982	\$ 2,179
Adjustments for:				
Amortization of property and equipment	572	635	1,895	2,142
Write-off of property and equipment	6	20	18	518
Amortization of intangible assets	125	119	371	317
Amortization of deferred financing fees	7	-	26	4
Unrealized loss on foreign exchange	155	-	155	-
Stock-based compensation	126	47	161	96
Amortization of deferred gain of property	(19)	-	(74)	-
Deferred rent liability	54	-	161	-
Future income taxes	19	(172)	(979)	(695)
Changes in net assets and liabilities not transferred by LAB Pre-Clinical	200	(98)	(306)	92
Net changes in operating assets and liabilities (note 7 (a))	(1,570)	140	1,054	1,305
	712	2,000	5,464	5,958
Cash flows from financing activities:				
Proceeds from issuance of common shares	15,000	-	15,000	-
Share issue costs	(1,697)	-	(1,697)	-
Proceeds from issuance of long-term debt	68	191	68	191
Repayment of long-term debt	(901)	(503)	(1,557)	(1,140)
Repayment of capital leases	(326)	(191)	(938)	(191)
Net advances from companies under common control	(364)	645	111	5,071
Proceeds from bank loan	223	-	223	-
Repayments under bank credit facilities	(223)	-	(432)	(15)
	11,780	142	10,778	3,916
Cash flows from investing activities:				
Business acquisitions, net of cash acquired	-	(61)	-	(6,252)
Payment of holdback payable	-	-	-	(65)
Additions to property and equipment	(1,187)	(566)	(2,642)	(1,478)
Costs incurred for the Canadian expansion to be reimbursed by the landlord	(1,321)	-	(4,785)	-
Other assets	650	-	(83)	634
	(1,858)	(627)	(7,510)	(7,161)
Net increase in cash	10,634	1,515	8,732	2,713
Cash, beginning of period	2,506	3,004	3,727	1,694
Effect of exchange rate changes	(674)	(1,645)	7	(1,533)
Cash, end of period	\$ 12,466	\$ 2,874	\$ 12,466	\$ 2,874

Supplemental cash flow disclosure (note 7)

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

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

1. Nature of operations and organization:

LAB Research Inc. ("LAB Research" or the "Company") and its wholly-owned subsidiaries being Scantox, Biologisk Laboratorium A/S ("LAB Denmark"), LAB International Research Center Hungary Limited Liability Company ("LAB Hungary") and LAB Research International, Inc. ("LAB US") provides pre-clinical and non-clinical contract research services to the pharmaceutical and biotechnology industries by performing pre-clinical studies required for the development of drugs intended to be used for the treatment of human conditions or diseases.

LAB Research was incorporated as a wholly-owned subsidiary of LAB International Inc. ("LAB International") on May 24, 2006 to acquire the pre-clinical contract research services business from LAB International.

The consolidated balance sheet as at September 30, 2006 gives effect to the corporate reorganization, which was completed as follows:

Effective June 30, 2006, the following transactions ("Spin-off") were completed:

- (a) LAB Pre-Clinical Research International Inc. ("LAB Pre-Clinical") transferred the assets and undertakings comprising its pre-clinical contract research business (hereinafter called "LAB Canada") as well as the shares of LAB US that it held to LAB Research in consideration for a \$26,181 note and 101,915 common shares.
- (b) LAB International transferred all of the shares of LAB Denmark that it held to LAB Research in consideration for the issuance of a \$14,000 note and 2,015,713 common shares;
- (c) LAB International and LAB Canada transferred the notes referred to above to 4349695 Canada Inc., a newly-created, wholly-owned subsidiary of LAB International, for common shares in the capital of 4349695 Canada Inc.

On July 27, 2006, the following transactions were completed:

- (a) LAB International transferred all of the shares in LAB Hungary that it held to the Company for a consideration consisting of a note in the amount of \$7,841 and one common share;
- (b) LAB Pre-Clinical transferred all of the shares of LAB Hungary that it held to the Company for a consideration consisting of a note in the amount of \$79 and one common share.
- (c) 4349695 Canada Inc. subscribed for 12,025,226 common shares of LAB Research Inc. for \$48,101 payable by the cancellation of the notes referred to above.

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

1. Nature of operations and organization (continued):

Subsequent to these transactions, LAB Research owned all of the assets and assumed the liabilities related to the pre-clinical contract research services business of LAB Canada and owned all of the outstanding shares of LAB Hungary, LAB Denmark and LAB US. On August 3, 2006, the Company completed its initial public offering ("IPO") and issued 3,750,000 common shares for aggregate proceeds of \$15,000. On August 3, 2006, the Company started trading on the Toronto Stock Exchange under the ticker "LRI". In connection with the IPO, LAB International also sold 7,750,000 common shares (including the over-allotment option) it held in the Company. Subsequent to these transactions, LAB International's ownership interest in the Company was 35.4% (see subsequent event note 10).

2. Basis of presentation:

(a) Pre IPO:

The combined carve-out balance sheet as of December 31, 2005 has been derived from the accounting records of LAB International using the historical results of operations and historical basis of assets and liabilities of the segment subsequently transferred to us 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 our financial position, results of operations and cash flows or what our past financial position, results of operations and cash flows would have been if we were a stand-alone company during the periods presented. To give effect to the continuity of LAB International's interest in the assets and liabilities of the Company, all the assets and liabilities have been recorded in these consolidated financial statements at LAB International's book values. The results of operations of LAB Canada, LAB Hungary, LAB Denmark and LAB US are included in the statement of operations from January 1, 2005.

The Company's subsidiaries are included in these consolidated and carve-out financial statements using the purchase method of accounting. All significant inter-company balances and transactions have been eliminated.

LAB International's net investment in LAB Research's segment presented in the December 31, 2005 balance sheet includes the accumulated earnings of the segment as well as the additional paid-in capital and net assets and liabilities of LAB Pre-Clinical not transferred to LAB Research.

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

2. Basis of presentation (continued):

(a) Pre IPO (continued):

The financial results for the three-month and nine-month periods ended September 30, 2005 as well as the period from January 1 to August 2, 2006 represent our combined results of operations and cash flows on a carve-out accounting basis.

As we operated as a segment of LAB International and were not a stand-alone company prior to August 3, 2006, our historical combined carve-out financial statements include cost allocations of LAB International 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 LAB International. 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 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. These allocations are reflected in "selling, general and administrative" in the consolidated and combined carve-out statement of earnings.

For the period of three months ended September 30, 2006, the allocated costs amounted to \$190 (2005-\$275). For the nine-month period ended, they amounted to \$665 (2005- \$825).

Earnings per share:

Prior to the IPO, the Company was not a separate entity with common shares outstanding. The earnings per share for the three-month and nine-month periods ended September 30, 2005 and the three-month period ended September 30, 2006 were calculated using the common shares outstanding immediately after the completion of the Spin-off as being the common shares outstanding at January 1, 2005 and for the period up to August 3, 2006, date of the IPO.

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

2. Basis of presentation (continued):

(b) Post IPO:

The consolidated balance sheet as of September 30, 2006 and the results of operations from August 3, 2006 to September 30, 2006 present our consolidated financial position, results of operations and cash flows as a stand-alone entity. Following the IPO on August 3, 2006, as a stand alone basis, the Company performed its corporate functions with its own resources or purchased services. The difference of \$3,990 between allocated costs presented in the historical financial statements and management fees charged by LAB International prior to the Spin-off has been charged as an adjustment to the segment equity of the Company.

(c) Interim financial statements:

The unaudited interim consolidated and combined carve-out financial statements of the Company have been prepared under Canadian generally accepted accounting principles. The unaudited consolidated balance sheet as at September 30, 2006 and the unaudited interim consolidated and combined carve-out statements of operations, deficit and cash flows for the three and nine-month periods ended September 30, 2006 and 2005 reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results of the interim periods presented. The Company's revenues and expenses are subject to seasonal variations. Consequently, the results for any quarter are not necessarily indicative of the results for the full year. The interim consolidated and combined carve-out financial statements follow the same accounting policies described in note 2 of the combined carve-out financial statements of the Company for the year ended December 31, 2005 presented in the final prospectus of the Company dated July 24, 2006. The interim consolidated and combined carve-out financial statements have not been reviewed by the Company's auditors.

The interim consolidated combined carve-out financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the combined carve-out financial statements of the Company presented in the final prospectus of the Company filed on July 24, 2006.

All amounts in the attached notes are unaudited unless specifically identified.

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

3. Other assets:

	September 30, 2006	December 31, 2005
		(Audited)
Long-term investments, at cost which approximates fair value	\$ 152	\$ 126
Deferred financing fees, at cost, net of accumulated amortization of \$32 (2005 - \$6)	26	41
Long-term note receivable from lessor	1,621	910
Term deposit pledged as security for non-revolving loan	-	645
Other	2	23
	\$ 1,801	\$ 1,745

4. Long-term debt:

	September 30, 2006	December 31, 2005
		(Audited)
Equipment loan in Canadian dollars, bearing interest at bank prime plus 0.5%, secured by a first ranking moveable hypothech on equipment located in Canada, repayable in 60 monthly instalments of \$19	\$ 274	\$ 443
Non-revolving loan in Canadian dollars, bearing interest at bank prime plus 0.5%, secured by term deposit, repayable in monthly instalments of \$4, maturing in 2019	-	581
Mezzanine loan in Canadian dollars, bearing interest at bank prime plus 0.5%, repayable in monthly instalments of \$11, maturing in 2009	386	483
Obligations under capital leases, bearing interest at rates ranging from 8.7% to 10.9% and repayable in monthly blended installments of \$40, maturing from November 2008 to July 2010	1,206	885
Equipment loan in Euros (2006 - €428; 2005 - €545) bearing interest at Euribor plus 2.3%, secured by a first ranking collateral mortgage on the building located in Hungary and repayable in 47 monthly installments of \$17 starting July 2005	607	750
Balance carried forward	2,473	3,142

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

4. Long-term debt (continued):

	September 30, 2006	December 31, 2005 (Audited)
Balance brought forward	\$ 2,473	\$ 3,142
Equipment loan in Euros (2006 - €624; 2005 - €1,092) bearing interest at Euribor plus 2.3%, secured by a first ranking collateral mortgage on the building located in Hungary and repayable in 25 monthly installments of \$68 starting September 2005	884	1,503
Term loan in Hungarian Forints (2006 - HUF 3,023; 2005 - HUF 3,492), bearing interest at 7.84%, secured by automotive equipment, repayable in 72 monthly instalments of \$0.3	17	19
Obligations under capital leases in Euros (2006 - €294; 2005 - €414) bearing interest at Euribor 3 months, repayable in monthly instalments of \$7, maturing in October 2010	417	570
Bank loan in Danish Kroner (2006 - DKK 18,153; 2005 - 18,482), bearing interest at the bank bond rate plus 0.06%, secured by a first ranking collateral mortgage on one building located in Denmark, repayable in blended quarterly instalments of \$48, maturing in December 2034	3,451	3,410
Bank loan in Danish Kroner (2006 - DKK 2,362; 2005 - 2,402), bearing interest at the bank bond rate plus 0.06%, secured by a first ranking collateral mortgage on one building located in Denmark, repayable in blended quarterly instalments of \$6, maturing in December 2034	449	443
Bank loans in Danish Kroner (2006 - DKK 2,031; 2005 - 2,344), bearing interest at CIBOR plus 2.75%, secured by a second ranking collateral mortgage on one building located in Denmark, repayable in semi-annual instalments of \$30, maturing in April and July 2013	386	433
Bank loan in Danish Kroner (2006 - nil; 2005 - 200), bearing interest at 6%, secured by second ranking collateral mortgage on one building located in Denmark, matured in April 2006	-	33
Balance carried forward	8,077	9,553

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

4. Long-term debt (continued):

	September 30, 2006	December 31, 2005 (Audited)
Balance brought forward	\$ 8,077	\$ 9,553
Bank loans in Danish Kroner (DKK 2,106; 2005 - 2,457), secured by second ranking collateral mortgage on one building located in Denmark, bearing interest at 6%, repayable in quarterly instalments of \$22, maturing in January 2011	309	358
Bank loan in Danish Kroner (2006 - DKK 1,917; 2005-2,077), secured by second ranking collateral mortgage on one building located in Denmark, bearing interest at 6%, repayable in quarterly instalments of \$10, maturing in September 2015	249	268
Obligation under capital lease in Danish Kroner (2006 - DKK 344; 2005 - 505), bearing interest at 3.5% and repayable in monthly blended instalments of \$9, repaid in 2006	-	97
Obligation under capital lease in Danish Kroner (2006 - DKK 162; 2005 - 525), bearing interest at 5.3% and repayable in monthly blended instalments of \$7, maturing in February 2007	31	93
Obligation under capital lease in Danish Kroner (2006 - DKK 336; 2005 - nil), bearing interest at 5.5% and repayable in quarterly blended instalments of \$13, maturing in December 2007	64	-
	8,730	10,369
Current portion of long-term debt	2,262	2,320
	\$ 6,468	\$ 8,049

As security for the bank loan as well as the equipment loan and mezzanine loan denominated in Canadian dollars, the Company has granted the creditor with a first ranking movable hypothec over the universality of the assets of LAB Canada.

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

5. 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:

	September 30, 2006	December 31, 2005
18,035,714 common shares (2005 – nil)	\$ 63,672	\$ -

Changes in the issued and outstanding common shares for the nine-month period ended September 30, 2006 were as follows:

	Common shares	
	Number	Dollars
Balance, December 31, 2005 (audited)	-	\$ -
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, September 30, 2006	18,035,714	\$ 63,672

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

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

5. Share capital (continued):

(a) Issued and outstanding (continued):

- (1) On July 27, 2006, the Company issued:
- (iii) One common share and a note of \$7,841 to LAB International in consideration for the shares in LAB Hungary that it held to the Company;
 - (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 to the Company.

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.

- (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 LAB International, the amount will be reimbursed to the Company by LAB International.
- (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 \$1,697 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 stock option 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.

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Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

5. Share capital (continued):

(b) Stock option plan (continued):

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 the stock options granted under the Plan must not be less than the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the five days immediately preceding the day on which an option is granted. Options may not be exercised during the first year following the grant thereof. Options are granted for a term not exceeding ten years.

On August 3, 2006, the Company granted 1,261,500 options at an exercised price of \$4.00.

No options were exercisable at September 30, 2006.

The following table summarizes information about stock options outstanding and exercisable at September 30, 2006:

Exercise price	Options outstanding	Options exercisable	Weighted average remaining contractual life (years)
\$ 4.00	1,261,500	-	9.85

6. Stock-based compensation:

For the nine-month period ended September 30, 2006, the Company granted 1,261,500 (2005 – nil) options. The Company recognized total stock-based compensation of \$161 (2005 – \$96) which includes an expense of \$35 related to the fair value of awards granted by LAB International to LAB Research employees.

For the three-month period ended September 30, 2006, the Company granted 1,261,500 (2005 – nil) options. The Company recognized total stock-based compensation of \$126 (2005 – \$47).

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended September 30, 2006 and 2005
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6. Stock-based compensation (continued):

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

	September 30, 2006	September 30, 2005
Risk-free interest rate	4.19%	-
Expected volatility	30.55%	-
Expected life in years	5	-
Expected dividend yield	-	-

The following table summarizes the weighted average grant-date fair value per share for options granted during the periods ended September 30, 2006 and 2005:

	Number of options	Weighted average grant-date fair value
Nine-months ended:		
September 30, 2006	1,261,500	\$ 1.38
September 30, 2005	-	-
Three-months ended:		
September 30, 2006	1,261,500	\$ 1.38
September 30, 2005	-	-

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

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
(in thousands of Canadian dollars, except per share data)

7. Supplemental information:

(a) Net changes in operating assets and liabilities:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Accounts receivable	\$ (706)	\$ (689)	\$ (1,808)	\$ (2,954)
Work in progress	656	(502)	683	(1,650)
Prepaid expenses	(397)	103	(520)	(469)
Long-term work in progress	-	(259)	-	-
Accounts payable and accrued liabilities	(86)	576	1,674	3,141
Income tax payable	(1,301)	1,139	(24)	916
Deferred revenue	264	(228)	1,049	2,321
	\$ (1,570)	\$ 140	\$ 1,054	\$ 1,305

(b) Cash paid for:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Interest	\$ 476	\$ 410	\$ 176	\$ 146

(c) Non-cash transactions:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Property and equipment financed through capital leases	\$ 112	\$ 184	\$ 592	\$ 877
Issue of common shares in relation with the Spin-off	48,101	-	48,101	-
Services rendered in exchange of shares	571	-	571	-
Transfer from LAB International	3,965	-	3,965	-

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended September 30, 2006 and 2005
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7. Supplemental information (continued):

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Research tax credits	\$ 588	\$ 531	\$ 2,230	\$ 1,562

8. Related party transactions:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
LAB International:				
Revenues	\$ 1,154	\$ 438	\$ 2,587	\$ 985
Directs costs	491	160	1,219	450
Other:				
Professional services rendered by firms connected with directors	100	10	134	35

(a) Advances to companies under common control were \$922 at September 30, 2006 and advances from companies under common control were \$2,897 at December 31, 2005. Advances from companies under common control are non-interest bearing and have no specified terms of repayment.

(b) On August 3, 2006, as part of the corporate reorganization, LAB Research and LAB International entered into a number of agreements. Pursuant to a Preferred Supplier Agreement entered upon closing of the IPO, a wholly-owned subsidiary of LAB International will undertake 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 to be provided by LAB Research under the agreement will be 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 LAB International will not undertake not to, directly or indirectly, for a period of 60 months following the closing

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Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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8. Related party transactions (continued):

(b) 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, Belarus) which provides pre-clinical contract research services in non-human subjects in the field of toxicology and toxicokinetics. The agreement also provides that LAB International 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 offering with a company affiliated with certain directors and shareholders of LAB International 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 will be 12 months. Thereafter, any party shall be entitled to terminate the agreement upon 180 days prior written notice.

In connection with the separation from LAB International, 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 LAB International for claims that could be brought against LAB International or for the defense of, or defend, legal actions that arise from time to time in the normal course of business.

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

9. Segment disclosures:

The Company has three reportable segments: North America, LAB Denmark and LAB Hungary. LAB North America includes corporate activities and those of LAB Canada and LAB US. The activities of these segments are described in note 1 to the combined carve-out financial statements. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in our 2005 annual combined carve-out financial statements presented in the final prospectus of the Company dated July 24, 2006.

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
(Unaudited)

Periods ended September 30, 2006 and 2005
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9. Segment disclosures (continued):

Three-month period ended September 30, 2006				
	LAB North America	LAB Denmark	LAB Hungary	Total
Revenues				
Third parties	\$ 3,902	\$ 5,893	\$ 1,370	\$ 11,165
Related parties	-	14	1,140	1,154
Direct costs	2,712	3,553	981	7,246
Selling, general and administrative	1,042	948	622	2,612
Stock-based compensation	108	12	6	126
Amortization of property and equipment	181	235	156	572
Amortization of intangible assets	-	125	-	125
Interest on long-term debt	52	60	30	142
Foreign exchange	(10)	18	108	116
Income taxes provision (recovery)	(50)	284	109	343
Net earnings	(133)	672	498	1,037

Three-month period ended September 30, 2005				
	LAB North America	LAB Denmark	LAB Hungary	Total
Revenues				
Third parties	\$ 5,202	\$ 4,584	\$ 1,863	\$ 11,649
Related parties	35	-	403	438
Direct costs	2,495	2,923	1,274	6,692
Selling, general and administrative	1,136	897	498	2,531
Stock-based compensation	43	4	-	47
Amortization of property and equipment	201	305	129	635
Amortization of intangible assets	-	119	-	119
Interest on long-term debt	85	212	(18)	279
Foreign exchange	(105)	(12)	97	(20)
Income taxes provision (recovery)	436	(15)	74	495
Net earnings	946	151	212	1,309

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended September 30, 2006 and 2005
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9. Segment disclosures (continued):

Nine-month period ended September 30, 2006				
	LAB North America	LAB Denmark	LAB Hungary	Total
Revenues				
Third parties	\$ 12,751	\$ 17,189	\$ 3,924	\$ 33,864
Related parties	-	68	2,519	2,587
Direct costs	7,679	10,953	3,109	21,741
Selling, general and administrative	3,463	2,741	1,567	7,771
Stock-based compensation	136	19	6	161
Amortization of property and equipment	615	828	452	1,895
Amortization of intangible assets	-	371	-	371
Interest on long-term debt	156	182	94	432
Foreign exchange	(15)	(46)	100	39
Income taxes provision	167	661	231	1,059
Net earnings	550	1,548	884	2,982

Nine-month period ended September 30, 2005				
	LAB North America	LAB Denmark	LAB Hungary	Total
Revenues				
Third parties	\$ 14,523	\$ 15,108	\$ 4,846	\$ 34,477
Related parties	35	-	950	985
Direct costs	7,716	10,163	3,345	21,224
Selling, general and administrative	3,202	2,863	1,450	7,515
Stock-based compensation	71	6	19	96
Amortization of property and equipment	694	1,054	394	2,142
Amortization of intangible assets	-	317	-	317
Write-off of property and equipment	-	518	-	518
Interest on long-term debt	255	374	99	728
Foreign exchange	(93)	42	(20)	(71)
Income taxes provision	699	34	81	814
Net earnings	2,014	(263)	428	2,179

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended September 30, 2006 and 2005
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9. Segment disclosures (continued):

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

	September 30, 2006	September 30, 2005
United States	\$ 9,795	\$ 12,647
Denmark	7,561	6,812
Canada	3,064	4,776
Germany	3,217	2,251
Spain	839	18
United Kingdom	1,037	2,193
Sweden	1,856	1,749
Switzerland	2,340	636
Australia	372	699
Korea	319	406
Hungary	298	469
France	16	550
Belgium	786	483
Norway	652	333
Austria	429	221
Asia - other	699	162
Finland	2,592	1,014
Europe - other	579	43
	\$ 36,451	\$ 35,462

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

	September 30, 2006	December 31, 2005
		(Audited)
Denmark	\$ 12,564	\$ 11,962
Canada	4,320	3,728
Hungary	4,798	4,879
United States	260	312
	\$ 21,942	\$ 20,881

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Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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9. Segment disclosures (continued):

	September 30, 2006	December 31, 2005
		(Audited)
Segmented assets:		
Denmark	\$ 20,250	\$ 17,674
Canada	26,399	11,223
Hungary	7,438	7,373
United States	52	760
	<u>\$ 54,139</u>	<u>\$ 37,030</u>

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Expenditures for segment property and equipment and intangibles assets:				
Denmark	\$ 648	\$ 41	\$ 1,378	\$ 579
Canada	413	300	638	14,936
Hungary	124	225	624	394
United States	2	-	2	67
	<u>\$ 1,187</u>	<u>\$ 566</u>	<u>\$ 2,642</u>	<u>\$ 15,976</u>

Expenditures for segment property and equipment for the nine-month period ended September 30, 2005 include long-lived assets purchased through the acquisition of LAB Denmark.

10. Subsequent event:

On October 27, 2006, LAB International announced a "bought deal" with Desjardins Securities Inc. with respect to a private placement of 6,392,857 special warrants at \$4.05 per special warrant for gross proceeds of \$25,891. Each special warrant will entitle the holder to acquire from LAB International, for no additional consideration, one common share of LAB Research Inc. The transaction is expected to close on or before November 9, 2006. Subsequent to this transaction, LAB International's ownership interest in the Company will be reduced from 35.4% to nil. As part of the transaction, the Company will prepare and file a short-form prospectus to qualify the common shares underlying the special warrants.