2006
ANNUAL REPORT

Excellence in Research

Excellence in Research...

2006

Initial public offering of LAB Research – gross proceeds of $15 M
Complete spin-off of LAB Research by LAB International
Expansion of Canadian facilities
Initiation of expansion of European facilities
Total surface area: 265,000 sq.ft.
450 employees

2005

Acquisition of LAB Research Denmark (founded in 1978)
- Services: toxicology, dermal studies, genotoxicity and reproductive toxicology
- World leader in use of mini-pigs for toxicology

Total surface area: 258,000 sq.ft.
400 employees

2004

Luc Mainville assumes operational responsibilities at LAB Research
Major investment and expansion of inhalation services in Hungary
60% organic growth
Total surface area: 186,000 sq.ft.
250 employees

2003

Acquisition of LAB Research Hungary (founded in 1974)
- Services: general toxicology, genotoxicity, ecotoxicology, reprotoxicology and inhalation

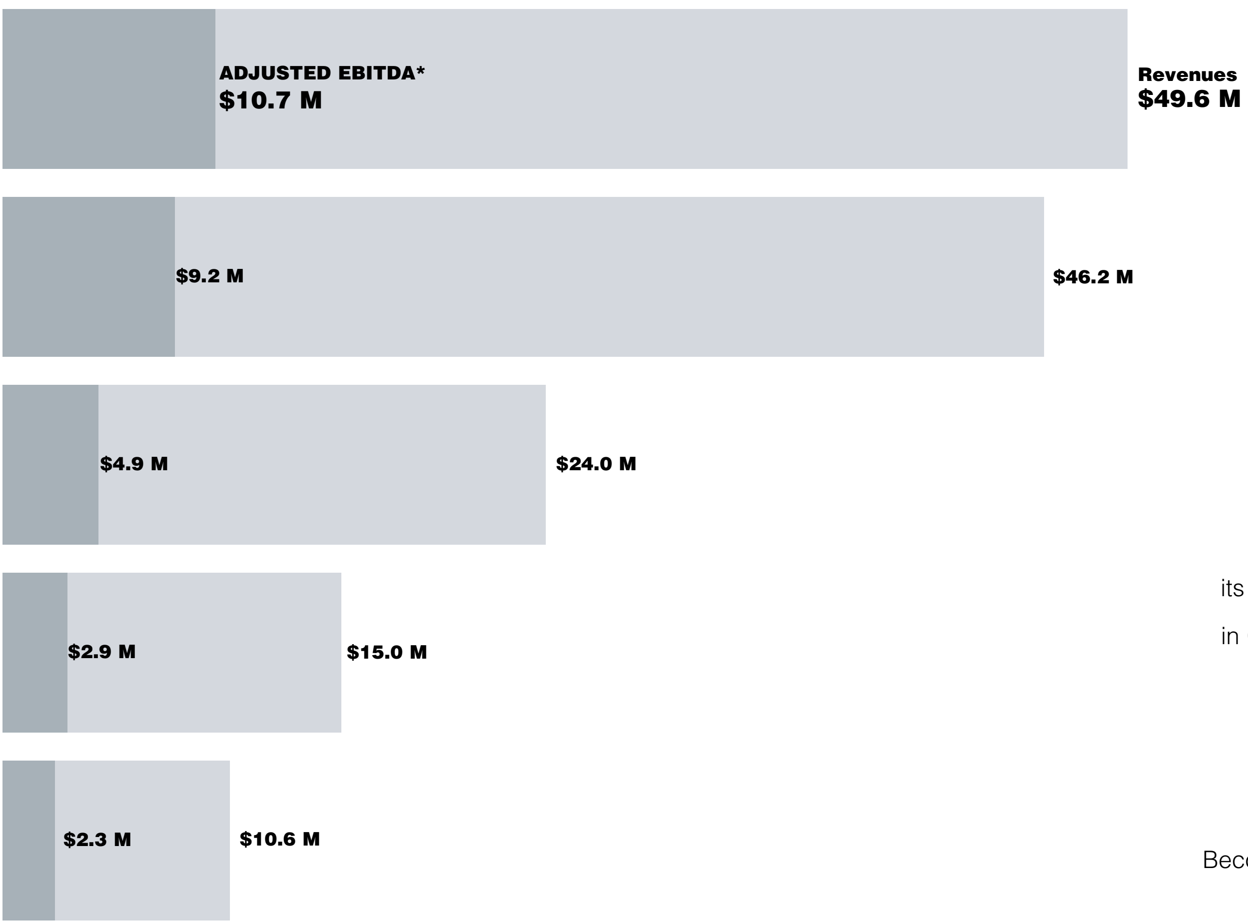
Total surface area: 186,000 sq.ft.
230 employees

2002

LAB International, parent company of LAB Research, listed on the Toronto Stock Exchange
Construction of LAB Research Canada new facilities
Start-up of LAB Research USA in San Diego
Total surface area: 79,000 sq.ft.
110 employees

Leading to Accelerated Growth

Adjusted earnings before interest, income taxes, depreciation and amortization (adjusted EBITDA*) and revenues



* excluding the impact of the sale-leaseback transaction of the Canadian facility and the write-off of property and equipment

profile

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 customers' products from four state-of-the-art facilities located in Canada, the United States, Denmark and Hungary. The shares of the Company trade on the TSX under the symbol LRI.

mission

Become the obvious first-choice provider of global biomedical and regulatory-driven product development services

Message from the Chief Executive Officer

Subsequent to LAB Research's initial public offering, LAB International still held 34% of the Company. In light of the great interest expressed by the financial community, this residual position was sold to various institutions three months later, thereby making LAB Research a completely distinctive and autonomous company.

Dear Shareholders, Customers and Employees,

August 3, 2006 marked a turning point in LAB Research Inc.'s development. Eight years after it was founded, the Company became a separate entity from LAB International. This shift in direction resulted from LAB Research's initial public offering, which proved a real success: institutional investors in Canada, the United States and Europe acquired significant interests; brokers exercised their over-allotment option. The aggregate proceeds from the issue totalled $46 million, including $15 million to the Company and $31 million to LAB International for the divestment of some of its shares. Furthermore, the value of LAB Research's shares, listed on the Toronto Stock Exchange under the symbol LRI, grew by more than 40% within the next six months. We are proud of the confidence and trust shown by the financial community and pleased to now have the funds needed to implement our business plan and realize our ambitions.

Preclinical services include general toxicology, genotoxicity, safety pharmacology, bioanalytics and efficacy studies leading ultimately to the filing of an application to undertake clinical trials. Such studies can last anywhere from one to four weeks prior to the IND, and up to two years afterwards. Among 250 candidates in the preclinical phase, a single drug will end up on the market.
A company must invest an average of US$800 million and dedicate 10 to 15 years of effort to bring a drug to marketing.

STAGES OF THE DRUG DEVELOPMENT PROCESS (IN THE USA)

PHASE OF FDA SUBMISSION

PHASE OF DEVELOPMENT	**Chemical Synthesis**	**Preclinical Testing Pharmacology**
PRIMARY OBJECTIVES		**Drug Safety** • Pharmacological screening • Pharmacodynamics • Pharmacokinetics • Toxicokinetics • Acute toxicity • Genotoxicity • Subchronic toxicity

Message from the Chief Executive Officer

Steady Growth

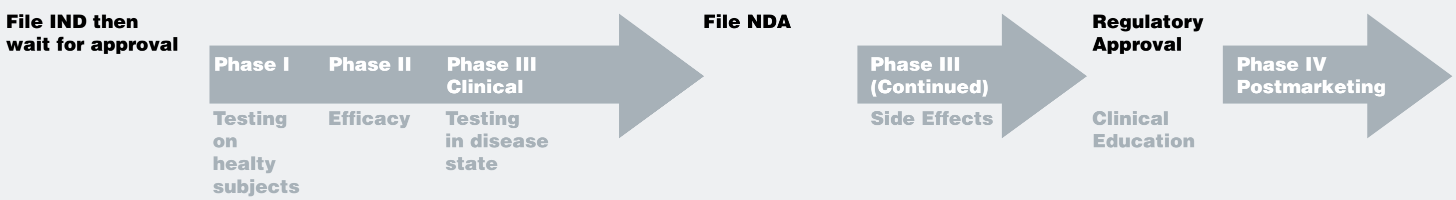
Our investors' confidence is due notably to the strong track record of the Company itself and the industry as a whole. In 2005, the global contract research industry generated revenues of US$12.9 billion and research firms expect it to grow at a compounded annual growth rate of about 16%. LAB Research is focused on non-clinical contract research, a sector that generated revenues of US$3.4 billion in 2005. Several trends underlie this strong demand, including the increase in pharmaceutical firms' R&D expenditures, the boom in the biotechnology industry, and the many advantages of outsourcing these tasks to subcontractors. Well-established, recognized companies such as LAB Research will be the ones to benefit from this growth, given the major barriers limiting the entry of new suppliers.

LAB Research has grown at a compound annual growth rate of 45% over the past five years. Through strategic acquisitions and robust organic development, its revenues increased from $10.6 million in 2002 to $49.6 million in 2006. Today, the Company serves approximately 700 pharmaceutical, biotechnological, agro-chemical and industrial companies, for whom it conducts more than 1,200 studies every year at its four research facilities in Canada, the United States, Denmark and Hungary.

Recognized Expertise

Our success depends above all on the know-how, experience and credibility of our employees. Because they can ensure the proper conduct and respect the schedules of the preclinical studies we are awarded, our scientists, project managers and technicians are both our greatest asset and our chief competitive advantage. LAB Research has in excess of 450 employees, about 100 of whom hold Ph.D., M.D. and M.Sc. degrees. Some of them have more than 25 years of experience in preclinical research – experience that definitely positions the Company as one of the top organizations in its industry on the international scene.

Attracting and retaining the best employees is critical to our success. Thanks to our continued training and recognition programs, competitive salaries and ongoing communication, we boast one of the highest retention rates in our industry.



Message from the Chief Executive Officer

LAB Research is one of the few public companies worldwide focused exclusively on non-clinical contract research.

Financial Results

LAB Research's revenues grew by 7% to total $49.6 million for the fiscal year ended December 31, 2006, up from $46.2 million in 2005.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) amounted to $9.7 million in 2006, 14% over $8.5 million for the previous year. Adjusted EBITDA, which excludes the impact of the sale-leaseback transaction of the Canadian facilities as well as the write-off property, plant and equipment, stood at $10.7 million, compared with $9.2 million in 2005, an increase of 17%. The adjusted EBITDA margin rose to 22% in 2006 from 20% in 2005.

Net earnings amounted to $4.9 million or $0.31 per share, up 52% over $3.2 million or $0.23 per share in 2005. The growth in LAB Research Denmark's and LAB Research Hungary's results more than compensated for the decline in profitability in North America as the Canadian site was restructured to better position itself after a period of rapid growth.

As at December 31, 2006, LAB Research benefited from a solid financial position, due notably to its initial public offering. The Company had a current ratio of 1.49:1 at December 31, 2006, versus 0.70:1 as at December 31, 2005. Finally, its balance sheet posted long-term debt of $8.8 million, down from $10.4 million a year earlier.

Bright Future

The strong demand for non-clinical contract research and the initiatives we have taken set the stage for the Company's results to grow and its profit margins to improve in the years to come.

Several factors favour our success. Besides our experienced and motivated staff, we can capitalize on an extensive array of services and a global platform. In fact, our decentralized facilities favour our local development, maintains our entrepreneurial culture, and optimizes client satisfaction. Together, our facilities represent an irrefutable strength and give us critical mass, which notably contributes to the breadth of our expertise. As of 2007, we will also benefit from harmonized marketing to strengthen our brand and drive further cross-selling.

Message from the Chief Executive Officer

Building on solid fundamentals, LAB Research has embarked on a new growth phase. In late December 2006, we completed the expansion of our Canadian facilities at a cost of $12 million. At peak capacity, which should be achieved within the current fiscal year, these facilities are expected to generate annualized revenues of over $25 million. Similar work is now under way in Denmark and Hungary, which will increase our total floor space by 30% as of the third quarter of 2007. We will thereby provide our clients with faster turnover times and, above all, additional services at each of our research sites. All in all, we will be better equipped to meet all their requirements, including any turnkey solution that would allow them to file an application for the authorization to undertake clinical trials or product registration.

Furthermore, we remain on the lookout for merger and business acquisition opportunities enabling us to increase our services, our capacity and our geographic coverage. We operate in a fragmented sector and have the experience needed to efficiently integrate any firm complementary to our global platform. In 2007, we are determined to make an acquisition that will contribute to the Company's strategic positioning and profitability.

In this first annual report, I take this opportunity to thank our clients for their confidence and trust. I also express my gratitude to our employees for their outstanding work and welcome the men and women who recently joined our team to drive the Company's growth. I also highlight the invaluable contribution of our directors and, most especially, thank our new shareholders. Using our human, material and financial resources, we aim to enhance our know-how and to broaden our array of services in order to improve your Company's sales and profitability. Concurrently, we are securing the means to ensure our efforts translate into an appreciation in the value of your investment. By achieving our financial objectives and ensuring regular, transparent communications, we will gradually increase the financial community's interest in the Company while raising its profile going forward.

Thank you for your attention.

Signed: Luc Mainville

Luc Mainville
President and Chief Executive Officer

Over the medium term, we will once again increase our facilities' capacity to position LAB Research as one of the top five preclinical CROs worldwide.

Non-clinical CRO – A Fast-Growing Market

The non-clinical segment, on which LAB Research is focused, accounts for close to 23% of the global CRO industry. It is among the fastest growing segments of the CRO industry and is expected to increase at a 16% CAGR from 2005 to 2008, compared with 11% for the overall market.

(Source: Kalorama Information 2006)

The global CRO (Contract Research Organization) sector provides independent research and development services on a contractual basis to the pharmaceutical, biotechnology and agro-chemical industries. From offering a limited range of services in the 1970s, the CRO industry has grown dramatically and now features a full range of services that encompass the entire drug development process (see diagram on page 2) and generates global sales of US$15 billion.

R&D SPENDING GROWTH

R&D spending by pharma companies remains the primary driver of revenues for CROs. It is a known fact that pharma R&D spending closely tracks sales, representing approximately 16% of total industry sales in 2005. However, pharma companies are progressively increasing this ratio in hopes of replenishing their pipelines.

ROBUST BIOTECHNOLOGY INDUSTRY

Biotechnology companies outsource close to 95% of their R&D to CROs. CRO sales to this industry have grown at a rate of close to 20% over the last eight years, accounting for some 30% of the market today. Biotechnology R&D spending growth is driven by technological advancements, such as genomics and proteomics, and by the availability of capital funding.

FURTHER OUTSOURCING

With the soaring cost of bringing new drugs to market, both pharmaceutical and biotechnology companies are making further use of CRO expertise and infrastructure to:

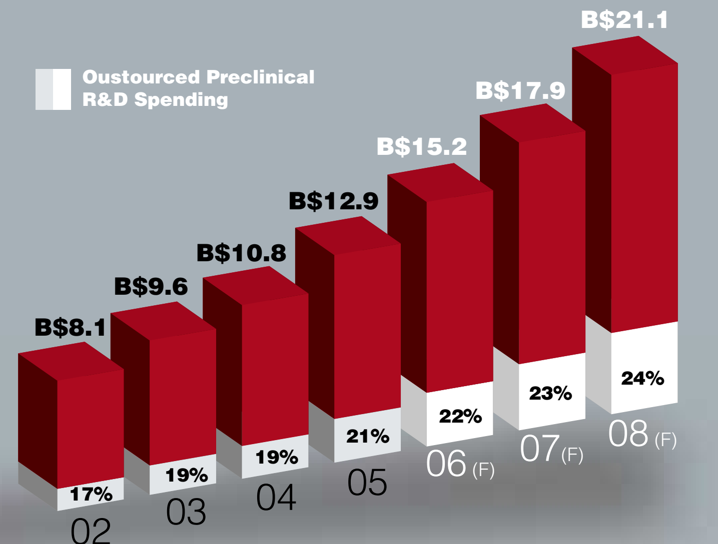
- cost-effectively access R&D capacity; available on demand, CROs represent an attractive alternative to reduce overhead and fixed costs; and
- shorten timelines; since patent protection for new products generally lasts 17-20 years, profitability can be increased by shortening the development period.

INCREASING COMPLEXITY OF RESEARCH STUDIES

Increasingly complex and stringent regulatory requirements have multiplied the volume of data required for regulatory drug filings and escalated the demand for data collection and analysis during the drug development process. Pharmaceutical and biotechnology companies rely more and more on CRO expertise, experience and size to complete such studies.

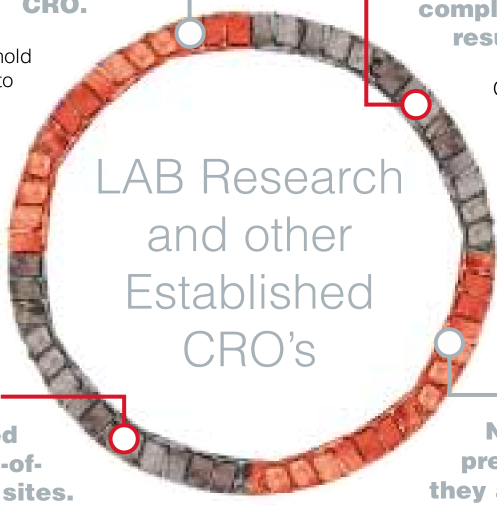
OUTSOURCED GLOBAL R&D SPENDING

Source: Kalorama Information



Major Barriers to Entry

Four major barriers limit any new player from competing with established preclinical CROs:



EXPERTISE

Expertise is the foundation of any offer of services by a CRO.

LAB Research has some 450 employees, about 100 of whom hold Ph.D., M.D. and M.Sc. degrees. Its employees' expertise allows it to offer an extensive array of services for pharmaceutical, biotechnological, agro-chemical and industrial companies, sometimes including substantially all their non-clinical requirements. The Company is world-renowned in general toxicology, telemetry, surgery, immunology, infusion, inhalation, safety pharmacology and reproductive toxicology.

CREDIBILITY

Credibility comes from conducting a large number of complex and diversified studies yielding high-quality results, on schedule.

Given the significant financial considerations associated with the quality of the results of non-clinical studies and their on-schedule execution, clients turn to the most credible CROs. The quality of execution and interpretation of the results of non-clinical studies pertain largely to background data as well as scientists' and technicians' experience. LAB Research has conducted more than 10,000 preclinical studies and thereby compiled a considerable volume of historical data. The Company's credibility is also built upon a base of over 700 satisfied clients, including nine of the top 10 pharmaceutical firms worldwide.

FACILITIES

Significant financial resources are required given the considerable surface area and state-of-the-art equipment needed by research sites.

LAB Research provides its services from four sites in Canada, the United States, Denmark and Hungary (see next page). Currently in the expansion phase, its sites will span a total area of 329,000 square feet by the end of 2007, thereby positioning the Company among the 10 leading CROs worldwide. Furthermore, its multi-site business model enables it to properly serve clients near its facilities, while capitalizing on an international coverage and economies of scale.

REGULATION

Numerous complex regulations govern both preclinical studies and the facilities in which they are conducted.

Clients seek CROs able to guide them in the complex process of developing drugs – a process that LAB Research has mastered by leveraging the experience of its scientists. As for its facilities, they comply with the many regulations applicable to the services offered. For instance, its Canadian research site is AAALAC and CCAC accredited. In addition, having recently undergone successful inspections by the U.S. FDA and a German regulatory organization, it is operated in accordance with international GLP principles.

LAB Research Global Platform

Soon
350,000
SQ. FT.

450
EMPLOYEES

700
CLIENTS
(including 9 of the 10 biggest pharma-ceutical companies) from...

20
COUNTRIES

1,200
STUDIES PER YEAR

LAB Research CANADA

Founded in 1998
170 employees
87,000 sq.ft.

Study Types
- Toxicology
- Safety Pharmacology
- Pharmacokinetics & Toxicokinetics
- Efficacy
- Immunology
- Analytical chemistry/ formulation analysis
- and other services

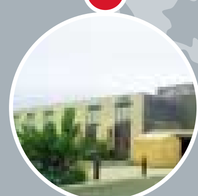
Site Accreditations
- AAALAC accredited
- CCAC accredited
- FDA inspected
- Inspected and licensed by German GLP regulators

LAB Research DENMARK

Founded in 1978
160 employees
72,000 sq.ft.
93,000 sq.ft. in Q3 2007

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

Site Accreditations
- GLP certified (Danish medicines Agency and DANAK)
- GMP certified
- ISO 17025 certified

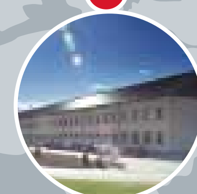


LAB Research USA

Founded in 2002
6 employees
20,000 sq.ft.

Study Types
- Vivarium management
- Non GLP study support

Site Accreditation
- AAALAC accredited



LAB Research HUNGARY

Founded in 1974
120 employees
107,000 sq.ft.
150,000 sq.ft. in Q3 2007

Study Types
- Toxicology
- Carcinogenicity
- Inhalation
- Reproductive
- Genetic toxicology
- Analytical chemistry
- Ecotoxicology
- Physical Chemistry
- Bioanalysis
- and other services

Site Accreditations
- AAALAC accredited
- GLP certified (Hungarian National Institute of Pharmacy)
- ISO 9001:2000

Excellence in Research

Ann-Muriel Steff Ph.D.
Head, Immunology

"Our immunology expertise, which is known and appreciated throughout North America, contributes to our Canadian site's strong growth."

Andrew Nelson M.S.
Vice-President, Research and Development and Immunology

Immunology

ESTABLISHING A DRUG CANDIDATE'S EFFECT ON THE BODY'S CELLULAR DEFENCE SYSTEMS

LAB Research, through its Canadian site, offers the full range of immunology-based support services needed for the development of biotechnology-derived therapeutics along with the experience and expertise needed to conduct any required immunotoxicology studies. Whether developing a protein, nucleic acid or cell-based therapeutic, our staff can provide full support, from guidance in study and program design, through toxicology species justification and assay development, to final report submission.

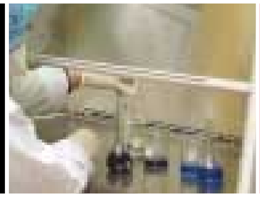
Safety Pharmacology

PROVIDING INSIGHT INTO THE PHARMACOLOGICAL MECHANISMS BY WHICH A DRUG CANDIDATE CAUSES AN ADVERSE EFFECT, PARTICULARLY ON ORGANS CRITICAL FOR LIFE

LAB Research, through its Canadian site, is an industry leader in GLP-compliant safety pharmacology, offering fully-validated test systems to support international regulatory requirements. A large, dedicated team of veterinary scientists and surgeons is involved in all aspects of validation and study conduct. In-house data and over 20 years of experience are put to use to access pharmacodynamic responsiveness, sensitivity and reproducibility of the cardiovascular, respiratory and neurological safety pharmacology models.

"Experienced staff, combined with the right equipment, make us a world leader in several novel safety pharmacology procedures."

Simon Authier D.V.M., MBA
Head, Veterinary Services



"LAB Research Denmark has pioneered the use of the mini-pig in non-clinical research. We are leveraging this experience as we are seeing greater and greater demand for tests in this species from both sponsors and authorities."

Peter Glerup DVM
Director of Toxicology Sciences

Mini-Pig Toxicology

ANALYZING COMPOUNDS' CAPACITY TO CAUSE UNDESIRABLE OR ADVERSE EFFECTS ON MINI-PIG PRIOR TO USE IN HUMANS

LAB Research, through its Danish sites, is the world's leading contract research organization for conducting non-clinical studies in mini-pigs, with over 20 years of experience in this specific field. Consequently, LAB Research has the largest database in the world of background control data for the studies performed on this species.

Pathology

INTERPRETATION OF TISSUES DRAWN FROM ORGANS

LAB Research, through its Danish site, has extensive experience in pathology. Through numerous studies performed over the years, our pathologists have documented a large amount of background data on a wide range of species. Pathology services are normally offered in support to toxicology and other types of studies, but are also available on a contract basis to various organizations.

"Having a dedicated and large staff of pathologists allows us to offer faster reporting times than our competitors without compromising quality."

Mikala Skydsgaard DVM
Director of Pathology

"LAB Research Denmark staff members are leaders in the field of medical device testing, setting the standards in the industry."

Marianne Jochumsen
DVM
Study Director

Biocompatibility of Medical Devices

ENSURING THAT MEDICAL DEVICES ARE SUITABLE FOR THEIR PURPOSE, AND DO NOT HAVE THE POTENTIAL TO CAUSE UNDESIRABLE EFFECTS

LAB Research, through its Danish site, offers extensive expertise in medical device testing. With a large experience in designing programs, our experts take into consideration the various guidelines, the nature and construction of the device, its use, as well as its mode and duration of patient contact.

Ecotoxicology

INVESTIGATING THE EFFECTS OF CHEMICALS ON ENVIRONMENTAL ORGANISMS

LAB Research, through its Hungarian site, has more than 20 years of experience in supporting a wide range of ecotoxicology studies for agrochemical registration and industrial chemical notification.

"Our broad range of capabilities and long experience in this field allow us to provide our clients with efficient and reliable toxicology services."

David Esdaile, M.Sc.
Scientific Director

Inhalation Toxicology

EVALUATION OF A DRUG CANDIDATE OR CHEMICAL DELIVERED VIA THE RESPIRATORY SYSTEM

The team of scientists at LAB Research Hungary have conducted over 600 GLP inhalation studies of pharmaceuticals, agrochemicals and chemicals.

"With our state-of-the-art instrumentation and laboratories and dedicated staff, we are able to offer our clients the latest exposure technology at competitive prices."

Christopher Wesson
Head of Inhalation

"LAB Research Hungary is ready to meet the challenges of REACH with the full range of required capabilities and the proper experience in the various fields of application."

Gabor Hirka, Ph.D.
Managing Director

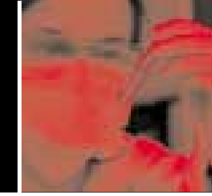
REACH

Registration, Evaluation and Authorization of Chemicals

IDENTIFYING AND ACCESSING THE POSSIBLE HAZARDS OF CHEMICAL SUBSTANCES

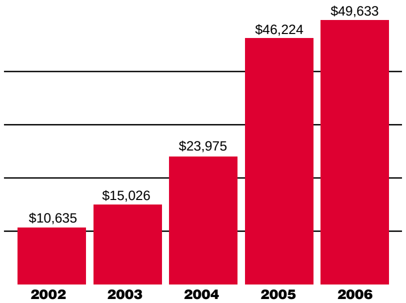
LAB Research Hungary offers high-quality testing facilities for the evaluation of hazards of chemical substances. Since 1981, all new chemicals in Europe have required testing for notification. New legislation enacted in the European Union in December 2006 requires that all chemicals imported or used since before 1981 be thoroughly tested according to current standards, and a risk assessment performed. The authorities expect more than 30,000 chemical notifications to be required over the next decade, representing a potential market of billions of dollars.

Management's Discussion and Analysis

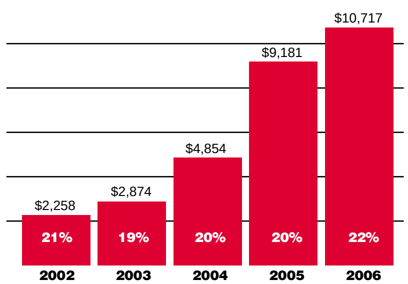


At a Glance

Revenues (000$)



Adjusted EBITDA [1] (in 000$) and Adjusted EBITDA Margin (in %)



(1) Adjusted EBITDA represents EBITDA of the Company adjusted for the sale-leaseback transaction of the Laval, Canada facility and the write-off of property and equipment that had no future use or benefit as a result of the acquisition of LAB Research Denmark in February 2005. See "Non-GAAP measures" included elsewhere in this document.

On August 3, 2006, LAB Research completed its Initial Public Offering ("IPO") of 3,750,000 common shares for gross proceeds of $15 million. As part of a concurrent secondary offering, 6,250,000 common shares were sold by LAB International for gross proceeds of $25 million.

On September 12, 2006, the underwriters of the IPO exercised the over-allotment option for total gross proceeds to LAB International of $6 million, bringing its residual ownership in LAB Research to 35.4%.

On November 9, 2006, LAB International sold, on a private placement basis, 6,392,857 special warrants at a price of $4.05 per special warrant for gross proceeds of $25.9 million. Each special warrant entitled the holder thereof to receive from LAB International one common share of the Company for no additional consideration.

As a result of the above transactions, LAB International and its affiliates no longer hold any of the outstanding common shares of LAB Research.

Revenues of $49.6 million, a 7% increase over 2005.

Net earnings of $4.9 million, increase of 52% over 2005.

Earnings per share of $0.31, a 35% increase over 2005.

Adjusted EBITDA of $10.7 million (21.6% margin), increase of 17% over 2005 of $9.2 million (19.9% margin).

Gross margin percentage increased to 41% from 39% in 2005.

The Canadian operation completed its building expansion in December.

On March 8, 2007, LAB Research announced it has entered into an agreement to purchase the property it occupies in Canada.

The statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations of LAB Research Inc. ("LAB Research" or the "Company"), other than statements of fact that are independently verifiable at the date hereof, may be forward-looking statements regarding the industry in which LAB Research operates and the Company's expectations as to its future performance, liquidity and capital resources. Forward-looking statements look into the future and may include such words as "plans", "trends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "targeting", "suggests" and similar expressions. This MD&A contains forward-looking statements about the Company's objectives, strategies and financial condition, as well as statements with respect to our beliefs, expectations, estimations and intentions. These "forward-looking" statements are based on current expectations and various factors and assumptions. Accordingly, these statements entail various risks both known and unknown, including those set forth in the "Risks and Uncertainties" section of this document. Consequently, actual future results may differ materially from the anticipated results expressed in the forward-looking statements. It is important to note that unless otherwise indicated, forward-looking statements in this MD&A describe our expectations as of March 9, 2007. We assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or for any other reason. The financial statements and related notes have been prepared in accordance Canadian Generally Accepted Accounting Principles ("GAAP").

This analysis explains the material variations in the consolidated and combined carve-out consolidated statements of operations, financial position and cash flows of LAB Research for the three-month periods and the years ended December 31, 2006 and 2005.

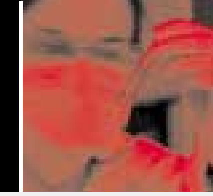
Highlights

On July 24, 2006, LAB Research filed its final prospectus for the Initial Public Offering ("IPO") and concurrent secondary offering by LAB International of 10,000,000 common shares for gross proceeds of $40 million. From the total offering, 3,750,000 common shares were being issued by LAB Research and 6,250,000 were being sold by LAB International Inc. ("LAB International") as a secondary offering. On August 3, 2006, LAB Research completed its IPO and issued 3,750,000 common shares for aggregate gross proceeds of $15 million. As part of the transaction, LAB International sold 6,250,000 shares representing gross proceeds of $25 million.

On September 12, 2006, the underwriters of the IPO exercised the over-allotment option for total gross proceeds to LAB International of $6 million, bringing its residual ownership in LAB Research to 35.4%.

On November 24, 2006, LAB Research filed a short form prospectus qualifying the distribution of the remaining common shares of LAB Research owned by LAB International, deliverable upon the exercise of 6,392,857 special warrants sold by LAB International on a private placement basis at a price of $4.05 per special warrant for gross proceeds of $25.9 million. Each special warrant entitled the holder thereof to receive from LAB International one common share of the Company for no additional consideration. As a result of all these transactions, LAB International and its affiliates no longer hold any of the outstanding common shares of LAB Research. In addition, LAB International no longer has any representative of the Company's board of directors.

On December 5, 2006, the Company announced that Mr. Stephen R. Farrell, President and CEO of Uniboard Canada Inc., had been elected to its Board of Directors.



On December 7, 2006, the Company announced it has completed the expansion of the Canadian facilities. The Company’s investment in this project will be approximately $12 million including equipment to be purchased in 2007. The surface area was increased from 38,000 to 87,000 sq. ft. Concurrently, the lease, providing 21,000 sq.ft of laboratories and animal rooms at the Institut National de la Recherche Scientifique, expired on December 31, 2006.

On February 8, 2007, the Company announced that its Board of Directors adopted a shareholder rights plan. The rights plan has conditionally been approved by the Toronto Stock Exchange and is subject to approval by shareholders at the 2007 annual meeting of the shareholders of the corporation. If approved by shareholders, the rights plan will have an initial term of three years.

On March 8, 2007, the Company announced it has entered into an agreement to purchase the property it occupies in Laval. The property was subject to a sale-leaseback transaction in 2005. The purchase price for the property is $23 million subject to normal closing adjustments. Of this amount, $10 million will be deducted from the purchase price for amounts owing to LAB Research by the landlord.

Overview

Until August 3, 2006, when LAB Research completed its IPO, the Company operated as a separate operating segment within LAB International and included the assets and liabilities of LAB Pre-Clinical Research International Inc. that related to the non-clinical contract research business (“LAB Research Canada”) and combined the financial statements of the direct and indirect wholly-owned subsidiaries of LAB International involved in the non-clinical contract business, being Scantox, Biologisk Laboratorium A/S (“LAB Research Denmark” or “LAB Denmark”), LAB International Research Center Hungary Limited Liability Company (“LAB Research Hungary” or “LAB Hungary”), and LAB Research International, Inc. (“LAB Research US” or “LAB US”). Refer to note 2 to our consolidated and combined carve-out financial statements as at December 31, 2006 and 2005 for the basis of presentation of our financial information.

Over the past three years, two acquisitions were completed. We acquired LAB Research Hungary on July 4, 2003 for approximately $3.1 million and LAB Research Denmark on February 9, 2005 for approximately $11.9 million including the assumption of $5.6 million of long-term debt.

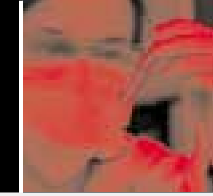
As a result of these acquisitions, LAB Research has four reportable segments; LAB Research North America, which incorporates LAB Research Canada and LAB Research US, LAB Research Denmark, LAB Research Hungary and LAB Research Corporate. With the exception of LAB Research Corporate, all these segments provide non-clinical contract research services.

Summary of the Results by Business Segment

Summarized financial information by business segment for the three and twelve-month periods ended December 31, 2006 and 2005 are presented below.

Three Months Ended December 31 (in thousands of dollars, except per share data)

	2006					2005						
	LAB North America	LAB Denmark	LAB Hungary	Corporate	TOTAL	LAB North America	LAB Denmark	LAB Hungary	Corporate	TOTAL	Variation	
	$	$	$	$	$	$	$	$	$	$	$	%
Revenues	**3,981**	**5,902**	**3,299**	**—**	**13,182**	4,050	4,718	1,994	—	10,762	2,420	22.5
Direct costs	**2,368**	**3,617**	**1,546**	**—**	**7,531**	2,826	3,058	1,163	—	7,047	(484)	-6.9
Selling, general and administrative	**1,136**	**1,064**	**362**	**522**	**3,084**	376	448	231	310	1,365	(1,719)	-125.9
Stock-based compensation	**12**	**21**	**11**	**11**	**55**	25	4	3	—	32	(23)	-71.9
Amortization	**198**	**173**	**174**	**—**	**545**	158	468	140	—	766	221	28.9
Interest on long-term debt	**40**	**61**	**29**	**—**	**130**	70	(29)	35	—	76	(54)	-71.1
Foreign exchange	**(161)**	**66**	**(330)**	**—**	**(425)**	48	(42)	(53)	—	(47)	378	-804.3
Income taxes	**88**	**203**	**110**	**(95)**	**306**	223	139	136	(99)	399	93	23.3
Net earnings	**300**	**697**	**1,397**	**(438)**	**1,956**	324	672	339	(211)	1,124	832	74.0
EBITDA	**626**	**1,134**	**1,710**	**(533)**	**2,937**	775	1,250	650	(310)	2,365	572	24.2
Adjusted EBITDA	**887**	**1,134**	**1,710**	**(533)**	**3,198**	949	1,250	650	(310)	2,539	659	26.0
EPS					**0.11**					0.08		
Diluted EPS					**0.11**					0.08		



Twelve Months Ended December 31 (in thousands of dollars, except per share data)

	2006					2005						
	LAB North America	LAB Denmark	LAB Hungary	Corporate	TOTAL	LAB North America	LAB Denmark	LAB Hungary	Corporate	TOTAL	Variation	
	$	$	$	$	$	$	$	$	$	$	$	%
Revenues	**16,732**	**23,159**	**9,742**	**—**	**49,633**	18,608	19,826	7,790	—	46,224	3,409	7.4
Direct costs	**10,047**	**14,570**	**4,655**	**—**	**29,272**	10,542	13,221	4,508	—	28,271	(1,001)	-3.5
Selling, general and administrative	**3,938**	**3,625**	**1,819**	**1,473**	**10,855**	2,902	3,121	1,618	1,239	8,880	(1,975)	-22.2
Stock-based compensation	**50**	**40**	**17**	**109**	**216**	96	10	22	—	128	(88)	-68.8
Amortization	**813**	**1,372**	**626**	**—**	**2,811**	852	1,839	534	—	3,225	414	12.8
Interest on long-term debt	**196**	**243**	**123**	**—**	**562**	325	345	134	—	804	242	30.1
Write-off of property and equipment	**—**	**—**	**3**	**—**	**3**	—	518	56	—	574	571	99.5
Foreign exchange	**(176)**	**20**	**(230)**	**—**	**(386)**	(45)	—	(73)	—	(118)	268	-227.1
Income taxes	**631**	**864**	**341**	**(471)**	**1,365**	1,219	173	217	(396)	1,213	(152)	-12.5
Net earnings	**1,233**	**2,425**	**2,388**	**(1,111)**	**4,935**	2,717	599	774	(843)	3,247	1,688	52.0
EBITDA	**2,873**	**4,904**	**3,478**	**(1,582)**	**9,673**	5,113	2,956	1,659	(1,239)	8,489	1,184	13.9
Adjusted EBITDA	**3,917**	**4,904**	**3,478**	**(1,582)**	**10,717**	5,287	3,474	1,659	(1,239)	9,181	1,536	16.7
EPS					**0.31**					0.23		
Diluted EPS					**0.31**					0.23		
Total assets					**64,435**					37,030		
Total long-term financial liabilities					**9,069**					10,406		

Non-GAAP measures - Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA) and Gross Margin:

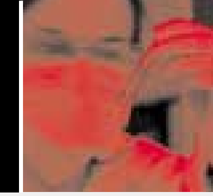
Certain non-GAAP measures, including EBITDA and Gross Margin, are used by us as measures of financial performance. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers.

(a) EBITDA

The following table reconciles the net earnings to EBITDA and Adjusted EBITDA for the periods presented.

	Twelve Months ended December 31		Three Months ended December 31	
	2006	2005	2006	2005
(in thousands of dollars)	$	$	$	$
Net earnings	**4,935**	3,247	**1,956**	1,124
Adjustments for:				
Income taxes	**1,365**	1,213	**306**	399
Interest on long-term debt	**562**	804	**130**	76
Amortization	**2,811**	3,225	**545**	766
EBITDA	**9,673**	8,489	**2,937**	2,365
Write-off of property and equipment (1)	**—**	518	**—**	—
Rent expense (2)	**1,044**	174	**261**	174
Adjusted EBITDA	**10,717**	9,181	**3,198**	2,539

(1) Write-off of property and equipment that had no future use or benefit as a result of the acquisition of LAB Research Denmark in February 2005.
(2) Rent expense on the Canadian facility as a result of the sale-leaseback transaction effective on November 1, 2005.



When part of LAB International, we entered into a sale-leaseback transaction for the Canadian facility effective November 1, 2005. Accordingly, prior to this date amortization includes amortization of the related building and interest on long-term debt includes interest expense on the long-term debt secured by the building. After the sale-leaseback transaction, amortization and interest expense related to the building have been replaced by rent expense in our statements of earnings. Refer to note 21(c) to our consolidated and combined carve-out financial statements for subsequent event.

(b) Gross margin

Gross margin means revenues less direct costs. Direct costs do not include depreciation of any assets used in the direct operations of the Company.

The following table presents the gross margins for the periods reported:

	Twelve Months ended December 31		Three Months ended December 31	
	2006	2005	2006	2005
(in thousands of dollars)	$	$	$	$
Revenues	**49,633**	46,224	**13,182**	10,762
Direct costs	**29,272**	28,271	**7,531**	7,047
Gross margin	**20,361**	17,953	**5,651**	3,715
Gross margin %	**41%**	39%	**43%**	35%

Year Ended December 31, 2006 compared to the Year Ended December 31, 2005

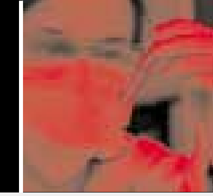
LAB Research's revenues for the fourth quarter of 2006 were $13.2 million, up by 22.5% from the $10.8 million recorded for the same period the previous year and up by 7% from the $12.3 million achieved in the third quarter of 2006. For the full year in 2006, LAB Research's revenues totalled $49.6 million and were 7% higher than those of 2005. The results of operations for 2005 include the results of operations of LAB Research Denmark from January 1, 2005. See note 2 to our consolidated and combined carve-out financial statements for the basis of presentation of our financial information.

LAB Research North America's revenues for the fourth quarter of 2006 were $4.0 million, in line with those of the corresponding period of 2005, but slightly higher than the $3.9 million reported in the previous quarter. Revenues from LAB Research Canada for the fourth quarter of 2006 were $3.7 million compared to $3.5 million in corresponding period in 2005 and $3.6 million for the third quarter. For 2006, revenues from LAB Research North America were $16.7 million, a 10% reduction from 2005. 2006 revenues from LAB Research Canada were $14.9 million compared to $17.0 million for 2005, a decrease of 12%. 2006 revenues for the Canadian site were primarily impacted by a series of organizational changes to our scientific and business development staff to better prepare LAB Research Canada for the next phase of growth. These changes were completed during the third quarter. Our annual performance was also negatively influenced by a 6.4% decrease in the value of the U.S. dollar relative to the Canadian dollar and a higher mix of longer term studies which led to less than expected study starts. All the latter studies ended during the fourth quarter of 2006. For 2006, in excess of 67% of LAB Research Canada' revenues were denominated in U.S. dollars. The 49,000 sq. ft. expansion to the existing Canadian facility started in February 2006 and the first studies in the new portion of our facility were initiated in December. The completion of the expansion coincided with the termination of a lease providing 21,000 sq. ft. of animal rooms and laboratory capacity. Once fully operational, we believe the additional capacity will increase the revenue capacity of the site by 40% as well as provide efficiency gains. LAB Research US's revenues for the fourth quarter of 2006 were $0.3 million compared to $0.5 million over the corresponding period in 2005. Revenues for 2006 from LAB Research US totalled $1.8 million compared to $1.6 million, up by 12% over last year due to an improved utilization of the animal rooms under management.

LAB Research Denmark posted revenues of $5.9 million for the last quarter of 2006, in line with the previous quarter and 25% greater than the last quarter of 2005 of $4.7 million. LAB Research Denmark revenues for 2006 totalled $23.2 million representing a 17% increase over the previous year of $19.8 million. LAB Research Denmark continues to operate at close to full capacity and its performance during the year reflected the efforts made by local management to focus on an improved business mix and better utilization of its existing capacity. The expansion of this facility has commenced and scheduled to be completed in the third quarter of 2007. The performance of LAB Research Denmark in 2006 has been affected by a 6% decrease of the local currency compared to the reporting currency.

For the fourth quarter of 2006, LAB Research Hungary revenues totalled $3.3 million, 65% greater than the same period last year. For 2006, LAB Research Hungary generated revenues of $9.7 million compared to $7.8 million in 2005, a 25% increase. Notwithstanding an 11% decrease in the value of the local currency compared to the reporting currency, the performance of the Hungarian site results from a continued increase in the utilization of the overall site capacity and increased inhalation toxicology services derived from a combination of chronic and acute studies. Expansion and reconfiguration of the LAB Research Hungary facility to adapt the site to better serve the biotech and pharma sectors started in January 2007 and will provide improved capabilities and large animal housing capacity by the third quarter of 2007.

For the year 2006, revenues from LAB International and affiliates totalled $2.9 million compared to $1.3 million in 2005. For the last quarter of 2006, these revenues amounted to $0.3 million, representing less than 3% of the total revenue generated by LAB Research and less than 12% of the revenues generated LAB Research Hungary during that period.



Overall gross margin, as defined earlier, for the last quarter of 2006 reached 43% compared to 35% for the same quarter last year. The gross margins for 2006 and last year were 41% and 39% respectively. Gross margin for LAB Research Denmark were better than prior periods due to an improved business mix and better utilization of its existing capacity while LAB Research Hungary's gross margins increased due to higher margins on the inhalation studies as well as a weakening of the local currency compared to the Euro which constitutes the bulk of the revenues. These favourable factors were offset in Canada by additional rent expense relating to the Laval facility sale-leaseback transaction representing a 4% negative impact as well as negative impact of the foreign exchange which continued to affect margins of LAB Research Canada. Refer to note 21(c) to our consolidated and combined carve-out financial statements for subsequent event.

Selling, general and administrative ("SG&A") expenses including allocated costs for 2006 were $10.9 million compared to $8.9 million last year, representing 22% and 19% of revenues respectively. The increase of $2.0 million in SG&A expenses is mainly due to $0.3 million in severance costs for the restructuring of LAB Research Canada prior to taking the Company public, $0.4 million increase in the provision for bad debts, $0.3 million of increase in information technology services, $0.2 million increase in lease expense, $0.3 million of additional salaries in business development and administration in relation with the building expansions taking place in Canada, Denmark and Hungary. During the fourth quarter of 2006, SG&A expenses were $3.1 million or 23% of revenues compared to $1.4 million or 17% of revenues for the corresponding period in 2005 for the same reasons with the exception of the severance costs accounted for in the first half of 2006.

EBITDA for the fourth quarter of 2006 was $2.9 million, compared to $2.4 million in the corresponding period in 2005, representing an increase of 24%. After adjusting for the impact of the Canadian facility sale-leaseback transaction and the write-off of property and equipment, Adjusted EBITDA for the fourth quarter of 2006 was $3.2 million, compared to $2.5 million in the corresponding period in 2005, representing an increase of 26%. EBITDA for 2006 was $9.7 million, compared to $8.5 million for 2005, representing an increase of 14%. Adjusted EBITDA for 2006 was $10.7 million, an increase of $1.5 million or 17% compared to $9.2 million in 2005. Adjusted EBITDA margins for the fourth quarters of 2006 and 2005 were 24% compared to 23% respectively. Adjusted EBITDA margins for 2006 were 22% compared to 20% for the corresponding period of 2005. The reconciliation of net earnings to EBITDA and Adjusted EBITDA is presented above in this document. The increased EBITDA resulted from a higher gross margin for the quarter and for the year compared to the previous period in addition to higher foreign exchange gains in 2006 compared to 2005. Refer to note 21(c) to our consolidated and combined carve-out financial statements for subsequent event.

Amortization expense for the last quarter of 2006 was lower than last year at $0.5 million compared to $0.8 million. For 2006, amortization expense totalled $2.8 million compared to $3.2 million for the corresponding period in 2005. The amortization expense decreased as a result of the sale and leaseback transaction on the Canadian facility. Refer to note 21(c) to our consolidated and combined carve-out financial statements for subsequent event.

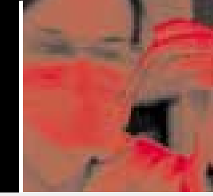
Interest expense for the last quarter of 2006 was $0.1 million and was in line with the expense of the corresponding period in 2005. For 2006, interest expense was $0.6 million compared to $0.8 million for the corresponding period last year. The decrease in interest expense resulted primarily from the repayment of long-term debt with proceeds from the Canadian facility sale-leaseback transaction and the renegotiation of some loans in Denmark. Refer to note 21(c) to our consolidated and combined carve-out financial statements for subsequent event.

Foreign exchange gain for the last quarter of 2006 was $0.4 million compared to a gain of less than 0.1 million for the same period in 2005. For 2006, the foreign exchange gain was $0.4 million compared to a gain of $0.1 million in 2005. During 2006, the Company entered into forward foreign exchange contracts to mitigate its exposure to fluctuations of the Canadian dollar relative to the U.S. dollar. At December 31, 2006, no forward contracts were outstanding. Our results were also negatively impacted by the decrease of the Hungarian forints to Euros, the currency in which we are assuming the long-term debt in Hungary. For 2006, approximately 92% (86% - 2005) of revenue was billed in currencies other than the reporting currency (primarily €'s, US$ and Danish Kroner), while approximately 85% (70% - 2005) of direct costs were incurred in similar non-reporting currencies.

Provision for income taxes for the fourth quarters of 2006 and 2005 were at $0.3 million and $0.4 million respectively while provision for income taxes for the years 2006 and 2005 were $1.4 million and $1.2 million respectively. In 2006, the provision for income taxes represented 22% of the earnings before income taxes compared to the combined Canadian federal and Quebec provincial income taxes rate of 32%. In 2005, the provision for income taxes represented 27% of the earnings before income taxes compared to the combined Canadian federal and Quebec provincial income taxes rate of 31%. For both years, the variance from the combined rate is due, mainly, to adjustments related to lower income taxes rates enacted in Denmark and Hungary and tax credits not taxable in Canada.

Net earnings for 2006 were $4.9 million compared to $3.2 million in the corresponding period in 2005, representing an increase of 52%. The improved results of LAB Research Denmark and LAB Research Hungary have compensated the lower profitability of the North America operations. Net earnings for the last quarter of 2006 were $2.0 million compared to $1.1 million in the corresponding period in 2005.

Earnings per share for the year 2006 were $0.31 per share on the basis of 15,753,325 shares issued and fully diluted compared to $0.23 per share for 2005 on the basis of 14,142,857 shares issued and fully diluted. Using the total number of outstanding shares at year-end of 18,035,714, the earnings per share for 2006 stood at $0.27.



Allocated costs

As the Company operated as a segment of LAB International and was not a stand-alone company prior to August 3, 2006, our historical combined carve-out financial statements include allocations of certain of LAB International's expenses. Allocated costs represent costs incurred by the selling shareholder LAB International that were associated to the revenue-producing activities of LAB Research and are estimated incremental costs required by LAB Research to operate independently as a separate public company. These are comprised of board fees, investors' relations expenses, professional fees, insurance costs and information technology support expenses. Following the IPO on August 3, 2006, as a stand alone basis, the Company performed all corporate functions with its own resources or purchased services and accordingly the allocated costs were no longer accounted for.

For the fourth quarter of 2006, the allocated costs amounted to nil compared to $0.3 million for the same period in 2005. For the year 2006, they amounted to $0.6 million compared to $1.1 million for the same period in 2005. The allocated costs for the year ended December 31, 2006 cover the period to August 3, 2006, date of the IPO. The fourth quarter of 2006 was the first quarter where LAB Research presented actual costs as a stand alone company as opposed to allocated costs.

These estimated costs are not necessarily indicative of the costs that would have been incurred if LAB Research would have performed these functions as a stand alone company, nor are they indicative of the costs that will be incurred in the future.

Liquidity and Capital Resources

Our cash position was $8.5 million as at December 31, 2006 compared to $3.7 million as at December 31, 2005. Prior to the IPO, cash surpluses generated by LAB Research have, historically, been used, in part, to fund LAB International drug development activities. Since the IPO, all funds generated by our business were retained to pursue the development of the pre-clinical research business.

For the year ended December 31, 2006, cash flow generated by the operating activities was $7.7 million compared to $7.6 million in 2005.

Cash flow from financing activities for 2006 was $10.6 million and comprised $13.1 million net proceeds from the IPO less $2.8 million of net debt and loan repayments.

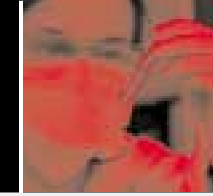
We used $13.8 million and $8.2 million of cash for investing activities during the years 2006 and 2005 respectively. During the last quarter of 2006, the Company paid the advances outstanding to LAB International and its affiliates. The 2006 amount includes $8.5 million of costs incurred for the Canadian facility to be reimbursed by the landlord. Refer to note 21(c) to our consolidated and combined carve-out financial statements for subsequent event. The 2005 amounts include cash used for the acquisition of LAB Research Denmark in the amount of $5.7 million.

Additions to property and equipment in the year 2006 totalled $6.1 million compared to $2.5 million in 2005. In 2006, capital asset additions were primarily for improvements and building expansion of the facility in Denmark (approximately $2.5 million), improvements to the LAB Research Canada's facilities (approximately $1.3 million), approximately $2.0 million in laboratory equipment including those required for the expansion in Canada, and approximately $0.3 million in computer hardware and software relating to the implementation of a new data management system. The amount in 2005 included a $1.0 million investment in a new global toxicology data management software being implemented across the main three sites. Implementation of this program requires significant investment in our information technology infrastructure and assets and is scheduled to be completed during the first half of 2007, for a total investment of $3.0 million since 2005. The new data management software is expected to provide operational efficiencies and improved reporting timelines for study reports. Financial benefits from the implementation of the software are expected to be realized starting late 2007. Due to the recent extension of the Canadian facility and recent investments in other sites, we estimate that annual replacement or upgrades of capital expenditures to range between 3 and 5% of the Company's revenues.

Our working capital ratio as at the end of December 31, 2006 was 1.49:1 compared to 1.72:1 as at September 30, 2006, and 0.70:1 as at December 31, 2005. The improvement from 2005 is due to the cash proceeds from the IPO. The increase in receivables between December 31, 2005 and December 31, 2006 is in line with the increased operational activities of the Company and also includes an amount of $8.5 million (2005 – nil) paid by LAB Research Canada in relation to its building extension which is to be reimbursed by the landlord in the first quarter of 2007. Refer to note 21(c) to our consolidated and combined carve-out financial statements for subsequent event. Sales taxes receivable of $1.1 million (2005 - $0.2 million) are also included therein. We typically invoice our customers a percentage of the total contract upon signing. Deferred revenue represents amounts that have been billed and/or collected without yet have been earned through the provision of services to our customers. As at December 31, 2006, the level of deferred revenues was $6.2 million compared to $4.7 million at December 31, 2005, a 33% increase, due to a higher level of signed contracts not executed at the end of year. Work in progress relates to services rendered which are billable in accordance with contractual terms at a later stage.

We finance part of our property and equipment purchases with long-term debt. At December 31, 2006 and December 31, 2005, we had $8.8 million and $10.4 million of long-term debt, respectively. We fund repayments under these debt agreements from our operating cash flows.

As at December 31, 2006, the backlog, which represents the value of client contracts for services that have not yet been performed, was approximately $18.5 million compared to approximately $18.0 million as at December 31, 2005 and $22.0 million at the end of September 2006. At December 31, 2006, the backlog represented in excess of 4 months of revenues for LAB Research Canada and LAB Research Denmark and 3 months of revenues for LAB Research Hungary which serves mostly the agro-chemical markets which favours a greater portion of short term studies. The decrease in the backlog from the previously reported September 2006 figure resulted from the termination of several long-term studies conducted in our European operations which represented a greater portion of our backlog than historically, most of which were completed in the fourth quarter. The September 2006 figures also included studies associated with our 21,000 s.f. lease in Canada which expired at year-end. In summary, the backlog for 2006 has been maintained at or above the previous year levels as the expansion of capacity coming from in our Canadian operations only took place in the last month of the year.



Contractual Obligations

As at December 31, 2006, our future contractual commitments were principally obligations under term loans secured for the acquisition of property and laboratory equipment, operating leases for facilities and office equipment and service contracts. At December 31, 2006, we were not engaged in any speculative off-balance sheet activities.

The following table sets out our contractual obligations as at December 31, 2006 based on a calendar year:

(in thousands of dollars)	Total	2007	2008	2009	2010	2011	2012+
	$	$	$	$	$	$	$
Long-term debt [(1)]	7,212	658	425	1,693	292	220	3,924
Service contracts	1,285	842	208	91	60	42	42
Lease obligations	46,083	2,073	1,967	1,933	1,944	2,063	36,103
Total contractual obligations	54,580	3,573	2,600	3,717	2,296	2,325	40,069

[(1)] Including obligations under capital leases.

Refer to note 21(c) to our consolidated and combined carve-out financial statements for the impact of the subsequent event on lease obligations.

On January 30, 2006, the Company entered into a turn-key agreement for the expansion of its LAB Research Canada's facility. During the first quarter of 2007, the expansion is scheduled to be sold to the owner of the property for a maximum of $8.5 million and leased back along similar terms and conditions as the prevailing lease for the first phase. As at December 31, 2006, the Company had committed $1.4 million towards the expansion of the facility and $0.1 million for related moveable equipment.

LAB Research Denmark also started the expansion of its facility during the last quarter of the year 2006. At December 31, 2006, the Company was committed to $4.2 million for the construction and related professional fees.

Summary of the Quarterly Results

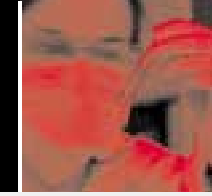
	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(in thousands of dollars)	$	$	$	$	$	$	$	$
Revenues	**13,182**	**12,319**	**12,325**	**11,807**	10,762	12,087	12,593	10,782
Net earnings	**1,956**	**1,037**	**990**	**952**	1,068	1,309	837	33
Earnings per share - basic and diluted	**0.11**	**0.06**	**0.07**	**0.07**	0.08	0.09	0.06	0.00

The net earnings in Q1 2005 were lower than those reported subsequently due mainly to the write-off of property and equipment that had no future use or benefit as a result of the acquisition of LAB Research Denmark in February 2005.

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

Related Party Transactions

As part of the corporate reorganization, LAB Research and LAB International have entered, effective August 3, 2006, 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 services for the period from January 1 to November 9, 2006, date at which LAB International and its affiliates ceased to be related to LAB Research, amounted to $2.7 million and $0.1 million for the year and the quarter ended December 31, 2006 respectively. These transactions amounted to $1.3 million and $0.3 million for the year and quarter ended December 31, 2005 respectively. Direct costs related to these revenues were $0.1 million and $0.2 million for the quarter ended December 31, 2006 and 2005 and $1.3 million and $1.2 million for the years ended December 31, 2006 and 2005 respectively.



The parties have also entered into a non-competition and non-solicitation agreement whereby LAB International will not undertake to, directly or indirectly, for a period of 60 months following the closing of the offering, to 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 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 $50,000. 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. Professional services were also rendered during those periods by firms connected to LAB International Board's members. For the period from August 3 to November 9, 2006, they amounted to $0.2 million (2005 – nil).

LAB Research has also entered into a Trade-Mark License Agreement upon closing of the offering with LAB International pursuant to which LAB Research has granted LAB International a royalty free worldwide non-exclusive license to use the LAB Research's trade marks including the LAB name and logo for a maximum period of 18 months following the closing of the offering.

Corporate Reorganization and Subsequent Events

Corporate Reorganization

LAB Research Inc. was incorporated on May 24, 2006 as a wholly-owned subsidiary of LAB International to acquire the non-clinical contract research services business of LAB International. The corporate reorganization giving effect to these transactions was completed on July 27, 2006. Refer to note 1 to our consolidated and combined carve-out financial statements for additional details related to these transactions.

Subsequent Events

On January 18, 2007, the Company entered into a construction agreement for the expansion of its LAB Research Hungary facility. This expansion is scheduled for completion during the third quarter of 2007. The agreement has a total value of $3.9 million (631.2 million HUF).

On February 8, 2007, the Company announced that its Board of Directors adopted a shareholder rights plan. The rights plan has conditionally been approved by the Toronto Stock Exchange and is subject to approval by shareholders at the 2007 annual meeting of its shareholders. If approved by the shareholders, the rights plan will have an initial term of three years.

On March 8, 2007, the Company announced it has entered into an agreement to purchase the property it occupies in Canada. The property was subject to a sale-leaseback transaction in 2005. The purchase price of the property is $23 million subject to normal closing adjustments. Of this amount, $10 million will be deducted from the purchase price for amounts owing to LAB Research as follows: $0.7 million of note receivable, $7.4 million of costs incurred by the Company for the Canadian expansion to be reimbursed by the landlord included in accounts receivable described in note 5 to our consolidated and combined carve-out financial statements and $1.9 million of long-term note receivable from landlord included in other assets described in note 8 to our consolidated and combined carve-out financial statements. The purchase will be financed by a mortgage loan in the amount of $17 million with a Canadian chartered bank, bearing interest at bank prime plus 0.4%, secured by a first ranking moveable hypothec on the property, and repayable in quarterly instalments over 16 years. The closing of the transaction is subject to conditions to be met by each party, including, amongst others, obtaining a release from the current secured lender on the property. Completion of the transaction is scheduled to occur on or before April 16, 2007. Should the closing occur on or before April 16, 2007, the lease commitments described earlier in the section "contractual obligations" would be reduced by $45.3 million as follows: $1.5 million in 2007, $1.9 million in 2008, 2009 and 2010, $2.0 million in 2011 and $36.1 million thereafter.

Outstanding share data

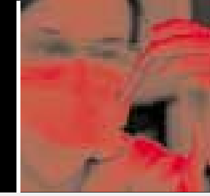
At March 9, 2007, the Company had 18,035,714 common shares outstanding and 1,279,000 options outstanding.

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 Chief Financial Officer 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 Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of December 31, 2006. In addition, the Chief Executive Officer and the Chief Financial Officer 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 reasonnably likely affected the company's external controls over financial reporting have occured since the third quarter of 2006.

Critical Accounting Policies

In preparing the LAB Research 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 represents the value for services rendered, but which only become billable at a later stage in accordance with contractual payment terms. Deferred revenues represent amounts billed in accordance with customer contracts, but not yet earned.

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 assets 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.

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 LAB International, all the assets and liabilities of LAB Pre-Clinical Research related to the preclinical research business were transferred by LAB International 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.

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 LAB International 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.

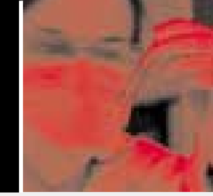
Recent Accounting Pronouncements

During 2005, the Canadian Institute of Chartered Accountant ("CICA") released new accounting standards for the recognition, measurement and disclosure of financial instruments (Section 3855) and comprehensive income (Section 1530).

Under these new standards, all financial assets are measured at fair value with the exception of loans, receivables and investments that are not intended to be held to maturity and certain equity investments, which are measured at cost. Similarly, all financial liabilities held for trading and derivatives are measured at fair value.

Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exception of gains and losses arising from:

- financial assets held for sale, for which unrealized changes in fair value are initially reported in other comprehensive income and subsequently reclassified to net income when the financial assets are sold or become impaired; and
- certain financial instruments that qualify as hedging items under the application of hedge accounting, for which unrealized changes in fair value are initially reported in other comprehensive income and subsequently reclassified into net income when the offsetting loss or gain of the hedged item affects net income.



Other comprehensive income comprises net income adjusted for revenues, expenses, gains or losses that are excluded from the net income under generally accepted accounting principles. Unrealized gains or losses on qualifying hedging instruments, translation of self-sustaining foreign operations, and unrealized gains and losses on financial instruments held for sale will be included in other comprehensive income and reclassified in net income when realized. Comprehensive income and its components will be a new financial statement required under the new standards.

The new standards will be effective for the Company's 2007 financial year. The Company is currently evaluating the impact of these standards on its financial position and results of operations.

Risk factors

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.

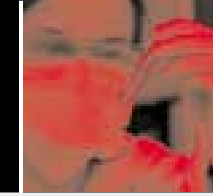
Any failure on our part to comply with existing regulations could result in the termination of ongoing research or the disqualification of data for submission to the regulatory authorities. We could also be barred from providing pre-clinical services in the future or be subject to fines. In addition, 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 substantial cost to us. Any of these consequences could harm our reputation, our prospects for future work, our revenues and our gross margins.

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

We compete against other Contract Research Organizations (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, which 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 contracts generally 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.

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 recent 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, if regulatory authorities were to mandate a significant reduction in safety testing procedures which utilize laboratory animals (as has been advocated by certain groups), our business could be materially adversely affected.

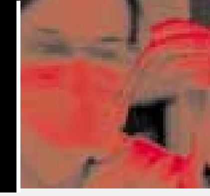
Our quarterly operating results may vary, which could negatively affect the market price of our common shares.
Our results of operations in any quarter may vary from quarter to quarter and are influenced by such factors as the number and scope of ongoing client engagements, the commencement, postponement, 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.

Additional information relating to the Company is available on SEDAR'S website: www.sedar.com.

On behalf of Management,

Signed: Louise Bussières

Louise Bussières, CA
Vice-President Finance
Laval, Quebec, Canada
March 9th, 2007



Management's Report
Auditors' Report

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 from 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.

Signed: Luc Mainville

Luc Mainville, MBA
Chief Executive Officer
March 9, 2007

Signed: Louise Bussières

Louise Bussières, CA
Vice President, Finance

Auditors' Report to the Shareholders

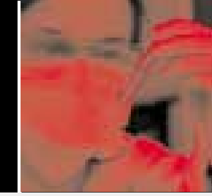
We have audited the consolidated and combined carve-out balance sheets of Lab Research Inc. as at December 31, 2006 and 2005 and the consolidated and combined carve-out statements of earnings, shareholders' equity and LAB International's net investment, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement's 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: KPMG LLP

Chartered Accountants
Montréal, Canada
March 2, 2007 (except as to note 21 (c) which is of March 8, 2007)



Consolidated and Combined Carve-Out Balance Sheets

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars)

	2006	2005
	$	$
Assets		
Current assets:		
Cash	**8,516**	3,727
Accounts and other receivables (NOTE 5)	**16,661**	6,923
Work in progress	**2,209**	2,314
Income taxes receivable	**268**	–
Prepaid expenses	**1,104**	862
	28,758	13,826
Property and equipment (NOTE 6)	**24,784**	17,937
Intangible assets (NOTE 7)	**2,748**	2,944
Other assets (NOTE 8)	**2,119**	1,745
Future income taxes (NOTE 16)	**6,026**	578
	64,435	37,030
Liabilities and Shareholders' Equity and LAB International's Net Investment		
Current liabilities:		
Bank loan (NOTE 9)	**223**	432
Accounts payable and accrued liabilities	**9,916**	7,165
Holdback payable	**913**	–
Income taxes payable	**–**	1,573
Deferred revenue	**6,194**	4,673
Current portion of long-term debt (NOTE 10)	**1,230**	2,320
Deferred gain on sale of property (NOTE 5)	**84**	68
Future income taxes (NOTE 16)	**745**	517
Advances from companies under common control (NOTE 18)	**–**	2,897
	19,305	19,645
Deferred rent liability	**253**	37
Deferred gain on sale of property (NOTE 5)	**1,501**	1,603
Long-term debt (NOTE 10)	**7,586**	8,049
Future income taxes (NOTE 16)	**2,847**	1,821
Shareholders' equity and LAB International's net investment:		
Share capital (NOTE 11(a))	**63,672**	–
Additional paid-in capital (NOTE 11(b))	**181**	–
Cumulative translation adjustment	**(263)**	(1,462)
Segment equity	**–**	7,337
Deficit	**(30,647)**	–
	32,943	5,875
Commitments and contingencies (NOTE 14)		
Subsequent events (NOTE 21)		
	64,435	37,030

Approved on behalf of the Board of Directors:

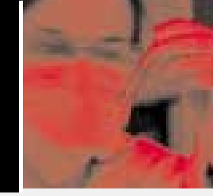
Signed: Luc Mainville

Luc Mainville, director

Signed: Stephen R. Farrell

Stephen R. Farrell, director

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

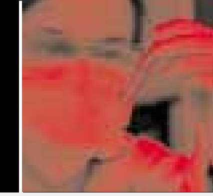


Consolidated and Combined Carve-Out Statements of Earnings

December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)

	2006	2005
	$	$
Revenues (NOTE 18)	**49,633**	46,224
Expenses:		
Direct costs (NOTE 18)	**29,272**	28,271
Selling, general and administrative	**10,855**	8,880
Stock-based compensation (NOTE 12)	**216**	128
Amortization of property and equipment	**2,310**	2,741
Amortization of intangible assets	**501**	484
Interest on long-term debt	**562**	804
Write-off of property and equipment	**3**	574
Foreign exchange	**(386)**	(118)
	43,333	41,764
Earnings before income taxes	**6,300**	4,460
Provision for income taxes (NOTE 16)	**1,365**	1,213
Net earnings	**4,935**	3,247
Earnings per share (NOTE 13):		
Basic	**0.31**	0.23
Diluted	**0.31**	0.23

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

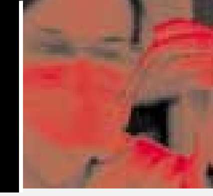


Consolidated and Combined Carve-Out Statements of Shareholders' Equity and LAB International's Net Investment

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars)

	Share capital (NOTE 11 (a))	Additional paid-in capital (NOTE 11 (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))	–	–	–	–	3,919
Tax benefit on transfer of assets from LAB International	–	–	–	–	3,126
Issue of common shares in connection with spin-off	48,101	–	–	(32,370)	(15,731)
Net earnings for the six-month period ended December 31, 2006	–	–	–	2,990	–
Cumulative translation adjustment	–	–	1,219	–	–
Stock-based compensation	–	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)	–
Issue of common shares for services	571	–	–	–	–
Balance, December 31, 2006	63,672	181	(263)	(30,647)	–

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



Consolidated and Combined Carve-Out Statements of Cash Flows

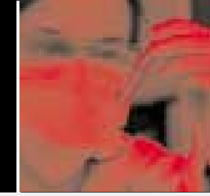
Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars)

	2006	2005
	$	$
Cash flows from operating activities:		
Net earnings	**4,935**	3,247
Adjustments for:		
Amortization of property and equipment	**2,310**	2,741
Write-off of property and equipment	**3**	574
Amortization of intangible assets	**501**	484
Amortization of deferred financing fees	**38**	6
Unrealized gain on foreign exchange	**(98)**	–
Stock-based compensation	**216**	128
Amortization of deferred gain of property	**(86)**	(12)
Deferred rent liability	**216**	–
Future income taxes	**(1,823)**	(2,064)
Net changes in operating assets and liabilities (NOTE 17 (a))	**1,456**	2,543
	7,668	7,647
Cash flows from financing activities:		
Proceeds from issuance of common shares	**15,000**	–
Share issue costs	**(1,850)**	–
Proceeds from sale-leaseback	**–**	6,250
Fees on sale-leaseback transaction	**–**	(303)
Proceeds from issuance of long-term debt	**62**	960
Proceeds from issuance of capital lease	**123**	–
Repayment of long-term debt	**(2,276)**	(5,356)
Repayment of capital leases	**(703)**	(364)
Net advances from companies under common control	**(2,897)**	1,157
Changes in net assets not transferred by LAB Canada	**3,339**	(478)
Proceeds from bank loan	**223**	432
Repayments under bank credit facilities	**(432)**	(53)
	10,589	2,245
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	**–**	(5,732)
Payment of holdback payable	**–**	(65)
Additions to property and equipment	**(6,122)**	(2,498)
Proceeds from disposal of property and equipment	**165**	–
Costs incurred for the Canadian expansion to be reimbursed by the landlord	**(8,500)**	–
Other assets	**691**	67
	(13,766)	(8,228)
Net increase in cash	**4,491**	1,664
Cash, beginning of year	**3,727**	2,175
Effect of exchange rate changes	**298**	(112)
Cash, end of year	**8,516**	3,727

Supplemental cash flow disclosure (NOTE 17)

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

Notes to Consolidated and Combined Carve-Out Financial Statements



Years ended December 31, 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 December 31, 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 Pre-Clinical 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.

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"), issued 3,750,000 common shares for aggregate proceeds of $15,000 and 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.

On November 9, 2006, LAB International sold, on a private placement basis, 6,392,857 special warrants at a price of $4.05 per special warrant for gross proceeds of $25,891. Each special warrant entitled the holder thereof to receive from LAB International one common share of the Company for no additional consideration. As a result of these transactions, LAB International and its wholly-owned subsidiaries no longer hold any of the outstanding shares of the Company.

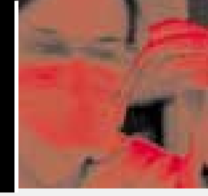
2. Basis of presentation

(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 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 our past financial position, results of operations and cash flows would have been if LAB Research was 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.

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 Canada not transferred to LAB Research.



Notes to Consolidated and Combined Carve-Out Financial Statements

Years ended December 31, 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 year ended December 31, 2005 as well as the period from January 1 to August 2, 2006 represent the combined results of operations and cash flows on a carve-out accounting basis.

As the Company operated as a segment of LAB International and was not a stand-alone company prior to August 3, 2006, its 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 year ended December 31, 2006, the allocated costs amounted to $665 (2005- $1,100). The allocated costs for the year ended December 31, 2006 cover the period to August 3, 2006, date of the IPO.

Earnings per share:

Prior to the IPO, the Company was not a separate entity with common shares outstanding. The earnings per share for the year ended December 31, 2005 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.

(b) Post IPO

The consolidated balance sheet as of December 31, 2006 and the results of operations from August 3, 2006 to December 31, 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 $3,919 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.

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. All significant inter-company balances and transactions between these entities have been eliminated.

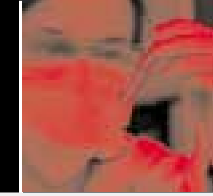
(b) Cash and cash equivalents:

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

(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	7 to 20 years
Automotive equipment and automotive equipment under capital lease	5 to 7 years



3. Significant accounting policies (continued)

(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 method of assessment.

(f) Deferred charges:
The costs of obtaining long-term financing are deferred and amortized on a straight-line basis over the term of the related debt.

(g) 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.

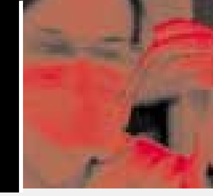
For the period prior to the reorganization, income taxes have been calculated as if LAB Research's operations had been separate tax paying legal entities. Research tax credits receivable and future income taxes assets were not transferred to LAB Research as part of the transactions referred to in note 1. Accordingly, these assets have not been presented in the consolidated and combined carve-out balance sheets. However, the consolidated and combined carve-out financial statements 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 during the year ended December 31, 2005 and 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 segment equity. The tax assets and liabilities relating to LAB Denmark, LAB Hungary and LAB US remained unaffected and have been transferred to LAB Research.

(h) LAB International's net investment:
LAB International's net investment comprises its segment equity in the pre-clinical contract research services business, which includes the additional paid-in capital arising from the effect of accounting for the stock-based compensation on stock options granted to employees of LAB Research by LAB International and the net change in tax assets or liabilities of LAB Canada that were not transferred to LAB Research, as well as the cumulative translation adjustments arising from the translation of LAB Denmark and LAB Hungary businesses, both of which are considered self-sustaining operations.

(i) 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.

(j) 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.



3. Significant accounting policies (continued)

(k) Stock-based compensation:

Prior to the IPO, the stock-based compensation in the consolidated and combined carve-out financial statements of earnings includes the LAB International 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.

(l) 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 cumulative translation adjustment account.

(m) 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 and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding options and warrants were exercised and that the proceeds from such exercises are used to repurchase common shares at the average share price for the reporting period.

(n) Guarantees:

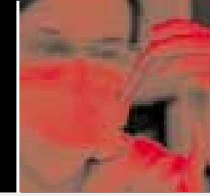
In the normal course of business, the Company enters into various agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of another party to pay its indebtedness when due.

A liability is recorded when the Company considers probable that a payment relating to a guarantee has to be made to the other party by the contract or agreement.

(o) 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 amount of allocated costs that relate to the operations of LAB Research, determining the tax assets and liabilities related to LAB Research, 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 as well as estimating stock-based compensation and research tax credits earned, 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.

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



4. Business acquisition

Scantox, Biologisk Laboratorium A/S ("LAB Denmark"):

On February 9, 2005, LAB International acquired all of the issued and outstanding shares of LAB Denmark located in Ejby, Denmark. The acquisition has been accounted for using the purchase method. The results of operations of LAB Denmark are included in the consolidated and combined carve-out financial statements from January 1, 2005 as explained in note 2 (a).

The total purchase price for the acquisition was $6,259 including $156 of corporate transaction costs.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at date of acquisition. The purchase price allocation is based upon management's best estimate of the relative fair values of the identifiable assets acquired and liabilities assumed.

	$
Net assets acquired:	
Current assets	3,826
Property and equipment	10,550
Customer contracts and relationships	3,948
Current liabilities, including bank indebtedness of $53	(3,621)
Long-term debt	(5,588)
Future income taxes	(2,856)
Net assets acquired for cash	6,259

5. Accounts receivable

	2006	2005
	$	$
Trade	**7,428**	6,066
Sales taxes	**1,110**	210
Note receivable [(1)]	**680**	590
Costs incurred for the Canadian expansion to be reimbursed by the landlord [(2)]	**7,400**	–
Other	**43**	57
	16,661	6,923

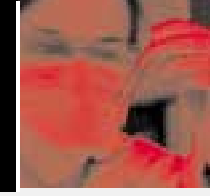
(1) On October 17, 2005, LAB Canada entered into a sale and leaseback transaction for total proceeds of $7,750. As part of this transaction, LAB Canada repaid the remaining mortgage on the building of $3,908 and leased back the property over a twenty-one year term at current market rates.

Under the agreement, $1,500 of the total proceeds will 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 (December 31, 2005 - $590) of the balance of sale has been classified as a current asset and $820 (December 31, 2005 - $910) has been classified as long-term and presented in "other assets".

The net gain on the sale of property of $1,683 was deferred and is being amortized over the term of the lease as a reduction of rent expense. Rent expense is calculated on a straight-line expense over the term of the lease. An amount of $86 has been amortized into earnings for the year ended December 31, 2006 (2005 - $12). The remaining deferred gain on sale of property at December 31, 2006 and December 31, 2005 is presented as follows on the balance sheet:

	2006	2005
	$	$
Current	**84**	68
Long-term	**1,501**	1,603
	1,585	1,671

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



5. Accounts receivable (continued)

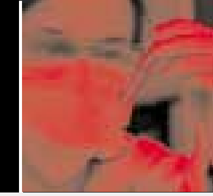
(2) During the year, the Company incurred costs in the aggregate amount of $8,500 (December 31, 2005 – nil) for the Canadian expansion of its premises of which $7,400 will be reimbursed by the landlord when the holdback payable is paid by the Company to the building contractor and $1,100 will be repaid in equal installments of $110 over the next ten years. The completed expansion will also form part of a separate sale and leaseback transaction.

6. Property and equipment

			2006
	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**

			2005
	Cost	**Accumulated amortization**	**Net carrying amount**
	$	$	$
Land	55	–	55
Buildings	11,422	886	10,536
Laboratory equipment	6,234	1,881	4,353
Laboratory equipment under capital lease	890	169	721
Computer equipment and software	1,684	897	787
Computer equipment and software under capital lease[3]	1,352	310	1,042
Furniture and office equipment	572	265	307
Furniture and office equipment under capital lease	123	76	47
Leasehold improvements	123	79	44
Automotive equipment	55	32	23
Automotive equipment under capital lease	29	7	22
	22,539	4,602	17,937

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



6. Property and equipment (continued)

(1) Laboratory equipment and leasehold improvements include amounts of $408 and $1,162 respectively that are not amortized. Amortization will start in January 2007 when the assets are put into service.

(2) Computer equipment and software include an amount of $667 that is not being amortized. Amortization will begin in 2007 when the computer equipment and software are put into service.

(3) Computer equipment and software under capital lease include an amount of $1,107 (2005 - $986) that is not being amortized. Amortization will begin in 2007, when the computer equipment and software are put into service.

(4) Automotive equipment includes an amount of $94 that is not being amortized. Amortization will start in January 2007 when the automotive equipment are 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:

	2006	2005
	$	$
Amortization related to assets under capital lease	**799**	258

7. Intangible assets

			2006
	Cost	**Accumulated amortization**	**Net carrying amount**
	$	$	$
Customer contracts and relationships	**3,784**	1,036	2,748

			2005
	Cost	**Accumulated amortization**	**Net carrying amount**
	$	$	$
Customer contracts and relationships	**3,388**	444	2,944

The carrying amount of customer contracts and relationships includes an adjustment due to foreign exchange of $305 (2005 - $521).

8. Other assets

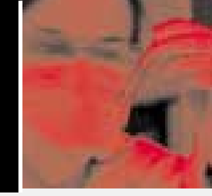
	2006	2005
	$	$
Long-term investments, at cost which approximates fair value	**126**	126
Deferred financing fees, at cost, net of accumulated amortization of $44 (2005 - $6)	**40**	41
Long-term note receivable from lessor (NOTE 5)	**1,920**	910
Term deposit pledged as security for non-revolving loan	**–**	645
Other	**33**	23
	2,119	1,745

9. Bank loan

(a) LAB Canada has a demand loan facility available in the amount of $1,500 (2005 – nil) with a Canadian chartered bank to finance laboratory equipment. The facility bears interest at the bank’s leasing rate plus 3.6% and is due on demand. At December 31, 2006, $223 of this facility was utilized.

(b) LAB Canada has also a demand loan facility available in the amount of $700 with a Canadian chartered bank to finance up to 50% of research and development credits receivable, which was not utilized at December 31, 2006 (2005 - $432). The facility bears interest at the bank’s prime rate plus 0.5% and is due on demand.

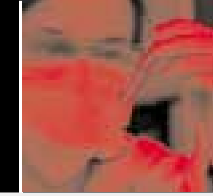
Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



10. Long-term debt

	2006	2005
	$	$
Long-term debt:		
Equipment loan in Canadian dollars, bearing interest at bank prime plus 0.5%, secured by a first ranking moveable hypothec on equipment located in Canada, repayable in 60 monthly installments of $19	**238**	443
Non-revolving loan in Canadian dollars, bearing interest at bank prime plus 0.5%, secured by term deposit, repaid in 2006	**–**	581
Mezzanine loan in Canadian dollars, bearing interest at bank prime plus 0.5%, repayable in monthly installments of $11, maturing in 2009	**366**	483
Term loan in Canadian dollars bearing interest at 8.7%, secured by automotive equipment, repayable in 24 blended monthly installments of $0.1, maturing in October 2007	**5**	9
Equipment loan in Euros (2006-€389; 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 full in January 2009	**598**	750
Equipment loan in Euros (2006-€468; 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 full in January 2009	**719**	1,503
Term loans in Swiss Francs (2006-CHF 18; 2005-CHF 22), bearing interest at rates ranging from 5.96% to 7.84%, secured by automotive equipment, repayable in 72 monthly installments of $0.3, maturing in September 2010	**17**	19
Term loans in Hungarian Forints (2006-HUF 12,042; 2005-nil), bearing interest at rates ranging from 5.5% to 5.96%, secured by automotive equipment, repayable in monthly installment of $0.1, maturing in December 2012	**74**	–
Bank loan in Danish Kroner (2006-DKK 18,042; 2005-DKK 18,482), bearing interest at the bank bond rate plus 0.6%, secured by a first ranking collateral mortgage on one building located in Denmark, repayable in blended quarterly installments of $52, maturing in December 2034	**3,718**	3,410
Bank loan in Danish Kroner (2006-DKK 2,349; 2005-DKK 2,402), bearing interest at the bank bond rate plus 0.6%, secured by a first ranking collateral mortgage on one building located in Denmark, repayable in blended quarterly installments of $6, maturing in December 2034	**484**	443
Bank loans in Danish Kroner (2006-DKK 2,031; 2005-DKK 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 installments of $32, maturing in April and July 2013	**419**	433
Bank loan in Danish Kroner (2006-nil; 2005-DKK 200), bearing interest at 8.2%, secured by second ranking collateral mortgage on one building located in Denmark, repayable in semi-annual installments of $33, matured in April 2006	**–**	33
Bank loans in Danish Kroner (2006-DKK 3,853; 2005-DKK 4,534), secured by second ranking collateral mortgage on one building located in Denmark, bearing interest at rates ranging from 8.2% to 8.5% repayable in quarterly installments of $34, maturing in January 2011 and September 2015	**574**	626
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	**1,085**	876
Obligations under capital leases in Euros (2006-€278; 2005-€414) bearing interest at Euribor 3 months, repayable in monthly installments of $10, maturing in September and October 2010	**427**	570
Balance carried forward	**8,724**	10,179

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



10. Long-term debt (continued)

	2006	2005
	$	$
Balance brought forward	**8,724**	10,179
Obligations under capital leases (continued):		
Obligations under capital leases in Danish Kroner (2006-DKK 174; 2005-DKK 525), bearing interest at rates ranging from 3.5% to 6.6%, repayable in monthly blended installments of $8, maturing from February 2007 to September 2010	**36**	97
Obligation under capital lease in Danish Kroner (2006-nil; 2005-DKK 505), bearing interest at 5.3%, repayable in quarterly blended installments of $23, repaid in 2006	**–**	93
Obligation under capital lease in Danish Kroner (2006-DKK 271; 2005-nil), bearing interest at 5.5%, repayable in quarterly blended installments of $15, maturing in December 2007	**56**	–
	8,816	10,369
Current portion of long-term debt	**1,230**	2,320
	7,586	8,049

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2006 are as follows: 2007 - $658; 2008 - $425; 2009 - $1,693; 2010 - $292; 2011 - $220; thereafter - $3,924.

Minimum lease payments under capital leases are as follows: 2007 - $703; 2008 - $602; 2009 - $402; 2010 - $142. These include amounts representing interest of $245.

As security for the bank loan referred to in note 9 (b) as well as the equipment loan, and mezzanine 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.

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

	2006	2005
	$	$
Interest expense on capital leases	**166**	66

11. Share capital

Authorized:

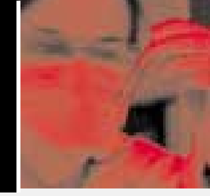
An unlimited number of

- 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:

	2006	2005
	$	$
18,035,714 common shares (2005 – nil)	**63,672**	–

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



11. Share capital (continued)

(a) Issued and outstanding (continued):

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

	Common shares	
	Number	**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

[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 LAB International 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 LAB International 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.

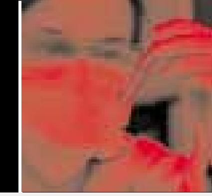
[2] On June 30, 2006 the Company issued 142,857 common shares having a fair value of $571 to the President and Chief Executive Officer in payment for services rendered in connection with the IPO. As these services were conducted when the President and CEO was employed by LAB International, the amount was 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 $1,850 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 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.

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 vest over a period from three to five years. Options are granted for a term not exceeding ten years.



Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)

11. Share capital (continued)

(b) Stock option plan (continued):

Changes in outstanding options issued under the Company's stock option for the years ended December 31, 2006 and 2005 were as follows:

	Number	Weighted average exercise price
	#	$
Balance, December 31, 2005	–	–
Granted	1,346,500	4.03
Cancelled	(67,500)	4.00
Balance, December 31, 2006	1,279,000	4.03
Options exercisable, December 31, 2006	10,000	4.00

The following table summarizes information about stock options outstanding and exercisable at December 31, 2006:

Exercise Price	Options outstanding	Options exercisable	Weighted average remaining contractual life
$	#	#	Years
4.00	1,194,000	10,000	9.60
4.25	65,000	–	9.81
5.05	20,000	–	9.93
	1,279,000	10,000	9.61

12. Stock-based compensation

The Company recognized total stock-based compensation of $216 (2005 - $128) which includes an expense of $35 (2005-$128) related to the fair value of awards granted by LAB International to LAB Research employees.

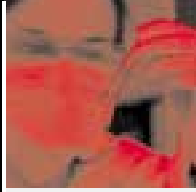
The weighted average fair value of each option granted was estimated by the Company on the date of grant using the Black-Scholes pricing model with the following assumptions:

	2006
Risk-free interest rate	**4.17%**
Expected volatility	**30.55%**
Expected life in years	**5**
Expected dividend yield	**Nil**

The following table summarizes the weighted average grant-date fair value per share for options granted during the years ended December 31, 2006 and 2005:

	Number of options	Weighted average grant-date fair-value per option
	#	$
Exercise price per share equal to market price per share:		
December 31, 2006	1,346,500	1.39
December 31, 2005	–	–

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



Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)

13. Earnings per share

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

	2006	2005
Basic:		
Basic weighted average number of common shares outstanding	**15,753,325**	14,142,857
Basic earnings per share	**$0.31**	$0.23
Diluted:		
Basic weighted average number of common shares outstanding	**15,753,325**	14,142,857
Plus impact of stock options	**–**	–
Diluted common shares	**15,753,325**	14,142,857
Diluted earnings per share	**$0.31**	$0.23

14. Commitments and contingencies

(a) 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: 2007 - $2,915; 2008 - $2,175; 2009 - $2,024; 2010 - $2,004; 2011 - $2,105 and thereafter $36,145. Refer to note 21 (c) for subsequent event.

(b) On January 30, 2006, LAB Research entered into a turnkey construction agreement for the expansion of its LAB Canada facility. This expansion was completed in December 2006. The expansion will be sold to the landlord of the property for a maximum amount of $8,500 and leased back along similar terms and conditions as the prevailing lease when the holdback will be paid by the Company to the building contractor. In relation with the expansion, the Company was committed for an amount of $1,403 to the builders and $963 for the equipment as at December 31, 2006.

(c) During the year ended December 31, 2006, LAB Research entered into agreements to expand its facility located in Denmark for an aggregate amount of $5,201. At December 31, 2006, the expansion was in progress and an amount of $4,211 was committed under these agreements.

(d) LAB Research is party to litigations arising in the normal course of operations. LAB Research does not expect the resolution of these matters to have a materially adverse effect on the financial position of results of operations of the Company.

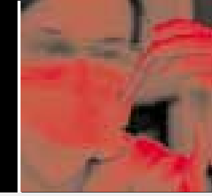
(e) In connection with the separation from LAB International, the Company assumed a number of liabilities, commitments and contingencies pertaining to the operations of LAB Pre-Clinical. As a result, the Company may be required to indemnify LAB International for claims that could be brought against LAB International or for the defense of, or defend, legal actions that arise from time to time in the normal course of business.

15. Supplemental information

Direct costs are net of related research tax credits. The related tax credits were as follows:

	2006	2005
	$	$
Research tax credits	**3,485**	2,445

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)

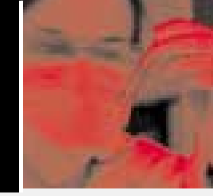


16. Income taxes

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:

	2006	2005
	$	$
Earnings before income taxes	**6,300**	4,460
Combined Canadian federal and Quebec provincial income taxes at 32% (2005- 31%)	**2,017**	1,383
Adjustments for:		
Difference with foreign tax rates	**(541)**	(41)
Benefit of losses not recorded	**–**	3
Adjustment to opening timing differences	**18**	–
Difference in rate valuing future tax assets	**155**	–
Stock-based compensation	**69**	40
Tax credits not taxable	**(115)**	(54)
Permanent differences and others	**(238)**	(118)
Income tax provision	**1,365**	1,213
The provision for income taxes is composed of the following:		
Current income taxes	**3,188**	3,277
Future income taxes	**(1,823)**	(2,064)
	1,365	1,213
The future income tax balances are summarized as follows:		
Future income tax assets:		
Non-capital losses	**72**	121
Research and development expenses	**1,912**	–
Share issue costs and deferred financing fees	**529**	–
Exigible capital	**3,017**	–
Property and equipment	**–**	13
Deferred gain on sale of property and deferred rent liability	**568**	554
Other	**(3)**	24
	6,095	712
Less valuation allowance	**(69)**	(134)
	6,026	578
Future income tax liabilities:		
Property and equipment	**(2,077)**	(997)
Intangibles	**(770)**	(824)
Work in progress	**(745)**	(517)
	(3,592)	(2,338)
Net future income tax assets	**2,434**	(1,760)
Presented as:		
Long-term asset	**6,026**	578
Current liabilities	**(745)**	(517)
Long-term liabilities	**(2,847)**	(1,821)
	2,434	(1,760)

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



16. Income taxes (continued)

As at December 31, 2006, LAB US has accumulated non-capital losses which are available to reduce future years' taxable income. Details of the available deductions, before valuation allowance, are as follows:

	Foreign
	$
Non-capital losses expiring:	
2018	141
2019	125

17. Supplemental cash flow disclosure

(a) Net changes in operating assets and liabilities:

	2006	2005
	$	$
Accounts and other receivables	**(865)**	(1,464)
Work in progress	**264**	(62)
Research tax credits receivable	**(441)**	–
Prepaid expenses	**(192)**	(340)
Long-term work in progress	**–**	259
Accounts payable and accrued liabilities	**1,361**	132
Income taxes payable	**–**	1,321
Deferred revenue	**1,329**	(231)
	1,456	2,543

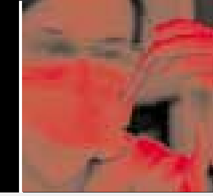
(b) Cash paid for:

	2006	2005
	$	$
Interest	**563**	1,171

(c) Non-cash transactions:

	2006	2005
	$	$
Property and equipment financed through capital leases	**495**	1,561
Issue of common shares in relation to spin-off	**48,101**	–
Holdback payable	**913**	–
Services rendered in exchange for shares	**571**	–
Transfer from LAB International	**3,919**	–
Tax benefit from transfer from LAB International	**3,126**	–

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



18. Related party transactions

	2006	2005
	$	$
Companies under common control:		
Revenues	**2,698**	1,272
Direct costs	**1,308**	627
Other:		
Professional services rendered by firms connected with directors[(1)]	**246**	47

[(1)] In connection with the IPO, the Company shared the professional fees with LAB International. The Company's portion of professional fees rendered by firms connected with directors amounted to $80. This amount is included in the share issue costs of $1,850.

Advances from companies under common control were $ nil at December 31, 2006, and $2,897 at December 31, 2005. Advances from companies under common control are non-interest bearing and have no specified terms of repayment.

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 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.

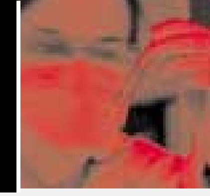
The price for the services to be provided by LAB Research under the agreement will be calculated on the basis of all direct costs as well as overhead and administration costs (representing 40% of direct costs) plus a profit margin to vary in accordance with the volume of services performed during any given year. The parties have also entered into a non-competition and non-solicitation agreement whereby LAB International will undertake 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 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 is 12 months. Thereafter, any party shall be entitled to terminate the agreement upon 180 days prior written notice.

LAB International ceased to be a related party to the Company on November 9, 2006.

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

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



19. 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, cash equivalents, accounts receivable and long-term note receivable. 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.

(c) Interest rate risk:

The Company's exposure to interest rate fluctuations is with respect to the non-revolving, mezzanine and equipment loans denominated in Canadian dollars, the equipment 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.

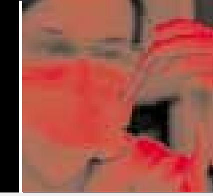
The Company has determined that the carrying values of the Company's short-term financial assets and liabilities are reasonable estimates of their fair values due to the relatively short periods to maturity of these instruments.

The fair values of the equipment loan, the non-revolving loan and the mezzanine loan denominated in Canadian dollars, as well as the equipment 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 long-term debt and long-term note receivable from landlord are as follows:

		2006
	Carrying amount	**Fair value**
	$	**$**
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 (DKK 445)	**92**	**92**
Long-term note receivable from landlord	**1,920**	**898**

		2005
	Carrying amount	**Fair value**
	$	$
Term loan in Canadian dollars (CDN $9)	9	9
Term loan in Swiss Francs (CHF 22)	19	19
Bank loan in Danish Kroner (DKK 200)	33	33
Bank loan in Danish Kroner (DKK 4,534)	626	626
Obligations under capital leases (CDN $876)	876	876
Obligations under capital lease (DKK 1,030)	190	190
Long-term note receivable from landlord	910	428

The long-term note receivable from landlord is recorded at an amount in excess of fair value because the Company intends to hold this note to maturity and recover the carrying amount in full.



Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)

20. Segment disclosures

LAB Research has three reportable segments: North America comprising LAB Canada and LAB US, LAB Denmark and LAB Hungary. The activities of these segments are described in note 1 to the consolidated and combined carve-out financial statements. 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.

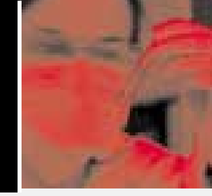
2006

	LAB North America	LAB Denmark	LAB Hungary	LAB Corporate	Total
	$	$	$	$	$
Revenues					
Third parties	**16,732**	**23,120**	**7,083**	**–**	**46,935**
Related parties	**–**	**39**	**2,659**	**–**	**2,698**
Direct costs	**10,047**	**14,570**	**4,655**	**–**	**29,272**
Selling, general and administrative	**3,938**	**3,625**	**1,819**	**1,473**	**10,855**
Stock-based compensation	**50**	**40**	**17**	**109**	**216**
Amortization of property and equipment	**813**	**871**	**626**	**–**	**2,310**
Amortization of intangible assets	**–**	**501**	**–**	**–**	**501**
Interest on long-term debt	**196**	**243**	**123**	**–**	**562**
Write-off of property and equipment	**–**	**–**	**3**	**–**	**3**
Foreign exchange	**(176)**	**20**	**(230)**	**–**	**(386)**
Income taxes provision (recovery)	**631**	**864**	**341**	**(471)**	**1,365**
Net earnings (loss)	**1,233**	**2,425**	**2,388**	**(1,111)**	**4,935**

2005

	LAB North America	LAB Denmark	LAB Hungary	LAB Corporate	Total
	$	$	$	$	$
Revenues					
Third parties	18,564	19,826	6,562	–	44,952
Related parties	44	–	1,228	–	1,272
Direct costs	10,542	13,221	4,508	–	28,271
Selling, general and administrative	2,902	3,121	1,618	1,239	8,880
Stock-based compensation	96	10	22	–	128
Amortization of property and equipment	852	1,355	534	–	2,741
Amortization of intangible assets	–	484	–	–	484
Interest on long-term debt	325	345	134	–	804
Write-off of property and equipment	–	518	56	–	574
Foreign exchange	(45)	–	(73)	–	(118)
Income tax provision (recovery)	1,219	173	217	(396)	1,213
Net earnings (loss)	2,717	599	774	(843)	3,247

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



20. Segment disclosures (continued)

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

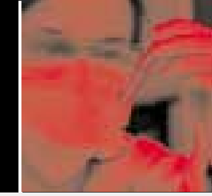
	2006	2005
	$	$
United States	**13,372**	16,034
Denmark	**10,371**	9,479
Canada	**4,063**	6,424
Germany	**4,130**	3,072
Spain	**1,000**	363
United Kingdom	**1,433**	2,738
Sweden	**2,382**	2,245
Switzerland	**2,781**	789
Australia	**364**	696
Korea	**323**	535
Hungary	**719**	559
France	**16**	614
Belgium	**1,007**	497
Norway	**2,102**	409
Austria	**826**	257
Taiwan	**748**	–
Asia - other	**85**	181
Finland	**2,966**	1,302
Europe - other	**945**	30
	49,633	46,224

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

	2006	2005
	$	$
Denmark	**15,631**	11,962
Canada	**5,956**	3,728
Hungary	**5,704**	4,879
United States	**241**	312
	27,532	20,881

	2006	2005
	$	$
Segmented assets:		
Denmark	**23,425**	17,674
Canada	**32,052**	11,223
Hungary	**9,035**	7,373
United States	**(77)**	760
	64,435	37,030

Years ended December 31, 2006 and 2005 (in thousands of Canadian dollars, except per share data)



20. Segment disclosures (continued)

	2006	2005
	$	$
Expenditures for segment property and equipment and intangibles assets:		
Denmark	**3,504**	15,612
Canada	**1,778**	838
Hungary	**840**	429
United States	**–**	58
	6,122	16,937

Expenditures for segment property and equipment for the year ended December 31, 2005 include long-lived assets purchased through the acquisition of LAB Denmark.

21. Subsequent events

(a) On January 18, 2007, the Company entered into a construction agreement for the expansion of its LAB Hungary facility. This expansion is scheduled for completion during the third quarter of 2007. The agreement has a total value of $3,862 (631,247 HUF).

(b) On February 8, 2007, the Company announced that its board of directors adopted a shareholder 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 the person pursuing the acquisition, to purchase six common shares of the Company at a fifty percent discount to market price of the Company’s shares. The rights plan has conditionally been approved by the Toronto Stock Exchange and is subject to approval by shareholders at the 2007 annual meeting of it shareholders. If approved by the shareholders, the Rights Plan will have an initial term of three years.

(c) On March 8, 2007, the Company announced it has entered into an agreement to purchase the property it occupies in Canada. The property was subject to a sale-leaseback transaction in 2005.

The purchase price for the property is $23,000 subject to normal closing adjustments. Of this amount, $10,000 will be deducted from the purchase price for amounts owing to LAB Research as follows: $680 of note receivable and $7,400 of costs incurred by the Company for the Canadian expansion to be reimbursed by the landlord included in accounts receivable described in note 5 and $1,920 of long-term note receivable from landlord included in other assets described in note 8. The purchase will be financed by a mortgage loan in the amount of $17,000 with a Canadian chartered bank, bearing interest at bank prime plus 0.4 %, secured by a first ranking moveable hypothec on the property, and repayable in quarterly installments over 16 years.

The closing of the transaction is subject to conditions to be met by each party, including, amongst others, obtaining a release from the current secured lender on the property. Completion of the transaction is scheduled to occur on or before April 16, 2007.

Should the closing occur on or before April 16, 2007, the lease commitments described in note 14 (a) would be reduced by $45,284 as follows: $1,533 in 2007, $1,875 in 2008 and 2009, $1,896 in 2010, $2,014 in 2011 and $36,091 thereafter.

Corporate Information

Board of Directors

Karsten Skydsgaard [2]
Chairman of the Board
Corporate Vice President, Projects Development
Novo Nordisk A/S

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

Richard Lacombe [1,2]
Vice President, Clinical Affairs
BioSyntech Inc.

Garth Likes [1]
Chief Executive Officer
Cyplasin Biomedical Ltd.

Stephen Farrell [1]
President and Chief Executive Officer
Uniboard Canada Inc.

[1] Audit Committee Member
[2] Corporate Governance and Human Resources Committee Member

Officers

Luc Mainville, MBA
President and Chief Executive Officer

Louise Bussières, B.A.A., C.A.
Vice President, Finance and Secretary

Gabor Hirka, M.Sc., Ph.D.
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

Auditors
KPMG LLP

Legal Counsel
Fasken Martineau Dumoulin

Registrar and Transfer Agent
Computershare Trust Company of Canada

Investor Relations
Echoes Financial Network inc.
Dominic Sicotte
Telephone: 514 842-9551

General Annual Meeting of Shareholders
Monday, May 14, 2007, at 10:00
in the Ramezay room of
the Fairmont The 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, 2006, the Company had 18,035,714 shares issued and outstanding.

The 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 send their request by email (investisseurs@labresearch.com) to the Company's head office.

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