

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

LAB RESEARCH INC.

Periods ended June 30, 2007 and 2006

LAB RESEARCH INC.

Consolidated and Combined Carve-Out Financial Statements
(Unaudited)

June 30, 2007 and 2006

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LAB RESEARCH INC.

Consolidated Balance Sheets
(Unaudited)

June 30, 2007 and December 31, 2006
(in thousands of Canadian dollars)

	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash	\$ 5,467	\$ 8,516
Accounts and other receivables	10,791	16,661
Work in progress	2,964	2,209
Income taxes receivable	832	268
Prepaid expenses	881	1,104
	<u>20,935</u>	<u>28,758</u>
Property and equipment (note 4)	53,388	24,784
Intangible assets	2,329	2,748
Other assets (note 5)	430	2,119
Future income taxes	6,613	6,026
	<u>\$ 83,695</u>	<u>\$ 64,435</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank loan	\$ -	\$ 223
Accounts payable and accrued liabilities	9,687	9,916
Holdback payable	78	913
Deferred revenue	7,869	6,194
Current portion of long-term debt (note 4)	1,566	1,230
Deferred gain on sale of property	-	84
Future income taxes	189	745
	<u>19,389</u>	<u>19,305</u>
Deferred rent liability	-	253
Deferred gain on sale of property	-	1,501
Long-term debt (note 4)	26,410	7,586
Future income taxes	2,995	2,847
Shareholders' equity:		
Share capital (note 6 (a))	63,672	63,672
Additional paid-in capital	407	181
Accumulated other comprehensive loss (note 3)	(978)	(263)
Deficit	(28,200)	(30,647)
	<u>34,901</u>	<u>32,943</u>
	<u>\$ 83,695</u>	<u>\$ 64,435</u>

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

LAB RESEARCH INC.

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

Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues	\$ 14,973	\$ 11,590	\$ 28,288	\$ 22,958
Expenses:				
Direct costs	9,166	7,115	17,489	13,893
Selling, general and administrative	2,300	2,427	4,610	4,795
Stock-based compensation (note 7)	113	15	226	35
Amortization of property and equipment	838	674	1,528	1,293
Amortization of intangible assets	130	125	265	246
Interest, net	338	147	409	290
Write-off of property and equipment	3	10	17	12
Foreign exchange	166	9	205	(77)
	13,054	10,522	24,749	20,487
Earnings before income taxes	1,919	1,068	3,539	2,471
Provision for income taxes	304	210	668	716
Net earnings from continuing operations	1,615	858	2,871	1,755
Net (loss) earnings from discontinued operations (note 10)	(25)	135	(74)	190
Net earnings	\$ 1,590	\$ 993	\$ 2,797	\$ 1,945
Earnings per share:				
Basic:				
Continuing operations	\$ 0.09	\$ 0.06	\$ 0.16	\$ 0.12
Discontinued operations	-	0.01	-	0.02
	\$ 0.09	\$ 0.07	\$ 0.16	\$ 0.14
Diluted:				
Continuing operations	\$ 0.09	\$ 0.06	\$ 0.16	\$ 0.12
Discontinued operations	-	0.01	(0.01)	0.02
	\$ 0.09	\$ 0.07	\$ 0.15	\$ 0.14
Weighted average number of outstanding shares:				
Basic	18,035,714	14,142,857	18,035,714	14,142,857
Effect of dilutive options	352,159	-	233,664	-
Diluted	18,387,873	14,142,857	18,269,378	14,142,857

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

LAB RESEARCH INC.

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

Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net earnings	\$ 1,590	\$ 993	\$ 2,797	\$ 1,945
Unrealized (loss) gain on available-for-sale financial assets	(8)	-	6	-
Foreign exchange adjustment on self- sustaining foreign operations	(880)	(123)	(713)	(20)
Comprehensive earnings	\$ 702	\$ 870	\$ 2,090	\$ 1,925

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

LAB RESEARCH INC.

Consolidated and Combined Carve-Out Statements of Shareholders' Equity
(Unaudited)

Period ended June 30, 2007
(in thousands of Canadian dollars)

	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total
Balance, December 31, 2006	\$ 63,672	\$ 181	\$ (263)	\$ (30,647)	\$ 32,943
Changes in accounting policies (note 3)	-	-	(8)	(350)	(358)
Net earnings	-	-	-	2,797	2,797
Foreign exchange adjustment on self-sustaining foreign operations	-	-	(713)	-	(713)
Stock-based compensation	-	226	-	-	226
Unrealized gain on available-for- sale assets (note 3)	-	-	6	-	6
Balance, June 30, 2007	\$ 63,672	\$ 407	\$ (978)	\$ (28,200)	\$ 34,901

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

LAB RESEARCH INC.

Consolidated and Combined Carve-Out Statements of Cash Flows (Unaudited)

Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net earnings from continuing operations	\$ 1,615	\$ 858	\$ 2,871	\$ 1,755
Adjustments for:				
Amortization of property and equipment	838	674	1,528	1,293
Write-off of property and equipment	3	10	17	12
Amortization of intangible assets	130	125	265	246
Amortization of deferred financing fees	-	10	-	19
Unrealized gain on foreign exchange	(30)	-	(10)	-
Unrealized interest income	56	-	21	-
Stock-based compensation	113	15	226	35
Amortization of deferred gain of property	(8)	(32)	(21)	(55)
Deferred rent liability	18	54	72	107
Future income taxes	(344)	(867)	(1,017)	(998)
Net changes in operating assets and liabilities (note 8 (a))	(2,408)	(925)	(1,946)	(1,353)
	(17)	(78)	2,006	1,061
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	23,437	-	23,437	-
Repayment of long-term debt	(3,138)	(310)	(3,356)	(656)
Repayment of capital leases	(138)	(263)	(289)	(612)
Financing fees	(337)	-	(337)	-
Net advances from companies under common control	-	2,409	-	475
Proceeds from bank loan	-	224	-	-
Repayments under bank credit facilities	-	-	(223)	(209)
	19,824	2,060	19,232	(1,002)
Cash flows from investing activities:				
Cash held in escrow	500	-	-	-
Payment of holdback payable	(34)	-	(835)	-
Additions to property and equipment	(20,230)	(708)	(23,340)	(1,455)
Proceeds from disposal of property and equipment	69	-	86	-
Loan receivable	(300)	-	(300)	-
Other assets	27	(698)	19	(733)
	(19,968)	(1,406)	(24,370)	(2,188)
Effect of exchange rate changes on cash	(105)	673	(92)	681
Net (decrease) increase in cash from continuing operations	(266)	1,249	(3,224)	(1,448)
Net cash from operations provided by discontinued operations	97	106	175	227
Net (decrease) increase in cash	(169)	1,355	(3,049)	(1,221)
Cash, beginning of period	5,636	1,151	8,516	3,727
Cash, end of period	\$ 5,467	\$ 2,506	\$ 5,467	\$ 2,506

Supplemental cash flow disclosure (note 8)

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

LAB RESEARCH INC.

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

Periods ended June 30, 2007 and 2006
(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 LAB Research A/S ("LAB Denmark"), LAB Research Ltd. ("LAB Hungary") 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. On April 30, 2007, the Company ceased the operations of LAB Research International, Inc. ("LAB US"), its wholly-owned subsidiary located in the United States. See note 10.

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. Subsequent to a series of transactions completed on June 30, 2006 and July 27, 2006, LAB Research acquired all of the assets and assumed the liabilities related to the pre-clinical contract research services business of LAB Canada and acquired all of the outstanding shares of LAB Hungary, LAB Denmark and LAB US from LAB International (the "Spin-off"). On August 3, 2006, the Company completed an initial public offering ("IPO") of common shares.

2. Basis of presentation:

(a) Interim financial statements:

The unaudited interim consolidated and combined carve-out financial statements of the Company have been prepared under Canadian generally accepted accounting principles. The unaudited consolidated balance sheet as at June 30, 2007 and the unaudited interim consolidated and combined carve-out statements of earnings, comprehensive income, and cash flows for the three-month and the six-month periods ended June 30, 2007 and 2006 and the consolidated and combined carve-out statement of shareholders' equity for the six-month period ended June 30, 2007, reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results of the interim periods presented. The Company's revenues and expenses are subject to seasonal variations. Consequently, the results for any quarter are not necessarily indicative of the results for the full year.

The interim consolidated and combined carve-out financial statements follow the same accounting policies described in note 2 of the audited consolidated and combined carve-out financial statements of the Company for the year ended December 31, 2006. The interim consolidated and combined carve-out financial statements have not been reviewed by the Company's auditors.

The interim consolidated and combined carve-out financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the audited consolidated and combined carve-out financial statements of the Company for the year ended December 31, 2006.

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

LAB RESEARCH INC.

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

Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

2. Basis of presentation (continued):

(b) Pre IPO:

The combined carve-out statement of earnings for the three-month and the six-month periods ended June 30, 2006 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 financial results for the three-month and the six-month periods ended June 30, 2006 represent the combined results of operations and cash flows on a carve-out accounting basis. All significant inter-company balances and transactions have been eliminated.

As the Company operated as a segment of 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 three-month period ended June 30, 2007, the allocated costs amounted to \$ nil (2006 – \$285). For the six-month period ended June 30, 2007, the allocated costs amounted to \$ nil (2006 - \$570).

LAB RESEARCH INC.

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

Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

2. Basis of presentation (continued):

(b) Pre IPO (continued):

Earnings per share:

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

(c) Post IPO:

The consolidated balance sheet as of June 30, 2007 and the consolidated statements of earnings and cash flows for the three-month and the six-month periods ended June 30, 2007 present our consolidated financial position, results of operations and cash flows as a stand-alone entity. Following the IPO on August 3, 2006, the Company performed its corporate functions with its own resources or purchased services.

3. Changes in accounting policies:

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

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

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

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Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended June 30, 2007 and 2006
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3. Changes in accounting policies (continued):

fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value, unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

As a result of the adoption of these standards, the Company has classified its accounts and other receivables as loans and receivables. The Company has also classified its long-term investments as available-for-sale and its accounts payable and accrued liabilities, holdback payable and long-term debt as other financial liabilities. On January 1st, 2007, the impact of these changes in accounting policies is included as an increase to the opening deficit of \$350 and an increase to "Accumulated other comprehensive loss" of \$8. The adoption of these new standards also resulted in a reclassification of an amount of \$263 previously recorded in "Cumulative translation adjustment" to "Accumulated other comprehensive loss".

4. Buy-back of the Canadian property:

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

The Buy-back was financed with a conventional mortgage, bearing interest at the bank prime plus 0.4%, secured by a first ranking moveable hypothec on the building, repayable over 16 years with quarterly repayments in the amount of \$213 during the first four years and \$283 thereafter.

The carrying amounts of the deferred gain on sale of property, and deferred rent at the date of the Buy-Back of \$1,296, that resulted from the sale-leaseback transaction, were reversed and applied against the purchase price of the building.

LAB RESEARCH INC.

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

Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

5. Other assets:

	June 30, 2007	December 31, 2006
Long-term investments	\$ 99	\$ 126
Long-term note receivable from landlord	-	1,920
Deferred financing fees	-	40
Loan receivable from a senior executive (note 9)	300	-
Other	31	33
	<u>\$ 430</u>	<u>\$ 2,119</u>

On April 27, 2007, the Company signed a loan agreement with a senior executive for an amount of \$300, bearing interest at the cost of borrowing for the Company or interest that the Company would have received on such amount, as the case may be. The loan may be repaid at any time without penalty but no later than April 30, 2012. Until full and complete repayment of the loan, the common shares in the Company held by the senior executive must, at all times, be free and clear of any hypothec, lien or any other restriction on transfer of any kind.

6. 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:

	June 30, 2007	December 31, 2006
18,035,714 common shares (2006 – 18,035,714)	\$ 63,672	\$ 63,672

On February 8, 2007, the Company announced that its Board of Directors adopted a Shareholder Rights Plan (the "Plan"). The rights plan has been approved by the Toronto Stock Exchange and by the shareholders of the Company at its 2007 Annual General Meeting of the shareholders. The Plan has an initial term of three years.

(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,

LAB RESEARCH INC.

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

Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

6. Share capital (continued):

(b) Stock option plan (continued):

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.

There were no options granted in the three-month and the six-month periods ended June 30, 2007 and 2006.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2007:

Exercise price	Options outstanding	Options exercisable	Weighted average remaining contractual life (years)
\$ 4.00	1,194,000	10,000	9.10
4.25	65,000	-	9.31
5.05	20,000	-	9.44
	1,279,000	10,000	9.12

7. Stock-based compensation:

For the three-month period ended June 30, 2007, the Company recognized total stock-based compensation of \$113 (2006 - \$15) which includes an expense of \$ nil (2006 - \$15) related to the fair value of awards granted by LAB International to LAB Research employees.

For the six-month period ended June 30, 2007, the Company recognized total stock-based compensation of \$226 (2006 - \$35) which includes an expense of \$ nil (2006 - \$35) related to the fair value of awards granted by LAB International to LAB Research's employees.

The expense in the three-month and the six-month periods ended June 30, 2007 represents the amortization of compensation cost over the vesting period for options granted in 2006.

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Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

8. Supplemental information:

(a) Net changes in operating assets and liabilities:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Accounts and other receivables	\$ (2,989)	\$ (2,220)	\$ (2,801)	\$ (4,469)
Work in progress	(982)	(343)	(852)	27
Income tax receivable	(563)	(524)	(502)	771
Prepaid expenses	119	990	(109)	(130)
Accounts payable and accrued liabilities	119	2,307	653	1,679
Deferred revenue	1,888	(1,135)	1,665	769
	\$ (2,408)	\$ (925)	\$ (1,946)	\$ (1,353)

(b) Cash paid for:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Interest	\$ 348	\$ 127	\$ 512	\$ 272

(c) Non-cash transactions:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Property and equipment financed through capital leases	\$ -	\$ 263	\$ 121	\$ 480

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Research tax credits	\$ 1,185	\$ 1,100	\$ 2,161	\$ 1,642

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

9. Related party transactions:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Companies under common control:				
Revenues	\$ -	\$ 626	\$ -	\$ 1,433
Direct costs	-	281	-	728
Other:				
Professional services rendered by firms connected with directors	-	7	-	34
Interest revenue on loan receivable from a senior executive	2	-	2	-

On August 3, 2006, as part of the corporate reorganization, that took place prior to the IPO, 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 provided by LAB Research under the agreement are 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 has undertaken not to, directly or indirectly, for a period of 60 months following the closing of the offering, carry on, operate or be engaged in any business in Canada, the U.S. or any country in Europe (excluding Russia, Ukraine, Romania and Belarus) which provides pre-clinical contract research services in non-human subjects in the field of toxicology and toxicokinetics. The agreement also provides that 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 IPO 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.

Related party transactions in 2006 are transactions between the Company and other entities controlled by LAB International.

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

In April 2007, the Company disbursed a five-year loan in the amount of \$300 to the President and CEO of the Company, bearing interest at the cost of borrowing for the Company or interest that the Company would have received on such amount, as the case may be. During the three-month and the six-month periods ended June 30, 2007, the Company recognized interest revenue related to this loan in the amount of \$2 (2006 – \$ nil).

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

10. Discontinued operations:

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

The following represents financial information related to discontinued operations:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues	\$ 107	\$ 735	\$ 391	\$ 1,174
Expenses:				
Direct costs	75	299	297	602
Selling, general and administrative	46	286	142	352
Amortization of property and equipment	6	15	21	30
Write-off of property and equipment	5	-	5	-
Net (loss) earnings	(25)	135	(74)	190

11. Segment disclosures:

LAB Research has three reportable operating segments: LAB Canada, LAB Denmark and LAB Hungary. The activities of these segments are described in note 1 to the consolidated and combined carve-out financial statements. LAB US was previously part of the LAB North America segment. As a result of the closure of LAB US, the current and prior period segment disclosures are stated to exclude these operations. The Corporate segment is responsible for the Company's financial and corporate direction and also includes general expenses which cannot be directly attributable to a specific segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in our audited consolidated and combined carve-out financial statements for the year ended December 31, 2006.

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Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

11. Segment disclosures (continued):

Segment disclosures are as follows:

	Three-month period ended June 30, 2007				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues:					
Third parties	\$ 6,354	\$ 6,134	\$ 2,485	\$ -	\$ 14,973
Direct costs	3,692	3,966	1,508	-	9,166
Selling, general and administrative	470	807	388	635	2,300
Stock-based compensation	15	21	12	65	113
Amortization of property and equipment	410	270	155	3	838
Amortization of intangible assets	-	130	-	-	130
Interest, net	269	81	26	(38)	338
Write-off of property and equipment	2	-	1	-	3
Foreign exchange	210	6	(50)	-	166
Income taxes provision (recovery)	267	87	87	(137)	304
Net earnings (loss)	1,019	766	358	(528)	1,615

	Three-month period ended June 30, 2006				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues:					
Third parties	\$ 3,462	\$ 6,083	\$ 1,419	\$ -	\$ 10,964
Related parties	-	17	609	-	626
Direct costs	2,021	4,063	1,031	-	7,115
Selling, general and administrative	711	866	446	404	2,427
Stock-based compensation	12	3	-	-	15
Amortization of property and equipment	209	315	150	-	674
Amortization of intangible assets	-	125	-	-	125
Interest, net	53	63	31	-	147
Write-off of property and equipment	-	-	10	-	10
Foreign exchange	(6)	(12)	27	-	9
Income taxes provision (recovery)	261	24	14	(89)	210
Net earnings (loss)	201	653	319	(315)	858

LAB RESEARCH INC.

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

Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

11. Segment disclosures (continued):

	Six-month period ended June 30, 2007				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues:					
Third parties	\$ 10,421	\$ 12,456	\$ 5,411	\$ -	\$ 28,288
Direct costs	6,498	7,967	3,024	-	17,489
Selling, general and administrative	1,054	1,611	826	1,119	4,610
Stock-based compensation	30	42	24	130	226
Amortization of property and equipment	659	528	335	6	1,528
Amortization of intangible assets	-	265	-	-	265
Interest, net	269	165	53	(78)	409
Write-off of property and equipment	15	-	2	-	17
Foreign exchange	243	13	(51)	-	205
Income taxes provision (recovery)	334	382	191	(239)	668
Net earnings (loss)	1,319	1,483	1,007	(938)	2,871

	Six-month period ended June 30, 2006				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues:					
Third parties	\$ 7,675	\$ 11,296	\$ 2,554	\$ -	\$ 21,525
Related parties	-	54	1,379	-	1,433
Direct costs	4,365	7,400	2,128	-	13,893
Selling, general and administrative	1,509	1,673	806	807	4,795
Stock-based compensation	28	7	-	-	35
Amortization of property and equipment	404	593	296	-	1,293
Amortization of intangible assets	-	246	-	-	246
Interest, net	104	122	64	-	290
Write-off of property and equipment	-	-	12	-	12
Foreign exchange	(5)	(64)	(8)	-	(77)
Income taxes provision (recovery)	540	267	86	(177)	716
Net earnings (loss)	730	1,106	549	(630)	1,755

LAB RESEARCH INC.

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

Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

11. Segment disclosures (continued):

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

	June 30, 2007	June 30, 2006
United States	\$ 5,768	\$ 5,787
Denmark	5,380	5,120
Canada	3,732	1,867
Germany	1,814	2,212
Spain	481	572
United Kingdom	2,316	521
Sweden	1,064	1,269
Switzerland	1,040	1,482
Australia	578	337
Korea	1,587	259
Hungary	730	179
France	92	11
Belgium	450	428
Norway	548	220
Austria	1,017	221
Taiwan	511	-
Asia – other	1	645
Finland	740	1,452
Europe – other	431	376
South Africa	8	-
	\$ 28,288	\$ 22,958

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

	June 30, 2007	December 31, 2006
Denmark	\$ 19,248	\$ 15,631
Canada	28,275	5,956
Hungary	8,194	5,704
United States	-	241
	\$ 55,717	\$ 27,532

	June 30, 2007	December 31, 2006
Segmented assets:		
Denmark	\$ 23,501	\$ 23,425
Canada	49,006	32,052
Hungary	11,188	9,035
United States	-	(77)
	\$ 83,695	\$ 64,435

LAB RESEARCH INC.

Notes to Consolidated and Combined Carve-Out Financial Statements, Continued
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Periods ended June 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

11. Segment disclosures (continued):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Expenditures for segment property and equipment and intangible assets:				
Denmark	\$ 4,033	\$ 430	\$ 5,322	\$ 729
Canada	13,573	-	14,868	225
Hungary	2,624	278	3,150	501
	\$ 20,230	\$ 708	\$ 23,340	\$ 1,455

12. Comparative figures:

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