

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

LAB RESEARCH INC.

Periods ended September 30, 2007 and 2006

LAB RESEARCH INC.

Consolidated and Combined Carve-Out Financial Statements
(Unaudited)

September 30, 2007 and 2006

Financial Statements	Page
Consolidated Balance Sheets	3
Consolidated and Combined Carve-Out Statements of Earnings.....	4
Consolidated and Combined Carve-Out Statements of Comprehensive Earnings	5
Consolidated and Combined Carve-Out Statements of Shareholders' Equity	6
Consolidated and Combined Carve-Out Statements of Cash Flows	7
Notes to Consolidated and Combined Carve-Out Financial Statements	8

LAB RESEARCH INC.

Consolidated Balance Sheets
(Unaudited)

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

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash	\$ 7,119	\$ 8,516
Accounts and other receivables	10,265	16,661
Work in progress	2,529	2,209
Income taxes receivable	1,594	268
Prepaid expenses	1,332	1,104
	<u>22,839</u>	<u>28,758</u>
Property and equipment (note 4)	56,665	24,784
Intangible assets	2,163	2,748
Other assets (note 5)	474	2,119
Future income taxes	6,755	6,026
	<u>\$ 88,896</u>	<u>\$ 64,435</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 2,473	\$ -
Bank loan	-	223
Accounts payable and accrued liabilities	9,738	9,916
Holdback payable	78	913
Deferred revenue	7,099	6,194
Current portion of long-term debt (note 4)	1,808	1,230
Deferred gain on sale of property	-	84
Future income taxes	187	745
	<u>21,383</u>	<u>19,305</u>
Deferred rent liability	-	253
Deferred gain on sale of property	-	1,501
Long-term debt (note 4)	28,761	7,586
Future income taxes	2,959	2,847
Shareholders' equity:		
Share capital (note 6 (a))	63,699	63,672
Additional paid-in capital	550	181
Accumulated other comprehensive loss (note 3)	(1,272)	(263)
Deficit	(27,184)	(30,647)
	<u>35,793</u>	<u>32,943</u>
	<u>\$ 88,896</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 September 30, 2007 and 2006
(in thousands of Canadian dollars, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues	\$ 14,138	\$ 11,906	\$ 42,426	\$ 34,864
Expenses:				
Direct costs	9,123	7,034	26,612	20,927
Selling, general and administrative	2,145	2,510	6,755	7,317
Stock-based compensation (note 7)	150	126	376	161
Amortization of property and equipment	952	557	2,480	1,850
Amortization of intangible assets	127	125	392	371
Interest, net	376	64	785	354
Write-off of property and equipment	-	-	17	-
Foreign exchange	(31)	116	174	39
	12,842	10,532	37,591	31,019
Earnings before income taxes	1,296	1,374	4,835	3,845
Provision for income taxes	278	343	946	1,059
Net earnings from continuing operations	1,018	1,031	3,889	2,786
Net (loss) earnings from discontinued operations (note 10)	(2)	6	(76)	196
Net earnings	\$ 1,016	\$ 1,037	\$ 3,813	\$ 2,982
Earnings per share:				
Basic:				
Continuing operations	\$ 0.06	\$ 0.06	\$ 0.22	\$ 0.19
Discontinued operations	-	-	(0.01)	0.01
	\$ 0.06	\$ 0.06	\$ 0.21	\$ 0.20
Diluted:				
Continuing operations	\$ 0.06	\$ 0.06	\$ 0.21	\$ 0.19
Discontinued operations	(0.01)	-	-	0.01
	\$ 0.05	\$ 0.06	\$ 0.21	\$ 0.20
Weighted average number of outstanding shares:				
Basic	18,036,520	16,639,363	18,035,897	14,772,112
Effect of dilutive options	462,491	-	232,455	-
Diluted	18,499,011	16,639,363	18,268,352	14,772,112

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 September 30, 2007 and 2006
(in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net earnings	\$ 1,016	\$ 1,037	\$ 3,813	\$ 2,982
Unrealized gain on available-for-sale financial assets	-	-	8	-
Foreign exchange adjustment on self- sustaining foreign operations	(296)	96	(1,009)	76
Comprehensive earnings	\$ 720	\$ 1,133	\$ 2,812	\$ 3,058

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 September 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	-	-	-	3,813	3,813
Exercise of options	27	(7)	-	-	20
Foreign exchange adjustment on self-sustaining foreign operations	-	-	(1,009)	-	(1,009)
Stock-based compensation	-	376	-	-	376
Unrealized gain on available-for- sale assets (note 3)	-	-	8	-	8
Balance, September 30, 2007	\$ 63,699	\$ 550	\$ (1,272)	\$ (27,184)	\$ 35,793

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 September 30, 2007 and 2006
(in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net earnings from continuing operations	\$ 1,018	\$ 1,031	\$ 3,889	\$ 2,786
Adjustments for:				
Amortization of property and equipment	952	557	2,480	1,850
Amortization of intangible assets	127	125	392	371
Unrealized gain on foreign exchange	30	155	20	155
Stock-based compensation	150	126	376	161
Amortization of deferred gain of property	-	(19)	(21)	(74)
Deferred rent liability	-	54	72	161
Future income taxes	(134)	19	(1,151)	(979)
Other	10	7	48	26
Net changes in operating assets and liabilities (note 8 (a))	(961)	(1,268)	(2,907)	1,349
	1,192	787	3,198	5,806
Cash flows from financing activities:				
Proceeds from issuance of common shares	20	15,000	20	15,000
Share issue costs	-	(1,697)	-	(1,697)
Proceeds from issuance of long-term debt	3,224	68	26,661	68
Repayment of long-term debt	(280)	(901)	(3,636)	(1,557)
Repayment of capital leases	(130)	(326)	(419)	(938)
Financing fees	-	-	(337)	-
Changes in net assets not transferred to LAB Canada	-	200	-	(306)
Net advances (to) from companies under common control	-	(364)	-	111
Proceeds from bank facilities	2,473	223	2,473	223
Repayments under bank credit facilities	-	(223)	(223)	(432)
	5,307	11,980	24,539	10,472
Cash flows from investing activities:				
Payment of holdback payable	-	-	(835)	-
Additions to property and equipment	(5,087)	(1,185)	(28,427)	(2,640)
Costs incurred for the Canadian expansion to be reimbursed by the landlord	-	(1,321)	-	(4,785)
Loan receivable	-	-	(300)	-
Other	129	656	234	(65)
	(4,958)	(1,850)	(29,328)	(7,490)
Effect of exchange rate changes on cash	106	(671)	14	10
Net increase (decrease) in cash from continuing operations	1,647	10,246	(1,577)	8,798
Net cash from operations provided by discontinued operations	5	(286)	180	(59)
Net increase (decrease) in cash	1,652	9,960	(1,397)	8,739
Cash, beginning of period	5,467	2,506	8,516	3,727
Cash, end of period	\$ 7,119	\$ 12,466	\$ 7,119	\$ 12,466

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 September 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") provide 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. Refer to 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 Pre-Clinical Research International Inc. ("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 September 30, 2007 and the unaudited interim consolidated and combined carve-out statements of earnings, comprehensive earnings, and cash flows for the three-month and the nine-month periods ended September 30, 2007 and 2006 and the consolidated and combined carve-out statement of shareholders' equity for the nine-month period ended September 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 September 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 nine-month periods ended September 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 up to August 3, 2006 represent the combined results of operations and cash flows on a carve-out accounting basis. All significant inter-company balances and transactions have been eliminated.

As the Company operated as a segment of 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 September 30, 2007, the allocated costs amounted to \$ nil (2006 – \$65). For the nine-month period ended September 30, 2007, the allocated costs amounted to \$ nil (2006 - \$665).

LAB RESEARCH INC.

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

Periods ended September 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 nine-month periods ended September 30, 2006 were calculated using the common shares outstanding immediately after the completion of the Spin-off as being the common shares outstanding at January 1, 2006 and for the period up to September 30, 2006.

(c) Post IPO:

The consolidated balance sheet as of September 30, 2007 and the consolidated statements of earnings and cash flows for the three-month and the nine-month periods ended September 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 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

LAB RESEARCH INC.

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

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

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

5. Other assets:

	September 30, 2007	December 31, 2006
Long-term investments	\$ 100	\$ 126
Long-term note receivable from landlord	-	1,920
Deferred financing fees	-	40
Loan receivable from a senior executive (note 9)	300	-
Other	74	33
	\$ 474	\$ 2,119

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

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:

Changes in the issued and outstanding common shares for the nine-month period ended September 30, 2007 were as follows:

	Common Shares	
	Number	Dollars
Balance, December 31, 2006	18,035,714	\$ 63,672
Exercise of options:		
For cash	5,000	20
Ascribed value	-	7
Balance, September 30, 2007	18,040,714	\$ 63,699

LAB RESEARCH INC.

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

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

6. Share capital (continued):

(a) Issued and outstanding (continued):

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, 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.

Changes in options issued under the Company's stock option plan were as follows:

	Number	Weighted average exercise price
Options outstanding as at December 31, 2005	-	\$ -
Granted	1,346,500	4.03
Cancelled	(67,500)	4.00
Balance, December 31, 2006	1,279,000	4.03
Granted	25,000	7.86
Exercised	(5,000)	4.00
Balance, September 30, 2007	1,299,000	\$ 4.12

LAB RESEARCH INC.

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

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

6. Share capital (continued):

(b) Stock option plan (continued):

The following table summarizes information about stock options outstanding and exercisable at September 30, 2007.

Exercise price	Options outstanding	Options exercisable	Weighted average remaining contractual life (years)
\$ 4.00	1,189,000	321,333	8.85
4.25	65,000	20,000	9.06
5.05	20,000	-	9.19
7.86	25,000	-	9.88
	1,299,000	341,333	8.87

7. Stock-based compensation:

For the three-month period ended September 30, 2007, the Company recognized total stock-based compensation of \$150 (2006 - \$126).

For the nine-month period ended September 30, 2007, the Company recognized total stock-based compensation of \$376 (2006 - \$161) 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 weighted average fair value of each option granted is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	Nine months ended September 30,	
	2007	2006
Risk-free interest rate	4.18%	4.19%
Expected volatility	30.77%	30.55%
Expected life in years	5	5
Expected dividend yield	-	-

The following table summarizes the weighted average grant-date fair value per share for options granted during the periods ended September 30, 2007 and 2006.

	Number of options	Weighted average grant-date fair value
Three and nine-months ended:		
September 30, 2007	25,000	\$ 3.43
September 30, 2006	1,261,500	1.38

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

LAB RESEARCH INC.

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

Periods ended September 30, 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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Accounts and other receivables	\$ 411	\$ (613)	\$ (2,390)	\$ (1,715)
Work in progress	381	656	(471)	683
Income tax receivable	(737)	(387)	(1,239)	(24)
Prepaid expenses	(163)	113	(272)	(510)
Accounts payable and accrued liabilities	149	(1,301)	802	1,866
Deferred revenue	(1,002)	264	663	1,049
	\$ (961)	\$ (1,268)	\$ (2,907)	\$ 1,349

(b) Cash paid for:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Interest	\$ 421	\$ 176	\$ 933	\$ 476

(c) Non-cash transactions:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Property and equipment financed through capital leases	\$ -	\$ 112	\$ -	\$ 592
Issue of common shares in relation with the spin-off	-	48,101	-	48,101
Services rendered in exchange of shares	-	571	-	571
Transfer from LAB International	-	3,965	-	3,965

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Research tax credits	\$ 1,158	\$ 588	\$ 3,319	\$ 2,230

(e) Other:

At September 30, 2007, the Company had entered into forward contracts to sell US dollars with a nominal amount of \$6,000 at a weighted average rate of 1.0599 US\$/Can\$. These contracts mature at various dates to June 30, 2008.

LAB RESEARCH INC.

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

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

9. Related party transactions:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Companies under common control:				
Revenues	\$ -	\$ 1,154	\$ -	\$ 2,587
Direct costs	-	491	-	1,219
Other:				
Professional services rendered by firms connected with directors	-	100	-	134
Interest revenue on loan receivable from a senior executive	3	-	5	-

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. The contract was terminated on August 31, 2007.

LAB International (now known as Akela Pharma Inc.) 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.

LAB RESEARCH INC.

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

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

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 nine-month periods ended September 30, 2007, the Company recognized interest revenue related to this loan in the amount of \$3 and \$5 respectively (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 September 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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues	\$ -	\$ 335	\$ 391	\$ 1,509
Expenses:				
Direct costs	-	211	297	813
Selling, general and administrative	2	103	144	455
Amortization of property and equipment	-	15	21	45
Write-off of property and equipment	-	-	5	-
Net (loss) earnings	\$ (2)	\$ 6	\$ (76)	\$ 196

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.

LAB RESEARCH INC.

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

Periods ended September 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 September 30, 2007				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues:					
Third parties	\$ 6,796	\$ 5,921	\$ 1,421	\$ -	\$ 14,138
Direct costs	3,816	3,987	1,320	-	9,123
Selling, general and administrative	816	469	379	481	2,145
Stock-based compensation	16	22	11	101	150
Amortization of property and equipment	422	359	168	3	952
Amortization of intangible assets	-	127	-	-	127
Interest, net	343	83	20	(70)	376
Foreign exchange	(213)	37	145	-	(31)
Income taxes provision (recovery)	356	181	(130)	(129)	278
Net earnings (loss)	1,240	656	(492)	(386)	1,018

	Three-month period ended September 30, 2006				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues:					
Third parties	\$ 3,489	\$ 5,893	\$ 1,370	\$ -	\$ 10,752
Related parties	-	14	1,140	-	1,154
Direct costs	2,500	3,553	981	-	7,034
Selling, general and administrative	686	888	642	294	2,510
Stock-based compensation	10	12	6	98	126
Amortization of property and equipment	166	235	156	-	557
Amortization of intangible assets	-	125	-	-	125
Interest, net	52	60	30	(78)	64
Foreign exchange	(10)	18	108	-	116
Income taxes provision (recovery)	(102)	394	145	(94)	343
Net earnings (loss)	187	622	442	(220)	1,031

LAB RESEARCH INC.

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

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

11. Segment disclosures (continued):

	Nine-month period ended September 30, 2007				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues:					
Third parties	\$ 17,217	\$ 18,377	\$ 6,832	\$ -	\$ 42,426
Direct costs	10,314	11,954	4,344	-	26,612
Selling, general and administrative	2,068	2,080	1,205	1,402	6,755
Stock-based compensation	46	64	35	231	376
Amortization of property and equipment	1,081	887	503	9	2,480
Amortization of intangible assets	-	392	-	-	392
Interest, net	612	248	73	(148)	785
Write-off of property and equipment	15	-	2	-	17
Foreign exchange	30	50	94	-	174
Income taxes provision (recovery)	690	563	61	(368)	946
Net earnings (loss)	2,361	2,139	515	(1,126)	3,889

	Nine-month period ended September 30, 2006				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues:					
Third parties	\$ 11,164	\$ 17,189	\$ 3,924	\$ -	\$ 32,277
Related parties	-	68	2,519	-	2,587
Direct costs	6,865	10,953	3,109	-	20,927
Selling, general and administrative	2,345	2,561	1,460	951	7,317
Stock-based compensation	38	19	6	98	161
Amortization of property and equipment	570	828	452	-	1,850
Amortization of intangible assets	-	371	-	-	371
Interest, net	156	182	94	(78)	354
Foreign exchange (gain) loss	(15)	(46)	100	-	39
Income taxes provision (recovery)	405	661	231	(238)	1,059
Net earnings (loss)	800	1,728	991	(733)	2,786

LAB RESEARCH INC.

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

Periods ended September 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:

	Nine-month periods ended	
	September 30,	
	2007	2006
United States	\$ 11,017	\$ 8,208
Denmark	7,562	7,561
Canada	4,821	3,064
Germany	3,008	3,217
United Kingdom	2,966	1,037
Korea	2,384	319
Sweden	2,054	1,856
Switzerland	1,436	2,340
Austria	1,195	429
Norway	1,025	652
Hungary	976	298
Spain	811	839
Finland	782	2,592
Belgium	637	786
Taiwan	561	-
Europe – other	552	579
Australia	463	372
France	135	16
Asia – other	33	699
South Africa	8	-
	\$ 42,426	\$ 34,864

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

	September 30, 2007	December 31, 2006
Canada	\$ 28,243	\$ 5,956
Denmark	20,411	15,631
Hungary	10,174	5,704
United States	-	241
	\$ 58,828	\$ 27,532

	September 30, 2007	December 31, 2006
Segmented assets:		
Canada	\$ 49,907	\$ 23,425
Denmark	25,700	32,052
Hungary	13,289	9,035
United States	-	(77)
	\$ 88,896	\$ 64,435

LAB RESEARCH INC.

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

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

11. Segment disclosures (continued):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Expenditures for segment property and equipment and intangible assets:				
Canada	\$ 611	\$ 648	\$ 15,479	\$ 1,378
Denmark	2,020	413	7,342	638
Hungary	2,456	124	5,606	624
	\$ 5,087	\$ 1,185	\$ 28,427	\$ 2,640

12. Comparative figures:

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