



**LAB Research**

Consolidated Financial Statements of  
(unaudited)

**LAB RESEARCH INC.**

Periods ended March 31, 2009 and 2008

**Excellence in Research**

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# LAB RESEARCH INC.

Consolidated Financial Statements  
(Unaudited)

March 31, 2009 and 2008

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# LAB RESEARCH INC.

Consolidated Balance Sheets  
(Unaudited)

March 31, 2009 and December 31, 2008  
(in thousands of Canadian dollars)

	March 31, 2009	December 31, 2008 (audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 102
Accounts and other receivables	8,737	10,011
Work in progress	3,339	3,511
Income taxes receivable	2,050	1,473
Prepaid expenses	1,500	1,410
Future income taxes	3,128	3,083
	<u>18,754</u>	<u>19,590</u>
Property and equipment	82,062	85,607
Intangible assets	1,672	1,845
Other assets (note 4)	7,911	6,916
Future income taxes	1,567	1,620
	<u>\$ 111,966</u>	<u>\$ 115,578</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank overdraft	\$ 1,412	\$ -
Accounts payable and accrued liabilities	10,774	13,493
Building expansions related accounts payable	967	850
Holdback payable	1,750	1,750
Deferred revenue	9,835	9,180
Current portion of long-term debt (note 5)	38,556	39,416
Deferred gain on sale of equipment	14	-
Future income taxes	710	720
	<u>64,018</u>	<u>65,409</u>
Other debt	-	140
Deferred gain on sale of equipment	55	-
Long-term debt (note 5)	18,299	17,264
Future income taxes	2,463	2,529
Shareholders' equity:		
Share capital (note 6 (a))	63,961	63,951
Warrants	140	-
Additional paid-in capital	1,190	1,077
Accumulated other comprehensive gain (loss)	275	682
Deficit	(38,435)	(35,474)
	<u>(38,160)</u>	<u>(34,792)</u>
	<u>27,131</u>	<u>30,236</u>
Basis of presentation and going concern (note 3 (b))		
Commitments and contingencies (note 11)		
Subsequent event (note 14)		
	<u>\$ 111,966</u>	<u>\$ 115,578</u>

See accompanying notes to unaudited consolidated financial statements.

# LAB RESEARCH INC.

Consolidated Statements of Earnings  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except per share and share data)

	2009	2008
Revenues	\$ 12,987	\$ 15,429
Expenses:		
Direct costs	9,605	10,365
Selling, general and administrative	2,493	2,439
Stock-based compensation (note 7)	113	117
Amortization of property and equipment	1,455	1,103
Amortization of intangible assets	143	132
Interest, net (note 9 (c))	713	544
Foreign exchange	1,512	(33)
	16,034	14,667
(Loss) earnings before income taxes	(3,047)	762
(Recovery) provision for income taxes	(86)	215
Net (loss) earnings	\$ (2,961)	\$ 547
(Loss) earnings per share:		
Basic	\$ (0.16)	\$ 0.03
Diluted	(0.16)	0.03
Weighted average number of outstanding shares:		
Basic	18,087,720	18,050,714
Effect of dilutive options	-	395,144
Diluted	18,087,720	18,445,858

See accompanying notes to unaudited consolidated financial statements.

# LAB RESEARCH INC.

Consolidated Statements of Comprehensive (Loss) Earnings  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars)

	2009	2008
Net (loss) earnings	\$ (2,961)	\$ 547
Unrealized loss on available-for-sale financial assets, net of income taxes	(4)	(4)
Foreign exchange adjustment on self-sustaining foreign operations	(403)	1,421
Comprehensive (loss) earnings	\$ (3,368)	\$ 1,964

See accompanying notes to unaudited consolidated financial statements.

## LAB RESEARCH INC.

Consolidated Statement of Changes in Shareholders' Equity  
(Unaudited)

Three-month period ended March 31, 2009  
(in thousands of Canadian dollars)

	Share capital	Warrants	Additional paid-in capital	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2008	\$ 63,951	\$ -	\$ 1,077	\$ 682	\$ (35,474)	\$ 30,236
Net loss	-	-	-	-	(2,961)	(2,961)
Shares issued pursuant to exercise of stock options	10	-	-	-	-	10
Foreign exchange adjustment on self-sustaining foreign operations	-	-	-	(403)	-	(403)
Issue of warrants	-	140	-	-	-	140
Stock-based compensation	-	-	113	-	-	113
Unrealized loss on available-for- sale financial assets, net of income taxes	-	-	-	(4)	-	(4)
Balance, March 31, 2009	\$ 63,961	\$ 140	\$ 1,190	\$ 275	\$ (38,435)	\$ 27,131

## LAB RESEARCH INC.

Consolidated Statement of Changes in Shareholders' Equity  
(Unaudited)

Three-month period ended March 31, 2008  
(in thousands of Canadian dollars)

	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2007	\$ 63,753	\$ 682	\$ (1,186)	\$ (28,875)	\$ 34,374
Net earnings	-	-	-	547	547
Foreign exchange adjustment on self- sustaining foreign operations	-	-	1,421	-	1,421
Stock-based compensation	-	117	-	-	117
Unrealized loss on available-for-sale financial assets, net of income taxes	-	-	(4)	-	(4)
Balance, March 31, 2008	\$ 63,753	\$ 799	\$ 231	\$ (28,328)	\$ 36,455

See accompanying notes to unaudited consolidated financial statements.

# LAB RESEARCH INC.

## Consolidated Statements of Cash Flows (Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars)

	2009	2008
Cash flows (used in) from operating activities:		
Net (loss) earnings	\$ (2,961)	\$ 547
Adjustments for:		
Amortization of property and equipment	1,455	1,103
Amortization of intangible assets	143	132
Unrealized loss (gain) on foreign exchange	441	(20)
Stock-based compensation	113	117
Future income taxes	(38)	(104)
Other	18	9
Net changes in non-cash balances related to operations (note 10 (a))	(1,592)	(1,295)
	(2,421)	489
Cash flows (used in) from financing activities:		
Proceeds from issuance of shares	10	-
Proceeds from the sale and leaseback of equipment (note 5)	1,188	-
Proceeds from issuance of long-term debt	51	53
Repayment of long-term debt	(823)	(420)
Repayment of capital leases	(176)	(126)
Increase in bank overdraft	1,412	-
	1,662	(493)
Cash flows (used in) from investing activities:		
Additions to property and equipment	(1,168)	(3,366)
Proceeds from a grant (note 10 (e))	1,000	-
Other	(32)	(14)
	(200)	(3,380)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	857	210
Net decrease in cash and cash equivalents	(102)	(3,174)
Cash and cash equivalents, beginning of period	102	6,825
Cash and cash equivalents, end of period	\$ -	\$ 3,651

Supplemental cash flow disclosure (note 10)

See accompanying notes to unaudited consolidated financial statements.

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

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## 1. Nature of operations and organization:

LAB Research Inc. ("LAB Research" or the "Company") and its wholly-owned subsidiaries, LAB Research A/S ("LAB Denmark") and LAB Research Ltd. ("LAB Hungary") provide non-clinical contract research services to the pharmaceutical, biotechnology, agro-chemical, petro-chemical and industrial markets.

## 2. Accounting changes:

### (a) Changes in accounting policies:

#### Goodwill and intangible assets:

On January 1, 2009, the Company adopted the CICA Handbook Section 3064 "Goodwill and Intangible Assets" which replaced Section 3062 "Goodwill and Other Intangible Assets". The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. The adoption of this standard had no impact on the consolidated financial statements.

### (b) Future accounting standards:

#### International Financial Reporting Standards ("IFRS"):

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current generally accepted accounting principles for those enterprises. These new standards are applicable to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company will implement this standard in its first quarter of fiscal year ending December 31, 2011. The Company is currently assessing the impact of the transition to IFRS and will continue to invest in training and resources throughout the transition to facilitate a timely conversion.

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

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### 3. Basis of presentation:

#### (a) Interim financial statements:

The unaudited interim consolidated financial statements of the Company have been prepared under Canadian generally accepted accounting principles. The unaudited consolidated balance sheet as at March 31, 2009 and the unaudited interim consolidated statements of earnings, comprehensive (loss) earnings, changes in shareholders' equity and cash flows for the three-month periods ended March 31, 2009 and 2008 reflect all adjustments which are, in the opinion of management, necessary for 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 to be achieved in the following quarters.

The interim consolidated financial statements follow the same accounting policies described in note 3 of the audited consolidated financial statements of the Company for the year ended December 31, 2008, except as described in note 2 above. The interim consolidated financial statements have not been reviewed by the Company's external auditors.

The interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2008.

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

#### (b) Basis of presentation and going concern:

The unaudited consolidated financial statements have been prepared by the Company on a going concern basis in accordance with Canadian generally accepted accounting principles, which contemplates that the Company will continue in operation for the foreseeable future and be able to realize assets and settle its liabilities in the normal course of business as they come due.

There is significant doubt about the appropriateness of the use of the going concern assumption because for the three-month period ended March 31, 2009, the Company incurred a loss of \$2,961 after a loss of \$6,599 for the year ended December 31, 2008. In addition, as at March 31, 2009, the Company was not in compliance with all bank financial ratio covenants for LAB Canada on its bank loan of \$15,511, its bridge construction loan of \$12,269 and its equipment loan of \$9,250 (refer to note 5). Also, as at March 31, 2009, the current liabilities of the Company exceeded current assets by \$45,264 and the Company had capital commitments of \$2,485. Considering the bank rights to demand repayment of the loans, they were classified as current liabilities. The Canadian bank has not called the loans but if it exercises its right, the Company will have to raise sufficient equity to meet its obligations.

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

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### 3. Basis of presentation (continued):

#### (b) Basis of presentation and going concern (continued):

At March 31, 2009, the Company was in an overdraft position of \$1,412 against its maximum short-term borrowing capacity of \$2,819. In April 2009, the Company secured \$7,500 of financing with a Quebec government agency. This loan will improve the liquidity situation and help the Company to meet its financial obligations. While management is monitoring the operating initiatives put in place to ensure that cash flow projections will materialize, the Company is also considering alternatives to secure additional financing and management is actively negotiating with the Canadian banker to address the current defaults related to certain financial ratios. Nevertheless, there is no assurance that these initiatives would be successful or sufficient and that the bank's financial ratio covenants will be met at each of future compliance dates.

The Company's ability to continue as a going concern and to realize the carrying value of its assets and discharge of its liabilities when due is dependent upon its ability to generate positive cash flows from operations and obtaining additional financing, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing the financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond the near future.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material.

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

## 4. Other assets:

	March 31, 2009	December 31, 2008 (audited)
Long-term investments	\$ 62	\$ 66
Long-term research tax credits recoverable <sup>(1)</sup>	7,498	6,528
Loan receivable from a senior executive <sup>(2)</sup>	300	300
Other	51	22
	<u>\$ 7,911</u>	<u>\$ 6,916</u>

<sup>(1)</sup> Long-term research tax credits recoverable represents federal investment tax credits earned on eligible research activities that are reasonably assured of being realized. These tax credits can be used to reduce future federal income taxes payable and expire as follows:

	March 31, 2009	December 31, 2008 (audited)
2027	\$ 3,270	\$ 3,270
2028	3,470	3,258
2029	758	-
	<u>\$ 7,498</u>	<u>\$ 6,528</u>

<sup>(2)</sup> 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 at the interest rate that the Company would have received on such amount, as the case may be. The loan may be repaid at any time without penalty but no later than April 30, 2012. Until full and complete repayment of the loan, the common shares in the Company held by the senior executive must, at all times, be free and clear of any hypothec, lien or any other restriction on transfer of any kind. In the event that the senior executive sells all or any part of the common shares before the full and complete reimbursement of the loan, the Company will be reimbursed for an amount equal to the net after tax gain realized with respect to the sale of such shares. If the sale of those common shares does not result in the full reimbursement of the loan, the outstanding portion remains due to the Company. During the three-month period ended March 31, 2009, the Company recognized interest revenue related to this loan in the amount of \$3 (2008 - \$3).

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

## 5. Long-term debt:

	March 31, 2009	December 31, 2008 (audited)
Bank loan in Canadian dollars, bearing interest at bank prime plus 1.4% <sup>(1)</sup> , secured by a first ranking collateral mortgage on building located in Canada, repayable in quarterly instalments, maturing in March 2012	\$ 15,511	\$ 15,725
Bridge construction loan in Canadian dollars, to be converted to bank loan in May, 2009, bearing interest at bank prime plus 2% <sup>(1)</sup> , secured by a first ranking collateral mortgage on building located in Canada, repayable in quarterly instalments starting in June 2010 and maturing in March 2014	12,269	12,269
Non-interest bearing government loan in Canadian dollars, unsecured, repayable in bi-annual instalments from April 2010 to October 2013 <sup>(2)</sup>	429	376
Equipment loan in Canadian dollars, bearing interest at bank prime plus 1.75% <sup>(1)</sup> , secured by a first ranking moveable hypothec on equipment located in Canada, repayable in quarterly instalments, maturing in May 2013	9,250	9,500
Revolving loan in Euros (2009 - €655,000; 2008 - €711,000), bearing interest at Euro Interbank Offered Rate ("EURIBOR") 1 month plus 2.2%, secured by a first ranking collateral mortgage on the building located in Hungary, repayable in monthly instalments, maturing in February 2012	1,097	1,209
Bank loans in Euros (2009 - €2,896,000; 2008 - €2,989,000), bearing interest at EURIBOR 1 month plus 1.6%, secured by a first ranking collateral mortgage on buildings and equipment located in Hungary, repayable in monthly instalments to August 2016	4,852	5,079
Term loans in Swiss Francs (2009 - CHF 139,000; 2008 - CHF 146,000), bearing interest at rates ranging from 7.8% to 11.6% and CHF London Interbank Offered Rate ("LIBOR") plus 2.8%, secured by automotive equipment located in Hungary, repayable in monthly instalments, maturing from September 2010 to April 2014	154	166
Term loans in Hungarian Forints (2009 - HUF 7,744,000; 2008 - HUF 8,257,000), bearing interest at 6% and CHF LIBOR plus 2.1%, secured by automotive equipment located in Hungary, repayable in monthly instalments, maturing in December 2011 and 2012	42	52
Balance carried forward	\$ 43,604	\$ 44,376

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

## 5. Long-term debt (continued):

	March 31, 2009	December 31, 2008 (audited)
Balance brought forward	\$ 43,604	\$ 44,376
Bank loans in Danish Kroner (2009 – DKK 32,030,000; 2008 - DKK 32,168,000), bearing interest at the bank bond rate plus 0.6%, secured by a first ranking collateral mortgage on buildings located in Denmark, repayable in quarterly instalments, maturing in December 2034 and 2037	7,207	7,341
Bank loans in Danish Kroner (2009 – DKK 19,463,000; 2008 - DKK 19,757,000), bearing interest at CIBOR 3 months plus 2.15%, secured by a first ranking collateral mortgage on buildings located in Denmark, repayable in quarterly instalments, maturing in March 2017 and December 2022	4,202	4,321
Obligations under capital leases in Canadian dollars, bearing interest at rates ranging from 9.3% to 10.6%, repayable in monthly instalments, maturing from January 2009 to June 2010	199	296
Obligations under capital leases in Euros (2009 - €127,000; 2008 - €146,000), bearing interest at EURIBOR 3 months, repayable in monthly instalments, maturing in October 2010	213	247
Obligations under capital leases in Danish Kroner (2009 - DKK 5,254,000; 2008 - DKK 374,000), bearing interest at 5.3% and 8.5%, repayable in monthly instalments, maturing in December 2011 and January 2014 <sup>(3)</sup>	1,260	85
Obligations under capital leases in Danish Kroner (2009 - DKK 755,000; 2008 - DKK 62,000), bearing interest at CIBOR 3 months plus 2.75% and 3.9%, repayable in monthly instalments, maturing in February 2013	170	14
<b>Total long-term debt</b>	<b>56,855</b>	<b>56,680</b>
Current portion of long-term debt <sup>(1)</sup>	38,556	39,416
	<b>\$ 18,299</b>	<b>\$ 17,264</b>

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

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## 5. Long-term debt (continued):

- (1) Under its debt agreements, the Company is subject to various debt covenants. As at March 31, 2009, LAB Canada was in default of its bank financial ratio covenants. Pursuant to the credit facility, the bank has the right to demand repayments of the loans. The bank has not called the loans but if it exercises its right, the Company will have insufficient funds to meet its obligations. These loans were classified as current liabilities considering the bank's right.
- (2) During the three-month period ended March 31, 2009, the Company received \$50 as the last tranche of a total \$500 non-interest bearing government loan. The loan was recorded at its discounted value of \$49, which was computed at a discount rate of 9%. The difference between the discount value and the principal amount of the loan was recorded against property and equipment since it was considered as a grant from the government. The discount loan amount is being accreted to the principal amount through quarterly accretions with an offsetting charge to interest expense. Non-cash interest expense for the three-month period ended March 31, 2009 was \$6 (2008 – nil).
- (3) In January 2009, LAB Denmark entered into an agreement for the sale and leaseback of certain property and equipment for proceeds of \$1,188 (DKK 5,427,000). The transaction resulted in a gain of \$69 (DKK 305,000), which is being deferred and amortized over the lease term of 5 years. The obligation under the lease agreement of \$1,188 (DKK 5,427,000) has been recorded in long-term debt.

## 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:

	March 31, 2009	December 31, 2008
		(audited)
18,089,360 common shares (2008 – 18,086,980)	\$ 63,961	\$ 63,951

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

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## 6. Share capital:

### (b) Stock option plan:

The stock option plan (the "Plan") is designed to attract, retain and motivate directors, officers, employees and service providers of the Company and to advance the interests of the Company by providing such persons with the opportunity to participate in the long-term growth of the Company. The Plan is administered by the Company's Board of Directors and, subject to the provisions of the Plan, the number of shares subject to each option, the option price, the expiration date of each option, the extent to which options are exercisable from time to time and the terms and conditions relating to each such option shall be determined by the Board. The aggregate number of common shares available for issuance is 10% of the common shares outstanding. The number of common shares, which may be issued to any one person under the Plan, and any other stock compensation agreement, shall not exceed 10% of the Company's common shares on a non-diluted basis. The Company has reserved 1,808,936 common shares for issuance under the Plan of which 250,369 common share options remain authorized for future issuance, as at March 31, 2009.

The exercise price of options granted under the Plan is set by the Board at the time of the grant of the options, but cannot be less than (i) the closing trading price of the common shares on the Toronto Stock Exchange ("TSX") immediately preceding the day on which an option is granted; (ii) in the event that the common shares did not trade on the TSX or any other recognized stock exchange during the said trading day, the volume weighted average trading price of the common shares on the TSX or any other recognized stock exchange for the five trading days immediately preceding the day on which an option is granted; or (iii) in the event that the common shares are not listed or posted for trading on the TSX or any other recognized stock exchange, the fair market value of the common shares as determined by the Board in its discretion. Options vest over a period from three to five years. Options are granted for a term not exceeding ten years.

Changes in options issued under the Plan for the three-month period ended March 31, 2009 were as follows:

	Number	Weighted average exercise price
Balance, December 31, 2008	1,295,947	\$ 4.25
Granted	265,000	0.11
Exercised	(2,380)	4.00
Balance, March 31, 2009	1,558,567	3.55
Options exercisable, March 31, 2009	614,901	\$ 4.16

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

## 6. Share capital (continued):

### (b) Stock option plan (continued):

The following table summarizes information about stock options outstanding and exercisable at March 31, 2009:

Range of exercise prices	Options outstanding			Options exercisable	
	Number	Weighted average exercise price	Weighted average remaining contractual life (yrs)	Number	Weighted average exercise price
\$ 0.01 - \$ 3.99	287,500	\$ 0.16	9.98	-	\$ -
\$ 4.00 - \$ 4.99	1,146,067	4.01	7.36	572,234	4.02
\$ 5.00 - \$ 5.99	30,000	5.05	7.68	26,667	5.05
\$ 6.00 - \$ 6.99	15,000	6.06	9.05	-	-
\$ 7.00 - \$ 7.99	25,000	7.86	8.38	5,000	7.86
\$ 8.00 - \$ 8.99	55,000	8.05	8.78	11,000	8.05
	1,558,567	\$ 3.55	7.93	614,901	\$ 4.16

### (c) Shareholder's Rights Plan:

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

### (d) Employee Share Purchase Plan:

An employee share purchase plan (the "SPP") was established in February 2008. Under the SPP, the Company contributes a cash amount equivalent to the price of one common share for each ten shares bought by the employee up to a maximum of 3% of the employee's salary. The common shares are bought on the stock market, for and on behalf of each employee. The Company assumes the general additional costs of the SPP and the costs associated to the purchase of common shares. No shares can be issued from treasury under the SPP. For the three-month period ended March 31, 2009, included as compensation costs in the consolidated statements of earnings with respect to the SPP is \$5 (2008 - nil).

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

## 7. Stock-based compensation:

The Company recognized total stock-based compensation of \$113 (2008 - \$117) relating to stock options granted.

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 for the three-month periods ended March 31, 2009 and 2008:

	2009	2008
Risk-free interest rate	1.35 %	3.44 %
Expected volatility	127.38 %	44.18 %
Expected life in years	5	5
Expected dividend yield	nil	nil

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

The following table summarizes the weighted average grant-date fair value per share for options granted during the three-month periods ended March 31, 2009 and 2008:

	Number of options	Weighted average grant-date fair value
Exercise price per share equal to market price per share:		
March 31, 2009	265,000	\$ 0.09
March 31, 2008	80,000	3.30

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

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## 8. Capital disclosures:

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy and future development of the business, and also to maintain a strong capital base so as to maintain the confidence of its investors, creditors and the capital market.

The Company's capital is composed of net debt and shareholders' equity (excluding accumulated other comprehensive earnings). Net debt consists of interest-bearing debt less cash and cash equivalents. The Company's primary uses of capital are to finance increases in capital expenditures for capacity expansion and working capital. The Company currently funds these requirements out of its internally-generated cash flows and the use of its revolving long-term credit facilities with domestic and foreign banks.

The primary measure used by the Company to monitor its financial leverage is its ratio of net interest-bearing debt ("net debt") to earnings from continuing operations before interest on long-term debt, taxes, and amortization, ("EBITDA"). The Company believes that a 3.0:1 ratio of net debt to EBITDA is reasonable to achieve the goals set out above, considering the growth prospects of the Company and the capital intensive initiatives required to support this growth. However, as a result of the combined effect of the significant Canadian expansion and the restructuring of its foreign operations, the Company believes that a ratio of less than a maximum of 4.5:1 should be targeted by 2009 year-end. Given the current financial position of the Company, management recognizes that the Company is highly leveraged. Until such time as financing alternatives are obtained and the Company's Canadian expansion is fully operational, the Company will not be able to meet its objective.

In order to conserve cash to finance its ongoing growth and expansion, the Company does not currently pay a dividend. In order to maintain or adjust the capital structure, the Company may also issue new shares or sell assets to adjust to changes in economic conditions and the risk characteristics of the underlying assets. Periodically, the merits of adjusting the capital structure are reviewed by the Board of Directors.

The Company is not subject to any capital requirements imposed by a regulator.

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

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## 9. Financial instruments and risk management:

The Company's significant financial instruments consist of cash and cash equivalents, accounts and other receivables, accounts payable and accrued liabilities, and long-term debt. Disclosures relating to exposures to risk, in particular credit risk, foreign currency risk, interest rate risk and liquidity risk as well as disclosures on fair values are presented below.

### (a) Credit risk:

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts and other receivables. Cash and cash equivalents are maintained with high credit quality financial institutions. The Company's trade receivable balances are dispersed among a large number of debtors across many geographic areas. Revenues by geographic areas are described in note 12 of these interim consolidated financial statements.

Most sales are invoiced with payment terms of between 30 to 60 days. 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. The Company has also established procedures to suspend the release of study reports when customers have not paid outstanding invoices. Due to the financial market crisis, some of our customers may face financial difficulties. The Company has and will continue to exercise tighter controls to ensure payments are made in due course. While the Company's credit controls and processes have been effective in mitigating credit risk, these controls cannot totally eliminate credit risk and there can be no assurance that these controls will continue to be effective. During the three-month period ended March 31, 2009, one individual customer accounted for 10% of the Company's total revenue (2008 - nil) and one customer accounted for 13% of the Company's total trade accounts receivable as at March 31, 2009 (2008 - nil).

The Company writes off trade accounts receivable to expected realizable value as soon as the account is determined not to be fully collectable, with such write-offs charged to earnings unless the loss has been provided for in prior periods, in which case the write-off is applied to reduce the allowance for doubtful accounts. The Company updates its estimate of the allowance for doubtful accounts, based on a customer-by-customer evaluation of the collectability of trade receivable balances on a monthly basis, taking into account amounts which are past due, and any available information indicating that a customer could be experiencing liquidity or going concern problems.

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

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## 9. Financial instruments and risk management (continued):

### (a) Credit risk (continued):

The carrying amount of cash and cash equivalents, trade accounts receivable and loan receivable from a senior executive represent the Company's maximum credit exposure. Included in "accounts and other receivable" on the consolidated balance sheet as at March 31, 2009 are trade receivables of \$8,202 (2008 - \$9,437), of which \$279 were aged 91 days and over (2008 - \$1,264). At March 31, 2009, \$71 (2008 - \$496) of trade receivables were provided and an amount of nil (2008 - \$17) was recorded as bad debt expense.

### (b) Foreign currency risk:

Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the functional currency of each of the operating segments, and by the translation of monetary assets and liabilities denominated in currencies other than the functional currency of each of the operating segments at each balance sheet date. The Company's objective in managing its cash flows subject to foreign currency risk is by transacting with parties in the functional currency of each of the operating segments to the extent possible and by using forward foreign exchange contracts. A forward foreign exchange contract represents an obligation to buy or sell a foreign currency with a counterparty. Credit risk exists in the event of failure by a counterparty to meet its obligations. The Company reduces this risk by dealing only with highly rated counterparties, namely a Canadian financial institution.

At March 31, 2009, the Company had the following future foreign exchange rate agreement:

Currency	Notional foreign currency amount	Expiry Date	Exchange rate
Buy CDN/Sell US	US\$ 1,000	April 30, 2009	1.20

The following exchange rates applied during the three-month periods ended March 31, 2009 and 2008.

	2009		2008	
	Average rate	Reporting date rate	Average rate	Reporting date rate
US to CDN	1.2645	1.2613	1.0020	1.0265
HUF to CDN	0.005416	0.005447	0.005988	0.006254
DKK to CDN	0.2214	0.2250	0.2086	0.2173
Euro to HUF	304.5052	307.6005	259.7862	259.1142
CHF to HUF	202.0495	203.4147	164.7796	165.2382
GBP to DKK	8.0894	8.0422	9.6179	9.3751

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
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## 9. Financial instruments and risk management (continued):

### (b) Foreign currency risk (continued):

The following table provides specific significant items exposed to foreign exchange as at March 31, 2009:

	\$US	Euro	Chf	GBP
<i>(in thousands of Canadian dollars)</i>				
Cash and cash equivalents	218	24	-	-
Accounts and other receivables	2,702	663	-	-
Work in progress	-	772	-	-
Other assets	62	-	-	-
Accounts payable and accrued liabilities	(586)	(523)	-	(5)
Long-term debt	-	(6,162)	(154)	-
	2,396	(5,226)	(154)	(5)

Based on the Company's foreign exchange currency exposures noted above, excluding the exposure related to the forward foreign exchange contract of \$1,000 that was entered into as a hedge against future sales, varying the above foreign exchange rates to reflect 5 percent strengthening of the functional currency would have increased (decreased) the net earnings as follows assuming that all other variables remained constant:

	\$US	Euro	Chf	GBP
<i>(in thousands of Canadian dollars)</i>				
Increase (decrease) in net earnings	155	(280)	(7)	-

An assumed 5 percent weakening of the functional currency would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Based on earnings generated by the Company's wholly-owned subsidiaries, an assumed 5 percent strengthening of their functional currency would have increased the consolidated net earnings by a nominal amount. An assumed 5 percent weakening of the functional currency would have had an equal but opposite effect on the consolidated net earnings on the basis that all other variables remain constant.

At March 31, 2009, LAB Hungary had long-term loans from LAB Denmark denominated in Euro (2,244,491 Euros) and Danish Kroner (1,160,000 DKK) totaling \$4,022. If the Hungarian Forint varies against the Euro and the Danish Kroner to reflect a 5 percent strengthening, this would increase the net earnings as follows assuming that all other variables remained constant.

	Euro	DKK
<i>(in thousands of Canadian dollars)</i>		
Increase in net earnings	120	58

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
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## 9. Financial instruments and risk management (continued):

### (b) Foreign currency risk (continued):

An assumed 5 percent weakening of the Hungarian Forint against the Euros and the Danish Kroner would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### (c) Interest rate risk:

The Company's exposure to interest rate fluctuations is with respect to the bank and equipment loans denominated in Canadian dollars, the bank and revolving loans denominated in Euros and certain bank loans denominated in Danish Kroner which bear interest at floating rates. A fluctuation in interest rates would have an impact on the Company's net earnings. Based on the value of variable interest-bearing long-term debt, an assumed 0.5% interest rate increase during the three-month period ended March 31, 2009 would have increased net loss by \$74 (2008 - decreased net earnings by \$34), with an equal opposite effect for an assumed 0.5% decrease.

As at March 31, 2009, LAB Canada was in default of its bank financial ratio covenants. Until such time as the covenant situation is resolved, the Canadian lender may adjust the rates of interest charged on its debt.

The Company does not account for any fixed rate financial liabilities at fair value through earnings. Therefore, a change in interest rates at the reporting date would have no effect on earnings.

For the three-month periods ended March 31, 2009 and 2008, the net interest expense was as follows:

	2009	2008
Interest incurred on long-term debt	\$ 681	\$ 555
Interest expense on capital leases	32	25
Interest on long-term debt	713	580
Interest income	-	(36)
Interest, net	\$ 713	\$ 544

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
(in thousands of Canadian dollars, except share and per share data)

## 9. Financial instruments and risk management (continued):

### (d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity through the management of its capital structure and financial leverage, as outlined in note 8 to these interim consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

The following are the contractual maturities of financial liabilities by calendar year as of March 31, 2009:

	2009	2010	2011	2012	2013	2014 and after	Total
Long-term debt <sup>(1)</sup>	\$ 38,556	\$ 2,019	\$ 1,929	\$ 1,634	\$ 1,607	\$ 11,110	\$ 56,855
Interest on long-term debt <sup>(1)</sup>	1,696	1,098	964	846	732	5,631	10,967
Service contracts	384	177	60	19	16	34	690
Lease obligations	181	235	160	56	19	40	691
Total contractual obligations	\$ 40,817	\$ 3,529	\$ 3,113	\$ 2,555	\$ 2,374	\$ 16,815	\$ 69,203

<sup>(1)</sup> Including obligations under capital lease

As at March 31, 2009, the Company was committed to \$57 for construction costs related to the expansion of the Canadian facility started in December 2007 and \$2,428 for related equipment.

The Company secured additional long-term debt to support its Canadian expansion. Considering the ongoing restructuring of its Hungarian site and the anticipated lower level profitability of the Canadian site due to pre-expansion increase of its overhead, the Company's current long-term debt exceeds its targeted leverage and therefore readers should understand the implications of such situation. As at March 31, 2009, the Company was not in compliance with the bank financial ratio covenants for LAB Canada on its bank loan of \$15,511, its bridge construction loan of \$12,269 and its equipment loan of \$9,250. Considering the bank's right to demand repayment of the loans, these loans were classified as current liabilities. High leverage should be perceived as a risk that the Company could continue to breach its bank covenants in the future.

At March 31, 2009, the Company had a short-term borrowing capacity of \$2,819, of which \$1,407 was unused. In April 2009, the Company secured \$7,500 of financing with a Quebec government agency. This loan will improve the liquidity situation and help the Company to meet its financial obligations. While management is monitoring the operating initiatives put in place to ensure that cash flow projections will materialize, the Company is also considering alternatives to secure additional financing. Nevertheless, there is no assurance that these initiatives would be successful or sufficient and that the bank's financial ratio covenants will be met at each of future compliance dates.

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
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## 9. Financial instruments and risk management (continued):

### (e) Fair value disclosure:

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

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

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

	March 31, 2009	
	Carrying amount	Fair value
Long-term investments	\$ 62	\$ 62
Long-term receivable from a senior executive	300	300
Non-interest bearing government loan	429	500
Term loans in Swiss Francs (CHF 102,000)	113	113
Term loan in Hungarian Forints (HUF 4,869,000)	27	27
Obligations under capital leases (CDN \$199)	199	199
Obligations under capital lease (DKK 5,905,000)	1,260	1,260

  

	December 31, 2008 (audited)	
	Carrying amount	Fair value
Long-term investments	\$ 66	\$ 66
Long-term receivable from a senior executive	300	300
Non-interest bearing government loan	376	450
Term loans in Swiss Francs (CHF 107,000)	122	122
Term loan in Hungarian Forints (HUF 5,158,000)	33	33
Obligations under capital leases (CDN \$296)	296	296
Obligations under capital leases (DKK 374,000)	85	85

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
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## 10. Supplemental information:

(a) Net changes in non-cash balances related to operations:

	2009	2008
Accounts and other receivables	\$ 1,140	\$ 353
Work in progress	92	5
Income tax receivable	(1,572)	(685)
Prepaid expenses	(155)	46
Accounts payable and accrued liabilities	(2,095)	(1,281)
Deferred revenue	998	267
	\$ (1,592)	\$ (1,295)

(b) Cash paid for:

	2009	2008
Interest	\$ 612	\$ 521
Income taxes	-	76

(c) Non-cash transactions:

	2009	2008
Property and equipment financed through:		
- Capital leases	\$ 150	\$ -
- Accounts payable	117	5,155
Accreted interest on interest-free loan	6	-

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

	2009	2008
Research tax credits	\$ 1,562	\$ 933

(e) In January 2009, the Company was awarded a non-refundable contribution of \$2,000 from the Quebec government. The first tranche of \$1,000 was received in January 2009 and recorded against property and equipment. The second and third tranches of \$500 each should be disbursed on October 1, 2009 and 2010, respectively.

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
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Three-month periods ended March 31, 2009 and 2008  
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## 11. Commitments and contingencies:

- (a) On December 21, 2007, LAB Research was served with an introductory motion of suit from one of its former suppliers claiming an amount of \$1,370 for the breach of a right of first refusal. On May 7, 2008, LAB Research served its defence denying liability for the principal claim and filed its own cross-claim for damages caused by same supplier during the construction of the previous phase of building expansion in Canada. The Company does not expect that the settlement of this matter will have a material adverse effect on the financial position of the Company.
- (b) LAB Research is party to other litigation arising in the normal course of operations. LAB Research does not expect the resolution of these other matters to have a materially adverse effect on the financial position or results of operations of the Company.
- (c) As at March 31, 2009, the Company was committed to \$57 for construction costs related to the new expansion of the Canadian facilities started in December 2007 and \$2,428 for related equipment.

## 12. Segment disclosures:

LAB Research has three reportable segments: LAB Canada, LAB Denmark and LAB Hungary. The activities of these segments are described in note 1 to the consolidated financial statements for the year ended December 31, 2008. 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 the audited consolidated financial statements for the year ended December 31, 2008.

	2009				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues	\$ 5,833	\$ 6,054	\$ 1,100	\$ -	\$ 12,987
Direct costs	3,855	4,560	1,190	-	9,605
Selling, general and administrative	740	894	313	546	2,493
Stock-based compensation	19	19	16	59	113
Amortization of property and equipment	730	517	205	3	1,455
Amortization of intangible assets	-	143	-	-	143
Interest, net	435	216	62	-	713
Foreign exchange	125	3	1,384	-	1,512
Income tax provision (recovery)	-	(84)	(2)	-	(86)
Net earnings (loss)	(71)	(214)	(2,068)	(608)	(2,961)

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
(Unaudited)

Three-month periods ended March 31, 2009 and 2008  
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## 12. Segment disclosures (continued):

					2008
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues	\$ 6,186	\$ 7,846	\$ 1,397	\$ -	\$ 15,429
Direct costs	3,733	5,147	1,485	-	10,365
Selling, general and administrative	672	847	450	470	2,439
Stock-based compensation	19	18	22	58	117
Amortization of property and equipment	452	445	203	3	1,103
Amortization of intangible assets	-	132	-	-	132
Interest, net	301	169	110	(36)	544
Foreign exchange	11	92	(136)	-	(33)
Income tax provision (recovery)	218	235	(125)	(113)	215
Net earnings (loss)	780	761	(612)	(382)	547

Revenues for the three-month periods ended March 31, 2009 and 2008 were derived from customers located in the following geographic areas:

	2009	2008
Denmark	\$ 3,655	\$ 3,783
United States	3,423	5,606
Germany	1,731	825
Canada	1,308	2,245
Australasia – other	756	318
United Kingdom	651	578
Korea	443	353
Sweden	371	317
Norway	333	775
Europe – other	220	221
Hungary	53	40
Switzerland	43	368
	\$ 12,987	\$ 15,429

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

	March 31, 2009	December 31, 2008 (audited)
Canada	\$ 49,332	\$ 50,556
Denmark	24,024	24,594
Hungary	10,378	12,302
	\$ 83,734	\$ 87,452

# LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)  
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## 12. Segment disclosures (continued):

Segmented assets are as follows:

	March 31, 2009	December 31, 2008 (audited)
Canada	\$ 70,323	\$ 70,744
Denmark	29,498	29,634
Hungary	12,145	15,200
	\$ 111,966	\$ 115,578

Expenditures for segment property and equipment, and intangible assets are as follows:

	2009	2008
Canada	\$ 925	\$ 2,793
Denmark	226	395
Hungary	17	178
	\$ 1,168	\$ 3,366

## 13. Comparative figures:

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

## 14. Subsequent event:

On April 28, 2009, the Company secured a loan of \$7,500 from a Quebec government agency. An amount of \$2,500 was disbursed at the signature of the agreement in May 2009 and the balance of \$5,000 shall be disbursed at closing subject to certain conditions. Under the terms of the loan agreement, the capital is repayable in one tranche of \$7,500 on January 15, 2011. However, should the Company raise an amount of \$2,500 in equity before January 15, 2011, the loan could be repaid in two equal tranches of \$3,750 on January 15, 2011 and 2012. The loan will bear interest at prime plus 4 percent and will be secured by a second rank mortgage and lien on the Canadian assets. In conjunction with the receipt of funds drawing down the loan, the Company will also issue a total of 897,290 share purchase warrants to acquire shares at a price representing the weighted average trading price of the Company's share for the 5 days preceding the issuance of the warrants per share, expiring three years and 9 months after their issuance.