



LAB Research

Consolidated Financial Statements of
(unaudited)

LAB RESEARCH INC.

Periods ended September 30, 2009 and 2008

Excellence in Research

LAB RESEARCH INC.

Consolidated Financial Statements
(Unaudited)

September 30, 2009 and 2008

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LAB RESEARCH INC.

Consolidated Balance Sheets
(Unaudited)

September 30, 2009 and December 31, 2008
(in thousands of Canadian dollars)

	September 30, 2009	December 31, 2008 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,888	\$ 102
Accounts and other receivables	6,994	10,011
Work in progress	2,900	3,511
Income taxes receivable	3,077	1,473
Prepaid expenses	1,803	1,410
Future income taxes	3,128	3,083
	<u>23,790</u>	<u>19,590</u>
Property and equipment	78,589	85,607
Intangible assets	1,288	1,845
Other assets (note 4)	10,187	6,916
Future income taxes	1,608	1,620
	<u>\$ 115,462</u>	<u>\$ 115,578</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,426	\$ 14,343
Holdback payable	-	1,750
Deferred revenue	6,994	9,180
Current portion of long-term debt (note 5)	3,352	39,416
Future income taxes	664	720
	<u>21,446</u>	<u>65,409</u>
Other debt	-	140
Deferred gain on sale of equipment	48	-
Long-term debt (note 5)	52,347	17,264
Future income taxes	2,253	2,529
Shareholders' equity:		
Share capital (note 6 (a))	78,156	63,951
Warrants	575	-
Additional paid-in capital	1,400	1,077
	<u>80,131</u>	<u>65,028</u>
Accumulated other comprehensive (loss) income	(339)	682
Deficit	<u>(40,424)</u>	<u>(35,474)</u>
	<u>39,368</u>	<u>30,236</u>
Commitments and contingencies (note 12)		
	<u>\$ 115,462</u>	<u>\$ 115,578</u>

See accompanying notes to unaudited consolidated financial statements.

LAB RESEARCH INC.

Consolidated Statements of Earnings
(Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars, except per share and share data)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenues	\$ 13,064	\$ 14,110	\$ 39,936	\$ 45,659
Expenses:				
Direct costs	9,363	10,552	28,758	31,799
Selling, general and administrative	3,273	2,730	8,415	7,887
Restructuring charges	-	17	-	64
Stock-based compensation (note 7)	95	113	323	344
Amortization of property and equipment	1,523	1,241	4,430	3,508
Amortization of intangible assets	138	137	421	408
Interest, net (note 10 (c))	753	607	2,107	1,713
Foreign exchange (gain) loss	(131)	130	311	(489)
	15,014	15,527	44,765	45,234
(Loss) earnings before income taxes	(1,950)	(1,417)	(4,829)	425
(Recovery) provision for income taxes (note 9)	(254)	(246)	(488)	301
Net (loss) earnings	\$ (1,696)	\$ (1,171)	\$ (4,341)	\$ 124
(Loss) earnings per share:				
Basic	\$ (0.09)	\$ (0.06)	\$ (0.24)	\$ 0.01
Diluted	(0.09)	(0.06)	(0.24)	0.01
Weighted average number of outstanding shares:				
Basic	18,841,999	18,081,935	18,342,456	18,050,117
Effect of dilutive options	-	-	-	255,238
Diluted	18,841,999	18,081,935	18,342,456	18,305,335

See accompanying notes to unaudited consolidated financial statements.

LAB RESEARCH INC.

Consolidated Statements of Comprehensive (Loss) Earnings
(Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net (loss) earnings	\$ (1,696)	\$ (1,171)	\$ (4,341)	\$ 124
Unrealized gain (loss) on available-for-sale financial assets, net of income taxes	-	24	(10)	13
Foreign exchange adjustment on self- sustaining foreign operations	(366)	(1,500)	(1,011)	340
Comprehensive (loss) earnings	\$ (2,062)	\$ (2,647)	\$ (5,362)	\$ 477

See accompanying notes to unaudited consolidated financial statements.

LAB RESEARCH INC.

Consolidated Statement of Changes in Shareholders' Equity
(Unaudited)

Nine-month period ended September 30, 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	-	-	-	-	(4,341)	(4,341)
Share issue costs	-	-	-	-	(609)	(609)
Shares issued pursuant to Rights Offering	14,195	-	-	-	-	14,195
Shares issued pursuant to exercise of stock options	10	-	-	-	-	10
Foreign exchange adjustment on self-sustaining foreign operations	-	-	-	(1,011)	-	(1,011)
Issue of warrants	-	575	-	-	-	575
Stock-based compensation	-	-	323	-	-	323
Unrealized loss on available-for- sale financial assets, net of income taxes	-	-	-	(10)	-	(10)
Balance, September 30, 2009	\$ 78,156	\$ 575	\$ 1,400	\$ (339)	\$ (40,424)	\$ 39,368

LAB RESEARCH INC.

Consolidated Statement of Changes in Shareholders' Equity
(Unaudited)

Nine-month period ended September 30, 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	-	-	-	124	124
Shares issued pursuant to exercise of stock options	155	-	-	-	155
Ascribed value credited to share capital from exercise of stock options	53	(53)	-	-	-
Foreign exchange adjustment on self- sustaining foreign operations	-	-	340	-	340
Stock-based compensation	-	344	-	-	344
Unrealized gain on available-for-sale financial assets, net of income taxes	-	-	13	-	13
Balance, September 30, 2008	\$ 63,961	\$ 973	\$ (833)	\$ (28,751)	\$ 35,350

See accompanying notes to unaudited consolidated financial statements.

LAB RESEARCH INC.

Consolidated Statements of Cash Flows
(Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash flows (used in) from operating activities:				
Net (loss) earnings	\$ (1,696)	\$ (1,171)	\$ (4,341)	\$ 124
Adjustments for:				
Amortization of property and equipment	1,523	1,241	4,430	3,508
Amortization of intangible assets	138	137	421	408
Unrealized gain on foreign exchange	(116)	(117)	(185)	(264)
Stock-based compensation	95	113	323	344
Future income taxes	(37)	49	(112)	(199)
Other	35	20	81	34
Net changes in non-cash balances related to operations (note 11 (a))	(3,283)	(48)	(6,819)	(2,791)
	(3,341)	224	(6,202)	1,164
Cash flows (used in) from financing activities:				
Proceeds from issuance of shares	14,195	66	14,205	155
Share issue costs	(609)	-	(609)	-
Proceeds from the sale and leaseback of equipment (note 5)	-	-	1,188	-
Proceeds from issuance of long-term debt	4,217	4,786	6,556	16,144
Repayment of long-term debt	(5,575)	(527)	(6,968)	(1,587)
Repayment of capital leases	(144)	(221)	(476)	(512)
Payment of bank indebtedness	(1,051)	-	-	-
	11,033	4,104	13,896	14,200
Cash flows (used in) from investing activities:				
Payment of holdback payable	(1,750)	-	(1,750)	-
Additions to property and equipment	(466)	(8,258)	(2,103)	(21,333)
Proceeds from a grant (note 11 (e))	-	-	1,490	-
Other	305	46	195	39
	(1,911)	(8,212)	(2,168)	(21,294)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies				
	107	308	260	40
Net increase (decrease) in cash and cash equivalents	5,888	(3,576)	5,786	(5,890)
Cash and cash equivalents, beginning of period	-	4,511	102	6,825
Cash and cash equivalents, end of period	\$ 5,888	\$ 935	\$ 5,888	\$ 935

Supplemental cash flow disclosure (note 11)

See accompanying notes to unaudited consolidated financial statements.

LAB RESEARCH INC.

Notes to Consolidated Financial Statements
(Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars, except share and per share data)

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. In preparation for the changeover to IFRS, the Company has developed an IFRS transition plan. The Company has completed its initial phase comprised of a diagnostic process, which involved the identification of the differences between the Company's current accounting policies under Canadian generally accepted principles with currently issued IFRS. 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)

Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars, except share and per share data)

3. Basis of presentation:

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 September 30, 2009 and the unaudited interim consolidated statements of earnings, comprehensive (loss) earnings, changes in shareholders' equity and cash flows for the three and nine-month periods ended September 30, 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.

LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars, except share and per share data)

4. Other assets:

	September 30, 2009	December 31, 2008 (audited)
Long-term investments	\$ 66	\$ 66
Long-term research tax credits recoverable ⁽¹⁾	9,477	6,528
Loan receivable from a senior executive ⁽²⁾	300	300
Other	344	22
	<u>\$ 10,187</u>	<u>\$ 6,916</u>

⁽¹⁾ 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:

	September 30, 2009	December 31, 2008 (audited)
2027	\$ 3,270	\$ 3,270
2028	3,470	3,258
2029	2,737	-
	<u>\$ 9,477</u>	<u>\$ 6,528</u>

⁽²⁾ 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. The Company recognized interest revenue related to this loan as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest revenue on loan receivable from a senior executive	\$ 4	\$ 4	\$ 10	\$ 10

LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

Periods ended September 30, 2009 and 2008
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5. Long-term debt:

	September 30, 2009	December 31, 2008 (audited)
Bank loans in Canadian dollars, bearing interest at bank prime plus 2.4% ⁽¹⁾ and 2.75% ⁽¹⁾ secured by a first ranking collateral mortgage on building located in Canada, repayable in quarterly instalments, maturing in March 2012 and 2014	\$ 27,568	\$ 27,994
Non-interest bearing government loan in Canadian dollars, unsecured, repayable in bi-annual instalments from April 2010 to October 2013 ⁽²⁾	444	376
Government agency loan in Canadian dollars, bearing interest at prime plus 4%, secured by a second rank mortgage and liens on the Canadian assets, repayable in two equal tranches on January 15, 2011 and 2012 ⁽³⁾	7,500	-
Equipment loan in Canadian dollars, bearing interest at bank prime plus 2.75% ⁽¹⁾ , secured by a first ranking moveable hypothec on equipment located in Canada, repayable in quarterly instalments, maturing in May 2013	4,000	9,500
Revolving loan in Euros (2009 - €559,000; 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	876	1,209
Bank loans in Euros (2009 - €2,704,000; 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	4,237	5,079
Term loans in Swiss Francs (2009 - CHF 132,000; 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	128	166
Balance carried forward	\$ 44,753	\$ 44,324

LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)
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Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars, except share and per share data)

5. Long-term debt (continued):

	September 30, 2009	December 31, 2008 (audited)
Balance brought forward	\$ 44,753	\$ 44,324
Term loans in Hungarian Forints (2009 – HUF 6,682,000; 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	39	52
Bank loans in Danish Kroner (2009 – DKK 50,505,000; 2008 - DKK 51,925,000), bearing interest at the bank bond rate plus 0.60% and 0.65% and Copenhagen Interbank Offered Rate ("CIBOR") 3 months plus 0.65%, 2.4% and 2.65% secured by a first ranking collateral mortgage on buildings located in Denmark, repayable in quarterly instalments, maturing in March 2017, December 2022, 2034 and 2037	10,480	11,662
Obligations under capital leases in Canadian dollars, bearing interest at rates ranging from 9.3% to 10.6%, repayable in monthly instalments, maturing from October 2009 to June 2010	72	296
Obligations under capital leases in Euros (2009 - €89,000; 2008 - €146,000), bearing interest at EURIBOR 3 months, repayable in monthly instalments, maturing in October 2010	139	247
Obligations under capital leases in Danish Kroner (2009 - DKK 5,094,000; 2008 - DKK 374,000), bearing interest at 5.3% and 8.5%, repayable in monthly instalments, maturing in December 2011 and January 2014 ⁽⁴⁾	1,072	85
Obligations under capital leases in Danish Kroner (2009 - DKK 657,000; 2008 - DKK 62,000), bearing interest at CIBOR 3 months plus 2.75% and 3.9%, repayable in monthly instalments, maturing in September 2010 and February 2013	138	14
Total long-term debt	56,693	56,680
Less: financing costs	(994)	-
	55,699	56,680
Current portion of long-term debt	3,352	39,416
	\$ 52,347	\$ 17,264

LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

Periods ended September 30, 2009 and 2008
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5. Long-term debt (continued):

- (1) On July 29, 2009, the Company entered into an amending agreement to restructure its Canadian long-term facilities (the "Amending Agreement"). Under the terms of the Amending Agreement, the Canadian lender (i) irrevocably waived the default in the financial ratio covenants of the original credit facility agreement (the "Original Agreement") as at December 31, 2008, March 31, 2009 and June 30, 2009; (ii) replaced the financial covenants set forth in the Original Agreement with other financial covenants until July 1, 2010; (iii) granted to the Company a moratorium with respect to quarterly instalments of principal payable for the quarters ending on September 30, 2009, December 31, 2009; and (iv) increased the interest rate applicable to the loans outstanding by 0.75% and 1% (compared to interest rate in place as at June 30, 2009). Under the terms of the Amending Agreement at closing of the Rights Offering, the Company proceeded with a capital repayment of \$5,000 on the equipment loan. Following the closing of the Rights Offering, the available line of credit decreased from \$4,000 to \$2,000.
- (2) The Company has a \$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.
- (3) 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 was disbursed in August 2009. Under the terms of the loan agreement, the capital is repayable in two equal tranches of \$3,750 on January 15, 2011 and 2012. The loan bears interest at prime plus 4 percent and is 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 issued 299,097 warrants on May 15, 2009, to acquire common shares of LAB Research at a price of \$0.64 per share and expiring on February 15, 2013. The fair market value of the warrants was determined to be \$191 using the Black-Scholes pricing model with the following assumptions: risk-free interest rate - 1.48%; expected volatility - 174.09%; expected life in years - 3.75 years; dividend yield - 0%. An additional 598,193 warrants were issued at the disbursement of the second tranche, in August 2009, at a price of \$0.46 expiring on May 3, 2013. The fair market value of the warrants was determined to be \$246 using the Black-Scholes pricing model with the following assumptions: risk-free interest rate - 1.76%; expected volatility - 176.5%; expected life in years - 3.75 years; dividend - 0%. In accordance with the terms of the agreement signed between the Company and the Quebec government agency, following the closing of the Rights Offering, the above warrant prices of \$0.64 and \$0.46 per share were reduced by \$0.05 per share each.
- (4) In January 2009, LAB Denmark entered into an agreement for the sale and leaseback of certain equipment for proceeds of \$1,188 (DKK 5,427,000). The transaction resulted in a gain of \$69

LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)
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Periods ended September 30, 2009 and 2008
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(DKK 305,000), which is being deferred and amortized over the lease term of 5 years. The obligation under the lease agreement has been recorded in long-term debt.

LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars, except share and per share data)

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:

	September 30, 2009	December 31, 2008 (audited)
52,710,750 common shares (2008 – 18,086,980)	\$ 78,156	\$ 63,951

On September 29, 2009, the Company issued 34,621,390 shares at \$0.41 per share for gross proceeds of \$14,195. Share issue costs in connection with this transaction of \$609 were charged to deficit.

(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 5,271,075 common shares for issuance under the Plan of which 4,086,029 common share options were outstanding as at September 30, 2009.

LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars, except share and per share data)

6. Share capital (continued):

(b) Stock option plan (continued):

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 nine-month period ended September 30, 2009 were as follows:

	Number	Weighted average exercise price
Balance, December 31, 2008	1,295,947	\$ 4.25
Granted	2,828,295	0.51
Cancelled	(35,833)	3.77
Exercised	(2,380)	4.00
Balance, September 30, 2009	4,086,029	1.67
Options exercisable, September 30, 2009	841,067	\$ 4.15

The following table summarizes information about stock options outstanding and exercisable at September 30, 2009:

Exercise Prices	Options Outstanding #	Options Exercisable #	Weighted average remaining contractual life (yrs)
\$ 0.11	265,000	-	9.50
\$ 0.55	2,465,795	-	10.00
\$ 0.60	75,000	-	10.00
\$ 0.70	22,500	-	9.64
\$ 0.80	15,000	-	9.12
\$ 4.00	1,075,234	758,567	6.85
\$ 4.25	50,000	33,333	7.05
\$ 5.05	30,000	26,667	7.18
\$ 6.12	7,500	1,500	8.59
\$ 7.86	25,000	10,000	7.88
\$ 8.05	55,000	11,000	8.28
	4,086,029	841,067	9.04

LAB RESEARCH INC.

Notes to Consolidated Financial Statements (continued)
(Unaudited)

Periods ended September 30, 2009 and 2008
(in thousands of Canadian dollars, except share and per share data)

6. Share capital (continued):

(c) Employee Share Purchase Plan:

The Company has an employee share purchase plan (the "SPP"). 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 and nine-month periods ended September 30, 2009 and 2008, the following compensation costs were included in the consolidated statements of earnings with respect to the SPP:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Compensation costs	\$ 4	\$ 3	\$ 13	\$ 8

(d) At the annual shareholders' meeting held on May 21, 2009, the shareholders of the Company approved the termination of the shareholders rights plan agreement.

7. Stock-based compensation:

For the three-month period ended September 30, 2009, the Company recognized total stock-based compensation of \$95 (2008 - \$113) relating to stock options granted. For the nine-month period ended September 30, 2009, the Company recognized total stock-based compensation of \$323 (2008 - \$344) 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 and nine-month periods ended September 30, 2009 and 2008:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Risk-free interest rate	1.73 %	- %	1.69 %	3.35 %
Expected volatility	216.96 %	- %	208.47 %	43.93 %
Expected life in years	5	-	5	5
Expected dividend yield	-	-	-	-

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

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Notes to Consolidated Financial Statements (continued)
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7. Stock-based compensation (continued):

The following table summarizes the weighted average grant-date fair value per share for options granted during the three and nine-month periods ended September 30, 2009 and 2008:

	Number of options	Weighted average grant-date fair value
Three months ended:		
September 30, 2009	2,540,795	\$ 0.54
September 30, 2008	-	-
Nine months ended:		
September 30, 2009	2,828,295	0.50
September 30, 2008	95,000	3.12

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 funded these requirements out of its internally-generated cash flows and the use of its revolving long-term credit facilities with domestic and foreign banks. Since the completion of the last building expansion in Canada in 2008, the capital expenditures and related need for capital have decreased substantially. No expansion plan is budgeted for 2010.

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. Management recognizes that the Company is highly leveraged. Until such time as financing alternatives are obtained or that the Company's Canadian expansion is fully operational, the Company will not be able to meet the objective of a ratio of net debt to EBITDA not higher than 4:1 .

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.

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9. (Recovery) provision for income taxes

The recovery of income taxes for the three and nine-month periods ended September 30, 2009 includes a recovery of income taxes related to losses incurred by LAB Denmark.

10. 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 13 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 tight 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 September 30, 2009, no individual customer accounted for 10% of the Company's total revenue (2008 - nil) and two customers accounted for 10% of the Company's total trade accounts receivable as at September 30, 2009 (2008 - nil). During the nine-month period ended September 30, 2009 and 2008 no individual customer accounted for 10% of the Company's total revenue.

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.

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10. 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 September 30, 2009 are trade receivables of \$6,527 (2008 - \$6,501), of which \$420 were aged 91 days and over (2008 - \$184). At September 30, 2009, \$296 (2008 - \$21) of trade receivables were provided and an amount of \$174 (2008 - \$12) was recorded as bad debt expense for the three-month period ended September 30, 2009 and \$197 for the nine-month period ended September 30, 2009 (2008 - \$17).

(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 September 30, 2009, the Company had no future foreign exchange rate agreements outstanding.

The following exchange average rates applied during the three and nine-month periods ended September 30, 2009 and 2008.

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
US to CDN	1.0974	1.0418	1.1700	1.0186
HUF to CDN	0.0058	0.0066	0.0056	0.0063
DKK to CDN	0.2108	0.2094	0.2140	0.2077
Euro to HUF	271.4343	235.9347	283.3903	247.1329
CHF to HUF	178.6925	146.4680	187.7576	153.7661
GBP to DKK	8.5358	9.3918	8.4018	9.5416

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10. Financial instruments and risk management (continued):

(b) Foreign currency risk (continued):

The following exchange rates were applied at the reporting dates of September 30, 2009 and 2008.

	September 30,	
	2009	2008
US to CDN	1.0707	1.0642
HUF to CDN	0.0058	0.0061
DKK to CDN	0.2105	0.2008
Euro to HUF	269.8123	243.6168
CHF to HUF	177.9404	153.9600

The following table provides specific significant items exposed to foreign exchange as at September 30, 2009:

	\$US	Euro	Chf
<i>(in thousands of Canadian dollars)</i>			
Cash and cash equivalents	109	56	600
Accounts and other receivables	1,945	972	-
Work in progress	710	509	-
Other assets	67	-	-
Accounts payable and accrued liabilities	(1,434)	(487)	(26)
Long-term debt	-	(5,253)	(128)
	1,397	(4,203)	446

Based on the Company's foreign exchange currency exposures noted above, varying the above foreign exchange rates to reflect 5 percent strengthening of the functional currency would have decreased (increased) the net consolidated loss as follows assuming that all other variables remained constant:

	\$US	Euro	Chf
<i>(in thousands of Canadian dollars)</i>			
Decrease (increase) in net loss	77	(233)	26

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.

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10. Financial instruments and risk management (continued):

(b) Foreign currency risk (continued):

Based on earnings generated by the Company's wholly-owned subsidiaries, an assumed 5 percent strengthening of their functional currency would have decreased the consolidated net loss 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 loss on the basis that all other variables remain constant.

At September 30, 2009, LAB Hungary had long-term loans payable to LAB Denmark denominated in Euro (2,244,491 Euros) and Danish kroner (1,160,000 DKK) totaling \$3,761. If the Hungarian forint varies against the Euro and the Danish kroner to reflect a 5 percent strengthening, this would decrease the consolidated net loss as follows assuming that all other variables remained constant.

	Euro	DKK
<i>(in thousands of Canadian dollars)</i>		
Decrease in net loss	183	13

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 would have increased net loss by \$61 (2008 - \$51) for the three-month period ended September 30, 2009 and increased net loss by \$182 for the nine-month period ended September 30, 2009 (2008 – decreased net earnings by \$152), with an equal opposite effect for an assumed 0.5% decrease.

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.

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Periods ended September 30, 2009 and 2008
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10. Financial instruments and risk management (continued):

(c) Interest rate risk (continued):

For the three and nine-month periods ended September 30, 2009 and 2008, the net interest expense was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest incurred on long-term debt	\$ 719	\$ 682	\$ 2,009	\$ 1,813
Interest capitalized	-	(142)	-	(167)
Interest expense on capital leases	34	82	98	129
Interest on long-term debt	753	622	2,107	1,775
Interest income	-	(15)	-	(62)
Interest, net	\$ 753	\$ 607	\$ 2,107	\$ 1,713

(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 and contractual obligations by calendar year as of September 30, 2009:

	2009	2010	2011	2012	2013	2014 and after	Total
Long-term debt ⁽¹⁾	\$ 616	\$ 4,577	\$ 9,428	\$ 8,234	\$ 3,621	\$ 30,217	\$ 56,693
Interest on long-term debt ⁽¹⁾	571	1,903	1,756	1,574	1,395	12,534	19,733
Service contracts	175	258	73	38	16	34	594
Lease obligations	52	195	115	32	19	40	453
Total contractual obligations	\$ 1,414	\$ 6,933	\$ 11,372	\$ 9,878	\$ 5,051	\$ 42,825	\$ 77,473

⁽¹⁾ Including obligations under capital lease

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Notes to Consolidated Financial Statements (continued)
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10. 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:

	September 30, 2009	
	Carrying amount	Fair value
Long-term investments	\$ 66	\$ 66
Long-term receivable from a senior executive	300	300
Non-interest bearing government loan	444	500
Term loans in Swiss Francs (CHF 85,894)	95	95
Term loan in Hungarian Forints (HUF 4,280,000)	25	25
Obligations under capital leases (CDN \$72)	72	72
Obligations under capital lease (DKK 5,094,000)	1,072	1,072

	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

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Notes to Consolidated Financial Statements (continued)
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Periods ended September 30, 2009 and 2008
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11. Supplemental information:

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Accounts and other receivables	\$ (159)	\$ 2,747	\$ 1,669	\$ 2,317
Work in progress	199	1,377	441	125
Income tax receivable	(1,488)	(1,240)	(4,571)	(2,466)
Prepaid expenses	(495)	(268)	(445)	70
Accounts payable and accrued liabilities	(495)	(1,048)	(2,090)	(1,524)
Deferred revenue	(845)	(1,616)	(1,823)	(1,313)
	\$ (3,283)	\$ (48)	\$ (6,819)	\$ (2,791)

(b) Cash paid for:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest	\$ 748	\$ 664	\$ 2,085	\$ 1,750
Income taxes	-	-	-	106

(c) Non-cash transactions:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Property and equipment financed through:				
- Capital leases	\$ -	\$ -	\$ 221	\$ -
- Accounts payable	7	3,590	124	3,730
Accrued interest on interest-free loan	4	-	17	-

(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,	
	2009	2008	2009	2008
Research tax credits	\$ 1,257	\$ 848	\$ 4,350	\$ 2,761

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11. Supplemental information (continued):

- (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 are scheduled to be received during the fourth quarters of 2009 and 2010, respectively.

In September 2009, the Company was also awarded a non-refundable contribution of \$490, which was recorded against property and equipment.

12. 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 matters 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 September 30, 2009, the Company was committed to \$2,600 for equipment related to the Canadian facilities.

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Notes to Consolidated Financial Statements (continued)
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13. 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.

	Three-month period ended September 30, 2009				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues	\$ 6,963	\$ 4,227	\$ 1,874	\$ -	\$ 13,064
Direct costs	4,258	3,839	1,266	-	9,363
Selling, general and administrative	1,167	1,005	440	661	3,273
Stock-based compensation	11	11	14	59	95
Amortization of property and equipment	748	537	235	3	1,523
Amortization of intangible assets	-	138	-	-	138
Interest, net	544	170	39	-	753
Foreign exchange (gain) loss	43	(3)	(171)	-	(131)
Income tax provision (recovery)	38	(252)	(2)	(38)	(254)
Net (loss) earnings	154	(1,218)	53	(685)	(1,696)

	Three-month period ended September 30, 2008				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues	\$ 5,771	7,108	\$ 1,231	\$ -	\$ 14,110
Direct costs	4,102	4,935	1,515	-	10,552
Selling, general and administrative	831	817	585	497	2,730
Restructuring charges	-	-	17	-	17
Stock-based compensation	19	19	17	58	113
Amortization of property and equipment	510	486	242	3	1,241
Amortization of intangible assets	-	137	-	-	137
Interest, net	315	189	118	(15)	607
Foreign exchange (gain) loss	(84)	(17)	231	-	130
Income tax provision (recovery)	(2)	171	(295)	(120)	(246)
Net (loss) earnings	80	371	(1,199)	(423)	(1,171)

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

	Nine-month period ended September 30, 2009				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues	\$ 19,568	\$ 15,869	\$ 4,499	\$ -	\$ 39,936
Direct costs	12,107	12,958	3,693	-	28,758
Selling, general and administrative	2,637	2,749	1,219	1,810	8,415
Stock-based compensation	49	48	46	180	323
Amortization of property and equipment	2,201	1,581	639	9	4,430
Amortization of intangible assets	-	421	-	-	421
Interest on long-term debt	1,378	583	146	-	2,107
Foreign exchange loss	118	4	189	-	311
Income tax provision (recovery)	228	(482)	(6)	(228)	(488)
Net (loss) earnings	850	(1,993)	(1,427)	(1,771)	(4,341)

	Nine-month period ended September 30, 2008				
	LAB Canada	LAB Denmark	LAB Hungary	LAB Corporate	Total
Revenues	\$ 18,963	22,798	\$ 3,898	\$ -	\$ 45,659
Direct costs	11,910	15,443	4,446	-	31,799
Selling, general and administrative	2,196	2,538	1,511	1,642	7,887
Restructuring charges	-	-	64	-	64
Stock-based compensation	57	56	56	175	344
Amortization of property and equipment	1,425	1,404	670	9	3,508
Amortization of intangible assets	-	408	-	-	408
Interest, net	895	542	338	(62)	1,713
Foreign exchange (gain) loss	(51)	76	(514)	-	(489)
Income tax provision (recovery)	530	626	(462)	(393)	301
Net (loss) earnings	2,001	1,705	(2,211)	(1,371)	124

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13. Segment disclosures (continued):

Revenues for the nine-month periods ended September 30, 2009 and 2008 were derived from customers located in the following geographic areas:

	2009	2008
Denmark	\$ 10,223	\$ 10,906
United States	9,412	12,233
Canada	4,336	6,927
Korea	3,520	2,321
Germany	3,284	3,326
Japan	1,866	14
Switzerland	1,764	1,636
Europe – other	1,346	920
Australasia – other	1,295	1,862
United Kingdom	1,075	2,264
Sweden	921	986
Norway	768	2,015
Hungary	126	249
	\$ 39,936	\$ 45,659

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

	September 30, 2009	December 31, 2008
Canada	\$ 47,548	\$ 50,556
Denmark	21,696	24,594
Hungary	10,633	12,302
	\$ 79,877	\$ 87,452

Segmented assets are as follows:

	September 30, 2009	December 31, 2008
Canada	\$ 76,823	\$ 70,744
Denmark	25,597	29,634
Hungary	13,042	15,200
	\$ 115,462	\$ 115,578

LAB RESEARCH INC.

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13. Segment disclosures (continued):

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Canada	\$ 1,961	\$ 7,630	\$ 3,031	\$ 19,173
Denmark	252	561	783	1,603
Hungary	3	67	39	557
	\$ 2,216	\$ 8,258	\$ 3,853	\$ 21,333

14. Comparative figures:

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