



LAB Research Inc.

Annual Information Form

For the Year Ended

December 31, 2009

March 30, 2010

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1. INTERPRETATION

In this Annual Information Form (“AIF”), “LAB Research”, the “Corporation”, “we”, “us” and “our” each refers to LAB Research Inc., its consolidated subsidiaries and any predecessor operations unless the context indicates otherwise.

This AIF contains certain of our trade names and trademarks and those of other organizations, all of which are the property of their respective owners.

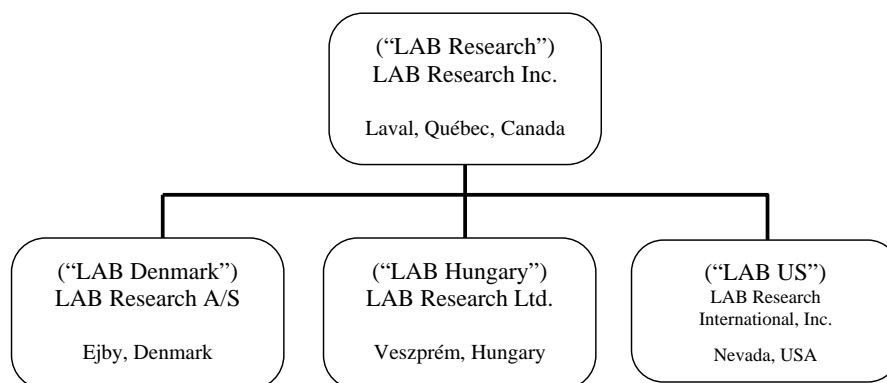
All monetary amounts set forth in this AIF are expressed in Canadian dollars, except where otherwise indicated.

2. CORPORATE STRUCTURE

We were incorporated under the *Canada Business Corporations Act* on May 24, 2006, under the name LAB Research Inc. Our head and registered office is located at 445 Armand-Frappier Boulevard, Laval, Québec, Canada, H7V 4B3.

LAB Research Inc. was incorporated for the purposes of consolidating the pre-clinical contract research services business of LAB International Inc. (now known as Akela Pharma Inc.) (“Akela”), its parent corporation at the time. The pre-clinical contract research services business was managed as a separate operating segment (the “LAB Research Segment”) within Akela and included the operations, assets and liabilities of LAB Pre-Clinical Research International Inc. that related to the pre-clinical contract research services business (“LAB Canada”), and the direct and indirect wholly-owned subsidiaries of Akela involved in the pre-clinical contract research services business, being LAB Research A/S (“LAB Denmark”), LAB Research Ltd. (“LAB Hungary”) and LAB Research International, Inc. (“LAB US”), a subsidiary of LAB Canada. A corporate reorganization establishing our current corporate structure was completed effective June 30, 2006 (and July 27, 2006 for the transfer of shares of LAB Hungary).

The following chart sets out our corporate structure. All of our subsidiaries are wholly owned.



Since April 30, 2007, we have ceased the activities of LAB US.

3. HISTORY AND DEVELOPMENT OF THE CORPORATION

We began our activities in Laval, Québec, in 1998 by renting space from Institut Armand-Frappier, now a unit of Institut national de la recherche scientifique (“INRS”). At that time, we operated as LAB Pre-Clinical Research International Inc. The initial seven-year lease with INRS enabled us to begin offering pre-clinical services by renting fully-accredited laboratories and animal rooms. From 1999 to 2002, we focused on increasing our contract research organization (“CRO”) operations. From eight employees at the beginning of 1999, we grew to over 110 employees by the end of 2002.

On May 15, 2002, Akela became a public Corporation by way of a reverse take-over transaction with T&H Resources Inc. and became listed on the Toronto Stock Exchange (“TSX”). The objective of the transaction was to facilitate access to capital to support the growth of Akela's CRO activities and enable Akela to begin developing its own pipeline of therapeutic products. All of Akela's drug development activities were to be performed under a new division (LAB Pharma).

Between 2002 and 2005, Akela completed a series of transactions to accelerate the growth of its LAB Pharma division and deployed significant capital for the advancement of its product pipeline, thereby limiting the capital available to support the growth initiatives of LAB Research. Despite this constraint on accessing or retaining our own capital during those years, we managed to expand our capacity by investing in new buildings and acquiring complementary operations located in strategic geographical areas. Between 2002 and 2006, our global capacity grew from 84,000 to 307,000 sq. ft., our employees from 110 to more than 450 and our revenues from \$11.0 million to \$47.7 million.

In 2002, we expanded the capacity of our Canadian operations by adding an \$8.5 million custom-built 38,000 sq. ft. building where we relocated our head office. With this expansion, the LAB Canada operations reached a combined 59,000 sq. ft. of capacity, including 21,000 sq. ft. under the INRS lease. Also in 2002, we opened LAB US in San Diego to provide early-stage (non GLP) pre-clinical services to the California market where a large number of our potential clients were located.

On July 4, 2003, we acquired LAB Hungary for US\$2.1 million (approximately \$3.1 million). Through this transaction, we were able to establish a presence in Europe, expand our capabilities for contract services, and broaden the range of services we offer to the biotechnology, pharmaceutical, agro-chemical, and other industries. LAB Hungary brought an additional 107,000 sq. ft. to our existing operations, expanding our general toxicology platform, and added genetic toxicology, ecotoxicology, reproductive toxicology, dietary studies and inhalation toxicology expertise. This transaction increased our employees by 90 to 220 employees.

On February 9, 2005, we acquired LAB Denmark for 28.0 million Danish Kroner (approximately \$5.9 million) and the assumption of 27.0 million Danish Kroner (approximately \$5.6 million) of long-term debt. LAB Denmark was founded in 1977 and is the predominant provider of pre-clinical services in Scandinavia and a world leader in mini-pig testing. It performs a broad range of toxicology services including dermal studies, genetic toxicology, reproductive toxicology, juvenile toxicology, biocompatibility of medical devices, as well as immunology and pharmacological testing. Its clients include large and mid-size global and European pharmaceutical companies, as well as a diversified base of biotechnology companies located primarily in the Medicon Valley (Sweden-Denmark) and elsewhere in the U.K. and in continental Europe. The majority of LAB Denmark's active clients are located in Scandinavia and generated 70% of its revenues in 2009. In 2005, the integration of LAB Denmark increased our employees by 135 to approximately 400 employees and added 72,000 sq. ft. of capacity to our existing operations.

On August 3, 2006, we completed our initial public offering pursuant to which 10,000,000 common shares were offered to the public at a price of \$4.00 per common share, including 6,250,000 common shares sold by Akela and 3,750,000 common shares issued by us, for gross proceeds of \$15 million to LAB Research. On the same date, our common shares commenced trading on the TSX under the symbol “LRI”. On September 12, 2006, we announced the completion of the exercise in full of the over-allotment option for 1,500,000 shares granted to the underwriters of our initial public offering. On November 9, 2006, Akela sold its remaining interest in our common shares to a syndicate of underwriters, on a private placement basis, through an offering of 6,392,857 special warrants at a price of \$4.05 per special warrant. Each special warrant entitled the holder thereof to receive from Akela, upon

exercise or deemed exercise of the special warrant, one previously issued common share of LAB Research for no additional consideration (the "Secondary Offering"). As a result of the Secondary Offering, Akela and its subsidiaries no longer held any of our outstanding shares. In addition, Akela no longer had any representative on our board of directors.

On December 7, 2006, we completed the first expansion of our Canadian site, the surface area of which was increased from 38,000 to 87,000 sq. ft. This \$12 million investment was completed on schedule and within budget. The expiry of the lease with INRS coincided with the completion of our building expansion in Canada in December 2006.

On April 17, 2007, we announced the closing of the buy back transaction with Laval Armand Properties Ltd., an affiliate of Woodcliffe Corporation ("Woodcliffe") to purchase the property currently occupied by the Corporation in Laval, Canada, which was subject to a sale-leaseback transaction in 2005, while we operated as a segment of Akela. The purchase price for the property was \$23 million. Of this amount, \$10.5 million were deducted for amounts owing by Woodcliffe to the Corporation consisting mainly of construction cost funded by the Corporation for the expansion of the property completed in 2006. The balance of the purchase price was covered by a mortgage loan.

On April 30, 2007, we ceased our management vivarium activities conducted by LAB US. The closure of LAB US did not result in any significant changes to our operations.

On July 18, 2007, we announced the completion of the Danish building expansion. The Danish capacity increased from 72,000 to 93,000 sq. ft., boosting the site's large animal housing capacity by more than 50 %.

On August 28, 2007, we announced a new expansion project for our Canadian site, which has been initiated during the fourth quarter of 2007. The expansion aimed to increase the site's animal housing capacity from 36 to 80 rooms including 12 multi-purpose rooms to be used for inhalation toxicology.

On October 2, 2007, we announced the completion of our 57,000 sq. ft. Hungarian facility expansion, increasing the total capacity of the site from 107,000 to 164,000 sq. ft. and adding 30 large animal rooms capable of housing 480 animals. The new facility was designed to meet and exceed the new European animal welfare standards and still represents today one of the most modern facility of its kind in Europe.

During the year 2008, we completed a 3-year expansion program of our facilities and service offerings. Representing an investment of over \$65 million, the expansion has positioned us for significant growth and we can now fully address the needs of clients seeking larger capacity and a full service offering. The completion of this expansion program represented a marking event in the growth of our Corporation. Not only it allowed us to truly promote LAB Research as a global full-service contract laboratory, but it also enabled us to attract more CRO skilled and experienced staff. These new employees helped us broaden our scientific expertise as we launch new services to fill our expanded capacity. In December 2008, we completed the expansion of our Canadian facilities. LAB Research's Canadian site now totals 156,000 ft² and features 80 rooms representing additional increases of 88% and 122% respectively. In 2008 alone, \$24.0 million has been invested to expand the Canadian facilities.

During 2009, we have increased our range of services to be provided to our clientele; bioanalytical and expanded analytical services, and new drug metabolism are now offered by the Company. Furthermore, we have completed the validation of our reproductive toxicology services during the year. Finally, our new inhalation toxicology department will be validated for studies to start during the third quarter of 2010.

We announced on May 6, 2008, the closing of asset-based financing amounting to \$21.1 million consisting of \$13.7 million mortgage with a 16-year term requiring no principal repayments until March 2010, and a \$7.4 million loan to finance equipment, repayable over 11 years. We also announced on September 3, 2008 that LAB Research had secured a non-refundable contribution of \$2.5 million for the construction of our recent Canadian expansion and creation of new jobs by the Québec government; a \$0.5 million loan from the Canadian government; and a municipal tax credit from the City of Laval totalling more than \$2 million of tax savings over a 5-year period.

On August 14, 2009, the Corporation filed a short form prospectus in connection with a distribution to its existing shareholders of rights exercisable to purchase additional common shares of the Corporation ("Rights Offering"). All shareholders at August 27, 2009 received 1 right for each common share held. Each right entitled

the holder to purchase 2.1 common shares at a price of \$0.41 per share. The Rights Offering closed on September 29, 2009 and raised gross proceeds of \$14.2 million, which were used as follows: i) repayment of a bridge loan from the Solidarity Fund QFL (“The Fund”) for \$0.5 million; ii) complete the installation of inhalation toxicology equipment for our Canadian site for \$2.6 million; and iii) reduce the Corporation’s long-term debt in Canada by \$5 million. The remainder of the proceeds has been used for working capital purposes. The total issued and outstanding common shares of the Corporation subsequent to this Rights Offering are 52.7 million shares.

Prior to filing the Rights Offering prospectus, the Corporation entered into a Stand-By Purchase Agreement with the Fund. Pursuant to the terms and conditions of the Stand-By Purchase Agreement, at closing of the Rights Offering, the Fund invested \$7.5 million in the Corporation’s common shares.

On July 29, 2009, LAB Research entered into an amending agreement to restructure its Canadian long-term debt facilities (the “Amending Agreement”) with its Canadian lender. Under the terms of the Amending Agreement, the Canadian lender has (i) irrevocably waived the default on the financial ratio covenants of the original credit facility 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 Corporation a moratorium with respect to the quarterly installments of principal payable for the quarters ending on September 30, 2009 and December 31, 2009; and (iv) increased the interest rates applicable to the loans outstanding by 0.75 % and 1 % (compared to interest rate in place in June 2009).

On April 28, 2009, the Corporation announced having secured a \$7.5 million loan from Investissement Quebec (“IQ”), a Quebec government agency, as part of the “Renfort” program, aimed at providing working capital support to growing and profitable companies. An amount of \$2.5 million was received in May 2009 and the balance of \$5.0 million in August 2009. Under the terms of the agreement, the capital is repayable in two equal tranches of \$3.75 million on January 15, 2011 and 2012. The loan bears interest at prime plus 4 percent, (equivalent to 6.25 %, based on a prime rate of 2.25 % as of November 10, 2009) and is secured by a second rank mortgage and lien on the Canadian assets. As part of the agreement, the Corporation issued 299,097 warrants to IQ on May 15, 2009 to acquire common shares of LAB Research at a price of \$0.64 expiring on February 15, 2013 and, on August 3, 2009, 598,193 warrants to acquire common shares of LAB Research at a price of \$0.46 expiring on May 3, 2013. In accordance with the terms of the agreement between the Corporation and IQ and following the closing of the Rights Offering, the above prices of \$0.64 and \$0.46 per share were adjusted downwards by \$0.05 per share each to \$0.59 and \$0.41 per share.

On March 30, 2010, the Company entered into an amendment agreement («Third Amending Agreement») to the Amended and Restated Credit Agreement («Credit Agreement») dated May 2, 2008 with its Canadian lender. This Third Amending Agreement provides for certain changes to the terms and conditions of the Company’s credit facilities with its Canadian lender including changes to certain financial covenants for 2010. Finally, the Third Amending Agreement provides for increased fees and interest rates in respect of the Credit Facilities and imposes certain obligations on the Company including generating additional cash through financing facilities or equity issues or disposition of assets.

On March 30, 2010, the Company also entered into an amending agreement with Investissement Québec in respect to its \$7.5 million term loan facility. Under the terms of this amendment agreement, Investissement Québec has provided the Company additional flexibility regarding the payment of interest charges. This amendment agreement also provides for the relaxing of certain financial covenants until and including December 31, 2010.

4. OUR BUSINESS

4.1 Overview

We operate as a non-clinical CRO that provides contract research services supporting the drug development process primarily to the pharmaceutical and biotechnology industries. We perform pre-clinical studies required for the development of drugs intended for the treatment of human conditions or diseases. Pre-clinical services are a subset of the CRO industry and encompass a variety of tests and related services to establish a drug candidate's short term safety (prior to commencing Phase I clinical trials) or longer term safety (prior to commencing Phase II and III

clinical trials). We also provide non-clinical contract research services for the registration of agro-chemical, food and veterinary products for a range of other industries.

We operate in the global CRO market estimated at US\$20 billion ⁽¹⁾ and expected to grow by 6% in 2010 after a flat year in 2009. We estimate the global pre-clinical CRO market to have been approximately US\$3.1 billion in 2006. After years of significant growth, our revenues decreased by 8.8% from \$58.5 million during the year 2008 to \$53.3 million in 2009 due to lower demand for pre-clinical services and lower pricing due to a highly competitive market. For the year ended December 31, 2009, our Adjusted EBITDA (as such term is defined below) was \$1.8 million. The following graphs illustrate our revenues and Adjusted EBITDA from 2003 to 2009 from the continuing operations.

⁽¹⁾ : Source: Jefferies & Company, Inc., Healthcare Pharmaceutical Services, Healthcare, *Let's talk about R&D, Baby*, dated January 22, 1010



(1) “Adjusted EBITDA” represents EBITDA of the Corporation excluding foreign exchange, adjusted for the sale-leaseback transaction of the Laval, Canada facility and the write-off of property and equipment that had no future use or benefit as a result of the acquisition of LAB Denmark in February 2005 for the years 2005, 2006 and 2007 as well as adjustments for the restructuring charges and settlement of lawsuit for 2008 and restructuring charges for 2009.

4.2 The CRO Industry

Overview

The global CRO industry provides independent research and development services on a contractual basis to the pharmaceutical, biotechnology and agro-chemical industries, among others. These services tend to supplement the efforts of internal research and development departments, providing value through cost efficiencies, expertise and expedited timelines. From providing a limited range of services in the 1970s, the CRO industry now offers a full range of services that encompass the entire drug development process, including pre-clinical evaluations, study design, clinical trial management, data collection, biostatistical analysis, and product registration support. Such services are subject to an increasingly complex set of national and international regulations.

Growth in demand for outsourced services, has led CROs to become an integral part of the drug development process. The growing complexity of research and development studies has increased the contribution value of CROs that have the specialization, experience, technical skills, resources and size needed to complete such studies in a timely and appropriate manner. CROs represent an alternative to expanding internal research and development resources and provide an important source of research and development capacity available on demand to sponsors. This allows sponsors to reduce the overhead and fixed costs associated with operating these resources internally between research and development expenditure cycles.

Until 2009, where the industry has seen a rare decline in the outsourcing demand due to the economic downturn, the growth in research and development expenditures had been fuelled by an increasing numbers of

maturing biotechnology companies and increased spending from the pharmaceuticals seeking to replenish their product pipelines.

While a small number of CROs provide a comprehensive range of services, other CROs provide more focused services such as pre-clinical and Phase I clinical testing. Although experience and scientific expertise are important requirements to effectively participate at any point in the drug development process, the types of facilities and operational capabilities needed does vary substantially as the process moves from pre-clinical testing through clinical trials and ultimately, into the commercial market.

Market Size and Growth

The global CRO market relies significantly on the level of research and development expenditures by the pharmaceutical and biotechnology industries and the degree to which the industry outsources such spending to external organizations.

In the last 12 months the industry has begun to face additional, unprecedented political and economic challenges. Many leading economies have entered deep and long recessions, and we believe that this new economic reality, combined with President Obama's overhaul of US healthcare, have increased pharmaceutical companies vulnerability just as it embarks on its first steps towards leaner, globalized entity whose increased scale is achieved 'virtually' rather than through accretion, with the extinction of the blockbuster model, and the 2011 patent cliff fast approaching (when patent protection of in excess of \$90 million worth of blockbuster drugs will expire).

We anticipate that President Obama's healthcare reform proposals will have a negative impact on Pharma's future growth. We believe that while the likely expansion in public healthcare to capture the estimated 15% of the US population who are uninsured will grow future drug revenues, generic companies and eventually biosimilars manufacturers will be the ultimate winners. The need to cut US healthcare spending, with the potential implementation of comparative effectiveness research and drug re-importation will offset any revenues Pharma may gain through expanded healthcare provisions.

On top of this, the industry now also faces added economic pressures, both directly and indirectly as a result of the global economic downturn. Pharmaceuticals companies ("Pharma") have already implemented a swathe of cost-cutting strategies while, as a result of the biotech funding crisis, many smaller companies face potential bankruptcy as traditional sources of funding (debt markets, public offerings, private placements, and convertible bonds) are still largely closed for cash-burning firms. Furthermore, due to the worsening economic conditions in the US, uninsured patients are now even less able to cover the costs of their healthcare.

With the growing size of the uninsured population, patients are increasingly switching from branded to generic drugs where available, in addition to making other personal cost-cutting healthcare choices, ultimately impacting pharmaceutical sales. We believe that Pharma may also struggle to justify the costs of expensive prescription drugs over the next few years, with greater pressure from players to produce more robust pharmacoeconomic data.

However the market is still expected to grow by 6% ⁽¹⁾ range in 2010 after a flat year in 2009 as the large R&D players increase outsourcing in an effort to control their costs as their revenues are being challenged by the generic companies.

⁽¹⁾ : Source: Jefferies & Company, Inc., Healthcare Pharmaceutical Services, Healthcare, *Let's talk about R&D, Baby*, dated January 22, 1010

4.3 Competitive Strengths

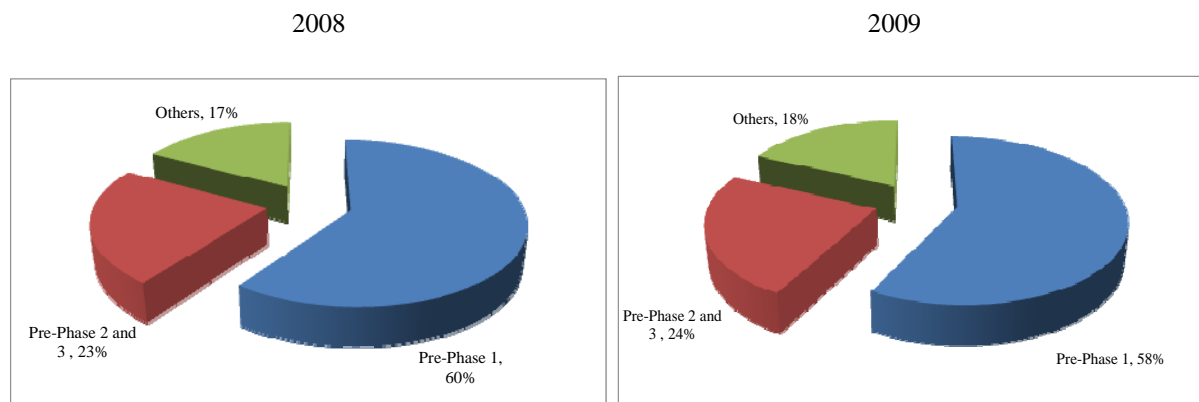
Our success results from our ability to continue to leverage our core competencies and strengths, which include:

- ***Credibility and Expertise*** — Credibility and expertise represents the foundation of any CRO's service offering. By focusing on pre-clinical activities and leveraging the capabilities of our scientific staff, we have developed market leadership in conducting mini-pig studies and in providing a variety of services, including, telemetry, surgery, immunology, infusion, ADME (as such term is defined below), inhalation and repro-toxicology. This leadership position enables us to perform novel and complex development programs and deliver quality and on-time reporting. Our expertise ensures that our facilities continuously meet the standards established by sponsors and applicable regulatory authorities. Each site has been subject to successful regulatory inspections by the various international bodies involved in overseeing the quality of CRO study conduct.
- ***Broad range of services*** — We offer a broad range of pre-clinical services for any type of drug candidate and can accommodate for any chosen delivery route or preferred animal models. This enables us to meet the needs of a wide variety of pharmaceutical and biotechnology sponsors and differentiates us from other more specialized CROs. We establish strong ties with our pharmaceutical and biotechnology clients through our ability to manage their pre-clinical development programs and perform substantially all of their pre-clinical studies. We also offer a broad range of services to our agro-chemical and other clients that require the full suite of environmental toxicology testing.
- ***Global presence*** — As sponsors tend to favor CROs established in their own region, the geographic distribution of our facilities helps us attract clients from several parts of the world. However, activities such as program management, marketing and information technology are well coordinated to maintain a flexible cost structure. In addition to serving the pharmaceutical and biotechnology markets from our North American and European sites, our low-cost Hungarian site is well suited to capture the price-sensitive agro-chemical and industrial markets.
- ***Experience and reference data*** — Historical data are essential for the interpretation of study results and the expertise derived from pioneering the development of novel studies is highly valued by sponsors. Through our combined operational history of 30 years, we have compiled a significant volume of data. In particular, the background data that we have generated through the performance of mini-pig studies represent a significant competitive advantage, as market trends and regulatory bodies increasingly support greater use of non-companion animal models. Our experience comes from having performed over 12,500 different studies over the history of the Corporation including 2,600 studies in 2009 only.

4.4 Our Services

We provide a broad range of services to clients operating in the pharmaceutical, biotechnology, agro-chemical, and other industries. Our expertise and dedication to innovation allow us to conduct a variety of studies on any type of drug candidate, such as small molecules, peptides or proteins, in the full range of small and large animal models independent of the chosen route of administration.

The following chart provides a breakdown by service of our revenues from continuing operations in 2008 and 2009.



Pre-Phase I Services

We provide substantially all of the pre-clinical services that are required for a drug development sponsor to submit an Investigational New Drug application (an “IND”) or equivalent package and move a drug candidate into clinical trials. These services generate the vast majority of our revenues, as shown above.

Our current service offering includes:

General toxicology — These studies provide critical information regarding a compound's capacity to cause undesirable or adverse effects and represent a fundamental part of our business. The primary objective of such studies is to evaluate the relationship between dosage and toxicity in animal models and to determine doses for clinical trials. Like most CROs, we are able to conduct studies involving a range of delivery methods, such as oral, intravenous and dermal. We also have the expertise and state-of-the-art exposure and monitoring systems to support complex inhalation studies, long term continuous intravenous and subcutaneous infusion studies, Central Nervous System drug delivery, and endoscopy-assisted local drug delivery, among others. Under International Conference on Harmonization (“ICH”) guidelines, general toxicology studies form a vital part of regulatory submissions to conduct clinical studies. Aside from the pharmaceutical or biotechnology markets, we also provide toxicology studies for clients in the agro-chemical, industrial, petrochemical, food additive and medical device markets.

- ***Genetic toxicology*** — These tests investigate a drug candidate's ability to directly or indirectly damage DNA through gene mutations, recombination and chromosomal damage, and are predictive of carcinogenicity (ability to cause cancer). Genetic toxicology studies are conducted in both *in vitro* and *in vivo* settings and are required as part of ICH guidelines for regulatory submissions.
- ***Safety pharmacology*** — These studies are used to provide insight into the pharmacological mechanisms by which a drug candidate causes an adverse effect, particularly on those organ systems considered critical for life, such as cardiovascular, respiratory, and central nervous systems. Safety pharmacology studies may be conducted in *in vivo* or *in vitro* settings and are required as part of the ICH guidelines for a drug to move into clinical studies.
- ***Bioanalytics*** — These studies, alternatively called toxicokinetics or toxicoanalytics, are used to describe the systemic exposure of an animal to a drug candidate as it relates to dosage, time and results from toxicity studies. Bioanalytics studies are generally conducted as part of the general toxicology studies either using non-rodent or rodent animals to proceed into Phase I clinical trials.
- ***Efficacy*** — These studies determine if a drug candidate can produce the intended effect in its relevant *in vivo* or *in vitro* disease model. Efficacy studies are not required by ICH guidelines to

proceed into clinical studies, but are required by the European regulatory authorities to determine if the program can proceed to Phase I clinical trials.

Pre-Phase II/III Services

We also provide services required to enter Phase II or Phase III clinical trials. These services are required for all new drug candidates and for certain changes in indication or dosage form to existing drugs. They include:

- ***Reproductive toxicology*** — The objective of these studies is to identify any effect a drug candidate may have on any aspect of mammalian reproduction, from fertility to sexual maturity of the offspring.
- ***Carcinogenicity*** — These studies determine a drug candidate's capacity to cause cancer in an animal model and assess the relevant risk to humans. Carcinogenicity studies are conducted only after results from 1) genotoxicity 2) chronic toxicology studies are completed, 3) pharmacodynamics and 4) intended patient population and clinical dosage regimen have been determined.
- ***Absorption, distribution, metabolism, and excretion (ADME)*** — This broad grouping of studies forms the basis for understanding a drug candidate's pharmacokinetics and pharmacodynamics. On a basic level, ADME studies examine how a drug candidate is taken into the bloodstream (absorption), the extent to which it spreads throughout the tissues of the body (distribution), how the drug candidate is broken down within the body (metabolism), and how it is eliminated from the body (excretion). Certain ADME studies, such as toxicokinetics, are required prior to initiating Phase I clinical studies. Several others, including effects on metabolic systems and excretion in bile, are used only to support Phase II or Phase III clinical trials, or submissions for marketing approval.

Other Services

Beyond clinical trial-enabling studies, we also conduct novel services that provide sponsors with information that is not always required for approval, but is nonetheless relevant to the development of a drug candidate or other types of product. Among others, these include:

- ***Immunology*** — We use various *in vitro* assays to establish a drug candidate's effect on the body's cellular defence systems. More and more, immunology testing is required by ICH guidelines for an increasing number of drug candidates.
- ***Telemetry*** — For these studies, we employ technology to remotely monitor physiologic data such as blood pressure, body temperature, activity levels and various other parameters.
- ***Ecotoxicology*** — These studies are designed to investigate the inadvertent effect of chemicals on ecosystems (for example, fish, plants, insects). Performed under the Environmental Protection Agency (“EPA”) guidelines and regulations (and those of other environmental protection agencies), these studies are typically performed for the agro-chemical or chemical industry.
- ***Inhalation*** — These studies allow us to examine the delivery of a drug candidate or chemical via the respiratory system. The inhalation route may specifically aim to deliver the test article in the upper portion of the respiratory tract (larynx, pharynx, trachea and bronchi) to produce a local effect, such as relief of asthma, or deep in the lung structure (alveoli) for systemic absorption and remote action.

4.5 Sales and Marketing

We conduct most of our business development and marketing activities on a territorial level according to client needs and our service offering in each of our sites. While our Laval, Québec, site principally targets the North American biotechnology and pharmaceutical market, our Danish operation focuses on the mid-size and large European pharmaceutical companies as well as the Medicon Valley (Sweden/Denmark) biotechnology industry. Our Hungarian operations primarily target the European pharmaceutical, biotechnology and agro-chemical market, as well as the global market for inhalation studies. All three sites collaborate to cover other parts of the world with special emphasis on Australasia and Israel. We have increased our presence and initiated development of local infrastructure with the addition of Japanese and Korean sales agents. Similar initiatives are being considered for Israel and Australia. This demonstrates our determination to be present in all key markets, as we set our sights on becoming one of the top five preclinical CROs in the world.

Although our regional marketing strategy varies from site to site, we also focus on consistently promoting the LAB Research brand by emphasizing our site, capabilities and combined expertise. As a result, our sales effort is predicated on building and sustaining continuous commitments to our clients in each of our sites and our marketing activities are customized to address the sales criteria of the targeted audience.

With the recent increase in capacity to supply greater demand and meet the broad service requirements now in place, we are aggressively promoting our state-of-the-art facilities, services and staff expertise. We have doubled our sales force in both North America and Europe.

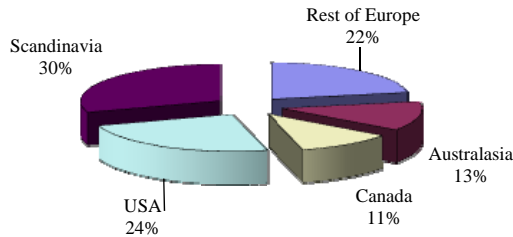
Our sales process starts with the issuance of a quote for a predetermined study. At this stage, the process is team-oriented and involves operations and global scientific personnel who contribute their knowledge to project implementation strategies to be included in client proposals ("study quotations"). We place a high level of importance on the creation of a strong recurrent level of study quotations at each of our sites, as well as the conversion rate of such study quotations into backlog. We are also putting more emphasis towards business development at all levels throughout the organization. Anyone at LAB in direct contact with a client is now involved in furthering the sales effort and nurturing the relationship.

4.6 Clients

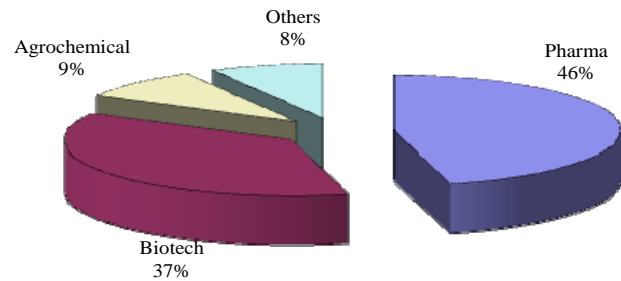
We offer our pre-clinical services to clients in the pharmaceutical, biotechnology, agro-chemical and other industries. We presently have hundreds of active clients, of which more than 60% are repeat clients from previous years. We count among our clients twelve of the twenty-five largest pharmaceutical companies, as well as a diversified base of biotechnology, agro-chemical and other clients. During the fiscal year ended December 31, 2009, only one client accounted for more than 10% of our revenues and our 10 largest clients accounted for approximately 36% of our revenues.

Due to our strategically diversified geographic locations, we attract different types of clients from around the world. In 2009, our revenues generated from North American clients represented 35% of our total revenue, while 30% of our total revenue was generated from Scandinavia, 22% from other European countries and 13% from Australasia. Biotechnology companies represented 43% of our 2009 revenues. Pharmaceutical and biotech companies represented 83% of our total revenues, the majority of which were generated from our Danish facility. The balance of our 2009 revenue was generated by agro-chemical and other types of sponsors.

2009 Revenue by Client Location



2009 Revenue by Customer Segment



Average rates of conversion for 2009 were 1 DKK = 0.2129 CAD, 1 HUF = .005657 CAD and 1 USD = 1.1415 CAD

4.7 Contractual Arrangements and Backlog

The majority of our revenues are earned under contracts that typically range in duration from a few weeks to several months, with the exception of some studies that extend to several years. We track our order backlog to better anticipate revenue from signed contracts that either have not yet started or that are in progress and have not been completed. We only include a study or project in our backlog once we have received written evidence of a client's intention to proceed with such study. Aggregate backlog at December 31, 2009, was \$35.3 million.

Although we believe that backlog can provide meaningful information with respect to future studies, our aggregate backlog as of any date is not a direct indicator of future results. For instance, the scope of our clients' studies may change, studies may be terminated or delayed at any time by the client, and some studies that are included in current backlog may be completed at a later date. Most of our contracts include penalties for cancellation or for postponement.

4.8 Property and Facilities

Our facilities are located in three countries, with our headquarters located in Laval, Québec, Canada. On April 17, 2007, we purchased back the property we occupied in Canada which had been subject to a sale-leaseback transaction on November 1, 2005, while we were operating as a segment of Akela. As a result, we now own all of our properties.

In July 2007, we completed the expansion of the Danish facility. This 21,000 sq. ft. expansion provided additional capacity and compliance with the new European animal welfare regulations. The cost of the expansion was approximately \$7.5 million (primarily property and equipment). The expanded facility increased animal rooms from 45 to 54 and includes necessary laboratory support areas such as surgical and necropsy suites. The facilities provide testing capabilities for a broad range of pre-clinical IND and Phase II/III-enabling activities. We estimate that this expansion increased the revenue capacity of the site by up to 25% to approximately \$35 million.

In October 2007, we completed the 59,000 sq.ft. facility expansion of our Hungarian site which increased the large animal housing capacity from 4 to 34 rooms. The expansion did not only add capacity but has also provided flexibility to more effectively use the site's 62 (28 normalized) small animal rooms, with the ultimate goal of improving LAB Hungary's study mix. The cost of the expansion was approximately \$6.5 million. This expansion was done in compliance with the new European animal welfare regulations and provides the ability to influence the facility's business mix due to a better ratio of large to small animal rooms.

On December 31, 2008, we completed the expansion of our Canadian facilities. LAB Research’s Canadian site now totals 156,000 ft² and features 80 rooms representing increases of 88% and 122% respectively. As part of this project, the Corporation also enlarged its service offering significantly to include bioanalytical and expanded analytical services, drug metabolism, reproductive toxicology and inhalation toxicology.

The following table summarizes each of our facilities:

<u>Location</u>	<u>Size</u>	<u>Use</u>
Laval, Québec, Canada	156,000 sq. ft.	Head office, administration, sales and marketing, laboratories and animal rooms
Ejby, Denmark	93,000 sq. ft.	Administration, sales and marketing, laboratories and animal rooms
Veszprém, Hungary.....	164,000 sq. ft.	Administration, sales and marketing, laboratories and animal rooms
	413,000 sq. ft.	

4.9 Regulatory Environment

In order for us to effectively operate as a global pre-clinical CRO, we must comply with regional, national, industry related and/or international regulations that pertain to most aspects of our services, whether scientific or ethical. Given that our services are used to support pharmaceutical, biotechnological, agro-chemical and other product applications, our facilities are subject to both formal and informal inspections by various, and sometimes overlapping, regulatory and supervisory authorities. We are also subject to inspections and reviews from representatives of client companies in the course of their due diligence and pre-screening efforts regarding animal welfare standards and Good Laboratory Practice (“GLP”) compliance.

We conduct pre-clinical safety studies intended to support the registration or licensing of our clients' products throughout the world. The conduct of these studies must comply with national statutory or regulatory requirements for GLP. The GLP regulations were promulgated by the FDA in 1979 and describe a quality system concerned with the organizational process and the conditions under which non-clinical laboratory studies are planned, performed, monitored, recorded, archived and reported. GLP compliance is required by such regulatory agencies as the FDA, Health Canada, EMEA, the Japanese Ministry of Health and Welfare and similar regulatory authorities in other parts of the world. GLP requirements are significantly harmonized throughout the world and our laboratories are capable of conducting studies in compliance with all appropriate requirements.

Our services are further regulated by the need to use laboratory species in a controlled ethical manner. Animal testing laboratories need to operate under strict guidelines and such facilities are subject to audits by various regulatory agencies for compliance with the accepted standards such as GLP and Good Manufacturing Practice (“GMP”). Regulatory control of laboratory animals is conducted at both the regional and international levels. Depending on location, our facilities are accredited by the Association for Assessment and Accreditation of Laboratory Animal Care (“AAALAC”), a private, non-profit, international organization that promotes the humane treatment of animals in sciences through voluntary accreditation and assessment programs. On a regional basis, we are accredited by Canadian Council on Animal Care (“CCAC”), the Standards Council of Canada, the Danish Accreditation Agency (“DANAK”) and the Hungarian GLP authorities.

Our Canadian and Hungarian facilities operate at Biological Safety Level 2 containment, enabling infectious disease research and the use of immunologically-compromised animal models. The non-clinical testing of chemical products is subject to E.U. directives and the U.S. Department of Agriculture (USDA). At each research facility, we ensure the availability of suitably experienced and qualified veterinary personnel who are supported by external veterinarians available on a 24-hour basis.

Our operations are currently in compliance with all regulations applicable to our service offerings. Our site managers at each of our facilities are responsible for ensuring that all services comply with applicable statutory and regulatory requirements and meet the regulations as well as our clients' expectations for quality.

On October 23, 2008, we announced that our Hungarian site had successfully completed its biennial Good Laboratory Practices ("GLP") inspection by the Hungarian authorities and received a favourable audit of the chronic inhalation studies performed for one of its sponsors by the US Food and Drug Administration ("FDA"). On October 31, 2008, our Danish site also successfully completed its biennial GLP inspection by the Danish Medicines Agency.

Our Canadian facility is accredited by both the AAALAC and the CCAC, and is operated in accordance with GLP guidelines. During the year 2008, the facility was inspected by AAALAC and CCAC and the accreditations were renewed. In December, 2009, our Canadian site was subject to its first ever inspection by the Standards Council of Canada. Inspection was successful and certificate is expected early in 2010. During the spring of 2004, FDA officials performed a full-facility audit of our Canadian facilities. The result of the audit was favourable with no irregularities found. The audit was performed following the filing of an IND package in the U.S. by some of our clients. In 2005, the German GLP authorities performed an inspection of our Canadian facilities. Following the successful inspection of the facilities, our Canadian site became the first North American site to obtain German GLP Accreditation. Our Hungarian facility operates under ISO 9001 and GLP guidelines, and has recently secured again AAALAC accreditation. Our Danish facility operates under ISO 17025, GLP and GMP guidelines, and is accredited by the local DANAK and DMA authorities who perform mandatory inspections every second year.

The following table provides a list of the regulatory authorities whose rules and regulations we comply with at our various locations.

		<u>Canada</u>	<u>Denmark</u>	<u>Hungary</u>
AAALAC (Intl.).....	Association for Assessment and Accreditation of Laboratory Animal Care	A	—	A
BGVV (Germany).....	Bundesinstitut für Gesundheitlichen Verbraucherschutz und Vet.	A, I	—	—
HU	Hungarian Bureau	—	—	A
BSL 2, P2.....	Biological Safety Level 2	Y	—	Y
CCAC.....	Canadian Council on Animal Care	A	—	—
CNSC.....	Canadian Nuclear Safety Commission	A, I	—	—
DANAK.....	Danish Accreditation Agency	—	A, I	—
DMA.....	Danish Medicine Agency	—	A, I	—
EEC — Chemical.....	European Union, Chemical Notification Program	Y	Y	Y
EMEA.....	European Medicines Evaluation Agency (Europe)	Y	Y	Y
EPA.....	Environmental Protection Agency	Y	Y	Y
FDA.....	Food and Drug Agency (USA)	I, Y	Y	Y
GLP.....	Good Laboratory Practices	Y	Y	Y
GMP.....	Good Manufacturing Practices	—	A, I	—
HPB.....	Health Protection Bureau (Canada)	Y	—	—
HNIP.....	Hungarian National Institute of Pharmacy (Hungarian GLP Authority)	—	—	A
ICH.....	International Conference on Harmonization	Y	Y	Y
ISO.....	International Organization for Standardization	—	A	A
NIH (USA).....	National Institute of Health	Y	Y	Y
NIP (Hungary).....	National Institute of Pharmacy	—	—	A
OECD.....	Organization for Economic Co-operation and Development	A	A	A
OLAW.....	Organization for Laboratory Animal Welfare	—	—	—
PMSB.....	Pharmaceutical and Medical Safety Bureau of Japan	Y	Y	Y
REACH READY.....	Registration, Evaluation and Authorisation of Chemicals	Y	Y	A, Y
SCC	Standards Council of Canada	A	—	—
USDA.....	United States Department of Agriculture	Y	—	—

A: We have been accredited or certified.

I: We have been subject to audits generating no major findings.

Y: We conduct studies that can be submitted in accordance with the requirements of the governing body.

—: Either not applicable or not relevant.

4.10 Animal Welfare

The studies that we undertake are commissioned by sponsors to meet the requirements of regulatory governmental authorities around the world to support the development of pharmaceutical, agro-chemical and chemical products, among others. All animal studies are undertaken in accordance with international guidelines for the conduct of studies, in animal facilities that meet GLP and animal welfare requirements. The 3Rs (Reduction, Refinement, and Replacement) are guiding principles for all animal studies that we undertake. At all times, we attempt to design studies in the most appropriate way to gain as much relevant information as possible while still ensuring the highest welfare standards for the animals under our care. Staff training is extremely important to ensure that all workers within the animal areas are aware of their responsibilities to handle animals appropriately and to ensure that humane endpoints are included in all study plans. All of our research facilities have AAALAC accreditation or, where applicable, comply with local domestic laws pertaining to the use of animals in experimental research. All animals used in our facilities are bred specifically for experimental purposes and, wherever possible, are purchased from local suppliers to minimise any stress related to transportation.

4.11 Registration, Evaluation and Authorization of Chemicals (“REACH”)

REACH is a new legislation passed by the European Commission, which became enforceable in 2007. As a result, all European manufacturers and importers of chemical substances are obliged to file a request for registration for each substance. The testing guidelines will be enforced in a stepwise fashion based on annual quantities of chemicals commercialized or imported, so that chemicals with greater tonnage will be tested first. It is estimated that over 35,000 existing chemicals will need to be tested at a cost per chemical exceeding \$700,000. LAB Research Hungary offers the full range of REACH studies and is well positioned to benefit from this potential market estimated at \$7 billion over a 10 to 15 year period.

4.12 Competition

Despite recent consolidation activity, the CRO industry remains relatively fragmented with hundreds of small scale, limited-service providers and a few companies offering a global platform to provide the broad range of services required in assisting a sponsor's complete drug development process in all main territories.

Our Competitors

In the pre-clinical CRO market, we primarily compete against other commercial CROs and the in-house research and development divisions of large pharmaceutical, biotechnology, agro-chemical and industrial chemical companies who perform their own pre-clinical assessments. Over the last several years, the large sponsors have been reducing significantly their internal activities by increasing outsourcing. We expect that trend to continue.

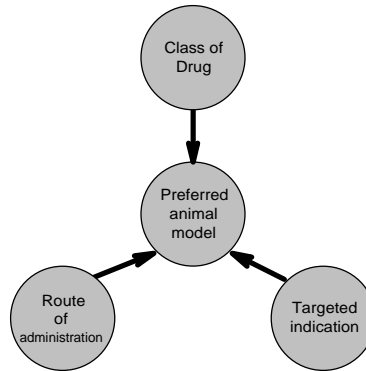
Our commercial competitors include both publicly-held and privately-owned companies, and range from full-service providers such as Covance Inc., Charles River Laboratories International, Inc. and Huntingdon Life Sciences (a subsidiary of Life Sciences Research, Inc.) to specialized suppliers such as MPI Research, Inc., WIL Research Laboratories, LLC and Harlan Laboratories, Inc.. Like these companies that we deem to be full-service, we provide a broad range of pre-clinical services on a contractual basis, such as toxicology and ADME studies. However, not all these companies can provide such services through globally-dispersed facilities like LAB Research. Most of these companies also provide contract clinical development services to their clients.

Based on net service revenue generated from pre-clinical contract research services, we believe we rank among the top 5 publicly traded CROs worldwide which focused solely on providing pre-clinical contract research services.

Competitive Factors

Pre-clinical CROs compete on the basis of a number of quantitative and qualitative factors. These include:

- **Service Capabilities** — This factor includes the range of services offered, the ability to perform studies on a variety of animal models, and the availability of specialized services to accommodate evolving client needs. Selection of the most appropriate animal model is particularly important with regulatory authorities. As illustrated below, this predictability is determined by the following three key factors:

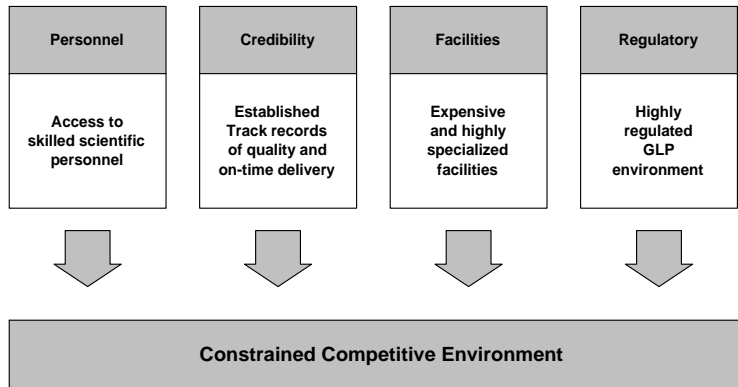


Current and projected availability of facility capacity is an essential consideration to sponsors in planning their research and development programs. We believe that there are capacity constraints in the industry even though the preclinical CRO industry has been expanding to meet increasing demand. It is expected that capacity expansions will continue to be a recurring theme in the industry.

- **Credibility** — Credibility with clients is achieved by conducting studies in a manner that yields high-quality and on-time results. We believe that consistent performance leads to client retention and drives repeat business.
- **Reference (“Background”) Data** — Reference data, derived from years of experience in a particular animal model or type of study, are essential for the interpretation of study results and can constitute unique distinction features vis-à-vis the competition.
- **Regulatory and Technical Expertise** — Sponsors lacking sufficient internal regulatory know-how or specific technical expertise often seek a CRO with experience in such fields to help guide them through the drug development process.

Barriers to Entry

We believe that several barriers exist to becoming a pre-clinical CRO with global capabilities. Some of the most significant barriers are illustrated in the chart below.



Recently, some non-global preclinical CROs have unsuccessfully attempted to penetrate other territories. Most of these initiatives have been abandoned due to the inability of the new laboratories to reach an acceptable level of local market support and consequently provide acceptable returns to their owners.

4.13 Intellectual Property

Our proprietary know-how plays an important role in the success of our business. Where we deem it appropriate, we maintain and protect trade secrets, know-how and other proprietary information regarding many of our business processes and related systems through confidentiality and non-competition agreements that we enter into with all members of our management team and our key employees. However, we do not own any patent registrations, applications or licenses and we do not believe that intellectual property rights are material to our business.

4.14 Employees

As at December 31, 2009, we had 562 full-time equivalent personnel, down 39 or 6% from previous year. This number included approximately 110 scientific professionals holding namely Ph.D., M.Sc., and Veterinary degrees.

As at December 31, 2009, our scientific personnel represent approximately 85% of our total staff. We believe that our competitiveness depends on our ability to attract and retain high calibre scientific personnel. Toxicopathologists and study directors are valued and the presence of such employees is closely monitored by sponsors. We employ a total of eight toxicopathologists, including five in Denmark, which provides LAB Denmark with one of the highest ratios of on-site pathologists in the industry. Early in 2010, LAB Canada have hired a Director of Pathology Services, certified by the American College of Veterinary Pathologist with over 12 years of experience with pharmaceutical corporations and Contract Research Organizations. We also employ a relatively high number of study directors who are responsible for study performance as well as facilitating interaction with our customer base.

Our top 25 managers each average more than 20 years of CRO related experience are all experienced in conducting pre-clinical testing and in designing and implementing regulatory strategies for approvals of most therapeutic products in several key jurisdictions around the world including the U.S., Japan, the U.K., Canada and continental Europe.

During the month of February 2010, LAB Research announced a series of senior executive changes and scientific staff additions. These changes and additions highlighted the Corporation's continuous commitment to provide its clientele with the highest level of scientific excellence. It also testified of the Corporation's commitment to improve the financial performance of each of its sites and of the Corporation as a whole. In addition to the Director of Pathology Services mentioned above, the following nominations were announced: i) Senior Director of Operations in Canada in replacement of the chief operating officer; ii) new Chief Financial Officer for the

Corporation in replacement of the Vice-President Finance and, iii) expansion of the scientific team in LAB Research Hungary with the addition of two Senior Scientists. The LAB Canada President's position was also eliminated with responsibilities resuming to the Corporation's CEO. The following table sets out the breakdown of our full-time personnel by category and by site as of December 31, 2009:

	Canada	Denmark	Hungary	HO	Total
Business Development and Mktg	9	7	2	0	18
General and administrative	45	14	11	4	70
Scientific staff	47	48	21	0	116
Laboratory and other technicians	179	99	80	0	358
Total	283	200	118	4	562

5. RISK FACTORS

Purchasing our common shares involves a number of risks which prospective purchasers should consider, including the following:

A reduction in research and development budgets at pharmaceutical and biotechnology companies may adversely affect our business.

Our clients include researchers at pharmaceutical and biotechnology companies. Our ability to continue to grow and obtain new business is dependent in large part upon the ability and willingness of pharmaceutical and biotechnology companies to continue to invest in research and development. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our services. Research and development budgets fluctuate due to changes in available resources, spending priorities, institutional budgetary policies, as well as mergers of pharmaceutical and biotechnology companies. Our business could be adversely affected by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies. Similarly, economic factors and industry trends that affect our clients in these industries including the conditions of the biotechnology financing environment and the strength of capital markets, also affect our business.

Failure of getting proper financing may slow down our growth and adversely affect the results of our operations.

The Corporation has financed itself with issuance of share capital at the IPO and since then with bank debt, capital leases and funds from operations. Due to the financial market crisis, it may be more difficult to obtain the long-term capital to support our corporate objectives. It is impossible to guarantee the availability of additional financial resources or that it will be available under acceptable terms and conditions. If the Corporation doesn't obtain adequate financing or funds on reasonable terms, we may need to halt any and all capital expenditures and therefore slow down the growth of the Corporation and adversely affect our financial condition and results of operations and even undertake a corporate reorganization. The trend toward outsourcing activities in the pre-clinical stages of drug discovery and development may decrease, which could slow our growth.

Over the past several years, our business has grown significantly, in part as a result of the increase in outsourcing of pre-clinical research support activities by pharmaceutical and biotechnology companies. We believe that drug development, pharmaceutical and biotechnology companies choose to outsource some or all of these activities due to the significant investment in facilities and personnel that they require. By doing so, they can focus their resources on drug discovery. While industry analysts expect the outsourcing trend to continue for the next several years, a decrease in pre-clinical outsourcing activity could result in a diminished growth rate in our sales and adversely affect our financial condition and results of operations.

Our debt level could adversely affect our future financial performance

Our recently completed Canadian expansion was financed mainly via mortgage debt and use of liquidities and cash flow derived from the operations. We recognize that the Corporation's debt level exceeds the average of the industry. The Corporation opted for that strategy due to favourable debt conditions that would not impair the Corporation's growth potential or future financial performance. The debt is amortized over more than 11-year periods on average and the cost of debt is floating which has reduced significantly over the last year to less than 5% per annum on average. Although we believe our debt servicing requirements to be manageable, there is no assurance that our recently expanded facilities will generate sufficient cash flows to fully service our debts while meeting its other financial obligations and bring back the Corporation's net debt to EBITDA ratio in line with our expectations. Although, as at December 31, 2009, the Corporation was in compliance with its bank financial ratio covenants, as amended as part of the restructuring of its Canadian long-term banking facilities, the Corporation was uncertain that it would meet these amended covenants or the original covenants set forth in the Original Agreement with its Canadian banker that will become effective in July 2010. The Corporation obtained a waiver of all such covenants for 2010.

Changes in government regulation or in practices relating to the pharmaceutical or biotechnological industries, including potential health care reform, could decrease the need for the services we provide.

Governmental agencies throughout the world strictly regulate the drug development process. Our business involves helping pharmaceutical and biotechnology companies, among others, carry out the work required to submit new drugs to regulatory agencies. Changes in regulations, such as a relaxation in regulatory requirements or the introduction of simplified drug approval procedures, or an increase in regulatory requirements that we have difficulty satisfying or that make our services less competitive, could eliminate or substantially reduce the demand for our services.

Growing health care costs may give rise to health care reform. We are unable to predict what legislative proposals will be adopted in the future, if any. Implementation of health care reform legislation that regulates drug costs could limit the profits that can be made from the development of new drugs. This could adversely affect research and development expenditures by pharmaceutical and biotechnology companies, which could in turn decrease the business opportunities available to us. In addition, new laws or regulations may create a risk of liability, increase our costs or limit our service offerings.

Any failure by us to comply with existing regulations could harm our reputation and operating results.

Any failure on our part to comply with existing regulations could result in the termination of ongoing research or the disqualification of data for submission to the regulatory authorities. We could also be barred from providing pre-clinical services in the future or be subject to fines. In addition, we may have to repeat research or redo trials. We may be contractually required to take such action at no further cost to the client, but at substantial cost to us. Any of these consequences could harm our reputation, our prospects for future work, our revenues and our gross margins.

Any disruption in our supply of animal models could cause delays in our studies, which could cause our operating results to suffer.

Some of the animal models that we use in our studies are supplied by companies that compete with us or by sole source vendors in the countries in which our facilities are located. In the event of a reduction or interruption of supply, we could be forced to delay or postpone studies and our revenues and results of operations would suffer. In addition, some of our clients may decide to choose a competing contract research organization and we could lose market share.

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

We compete against other CROs. Such competitors include large, established, full-service and pre-clinical CROs, including Charles River Laboratories International, Inc., Covance Inc. and Huntingdon Life Sciences, a division of

Life Sciences Research, Inc. as well as other companies that offer pre-clinical research services. We also compete with smaller niche companies operating in our local markets or within specific sectors. Some of our competitors have greater capital and other resources than we do at the present time. As a result of competitive pressures and the potential for economies of scale, the industry continues to experience consolidation. This trend, as well as a trend by pharmaceutical companies and other clients to limit outsourcing to fewer organizations, in some cases through preferred vendor relationships, is likely to result in increased worldwide competition among the larger CROs for clients and acquisition candidates. We do not provide clinical research services and as such, we may find reduced access to certain potential clients due to preferred vendor arrangements with competing CROs that offer clinical research services.

In addition, the CRO industry has attracted the attention of the investment community, and increased potential financial resources are likely to lead to increased competition among CROs. We compete in our industry by continuing to focus on the quality of our services, maintaining our therapeutic expertise, and investing in our quality management system.

The CRO industry is currently characterized by a significant increase in demand for pre-clinical services. While this has benefited our gross margins, the possibility of increased pricing pressure from our competitors as the industry adjusts to the demand for laboratory capacity may require us to reduce prices on certain services, which may result in lower gross margins on those services.

Our exposure to exchange rate fluctuations could adversely affect our results of operations.

We derive a significant portion of our revenue from operations outside of Canada, primarily from our operations in Hungary and Denmark, where significant amounts of revenues and expenses are recorded in local (non-Canadian) currency. Our financial statements are presented in Canadian dollars. Accordingly, changes in currency exchange rates, particularly between the Euro, Euro-pegged currencies, the U.S. dollar and the Canadian dollar will cause fluctuations in our reported financial results that could be material. In addition, certain of our contracts with foreign clients are denominated in currencies other than the currency in which we incur expenses related to those contracts. This is particularly the case with respect to our Canadian operations, where some contracts provide for invoicing clients in U.S. dollars but where our expenses are generally incurred in Canadian dollars. Where expenses are incurred in currencies other than those in which contracts are priced, fluctuations in the relative value of those currencies could have a material adverse effect on our margins. In Europe, we are also exposed to fluctuations between the local currencies such as the Danish kroner and the Hungarian forint, and the Euro. We secure long-term debt denominated in local currencies for supporting the investments in each of our facilities. In Hungary, since most of our revenues are in Euro, we have fixed the loans in the Euro currency to ensure that we always have strong correlation (“natural hedge”) between our debts and our revenues. However, while the Danish kroner is considered pegged to the Euro, the Hungarian forint continues to fluctuate significantly, thus causing quarterly impact on our results. Management believe that as long as our revenues per year in Euros will exceed the level of our debt denominated in that currency, our overall results are protected against foreign exchange risks, and thus do not require specific defensive hedging activities.

Circumstances beyond our control could cause the CRO industry's reputation to be damaged or other harm to the CRO industry that could result in an industry-wide reduction in demand for CRO services and this could harm our business.

Demand for our services may be affected by our clients' perceptions regarding the CRO industry as a whole. For example, other CROs could engage in behavior that could render our clients less willing to do business with us or any CRO. Although to date no event has occurred causing industry-wide damage to the CRO industry or its reputation, one or more CROs could engage in or fail to detect malfeasance, such as the inadequate monitoring of sites, the production of inaccurate databases or analyses, the performance of incomplete lab work, or could take other actions that would reduce the confidence of our clients in the CRO industry. As a result, the willingness of pharmaceutical and biotechnology companies to outsource research and development services to CROs could diminish and our business could be harmed materially by events outside our control.

We depend on key personnel and may not be able to retain these employees or recruit additional qualified personnel, which would harm our business.

Our success depends to a significant extent on the continued services of our senior management, other members of management and our certified veterinarians and scientific personnel. Our current management team has significant experience in the administration of a CRO. If one or more members of our senior management team or our key scientific personnel were unable or unwilling to continue in their present positions, those vacant positions could be difficult to fill and our business could be harmed.

Because of the specialized scientific nature of our business, we are highly dependent upon qualified scientific, technical and managerial personnel. While we have an excellent record of employee retention, there is still strong competition for qualified personnel in the CRO industry, as well as in the pharmaceutical and biotechnology fields. Therefore, we may not be able to attract and retain the qualified personnel necessary for the development of our business. The loss of the services of existing personnel, as well as the failure to recruit additional key scientific, technical and managerial personnel in a timely manner, could harm our business.

Actions of animal rights activists may affect our business.

Our pre-clinical services utilize animals in the testing of the safety and efficacy of drugs. Such activities are required for the development of drugs under regulatory regimes in Canada, the U.S., Europe, Japan and other countries. Acts of vandalism and other acts by animal rights activists who object to the use of animals in drug development or any negative attention or threats directed against our animal research activities in the future could impair our ability to operate our business effectively. In addition, our business could be materially adversely affected if regulatory authorities were to mandate a significant reduction in safety testing procedures that utilize laboratory animals (as has been advocated by certain groups).

New technologies may be developed and validated leading to increased use that could reduce demand for some of our services.

For many years, groups within the scientific and research communities have attempted to develop models, methods and systems that would replace or supplement the use of living animals as test subjects. Companies have developed several techniques that have scientific merit. Alternative research methods could decrease the need for research models and we may not be able to develop new services effectively or in a timely manner to replace any lost sales.

Our services are subject to evolving industry standards and rapid technological changes.

The markets for our services are characterized by rapidly changing technology, evolving industry standards and frequent introduction of new and enhanced services. To succeed, we must continue to introduce new services on a timely and cost-effective basis to meet evolving client requirements, while achieving market acceptance for these new services. Additionally, we must continue to enhance our existing services and to successfully integrate new services with those already being offered. It is imperative that we respond to emerging industry standards and other technological changes. If we fail to make the necessary enhancements to our business, systems and services to keep pace with evolving industry standards, our business could be harmed.

Our contracts are generally terminable on little or no notice. Termination of a large contract or multiple contracts could adversely affect our revenue and profitability.

Most of our contracts may be terminated without cause with little or no notice. Clients terminate or delay contracts for various reasons. We have experienced termination or cancellation by certain clients in the ordinary course of business.

The loss or delay of a program or large contract or the loss or delay of multiple smaller contracts could harm our business because such terminations could lower our level of staff utilization, which would reduce our profitability. In addition, the terminability of our contracts puts increased pressure on our quality control efforts, since not only can our contracts be terminated by clients as a result of poor performance, but any such termination as a result of

poor performance may also affect our ability to obtain future contracts from the client involved and, possibly, others among the companies that sponsor trials. Because the contracts included in our backlog are generally terminable without cause, we do not believe that our backlog as of any date is necessarily a meaningful predictor of future results. When possible, we seek compensation for late cancellation and/or postponement. Most of our contracts include clauses to that effect.

Our contracts are generally fixed-price contracts. Under-pricing and significant cost overruns could adversely affect our revenue and profitability.

Most of our contracts are fixed price contracts. If we fail to adequately price our contracts or if we experience significant cost overruns, our gross margins on the contract would be reduced. We may have to commit unanticipated resources to complete projects, resulting in lower gross margins on those projects.

Our quarterly operating results may vary, which could negatively affect the market price of our common shares.

Our results of operations in any quarter may vary from quarter to quarter and are influenced by such factors as the number and scope of ongoing client engagements, the commencement, postponement, completion or cancellation of client contracts in the quarter, changes in the mix of our services, the extent of cost overruns, holiday patterns of our clients, budget cycles of our clients, and exchange rate fluctuations. We believe that operating results for any particular quarter are not necessarily a meaningful indication of future results. Nonetheless, fluctuations in our quarterly operating results could negatively affect the market price of our common shares.

Contract research services create a risk of liability.

As a CRO, we face a range of potential liabilities in contracting to work on drug development trials. These include:

- risks that animals in our facilities may be infected with diseases that may be harmful and even lethal to themselves and humans despite preventive measures contained in our Corporation policies for the quarantine and handling of imported animals; and
- errors and omissions during a trial that may undermine the usefulness of a trial or data from the trial.

We mitigate these risks to the best of our abilities by following various regulatory requirements and through our regimen of animal testing, quarantine, and veterinary staff vigilance, through which we seek to control the exposure of animal related disease or infections. Nonetheless, it is impossible to completely eradicate such risks.

We believe that our risks of liability in this area are generally reduced by contract provisions entitling us to be indemnified or limiting our liability and by insurance maintained by our clients, investigators, and by us.

Contractual indemnifications generally do not protect us against liability arising from certain of our own actions, such as negligence or misconduct. We could be materially and adversely affected if we were required to pay damages or bear the costs of defending any claim that is not covered by a contractual indemnification provision or that is beyond the level of our insurance coverage or in the event that a party who must indemnify us does not fulfill its indemnification obligations. Furthermore, there can be no assurance that we will be able to maintain our insurance coverage on terms acceptable to us.

Our business depends significantly on the continued effectiveness of our information technology infrastructure, and failure of such technology could harm our operations.

To remain competitive in our industry, we must employ information technologies that capture, manage, and analyse the large streams of data generated during our pre-clinical trials in compliance with regulatory requirements. In addition, because we provide services on a global scale, we rely extensively on our technology to allow the concurrent conduct of studies and work-sharing between sites. As with all information technology, our systems are vulnerable to potential damage or interruptions from fires, blackouts, telecommunications failures, and other

unexpected events, as well as to break-ins, sabotage or intentional acts of vandalism. Given the extensive reliance of our business on this technology, any substantial disruption or loss of data that is not corrected or avoided by our backup measures, could harm our business.

We are subject to certain risks associated with our international operations.

We have offices and conduct business in three countries. Our revenues derived from non-Canadian operations representing 89% of our total revenues in 2009, 57% of our total revenues in 2008, 59% of our total revenues in 2007, and 70% of our total revenues in 2006. Certain risks are inherent in these international operations.

The risks related to our international operations that we face in the normal course of business include:

- tax rates in certain foreign countries may exceed those in Canada, and foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls, or other restrictions, including restrictions on repatriation;
- transfer pricing risks;
- foreign clients may have longer payment cycles than clients in Canada;
- potential trade restrictions and exchange controls;
- unfavourable labour regulations;
- general economic and political conditions in the markets in which we operate;
- the difficulty of complying with a variety of foreign laws and regulations;
- the difficulty of enforcing agreements and collecting receivables through certain foreign legal systems; and
- the difficulties associated with managing an organization spread throughout various countries.

While we have not experienced any major problems to date with the acquisition or operation of our foreign entities, we may in the future encounter certain limitations inherent in the carrying out of pre-clinical development trials internationally, including difficulty in establishing effective communications, operating in various time zones, and dealing with incompatible technology.

As we continue to expand our business globally, our success will be dependent, in part, on our ability to anticipate and effectively manage these and other risks associated with foreign operations. There is no assurance that these and other factors will not have a material adverse effect on our international operations or our business, financial condition, or results of operations as a whole.

We could be adversely affected by tax law changes in Canada.

We have substantial operations in Canada that currently benefit from favourable corporate tax arrangements. We receive substantial tax credits in Canada from both the Canadian federal and Québec governments. Any reduction in the availability or amount of these tax credits or allowances would be likely to have a material adverse effect on profits and cash flow from our Canadian operations, and on our effective tax rate.

Our business could be harmed if we are unable to manage our growth effectively.

We have experienced rapid growth throughout our operations. We believe that sustained growth places a strain on operational, human, and financial resources. To manage our growth, we must continue to improve our operating and administrative systems and to attract and retain qualified management, professional, scientific, and technical operating personnel. We believe that maintaining and enhancing both our systems and personnel at reasonable cost are instrumental to our success in the CRO industry. There is no assurance that we will be able to enhance our current technology or obtain new technology that will enable our systems to keep pace with developments and the sophisticated needs of our clients. The nature and pace of our growth introduces risks associated with quality control

and client dissatisfaction due to delays in performance or other problems. Failure to manage growth effectively could have an adverse effect on us.

Our business could be harmed if we cannot successfully integrate future acquisitions.

We may, in the course of our business, identify and review potential acquisition candidates and consider prospective acquisitions and business combination transactions with other parties and, from time to time, we may make strategic acquisitions. Acquisitions involve numerous risks, including the expenses incurred in connection with the acquisition, the difficulties in assimilating operations, the diversion of management's attention from other business concerns, and the potential loss of key employees of the acquired company. Acquisitions of foreign companies involve the additional risks of assimilating differences in foreign business practices, hiring and retaining qualified personnel, and overcoming language barriers. It is also possible that with any future acquisitions, we will assume the problems of the acquired entity. Although past acquisitions have not resulted in any significant integration problems, we may face these types of issues. There is no assurance that we will successfully integrate future acquisitions into our operations, be able to complete such transactions or be able to complete them on favourable financial terms.

We provide services to emerging companies that may be unable to pay us.

We incur costs in providing drug development services to our clients before we are paid. We provide drug development services to pharmaceutical and biotechnology companies, many of which are early-stage companies with relatively limited financial resources. If any of these companies were to cease operations before paying us for our services, or were otherwise unable to pay, our results of operations could suffer.

Contaminations in our animal populations can compromise our research and harm our reputation.

Our research models must be free of certain infectious agents such as certain viruses and bacteria as the presence of these contaminants may distort or compromise the quality of research results and could adversely impact human or animal health. The presence of these infectious agents in our service operations could disrupt our pre-clinical services and harm our reputation.

Contaminations expose us to risks that clients will request compensation for damages in excess of our contractual indemnification requirements. These contaminations are unanticipated and difficult to predict and could adversely impact our financial results. We have made significant capital expenditures designed to strengthen our biosecurity and have significantly improved our operating procedures to protect against such contaminations; however, contaminations may still occur.

If we incur liability for hazardous material contamination, our business would be harmed.

Some of our activities have involved, and may continue to involve, the controlled use of hazardous materials and the creation of hazardous substances or wastes, including medical waste and other highly regulated substances. Although we believe that our safety procedures for handling the disposal of such materials comply with the standards prescribed by local environmental laws and regulations, our operations nevertheless pose the risk of accidental contamination or injury from these materials.

In the event of such an accident, we could be held liable for damages and cleanup costs which, to the extent not covered by existing insurance or indemnification, could harm our business. In addition, other adverse effects could result from such liability, including damage to our reputation resulting in the loss of additional business from certain clients. Our business could be materially harmed if we were required to pay damages beyond the level of any insurance coverage that may be in effect. To date, we have not been the subject of any investigations or claims related to the controlled use of hazardous materials or the creation of hazardous substances or wastes.

6. DIVIDEND POLICY

We currently intend to reinvest all future earnings in order to finance the growth of our business. As a result, we do not intend to pay dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements and such other factors as our board of directors deems relevant.

7. DESCRIPTION OF SHARE CAPITAL

The following is a summary of the material provisions attaching to the classes of shares of our capital stock and is qualified by reference to the full text of the rights, privileges, restrictions and conditions of such shares. We are authorized to issue an unlimited number of common shares and preferred shares, issuable in series. As of March 30, 2010, we had 52,710,750 common shares and no preferred shares issued and outstanding.

7.1 Common Shares

The holders of our common shares are entitled to receive notice of and to attend and vote at any meeting of shareholders except at meetings where only the holders of shares of a specific class or series are entitled to vote separately as a class or series. The common shares entitle the holders thereof to one vote per share at meetings of our shareholders. Subject to the prior rights of any other shares ranking senior thereto, the holders of our common shares participate equally with each other in respect of payment of dividends, including the amount per share of the dividend. Subject to the prior rights of any other shares ranking senior thereto, our common shares rank equally with each other in respect of return of capital in the event of our liquidation, dissolution or other distribution of assets for the purpose of winding-up our affairs. Our common shares are not redeemable or retractable. The holders of our common shares have no pre-emptive rights.

7.2 Preferred Shares

Our preferred shares may be issued in one or more series, with such rights and conditions as may be determined by our board of directors. There are no voting rights attached to our preferred shares except as prescribed by law. Our preferred shares will rank ahead of the common shares with respect to the payment of dividends and return of capital in the event of our liquidation, dissolution or other distribution of our assets for the purpose of winding-up our affairs. We have no preferred shares currently issued and outstanding.

8. MARKET FOR SECURITIES

Our common shares are listed and posted for trading on the TSX under the symbol "LRI". No preferred shares are issued and outstanding.

The following table sets forth the reported high and low sale prices and the aggregate monthly volume of trading of our common shares listed for trading on the TSX for the each month of the year 2009:

Month	Open	High	Low	Volume
January	\$0.70	\$1.14	\$0.66	143,700
February	\$0.94	\$0.94	\$0.40	82,900
March	\$0.50	\$0.50	\$0.09	3,359,100
April	\$0.16	\$0.50	\$0.15	5,338,600
May	\$0.49	\$0.74	\$0.35	1,432,200
June	\$0.74	\$0.74	\$0.57	368,900
July	\$0.57	\$0.60	\$0.44	400,200
August	\$0.45	\$0.45	\$0.35	396,000
September	\$0.35	\$0.70	\$0.30	5,672,000
October	\$0.59	\$0.63	\$0.45	1,801,600
November	\$0.42	\$0.45	\$0.35	2,052,100
December	\$0.52	\$0.45	\$0.35	1,035,500

9. ESCROWED SECURITIES

We have no common shares held in escrow.

10. DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the name, municipality of residence, position with us and principal occupation of each of our directors and executive officers and, in the case of the directors, the date first elected or appointed to the board of directors. Directors are elected until the next annual meeting of shareholders, unless a director resigns or his office becomes vacant by removal, death or other cause.

Name and Municipality of Residence	Position	Principal Occupation	Director Since	Corporation's ownership	
				# of Shares	%
LUC MAINVILLE ^{(2),(3)} Boucherville, Québec, Canada	President, Chief Executive Officer and Director	President and Chief Executive Officer, LAB Research Inc.	2006	172,357	0.33%
CARL A. SPALDING ^{(1)(2),(3)} Naples, Florida, USA	Chairman of the Board of Directors	Chairman of the Board	2009	25,000	0.05%
STEPHEN R. FARRELL ⁽¹⁾ Oakville, Ontario, Canada	Director	Chief Financial Officer, Mold-Masters (2007) Limited	2006	3,100	0.01%
YVAN LANDRY ⁽⁴⁾ Laval, Québec, Canada	Director	Portfolio Manager, Fonds de Solidarité des Travailleurs du Québec (F.T.Q.)	2009	—	—
GARTH LIKES ⁽¹⁾⁽²⁾⁽³⁾ Edmonton, Alberta, Canada	Director	President and Chief Executive Officer, Cyplasin Biomedical Ltd.	2006	1,000	0.00%
ALAIN TANGUAY ⁽⁵⁾ Candiac, Québec, Canada	Chief Financial Officer	Chief Financial Officer, LAB Research Inc.	—	—	—

Name and Municipality of Residence	Position	Principal Occupation	Director Since	Corporation's ownership	
				# of Shares	%
CHRISTOPHER BANKS Csopak, Hungary	Managing Director, LAB Hungary	Managing Director, LAB Hungary	—	—	—
ANDREW MAKIN Kokkedal, Denmark	Managing Director LAB Denmark	Managing Director LAB Denmark	—	—	—

- (1) Member of the Audit Committee.
- (2) Member of the Corporate Governance and Human Resources Committee.
- (3) Member of the Mergers and Acquisitions Committee.
- (4) Mr. Yvan Landry was appointed Director on December 15, 2009.
- (5) Mr. Alain Tanguay was appointed Chief Financial Officer of the Corporation and started on March 8, 2010 in replacement of Mrs. Louise Bussieres, former Vice-President Finance and Secretary, who left the Corporation on February 1st, 2010.

Our board of directors is currently composed of five directors, four of whom are "independent" within the meaning of applicable securities legislation.

As of the date hereof, Luc Mainville owns 172,357 common shares, representing 0.33% of our common shares. Our directors or executive officers including Mr. Mainville own 201,457 common shares, representing 0.38% of our common shares.

During the past five years, all of the nominees for election to the position of director mentioned above and executives have held the principal occupations shown above, except for (i)) Luc Mainville, who was Chief Operating Officer of LAB International Inc., now called Akela Pharma Inc., from November 2004 to August 2006; (ii) Carl A. Spalding who was President and Chief Operating of PAREXEL International Corporation from April 2001 until he retired in June 2005; (iii) Stephen R. Farrell who was Consultant from August 2007 to June 2009, President and Chief Executive Officer of Uniboard Canada Inc. from November 2005 to August 2007, and previously Vice-President, Finance and Chief Financial Officer of Uniboard Canada Inc. from November 2004 to November 2005; (iv) Garth Likes who was Vice-President, Business Development of InNexus Biotechnology Inc. from July 2003 to January 2006; (v) Alain Tanguay who was Chief Financial Officer of Davie Yards Inc. from September 2009 to March 2010 and previously Chief Financial Officer of Mega Brands Inc. from June 1999 to August 2009; (vi) Christopher Banks who was Director, Program Management of Charles River Laboratories from January to December 2007 and Director of Toxicology Operations of Charles River Laboratories from March 2005 to December 2007; and (vii) Andrew Makin who was Director of Toxicology of LAB Denmark from January 2004 to December 2006.

11. LEGAL PROCEEDINGS AND REGULATORY ACTIONS

On December 21, 2007, LAB Research was served with an introductory motion of suit from Superior Court, Laval district, from one of its former suppliers claiming an amount of \$1.37 million 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 Corporation does not expect that the settlement of this matter will have a material adverse effect on the financial position of the Corporation.

On March 10, 2009, the Corporation and Akela reached an agreement to settle all outstanding litigations initiated by Akela against the Corporation and the full settlement was paid in January 2009 by LAB Research in combination with its insurer. As part of the settlement, LAB Research issued warrants to Akela to purchase 500,000 common shares at a price per share of \$0.50, which represented the weighted average trading price of the Corporation's shares for the 5 days preceding the closing date of the agreement. Please refer to note 10 (b) to the consolidated financial statements for additional details on the warrants.

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 Corporation.

12. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On April 27, 2007, the Corporation disbursed a 5-year loan to Mr. Luc Mainville in the amount of \$300,000, bearing interest at the cost of borrowing for the Corporation or interest that the Corporation would have received on such amount, as the case may be. To date all interest payments have been met. Until full and complete repayment of the loan, the Shares in the Corporation held by Mr. Luc Mainville 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 Mr. Luc Mainville sells all or any part of its Shares before the full and complete reimbursement of the loan, the Corporation will be reimbursed an amount equal to the net after tax gain realized with respect of the sale of such Shares. If the sale of all Shares does not result in the full reimbursement of the loan, the outstanding portion of the loan remains due to the Corporation.

We have not completed any other material transaction within the three years prior to the date hereof in which any of our directors, executive officers or principal shareholders, or any of their associates or affiliates, had any material interest, either direct or indirect.

13. TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common shares is Computershare Investor Services Inc. at its principal offices in Montreal and Toronto.

14. MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts entered into by us during our most recently completed financial year, or before but still in effect, which may be regarded as material to us are:

- (i) the indemnification agreement entered into between LAB International Inc. and us described under “Our Business – Relationship with LAB International Inc.” in our prospectus dated July 24, 2006;
- (ii) the non-competition and non-solicitation agreement entered into between LAB International Inc. and us described under “Our Business – Relationship with LAB International Inc.” in our prospectus dated July 24, 2006;
- (iii) the agreement for purchase and sale – Property: 445 Armand-Frappier Boulevard, Laval, Québec entered into between Laval Armand Properties Ltd. and us described under “Property and Facilities”;
- (iv) the agreement entered into between Fonds de Solidarité des Travailleurs du Québec and us in connection with the Rights Offering dated September 29, 2009.

15. INTERESTS OF EXPERTS

KPMG LLP is the external auditor who prepared the Auditors’ Report to our shareholders for the consolidated financial statements of LAB Research as at December 31, 2009. KPMG LLP are independent in accordance with the Code of Ethics of l’Ordre des Comptables Agréés du Québec.

16. THE AUDIT COMMITTEE

The board of directors of the Corporation has established an Audit Committee. The Audit Committee is composed of three members, all of whom are outside independent directors and meet *Multilateral Instrument 52-110 - Audit Committee requirements* for determining director independence. Each member of the Audit Committee is financially literate and independent. The Audit Committee is comprised of: Stephen R. Farrell, Garth Likes and Carl Spalding.

Stephen R. Farrell, the Chairman of the Audit Committee, is a chartered accountant by profession and holds a bachelor degree in Finance and Accounting from Concordia University and a diploma in public accountancy from McGill University. Over the last 30 years, Mr. Farrell has served as CEO of Uniboard Canada Inc. and as Corporate Controller, Vice-president Finance and Chief Financial Officer in many public companies. He is currently Chief Financial Officer of Mold-Masters (2007) Limited.

Garth Likes holds a bachelor degree in Marketing from the York University in Toronto and a BSc in medical microbiology from the University of Calgary. He is currently President and Chief Executive Officer of Cyplasin Biomedical Ltd., a publicly traded Corporation on the Over the Counter Bulletin Board in the US. Over the last 20 years, Mr. Likes held various positions in privately and publicly held companies where he has been involved in management and financing.

Carl Spalding has held numerous senior executive positions such as President and Chief Operating Officer of PAREXEL International Corporation, Executive Vice President and Group President, Healthcare Products Services at Cardinal Health and Vice President and General Manager, Ross Products for Abbott Laboratories.

All members of the Audit Committee have the ability to understand the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements.

The audit committee oversees our financial reporting process and system of internal controls. This committee consults with management, our accounting department and our independent auditors on matters related to our annual audit and internal controls, published financial statements, accounting principles and auditing procedures. The audit committee also reviews management's evaluation of the auditors' independence. The audit committee submits to the board of directors its recommendations on the foregoing matters.

In accordance with the independence standard for auditors, the Corporation is restricted from engaging the auditors to provide certain non-audit services to the Corporation and its subsidiaries, including bookkeeping or other services related to the accounting records or financial statements, information technology services, valuation services, actuarial services, internal audit services, corporate finance services, management functions, human resources functions, legal services and expert services unrelated to the audit. The Corporation does engage auditors from time to time to provide certain non-audit services other than restricted services. All non-audit services are disclosed to the Audit Committee.

A copy of the Audit Committee charter is attached hereto as Schedule A.

16.1 Audit Fees

The following table presents the fees billed by the external auditors of the firm, KPMG LLP, by category for the fiscal years ended December 31, 2009 and 2008.

Category of fees	2009 (\$)	2008 (\$)
Audit Fees	404,925	241,000
Audit-Related Fees	9,100	54,250
Tax Fees.....	40,200	21,725
Total	454,225	316,975

“**Audit Fees**” include the aggregate fees for the audit of annual consolidated financial statements, other audits and regulatory filings, including, for 2009, an amount of \$198,200 in relation to the Rights Offering.

“**Audit-Related Fees**” include the aggregate fees for assurance and other related services that are reasonably related to the performance of the audit or review of the financial statements and are not reported under “Audit Fees”,

notably the translation of the consolidated financial statements and consultation relating to accounting and reporting matters including IFRS related issues.

“**Tax Fees**” include the aggregate fees for professional services rendered for tax compliance, tax advice as well as consultation and tax planning services in view of the preparation of income tax returns of the Corporation, of capital and sales taxes.

17. ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com as well as on our website at www.labresearch.com.

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in our management proxy circular prepared in respect of our annual meeting of the shareholders to be held on May 25, 2010.

Additional financial information is provided in our financial statements and Management’s Discussion & Analysis for the fiscal year ended December 31, 2009.

18. FORWARD LOOKING STATEMENTS

Certain statements in this document are forward looking and prospective. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “plan,” “foresee,” “believe” or “continue” or the negatives of these terms or variations of them or similar terminology. By their nature, forward looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward looking statements will not prove to be accurate. Readers of this document are cautioned not to place undue reliance on our forward looking statements as a number of factors could cause future results, conditions, actions or events to differ materially from the operating target, expectations, estimates or intentions expressed in the forward looking statements. Factors that could cause future results to differ materially include, but are not limited to: business conditions in the pharmaceutical and related industries, as well as the general economy, changes in governmental regulation, changes in the healthcare industry, competitive factors such as those influencing expenditures for research and development, or the availability of markets for our products. We discuss many of these factors in greater details under the heading “Risk Factors”. Forward looking statements reflect our current views with respect to future events and are based upon what we believe are reasonable assumptions and subject to risks and uncertainties. Also, these forward looking statements represent our estimates and assumptions only as of the date of this document. We undertake no obligation and do not intend to update or revise these forward looking statements, unless required by law. We qualify all of the information presented in this document, and particularly our forward looking statements, with these cautionary statements.

SCHEDULE A – CHARTER OF THE AUDIT COMMITTEE

See attached.

LAB Research Inc.

Charter of the Audit Committee

Adopted by the Board of Directors on July 5, 2006 as amended on March 12, 2007, November 26, 2007 and November 10, 2009

**LAB RESEARCH INC.
(the “Corporation”)**

CHARTER OF THE AUDIT COMMITTEE

1. PURPOSE

- 1.1 The Audit Committee (the “**Committee**”) of the Corporation is a committee of the Board of Directors (“**Board**”) which has responsibility to review the financial statements, accounting policies and reporting procedures of the Corporation.
- 1.2 This Charter of the Committee has been established and adopted by the Board in order to provide appropriate guidance to the Committee members as to their duties. This Charter complements the General By-law of the Corporation which deals with the constitution of committees and procedural rules at their meetings.
- 1.3 The main duties and responsibilities of the Committee are as follows:
- (i) Serve as an independent and objective party to monitor the Corporation’s financial reporting process and the system of internal controls.
 - (ii) Monitor the independence and performance of the Corporation’s external auditors and the internal auditing department (when established).
 - (iii) Provide an open avenue of communication among the independent auditors, financial and senior management, the internal auditing department and the Board..
 - (iv) Review and provide input on management’s identification of and assessment of the principal risks that could impact the financial reporting of the Corporation.
- 1.4 Consistent with these duties and responsibilities the Committee should encourage continuous improvement of, and should foster adherence to, the Corporation’s policies, procedures and practices at all levels.

2. COMPOSITION AND QUORUM

- 2.1 The Committee shall be comprised of three or more directors, each of whom shall meet the independence and audit committee composition requirements promulgated by the Autorité des marchés financiers and other Canadian securities regulatory authorities, any exchange upon which securities of the Corporation are traded, or any governmental or regulatory body exercising authority over the Corporation (each a “**Regulatory Body**” and collectively, the “**Regulatory Bodies**”), as in effect from time to time.
- 2.2 All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant.

- 2.3 Members of the Audit Committee shall be appointed annually by the Board upon recommendation of the Corporation's Corporate Governance and Human Resources ("CGHR") Committee; such members may be removed or replaced, and any vacancies on the Audit Committee shall be filled by the Board upon recommendation of the CGHR Committee; membership on the Audit Committee shall automatically end at such time the Board determines that a member ceases to be "independent" as determined in the manner set forth above.

3. MEETINGS

- 3.1 The Committee may invite such other persons to its meetings, as it deems necessary. The officer acting as "Chief Financial Officer" and external auditors should be invited to make presentations to the Committee as appropriate.

4. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Committee shall:

4.1 Documents / Reports Review

- (i) Review and discuss with representatives of management and representatives of the independent auditors the Corporation's interim quarterly unaudited financial statements and the annual audited financial statements prior to their filing, together with related management discussion and analysis, and press release of the Corporation and shall report thereon to the Board.
- (ii) Satisfy itself, on behalf of the Board, that the Corporation's quarterly unaudited and annual audited financial statements are fairly presented in accordance with generally accepted accounting principles and shall recommend to the Board whether the quarterly and annual financial statements should be approved and included in the filings required by the Regulatory Bodies.
- (iii) Satisfy itself, on behalf of the Board, that the information contained in the Corporation's quarterly and annual financial statements, press release, Annual Report to Shareholders and other financial publications, such as Management's Discussion and Analysis (MD&A), the Annual Information Form (AIF), management proxy circular and the information contained in a prospectus or registration statement does not contain any untrue statement of any material fact or omit to state a material fact that is required or necessary to make a statement not misleading, in light of the circumstances under which it was made.
- (iv) Review, before public dissemination and/or filing, any material financial reports or other financial information of the Corporation submitted to any Regulatory Body, or the public.
- (v) Review with management of the Corporation and the external auditors the various accounting practices and the changes being proposed thereto as well as the various

- estimates made by management which may have a significant impact on the financial position.
- (vi) Review with management of the Corporation and the external auditors all important decisions made concerning the evaluation or presentation of financial information.
 - (vii) Review the accounting treatment of material or unusual transactions.
 - (viii) Have the right:
 - to inspect all the books and records of the Corporation including its subsidiaries;
 - to discuss such accounts and records and any matters relating to the financial position of the Corporation with the officers and auditors of the Corporation including its subsidiaries; and
 - to engage advisors to commission reports or supplemental information relating thereto. Any member of the Committee may require the auditors to attend any or every meeting of the Committee.
 - (ix) Review such matters and questions relating to the financial position of the Corporation and its affiliates or the reporting related thereto as the Board may from time to time refer to the Committee.
 - (x) Review, with management, that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements, other than the management discussion and analysis and press releases related to financial results, and periodically assess the adequacy of those procedures.
 - (xi) Together with the Board, review, assess the adequacy of this Charter periodically, at least annually, as conditions dictate, and update this Charter if and when appropriate.

4.2 Independent Auditors

- (i) Recommend to the Board the appointment, compensation, retention (including the authority not to retain or to terminate) and oversight of any independent auditor engaged by the Corporation for the purpose of preparing or issuing an audit report or related work. The Board shall then put the selection of independent auditors to the vote of the Corporation's shareholders.
- (ii) Satisfy itself, on behalf of the Board, that the Corporation's auditors are "independent" of management and that they are ultimately accountable to the Board and the Committee as representatives of the shareholders, within the meaning given to such term in the rules and pronouncements of the Regulatory Bodies. Obtain from

- the independent auditors, at least annually, a formal written statement delineating all relationships between the independent auditors and the Corporation.
- (iii) Oversee directly all relationship between the external auditors and the Corporation including, determining which non-audit services the external auditors are prohibited from providing, approving, or pre-approving policies defining audit and permitted non-audit services provided by the external auditors, overseeing the disclosure of all audit and permitted non-audit services provided by the external auditors, and reviewing the total amount of fees paid by the Corporation to the external auditor for all audit and non-audit services.
- (iv) Review the reports of the independent auditors for the current year, review the integration of the external audit with the internal control program and review advice from the external auditors relating to management and internal controls and the Corporation's responses to the suggestions made therein.
- (v) Prior to filing the year-end earnings, discuss the results of the audit with the independent auditors and addressing the following matters:
- The auditor's responsibility under Canadian Generally Accepted Auditing Standards (GASS);
 - Weaknesses in internal controls;
 - Fraud, illegal acts and related-party transactions;
 - Significant accounting principles and policies;
 - Management judgments and accounting estimates;
 - Significant audit adjustments;
 - Other information in documents containing audited financial statements;
 - Disagreements with management, including accounting principles, scope of audit and disclosures;
 - Consultation with other accountants by management;
 - Major issues discussed with management that influence audit appointment; and
 - Difficulties encountered in performing the audit.
- (vi) Approve in advance any and all audit and non-audit assignments awarded to independent auditors and adopt and implement policies for such pre-approval and review all remuneration paid to independent auditors, including for such additional audit and non-audit services; to the extent necessary, the Chairman of the Committee or its delegate, acting independently, shall be authorized to approve in advance any

and all audit and non-audit assignments awarded to independent auditors. Review the total amount of fees paid by the Corporation to the external auditor for all audit and non-audit services.

- (vii) Satisfy itself, on behalf of the Board, that the audit function has been effectively carried out and that any matter which the independent auditors wish to bring to the attention of the Board has been addressed and that there are no “unresolved differences” with the auditors. Be directly responsible for the resolution of any disagreements between management and the independent auditors regarding financial reporting matters. Ensure that the external auditors have obtained the cooperation of the employees and officers of the Corporation.
- (viii) Oversee the external auditors and discuss with them the quality and the acceptability of the Corporation’s accounting principles including (i) critical accounting policies and practices used, (ii) alternative treatments of financial information that have been discussed with management, the ramification of their use and the treatment preferred by the external auditors, as well as (iii) other material written communications between the Corporation and the external auditors (including any disagreement with management and the resolution thereof).
- (ix) Review hiring policies for employees or former employees of the Corporation’s firm (current and former) of external auditors.

4.3 Financial Reporting Processes and Risk Management

- (i) Monitor the Corporation’s internal accounting controls, informational gathering systems and management reporting on internal control. In connection with fulfilling this responsibility, the Committee shall receive on a quarterly and annual basis from the Corporation’s Chief Executive Officer and Chief Financial Officer (or any officer acting in such capacity (1) a certification in such a form as prescribed by the Regulatory Bodies; and (2) a certificate confirming that they are not aware of any fraud whether or not material, that involves a member of management or other employees who have a significant role in the Corporation’s internal control over financial reporting. Should they are aware of any fraud, they should disclose it to the Chairman of the Audit Committee and discuss the proper actions to be taken for such a fraud. The Committee shall direct the actions to be taken and/or make recommendations to the Board of actions to be taken to the extent such disclosure indicates the finding of any significant deficiencies in internal control over financial reporting or fraud.
- (ii) Satisfy itself, on behalf of the Board, that the Corporation has implemented appropriate systems of internal control over financial reporting and monitor the annual review and evaluation by management of internal control over financial reporting. The Committee shall also satisfy itself that the Corporation has implemented appropriate systems of internal control over the safeguarding of the Corporation’s assets and other “risk management” functions (including the identification of significant risks and the establishment of appropriate procedures to

manage those risks and the monitoring of corporate performance in light of applicable risks) affecting the Corporation's assets, management, financial and business operations and the health and safety of its employees and that these are operating effectively; make appropriate recommendations to the Board in connection with the foregoing.

- (iii) Review and approve the Corporation's Investment, Treasury and Hedging policies and monitor compliance with such policies.
- (iv) Review and approve all related party transactions for potential conflict of interest situations on an ongoing basis. "Related party transactions" shall refer to transactions required to be disclosed pursuant to applicable securities regulations and stock exchange regulations or policies.
- (v) Review significant financial risk exposures and the steps management has taken to identify, monitor, control, and report such exposures.

4.4 Legal and Regulatory Compliance

- (i) The Committee has authority to engage outside advisors as it determines necessary to carry out its duties.
- (ii) Determine funding necessary for ordinary administrative expenses of the Committee and for compensations of any outside advisors to be engaged by the Committee and notify the Corporation of anticipated funding needs of the Committee.
- (iii) Satisfy itself, on behalf of the Board, that all material statutory deductions have been withheld by the Corporation and remitted to the appropriate authorities.
- (iv) Review the potential impact of any litigation, claim or other contingency and any regulatory or accounting initiatives that could have a material effect upon the financial position or operating results of the Corporation and the appropriateness of the disclosure thereof in the documents reviewed by the Audit Committee.
- (v) Satisfy itself, on behalf of the Board, that all regulatory compliance issued have been identified and addressed and identifying those that require further work.
- (vi) Establish procedures for:
 - the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters;
 - the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters (commonly referred to as the "Whistleblowing Policy"); and

- any other material matter.
- (vii) Cause the Chief Executive Officer to investigate any allegations that any officer or director of the Corporation, or any other person acting under the direction of any such person, took any action to fraudulently influence, coerce, manipulate, or mislead any independent public or certified accountant engaged in the performance of an audit of the financial statements of the Corporation for the purpose of rendering such financial statements materially misleading and, if such allegations prove to be correct, take or recommend to the Board appropriate disciplinary action. Notwithstanding the foregoing, if the person in question is the chief executive officer, the investigation shall be undertaken by the Committee.

4.5 Other matters

- (i) Periodically perform a self-assessment of audit committee performance.
- (ii) Perform any other activities consistent with this Charter, the Corporation's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.