



**LAB Research**

## **LAB Research Inc.**

**Management's Discussion and Analysis of  
Financial Position and Results of Operations**  
For the first quarter ended March 31, 2010

**Excellence in Research**

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## **Management's Discussion and Analysis of Financial Position and Results of Operations For the first quarter ended March 31, 2010**

This Management's Discussion and Analysis of Financial Position and Results of Operations («MD&A») is the responsibility of management and has been reviewed and approved by the Board of Directors. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. The Board of Directors is responsible for ensuring that we fulfill our fiduciary duties to our shareholders and is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out its responsibility mainly through its Audit Committee, which is appointed by the Board of Directors and is entirely comprised of independent and financially literate directors.

The following MD&A for LAB Research Inc. and its subsidiaries (referred to hereunder as «LAB Research», «LRI», or the «Company») should be read in conjunction with the unaudited Consolidated Financial Statements and Notes thereto for the interim periods ended March 31, 2010 and 2009 as well as the audited Consolidated Financial Statements and Notes thereto for the year ended December 31, 2009.. The financial information in this MD&A and in our financial statements has been prepared in accordance with Canadian Generally Accepted Accounting Principles («GAAP») of the Canadian Institute of Chartered Accountants («CICA»). This MD&A is current as of May 17, 2010.

All figures in this MD&A are expressed in Canadian dollars, (reporting and functional currency) unless otherwise indicated.

This MD&A includes information we believe is material to investors. We consider something to be material if it results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares, or if it is likely that a reasonable investor would consider the information to be important in making an investment decision.

Additional information about the Company is available on our website at [www.labresearch.com](http://www.labresearch.com) and on SEDAR website at [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Statements**

The Company may make statements in this MD&A that reflect its current expectations regarding future results of operations, performance and achievements. All statements in this MD&A that do not directly and exclusively relate to historical facts constitute «forward-looking statements». Forward-looking statements reflect management's beliefs. Forward-looking statements generally can be identified by the use of forward-looking terminology such as «may», «could», «should», «would», «will», «expect», «intend», «estimate», «anticipate», «plan», «foresee», «believe» or «continue» or the negative of these terms or variations of them or other similar terminology.

Readers are cautioned, however, not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. This may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. The following important factors could cause the Company's actual performance or financial results to differ materially from historical results and/or those presently estimated or projected:

- general economic conditions which could cause our clients to reduce significantly their research and development budgets;
- the Company's ability to mitigate operating and liquidity risks by not being able to obtain adequate financing;
- risks associated with potential changes in government regulation and industry practices;
- risks associated with the Company's failure to comply with existing regulations;
- foreign currency fluctuations;
- risks associated with the Company's ability to retain and attract key personnel;
- risks associated with litigation;
- risks associated with potential changes to the tax laws in Canada;
- changes in technology;
- risks associated with potential disruption in supply of animal models.

For more information on the risks, uncertainties and assumptions that could cause the Company's actual performance or financial results to differ materially from historical results and/or current expectations, please see the section of this MD&A entitled «Risks and Uncertainties».

## **Corporate Overview**

Founded in 1998 and headquartered in Laval, Canada, LRI services the pharmaceutical and biotechnology sectors with preclinical contract research services. The Company plays a primary role in supporting the drug development process of its clients, from early stage identification of drug candidate up to filing with regulatory authorities. The Company also assists clients for agro-chemical product registrations and industrial chemical notifications. Operating worldwide, LAB Research conducts studies in state-of-the-art facilities in Canada, Denmark, and Hungary. LRI and its affiliated companies have approximately 600 professionals located in 5 countries servicing all 5 continents. LAB Research is one of only four global players that offer full service capabilities in both North America and Europe.

In North America, LAB Research operates a 156,000 square foot facility in Laval, Canada. At this facility, LRI offers GLP-compliant preclinical services. LRI can conduct the full range of studies using all types of laboratory species, including primates. All services can be offered for all types of compounds and can test drug candidates using all common delivery routes including inhalation which is being validated for the second quarter of 2010. Through this facility, the Company provides a full range of preclinical expertise required for its drug developer clients to advance their Investigational New Drug («IND») packages to the clinical trial stage. By offering reproduction toxicology and drug metabolism services, LRI also provides services required to enter later stage Phase II or Phase III clinical trials. In 2008, the Company completed a \$50 million expansion program of the facility which provided LRI with the capacity to triple revenues in North America. Representing LRI's largest investment to date, this strategic investment increased housing from 36 to 80 rooms, including 12 multi-purpose rooms to be used for inhalation toxicology. Since the facility expansion has been completed, the site has already been designated as a centre of excellence by one of the top ten global pharmaceutical companies, clearly demonstrating the superior quality of services offered in North America. The site is fully accredited and has been subject of a successful Organisation for Economic Co-operation and Development (OECD) and Good Laboratory Practices (GLP) inspection in late 2009.

In Western Europe, our 93,000 square foot facility in Denmark is the largest Contract Research Organization («CRO») in Scandinavia and offers services in general toxicology, surgery, pharmacokinetics, medical devices, reproduction and genetic toxicology, clinical pathology, pathology, safety pharmacology and bio-analytical services. This facility provides LRI with a leadership position in the conduct of mini-pigs studies. In 2007, the Company completed a \$7.5 million expansion program of the facility bringing its vivarium capability from 45 to 54 rooms while adding additional surgical and necropsy suites. With this expansion program, we have increased our pre-expansion capacity by approximately 25%. This facility has several preferred supplier agreements with top-tier pharmaceutical clients and brings over 30 years of experience to the CRO industry.

In Eastern Europe, our 164,000 square foot facility is located in Hungary. For more than 30 years, this facility has been offering cutting-edge research services for the agrochemical, chemical and pharmaceutical markets, with studies ranging from acute to carcinogenicity. Through this site, LRI is increasingly demonstrating leadership in the emergent field of ecotoxicology, where investigative studies and technical solutions address regulatory compliance, ecological and environmental toxicology issues. In 2007, the Company completed a \$6.5 million expansion program of the facility increasing the large animal housing capability from 4 to 34 rooms. Beside the addition of housing capacity, this expansion program provided the Company with improved efficiency in small room utilization. This site's large animal vivarium is considered one of Europe's most modern facilities and possesses years of experience in the conduct of general toxicology as well as inhalation and reproductive toxicology. Due to the quality of its capabilities and a great mix of eastern and western trained English speaking staff the site has developed preferred suppliers status with several of the world's largest sponsors.

Our operations are managed in three operating segments, in addition to Corporate services, namely: Canada, Denmark and Hungary. Corporate services are responsible for the Company's financial and corporate direction and include, as well, expenses for global business development initiatives.

## **Strategy and Objectives**

After more than a decade of solid growth, the CRO industry experienced a difficult year in 2009 where the industry saw a rare decline in the outsourcing demand from the pharmaceutical and biotechnology industries due to general economic conditions. The global CRO industry was estimated at US\$20 billion at the end of 2009 and is still expected to grow by 6% in 2010. We estimate the global preclinical CRO industry to have been at approximately US\$3.1 billion in 2006. Growth in the industry for 2010 and beyond will be mostly fuelled by increased research and development spending from pharmaceutical companies seeking to replenish their proprietary product offerings.

After completing the major expansion program of our facilities, we now have the capacity to substantially grow our business without incurring significant additional capital expenditures. The main pillar of our strategy focuses on organic growth. Our success will depend on our continuous ability to leverage our capabilities and core competencies, which include:

- **Credibility and expertise.** Credibility and expertise represent the foundation of any CRO's service offering. By focusing on preclinical activities and leveraging the capabilities of our scientific staff, we have developed a leadership position in conducting mini-pigs studies and in providing a variety of high value services, such as reproduction and inhalation toxicology, as well as infusion, drug metabolism, and safety pharmacology using all major species. This leadership position and the range of our service offering enable 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.
- **Critical mass.** Toxicology laboratories require significant infrastructure to support a wide range of services, operate GLP-compliant operations, and meet and exceed clients' animal welfare standards. For that reason we operate with a considerable level of fixed costs. Therefore, scale is important to absorb these high fixed costs but also to provide operational flexibility for improved scheduling to clients, housing of colonies, internalization of complementary high-margin services and to provide pre-treatment capabilities such as surgical procedures, formulation support, as well as on-site archiving etc. Finally, critical mass is also very important for attracting the large recurrent research and development spenders that expect their CRO's of choice to be capable of handling a significant amount of work. Having considerably increased the size of our husbandry operations and internalized all core preclinical services, we believe we can now appeal to the broadest range of clients.
- **Broad range of services.** We offer a broad range of preclinical 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 variety of pharmaceutical and biotechnology sponsors and differentiates us from other more specialized CROs. We have strong ties with our pharmaceutical and biotechnology clients through our ability to manage their preclinical development programs and perform substantially all of their preclinical studies. This is especially important nowadays as clients reduce internal capabilities to monitor and outsource preclinical work and look for ways to centralize their activities with CRO's that can accommodate a broad range of requests. We also offer a full range of services to our agro-chemical and other clients that require the full suite of environmental toxicology testing. By introducing high-value services, we have also improved our ability to compete in the increasingly competitive CRO industry. We hope to demonstrate, in the years ahead, the margin benefit of all the new non-commodity services introduced during the expansion phase.
- **Global presence.** Sponsors tend to favour CROs established in their own region. With dedicated agents representing us in key Asian markets and the geographic distribution of our facilities, we can attract and serve clients from around the world. Activities such as program management, marketing and information technology are well coordinated to maintain a flexible cost structure. Our low-cost Hungarian site is well suited to capture price-sensitive pharmaceutical and biotechnology clients as well as sponsors from the agro-chemical and industrial markets. With full capabilities in each of North America and Europe, LAB Research is one of only four global players offering full service capabilities in these two key markets.
- **Experience staff 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 we have generated through the performance of mini-pig studies represent a significant competitive advantage. Despite our rapid growth we have paid significant attention to maintaining and increasing the quality of our technical and scientific staff. LAB Research is proud to have assembled a solid team of highly skilled scientists and CRO veterans that together represent the foundation of our service offering.

While the \$65 million expansion program completed in 2009 served to address our capabilities and strengthen our core competencies, we expect its biggest benefit – improved profitability - to soon materialize. From 2006 to 2009, we have clearly focused on addressing the capacity and service limitations of our platform. In 2010, as we secure the benefit of our expanding clientele, increase our volume of work, and generate a greater portion of our revenue from higher margin services, we expect our operating margin to expand.

### Recent developments

On April 6, 2010, the Company announced the nomination of Mr. Kenneth Draper as senior director, scientific operations. Mr. Draper is a Diplomat of the American Board of Toxicology and has a Ph.D. in Microbial Genetics. Mr. Draper has over 25 years of experience in drug discovery and development at both scientific and management levels with companies such as Schering Plough and Charles River Laboratories. Mr. Draper also has extensive experience with biologic drug entities, primate research, regulatory submissions and interaction with regulatory bodies.

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 amendment 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.

During the month of February 2010, the Company announced a series of senior executive changes and scientific staff additions. These changes demonstrated the Company's strong commitment to provide its clientele with the highest level of excellence and to improve its overall financial performance.

The main announcements were:

- Mr. Jean-Guy Bienvenu as Director, Pathology Services of LAB Research in Canada. Mr. Bienvenu is a senior veterinary pathologist certified by the American College of Veterinary Pathologist. Mr. Bienvenu has over 12 years of experience with pharmaceutical companies and Contract Research Organizations. Prior to joining LRI, Mr. Bienvenu was Principal Pathologist at Pfizer in Chazy, New York, Senior Principal Scientist at Sanofi-Aventis in Bridgewater, New Jersey, and Veterinary Pathologist at ITR Laboratories in Montreal, Quebec. Mr. Bienvenu will be responsible for all pathology services in Canada.
- Mr. Andrew Graham as Senior Director of Operations of LAB Research in Canada. For the past three years, Mr. Graham combined the role of Global Head of Quality Assurance and Senior Director Quality Assurance for LRI in Canada. Prior to joining the Company, Mr. Graham spent 20 years at Charles River Laboratories as well as two years at Schering-Plough in New Jersey.
- Mr. Alain Tanguay as the Company's new Chief Financial Officer. Mr. Tanguay joined LRI before the end of the first quarter of 2010. He is a chartered accountant and accomplished financial executive with more than 20 years of experience in senior financial positions in companies with domestic and international operations, manufacturing and distribution. Prior to joining LAB Research, Mr. Tanguay spent 10 years as Vice-President and Chief Financial Officer at Mega Brands Inc., one of the largest toy manufacturers in the world. Mr. Tanguay also worked in increasingly important financial executive positions for National-State Group, CBCI Telecom Inc., and others. Mr. Tanguay will have dual responsibilities of Chief Financial Officer for LAB Research and Vice-President Finance and Administration for our Canadian operation.
- Dr. Kabil Al-Sabti joined LRI in Hungary as Senior Scientist in the Genetic Toxicology Department. Mr. Al-Sabti has over 28 years of experience in its field of expertise.
- Dr. Márta Grósz joined LRI in Hungary as a Senior Scientist. Dr. Grósz has over 29 years of experience in medical research. Dr. Grósz spent the past 15 years conducting GLP compliant toxicology studies, in the areas of reproduction and inhalation, for European pharmaceutical and Contract Research Companies.
- Mr. Luc Mainville, President and CEO of LRI resumed management responsibilities for the Canadian operation.

On January 7, 2010, the Company announced the completion of a research and development program involving real time quantitative pulmonary monitoring of non-human primates using wireless telemetry technology. LRI became the first contract laboratory to conduct such a program. This new system, qualified by the Canadian team of LAB Research, allows for simultaneous monitoring of cardiovascular and respiratory parameters in conscious freely moving animals. The numerous advantages of this new technology include enhanced interpretations of safety pharmacology results through correlation of cardiovascular and respiratory pharmacodynamics. The new system will provide potential improvements in resource allocation during the drug development process, as a result of the combination of cardiovascular and respiratory parameters in the same assessment. LRI has completed the qualification phase and expects to enter regulatory validation for eventual use in studies complying with GLP in early 2010.

## Recent Highlights

Recent economic events have underscored the need to focus on the fundamentals – delivering projects on time and on budget, generating cash, managing costs and channelling business development efforts to achieve our profitable growth strategy. The Company suffered commercial setbacks in 2009 as clients expressed concerns regarding the balance sheet impacts of its much needed three year expansion program completed late in 2008. In this regard, the Company proceeded with a series of financings to strengthen its balance sheet.

### Financial highlights

#### **\$14.2 million Rights Offering**

On August 14, 2009, the Company filed a short form prospectus in connection with a distribution to its existing shareholders of rights exercisable to purchase additional common shares of the Company (“Rights Offering”). Each shareholder was entitled to receive one right for each common share held on August 27, 2009 and each right entitled the shareholder to purchase 2.1 common shares at a price of \$0.41 per share. The Rights Offering closed on September 30, 2009 and raised gross proceeds of \$14.2 million. The Company used the net proceeds of the Rights Offering as follows: i) repayment of an interim loan of \$0.5 million from the Solidarity Fund QFL (“The Fund”); ii) \$2.5 million used to complete the installation of inhalation toxicology equipment at our Canadian site; and iii) reduce the Company’s long-term debt in Canada by \$5.0 million. The remainder of the net proceeds has been used for working capital and general corporate purposes. Subsequent to the closing of the Rights Offering, the total issued and outstanding common shares of the Company reached 52.7 million shares.

On August 4, 2009, in connection with the Rights Offering, the Company entered into a Stand-By Purchase Agreement with The Fund. Pursuant to the terms and conditions of the Stand-By Purchase Agreement, the Fund committed to invest up to \$7.5 million by way of exercising all its rights and all rights not otherwise subscribed by other shareholders under the Rights Offering, up to a maximum aggregate subscription of 49% of all issued and outstanding common shares of the Company on the closing date of the Rights Offering. As a result of this investment, The Fund’s ownership in the Company increased from 18 % to 41 %. Subject to maintaining a predetermined ownership position, the Fund was entitled to nominate two Board Members on LRI’s Board of Directors. Consequently, on December 15, 2009, the Company announced the nomination of Mr. Yvan Landry as a new member of its Board of Directors, and the resignation of Mr. Richard Lacombe. Mr. Landry is a certified management accountant who has spent most of his 25-year career with The Fund including the last 5 years as part of The Fund’s Health Care Group.

#### **\$7.5 million loan from Investissement Quebec**

On April 28, 2009, the Company secured a \$7.5 million loan from Investissement Quebec (“IQ”), a Quebec government agency. This loan was provided to LRI through the Renfort Program, a working capital and investment program for the stabilization and recovery of successful businesses in the Province of Québec. An amount of \$2.5 million was received in May 2009 with the balance of \$5.0 million received in August 2009. The principal amount is repayable in two equal tranches of \$3.75 million on January 15, 2011 and 2012 and bears interest at prime rate plus 4%. Under the terms of this agreement, the Company issued warrants to IQ on May 15, 2009 to acquire 299,097 common shares of LAB Research at a price of \$0.64 per share. These warrants are expiring on February 15, 2013. On August 3, 2009, the Company issued additional warrants to IQ to acquire 598,193 common shares of LAB Research at a price of \$0.46 per share. These additional warrants are expiring on May 3, 2013. In accordance with the terms of the agreement between the Company 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 respectively. On March 30, 2010, the Company entered into an amendment agreement with Investissement Québec in respect to this loan agreement. Under the term of this amendment agreement, Investissement Québec has provided the Company additional flexibility regarding the payment of interest charges and has agreed to delay the repayment of the first instalment to February 28, 2011.

#### **Canadian debt restructuring**

On July 29, 2009, the Company 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 the Company 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 interest rates applicable to the loans outstanding by 1.0 % (compared to interest rates in place in June 2009). As a result of these adjustments, the average maturities (on which the capital repayments are calculated) and interest rates on the Company's Canadian long term debt instruments now stands at 11 years and 5 %.

### **Hungarian debt restructuring**

On December 7, 2009, our Hungarian subsidiary entered into an amending agreement with its principal lender. Under the terms of this amending agreement, all principal repayments under our loans agreement have been waived for a period of 9 months. This moratorium is effective until August 2010 and represent a positive impact of \$0.7 million on our cash flows (0.4 million Euros). Furthermore, as per the terms of the amending agreement, interest rates on these loans have been increased by 1.0% and stood at 3.6% and 3.0% (EURIBOR 1 month plus 3.2% and plus 2.6%, respectively) at March 31, 2010.

## **Commercial highlights**

### **Master Service Agreements**

On September 8, 2009, the Company announced the signing of three new master service agreements with global sponsors of the pharmaceutical, biotechnology and agro-chemical industries. The execution of these master service agreements followed a successful audit and detailed scientific validation process of our Laval facility. Two of the recently signed agreements have led to the signing of multi-million dollar contracts executed in 2009 and 2010 and new contracts are under discussions with each sponsor for 2010.

### **South Korean Agency Agreement**

On September 17, 2009, the Company announced a significant extension of its coverage of the South Korean («Korean») market through a new exclusive agency agreement with Safe Chemicals Co., Ltd. ("Safe Chemicals"), a Korean-based consulting company. This agreement complements an existing arrangement with Eastern Trading Co., Ltd, which has been successfully representing LAB Research on a non-exclusive basis to the pharmaceutical market in South Korea («Korea») since 2006. Under the terms of the agreement, Safe Chemicals has been granted exclusive rights to promote the broad range of services of LAB Research to the chemical and agrochemical markets in Korea. In addition, Safe Chemical was granted non-exclusive rights to service the pharmaceutical and other Korean markets. This agency agreement will accelerate the commercialization of our services to a targeted Korean clientele while promoting the expanded service offerings of our three sites to local pharmaceutical and biotechnology clients. This agreement follows a similar agreement executed in the last quarter of 2008 for the Japanese market.

## **Operational highlights**

The following summarizes the Company's performance for the periods ended March 31, 2010 and 2009:

- Revenue of \$14.1 million in 2010, an increase of 8.3 %, compared to \$13.0 million in 2009. Using 2009 foreign currency rates, Revenue in 2010 would have increased by approximately 15% compared to 2009;
- Revenue of \$1.9 million in Hungary in 2010, an increase of \$0.8 million or 75.4 %;
- Revenue of \$5.9 million in Denmark in 2010, a decrease of \$0.2 million or 3.1%, but an increase of 9.68% in domestic currencies;
- Revenue of \$6.3 million in Canada in 2010, an increase of \$0.4 million or 7.4%;
- Adjusted EBITDA of \$0.6 million in 2010, compared to \$0.8 million in 2009;
- Current income tax provision of \$0.9 million in 2010 compared to a recovery of \$0.1 million in 2009. No cash flow impact for the Company as this provision will be offset against investment tax credits accumulated in prior years;
- Net loss of \$2.7 million in 2010, compared to a net loss of \$3.0 million in 2009; Loss per share was \$0.05 in 2010, compared to \$0.16 in 2009;
- Contract backlog stood at \$30.0 million at March 31, 2010, a decrease of 15.0% during the first quarter of 2010, compared to \$35.3 million as at December 31, 2009;
- Request for proposal activity up 110% compared to the same period one year ago;
- Consolidated first quarter 2010 book-to-bill ratio of 0.84:1 (compared to 0.60:1 in 2009), including 0.72:1, 0.80:1 and 1.32:1 for Canada, Denmark and Hungary, respectively.

## Summary of the Results by Business Segment

Summarized financial information by business segment for the three-month periods ended March 31, 2010, 2009 and 2008 is presented in Appendix 1

### Non-GAAP Measures

We use certain non-GAAP measures, including book-to-bill ratio, contract backlog, active backlog, Earnings before Interest, Income Taxes, Depreciation and Amortization ("EBITDA"), Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted net loss, Adjusted net loss per share and Gross margin as financial performance indicators. The Company believes such measures provide meaningful information on its performance and operating results. However, readers are cautioned that non-GAAP measures do not have a standardized meaning under GAAP and, thus, they are unlikely to be comparable to similar measures presented by other issuers.

#### (a) EBITDA

The following table reconciles our net loss to EBITDA and to Adjusted EBITDA for the three-month periods ended March 31, 2010 and 2009.

	Three months ended	
	March 31,	
	2010	2009
<i>(in thousands of dollars)</i>	\$	\$
Net loss for the period	(2,725)	(2,961)
Adjustments for:		
Income taxes	887	(86)
Interest, net	641	713
Amortization	1,734	1,599
EBITDA	537	(735)
Foreign exchange	73	1,512
Adjusted EBITDA	610	777
Adjusted EBITDA margin	4.3%	6.0%

#### (b) Gross margin

Gross margin refers to revenues less direct costs. Direct costs do not include depreciation expense of assets used in our direct operations.

The following table presents our gross margins by reporting periods.

	Three months ended	
	March 31,	
	2010	2009
<i>(in thousands of dollars)</i>	\$	\$
Revenues	14,063	12,987
Direct costs	10,450	9,605
Gross margin	3,613	3,382
Gross margin %	25.7%	26.0%

### **Three-month period ended March 31, 2010 compared to three-month period ended March 31, 2009**

The market environment for CRO's continued to be very challenging during the first quarter of 2010. Although we have seen signs of progress for all our sites which benefited from prior years' expansions and business development initiatives, the financial performance of the Company for the first quarter of 2010 continued to be impacted by the overall reduction in global Research and Development spending for toxicology work and reduced pricing on new business contracted with our clients. This was especially the case for our Canadian site as the North American market experienced significant price competition driven by the large CROs. As a result of this competitive environment, Canadian gross margin decreased from 33.4%, during our first quarter of 2009, to 24.9% for the first quarter of 2010. Although our improved revenue demonstrated clear signs of recovery, contract pricing remains below historical trends, thus impacting profitability and gross margin.

Notwithstanding the Company's reported net loss for the first quarter of 2010, we have seen progress in Canada, Denmark and Hungary.

Revenue in Canada was \$6.3 million for the first quarter of 2010, up from \$5.9 million in the same period one year ago. This represents an increase of 7.4 % or \$0.4 million. This increase was mainly attributable to higher contract signings in the latter part of 2009.

Revenue in Denmark was \$5.9 million for the first quarter of 2010, compared to \$6.1 million for the first quarter of 2009. Despite the weak market conditions, the request for proposal activity from non-UK based clients increased significantly during the last few months of 2009 resulting in higher contract signings and revenue for the last quarter of 2009 and the first quarter of 2010. In domestic currencies, revenue in Denmark increased 9.68% during the first quarter of 2010 compared to the same period one year ago.

Revenue in Hungary was \$1.9 million for the first quarter of 2010. This represents an increase of \$0.8 million or 75.4 % compared to \$1.1 million achieved during the first quarter of 2009. The increase was mainly driven by the strong performance of our Japanese market, the positive impact of our new business development platform and the expansion of our biotech/pharma clientele following the recertification of our site in late 2008.

On a consolidated basis, for the first quarter of 2010, gross margin was 25.7 % of revenue compared to 26.0 % of revenue in the first quarter of 2009. In Hungary, gross margin increased from (8.1 %) in the first quarter of 2009 to 28.4% in the first quarter of 2010 due to higher revenue. In Denmark, gross margin also increased, from 24.7 % in the first quarter of 2009 to 25.3 % in the first quarter of 2010. Higher revenue and cost control initiatives mainly explain the performance of our site in Denmark. These increases were offset by a decrease in gross margin in Canada, from 33.4 % during the first quarter of 2009 to 25.1 % for the corresponding period in 2010. The decrease was mainly due to the adverse pricing environment in North America during the year. We expect the North American market to have a more favourable pricing environment in the latter part of 2010.

On a consolidated basis, selling, general and administrative ("SG&A") expenses stood at \$2.9 million for the first quarter of 2010 compared to \$2.5 million for the same period in 2009, representing 20.4% and 19.2 % of revenue, respectively. International business development initiatives and higher professional fees mainly explain the increase in SG&A. Higher professional fees partially came from costs incurred in connection with a potential acquisition that was abandoned during the quarter.

On a consolidated basis, EBITDA was \$0.5 million for the first quarter of 2010, compared to (\$0.7 million) for the same period in 2009. Adjusted EBITDA, which excludes foreign exchange, amounted to \$0.6 million and \$0.8 million representing 4.3 % and 6.0 % of revenue for the first quarters of 2010 and 2009, respectively. The year-over-year variance was mainly attributable to lower gross margin and higher SG&A expenses.

Amortization expense amounted to \$1.7 million for the first quarter of 2010 on a consolidated basis, compared to \$1.6 million for the same period in 2009. This increase was mainly attributable to additional amortization of deferred financing fees following the closing of a series of financings in 2009 aimed at strengthening the Company's balance sheet.

On a consolidated basis, net interest expense amounted to \$0.6 million for the first quarter of 2010 compared to \$0.7 million for the same period in 2009. The positive variance of \$0.1 million was mainly attributable to a lower average long-term debt balance for 2010 compared to 2009 offset by higher borrowing costs.

On a consolidated basis, foreign exchange loss for the first quarter of 2010 was nominal. During the first quarter of 2009, foreign exchange loss amounted to \$1.5 million. In 2009, the foreign exchange loss occurred mainly in Hungary where the EURO appreciated significantly against the Hungarian Forint resulting in the recording of an unrealized loss on the conversion of our long-term debt denominated in EUROS.

Income tax expense was \$0.9 million for the first quarter of 2010 compared to an income tax recovery of \$0.1 million for the same period in 2009. The Company has recorded an income tax provision of \$0.9 million in Canada during the first quarter of 2010 related to the taxable position of the Canadian entity. However LAB has approximately \$85.0 million of tax shelters related to research and development expenses in Canada, a portion of which will be applied against income taxes otherwise payable for the year. Therefore, LAB is not expected to pay any cash taxes for the foreseeable future. The tax rate used to establish the income tax expense is the applicable estimated effective rate for each entity of the Company.

Net loss for the first quarter of 2010 amounted to \$2.7 million, compared to \$3.0 million for the same period in 2009. Loss per share for the first quarter of 2010 amounted to \$0.05 on the basis of 52,710,750 weighted average shares outstanding, compared to \$0.16 for the same period in 2009, and on the basis of 18,037,720 weighted average shares outstanding. The closing of the Rights Offering, which resulted in the issuance of 34.6 million shares, increased the weighted average number of shares outstanding for the first quarter of 2010, compared to the same period in 2009.

### **Liquidity and Capital Resources**

LAB's growth is financed through a combination of our cash flow from operations, borrowing under our existing credit facilities, the issuance of long-term debt, and the issuance of equity. One of our primary financial goals is to maintain an optimal level of liquidity through the active management of our assets and liabilities as well as our cash flows.

As at March 31, 2010, our net cash position was \$1.8 million, compared to \$0.5 million as at December 31, 2009.

Cash flows from operating activities amounted to \$1.9 million in 2010, compared to cash flows used for operating activities of \$2.4 million in 2009. This improvement is mainly due to favourable changes in non-cash working capital items of \$2.8 million reflecting mainly lower payments of accounts payable and accrued liabilities.

Cash flows used in financing activities amounted to \$0.9 million in 2010 reflecting mainly the repayment of long-term debt and the decrease in bank indebtedness. In 2009, cash flows from financing activities were \$1.7 million, reflecting mainly the issuance of capital leases amounting to \$1.2 million and the increase of \$1.4 million in bank indebtedness.

Cash flows used in investing activities amounted to \$0.2 million in 2010 compared to \$0.2 million in 2009.

As at March 31, 2010, our working capital ratio was 0.60:1, compared to 0.77:1 at as December 31, 2009. The decrease in our working capital ratio is primarily due to higher mandatory repayments of long-term debt over the next twelve month period. Specifically, the Company has a mandatory repayment instalment of \$3.75 million on the loan from Investissement Québec during the quarter ending March 31, 2011. We typically invoice our clients a percentage of the total contract price upon signing of the service agreement. Our deferred revenues represent amounts that have been billed and/or collected from our clients but had not been earned as of the reporting date. As at March 31, 2010, deferred revenues amounted to \$7.9 million compared to \$8.7 million as at December 31, 2009. The decrease is in line with our decrease in contract backlog. The work in progress pertains to services rendered and only billable later in accordance with contractual terms.

We finance part of our property and equipment purchases with long-term debt. The great majority of the Company's long-term debt is related to the purchase of capital assets (please refer to contractual obligations section for commitments by year). The amortization periods of our long-term debt ranges from 2 to 30 years, averaging approximately 11 years, as at March 31, 2010. Under the current market conditions, debt financing may be perceived as creating a risk for the Company. Management still believes that the strategy to maximize long-term floating rate borrowings was appropriate and will provide benefits to its shareholders. Considering the long amortization period of our debt (average 11 years), lower floating borrowing costs (more than 95 % of the debt is floating), and the Company's cash flow generating capacity which resulted from the 200% expansion of its facilities during the previous 3 years, the Company is still comfortable with its debt levels. Nevertheless we recognize that the cash flow benefits of our recent expansion will be derived from increased operational activity, and we are committed to leverage our newly created capacity. As at March 31, 2010, the Company had a short-term borrowing capacity of approximately \$3.0 million, of which \$1.5 million was used. As at March 31, 2010 and December 31, 2009, long-term debt amounted to \$53.0 million and \$54.7 million, respectively. We fund repayments under our debt agreements from our operating cash flows.

While the Canadian dollar is the functional currency of the Company, most of our revenues are denominated in foreign currencies. To protect against the volatilities of foreign currencies, we may hedge anticipated third party cash flows derived from sales denominated in US dollars. As at March 31, 2010, we had not entered into future forward exchange contracts to sell US dollars. We continue to monitor the currency fluctuations and will enter into forward foreign exchange contracts to minimize our risks as deemed advisable and subject to our financial flexibility.

In order to maintain or adjust its capital structure, the Company, with the approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares, pay dividends or undertake other activities as deemed appropriate under specific circumstances or conditions. Since the Company's Initial Public Offering in 2006, when the Company raised \$60.2 million of

capital including a secondary financing of \$31.0 million, the Company has financed its organic growth initiatives with conventional bank loans, capital leases and funds generated by its operations. The Company has not paid any dividends.

The Company secured additional long-term debt to support its Canadian site expansion program. Considering the losses incurred during the last 2 years and that the Company's current long-term debt exceeds its targeted leverage, readers are cautioned to understand the implications of such a situation. High debt leverage should be perceived as a risk that the Company may breach its bank covenants in the future which would enable the lender to demand immediate payment of the loans.

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

During 2009, the Company successfully completed several financing transactions which were designed to address its general liquidity needs. Specifically, the Company raised \$14.2 million from equity financing, obtained a \$7.5 million loan from IQ, entered into an amendment agreement to restructure its Canadian long-term bank facilities and received \$1.5 million in government grants. These transactions served to strengthen the balance sheet and working capital of the Company.

The recent banking and financial crisis and the global economic recession have created an extremely challenging economic environment. The Company's operating performance has been impacted by economic, financial and competitive factors, as well as other events that are beyond the Company's control, including the possible negative impact of the current economic environment is having on its customers.

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 IQ in respect to its \$7.5 million term loan facility. Under the terms of this amendment agreement, IQ has provided the Company additional flexibility regarding the payment of interest charges. This amendment agreement also provides for the relaxing of certain financial covenants up to and including December 31, 2010 and the postponement of the repayment of the first instalment to February 28, 2011.

During 2008 and 2009, the Company executed a number of initiatives to enhance its profitability and financial flexibility. Cost control measures were put in place in all operating units. No bonuses have been declared for both years and no salary increases were granted. Until market conditions and the Company's profitability improve, capital expenditures will be kept at a minimum with an emphasis on expenditures required to execute contracts.

The Company has committed to monitor the operating initiatives put in place in support of cash flow projections and to consider a number of alternatives to secure additional capital, including but not limited to additional funding facilities or equity issues. There is no assurance that any of these initiatives would be successful or sufficient.

In the longer term, the Company's ability to fund its operations and meet its cash flow requirements when due will be dependent upon its ability to generate positive cash flows from operations and/or obtaining additional financing.

During 2008 and 2009, the Company executed a number of initiatives to enhance its profitability and financial flexibility. Cost control measures were put in place in all operating units. No bonuses have been declared for both years and no salary increases were granted. Until market conditions and the Company's profitability improve, capital expenditures will be kept at a minimum with an emphasis on expenditures required to execute contracts.

### **Contract backlog and book-to-bill ratio**

The Company achieved a book-to-bill ratio of 0.84:1 for the quarter. While the book-to-bill ratio is stated as a proportion of total bookings to revenue for the period, we closely follow this key performance measure on a trailing 12-month basis. For Canada, Denmark and Hungary, the book-to-bill ratio stood at 0.72:1, 0.80:1 and 1.32:1 respectively for the first quarter of 2010.

Total contract backlog stood at \$30.0 million at the end of March 31, 2010, a decrease of \$5.3 million or 15.0% compared to our contract backlog position as at December 31, 2009. On a year over year basis, our contract backlog decreased by approximately \$4.5 million or 13%. On a geographical basis, Canada accounted for 48% of our total contract backlog position followed by Denmark at 28% and Hungary at 24%.

We provide information regarding contract backlog and book-to-bill ratio because we believe doing so provides useful information regarding changes in the volume of our business over time. However, due to the timing and transition period associated with contracts, the realization of revenue related this contract backlog may fluctuate from quarter to quarter. The value initially booked

may change over time due to their variable attributes, including modifications in the scope of work to be performed caused by changes in client requirements as well as termination clauses at the option of the client. As such, information regarding our contract backlog is not comparable to, nor should it be substituted for an analysis of our revenue; it is instead a key indicator of our future revenue used by the Company's management to measure growth.

### **Financial Risk Management (all amounts in thousands of Canadian dollars in this section)**

#### **(a) Credit risk:**

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

Most sales are invoiced with payment terms of between 30 to 60 days. The Company performs periodic credit evaluations and typically does not require collateral. Allowances are maintained for potential credit losses consistent with the credit risk, historical trends, general economic conditions and other information. The Company has also established procedures to suspend the release of study reports when customers have not paid outstanding invoices. Due to the financial market crisis, some of our customers may face financial difficulties. The Company has and will continue to exercise tight controls to ensure payments are made in due course. While the Company's credit controls and processes have been effective in mitigating credit risk, these controls cannot totally eliminate credit risk and there can be no assurance that these controls will continue to be effective. During 2010, one customer accounted for more than 10% of the Company's total revenue (2009 - same) and no customer accounted for more than 10% of the Company's total trade accounts receivable as at March 31, 2010. One customer accounted for more than 10% of the Company's total trade accounts receivable as at March 31, 2009.

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

The carrying amount of cash and cash equivalents, trade accounts receivable and loan receivable from a senior executive represent the Company's maximum credit exposure. Included in "accounts and other receivables" on the consolidated balance sheet as at March 31, 2010 are trade receivables of \$5,762 (2009 - \$8,202), of which none were aged 91 days and over (2009 - \$279). At March 31, 2010, \$302 (2009 - \$71) of trade receivables were provided for and an amount of \$81 (2009 - nil) was recorded as bad debt expense.

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

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

At March 31, 2010, the Company had no future foreign exchange rate agreements outstanding.

The Company's reporting currency is Canadian dollars. All of the Company's operations are considered self-sustaining operations. The assets and liabilities of the self-sustaining operations are translated at exchange rate prevailing during the year. Unrealized gains and losses resulting from translating self-sustaining operations are accumulated and reported as a currency translation adjustment in accumulated other comprehensive income. As of March 31, 2010, fluctuations in the exchange rate between the Danish Kroner and Canadian dollar of +/- 5% would have an effect on other comprehensive income of approximately +/- \$ 395 (2009- \$ 465) and fluctuations in the exchange rate between the Hungarian Forint and Canadian dollar of +/- 5% would have an effect on other comprehensive income of approximately +/- \$ (4) (2009-\$(264))

The following exchange average rates applied during the reporting periods ended March 31, 2010 and 2009:

	2010		2009	
	Average rate	Reporting date rate	Average rate	Reporting date rate
US to CDN	1.0230	1.0158	1.2645	1.2613
HUF to CDN	0.005233	0.005166	0.005416	0.005447
DKK to CDN	0.1865	0.1843	0.2214	0.2250
Euro to HUF	265.2780	265.5827	304.5052	307.6005
CHF to HUF	183.2792	186.4692	202.0495	203.4147
GBP to DKK	8.2594	8.3635	8.0894	8.0422

The following table provides specific significant items exposed to foreign exchange as at March 31, 2010:

	\$US	Euro	CHF	GBP
<i>(in thousands of Canadian dollars)</i>				
Cash and cash equivalents	431	427	-	-
Accounts and other receivables	2,589	963	-	-
Work in progress	432	865	-	-
Other assets	66	-	-	-
Accounts payable and accrued liabilities	(832)	(551)	-	(48)
Long-term debt	-	(4,380)	(104)	-
	2,686	(2,676)	(104)	(48)

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

	\$US	Euro	CHF	GBP
<i>(in thousands of Canadian dollars)</i>				
Decrease (increase) in net loss	134	(133)	(5)	(3)

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

At March 31, 2010, LAB Hungary had long-term loans of \$2,856 payable to LAB Denmark denominated in Euro (2,081,698 Euros). If the Hungarian forint varies against the Euro to reflect a 5 percent strengthening, this would decrease the consolidated net loss as follows assuming that all other variables remained constant.

	Euro
<i>(in thousands of Canadian dollars)</i>	
Decrease in net loss	143

An assumed 5 percent weakening of the Hungarian forint against the Euros would have had an equal but opposite effect on the basis that all other variables remain constant.

**(c) Interest rate risk:**

The Company's exposure to interest rate fluctuations is with respect to debt, which bears interest at floating rates. A fluctuation in interest rates would have an impact on the Company's net loss. For the period ended March 31, 2010, based on the value of variable interest-bearing long-term debt, an assumed 0.5% interest rate increase would have increased net loss by \$97 (2009 - \$74), with an equal opposite effect for an assumed 0.5% decrease.

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

**(d) Liquidity risk:**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity through the management of its capital structure and financial leverage. It also manages liquidity risk by

continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business.

Considering the losses incurred during the last 2 years and that the Company's current long-term debt exceeds its targeted leverage, readers are cautioned to understand the implications of such a situation. High debt leverage should be perceived as a risk that the Company may breach its bank covenants in the future which would enable the lender to demand payment of the loans.

### Contractual obligations

As at March 31, 2010, our future contractual commitments primarily consisted of obligations under term loans secured to acquire property and laboratory equipment, operating and capital leases for facilities and office equipment, and service contracts.

As at March 31, 2010, we were not engaged in any speculative off-balance sheet activities. As indicated above, we may enter into forward contracts to manage our exposure to foreign currency variations. At March 31, 2010, the Company had not entered into future exchange rates contracts to sell US dollars.

The following table sets out our contractual maturities of financial liabilities and contractual obligations by calendar year as at March 31, 2010:

	2011	2012	2013	2014	2015	2016+	Total
<i>(in thousands of dollars)</i>	\$	\$	\$	\$	\$	\$	\$
Long-term debt <sup>(1)</sup>	7,294	22,595	3,243	11,688	1,144	7,839	53,803
Interest on long-term debt <sup>(1)</sup>	2,805	2,374	1,117	923	235	1,566	9,020
Service contracts	1,140	157	80	0	0	0	1,377
Accounts payable	11,118	0	0	0	0	0	11,118
Lease obligations	150	110	19	19	19	38	355
Total contract obligations	<u>22,507</u>	<u>25,236</u>	<u>4,459</u>	<u>12,630</u>	<u>1,398</u>	<u>9,443</u>	<u>75,673</u>

(1)

Including obligations under capital lease.

### Summary of the Quarterly Results

This unaudited quarterly information has been prepared on the same basis as the annual consolidated financial statements.

	2010	2009			2008			
<i>(in thousands of dollars)</i>	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	14,063	13,325	13,064	13,885	12,987	12,839	14,110	16,120
Net earnings (loss)	(2,725)	(6,135)	(1,696)	316	(2,961)	(6,723)	(1,171)	748
Earnings (loss) per share								
-basic	(0.05)	(0.12)	(0.09)	0.02	(0.16)	(0.37)	(0.06)	0.04
-diluted	(0.05)	(0.12)	(0.09)	0.02	(0.16)	(0.37)	(0.06)	0.04

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.

### Related Party Transactions

In April 2007, the Company disbursed a five-year \$0.3 million loan to the President and CEO, to finance the tax impact of the common shares issued to him, concurrent with the IPO. The loan bears interest at the cost of borrowing for the Company or at the rate equivalent to what the Company would have received on such amount, as the case may be. The interest is paid to the Company on a regular basis and an amount of \$1 was outstanding at March 31, 2010.

### Outstanding share data

As at May 11, 2010, the Company had 52,710,750 common shares issued and outstanding, 1,395,290 warrants issued and outstanding and 3,644,137 options outstanding representing 6.9 % of all outstanding shares, of which 880,734 or 24.2 % were vested. During 2010, no options were granted, no options were exercised and 397,830 options were cancelled. The weighted

average exercise price of all issued and exercisable options is \$1.80 and \$4.14, respectively. In 2010, no warrants were issued by the Company.

### **Litigation**

- (a) On December 21, 2007, LAB Research was served with an introductory motion of suit from one of its former suppliers claiming an amount of \$1.37 million for the breach of a right of first refusal. On May 7, 2008, LAB Research served its defense denying liability for the principal claim and filed its own cross-claim for damages caused by same supplier during the construction of the previous phase of building expansion in Canada. The Company does not expect that the settlement of this matter will have a material adverse effect on the financial position of the Company.
- (b) LAB Research is party to other litigation arising in the normal course of operations. LAB Research does not expect the resolution of these other matters to have a materially adverse effect on the financial position or results of operations of the Company.

### **Disclosure controls and procedures and internal controls over financial reporting**

The Company's management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with GAAP in its consolidated financial statements.

In compliance with the Canadian Securities Administrators' National Instrument 52-109 («NI 52-109»), the Company filed certificates signed by the Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures and internal controls over financial reporting. The implementation of NI 52-109 has prompted LRI to ensure that all relevant processes and controls have been formalized.

The Company has designed disclosure controls and procedures to ensure that the information reported in this MD&A, the consolidated financial statements and the related annual documents is properly recorded, processed, summarized and reported to the Company's Audit Committee and Board of Directors. Based on the evaluation it conducted in accordance with NI 52-109, LRI's management is satisfied that, at the end of the first quarter ended March 31, 2010, the disclosure controls and procedures are adequately designed and ensure the financial information required to be disclosed is complete and reliable.

Furthermore as at December 31, 2009, LRI has examined, as defined in NI 52-109, the internal controls that were designed to provide reasonable assurance regarding the reliability of financial reporting and that the financial statements for external purposes were prepared in accordance with GAAP. This examination was conducted using the framework and criteria set out in the document entitled *Internal Control-Integrated Framework* released by the Committee of Sponsoring Organizations («COSO»). Based on this evaluation, LRI's management concluded that its internal controls over financial reporting are adequately designed.

During the first quarter ended March 31, 2020, LRI did not make any modifications to the internal controls over financial reporting that had or could reasonably be expected to have a significant impact on internal controls over financial reporting.

### **Critical Accounting Policies**

In preparing the consolidated financial statements in conformity with GAAP, management is required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. The accounting policies which we consider to be critical are those that require the most difficult, subjective, or complex judgments and that are the most important to aid in fully understanding and evaluating its consolidated financial statements. These accounting policies are discussed in the following paragraphs.

**Revenue** recognition consists of services rendered to customers and are recognized as the services are performed or delivered by the Company, measured on a proportional-performance basis, generally using output measures that are specific to service provided. Revenue is recorded by determining the status of work performed per contract in relation to the total services to be provided. Work in progress represents services rendered which only become billable in accordance with contractual payment terms. Deferred revenues represent amounts billed in accordance with customer contracts, but not yet earned.

Revenues that include multiple elements are considered to be revenue arrangements with multiple deliverables. Under these arrangements, the identification of separate units of accounting is required and revenue is allocated among the separate units based on their relative fair values or using the residual method. Revenues for each unit of accounting are then recorded as described above.

**Property, equipment and intangible assets** are stated at cost and are amortized over their estimated useful lives on a straight-line basis. The Company regularly reviews property, equipment and intangible asset costs for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets exceed the sum of the expected cash flows from their uses and disposal. Management's judgment regarding the existence of impairment indicators is based on legal factors, market conditions and operating performances. Future events could cause management to conclude that impairment indicators exist and

that the carrying values of the Company's property, equipment or intangible assets costs are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and results of operations.

**Stock-based compensation** is recorded using the fair value based method for all issued options. Under this method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. The Company uses the Black-Scholes options pricing model to calculate stock option values, which requires certain assumptions, including the future stock price volatility and expected time to exercise. Changes to any of these assumptions, or the use of a different option pricing model, could produce different fair values for stock-based compensation, which could have a material impact on the Company's earnings.

**Income taxes** are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Management provides valuation allowances against the future tax assets for amounts which are not considered "more likely than not" to be realized. In assessing the realizability of tax assets, management considers whether it is more likely than not that some portion or all of the tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

### **Adoption of new accounting policies**

#### **(i) Goodwill and intangibles assets**

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountant ("CICA") Handbook Section ("HB") 3064 "*Goodwill and Intangible Assets*" which replaced Section 3062 "*Goodwill and Other Intangible Assets*". The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. The impact of adopting this standard was to reclassify the net book value of software of \$2,437 (2008 - \$2,798) from property and equipment to intangible assets on the balance sheet. The adoption of this standard did not have any impact on the Company's financial results.

#### **(ii) Credit risk and fair value of financial assets and financial liabilities**

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standard's Board ("AcSB") issued EIC Abstract 173, "*Credit Risk and Fair Value of Financial Assets and Financial Liabilities*", which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of the financial assets and financial liabilities, including derivative instruments. EIC 173 should be applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have any impact on the consolidated financial statements of the Company.

#### **(iii) Financial instruments – Disclosure (Improvements to fair value and liquidity risk disclosure)**

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to enhance disclosures about fair value measurements and liquidity risk of financial instruments. The amendment is to be applied to annual financial statements with fiscal years ending after September 30, 2009. The purpose of this amendment is to provide further convergence with International Financial Reporting Standards. Financial instruments recognized at fair value on the balance sheet must be classified in fair value hierarchy levels as follows:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);

Level 3 – valuation techniques with unobservable market inputs (involves assumptions and estimates by management of how market participants would price the assets or liabilities).

The amended section relates to disclosure only and did not impact the financial results of the Company. As at March 31, 2010, the Company held no significant assets or liabilities required to be measured at fair value, except for cash and cash equivalents, which were measured using Level 1 inputs in the fair value hierarchy.

## Future accounting standards

### (i) International Financial Reporting Standards (“IFRS”)

On February 13, 2008, the AcSB confirmed the date of the changeover from Canadian GAAP to IFRS. The AcSB has set January 1, 2011 as the date that IFRS will replace Canadian GAAP for publicly accountable enterprises, which includes Canadian reporting issuers. We will prepare our financial statements in accordance with IFRS commencing January 1, 2011. Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. IFRS on the date of adoption also is expected to differ from current IFRS due to new IFRS that are expected to be issued before the changeover date.

We have set up a project structure to achieve the changeover of our consolidated financial statements to IFRS. A working group analyzes, recommends accounting policy choices and implements each IFRS standard. This group also makes sure that information technology, internal control, contractual and any other adjustments are made. External auditors are notified of our choices and consulted on them. The Company’s Audit Committee receives regular management updates and ensures that management fulfills its responsibilities and successfully accomplishes the changeover to IFRS.

We describe below our IFRS changeover plan and have selected key activities and provided status on them. This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on our financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other key purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes to IFRS, regulations or economic conditions which could change these assumptions or expectations.

We have developed a detailed plan for our changeover to IFRS comprised of three related phases:

- Preliminary Study and Diagnostic
- Analysis of Standards
- Implementation

The objectives of each phase are described below

Progress towards Completion of our IFRS Changeover Plan

#### Phase 1: Preliminary Study and Diagnostic

Actions	Identification of the IFRS standards that will require changes with regard to measurement in consolidated financial statements and disclosure Rank of standards based on their anticipated impact on our consolidated financial statements and the efforts their implementation requires.
Timetable	End of first quarter of 2009
Progress	Completed

#### Phase 2: Analysis of Standards

Actions	Analysis of the differences between Canadian GAAP and IFRS Selection of the accounting policies that the Company will apply on an ongoing basis Company’s selection of IFRS 1 exemptions at the date of transition Calculation of the quantitative impacts on the consolidated financial statements Disclosure analysis Preparation of the draft financial statements and notes Identification of the collateral impacts in the following areas: <ul style="list-style-type: none"> <li>- information technology;</li> <li>- internal controls over financial reporting;</li> <li>- disclosure controls and procedures;</li> <li>- contracts;</li> <li>- compensation;</li> <li>- taxation;</li> <li>- training</li> </ul> Presentation on major differences and impact to the Audit Committee
Timetable	We have prepared a timetable which contemplates the bulk of the analysis to be completed by the end of the fourth quarter 2009.

Progress	<ul style="list-style-type: none"> <li>- A majority of the differences were analyzed for accounting policy choices, changes to processes and selection of one-time transition choices;</li> <li>- The review of the remaining variances will be completed by the end of the second quarter of 2010;</li> <li>- The Company is currently working on preliminary IFRS financial statements in accordance with IAS 1 Presentation of Financial Statements;</li> <li>- Periodic project status updates and information sessions are presented to senior management and to the Audit Committee.</li> </ul>
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### Phase 3: Implementation

Actions	<p>Preparation of the opening balance sheet at the date of transition</p> <p>Compilation of the comparative financial data</p> <p>Production of interim consolidated financial statements and the associated disclosure</p> <p>Production of the annual consolidated financial statements and the associated disclosure</p> <p>Implementation of changes regarding collateral impacts</p>
Timetable	<p>Early in the second quarter of 2010, we plan that our opening balance sheet comparative financial data under IFRS will be completed</p> <p>In 2011, we will produce our interim and annual consolidated financial statements and disclosure in accordance with IFRS</p>
Progress	Started during the third quarter of 2009; expected completion estimated for the second quarter of 2010

We have identified the differences between Canadian GAAP and IFRS that impact our financial statements. Our detailed analysis identified a number of policy alternatives under IFRS as compared to Canadian GAAP. We also have determined, however, that our accounting policies generally are aligned with IFRS requirements in many key areas. We will continue to monitor changes to IFRS throughout 2010. We will review and assess any new or modified standards that are issued prior to our changeover.

Standards	Comparison between IFRS and Company current accounting policies	Findings
IAS 12: <i>Income Taxes</i>	<p>Unlike IFRS, under Canadian GAAP, a deferred income tax asset or liability is not recognized for a temporary difference arising from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets and liabilities of integrated foreign operations.</p> <p>Under IFRS, potential tax exposures are analyzed individually and separately from the calculation of income tax, and the amount of tax provided for is the best estimate of the tax amount expected to be paid. Under Canadian GAAP, the general recognition standard is "probable" or "more likely than not". Tax liabilities are measured using amounts "expected to be paid to" tax authorities, using a single best estimate.</p>	<p>The Company is currently assessing the impact of these differences on the financial statements.</p> <p>The Company's current accounting policy under Canadian GAAP over potential tax exposures is to recognize them when "probable" with the tax liabilities measured using a single best estimate.</p>
IAS 16: <i>Property, Plant and Equipment</i>	<p>The main relevant differences between IFRS and Canadian GAAP are:</p> <ol style="list-style-type: none"> <li>1) The possibility to evaluate assets at fair value at each balance sheet date.</li> <li>2) Componentization: parts of an asset with different useful lives have to be amortized separately. This requirement exists under Canadian GAAP but it is further emphasized by IFRS.</li> </ol>	The Company is currently assessing the impact of these differences on the financial statements.
IAS 18: <i>Revenue Recognition</i>	<p>IFRS and Canadian GAAP are essentially converged.</p> <p>The main difference relates to the treatment of long-term contracts.</p> <p>Under IFRS, revenue is measured at fair value of consideration received. Under Canadian GAAP, there is no specific guidance on measurement of revenue.</p>	Based on the Company's analysis, it is expected that the differences related to revenue recognition will not have a material impact on the Company's financial statements based on the information collected to date.

<p>IAS 20: <i>Government Grants</i></p>	<p>IFRS and Canadian GAAP are essentially converged.</p> <p>The main difference relates to the treatment of a government grant when it becomes repayable.</p> <p>Under IFRS, when a government grant becomes repayable, it is accounted for as a change in estimate and is applied on a retrospective basis. Unlike IFRS, when circumstances indicate that repayment of government assistance will be required, it is accounted for prospectively.</p>	<p>Based on the Company's analysis, it is expected that the differences related to the accounting of government grants will not have a material impact on the Company's financial statements based on the information collected to date.</p>
<p>IAS 21: <i>The Effect of Changes in Foreign Exchange Rates</i></p>	<p>IFRS and Canadian GAAP are essentially converged.</p> <p>The main difference relates to the exchange rate used to translate non monetary assets carried at fair value.</p> <p>Under IFRS, the functional currency is the currency of the primary economic environment in which the entity operates. Under Canadian GAAP, an entity is not explicitly required to assess the unit of measure (functional currency) in which it measures its own assets, liabilities, revenues and expenses, but rather only assesses the functional currency of its foreign operations.</p>	<p>Based on the Company's analysis, it is expected that none of the GAAP differences related to foreign exchange translation will have a material impact on the Company's financial statements based on the information collected to date.</p>
<p>IAS 23: <i>Borrowing Costs</i></p>	<p>The main relevant differences between IFRS and Canadian GAAP are:</p> <ol style="list-style-type: none"> <li>1) Under IFRS, interest on both general and specific borrowings is eligible for capitalization. The amount capitalized is net of investment income on the temporary investment of specific borrowings. Unlike IFRS, there is no guidance in Canadian GAAP on the amount of interest that can be capitalized on general or specific borrowings or the treatment of investment income on the temporary investment of specific borrowings</li> <li>2) Under IFRS, the capitalization of interest commences when borrowing costs are incurred and expenditures and activities to develop the asset are in progress. Capitalization is suspended when development is interrupted for extended periods and ceases when the asset is ready for its intended use or sale. Unlike IFRS, there is no guidance in Canadian GAAP on when the capitalization of interest should commence or be suspended. Like IFRS, capitalization ceases when the asset is ready for its intended use or sale</li> <li>3) Under IFRS, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, should be capitalized. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. Unlike IFRS, under Canadian GAAP, costs directly attributable to the acquisition, construction or development activity over time are included in the initial cost. Therefore, interest costs may be included in cost when the entities accounting policy is for capitalized interest costs.</li> </ol> <p>The Company's accounting policy is to capitalize borrowing costs attributable to the construction of major new facilities only.</p>	<p>The Company will need to modify its treatment for capitalized borrowing costs to include all qualifying assets. Based on information collected to date, the impact is not expected to be material on the Company's financial statements.</p>

<p>IAS 33: <i>Earnings Per Share ("EPS")</i></p>	<p>The main differences between IFRS and Canadian GAAP are the following:</p> <ol style="list-style-type: none"> <li>1) Unlike Canadian GAAP, IFRS does not allow rebuttal of the presumption of share settlement treatment on contracts that may be settled in shares or cash based on past experience of contracts settlements.</li> <li>2) Unlike Canadian GAAP, IFRS does not require presentation of earnings per share for income or loss before discontinued operations and extraordinary items.</li> <li>3) Under IFRS, for diluted EPS, dilutive potential ordinary shares are determined independently for each period presented. Under Canadian GAAP, the computation of diluted EPS for year-to-year periods is based on the weighted average of the number of incremental shares included in each interim period making up the year-to-date period.</li> </ol>	<p>The Company is currently assessing the impact of these differences on the financial statements.</p>
<p>IAS 36 <i>Impairment of Assets</i></p>	<p><u>Process of the impairment test</u> Under Canadian GAAP, the impairment test for long lived assets is a two-step process:</p> <ul style="list-style-type: none"> <li>- The carrying amount of the asset is compared to the sum of its undiscounted cash flow expected to result from its use and eventual disposition;</li> <li>- If the carrying amount of the asset is greater, then it is compared to the fair value of the asset. An impairment may have to be recognized.</li> </ul> <p>Under IFRS, it is a one-step process; the carrying amount of the asset is directly compared to the recoverable amount of the asset.</p> <p><u>Assigning assets to cash generating units</u> Under IFRS, impairment testing of assets is done at the independent cash generating unit ("CGU") level.</p> <p>Under Canadian GAAP, the unit is defined as it generates both independent cash inflows and outflows.</p>	<p><u>Process of the impairment test</u> This difference has been analyzed for the Company's impairment tests and is found to have no material impact at the transition date on the financial statements based on the information collected to date.</p> <p><u>Assigning assets to cash generating units</u> The Company has identified its cash generating units. Impairment testing for goodwill will be conducted at the CGU level. The impact of this difference will not have a material impact on the Company's financial statements based on the information collected to date.</p>
<p>IFRS 2: <i>Share-Base Payments</i></p>	<p><u>Share based payments vesting in instalments:</u> Under IFRS, when an entity makes a share based payment that vests in instalments (often referred to as graded vesting), each tranche of the award should be treated as a separate award.</p> <p>Canadian GAAP offers the option to consider the equity instruments as a pool and determine fair value using the average life of the instruments, provided that compensation is then recognized on a straight-line basis.</p> <p>Under the Company's stock option plan, options vest according to a graded schedule of 20% per year commencing a day after the end of the first year. From an accounting perspective, the option offered by Canadian GAAP was selected i.e. each tranche of the plan is not treated separately. This creates a difference with current Canadian GAAP.</p> <p><u>Stock options: forfeiture estimates:</u> Under IFRS, an estimate of forfeitures must be factored into the calculation of periodic compensation expense. Compensation costs are to be accrued based on the best estimate of the number</p>	<p><u>Share based payments vesting in instalments:</u> The compensation expense will be considered over the expected term of each vested tranche. It is expected that the amount recorded by the Company will not be materially different based on the information collected to date.</p> <p><u>Stock options: forfeiture estimates:</u> The Company will need to modify the calculation to take into account an estimation of future forfeitures. The</p>

	<p>of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. The objective is that, at the end of the vesting period, the cumulative charge to the income statement should represent the number of equity instruments that have actually vested multiplied by their fair value.</p> <p>Canadian GAAP offers a choice in accounting for forfeitures. Like IFRS, compensation expense can be accrued based on the best estimate of the number of instruments expected to vest, with revisions made to that estimate if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Unlike IFRS, compensation expense can be accrued assuming that all instruments granted that are subject only to a service requirements are expected to vest, with the effect of actual forfeitures recognized only as they occur.</p> <p>The Company's accounting policy under Canadian GAAP is to recognize the effect of actual forfeitures only as they occur which creates a difference with IFRS.</p>	<p>impact is not expected to be material for past options based on the information collected to date.</p>
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Appropriate resources have been secured to complete the changeover on a timely basis according to our plan milestones. We have ensured training needs are met and will continue to be addressed throughout the changeover period. We have detailed project plans and progress reporting in place to support and communicate the changeover. Summarized below is a description of our progress towards completion of selected key activities of our IFRS changeover plan as of March 31, 2010. At this time, we cannot quantify the impact that the future adoption of IFRS will have on our financial statements and operating performance measures; however, such impact may be material. The changeover to IFRS will impact internal controls over financial reporting, disclosure controls and procedures, and IT systems and processes. Additional information will be provided as we move towards the changeover date.

#### **Impact on information Systems and Technology**

At this time, the transition is expected to have minimal impact on information systems used by the Company.

#### **Impact on Internal Controls and Disclosure Controls and Procedures**

The Company's internal controls will not be materially affected by the transition to IFRS. The IFRS differences may lead to presentation and process changes to report more detailed information in the notes to the financial statements, but it is not currently expected to lead to many differences in the accounting treatments used by the Company.

Disclosure controls and procedures may change due to the transition to IFRS, but the impact is expected to be minimal as well.

#### **Impact on Financial Expertise**

Training and education have been provided to key members of the finance team who are directly affected by the transition to IFRS. IFRS training to other financial staff will be done as deemed necessary. A review of the Audit Committee charter to reflect the requirements for IFRS financial expertise will be completed in the fourth quarter of 2011.

#### **Impact on Operations**

At this time, the transition is expected to have minimal impact on operations. The Company does not expect to amend contractual employment agreements for key employees and will need to negotiate certain amendments in regards to financial covenants included in certain credit agreements.

#### **General**

The Company's IFRS conversion project is progressing according to schedule. As the project advances, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in

development, or in light of new information or other external factors that could arise between now and when the changeover is completed

### **First-Time Adoption of IFRS**

Our financial statements for the year ended December 31, 2011 will be prepared according to IFRS with comparative amounts for the year ended December 31, 2010. IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, generally requires that we apply IFRS on a retrospective basis in our opening balance sheet as at January 1, 2010. IFRS 1 also provides certain mandatory exceptions and elective exemptions to retrospective application. We expect that our IFRS 1 elections will be approved by senior management during the first half of 2010, once we have completed our analysis of, and quantified on a preliminary basis, each exemption.

### **(ii) Business Combinations**

In January 2009, the AcSB issued CICA Section 1582 "*Business Combinations*", which replaces Section 1581, "*Business Combinations*", and provides the equivalent to IFRS 3 "*Business Combinations*" (January 2008). The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100 percent of the equity interest in the acquiree is owned at the acquisition date. The measurement of equity consideration given in a business combination will no longer be based on the average of the fair value of the shares a few days before and after the day the terms and conditions have been agreed to and the acquisition announced, but rather at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting. Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. This new Section will only have an impact on our consolidated financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

### **(iii) Consolidated financial statements and non-controlling interests**

In January 2009, the AcSB issued CICA Section 1601, "*Consolidated Financial Statements*", and Section 1602 "*Non-Controlling Interests*", which together replace Section 1600, "*Consolidated Financial Statements*". These two Sections are the equivalent to the corresponding provisions of International Accounting Standard 27, "*Consolidated and Separate Financial Statements*" (January 2008) under IFRS. Section 1602 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. The new Sections require that, for each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new Sections also require non-controlling interest to be presented as a separate component of shareholders' equity. Under Section 1602, non-controlling interest in income is not deducted in arriving at consolidated net income or other comprehensive income. Rather net income and each component of other comprehensive income are allocated to the controlling and non-controlling interests based on relative ownership interests. These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. Earlier adoption is permitted which would be effective as of the beginning of the fiscal year of adoption.

### **Outlook**

For the last few years, the Company's strategy was centered around increasing the size of each of its sites to expand its capabilities and attract a broader range of clients. We hoped that 2009 would serve to demonstrate the financial benefits of this strategy. However, due to liquidity issues caused by the recession and the unfriendly capital markets, the positive impacts of our expansion program have yet to be demonstrated. 2009 was a challenging year for the industry; nevertheless, we believe we have already started to see the benefits of our strategy. We have and are still subject of regular pre-qualification audits from new larger sponsors. These pre-qualification activities demonstrate the soundness of our expansion program. In 2009 LAB Research incurred a 9% reduction of its annual revenue compared to more than 20% on average for the rest of the industry (including 24% for one of the largest publicly traded early-stage CRO). Our performance was achieved despite the tremendous commercial setbacks suffered throughout most of the year as we were fighting the negative impact of the expansion related balance sheet issues.

With our backlog improving by 31.4% in the last quarter of 2009 and as contract pricing shows signs of improvements following a shift in strategy by the large price-setting CRO's, we can be cautiously positive when looking at the commercial opportunities created by our service and capacity expansions.

Looking ahead we anticipate that our performance will improve sequentially. The following positive trends will impact LAB Research and the industry as well as our ability to improve our performance.

- 1) LAB Hungary continues to broaden its chemical and pharma clientele after having restored the market's confidence following the positive FDA and OECD GLP inspections;
- 2) Our Danish and Canadian sites both benefit from recession driven cost-effectiveness measures;
- 3) Our business development activities benefit from the lift of commercial worries;
- 4) Large Pharma recover from the "Merger Freeze" and return to customary levels of project-approval and research expenditure;
- 5) Large Pharma react to the "Patent Cliff" with boosted research and development expenses to limit the impacts of the \$90 billion of annual revenues lost to generics over the coming 5 years;
- 6) Increase in Pharma outsourcing as large pharmaceutical companies attempt to find operational savings to maintain profitability during times of limited revenue growth;
- 7) Improvement of Biotechnology Funding;
- 8) Improvement in pricing environment due to a late 2009 change in pricing tactics by the large CRO's
- 9) Benefits of our expansion program and expanded service offering
- 10) 50% increase in pre-clinical molecules being developed compared to 2007.

In 2010, LAB Research will aim to leverage its existing and new client-relationships to reap the benefits of its expansion program and focus exclusively on improving its financial performance. We believe we have the proper services, staff and capacity to attract the broadest range of clients. As demand firms up, industry pricing recovers and more clients utilize our services we will reach new levels of activity in our laboratories and expect our margins to expand sequentially.

We are committed to deliver operating profits in each of our sites and will take the necessary measures to achieve this goal.

## **Risks and Uncertainties**

***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 Company has financed itself with the 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 Company 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 Company 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 revenue 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 operations. We recognize that the Company's debt level exceeds the average of the industry. The Company opted for that strategy due to favourable debt conditions that would not impair the Company'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 Company's net debt to EBITDA ratio in line with our expectations.

***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 revenue and results of operations would suffer. In addition, some of our clients may decide to choose competing contract research organizations 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 revenue 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 revenue. 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 of operations. Management believe that as long as our revenue per year in Euros will exceed the level of our debt denominated in that currency, our overall results of operations 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 behaviour 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 Company 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 revenue derived from non-Canadian operations represented 89% of our total revenue in 2009, 57% of our total revenue in 2008, 59% of our total revenue in 2007, and 70% of our total revenue 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.

APPENDIX 1

SUMMARY OF THE RESULTS BY BUSINESS SEGMENT

	Three months ended March 31										Three months ended December 31										
	2010					2009					2008					2009					
	LAB	LAB	LAB	Corporate	TOTAL	LAB	LAB	LAB	Corporate	TOTAL	LAB	LAB	LAB	Corporate	TOTAL	LAB	LAB	LAB	Corporate	TOTAL	
	Canada	Denmark	Hungary			Canada	Denmark	Hungary			Canada	Denmark	Hungary			Canada	Denmark	Hungary			
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<i>(in thousands of dollars, except per Share data)</i>																					
Revenues	6,265	5,869	1,929	-	14,063	5,833	6,054	1,100	-	12,987	6,186	7,846	1,397	-	15,429	5,508	5,891	1,926	-	13,325	
Operating expenses	5,904	5,434	1,997	118	13,453	4,776	5,636	1,568	231	12,211	4,424	6,012	1,957	528	12,921	6,060	5,316	1,850	655	13,881	
Amortization	897	625	209	3	1,734	730	660	205	3	1,598	452	577	203	3	1,235	744	671	253	3	1,671	
Interest net	478	123	40	-	641	435	216	62	-	713	301	169	110	(36)	544	571	168	30	-	769	
Foreign exchange	24	1	48	-	73	125	3	1,384	-	1,512	11	92	(136)	-	(33)	(20)	3	69	-	52	
Restructuring charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	310	-	-	-	310	
Income taxes (recovery)	961	(71)	(3)	-	887	-	(84)	(2)	-	(86)	218	235	(125)	(113)	215	2,666	(160)	43	228	2,777	
Net earnings (loss)	(1,999)	(243)	(362)	(121)	(2,725)	(233)	(377)	(2,117)	(234)	(2,961)	780	761	(612)	(382)	547	(4,823)	(107)	(319)	(886)	(6,135)	
EBITDA	337	434	(116)	(118)	537	932	415	(1,852)	(231)	(736)	1,751	1,742	(424)	(492)	2,577	(672)	735	58	(1,029)	(908)	
Adjusted EBITDA	361	435	(68)	(118)	610	1,057	418	(468)	(231)	776	1,762	1,834	(560)	(492)	2,544	(382)	738	127	(1,029)	(546)	
EPS					(0.05)					(0.16)					0.03					(0.12)	
Diluted EPS					(0.05)					(0.16)					0.03					(0.12)	
Total assets					105,655					111,966					100,802					112,809	
Total long-term financial liabilities (including current portion but excluding future income taxes)					52,990					56,924					37,432					55,613	