

Consolidated Financial Statements of
(Unaudited)

LAB INTERNATIONAL INC.

Three-month periods ended March 31, 2007 and 2006

LAB INTERNATIONAL INC.

Consolidated Financial Statements
(Unaudited)

Three-month periods ended March 31, 2007 and 2006
(in thousands of U.S. dollars)

Financial Statements

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LAB INTERNATIONAL INC.

Consolidated Balance Sheets
(Unaudited)

March 31, 2007 and December 31, 2006
(in thousands of U.S. dollars)

	March 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,658	\$ 35,304
Accounts receivable	2,584	1,347
Prepaid expenses	1,220	712
	<u>23,462</u>	<u>37,363</u>
Property and equipment	3,185	397
Intangible assets	15,542	8,015
Goodwill	2,302	-
Other assets (note 6)	471	828
	<u>\$ 44,962</u>	<u>\$ 46,603</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	5,141	4,886
Deferred revenue	1,772	1,606
Current portion of long-term debt (note 7)	2,306	1,456
Future income taxes	161	159
	<u>9,380</u>	<u>8,107</u>
Deferred revenue	156	-
Long-term debt (note 7)	4,339	4,248
Future income taxes	971	1,045
Shareholders' equity:		
Share capital (note 8)	54,190	49,758
Warrants (note 8)	364	366
Additional paid-in capital	6,401	6,281
Accumulated other comprehensive income	3,928	3,458
Deficit	(34,767)	(26,660)
	<u>30,116</u>	<u>33,203</u>
Commitments (note 14)		
	<u>\$ 44,962</u>	<u>\$ 46,603</u>

See accompanying notes to unaudited consolidated financial statements.

LAB INTERNATIONAL INC.

Consolidated Statements of Operations
(Unaudited)

Three-month periods ended March 31, 2007 and 2006
(in thousands of U.S. dollars except share and per share amounts)

	Three months ended	
	March 31,	
	2007	2006
Revenues	\$ 1,374	\$ 9,715
Expenses:		
Direct costs	793	5,745
Selling, general and administrative	2,436	3,652
Research and development	5,043	2,337
Stock-based compensation (note 10)	118	195
Amortization of property and equipment	164	686
Amortization of intangible assets	534	340
Interest on long-term debt and loss on settlement of convertible debenture	47	621
Foreign exchange	413	320
	9,548	13,896
Loss before income taxes	(8,174)	(4,181)
Recovery of (provision for) income taxes:		
Current	(19)	(334)
Future	86	150
	67	(184)
Net loss	\$ (8,107)	\$ (4,365)
Net loss per share		
Basic	\$ (0.10)	\$ (0.06)
Diluted	(0.10)	(0.06)
Weighted average number of shares outstanding:		
Basic	81,102,517	70,100,391
Effect of convertible debentures	-	4,840,441
Effect of dilutive options and warrants	-	1,469,956
Diluted	81,102,517	76,410,788

See accompanying notes to unaudited consolidated financial statements.

LAB INTERNATIONAL INC.

Consolidated Statements of Comprehensive Earnings
(Unaudited)

Three-month periods ended March 31, 2007 and 2006
(in thousands of U.S. dollars)

	Three months ended	
	March 31,	
	2007	2006
Net loss	\$ (8,107)	\$ (4,365)
Foreign currency translation adjustments	470	21
Comprehensive loss	\$ (7,637)	\$ (4,344)

See accompanying notes to unaudited consolidated financial statements.

LAB INTERNATIONAL INC.

Consolidated Statements of Shareholders' Equity (Unaudited)

Three-month period ended March 31, 2007
(in thousands of U.S. dollars)

	Share Capital		Warrants	Additional Paid-in Capital	Accumulated other comp- rehensive Income	Deficit	Total
	Number	Dollars					
Balance, December 31, 2006	76,238,528	\$ 49,758	\$ 366	\$ 6,281	\$ 3,458	\$ (26,660)	\$ 33,203
Purchase of Formulation Technologies, LLC	6,039,535	4,379	-	-	-	-	4,379
Services rendered	62,500	53	-	-	-	-	53
Expiry of warrants	-	-	(2)	2	-	-	-
Stock-based compensation	-	-	-	118	-	-	118
Net loss	-	-	-	-	-	(8,107)	(8,107)
Foreign currency translation	-	-	-	-	470	-	470
	82,340,563	\$ 54,190	\$ 364	\$ 6,401	\$ 3,928	\$ (34,767)	\$ 30,116

See accompanying notes to unaudited consolidated financial statements.

LAB INTERNATIONAL INC.

Consolidated Statements of Cash Flows (Unaudited)

Three-month periods ended March 31, 2007 and 2006
(in thousands of U.S.dollars)

	Three months ended	
	March 31,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (8,107)	\$ (4,365)
Adjustments for:		
Amortization of property and equipment	164	686
Amortization of intangible assets	534	340
Amortization of deferred financing fees	-	30
Stock-based compensation	118	195
Services rendered in exchange of shares	53	-
Loss on settlement of convertible debenture	-	255
Accretion expense on convertible debenture	-	269
Unrealized foreign exchange loss	553	254
Amortization of deferred gain on property	-	(20)
Deferred rent liability	-	46
Future income taxes	(86)	(150)
Net changes in operating assets and liabilities (note 11 (a))	(193)	(699)
	(6,964)	(3,159)
Cash flows from financing activities:		
Repayment of long-term debt	(577)	(605)
Repayment of bank loan	-	(374)
Repayment of convertible debenture	-	(507)
Proceeds from issuance of long-term debt	-	608
	(577)	(878)
Cash flows from investing activities:		
Business acquisition, net of cash acquired	(7,076)	-
Corporate transaction costs	(764)	-
Acquisition of property and equipment	(328)	(656)
Addition to intangible assets	(31)	(74)
Other assets	-	(24)
	(8,199)	(754)
Net decrease in cash and cash equivalents	(15,740)	(4,791)
Cash and cash equivalents, beginning of period	35,304	14,543
Effect of exchange rate changes	94	(83)
Cash and cash equivalents, end of period	\$ 19,658	\$ 9,669
Cash and cash equivalents are comprised of:		
Cash	\$ 19,658	\$ 1,963
Money market fund	-	7,706
	\$ 19,658	\$ 9,669

Supplemental cash flow disclosure (note 11 (a))

See accompanying notes to unaudited consolidated financial statements.

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Notes to Consolidated Financial Statements
(Unaudited)

Three-month periods ended March 31, 2007 and 2006
(in thousands of U.S.dollars, except per share amounts)

1. Interim financial statements:

The consolidated financial statements of the Company have been prepared under Canadian generally accepted accounting principles. These financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results of the interim periods presented. The Company's revenues and expenses are subject to seasonal variations. Consequently, the results for any quarter are not necessarily indicative of the results for the full year. The interim consolidated financial statements follow the same accounting policies as described in the Company's latest annual report, except as described in note 3 below. The interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report. The interim financial statements have not been reviewed by the Company's auditors.

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

2. Change in functional and reporting currency:

As a result of a significant portion of its revenues, expenses, assets and liabilities being denominated in US dollars, the Company adopted the US dollar as its functional and reporting currency effective January 1, 2007. All opening assets and liabilities were translated into US dollars using the exchange rate in effect on January 1, 2007. For comparative purposes, historical financial statements and notes thereto up to and including December 31, 2006 have been restated into US dollars as if the Company had adopted the US dollar as its reporting currency for those periods.

The change in the functional currency for the prior periods resulted in a currency translation adjustment of \$3,458 as at December 31, 2006, which is reflected in other comprehensive income, a separate component of shareholders' equity.

3. Changes in accounting policies

Effective with the commencement of its 2007 fiscal year, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-

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3. Changes in accounting policies (continued):

owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. A new financial statement has been presented in relation to the new standards.

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured either at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The adoption of standards of Sections 3251, 3855, 3861 and 3865 has no impact on the financial statements for the period ended March 31, 2007.

4. Corporate reorganization:

Up until August 2006, LAB International Inc. (the "Company") was a fully integrated drug development company operating in two distinct business units. LAB Pharma focuses the development of novel therapeutics and platforms with an emphasis on inhalation based pain therapeutics. LAB Pharma's drug development activities were supported by the scientific expertise, infrastructure and stable cash flows derived from the Company's second business unit, LAB Research Inc. ("LRI"), a contract research services organization with operations in North America and Europe.

As part of an initial public offering of LRI completed on August 3, 2006, the Company completed the following corporate reorganization:

- (i) On May 24, 2006, the Company incorporated a new entity, LRI, to acquire the pre-clinical contract research services business of the Company. These services were conducted by the LAB Research Segment and consisted of LAB Pre-clinical International Research Inc. ("LAB Canada"), Scantox, Biologisk Laboratorium A/S ("LAB Denmark"), LAB International Research Center Hungary Limited Liability Company ("LAB Hungary") and LAB Research International, Inc. ("LAB US").

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4. Corporate reorganization (continued):

- (ii) LAB Canada transferred all of the assets and undertakings comprising its contract research business as well as the shares of LAB US that it held directly to LRI in consideration for a \$23,245 (C\$26,181) note and 101,915 common shares;
- (iii) The Company transferred all of the shares of LAB Denmark that it held to LRI in consideration for a \$12,430 (C\$14,000) note and 2,015,713 common shares;
- (iv) The Company transferred all of the shares of LAB Hungary that it held to LRI in consideration for a \$6,962 (C\$7,841) note and one common share;
- (v) LAB Canada transferred all the shares of LAB Hungary that it held to LRI in consideration for a \$70 (C\$79) note and one common share;
- (vi) The Company sold all of the notes referred to above to 4349695 Canada Inc, a wholly-owned subsidiary of the Company, in exchange for common shares; and
- (vii) 4349695 Canada Inc. subscribed for 12,025,226 common shares of LRI for a total of \$42,707 (C\$48,101) payable by the cancellation of the notes referred to above.

Upon completion of these transactions, LRI owned all of the contract research assets of LAB Canada and all of the outstanding shares of LAB Hungary, LAB Denmark and LAB US.

As part of this reorganization, the Company and LRI entered into a number of agreements including a Preferred Supplier Agreement which requires that the Company use the pre-clinical inhalation toxicology services of LRI on an exclusive basis for a period of 60 months at reasonable terms and conditions. Both parties also entered into a 60 month non-competition agreement covering Canada, the U.S., and Europe with the exception of Russia, Ukraine, Romania and Belarus.

Disposal of interest in LRI:

On August 3, 2006, the Company sold 6,250,000 common shares that it held in LRI for gross proceeds of \$22,197 (C\$25,000) with an over allotment option granted to the Underwriters for an additional 1,500,000 common shares at \$3.55 (C\$4) per share. Concurrently, LRI issued 3,750,000 common shares for aggregate proceeds of \$13,318 (C\$15,000). The Company retained approximately 44% of LRI subsequent to these transactions. Net proceeds amounted to \$20,865 (C\$23,500) after Underwriters' commissions of \$1,332 (C\$1,500).

On September 12, 2006, the Underwriters exercised their over allotment option and the Company sold an additional 1,500,000 common shares for gross proceeds of \$5,364 (C\$6,000). The transaction reduced the Company's interest in LRI to 35.4% and generated net proceeds of \$5,042 (C\$5,640) after Underwriters' commissions of \$322 (C\$360).

On November 9, 2006 the Company sold its remaining interest in LRI for gross proceeds of \$22,929 (C\$25,891) and net proceeds of \$21,427 (C\$24,195) after Underwriters' commissions of \$1,502 (C\$1,696).

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4. Corporate reorganization (continued):

The total gain on dilution and disposal of LRI included \$50,490 (C\$56,891) in gross proceeds less the carrying value of the assets sold and \$7,654 (C\$8,680) of related Underwriter's commissions, professional fees and senior management bonuses related to the transactions.

5. Business acquisition

On January 25, 2007, the Company completed the acquisition of all of the outstanding membership interests of Formulation Technologies, LLC, (PharmaForm) a privately held company headquartered in Austin, Texas. The aggregate purchase price amounted to \$12,928 including \$7,500 of cash and 6,039,535 common shares valued at approximately \$4,379. Under the agreement, additional consideration is payable by the Company upon completion of certain milestones relating to PharmaForm's drug development programs. These amounts are payable, at the option of the vendors, either in cash or in common shares. In total, the maximum contingent consideration payable by the Company is \$13,200. The transaction has been accounted for using the purchase method of accounting and, accordingly, the results of operations of PharmaForm are consolidated from the date of acquisition. The Company is in the process of finalizing the valuation of the net assets acquired; thus the allocation of the purchase price is subject to final modification.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is based upon management's best estimate of the relative fair values of the identifiable assets acquired and liabilities assumed.

Net assets acquired		
Current assets, including cash of \$424	\$	2,024
Property and equipment		2,621
In-process research and development		3,600
Intangible assets		
Non-competition agreement		1,400
FDA/DEA certifications		1,000
Customer contracts and relationships		2,000
Goodwill		2,302
Current liabilities		(1,696)
Long-term liabilities		(323)
	\$	12,928
Consideration:		
Cash	\$	7,500
6,039,535 common shares		4,379
Transactions costs		1,049
	\$	12,928

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6. Other assets:

	March 31, 2007	December 31, 2006
Deferred corporate transaction costs	\$ 471	\$ 828
	\$ 471	\$ 828

7. Long-term debt:

	March 31, 2007	December 31, 2006
Long-term debt in Euros (2007- €404; 2006- €404) bearing 8% interest, repaid in March 2007	\$ -	\$ 533
Long-term debt in Euros (2007- €700; 2006- €700) bearing 8% interest, repayable October 2007, unsecured	935	923
Capital loan in Euros (2007-€3,033 ; 2006- €3,033) from Finnish governmental agency, bearing interest at the basic rate of interest of the European Central Bank less 1%, with a minimum interest rate of 3%. The term of the loan is eight years with no capital repayments in the first four years; repayments are conditional on specified equity requirements in LAB Pharma	4,052	3,999
Capital loans in Euros (2007- €188; 2006- €188) bearing interest at 5%; repayments are conditional on specified equity requirements in LAB Pharma, unsecured	252	249
Equipment loans, bearing 7.75% interest, repayable in 36 monthly instalments of \$10 (1)	269	-
Equipment loans, bearing interest at Wall Street Journal prime rate plus 1%, secured by all assets of PharmaForm, repayable in 98 monthly instalments of \$14 (1)	841	-
Note payable, bearing 7.05% interest, repayable in 35 monthly instalments of \$7	127	-
Capital lease obligation, bearing 7.5% interest, secured by the related laboratory equipment	169	-
	6,645	5,704
Current portion of long-term debt	2,306	1,456
	\$ 4,339	\$ 4,248

(1) On April 30, 2007, both of these loans were repaid and replaced by a \$1,200 term note bearing a fixed rate of interest of 8.75%. The note has a five year term, monthly blended payments of \$25 and is secured by a 1st lien on accounts receivable and fixed assets and by a \$600 certificate of deposit.

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8. Share capital:

Authorized:

An unlimited number of

- Common shares
- Class A shares, issuable in one or more series, each series to consist of such number of shares as may be fixed by the board of directors. The directors shall determine the rights, privileges, restrictions and conditions attached to each class A series
- Class B shares, designated as voting, redeemable and non-participating

(a) Warrants and broker units:

As of March 31, 2007 the following warrant was outstanding:

Warrants	Exercise price	Expiry
1 ⁽¹⁾	\$1.10 (C\$ 1.28)	April 22, 2010

⁽¹⁾ In connection with the issuance of a convertible debenture, the Company issued one warrant exercisable to purchase up to 1,770,286 common shares at a price of \$1.10 per share at any time prior to April 22, 2010.

(b) Stock option plan:

The stock option plan (the "Plan") is designed to attract, retain and motivate directors, officers, employees and consultants of the Company and to advance the interests of the Company by providing such persons with the opportunity to participate in the long-term growth of the Company. The Plan is administered by the Company's Board of Directors and, subject to the provisions of the Plan, the number of shares subject to each option, the option price, the expiration date of each option, the extent to which options are exercisable from time to time and the terms and conditions relating to each such option shall be determined by the Board.

The aggregate number of common shares available for issuance is equal to 10% of the common shares outstanding. The number of common shares, which may be issued to any one person under the Plan, and any other stock compensation agreement, shall not exceed 5% of the Company's common shares on a non-diluted basis. The exercise price of the stock options granted under the Plan must not be less than the most recent quoted closing market price per share. Options are granted for a term not exceeding ten years. In general, options vest over periods of up to three years.

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8. Share capital (continued):

(b) Stock option plan (continued):

Changes in outstanding options issued under the Company's stock option plan for the three-month period ended March 31, 2007, were as follows:

	Number	Weighted average exercise price CA
Balance, December 31, 2006 (audited)	6,599,664	\$ 1.12
Granted	1,415,000	1.00
Cancelled	(300,000)	1.35
Balance, March 31, 2007	7,714,664	\$ 1.09
Options exercisable, March 31, 2007	4,876,051	\$ 1.10

The following table summarizes information about stock options outstanding and exercisable at March 31, 2007:

Exercise price CA	Options outstanding	Options exercisable	Weighted average remaining contractual life (years)
\$ 0.80 – 0.89	100,000	33,333	9.59
\$ 0.90 – 0.99	1,836,539	1,149,593	7.42
\$ 1.00 – 1.09	3,859,094	2,174,093	8.61
\$ 1.10 – 1.19	140,416	110,416	7.74
\$ 1.20 – 1.29	886,945	866,946	6.54
\$ 1.50 – 1.59	691,670	541,670	5.98
\$ 1.60 – 1.69	200,000	-	9.09
	7,714,664	4,876,051	7.86

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9. Restructuring:

In 2006, the Company recorded a charge of \$3,858 relating to the restructuring of its Finnish subsidiary, which included a \$3,523 impairment loss on property and equipment and \$335 for employee severance. As at March 31, 2007, all amounts accrued for severance costs remained unpaid and are included in "Accounts payable and accrued liabilities" on the consolidated balance sheet.

On March 5, 2007, Lab Pharma and its landlord agreed to an early termination of their lease agreement. The agreement required a lump sum payment of \$2,780 (€2,130) which included \$1,896 (€1,452) covering the base rent for the period from February 1, 2007 to September 30, 2008, \$306 (€236) for maintenance costs for the period from October 1, 2007 to September 30, 2008 and the repayment of the unsecured long-term debt of \$578 (€442), including related accrued interest of \$50 (€38). The lump sum payment for rent and maintenance costs, less \$557 (€416) representing monthly rent charges for the period from April 1, 2007 to October 31, 2007, the cease-use date, was charged to research and development expenses in March 2007.

10. Stock-based compensation:

For the three-month period ended March 31, 2007 the Company granted 1,415,000 (2006 - 1,070,000) options. The Company recognized total stock-based compensation charge of \$118 (2006 - \$195).

The fair value of each option granted is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions:

	March 31, 2007	March 31, 2006
Risk-free interest rate	4.15%	3.13%
Expected volatility	65%	59%
Expected life in years	6	5
Expected dividend yield	-	-

The following table summarizes the weighted average grant-date fair value per share for options granted during the periods ended March 31, 2007 and 2006:

	Number of options	Weighted average grant-date fair value
March 31, 2007	1,415,000	\$ 0.54
March 31, 2006	1,070,000	0.38

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

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11. Supplemental information:

(a) Supplemental cash flows disclosure:

Net changes in operating assets and liabilities:

	Three months ended March 31,	
	2007	2006
Accounts receivable	\$ 191	\$ (1,418)
Work in progress	-	320
Income taxes and research tax credits receivable	-	845
Prepaid expenses	(326)	(1,103)
Accounts payable and accrued liabilities	(1)	(210)
Deferred revenue	(57)	867
	\$ (193)	\$ (699)

(b) Non-cash transactions:

	Three months ended March 31,	
	2007	2006
Issuance of common shares in connection with business acquisition	\$ 4,379	\$ -
Conversion of debentures in shares	-	874
Property and equipment financed through capital leases	-	188
Due to Scantox shareholders settled with cash held in escrow	-	469

(c) Cash paid for:

	Three months ended March 31,	
	2007	2006
Income taxes	\$ 411	\$ -
Interest	49	232

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12. Related party transactions:

During the three-month period ended March 31, 2007, the Company incurred \$130 (2006 - \$49) to firms connected with outside directors of the Company and \$179 (2006 - nil) to non-controlling shareholders for professional services rendered. The Company also incurred \$137 (2006 - \$116) as remuneration for services rendered by companies connected to certain shareholders and outside director, including \$99 (2006 - \$93) to PRI International Consulting Inc., a company directly controlled by the Company's Chief Executive Officer (CEO).

The Company incurred \$1,354 (2006 - \$194) to non-controlling shareholders for rent expense and \$25 (2006 - \$27) for interest expense on long-term debt.

These transactions are measured at the exchange amount of consideration established and agreed to by the related parties.

13. Significant research, development and licensing agreements:

In June 2003, PharmaForm entered into a license agreement with Auxilium Pharmaceutical, Inc. ("Auxilium"). Under this agreement, PharmaForm granted Auxilium an exclusive, worldwide royalty-bearing license to develop, make and sell products that contain hormones or that are used to treat urologic disorders, incorporating PharmaForm's oral transmucosal film technology for which there is an issued patent in the United States. The term of this license agreement is for the life of the licensed patents.

In February 2005, PharmaForm entered into an additional license agreement with Auxilium. Under this agreement, PharmaForm granted Auxilium exclusive, worldwide royalty-bearing rights to develop, manufacture and market eight compounds using PharmaForm's proprietary transmucosal film technology for the management of pain, including acute and chronic pain. The compounds that may be developed include opioids as well as other types of analgesics. In 2005, PharmaForm received an upfront payment of \$0.5 and could be paid up to an additional \$21,200 in contingent milestone payments, if all underlying events for these eight compounds occur. PharmaForm has deferred the upfront license payment and is recognizing the revenue over the expected remaining term of the Research and Development agreement of four years. In addition, PharmaForm will receive on-going royalty payments from Auxilium. The timing of the remaining payments, if any, is uncertain.

To speed the development of products using the licensed technology, Auxilium entered into a research and development agreement with PharmaForm, on a fee-for-service basis. Auxilium will be the sole owner of any intellectual property rights developed in connection with this agreement.

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14. Commitments:

- (a) The Company is party to operating leases for premises, cars and service contracts related to property and equipment. Minimum lease payments under these agreements are as follows: 2007 - \$416; 2008 - \$396; 2009 - \$259.
- (b) To pursue the development of its pharmaceutical products, the Company entered into various agreements. Under these agreements, the Company is committed to minimum payments of \$2,371 in 2007.
- (c) The Company is party to an exclusive world-wide master license agreement whereby the Company was granted licenses to further develop and exploit commercial applications to be derived from a specific invention bearing a United States patent serial number. Under the license agreement, the Company undertakes to pay a royalty of 1.5% to 5% of specified sales, with a minimum annual amount of \$10. This license agreement will expire when the last of the patent rights expire.
- (d) The Company is party to a royalty bearing licences for a drug delivery system in which the Company is required to pay 75% of any sublicense fees received by the Company to the licensors. The Company's sublicense to Auxilium, a customer of PharmaForm, is subject to these agreements.
- (e) The Company is party to a service agreement with a company controlled by a shareholder, which will provide the services of the CEO with respect to the overall management of the Company for a period of five years commencing on September 1, 2005. The amount payable under this agreement is \$250 per year.
- (f) As part of the 2004 acquisition of LAB Pharma Oy, the Company may contingently issue up to 1,500,000 additional common shares to the principal vendors should other specified regulatory milestones be achieved for the development of Fentanyl Taifun®.
- (g) As part of the 2003 acquisition of Seyvika, the Company is committed to pay royalties based on a percentage of future sales derived from commercial products developed using the licensed process with a minimum amount of \$50 one year after commercialisation and \$100 every year thereafter.
- (h) The Company is committed to expanding its leased premises located in Austin, Texas. The estimated cost of construction is \$400.
- (i) In conjunction with the acquisition of PharmaForm, the Company entered into an eighteen-month consulting agreement with one of PharmaForm's former members to perform specific financial services for a base compensation of \$6 per month. The Company also entered into five-year consulting agreements with each of PharmaForm's two former majority members under which each of them agreed to perform consulting services for a base compensation of \$280 per year. In addition, the Company entered into four-year employment agreements with each of PharmaForm's three remaining former members under which they agreed to perform specific services for the Company on a full-time basis and for which they will be paid an aggregate base salary of \$530.

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(Unaudited)

Three-month periods ended March 31, 2007 and 2006
(in thousands of U.S.dollars, except per share amounts)

15. Segment disclosures:

Following the corporate reorganization and business acquisition described in notes 4 and 5, the Company only operates one reportable segment, Pharma. Prior to these transactions, the Company had three reportable segments: Research services (disposed of in 2006), Pharma and Corporate. Segmented financial information for the three-month period ended March 31, 2006 has been restated to conform to the new reporting structure as follows:

	Three months ended March 31, 2006		
	Research services	Pharma	Total
Revenues	\$ 9,528	\$ 187	\$ 9,715
Direct costs	5,745	-	5,745
Selling, general and administrative	1,863	1,789	3,652
Research and development	-	2,337	2,337
Stock-based compensation	17	178	195
Amortization	680	346	1,026
Interest expense	124	497	621
Foreign exchange	(74)	394	320
Income tax expense (recovery)	220	(36)	184
Segment earnings (loss)	953	(5,318)	(4,365)

Revenues were derived from customers located in the following geographic areas:

	Three months ended March 31,	
	2007	2006
United States	\$ 1,048	\$ 3,309
Denmark	-	1,977
Canada	103	799
Germany	-	942
Spain	-	358
United Kingdom	-	249
Sweden	-	674
Switzerland	-	133
Australia	-	120
Korea	8	165
Belgium	-	368
Japan	-	341
Europe- Other	26	280
Asia - Other	189	-
	\$ 1,374	\$ 9,715

LAB INTERNATIONAL INC.

Notes to Consolidated Financial Statements
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Three-month periods ended March 31, 2007 and 2006
(in thousands of U.S.dollars, except per share amounts)

15. Segment disclosures (continued):

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

	March 31, 2007	December 31, 2006
Finland	\$ 4,473	\$ 5,390
Canada	377	460
Barbados	3,333	3,952
United States	12,846	-
	\$ 21,029	\$ 9,802

Expenditures for segment property and equipment and intangible assets:

	Three months ended March 31,	
	2007	2006
Pharma	\$ 328	\$ 30
Research services	-	699
	\$ 328	\$ 729

16. Comparative figures:

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