

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations of LAB International Inc. (or the "Company"), other than statements of fact that are independently verifiable at the date hereof, may be forward-looking statements regarding the industry in which it operates and the Company's expectations as to its future performance, liquidity and capital resources. Forward-looking statements look into the future and may include such words as "plans", "trends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "targeting", "suggests" and similar expressions. This MD&A contains forward-looking statements about the Company's objectives, strategies and financial condition, as well as statements with respect to our beliefs, expectations, estimations and intentions. These "forward-looking" statements are based on current expectations and various factors and assumptions. Accordingly, these statements entail various risks both known and unknown, including those set forth in the "Risks and Uncertainties" section of this document. Consequently, actual future results may differ materially from the anticipated results expressed in the forward-looking statements. It is important to note that, unless otherwise indicated, forward-looking statements in this MD&A describe our expectations as of May 9, 2007. We assume no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or for any other reason.

This analysis explains the material variations in the unaudited consolidated statements of operations, financial position and cash flows of the Company for the three month periods ended March 31, 2007 and the three month period ended March 31, 2006. The interim consolidated financial statements have not been reviewed by the Company's auditors.

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. Unless otherwise stated, all figures are presented in thousands of US dollars.

Background

LAB International Inc. is an integrated product development company primarily focused on therapeutics for pain that utilize its proprietary drug delivery technologies. The Company's lead product candidate is Fentanyl TAIFUN®, a fentanyl formulation specifically designed to be delivered with its TAIFUN® Multi-Dose Dry Powder Inhaler. The Company is developing Fentanyl TAIFUN® as a rapid-acting inhaled opioid analgesic for treatment of break-through cancer pain. It believes that based upon the results of clinical trials performed to date, Fentanyl TAIFUN®, if approved by the FDA, will deliver much faster onset of pain relief from break-through cancer pain at lower dosages than other non-injectable products indicated for break-through cancer pain.

The Company has developed two proprietary abuse-resistant delivery platforms, which are referred to as EDACS™ and CureCap™, to address abuse of oral opioid dosage forms. Both of these platforms prevent fast dissolution of the active substance in alcohol, known as dose dumping, and are crush-resistant, minimizing abusive dissolution and administration of controlled substances. The Company intends to initiate a Phase I clinical trial for its first abuse-resistant product in the second half of 2007.

The Company is also developing an oral transmucosal drug delivery film referred to as PHARMAFILM™ which is placed on the gum tissue. It is a bio-adhesive hot-melt extruded transmucosal film which is customizable (size, shape and color). Multiple layers of film allow for various release profiles (immediate or

controlled release). The formulation and processing flexibility of our PHARMAFILM™ technology greatly increase the adaptability of its biodegradable characteristics for application to a variety of transmucosal sites.

In addition to our pain product candidates, our non-pain product candidates include:

- CGRP (*calcitonin gene related peptide*)—an anti-asthmatic currently in a Phase II trial;
- GHRH (*growth hormone releasing hormone*)—a synthetic growth hormone analog currently in a Phase II trial for treatment of malnutrition in patients with chronic renal failure.

Our intellectual property portfolio includes 6 issued U.S. patents and 68 foreign patents, as well as 12 pending U.S. applications and 34 pending foreign applications relating to our technologies and product candidates.

In 2006, the Company effected a corporate reorganization that included the transfer to a newly incorporated subsidiary, LAB Research Inc. (LRI), of its pre-clinical contract research services business. In August and September 2006, the Company sold 64% of LRI in an initial public offering in Canada and in November 2006 it sold the balance of its holdings in LRI. The corporate reorganization and disposition of LRI is referred to as the LRI Spin-off. The Company recognized a gain of \$32,759 million on the disposal of LRI, which it is using for product research and development, opportunistic acquisitions and working capital.

In January 2007, the Company acquired Formulation Technologies, L.L.C. ("PharmaForm"), a privately held specialty pharmaceutical drug delivery company based in Austin, Texas, for approximately \$14,142, including a cash payment of \$7,500, common shares valued at \$4,379 and \$1,049 in transaction related costs. Under the purchase agreement, additional consideration is payable by us upon completion of certain milestones relating to PharmaForm's drug development programs. To the extent that PharmaForm meets or exceeds pre-defined milestones, the Company is obligated to make additional payments in cash or shares. Please refer to note 5 of the unaudited consolidated financial statements for additional details.

The Company's headquarters are in Montreal, Canada. The Company has historically operated its research and development activities at its facilities in Turku, Finland. However, as a result of the PharmaForm acquisition, the Company is moving its principal research, development and manufacturing activities from Finland to its facilities in Austin, Texas.

Initial Public offering of LRI

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

- a) 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 Company's contract 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 LRI International, Inc. ("LAB US").
- b) LAB Canada transferred all of the assets and undertakings comprising its contract research business as well as its directly held shares of LAB US to LRI in consideration for a promissory note in the principle amount of \$23,245 (C\$26,181) and 101,915 common shares.
- c) The Company transferred all of its shares of LAB Denmark to LRI in consideration for a promissory note in the principle amount of \$12,430 (C\$14,000) and 2,015,713 common shares.
- d) The Company transferred all of its shares of LAB Hungary to LRI in consideration for a promissory note in the principle amount of \$6,962 (C\$7,841) and one common share.

e) LAB Canada transferred all of its shares of LAB Hungary to LRI in consideration for a promissory note in the principle amount of \$70 (C\$79) and one common share.

f) 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.

g) 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 sold 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).

The \$32,759 gain on dilution and disposal of LRI included in the consolidated statements of operations includes \$50,490 (C\$56,891) in gross proceeds less the carrying value of the assets sold and \$5,185 (C\$5,880) of related underwriters' commissions and professional fees. Senior management bonuses directly related to these transactions consisted of \$2,469 (C\$2,856) in cash and shares of LRI.

Corporate Highlights

- On January 25, 2007, the Company announced the closing of the acquisition of Formulation Technologies L.L.C ('PharmaForm'), a privately held specialty pharmaceutical drug delivery company based in Austin, Texas. The Company paid \$7,500, cash and common shares of having a value of \$4,379 on closing. Transaction related costs were \$1,049. The sellers will be eligible for additional amounts payable in the Company's common shares upon completion by PharmaForm of certain milestones relating to specific revenue targets and to its drug delivery platforms currently under development.
- On January 31, 2007, the Company announced first patient enrollment in the extension of its Fentanyl Taifun Phase IIb trial. The first part of the trial was a single arm, open-label dose titration to evaluate the effective individual dose for significant pain relief with Fentanyl TAIFUN® in the treatment of breakthrough cancer pain. The required enrolment is for 32 patients. The second part is a randomized, double-blind, cross-over and placebo controlled with a total of 28 patients.

- On February 8, 2007 the Company announced it had completed patient enrollment for its pilot GHRH Phase IIa study. Safety and efficacy data is scheduled to be available by the end of May 2007.
- On March 5, 2007, the Company announced positive results from the open-label part of its Fentanyl TAIFUN® Phase IIb clinical trial. The results from 24 patients demonstrated successful dose titration resulting in effective control of breakthrough pain episodes.

Operating Results

Business Units:

The summarized financial information covers the three periods ended **March 31, 2007 and 2006**.

As a result of the LRI Spin-off, the Company's ongoing business operations are distinctly different from its historical operating results as reflected in the unaudited consolidated financial statements and related notes thereto for the three months ended March 31, 2006. This is principally because the pre-clinical contract research services business, which was disposed of in the LRI Spin-off, provided a revenue and expense base substantially different from our continuing operations. Consequently, the following discussion of the Company's continuing consolidated operating results for the first quarter of 2007 is based on comparisons to its relevant historical segmented results which are referred to below as the "Pharma" segment. The term "Contract Research" is used to refer to the activities constituting our former pre-clinical contract research services business segment.

Comments on Financial Results:

The Company's results of operations for the first three months of 2007 include the operations of PharmaForm since the date of acquisition on January 25, 2007.

The consolidated loss for the three months ended March 31, 2007 was \$8,107 compared to the \$5,318 Pharma segment loss for the same 2006 period. The year-over-year increase in the net loss was due to a higher rate of spending on research and development activities and selling, general and administrative expenses.

	2007	2006		
	Consolidated Total	Pharma Segment	Contract Research Segment	Consolidated Total
Revenues	\$1,374	\$187	\$9,528	\$9,715
Direct costs	793	-	5,745	5,745
SG&A	2,436	1,789	1,863	3,652
R&D costs	5,043	2,337	-	2,337
Stock-based compensation	118	178	17	195
Amortization	698	346	680	1,026
Interest LTD	47	497	124	621
Foreign exchange	413	394	(74)	320
Income taxes	(67)	(36)	220	184
Net earnings (loss)	(\$8,107)	(\$5,318)	\$953	(\$4,365)

Revenues

The Company derives its revenues from licensing and co-development agreements and, through PharmaForm, provides drug formulation solutions, limited run drug manufacturing and product development services on a contract basis to primarily mid-sized pharmaceutical and biotech companies. The Company has entered into development and license agreements for its Fentanyl TAIFUN® inhaler, a fast-acting fentanyl formulation delivered using its approved TAIFUN® dry-powder inhaler platform. Under these agreements, it has granted development, marketing and distribution rights to its Fentanyl TAIFUN® inhaler in specified world markets. The Company has received or will receive upfront payments, funding for development costs, milestone payments and revenues for supplying the finished product once commercialization begins, along with royalties on future sales. The Company currently has agreements for the South Korean, Chinese (excluding Hong Kong and Taiwan) and Japanese markets. For the three months ended March 31, 2007 the Company had total revenues of \$1,374 consisting of \$195 in co-development fees and amortized milestone payments and \$1,179 of contract services. The \$187 in Pharma Segment revenue for the first quarter of 2006 related primarily to co-development fees.

Expenses

Direct expenses of \$793 for the three months ended March 31, 2007 related specifically to the direct and indirect costs associated with providing contract services and include the cost of raw materials, direct and indirect labor, supplies and related equipment and facility overheads.

SG&A expenses consisted of salary and benefits for the executive, accounting, administrative and business development personnel, professional fees and other corporate expenses. The \$647 quarter-over-quarter increase in SG&A includes approximately \$488 relating directly to the PharmaForm operation and incremental professional fees and personnel costs associated with its integration and the execution of several other strategic initiatives.

R&D expenses consisted primarily of third-party clinical trial providers, salary and benefits for scientists and technicians, testing material, consultants and related overheads. R&D costs for the first quarter of the year of \$5,043 were 116% more than in 2006 and include \$1,294 of rent and facility charges relating to the early termination of the leased premises occupied by the Company's Finnish subsidiary. The details of this transaction are disclosed in note 9 of the unaudited consolidated financial statements for the quarter. The clinical advancement of each product candidate serves to reduce its overall risk but increases the amount of funding required. During the first quarter of 2007, the Company incurred approximately \$2,650 (\$1,682 million - 2006) in third-party product candidate development costs, \$2,150 (\$1,326 - 2006) or 81% (79% - 2006) of which related directly to the development of Fentanyl TAIFUN®.

Amortization expense includes approximately \$282 relating intangibles recorded as a result of the PharmaForm acquisition which is more fully described in note 5 of the unaudited consolidated financial statements. To date, the Company has not had substantial capital expenditure requirements. This is expected to change as it prepares for the commercial launch of Fentanyl TAIFUN®. The value of the fixed assets located in Turku, Finland was written down to their estimated recoverable value at the end of 2006.

The increase in the foreign exchange loss over the previous quarter reflected the strengthening of the Euro on a quarter-over-quarter basis against both the Canadian and U.S. dollar. Our Finnish subsidiary has a significant net Euro liability position which adds to the foreign exchange loss when there is an increase in the value of the Euro against the functional currency.

Long term interest expense of \$497 for the first quarter of 2006 included \$160 of interest on the Laurus convertible debenture, and a \$290 'loss on early settlement' component recorded on its partial conversion. By August 3, 2006, this debenture had been fully converted into 4,618,444 common shares of the Company.

The benefit of non-capital losses to reduce the taxable income in future years has been fully reserved against since the criteria for recognition of these tax assets were not met at March 31, 2007. The value of future income tax assets has been offset by a valuation allowance since their realization probability is

considered to be less than "more likely than not." The Company's ability to ultimately realize these future income tax assets is dependent upon future profitability within the allowable carry-forward period, thereby creating sufficient taxable income to realize their benefit.

Quarterly results

Quarter	Revenues	Net Income (loss)	Net income (loss) per share	
			Basic	Diluted
<i>Quarter ended March 31, 2007</i>	1,374	(8,107)	(0.10)	(0.10)
<i>Quarter ended December 31, 2006</i>	1,062	(740)	(0.00)	(0.00)
<i>Quarter ended September 30, 2006</i>	4,027	9,860	0.14	0.14
<i>Quarter ended June 30, 2006</i>	10,642	(4,809)	(0.07)	(0.07)
<i>Quarter ended March 31, 2006</i>	9,715	(4,365)	(0.06)	(0.06)
<i>Quarter ended December 31, 2005</i>	9,631	(2,846)	(0.05)	(0.05)
<i>Quarter ended September 30, 2005</i>	10,546	(2,247)	(0.04)	(0.04)
<i>Quarter ended June 30, 2005</i>	10,578	(3,065)	(0.05)	(0.05)

The quarterly results include the results of LRI to the date of the IPO, August 3, 2006. The Company ceased consolidating the results of operations of LRI in the third quarter of 2006, which accounts for the reduction in revenues in this period and the fourth quarter. The Company also recorded gains on disposal of its interest in LRI in both the third and fourth quarters of 2006.

Liquidity and Capital Resources

Historically, the Company's cash requirements were provided by the cash flow generated by the Contract Research segment and by the capital raised through the issuance of shares and/or debt. The LRI Spin-off which generated \$42,600 in net proceeds will increase the Company's reliance on capital market funding should the need arise.

Cash and cash equivalent balances at March 31, 2007 were \$19,658 compared with \$35,304 as at December 31, 2006 and \$9,817 as at March 31, 2006. The Company has sufficient cash reserves to sustain its operations for at least the next twelve months.

The \$1,772 in deferred revenue represents amounts billed and/or collected but which have not been earned.

On January 25, 2007, the Company paid \$7,500 in cash and shares having a value of \$4,379 to acquire all the outstanding membership interests of PharmaForm. Transaction related costs were \$1,049. The sellers will be eligible for additional amounts payable in LAB shares upon completion by PharmaForm of certain milestones relating to specific revenue targets and to its drug delivery platforms currently under development. The addition of PharmaForm is expected to be accretive to both earnings and cash flow and allow for substantial cost synergies once transfer-in of product development and formulation expertise from our Finnish subsidiary is complete.

Fixed asset additions for the first 3 months of the year were \$328 (\$10 -2006), and were primarily for specialty testing and formulation equipment. Fixed asset expenditures are expected to increase significantly to accommodate the additional specialized manufacturing space and equipment required for the commercialization of Fentanyl TAIFUN®.

On March 1, 2007, LAB Pharma and its landlord agreed to an early termination of their lease agreement. The agreement requires a lump-sum payment of \$2,780 (€2,130) which includes \$1,896 (€1,452) covering the base rent for the period from February 1, 2007 to September 30, 2008, \$306 (€236) for maintenance costs and the repayment of the unsecured long-term debt of \$578 (€442), including related accrued interest of \$50 (€38). Please refer to note 9 of the unaudited consolidated financial statements for further details.

Contractual Obligations and Commitments

The aggregate maturities of the contractual obligations are as follows:

	2007	2008	2009	2010	2011+	Total
Operating leases	416	396	259	-	-	1,071
Service contracts	10	-	-	-	-	10
Consulting fees	835	835	835	743	560	3,808
Clinical studies	2,371					2,371
Long-term debt	2,306	34	-	-	4,305	6,645
	5,938	1,265	1,094	743	4,865	13,905

- (a) The Company is a 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 a 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.

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.

Outlook

The most important trends affecting the healthcare products industry are demographic changes and the growing influence of managed care. Shifting demographics will drive industry growth in the years ahead as an aging population provides further stimulus for industry demand.

The search for improved routes of administration and the desire for non-invasive delivery methods for self-medication of chronic conditions represent therapeutic application opportunities for developers of inhalation drug delivery based products like us.

Advances in inhaler design and powder engineering should drive growth in dry powder inhalation for both upper respiratory tract and systemic applications. The inherent advantages of dry powder formulations for large molecule drug compounds and new dry powder inhalers specifically engineered to deliver these expensive new chemical entities to the deep lung should serve as a catalyst for the adoption of dry powder inhalers as the technology of choice.

Inhalation forms the basis for the treatment and control of upper respiratory tract diseases such as asthma and chronic obstructive pulmonary disease and is expected to continue to experience steady growth over the next several years. The systematic delivery of drugs through the lungs is now a reality for diabetes, paving the way for other major indications such as cancer and post-operative pain, Parkinson's disease and erectile dysfunction.

In summary, the factors that will influence the total demand for inhalation-based therapeutics include:

- the growth in the number of cases of upper respiratory disease;
- the expected increase in self-administration for the treatment of chronic conditions;

- the pulmonary administration of therapeutics for systemic delivery; and
- technological improvements in inhalation delivery.

The Company is well positioned to take advantage of these and other trends such as the growing demand for drug abuse deterrence solutions, given its current product development and drug delivery platform portfolios. The Company will continue to focus on those therapeutic opportunities which can be accelerated to market and facilitate licensing and co-development agreements to offset product development costs and risk. The acquisition of PharmaForm is key to the Company's strategy by adding FDA and DEA approved specialized drug formulation / manufacturing capabilities and unique patent pending abuse deterrent and trans-mucosal drug delivery systems.

In order to maximize value creation in the short term, The Company intends to:

- Complete the Fentanyl Taifun Phase IIb program and start Phase III.
- Centralize all formulation, manufacturing and product / platform development at PharmaForm.
- Complete LAB Calcitonin Gene Related Peptide (CGRP) Phase IIb anti-inflammatory trials.
- Complete the LAB Growth Hormone Release Hormone (GHRH) Phase IIa study and, depending on the outcome, start a larger scope Phase IIb trial.
- Accelerate the development of PharmaForm's abuse deterrent and trans-mucosal platforms.
- Out-license the Company's products and inhalation platforms in the U.S. and Europe.
- Broaden delivery platforms and product offerings with a focus on reformulated generics for pain and CSN indications through co-sponsored programs, and/or strategic alliances.
- Aggressively pursue other synergistic acquisition opportunities.

Critical Accounting Policies

In preparing our 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 our consolidated financial statements. These accounting policies are discussed in the following paragraphs.

Property, equipment and intangible assets are stated at cost and are amortized over their estimated useful lives on a straight-line basis. We regularly review property, equipment and intangible assets 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 our property, equipment or intangible assets costs are impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. In 2006, we recorded an impairment loss of \$3.6 million related to property and equipment in Finland.

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 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. We have recorded a 100% valuation allowance of against our future tax assets as of March 31, 2007 due to uncertainties relating to our ability to utilize our future tax assets, consisting primarily of non-capital losses and unclaimed deductions, before they expire.

Research and development costs consist of direct and indirect expenditures, including a reasonable allocation of overhead expenses, associated with our various research and development programs. Research and development costs are expensed as incurred. Overhead expenses comprise general and administrative support provided to the research and development programs and involve costs associated with support activities such as facility maintenance, utilities, office services, information technology and human resources. We review and accrue clinical trials expenses based on work performed, which relies on estimates of total costs incurred based on completion of patient studies and other events. We follow this method since reasonable dependable estimates of the costs applicable to various stages of a research agreement of clinical trial can be made. Accrued clinical costs are subject to revisions as trials progress to completion. Revisions are charged to expense in the period in which the facts that give rise to the revision become known.

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 requisite service period. We use the Black-Scholes options pricing model to calculate stock option values, which requires certain assumptions, including 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 our earnings. Revenue consists of development services performed on behalf of third parties. Revenues are recognized at the time research activities are performed under the agreement.

Revenue from development and license agreements that include multiple elements are considered to be revenue arrangements with multiple deliverables. Under this type of 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. Payments received under these agreements may include up-front payments, regulatory based milestones for specific achievements as well as fees for development funding, sales and royalties. Up-front and regulatory milestones payments, which require our ongoing involvement, are deferred and amortized into income on a straight-line basis over the estimated period of service. When a milestone is achieved, a portion of the milestone revenue equal to the progress toward completion would be recognized. The remaining portion of the milestone is amortized into future periods as additional progress toward completion is achieved. Fees for development funding, sales and royalties are recognized when the service is rendered or the product is delivered and the amount is determinable and collectibility is reasonably assured.

Revenue for contract services is recognized as work is performed, and amounts are earned. The timing of cash received from the Company's contract services agreements can differ from when revenue is recognized. The Company considers amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectability is reasonably assured. For contracts with fees based on time-and-materials, the Company recognizes revenue over the period of performance. For fixed-price contracts, depending on the specific contractual provisions and the nature of the deliverables, revenue may be recognized as milestones are achieved or when final deliverables have been provided.

At times, the Company's arrangements with customers involve multiple elements. The deliverables in each arrangement are evaluated at contract inception to determine whether they represent separate units of accounting. The total fee for the arrangement is allocated to each unit of accounting based on its relative

fair value, taking into consideration any performance, cancellation or termination provisions. Fair value for each element is established generally based on the sales price charged when the same or similar services are sold separately to customers. Revenue is recognized when revenue recognition criteria for each unit of accounting are met.

Unbilled accounts receivable represents amounts recognized as revenue based on services performed in advance of billings, in accordance with contract terms. Under the Company's typical time-and-materials billing arrangement, the Company bills customers on a regularly scheduled basis, such as biweekly or monthly. Deferred revenue represents deferred license fees and payments received in advance of services being performed, milestones being reached, or final deliverables being provided.

Risks and uncertainties

These risks and uncertainties should be read in conjunction with the Risk Factors detailed in our Annual Information Form.

Additional funding

The Company's long-term success depends, in part, on its ability to access the capital markets. There is no assurance that additional capital will be available on a timely basis and with acceptable conditions.

To obtain the necessary capital, the Company must rely on additional share / debt issues, collaboration agreements and corporate partnerships to provide full or partial funding for its activities and commercialization of its products. Should the Company fail to obtain the necessary capital, it will have to reduce its development activities, unless it is able to enter into agreements to obtain financial support from third parties. Such financial support may require that the Company waive its rights to some of its eventual products or technologies.

Volatility of share price

The market price of the Company's shares is subject to volatility. General market conditions as well as differences between the Company's financial, scientific and clinical results and the expectations of investors as well as securities analysts can have a significant impact on the trading price of the Company's shares. In recent years, the stocks of many biopharmaceutical companies have experienced extreme price fluctuations, unrelated to the operating performance of the affected companies. There can be no assurance that the market price of the common shares will not continue to experience significant fluctuations in the future, including fluctuations that are unrelated to the Company's performance.

Preclinical and clinical studies

The Company is presently conducting preclinical and clinical studies for these programs which will take several years to complete and require considerable resources from the Company. Confirmation of positive, timely and conclusive results from this program is an essential condition of regulatory approval and, therefore, product commercialization. There can be no assurance that the positive results achieved will be confirmed and unsatisfactory results may considerably hinder the development, approval and commercialization of the Company's products.

Regulatory approvals

In order to commercialize its products and, hence, generate revenues, the Company must first obtain the approval of regulatory agencies in each of the countries where it wishes to sell its products. The Company's products may not meet the safety and effectiveness criteria established by the various agencies and, consequently, may not obtain required approvals for commercialization for any or all targeted indications. Furthermore, no assurance can be given that current regulations relating to regulatory approval will not change or become more stringent. Moreover, any regulatory approval of a drug which is eventually obtained may entail limitations on the indicated uses for which that drug may be

marketed. In addition, it must be noted that product approvals may be withdrawn if problems occur following initial marketing or if compliance with regulatory standards is not maintained.

Product development

The success of the Company will depend upon its ability to commercialize or license the commercial rights to the proprietary products which it discovers and develops. Development of new chemical compounds through the various testing phases is a lengthy and costly process. Most newly discovered compounds, regardless of their early promise, do not survive the development process to become new products. There is no assurance that any of the new products or technologies currently being developed by the Company will reach the market or that, if any does so, it will be commercially successful.

Patents

The Company's success will depend in part on its ability to obtain patents or rights to patents, and to operate without infringing the exclusive rights of third parties. There is no assurance that any patent (or rights) thereto granted to the Company will bring any competitive advantage to the Company, that its patent protection will not be contested by third parties, or that the patents of competitors will not be detrimental to the Company's commercial activities. It cannot be assured that competitors will not independently develop products similar to the Company's products, that they will not imitate the Company's products or that, if the Company obtains patents, its competitors will not manufacture products designed to circumvent the exclusive patent rights of the Company.

Competition

LAB is subject to significant competition from pharmaceutical companies, biotechnology companies, academic and government research institutions, and other organizations pursuing technologies or offering services similar to those of the Company. Many of the organizations competing with the Company have greater capital resources, research and development staffs, facilities and marketing capabilities.

Key personnel and ability to manage growth

The Company continues to experience growth in the number of its employees and the scope of its operations. LAB needs to be able to attract and retain a highly skilled workforce which includes MDs, PhD's of various disciplines, chemists, biologists, laboratory technicians and support staff.

Ability to manage growth

Future growth, if any, may cause a significant strain on the Company's management and its operational, financial and other resources. The Company's ability to manage growth effectively will require it to implement and improve operational, financial, manufacturing and management information systems and to expand, train, manage and motivate employees. These demands may require the addition of management personnel and the development of additional expertise by management. Any increase in resources devoted to research, product development and marketing and sales efforts without a corresponding improvement in operational, financial, manufacturing and management information systems could have a material adverse effect on the Company's business, financial condition and results of operations.

Foreign currency risk

LAB's revenues expenses are currently generated primarily in US dollars with some of its expenses paid in Canadian dollars and Euros. The Company's consolidated profitability could therefore be affected by fluctuations in the US dollar relative to the Euro and Canadian dollar. These fluctuations may be substantial and are difficult to predict. From time to time the Company uses derivative financial instruments to mitigate the risk of foreign exchange losses which may materially effect its operations.

Additional information relating to the Company is available on SEDAR'S website @ www.sedar.com.

On behalf of Management,

A handwritten signature in black ink, appearing to read 'A. Reiter', with a stylized flourish at the end.

Andrew Reiter, CA
Chief Financial Officer
Montreal, Quebec, Canada
May 15, 2007