

Consolidated Financial Statements of
(Unaudited)

AKELA PHARMA, INC.
(formerly LAB International Inc.)

Periods ended September 30, 2007 and 2006

AKELA PHARMA, INC.

(formerly LAB International Inc.)
Consolidated Financial Statements
(Unaudited)

Periods ended September 30, 2007 and 2006

Financial Statements

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AKELA PHARMA, INC.

(formerly LAB International Inc.)
Consolidated Balance Sheets
(Unaudited)

September 30, 2007, with comparative figures as of December 31, 2006
(in thousands of US dollars)

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,059	\$ 35,304
Accounts receivable	2,734	1,347
Prepaid expenses	484	712
	<u>18,277</u>	<u>37,363</u>
Restricted cash	600	-
Property and equipment	4,175	397
Other long-term assets	914	-
Intangible assets	14,550	8,015
Goodwill	2,383	-
Deferred corporate transaction costs	2,991	828
	<u>\$ 43,890</u>	<u>\$ 46,603</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,737	\$ 4,886
Deferred revenue	674	1,606
Current portion of long-term debt	1,436	1,456
	<u>10,847</u>	<u>7,948</u>
Deferred revenue	11,417	-
Long-term debt	5,768	4,248
Future income taxes	1,171	1,204
Shareholders' equity:		
Share capital	54,227	49,758
Warrants	364	366
Additional paid-in capital	7,111	6,281
Accumulated other comprehensive income	3,458	3,458
Deficit	(50,473)	(26,660)
	<u>14,687</u>	<u>33,203</u>
Commitments and contingencies (note 13)		
	<u>\$ 43,890</u>	<u>\$ 46,603</u>

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA, INC.

(formerly LAB International Inc.)

Consolidated Statements of Operations and Comprehensive Earnings
(Unaudited)

Periods ended September 30, 2007
(in thousands of US dollars)

	Three-months ended September 30,		Nine-months ended September 30,	
	2007	2006	2007	2006
Revenues	\$ 3,144	\$ 4,323	\$ 7,927	\$ 24,670
Expenses:				
Direct costs	1,293	2,010	3,534	14,104
Selling, general and administrative	3,953	2,922	10,491	11,049
Research and development	5,723	2,806	15,361	7,648
Stock-based compensation	331	191	828	590
Amortization of property and equipment	327	342	736	1,784
Amortization of intangible assets	750	305	1,984	1,010
Interest on long-term debt and loss on settlement of convertible debentures	43	164	140	1,619
Foreign exchange	(662)	98	(1,376)	441
	11,758	8,838	31,698	38,245
Net loss before under noted items	(8,614)	(4,515)	(23,771)	(13,575)
Other:				
Gain on disposal of interest in LAB Research (note 4)	-	18,630	-	18,630
Share in net income of a company subject to significant influence	-	124	-	124
Net earnings (loss) before income taxes	(8,614)	14,239	(23,771)	5,179
Recovery of (provision for) income taxes:				
Current	(26)	(367)	(164)	(1,429)
Future	42	(4,157)	122	(3,206)
	16	(4,524)	(42)	(4,635)
Net (loss) earnings and comprehensive earnings	\$ (8,598)	\$ 9,715	\$ (23,813)	\$ 544
Net (loss) earnings per share				
Basic	\$ (0.73)	\$ 0.93	\$ (2.03)	\$ 0.05
Diluted	\$ (0.73)	\$ 0.93	\$ (2.03)	\$ 0.05
Weighted average number of shares outstanding				
Basic	11,764,723	10,456,859	11,704,578	10,199,877
Effect of convertible debentures	-	10,905	-	205,447
Effect of dilutive options and warrants	-	-	-	305,547
Diluted	11,764,723	10,467,764	11,704,578	10,710,871

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA, INC.

(formerly LAB International Inc.)

Consolidated Statements of Operations and Comprehensive Earnings
(Unaudited)

Periods ended September 30, 2007
(in thousands of US dollars)

	Share Capital		Warrants	Additional Paid-in Capital	Accumulated other comprehensive		Total
	Number	Dollars			income	Deficit	
Balance, December 31, 2006	10,891,218	\$ 49,758	\$ 366	\$ 6,281	\$ 3,458	\$ (26,660)	33,203
Purchase of PharmaForm	862,791	4,379	-	-	-	-	4,379
Services rendered	14,285	90	-	-	-	-	90
Expiration of warrants	-	-	(2)	2	-	-	-
Stock-based compensation	-	-	-	828	-	-	828
Net loss	-	-	-	-	-	(23,813)	(23,813)
Balance, September 30, 2007	11,768,294	\$ 54,227	\$ 364	\$ 7,111	\$ 3,458	\$ (50,473)	14,687

See accompanying notes to unaudited consolidated financial statements.

AKELA PHARMA, INC.

(formerly LAB International Inc.)

Consolidated Statements of Cash Flows (Unaudited)

Periods ended September 30, 2007 and 2006
(in thousands of US dollars)

	Three-months ended September 30,		Nine-months ended September 30,	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net earnings (loss)	\$ (8,598)	\$ 9,715	\$ (23,813)	\$ 544
Adjustments for:				
Amortization and write-off of property and equipment	327	342	736	1,784
Amortization of intangible assets	750	305	1,984	1,010
Stock-based compensation	331	191	828	590
Loss on settlement of convertible debenture	-	20	-	418
Accretion expense on convertible debenture	-	21	-	551
Unrealized foreign exchange gain (loss)	-	(50)	-	293
Services rendered for shares	38	-	90	24
Future income taxes	(42)	4,157	(122)	3,206
Gain on disposal of interest in LAB Research	-	(18,630)	-	(18,630)
Share in net income of a company subject to significant influence	-	(124)	-	(124)
Net changes in operating assets and liabilities (note 11(a))	12,421	617	11,153	458
	5,227	(3,436)	(9,144)	(9,876)
Cash flows from financing activities:				
Restricted cash	-	-	(600)	-
Proceeds from issuance of shares	-	41	-	306
Repayments of long-term debt	(67)	(152)	(727)	(1,278)
	(67)	(111)	(1,327)	(972)
Cash flows from investing activities:				
Acquisition of PharmaForm, net of cash	(16)	-	(8,196)	-
Acquisition of property and equipment	(1,012)	(494)	(1,881)	(1,614)
Addition to intangible assets	-	(98)	-	(409)
Cash balance transferred to LAB Research	-	(652)	-	(652)
Proceeds on disposal of LAB Research	-	27,369	-	27,369
Transaction costs	-	(5,729)	-	(5,729)
Other advances and investments	-	1,183	-	(661)
	(1,028)	21,579	(10,077)	18,304
Net change in cash and cash equivalents	4,132	18,032	(20,548)	7,456
Cash and cash equivalents, beginning of period	12,120	3,738	35,304	14,292
Effect of exchange rate changes	(1,193)	657	303	679
Cash and cash equivalents, end of period	\$ 15,059	\$ 22,427	\$ 15,059	\$ 22,427

Supplemental cash flow disclosure (note 11)

See accompanying notes to unaudited consolidated financial statements.

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Notes to Consolidated Financial Statements
(Unaudited)

Periods ended September 30, 2007 and 2006
(in thousands of US dollars, except per share amounts)

1. Interim financial statements and basis of presentation:

The consolidated financial statements of Akela Pharma, Inc., formerly Lab International Inc., (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 fairly state the results of the interim periods presented. The Company's revenues and expenses are subject to fluctuation. 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.

The Company's Board of Directors, as authorized by the shareholders, declared effective October 10, 2007 a 1-for-7 reverse stock split, resulting in every seven shares of common stock being combined into one share of common stock. The stock split affects all of the Company's outstanding stock, stock options and warrants outstanding on the record date. The consolidated financial statements have been retroactively adjusted to reflect the stock split for all periods presented.

The Company is subject to a number of risks, including the successful development and marketing of its technologies. In order to achieve its business plan, the Company anticipates the need to raise additional capital and/or achieve sales and other revenue generating activities. The Company is actively pursuing additional financing alternatives to pursue its development activities. Management believes that funds from operations as well as existing financing will be sufficient to meet the Company's requirements for the next year. However, if we are unable to raise additional capital, we would be required to reduce the scope of our planned development efforts which would impact our ability to bring our products to market under our current timelines.

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 of December 31, 2006, which is reflected in other comprehensive income, a separate component of shareholders' equity.

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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-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 September 30, 2007.

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4. Corporate reorganization:

Until August 2006, the Company was a fully integrated drug development company operating in two distinct business units. The Pharma business unit ("Pharma") focuses on the development of novel therapeutics and platforms with an emphasis on inhalation based pain therapeutics. Pharma's drug development activities were supported by the scientific expertise, infrastructure and cash flows derived from the Company's second business unit, LAB Research Inc. ("LRI"), a pre-clinical 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").
- (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.

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4. Corporate reorganization (continued):

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 \$22,072 (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 \$5,297 (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 total gain on dilution and disposal of LRI recorded in the third and fourth quarter of 2006 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. Development and license agreements:

In June 2007, the Company signed a licensing and development agreement with Janssen Pharmaceutica N.V. ("Janssen"), a Belgium subsidiary of Johnson & Johnson, for Fentanyl TAIFUN®, its fast-acting Fentanyl formulation using the Company's TAIFUN® dry powder inhaler, for the treatment of break-through cancer pain.

The licensing agreement covers the European Union, Eastern Europe, Russia, the Middle East and Africa. The Company and Janssen will collaborate to develop the product for the initial indication of break-through cancer pain. The Company will manufacture and Janssen will market and distribute the product. Under the terms of the agreement, the Company received a signing free of \$10.8 million (€ 8.0 million) which has been deferred and is being recognized ratably over the estimated development period. The Company can receive up to an additional \$74.4 million (€ 55.0 million) for meeting development, regulatory and commercial sales milestones. The Company could also receive royalty revenues and revenues from the sales of the product to Janssen. The Company also has existing licensing and development agreements for Fentanyl TAIFUN® for the South Korean, Chinese (excluding Hong Kong and Taiwan) and Japanese markets.

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6. Business acquisition:

On January 25, 2007, the Company completed the acquisition of all of the outstanding membership interests of Formulation Technologies, LLC, (doing business as "PharmaForm") a privately held company headquartered in Austin, Texas. The aggregate purchase price amounted to \$12,999 including \$7,500 of cash and 862,791 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. In total, the maximum contingent consideration payable by the Company is approximately \$13 million, most of which is payable in common shares. All obligations to make contingent payments will terminate on January 25, 2012. 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	\$ 2,002
Property and equipment	2,618
Intellectual property rights acquired	3,600
Non-competition agreement	1,400
FDA/DEA certifications	1,000
Customer contracts and relationships	2,000
Goodwill	2,383
Current liabilities	(1,673)
Long-term liabilities	(331)
	<hr/>
	\$ 12,999
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Consideration:	
Cash	\$ 7,500
862,791 common shares	4,379
Transactions costs	1,120
	<hr/>
	\$ 12,999
	<hr/>

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6. Business acquisition (continued):

As part of the purchase agreement, the selling shareholders have the right to sell back to the Company the common shares issued in connection with this transaction as well as any common shares issued as part of the contingent consideration in the future, should the Company fail to either have its common shares listed on the Toronto Stock Exchange (TSX), or the NASDAQ Global Market ("NASDAQ") or another US exchange within a reasonable period of time after the closing date of the purchase transaction. Since the Company is already listed on the TSX, the Company believes that the probability of the selling shareholders obtaining this right is remote.

The contingent payments required to be made to the PharmaForm sellers are as follows:

- (a) A payment (the Phase I Share Payment) is required to be made on the date which is the later of six months following the closing date and the date when an IND application dossier is filed with the FDA for the first proprietary non-inhalation product developed by PharmaForm.
- (b) A payment (the Phase II Share Payment) is required to be made if PharmaForm's gross revenue (as defined in the PharmaForm acquisition agreement) within 12 months of January 1, 2007 equals or exceeds \$10 million, within 18 months equals or exceeds \$15 million or within 24 months equals or exceeds \$20 million.
- (c) A final payment (the Phase III Share Payment) is required to be made on the date which is the later of 18 months following the closing date and either (i) the date any proprietary non-inhalation product developed by PharmaForm completes the first Phase III clinical study or for which PharmaForm enters into a binding contractual arrangement with a third party, or (ii) the date of issuance to PharmaForm by the U.S. PTO of a notice that would allow PharmaForm to develop, produce and market an EDACS product candidate.

Each of the Phase I, II and III contingent payments will be made in common shares in an amount of \$4.375 million, plus \$0.1 million per Phase, payable either in cash or in common shares at the option of the selling shareholders.

If Phase I, II or III contingent payments are made, and the Company fails to maintain its listing requirements and the put option is exercised by the holder, the contingent shares would be sold back at a price equal to the average closing price of the common shares on the primary market for the common shares for the ten trading day period ending on the last trading day immediately preceding the triggering event but subject to a minimum price equal to 70% of the Closing Value and a maximum of 130% of the Closing Value for the Phase I Share Payment, 60% and 140% for the Phase II Share Payment and 30% and 170% for the Phase III Share Payment.

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7. Long-term debt:

	September 30, 2007	December 31, 2006
Long-term debt in Euros (2006- €404) bearing 8% interest, repaid in March 2007	\$ -	\$ 533
Long-term debt in Euros (2007 - €700; 2006 - €700) bearing 8% interest, repaid October 2007, unsecured	998	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 the Company's Finnish subsidiary	4,325	3,999
Capital loans in Euros (2007 - €188; 2006 - €188) bearing interest at 5%; repayments are conditional on specified equity requirements in the Company's Finnish subsidiary, unsecured	269	249
Note payable, bearing 8.75% interest, repayable in 60 months, secured by a 1 st lien on accounts receivable and property and equipment and by a \$600 certificate of deposit	1,134	-
Capital lease obligation, bearing 7.5% interest, secured by the related laboratory equipment	114	-
Capital lease obligation, bearing 8.75% interest, secured by the related laboratory equipment	364	-
	7,204	5,704
Current portion of long-term debt	1,436	1,456
	\$ 5,768	\$ 4,248

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8. Share capital:

(a) Authorized share capital:

- Common shares: unlimited number authorized
- Preference shares: unlimited number of Preference Shares authorized issuable in series. Preference Shares may be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be fixed by resolution of the board of directors. The directors shall determine before the issue thereof the designations, rights, privileges, restrictions and conditions attaching to the preference shares of each series including, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the redemption and/or purchase price and terms and conditions of redemption and/or purchase, any voting rights, any conversion rights and any other provisions.

The preference shares of each series will, with respect to payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, rank on a parity with the preference shares of every other series and be entitled to preference over the common shares and over any other shares ranking junior to the preference shares. The preference shares of any series may also be given such other preferences over the common shares and over any other shares ranking junior to the preference shares as may be fixed by the board of directors.

(b) Warrants:

As of September 30, 2007 the following warrants to purchase common shares were outstanding:

Number	Exercise price	Expiration date
252,898	\$7.70	April 22, 2010

(c) Stock option plans:

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 of directors.

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8. Share capital (continued):

Under the 2002 Plan, the aggregate number of common shares available for issuance is 10% of the common shares outstanding. The number of common shares, which may be issued to any one person under the Plan, and any other stock compensation agreement, shall not exceed 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. Effective June 2007, no further options can be granted under the 2002 Stock Option Plan.

In June 2007, the shareholders approved the 2007 Stock Incentive Plan. Under the 2007 Stock Incentive Plan, the aggregate number of common shares available for issuance is 714,285. The maximum number of common shares that may be awarded to any one grantee during any calendar year cannot exceed 71,428. In addition, the number of common shares issuable to insiders, at any time or in any given year, under all security based compensation arrangements, cannot exceed 10% of the issued and outstanding common shares. Effective June 2007, no further options can be granted under the 2002 Stock Option Plan. The Company may also issue restricted and unrestricted stock awards at a price that may be less than fair market value, subject to restrictions and conditions, if applicable, as the administrator may determine at the time of the grant. No stock awards have been issued by the Company.

Changes in outstanding options issued under the Company's stock option plans for the nine-month period ended September 30, 2007, were as follows:

	Number	Weighted average exercise price (C)
Balance, December 31, 2006	942,809	\$ 7.84
Granted	272,133	6.96
Cancelled	(96,052)	8.60
Balance, September 30, 2007	1,118,890	\$ 7.36
Options exercisable, September 30, 2007	730,026	\$ 7.59

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8. Share capital (continued):

The following table summarizes information about stock options outstanding and exercisable at September 30, 2007:

Exercise price (C)	Options outstanding	Options exercisable	Weighted average remaining contractual life (years)
\$ 5.81 – 6.50	64,284	17,856	9.04
\$ 6.51 – 6.80	159,617	126,224	7.85
\$ 6.81 – 7.00	484,546	237,407	6.86
\$ 7.01 – 8.50	269,023	207,119	7.80
\$ 8.51 – 10.85	141,420	141,420	5.86
	1,118,890	730,026	7.16

9. Restructuring:

In the fourth quarter of 2006, the Company recorded restructuring charges of \$4,122 relating to the down-sizing of its Finnish subsidiary, which included a \$3,523 impairment loss on property and equipment and \$599 for employee severance. As at September 30, 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, the Finnish subsidiary and its landlord agreed to an early termination of their lease agreement. The agreement required a lump sum payment of \$2,780 which included \$1,896 covering the base rent for the period from February 1, 2007 to September 30, 2008, \$306 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, including related accrued interest of \$50. The lump sum payment for rent and maintenance costs, less \$557 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.

In June 2007 an additional \$264 in severance associated with the downsizing of the Finnish subsidiary was charged to research and development expenses.

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10. Stock-based compensation:

For the nine-month periods ended September 30, 2007 and 2006, the Company granted 272,133 and 205,535 options and recognized total stock-based compensation charges of \$828 and \$590, respectively.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes pricing model. The following weighted-average assumptions were based in determining the grant-date fair value:

	September 30, 2007	September 30, 2006
Risk-free interest rate	4.15%	4.06%
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 September 30, 2007 and 2006:

	Number of options	Weighted average grant-date fair value
September 30, 2007	272,133	\$ 6.96
September 30, 2006	205,535	7.00

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		Nine-months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Accounts receivable	\$ 10,921	\$ 347	\$ 71	\$ (3,401)
Work in progress	-	157	-	181
Research tax credits receivable	-	433	-	1,053
Prepaid expenses	(1,441)	(4,482)	(3,616)	(5,029)
Accounts payable and accrued liabilities	4,547	1,518	4,565	4,341
Deferred revenue	(1,606)	2,644	10,133	3,313
	\$ 12,421	\$ 617	\$ 11,153	\$ 458

(b) Non-cash transactions:

	Three-months ended		Nine-months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Issuance of common shares in connection with business acquisition	\$ -	\$ -	\$ 4,379	\$ -
Settlement of debentures	-	150	-	4,270
Property and equipment financed through capital leases	364	158	364	463
Due to Scantox shareholders settled with cash held in escrow	-	-	-	478
Services rendered in exchange of shares	38	-	90	24

(c) Cash paid for:

	Three-months ended		Nine-months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Income taxes	\$ -	\$ -	\$ 411	\$ -
Interest	196	102	497	537

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11. Supplemental information (continued):

- (d) Deferred corporate transaction costs at December 31, 2006 related to the acquisition of PharmaForm and have since been included as part of the cost of the acquisition as detailed in note 6. Deferred corporate transaction costs at September 30, 2007 relate to costs incurred in connection with a proposed share listing and financing in the US.

12. Related party transactions:

The Company incurred legal and tax consulting fees totaling \$62 and \$68 during the three-months ended September 30, 2007 and 2006, respectively, and fees totaling \$344 and \$203 during the nine-months ended September 30, 2007 and 2006 from two firms associated with members of the board of directors.

During the three-months ended September 30, 2007 and 2006, the Company incurred fees totaling \$106 and \$2,350 as remuneration for services rendered by PRI International Consulting Inc., a company directly controlled by the Chief Executive Officer (CEO). During the nine-months ended September 30, 2007 and 2006, the Company incurred total fees of \$312 and \$2,546, respectively for these services.

During the three-months ended September 30, 2007 and 2006, the Company incurred IT consulting fees totaling \$54 and \$95, respectively from a firm owned by the CEO. The IT consulting fees incurred during the nine-months ended September 30, 2007 and 2006 were \$166 and \$130, respectively.

Our long-term debt includes \$998 due to a non-controlling shareholder bearing interest of 8% which was paid in October 2007. During the three-months ended September 30, 2007 and 2006, the Company incurred interest expense of \$20 and \$28, respectively associated with the loan. The interest expense incurred was \$64 and \$83 during the nine-months ended September 30, 2007 and 2006 for the same loan.

The Company also incurred rent expense of \$242 and \$225 during the three-months ended September 30, 2007 and 2006 associated with a facilities lease held by a non-controlling shareholder. During the nine-months ended September 30, 2007 and 2006, the Company incurred rent expense of \$1,845 and \$642, respectively.

During the three and nine-month periods ended September 30, 2007, the Company incurred expenses totaling \$190 and \$539 respectively for consulting services paid to three current shareholders and the former principal owners of PharmaForm. One of these shareholders is also a member the board of directors.

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13. Commitments and contingencies:

The aggregate maturities of the contractual obligations are as follows:

	2007	2008	2009	2010	2011+	Total
Operating leases	\$ 428	407	259	-	-	\$ 1,094
Capital leases	61	146	146	85	-	438
Service contracts	820	835	796	717	607	3,775
Clinical studies	3,421	4,384	-	-	-	7,805
Long-term debt	1,856	402	402	402	4,776	7,838
	\$ 6,586	6,174	1,603	1,204	5,383	\$ 20,950

The Company is party to an exclusive world-wide master license agreement whereby they were 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.

The Company is party to a royalty bearing license for a drug delivery system in which they are required to pay 75% of any sublicense fees received by the Company to the licensors.

The Company's Finnish subsidiary has received certain low interest loans and subsidies from a Finnish governmental agency. Following its decision to down-size the Finnish subsidiary, they recently have been notified that this agency is reviewing loans and subsidies previously granted to the Company totalling €2,556 and €954, respectively. Discussions with the agency are ongoing and the Company cannot, at this time, determine if such review will lead to changes to the terms of the original agreement or demands for repayment of all or a portion of amounts received. Accordingly, all loans received from the Finnish governmental agency continue to be presented as long-term debt in these financial statements in accordance with the original terms of the agreement and no additional provision has been made in these financial statements with respect to this matter.

Prior to the acquisition (see note 6), PharmaForm entered into license agreements with Auxilium Pharmaceutical, Inc. ("Auxilium") granting Auxilium an exclusive, worldwide royalty-bearing license to develop, make and sell products that contain oral transmucosal film technology for which there is an issued patent in the United States. The terms of these license agreements are for the life of the licensed patents.

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13. Commitments and contingencies (continued):

To increase the speed of 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. In the event that the University of Mississippi license agreement, the sublicense agreement or the University of Texas license agreement are terminated during the term of the Auxilium agreement, PharmaForm shall pay to Auxilium one-half of all direct expenses and costs Auxilium has incurred relating to the research and development of the compounds, technology, or products pursued under the Agreement which exceed the cumulative gross profit earned by Auxilium on such products, as of the date of the termination of such agreement. With respect to each of the University of Mississippi license agreement and the sublicense agreement, the right to terminate for convenience may only be exercised by all inventors as a group. One of the PharmaForm selling owners ("Majority Members") is one of the inventors. The University of Texas license agreement may only be terminated for convenience by mutual agreement of the parties thereto. As of September 30, 2007, the minimum amount of this contingency is \$1.4 million, representing one-half of amounts received by the Company from Auxilium, and is subject to upward adjustment for any additional amounts incurred by Auxilium on this project.

In conjunction with the acquisition of PharmaForm on January 25, 2007, the Company entered into the following employment and consulting agreements with PharmaForm's former members.

The Company entered into an eighteen-month consulting agreement with one of the members to perform specific financial and management advisory services for a base compensation of \$5 per month. In the event the agreement is terminated without cause, the consultant is entitled to continuation of the consulting fee, without modification, for a period equal to the remainder of the term or one year, whichever is greater.

The Company entered into five-year consulting agreements with each of the two Majority Members, under which each of the Majority Members agree to perform consulting services for which they are to be paid \$23 per month for an aggregate \$560 per year. The agreements have initial terms of five-years after which they may be renewed for additional one-year periods. In the event the agreement is terminated without cause during the initial term of the agreement, the Majority Members are entitled to continuation of the fee, without modification, for the initial term or one year, whichever is greater. In the event that either of the agreements are terminated without cause during the renewal period, the Majority Members are entitled to receive the regular monthly payments for a period equal to one year.

The Company entered into four-year employment agreements with each of the three remaining members (hereafter, the "Members") in which these Members agreed to perform specific services for the Company as a full-time employee and for which they are to be paid an aggregate base salary of \$530. The base salaries can be adjusted upward for bonuses or commissions and provide for car allowances. The agreements have initial terms of four-years, after which they may be renewed for additional one-year periods. In the event the Members employment is terminated without cause by the Company or for "Good Reason", as defined in the agreements, the Members are entitled to continuation of their base salary, without modification, for the remainder of the initial or renewal term, whichever is applicable, cash payment for any vacation or leave accrued through the date of termination, and

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13. Commitments and contingencies (continued):

vesting and exercisability of any unvested stock grants or options granted subsequent to commencement of the employment agreement.

14. 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 and nine month periods ended September 30, 2006 has been restated to conform to the new reporting structure as follows:

	Three-months ended September 30, 2006			Nine-months ended September 30, 2006		
	Research	Pharma and Corporate	Total	Research	Pharma and Corporate	Total
Revenues	\$ 3,246	\$ 1,077	\$ 4,323	\$ 23,187	\$ 1,483	\$ 24,670
Direct costs	2,010	-	2,010	14,104	-	14,104
Selling, general and administrative	681	2,241	2,922	4,712	6,337	11,049
Research and development	-	2,806	2,806	-	7,648	7,648
Stock-based compensation	-	191	191	30	560	590
Amortization	250	397	647	1,679	1,115	2,794
Gain on disposal of LAB Research Inc.	-	(18,630)	(18,630)	-	(18,630)	(18,630)
Share in net income of a company subject to significant influence	-	(124)	(124)	-	(124)	(124)
Interest expense	49	115	164	304	1,315	1,619
Foreign exchange	74	24	98	23	418	441
Income tax expense	2,430	2,094	4,524	2,615	2,020	4,635
Segment earnings (loss)	\$ (2,248)	\$ 11,963	\$ 9,715	\$ (280)	\$ 824	\$ 544

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14. Segment disclosures (continued):

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

	Three-months ended September 30,		Nine-months ended September 30,	
	2007	2006	2007	2006
United States	\$ 1,912	\$ 762	\$ 5,544	\$ 6,877
Denmark	-	682	-	5,179
Austria	-	1	-	195
Canada	131	450	686	2,101
Finland	3	-	7	-
France	-	-	-	9
Germany	(30)	450	-	2,435
Hungary	-	20	-	177
Norway	-	97	-	290
Spain	-	104	-	607
United Kingdom	-	155	-	613
Sweden	-	243	-	1,358
Switzerland	-	307	-	1,609
Australia	-	6	-	302
Korea	8	39	24	328
Belgium	247	76	247	452
Asia - other	849	854	1,368	1,710
Europe - Other	24	77	51	428
	\$ 3,144	\$ 4,323	\$ 7,927	\$ 24,670

Property and equipment, other long-term assets, intangibles and goodwill by geographic areas are as follows:

	September 30, 2007	December 31, 2006
Finland	\$ 4,153	\$ 4,625
Canada	589	395
Barbados	3,306	3,392
United States	13,974	-
	\$ <u>22,022</u>	\$ <u>8,412</u>

15. Comparative figures:

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