

Consolidated Financial Statements

Haemacure Corporation

October 31, 2007 and 2006

AUDITORS' REPORT

To the Shareholders of
Haemacure Corporation

We have audited the consolidated balance sheets of **Haemacure Corporation** as at October 31, 2007 and 2006 and the consolidated statements of operations, shareholders' equity, comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Montréal, Canada
November 23, 2007

Ernst + Young LLP

Chartered Accountants

Haemacure CorporationIncorporated under the *Canada Business Corporations Act***CONSOLIDATED BALANCE SHEETS**[See Nature of Business and Going Concern Assumption – *note 1*]

As at October 31

	2007	2006
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	3,591,883	78,300
Temporary investment <i>[note 4]</i>	4,011,200	441,000
Accounts receivable – trade	9,227	12,431
Other receivables <i>[note 5]</i>	47,905	80,540
Inventories	26,852	34,167
Prepaid expenses	88,414	74,974
	7,775,481	721,412
Property, plant and equipment <i>[note 6]</i>	2,903,543	1,831,174
Deferred charge	236,561	128,505
Other assets <i>[note 7]</i>	23,704	15,107
	10,939,289	2,696,198
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	361,918	447,539
Current portion of obligation under capital leases <i>[note 8]</i>	11,564	10,933
	373,482	458,472
Obligation under capital leases <i>[note 8]</i>	25,166	36,730
Lease obligation	63,678	29,851
Long-term debt <i>[note 9]</i>	1,250,634	1,189,764
	1,712,960	1,714,817
Shareholders' equity	9,226,329	981,381
	10,939,289	2,696,198

Commitments and contingencies *[notes 9 and 15]**See accompanying notes*

On behalf of the Board:

Pierre Alary
DirectorJoseph Galli
Chairman of the Board

Haemacure Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS

[See Nature of Business and Going Concern Assumption – *note 1*]

Years ended October 31

	2007	2006
	\$	\$
Sales	119,704	147,134
Cost of sales	66,820	60,771
Gross margin	52,884	86,363
EXPENSES (INCOME)		
Selling and marketing	—	45,527
General and administrative	3,162,759	2,232,048
Research and development, net <i>[note 14]</i>	883,370	717,228
Loss on write-off of property, plant and equipment	70,574	18,127
Loss on foreign exchange	35,984	43,595
Amortization of property, plant and equipment	54,483	58,523
Amortization of other assets	3,903	3,486
Interest on obligation under capital leases <i>[note 8]</i>	2,400	2,995
Interest on long-term debt <i>[note 9]</i>	60,870	48,507
Other financial expenses	64,281	10
Investment income	(320,072)	(72,202)
	4,018,552	3,097,844
Net loss	(3,965,668)	(3,011,481)
Loss per common share <i>[note 10]</i>		
Basic and diluted	(0.03)	(0.08)
Weighted average number of outstanding common shares <i>[note 10]</i>		
Basic and diluted	140,300,698	38,800,917

See accompanying notes

Haemacure Corporation

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

[See Nature of Business and Going Concern Assumption – *note 1*]

Years ended October 31

	2007		2006	
	Number of shares	Amount \$	Number of shares	Amount \$
Share capital [note 10]				
Common shares				
Balance at beginning of year	38,800,917	92,266,948	38,800,917	92,266,948
Issuance of units	125,000,000	8,400,000	—	—
Balance at end of year	163,800,917	100,666,948	38,800,917	92,266,948
Deficit [note 10]				
Balance at beginning of year		(93,826,479)		(90,752,598)
Share issue costs		(2,153,420)		—
Repricing of warrants		—		(62,400)
Net loss		(3,965,668)		(3,011,481)
Balance at end of year		(99,945,567)		(93,826,479)
Additional paid-in capital [note 10]				
Balance at beginning of year		2,540,912		2,438,049
Stock-based compensation expense		741,759		40,463
Repricing of warrants		—		62,400
Series A and B warrants issued under private placement		4,100,000		—
Broker Warrants		1,101,000		—
Balance at end of year		8,483,671		2,540,912
Accumulated other comprehensive income [note 11]		21,277		—
Total shareholders' equity		9,226,329		981,381

See accompanying notes

Haemacure Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

[See Nature of Business and Going Concern Assumption – *note 1*]

Years ended October 31

	2007 \$	2006 \$
Net loss	(3,965,668)	(3,011,481)
Unrealized gain on available for sale investments	21,277	—
Comprehensive loss	(3,944,391)	(3,011,481)

See accompanying notes

Haemacure Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

[See Nature of Business and Going Concern Assumption – *note 1*]

Years ended October 31

	2007	2006
	\$	\$
OPERATING ACTIVITIES		
Net loss	(3,965,668)	(3,011,481)
Items not affecting cash:		
Amortization of property, plant and equipment	54,483	58,523
Amortization of other assets	3,903	3,486
Accrued interest on long-term debt	60,870	48,507
Accrued interest on accounts receivable from a supplier	—	(15,859)
Loss on write-off of property, plant and equipment	70,574	18,127
Stock-based compensation expense	741,759	40,463
Rent expense	33,827	29,851
Foreign exchange loss on cash and cash equivalents	33,939	12,276
Unrealized gain on available for sale investments	21,277	—
Unrealized foreign exchange loss	—	15,824
	(2,945,036)	(2,800,283)
Net change in non-cash working capital balances related to operations [<i>note 17</i>]	(17,496)	1,363,484
Cash flows relating to operating activities	(2,962,532)	(1,436,799)
FINANCING ACTIVITIES		
Issuance of units [<i>note 10</i>]	12,500,000	—
Share issue costs paid in cash [<i>note 10</i>]	(1,052,420)	—
Repayment of obligation under capital leases	(10,933)	(10,337)
Cash flows relating to financing activities	11,436,647	(10,337)
INVESTING ACTIVITIES		
Acquisition of temporary investment	(4,011,200)	—
Disposition of temporary investments	441,000	1,547,088
Increase in deferred charge	(115,083)	(128,505)
Amortization of deferred charge	7,027	—
Acquisition of property, plant and equipment	(1,197,426)	(733,946)
Acquisition of other assets	(12,500)	—
Accounts payable related to property, plant and equipment	(38,411)	38,411
Cash flows relating to investing activities	(4,926,593)	723,048
Effect of exchange rate changes on cash and cash equivalents	(33,939)	(12,276)
Net change in cash and cash equivalents	3,513,583	(736,364)
Cash and cash equivalents at beginning of year	78,300	814,664
Cash and cash equivalents at end of year [<i>note 17</i>]	3,591,883	78,300
Supplemental information		
Interest paid	66,681	3,005

See accompanying notes

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

1. NATURE OF BUSINESS AND GOING CONCERN ASSUMPTION

Nature of business

Haemacure Corporation's [the "Corporation"] activities since incorporation have been to perform research and development, establish offices and its sales network, build research facilities, sell its products, and raise capital. The Corporation specializes in developing bio-surgical products and human therapeutic proteins for commercialization. Since 1997, the Corporation had planned to pursue the marketing of Hemaseel APR which represented substantially all sales revenue of the Corporation. As of October 31, 2003, the Corporation ceased the commercialization of Hemaseel APR and is focusing on the completion of the development of Hemaseel HMN ["HMN"] and Hemaseel Thrombin. As a consequence, the Corporation's status is considered to have returned to that of a corporation in the development stage as of November 1, 2003 and will remain so until significant revenues are generated from the sale of products. The Corporation considers that it is primarily pursuing one multi-product project, which includes the development of Hemaseel HMN and Hemaseel Thrombin, from which no revenues have been derived to date, and for which the Corporation incurred expenses, namely research and development expenses and significant purchases of property, plant and equipments. Since November 1, 2003, the Corporation has expensed approximately \$2.3 million related to this project and recorded property, plant and equipment in the amount of approximately \$2.8 million. The Corporation's activities are subject to the risks inherent in any corporation that operates in the field of biotechnology.

Going concern assumption

These consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

The Corporation has not realized profit from operations since its inception and has exited its Hemaseel APR product line. The Corporation is in the development stage and will not generate significant revenues or profitable operations in the near future and there can be no assurance that it will achieve profitability in the future. As a result, there is significant uncertainty regarding the Corporation's ability to continue as a going concern. The Corporation will also require additional financing to fund its operations and development as well as to completing its HMN facility, conducting clinical trials and obtaining regulatory approvals.

The Corporation's ability to continue as a going concern is dependent on its raising additional financing, developing and bringing its technology to market, obtaining the necessary regulatory approvals and achieving and maintaining profitable operations. The outcome of these matters cannot be predicted at this time. It will be necessary for the Corporation to raise additional funds for the continuing development and marketing of its technologies. These consolidated financial statements do not include any adjustments and classifications of assets and liabilities, which might be necessary should the Corporation be unable to continue its operations.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles ["GAAP"] requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the period. Actual results may differ from the estimates and assumptions used. Because the Corporation has not yet started to market its Hemaseel HMN technology, the carrying value of the Corporation's property, plant and equipment is subject to uncertainty. Future events could result in material changes to the carrying values of property, plant and equipment recognized in the consolidated financial statements.

Revenue recognition

Revenue from sale of products is recognized upon shipment of the product and collection is reasonably assured.

Cash equivalents

Cash equivalents consist of investments that are readily convertible into a known amount of cash, that are subject to minimal risk of changes in value and which have an original maturity of three months or less from the date of purchase.

Temporary investment

The temporary investment, representing a fixed income security, is valued at fair market value.

Inventories

Inventories, which consist of products held for resale, are valued at the lower of cost, using the first-in, first-out method, and net realizable value, less allowance for obsolescence which takes into consideration factors such as expiration dates.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of related government assistance and investment tax credits. Assets acquired under capital leases are carried at cost, being the present value of the minimum lease payments. Depreciation of property, plant and equipment and assets acquired under capital leases is calculated over their estimated useful life using the following methods and rates:

Laboratory equipment	Straight-line	5 years
Office equipment	Declining balance	20%
Computer equipment	Declining balance	30%

No amortization is recorded on construction-in-progress. Amortization will be recorded when the production process begins.

Deferred charge

The deferred charge represents a portion of the rental payments related to leasehold improvements prior to the landlord making these leasehold improvements to the manufacturing facility. The benefit of these leasehold improvements was realized on occupancy of the premises and is being amortized on a straight-line basis over the remaining term of the lease.

Government assistance and investment tax credits

Government assistance and investment tax credits are recorded as a reduction of the related expenditures or property, plant and equipment when there is reasonable assurance of their ultimate realization.

Income taxes

The Corporation follows the liability method of accounting for income taxes under which future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates that are expected to be in effect in the periods in which assets or liabilities will be realized or settled. A valuation allowance is provided to the extent that it is not more likely than not that future income tax assets will be realized.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Other assets

Other assets are comprised of manufacturing rights and development costs of a website. Manufacturing rights are recorded at cost and amortized using the straight-line method over a period of 12 to 15 years. Development costs of a website are recorded at cost and amortized using the straight-line method over a period of 5 years.

Research and development

Research costs are charged against income in the year they are incurred. Development costs are charged against income in the year of expenditure unless a development project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization. The Corporation has not deferred any development costs to date.

Translation of foreign currencies

Monetary assets and liabilities of the Corporation and that of its wholly owned subsidiary, denominated in a foreign currency are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets and liabilities as well as revenues and expenses denominated in a foreign currency are translated at the exchange rate prevailing at the transaction date. Foreign currency translation gains and losses on Available for Sale temporary investments are recorded as a component of accumulated other comprehensive income in the consolidated statement of shareholders' equity until the related asset or liability is removed from the balance sheet, at which time they are included in the consolidated statement of operations of the reporting period. The accounts of the foreign subsidiary are translated using the temporal method.

Basic and diluted loss

Basic loss per share is calculated using the weighted average number of voting shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method.

Stock-based compensation and other stock-based payments

The Corporation has a stock option incentive plan which is described in note 10. The Corporation accounts for stock-based compensation using the fair value method of accounting for stock-based compensation plans.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Impairment of long-lived assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value [net recoverable value]. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Any impairment results in a write-down of the long-lived assets and a charge to operations in the year.

Share Issue Costs

Share issue costs and the issue cost of other equity instruments are charged to the deficit when incurred.

Recent Accounting Pronouncements

The Canadian Institute of Chartered Accountants ["CICA"] has issued the following new Handbook Sections which are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007:

Section 3031 *Inventories* was issued in June 2007 and replaces the existing standard for inventories, Section 3030. The main features of the new Section are as follows:

- Measurement of inventories at the lower of cost and net realizable value
- Consistent use of either first-in, first-out or a weighted average cost formula to measure cost
- Reversal of previous write-downs to net realizable value when there is a subsequent increase to the value of inventories.

The new Section is effective for the Corporation beginning on November 1, 2007. The Corporation does not expect that the adoption of this new section will have a significant effect on its consolidated financial statements.

Section 3862, *Financial Instruments – Disclosure*, describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Section 3863, *Financial Instruments – Presentation* establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, *Financial Instruments – Disclosure and Presentation*. The Corporation does not expect that the adoption of this new section will have a significant effect on its consolidated financial statements.

Section 1535, *Capital Disclosures*, establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The Corporation does not expect that the adoption of this new section will have a significant effect on its consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES

Effective for the commencement of its 2007 fiscal year, the Corporation has adopted CICA Handbook Section 1530, Comprehensive Income, CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement and Handbook Section 3865, Hedges. These new Handbook Sections which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as 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 recognized in comprehensive income but that are excluded from net income calculated in accordance with GAAP.

Under the new standards, all financial instruments are classified into one of the following five categories: Held for trading, Held-to-maturity, Loans and receivables, Available-for-sale or Other. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial assets and liabilities, which will be 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, excluding impairments, included in other comprehensive income until the asset is removed from the consolidated balance sheet.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

3. CHANGES IN ACCOUNTING POLICIES [Cont'd]

As a result of the adoption of these standards, the Corporation has classified its cash and cash equivalents and temporary investment as "Available for sale" and now as a result presents a consolidated statement of comprehensive loss as part of its consolidated financial statements. The Corporation has also classified its accounts receivable and other receivables, except commodity taxes receivable, as "Loans and receivables", and its accounts payable and accrued liabilities, obligation under capital leases, lease obligation and long-term debt as "Other financial liabilities", all of which are measured at amortized cost.

The new standards have to be applied without restatement of prior period amounts. The adoption of these standards had no impact on the consolidated net loss.

4. TEMPORARY INVESTMENT

The following table summarizes information relating to the temporary investment as at October 31, 2007:

	Amortized cost \$	Market value \$	Original maturity
Government guaranteed corporate bond	4,010,125	4,011,200	Oct. 27, 2009

At October 31, 2006 the temporary investment had an amortized cost of \$441,882 and a market value of \$441,000 with a maturity date of November 1, 2006. During the year the investment was redeemed at maturity. This temporary investment bears interest at floating quarterly rates. The interest rate amounted to 4.748% as at October 31, 2007 [4.421% as at October 31, 2006].

5. OTHER RECEIVABLES

	2007 \$	2006 \$
Account receivable from a company controlled by a director [note 18]	3,068	26,254
Commodity taxes and other	44,837	54,286
	47,905	80,540

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

6. PROPERTY, PLANT AND EQUIPMENT

	2007		2006	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Laboratory equipment	58,000	23,200	58,000	11,600
Office equipment	5,598	2,246	41,364	25,823
Computer equipment	93,155	14,113	203,434	118,704
Construction-in-progress	2,786,349	—	1,684,503	—
	2,943,102	39,559	1,987,301	156,127
Less: accumulated amortization	39,559		156,127	
Net carrying amount	2,903,543		1,831,174	

Property, plant and equipment include the following assets under capital leases:

	2007 \$	2006 \$
Laboratory equipment, at cost	58,000	58,000
Less: accumulated amortization	23,200	11,600
Net carrying amount	34,800	46,400

During the year ended October 31, 2007, the Corporation wrote-off property, plant and equipment, consisting mostly of computer equipment, with a cost of approximately \$242,000, an accumulated amortization of \$171,000 and incurred a loss of approximately \$71,000.

The Constructions-in-progress assets are not amortized as they have not yet been put into use.

7. OTHER ASSETS

	2007 \$	2006 \$
Manufacturing rights, at cost	49,346	49,346
Development costs of website, at cost	12,500	—
	61,846	49,346
Less: accumulated amortization	38,142	34,239
	23,704	15,107

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

8. OBLIGATION UNDER CAPITAL LEASES

	2007 \$	2006 \$
Lease for laboratory equipment, repayable in monthly instalments of \$1,111 including interest of 5.62%, maturing in October 2010	36,730	47,663
Less: current portion	11,564	10,933
	<u>25,166</u>	<u>36,730</u>

Minimum lease payments under capital leases for the next years are as follows:

	\$
2008	13,333
2009	13,333
2010	13,333
	39,999
Less: imputed interest	3,269
	<u>36,730</u>

9. LONG-TERM DEBT

Under the terms of the agreement with Investissement Québec ["IQ"], this loan bears interest at a rate equal to the rate prescribed by the Ministère du Revenu du Québec less 4% [5% as at October 31, 2007 and 2006]. Interest for the year ended October 31, 2007 amounting to \$60,870 [\$48,507 in 2006] has been capitalized to the loan in accordance with the provisions of the loan agreement. The loan and interest thereon will be repayable in instalments equal to 10% of gross sales of products stemming from the sale of internally developed fibrin sealants [Hemaseel HMN]. As of October 31, 2007, no such products had been sold. After repayment of the loan and the interest thereon, the Corporation will pay a royalty equal to 2% of gross sales from the date of final repayment until the end of a period of ten years starting with the commencement of the commercialization of these products. The Corporation will have to reimburse the loan immediately if the Hemaseel HMN project is interrupted or aborted.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL

Authorized

Unlimited number of common shares, without par value, voting and participating.

Unlimited number of preferred shares, without par value, non-voting, issuable in series, with such rights and conditions as may be determined by the Board of Directors. As of October 31, 2007 and 2006, Nil preferred shares were issued.

In January 2007, the Corporation issued 125,000,000 units under a private placement at a price of \$0.10 per unit for gross proceeds of \$12.5 million. Each unit consists of one common share, one-half of a Series A common share purchase warrant and one-half of a Series B common share purchase warrant. Each full Series A warrant will entitle its holder to acquire one additional common share for a period of five years from the closing date of the placement, at a price of \$0.30. Each full Series B warrant will entitle its holder to acquire one additional common share for a period of five years from the closing date of the placement, at a price of \$0.20. Haemacure will have the right to force the exercise of the Series B warrants if the closing price of its common shares on the Toronto Stock Exchange is \$0.40 or greater for 20 consecutive trading days.

The resulting 125,000,000 warrants have been valued at \$4,100,000 using the Black-Scholes option pricing model, which assumed an expected life of five years, volatility of 62%, risk-free interest rate of 6% and no dividend yield. This amount was allocated to additional paid-in capital and the balance of \$8,400,000 was allocated to common shares.

At the closing, Haemacure paid 8% cash commissions to securities dealers and others with respect to units sold by them. Haemacure also issued an aggregate of 11,909,000 broker warrants to such persons, representing 10% of the number of units sold by them at the closing. Each broker warrants entitles the holder to purchase one additional unit from Haemacure for two years at a price of \$0.10 per unit. The additional units are identical to those issued to investors. The Corporation calculated the fair value of these broker warrants, using the Black-Scholes option pricing model, at \$1,101,000 which was charged to the deficit as share issue costs and recorded as additional paid-in capital. Cash issue costs including cash commission amounting to \$1,052,420 were also charged to the deficit.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL [Cont'd]

Options

In March 1996, the Board of Directors of the Corporation established the 1996 stock option plan, which provides for the granting of options to acquire common shares to employees, officers and directors, and service providers to the Corporation. At the annual and special meeting of the shareholders of the Corporation held on March 6, 2007, the shareholders approved a resolution increasing the maximum number of common shares which may be issued under the 1996 stock option plan from a maximum of 2,423,295 common shares to a maximum of 16,380,917.

The exercise price of an option granted under the 1996 stock option plan is set at the time of the grant of the option, but cannot in any event be less than the closing sale price of the common shares on The Toronto Stock Exchange on the last business day prior to the day the option is granted. The vesting period is generally between one and three years as determined by the Board of Directors. The exercise period of options granted under the 1996 stock option plan may not exceed ten years from the date of grant.

A summary of the status of the Corporation's fixed-price stock option plan as at October 31, 2007 and 2006 and the changes during the years then ended is shown below:

	2007		2006	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding options, at beginning of year	1,709,356	2.09	1,549,356	2.28
Granted	4,998,481	0.17	160,000	0.30
Expired	(36,800)	3.96	—	—
Outstanding options, at end of year	6,671,037	0.64	1,709,356	2.09
Exercisable options, at end of year	4,821,037	0.83	1,709,356	2.09

An amount of \$741,759 for the year ended October 31, 2007 was recorded as an expense and was credited to additional paid-in capital for the fair value of stock options granted to employees, officers and directors, determined using the Black-Scholes option pricing model, with a volatility of approximately 70%, a risk-free interest rate of 4.5%, a dividend yield of nil and an expected life of the options of 10 years. The weighted average grant date fair value of stock options granted during the year ended October 31, 2007 was \$0.16.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL [Cont'd]

An amount of \$40,463 for the year ended October 31, 2006 was recorded as an expense and was credited to additional paid-in capital for the fair value of stock options granted to employees, officers and directors, determined using the Black-Scholes option pricing model, with a volatility of approximately 69%, a risk-free interest rate of 5.25%, a dividend yield of nil and an expected life of the options of 10 years. The weighted average grant date fair value of stock options granted during the year ended October 31, 2006 was \$0.24.

The following table contains information regarding outstanding fixed-price stock options as at October 31, 2007:

Price range for the year \$	Number of outstanding options #	Weighted average remaining contractual life Years	Weighted average exercise price \$	Number of outstanding exercisable options #	Weighted average exercise price \$
0.14 to 1.00	5,742,487	8.52	0.22	3,892,487	0.25
1.21 to 1.35	145,300	3.24	1.26	145,300	1.26
2.15 to 2.60	444,000	2.99	2.19	444,000	2.19
3.10 to 4.00	143,250	1.45	3.78	143,250	3.78
5.60 to 6.00	46,000	0.93	5.60	46,000	5.60
7.00 to 7.00	150,000	—	7.00	150,000	7.00
0.14 to 7.00	6,671,037	7.64	0.64	4,821,037	0.83

Warrants

A summary of the status of the Corporation's warrants as at October 31, 2007 and 2006 and the changes during the years then ended is shown below:

	2007		2006	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding warrants, at beginning of year	5,282,500	0.76	6,399,741	0.76
Granted – Series A common share purchase warrants	62,500,000	0.30	—	—
Granted – Series B common share purchase warrants	62,500,000	0.20	—	—
Expired	(5,282,500)	0.76	(1,117,241)	1.44
Outstanding warrants, at end of year	125,000,000	0.25	5,282,500	0.76

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL [Cont'd]

In January 2007, and as disclosed previously, the Corporation issued 11,909,000 broker warrants, which entitle the holder to purchase 11,909,000 units. If exercised, these units would entitle their holders to acquire 5,954,000 Series A common share purchase warrants and 5,954,500 Series B common share purchase warrants.

On July 22, 2005, the Board of Directors of the Corporation approved a modification to the terms of the 5,200,000 warrants and broker warrants to purchase 1,040,000 shares granted to the agent under the private placement completed on March 19, 2004, subject to receiving the approvals from the Toronto Stock Exchange, the Autorité des marchés financiers and the shareholders. Under the new terms, the warrant's exercise period has been extended by one year, entitling the holder to acquire one common share of the Corporation at an exercise price of \$0.60 per share until March 18, 2006 and at an exercise price of \$0.75 per share until March 18, 2007. Under the new terms, the agent's options are now exercisable at \$0.50 per share on or before March 18, 2007. During the year ended October 31, 2007, the 5,200,000 warrants and 1,040,000 previously issued broker warrants to purchase shares expired unexercised.

The shareholders approved the extension of the warrants' life at the Annual General Meeting held on March 19, 2006. This repricing added \$52,000 to the accounting value of the warrants and \$10,400 to the agent's options which was recorded in additional paid-in-capital. The value was determined using the Black-Scholes option pricing model, assuming an expected life of 12 months, volatility of 70%, a risk-free interest rate of 5.25% and no dividend yield.

During the year ended October 31, 2004, the Corporation issued a common share purchase warrant to Bio Products Laboratory ["BPL"], giving BPL the right to purchase up to 300,000 common shares of the Corporation at a price of \$3.00 per share over a period of two years. This warrant is estimated to have a nominal value. During the year ended October 31, 2006, the 300,000 warrants expired unexercised.

During the year ended October 31, 2002, in connection with a term loan of US\$2,250,000, the Corporation granted 817,241 warrants to its lender and 178,571 warrants to the agent in the transaction. These warrants entitle the holder to purchase one common share at a price of \$0.87 on or before October 24, 2006 for 817,241 warrants and on or before October 24, 2005 for 178,571 warrants. The Corporation calculated the fair value of these warrants, using the Black-Scholes option pricing model, and recognized \$465,000 as debt issue costs and recorded a corresponding amount as additional paid-in capital in the year ended October 31, 2002. During the year ended October 31, 2005, the 178,571 warrants expired unexercised. During the year ended October 31, 2006, the balance of the 817,241 warrants expired unexercised.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL [Cont'd]

During the year ended October 31, 2002, the Corporation entered into an agreement with one of its suppliers for services to be rendered over the next year. As part of the compensation payable to the supplier, the Corporation is required to issue up to 82,500 warrants subject to performance criteria, each of which entitle the holder to purchase one common share at a price of \$1.25. The 82,000 warrants expire on March 20, 2007. During the year ended October 31, 2007, the 82,500 warrants expired unexercised.

Loss per share

The following is a reconciliation of the numerator and denominator of the basic and diluted loss per share computations for the years ended October 31, 2007 and 2006.

	2007	2006
	\$	\$
<hr/>		
Numerator		
Net loss – numerator for basic and diluted loss per share	(3,965,668)	(3,011,481)
Denominator		
Denominator for basic loss per share		
Weighted-average number of outstanding common shares	140,300,698	38,800,917
Effect of dilutive securities		
Stock options and warrants	—	—
Denominator for diluted loss per share		
Adjusted weighted-average number of outstanding common shares and assumed conversions	140,300,698	38,800,917

For 2007 and 2006, the Corporation's diluted loss per share is equivalent to its basic loss per share, since all of the Corporation's potentially issuable securities, including stock options and warrants, would have an anti-dilutive effect.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

Cash equivalents and temporary investment classified as available for sale constitute the sole items affecting Accumulated Other Comprehensive Income. The changes that occurred during the year were as follows:

	\$
<hr/>	
Balance at beginning of year	—
Changes to unrealized gain on available for sale investments	21,277
Balance at end of year	21,277

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

12. INCOME TAXES

The income tax recovery reported differs from the amount of income tax recovery computed by applying Canadian federal and provincial rates to the loss before income taxes. The nature of the differences and the related tax effects are as follows:

	2007 %	2006 %
Statutory federal and provincial recovery	32.0	31.8
Increase (decrease) in taxes recoverable resulting from:		
Non-deductible expenses	(6.0)	(0.6)
Unrecognized tax benefits of operating losses and other available deductions	(22.7)	(32.6)
Foreign tax rate differential	2.6	(3.8)
Impact of changes to future income tax rates	(5.6)	—
Other	(0.3)	1.4
	—	—

The tax effects of temporary differences and net operating losses that give rise to future income tax assets and liabilities are as follows:

	2007 \$	2006 \$
Future income tax assets		
Tax basis of Canadian property, plant and equipment and other assets in excess of carrying value	7,820,000	7,935,000
Tax basis of U.S. property, plant and equipment in excess of carrying value	69,000	64,000
Canadian non-capital losses carried forward	2,121,000	1,663,000
Canadian capital losses carried forward	42,000	43,000
U.S. net operating losses carried forward	13,848,000	16,073,000
Research and development expenditures	1,342,000	1,368,000
Financing fees	296,000	84,000
Charitable donations	6,000	7,000
Total future income tax assets	25,544,000	27,237,000
Valuation allowance	(25,544,000)	(27,237,000)
Net future income tax assets	—	—
Net future income tax	—	—

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

12. INCOME TAXES [Cont'd]

The Corporation has accumulated non-capital losses which are available to reduce future Canadian federal and provincial taxable income and net operating losses which are available to reduce future U.S. federal taxable income. The related income tax benefits have not been reflected in the consolidated financial statements. These losses, if not utilized, will expire as follows:

	Canadian Federal losses	Canadian Provincial losses	U.S. Federal losses
	\$	\$	\$
2011	2,272,000	2,271,000	8,000
2012	—	—	684,000
2015	1,508,000	1,508,000	—
2018	—	—	4,081,000
2019	—	—	5,458,000
2020	—	—	7,872,000
2021	—	—	4,058,000
2022	—	—	5,693,000
2023	—	—	4,529,000
2024	—	—	1,134,000
2025	—	—	717,000
2026	1,513,000	1,513,000	1,181,000
2027	1,684,000	1,684,000	1,385,000
	6,977,000	6,976,000	36,800,000

U.S. loss carryforwards may be restricted pursuant to Internal Revenue Code Section 382, if it is determined that a change in control occurred in the current year or prior years for U.S. federal income tax purposes.

The Corporation also has capital loss carryforwards of \$268,000 which are available to reduce future capital gains for an indefinite period.

In addition, the Corporation has accumulated Canadian scientific research and experimental development expenditures of \$4,620,000 which have not been deducted for federal income tax purposes and \$4,094,000 for provincial income tax purposes. These expenditures are available to reduce future taxable income and have an unlimited carry-forward period. Scientific research and experimental development tax credits and expenses are subject to verification by the tax authorities, and accordingly, these amounts may vary.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

12. INCOME TAXES [Cont'd]

The Corporation also has accumulated share issue expenses that have not been deducted for income tax purposes amounting to approximately \$975,000. The benefits of these expenses have not been recorded in the financial statements.

13. GOVERNMENT ASSISTANCE

The Corporation has available non-refundable investment tax credits of \$108,000 [2006 – \$179,000] related to research and development expenditures which may be utilized to reduce federal income taxes payable in the future years end expire as follows:

	\$
2008	55,000
2009	19,000
2015	29,000
2026	5,000
	<u>108,000</u>

Non refundable investment tax credits are subject to verification by the tax authorities, and accordingly, these amounts may vary. The benefits of these non-refundable investment tax credits have not been recognized in the consolidated financial statements.

14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are presented net of investment tax credits received of \$32,669 for the year ended October 31, 2007. There were no investment tax credits for the year ended October 31, 2006.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

15. COMMITMENTS AND CONTINGENCIES

- [i] The Corporation occupies certain facilities under lease arrangements and leases certain equipment. Estimated future minimum annual payments, the majority denominated in U.S. funds, required for the next five years are as follows:

	\$
2008	503,000
2009	483,000
2010	485,000
2011	499,000
2012	514,000
Thereafter	1,826,000
	<u>4,310,000</u>

- [ii] As at October 31, 2007, the Corporation has commitments outstanding under an agreement to purchase certain production equipment for its manufacturing facility for a total of approximately \$1.5 million. The amount will be paid over the next five years.

16. FINANCIAL INSTRUMENTS

Concentration of credit risk

In addition to concentrations disclosed elsewhere, cash and cash equivalents are held by Canadian and American financial institutions. For the year ended October 31, 2007, the Corporation's concentration of credit risk with respect to trade accounts receivable was limited because of the Corporation's large number of customers. As at October 31, 2007, no customers represented more than 10% of trade accounts receivable [2006 – two customers represented 24% of trade accounts receivable].

Fair value of financial instruments

[i] Short-term financial assets and liabilities

The carrying amounts of these assets and liabilities are recorded at fair value. Short-term financial assets comprise cash and cash equivalents, temporary investment, accounts receivable – trade and other receivables. Short-term financial liabilities comprise accounts payable and current portion of obligation under capital leases.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

16. FINANCIAL INSTRUMENTS [Cont'd]

[ii] Long-term financial liabilities

The fair value of the long-term debt is not readily determinable given its specific nature. The carrying amount of the obligation under capital leases approximates its fair value given that the imputed interest rate reflects the current rate.

Interest rate risk

The Corporation has long-term debt which exposes it to interest rate risk through fluctuations in the rate prescribed by the Ministère du Revenu du Québec.

Foreign currency risk

In addition to risks disclosed elsewhere, the Corporation is exposed to foreign currency translation risk due to cash and cash equivalents, accounts receivable-trade, other receivables, accounts payable and accrued liabilities denominated in U.S. dollars. As at October 31, 2007, financial assets, consisting principally of cash and cash equivalents, denominated in US dollars totaled US\$447,326 [US\$62,993 as at October 31, 2006] and financial liabilities denominated in US dollars totaled US\$160,192 [US\$226,646 as at October 31, 2006]. The Corporation does not enter into arrangements to hedge its foreign currency risk.

17. STATEMENTS OF CASH FLOWS

Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2007	2006
	\$	\$
Cash on hand and bank balances	514,624	78,300
Bankers acceptances	3,077,259	—
	<u>3,591,883</u>	<u>78,300</u>

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

17. STATEMENTS OF CASH FLOWS [Cont'd]

Net change in non-cash working capital balances related to operations

	2007	2006
	\$	\$
Accounts receivable – trade	3,204	11,963
Other receivables	32,635	1,183,909
Inventories	7,315	35,588
Prepaid expenses	(13,440)	40,679
Accounts payable and accrued liabilities	(47,210)	91,345
	(17,496)	1,363,484

18. RELATED PARTY TRANSACTION

Amounts were paid on behalf of a company controlled by a director for the storage and packaging of a product owned by the company controlled by the director. The account receivable amounted to \$3,068 as at October 31, 2007 [\$26,254 as at October 31, 2006]. During the year, \$32,786 of storage and packaging was incurred and repaid by a company controlled by the director.

During the year, a director provided consulting services to the Corporation. The total cash consideration paid by the Corporation during the year for such services totaled \$93,835 [2006 – \$159,320] at the exchange amount, being the amount agreed upon by the parties, and was charged to general and administrative expenses.

19. SEGMENT DISCLOSURES

The Corporation considers that it is operating in a single segment, being the market of acute surgical wound care. The Corporation allocates sales to individual countries according to the location of its customers.

Geographic information

	Sales		Property, plant and equipment	
	2007	2006	2007	2006
	\$	\$	\$	\$
Canada	—	—	111,097	130,226
United States	119,704	147,134	2,792,446	1,700,948
	119,704	147,134	2,903,543	1,831,174

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

20. COMPARATIVE FIGURES

Certain of the 2006 figures have been reclassified in order to conform with the presentation adopted in 2007.