

Consolidated Financial Statements

Haemacure Corporation

October 31, 2008 and 2007

AUDITORS' REPORT

To the Shareholders of
Haemacure Corporation

We have audited the consolidated balance sheets of **Haemacure Corporation** as at October 31, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Montréal, Canada
November 21, 2008

Chartered Accountants

Haemacure Corporation

Incorporated under the *Canada Business Corporations Act*

CONSOLIDATED BALANCE SHEETS

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

As at October 31

	2008	2007
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	1,205,500	3,591,883
Investments <i>[note 6]</i>	3,398,496	4,011,200
Accounts receivable – trade	8,225	9,227
Other receivables <i>[note 7]</i>	91,964	47,905
Inventories	49,359	26,852
Prepaid expenses	154,184	88,414
	4,907,728	7,775,481
Property, plant and equipment <i>[notes 8 and 11]</i>	7,907,486	2,903,543
Deferred charge	208,455	236,561
Other assets <i>[note 9]</i>	9,583	23,704
	13,033,252	10,939,289
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,585,321	361,918
Current portion of obligation under capital leases <i>[note 10]</i>	39,149	11,564
	1,624,470	373,482
Obligations under capital leases <i>[note 10]</i>	43,085	25,166
Lease obligation	102,867	63,678
Long-term debt <i>[note 11]</i>	2,444,244	1,250,634
	4,214,666	1,712,960
Shareholders' equity	8,818,586	9,226,329
	13,033,252	10,939,289

Commitments and contingencies *[notes 11 and 17]*

See accompanying notes

On behalf of the Board:

Pierre Alary
Director

Joseph 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

	2008	2007
	\$	\$
Sales	96,571	119,704
Cost of sales	43,574	66,820
	<u>52,997</u>	<u>52,884</u>
EXPENSES (INCOME)		
General and administrative	4,213,798	3,162,759
Research and development, net [note 16]	3,597,089	883,370
Other expenses [note 19]	651,570	—
Loss on write-off of property, plant and equipment	—	70,574
Loss on foreign exchange	255,856	35,984
Amortization of property, plant and equipment	68,549	54,483
Amortization of other assets	4,244	3,903
Interest on obligations under capital leases	6,799	2,400
Interest on long-term debt	273,920	60,870
Other financial expenses	2,085	64,281
Investment income	(195,183)	(320,072)
	<u>8,878,727</u>	<u>4,018,552</u>
Net loss	<u>(8,825,730)</u>	<u>(3,965,668)</u>
Loss per common share [note 12]		
Basic and diluted	<u>(0.05)</u>	<u>(0.03)</u>
Weighted average number of outstanding common shares [note 12]		
Basic and diluted	<u>180,160,531</u>	<u>140,300,698</u>

See accompanying notes

Haemacure Corporation

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

Years ended October 31

	2008		2007	
	Number of shares	Amount \$	Number of shares	Amount \$
Share capital [note 12]				
Common shares				
Balance at beginning of year	163,800,917	100,666,948	38,800,917	92,266,948
Exercise of Series B warrants	35,560,381	5,447,510	—	—
Issuance of shares	6,905,000	866,956	125,000,000	8,400,000
Balance at end of year	206,266,298	106,981,414	163,800,917	100,666,948
Deficit [note 12]				
Balance at beginning of year		(99,945,567)		(93,826,479)
Share issue costs		—		(2,153,420)
Net loss		(8,825,730)		(3,965,668)
Balance at end of year		(108,771,297)		(99,945,567)
Additional paid-in capital [note 12]				
Balance at beginning of year		8,483,671		2,540,912
Stock-based compensation expense		640,865		741,759
Series C warrants issued upon exercise of Series B warrants		3,026,394		—
Series A and B warrants issued upon exercise of broker warrants		457,494		—
Exercise of B warrants		(1,361,828)		—
Exercise of broker warrants		(633,950)		—
Series A and B warrants issued under private placement		—		4,100,000
Broker Warrants		—		1,101,000
Balance at end of year		10,612,646		8,483,671
Accumulated other comprehensive (loss) income [note 13]		(4,177)		21,277
Total shareholders' equity		8,818,586		9,226,329

See accompanying notes

Haemacure Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

Years ended October 31

	2008	2007
	\$	\$
Net loss	(8,825,730)	(3,965,668)
Unrealized gain (loss) on available for sale investments	(25,454)	21,277
Comprehensive loss	(8,851,184)	(3,944,391)

See accompanying notes

Haemacure Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Years ended October 31

	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Net loss	(8,825,730)	(3,965,668)
Items not affecting cash:		
Amortization of property, plant and equipment	68,549	54,483
Amortization of other assets	4,244	3,903
Amortization of deferred charges	28,106	7,027
Accrued interest on long-term debt	173,302	60,870
Order cancellation expenses <i>[note 19]</i>	363,335	—
Loss on write-off of other assets	9,877	—
Loss on write-off of property, plant and equipment	—	70,574
Stock-based compensation expense	640,865	741,759
Increase of lease obligation	39,189	33,827
Foreign exchange (gain) loss	(85,145)	33,939
Unrealized gain/loss on available for sale investments	(20,231)	20,202
Unrealized foreign exchange loss on loan from Alfa Laval	173,437	—
	<u>(7,430,202)</u>	<u>(2,939,084)</u>
Net change in non-cash working capital balances related to operations <i>[note 18]</i>	<u>1,092,069</u>	<u>(17,496)</u>
Cash flows relating to operating activities	<u>(6,338,133)</u>	<u>(2,956,580)</u>
FINANCING ACTIVITIES		
Issuance of units <i>[note 12]</i>	690,500	12,500,000
Exercise of B warrants <i>[note 12]</i>	7,112,076	—
Share issue costs paid in cash <i>[note 12]</i>	—	(1,052,420)
Repayment of obligations under capital leases	(35,431)	(10,933)
Cash flows relating to financing activities	<u>7,767,145</u>	<u>11,436,647</u>
INVESTING ACTIVITIES		
Acquisition of investments	(3,567,720)	(4,010,125)
Disposition of investments	4,175,201	441,000
Increase in deferred charge	—	(115,083)
Acquisition of property, plant and equipment	(4,524,889)	(1,197,426)
Proceeds on disposal of property, plant and equipment	16,868	—
Acquisition of other assets	—	(12,500)
Accounts payable related to property, plant and equipment	—	(38,411)
Cash flows relating to investing activities	<u>(3,900,540)</u>	<u>(4,932,545)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>85,145</u>	<u>(33,939)</u>
Net change in cash and cash equivalents	<u>(2,386,383)</u>	<u>3,513,583</u>
Cash and cash equivalents at beginning of year	<u>3,591,883</u>	<u>78,300</u>
Cash and cash equivalents at end of year <i>[note 18]</i>	<u>1,205,500</u>	<u>3,591,883</u>
Supplemental information		
Interest paid	<u>110,895</u>	<u>66,681</u>

See accompanying notes

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

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. The Corporation considers that it is primarily pursuing one multi-product project, which includes the development of 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 equipment. Since November 1, 2003, the Corporation, which is in the development stage, has expensed approximately \$5.9 million related to this project and purchased property, plant and equipment in the amount of approximately \$7.6 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 that the Corporation will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business for the foreseeable future. The use of these principles may not be appropriate. As at October 31, 2008, there is significant uncertainty that the Corporation will be able to continue as a going concern without obtaining additional financial resources.

The Corporation has not realized profit from operations since its inception and has an accumulated deficit of \$108.8 million. The Corporation's committed cash obligations and expected level of expenses for the first half of fiscal 2009 exceed the committed sources of funds and funds available at October 31, 2008. 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 has raised funds through the issuance of share capital and debt, from product sales and from investment tax credits. The Corporation is pursuing various debt and equity financing alternatives and will require additional financing in the near term to fund its operations and development as well as completing the validation of its manufacturing facility, conducting clinical trials and obtaining regulatory approvals.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

1. NATURE OF BUSINESS AND GOING CONCERN ASSUMPTION

[Cont'd]

The Corporation's ability to continue as a going concern is dependent on its ability to raise additional financing, developing and bringing its technology to market, obtaining the necessary regulatory approvals and achieving and maintaining profitable operations. The outcome of many of these matters are outside of the Corporation's control and 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. Such adjustments could be material.

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 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 year. Actual results may differ from the estimates and assumptions used. Because the Corporation has not yet started to market its HMN technology, the recoverability 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 the sale of products is recognized upon shipment of the product, when the price is fixed and determinable, and when 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.

Investments

The available for sale investments, representing fixed income securities, are valued at fair value.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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.

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%
Leasehold improvements	Straight-line	Lease term

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, 2008 and 2007

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 investments are recorded as a component of accumulated other comprehensive income in the consolidated statement of shareholders' equity until the related asset is removed from the balance sheet, at which time they are included in the consolidated statement of operations of the reporting period.

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 12. The Corporation accounts for stock-based compensation using the fair value method of accounting for stock-based compensation plans.

The value of the compensation is measured at the grant date using the Black-Scholes option pricing model. Options issued to employees, officers and directors are recognized as an expense over the vesting period with a corresponding increase to additional paid-in capital. Options issued to consultants are recognized as an expense at the earlier of the vesting date or over the period over which the services are performed with a corresponding increase to additional paid-in capital. Any consideration paid by employees, officers and directors on exercise of stock options or purchase of stock is credited to share capital.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Impairment of long-lived assets

Property, plant and equipment and other assets are reviewed for impairment 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.

3. CHANGES IN ACCOUNTING POLICIES

2008

The Canadian Institute of Chartered Accountants ["CICA"] has issued the following new Handbook Sections:

Section 3031 *Inventories* was issued in June 2007 replacing the existing standard for inventories, Section 3030 and is effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008. 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 Corporation early adopted Section 3031 beginning on November 1, 2007. The adoption of this new section had no impact 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.

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*.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

3. CHANGES IN ACCOUNTING POLICIES [Cont'd]

Sections 3862 and 3863 are effective for annual and interim financial statements relating to fiscal years beginning on or after August 1, 2007. The impact of adopting Handbook Sections 3862 and 3863 is disclosed in note 4.

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, if any, and, if it has not complied, the consequences of such non-compliance. The impact of adopting this Handbook Section is disclosed in note 5.

2007

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.

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 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, using the effective interest rate method. 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.

As a result of the adoption of these standards, the Corporation has classified its cash and cash equivalents and investments 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, 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 opening deficit.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

4. FINANCIAL INSTRUMENTS

The classification of financial instruments and their carrying amounts and fair values are as follows as at:

	October 31, 2008					
	Available for sale \$	Loans and receivables \$	Other financial liabilities \$	Derivatives \$	Carrying value total \$	Fair value total \$
Financial assets						
Cash and cash equivalents	1,205,500	—	—	—	1,205,500	1,205,500
Investments	3,398,496	—	—	—	3,398,496	3,398,496
Accounts receivable – trade	—	8,225	—	—	8,225	8,225
Other receivables ⁽¹⁾	—	31,091	—	—	31,091	31,091
	<u>4,603,996</u>	<u>39,316</u>	<u>—</u>	<u>—</u>	<u>4,643,312</u>	<u>4,643,312</u>
Financial liabilities						
Accounts payable and accrued liabilities	—	—	1,585,321	—	1,585,321	1,585,321
Long-term debt	—	—	2,503,906	(59,662)	2,444,244	2,444,244
	<u>—</u>	<u>—</u>	<u>4,089,227</u>	<u>(59,662)</u>	<u>4,029,565</u>	<u>4,029,565</u>
October 31, 2007						
	Available for sale \$	Loans and receivables \$	Other financial liabilities \$	Derivatives \$	Carrying value total \$	Fair value total \$
Financial assets						
Cash and cash equivalents	3,591,883	—	—	—	3,591,883	3,591,883
Investments	4,011,200	—	—	—	4,011,200	4,011,200
Accounts receivable – trade	—	9,227	—	—	9,227	9,227
Other receivables ⁽¹⁾	—	27,295	—	—	27,295	27,295
	<u>7,603,083</u>	<u>36,522</u>	<u>—</u>	<u>—</u>	<u>7,639,605</u>	<u>7,639,605</u>
Financial liabilities						
Accounts payable and accrued liabilities	—	—	361,918	—	361,918	361,918
Long-term debt	—	—	1,250,634	—	1,250,634	1,250,634
	<u>—</u>	<u>—</u>	<u>1,612,552</u>	<u>—</u>	<u>1,612,552</u>	<u>1,612,552</u>

⁽¹⁾ Excluding investment tax credits, commodity and other taxes

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

4. FINANCIAL INSTRUMENTS [Cont'd]

Fair value

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Corporation uses the following methods and assumptions to establish the fair value for each class of financial instruments:

Available for sale

Cash equivalents and investments – The fair value is determined using quoted market prices.

Cash equivalents and investments were classified as available for sale due to their short-term nature and the fact that they must be readily available to finance the Corporation's operations.

Loans and receivables

Accounts receivables and other receivables – The carrying amount is a reasonable approximation of fair value due to the short-term nature of the accounts.

Other financial liabilities

The carrying amounts of accounts payable and accrued liabilities included on the balance sheet are measured at amortized cost which approximates fair value due to the short-term nature of these accounts. The long-term debt with Investissement Québec has a floating interest rate and its fair value is not readily determinable given its specific nature. The carrying amount of the long-term debt with Alfa Laval approximates its fair value given that the imputed interest rate reflects rates currently available for similar debts.

Foreign Currency risk

We operate internationally and a portion of our expenses are incurred in US dollars. A significant change in the currency exchange rate between the Canadian dollar relative to the US dollar could have a material effect on our consolidated results of operations, financial position or cash flows. We have not hedged our exposure to currency fluctuations. As at October 31, 2008, financial assets, consisting primarily of cash and cash equivalents, denominated in US dollars totaled US\$531,904 [US\$447,326 as at October 31, 2007] and financial liabilities denominated in US dollars totaled US\$1,946,686 [US\$160,192 as at October 31, 2007]. At October 31, 2008, a fluctuation of 10% in the currency exchange rate could result in a fluctuation of approximately \$550,000 on our consolidated results of operations, based on annual US dollar expenditures, and nil on our comprehensive loss.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

4. FINANCIAL INSTRUMENTS [Cont'd]

Credit risk

Cash equivalents are mainly investments in government guaranteed securities and Canadian bankers' acceptances that are readily convertible into a known amount of cash and have an original maturity of three months or less from the date of purchase. Investments are government guaranteed or issued by banks and are subject to minimal risk.

The Corporation's concentration of credit risk with respect to trade accounts receivable is limited because of the large number of customers. As at October 31, 2008, one customer represented more than 10% of trade accounts receivable [in 2007 no customers represented more than 10% of trade accounts receivable]. The Company's maximum credit risk exposure is limited to the carrying value of its cash and cash equivalents, investments and accounts receivable.

Liquidity risk

Haemacure's investment policy is to invest its excess cash in high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of expenditures for continuing operations.

Our investments are comprised of cash equivalents issued by the government of Canada and investments in government guaranteed corporate bonds, a government of Canada treasury bill and a bank issued short-term bond. Our investments are therefore subject to minor fluctuations in value.

The Corporation's accounts payable and accrued liabilities are due within 1 year. The timing of repayments related to the loan from Investissement Québec cannot be determined [see note 11]. The timing of payments related to the loan from Alfa Laval is approximately \$127,000 within one year, \$2.3 million in 1 to 5 years and \$760,000 after 5 years.

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. As at October 31, 2008, a fluctuation of 2% in interest rates would have increased or decreased the net loss and comprehensive loss by approximately \$26,000 and nil respectively.

5. CAPITAL

The Corporation's objective when managing capital is to safeguard the entity's ability to continue as a going concern which 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 to provide returns for shareholders and benefits for other stakeholders.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

5. CAPITAL [Cont'd]

In the management of capital, the Corporation includes shareholders' equity (excluding other comprehensive income), long-term debt and obligations under capital leases, as follows:

	2008	2007
	\$	\$
Shareholders' equity (excluding accumulated other comprehensive income)	8,822,763	9,205,052
Long-term debt	2,444,244	1,250,634
Obligations under capital leases	82,234	36,730
	11,349,241	10,492,416

6. INVESTMENTS

The following table summarizes information relating to investments as at October 31, 2008:

	Fair value
	\$
Government guaranteed corporate bond, earning interest at floating rates. The effective rate was 2.717 % as at October 31, 2008 (4.748% as at October 31, 2007) and maturing October 27, 2009	2,698,348
Bank issued short-term bond, earning interest at 3.50% and maturing December 1, 2008	584,214
Government of Canada Treasury Bill, earning interest at 2.75% and maturing November 13, 2008	115,934
	3,398,496

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

7. OTHER RECEIVABLES

	2008	2007
	\$	\$
Account receivable from a company controlled by a director <i>[note 20]</i>	—	3,068
Investment tax credits receivable	19,000	—
Commodity and other taxes	41,873	20,610
Other receivables	31,091	24,227
	91,964	47,905

8. PROPERTY, PLANT AND EQUIPMENT

	2008		2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Laboratory equipment	141,807	50,817	58,000	23,200
Office equipment	79,232	10,279	5,598	2,246
Computer equipment	192,577	46,366	93,155	14,113
Leasehold improvements	14,761	481	—	—
Construction-in-progress	7,587,052	—	2,786,349	—
	8,015,429	107,943	2,943,102	39,559
Less: accumulated amortization	107,943		39,559	
Net carrying amount	7,907,486		2,903,543	

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

	2008	2007
	\$	\$
Laboratory equipment, at cost	138,935	58,000
Less: accumulated amortization	50,243	23,200
Net carrying amount	88,692	34,800

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 Construction-in-progress assets are not amortized as they have not yet been put into use and include certain assets collateralizing long-term debt *[note 11]*.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

9. OTHER ASSETS

	2008	2007
	\$	\$
Manufacturing rights, at cost	—	49,346
Development costs of website, at cost	12,500	12,500
	12,500	61,846
Less: accumulated amortization	2,917	38,142
	9,583	23,704

During the year ended October 31, 2008, the Corporation wrote-off the manufacturing rights as the related patents have expired [see note 19(c)].

10. OBLIGATIONS UNDER CAPITAL LEASES

	2008	2007
	\$	\$
Lease for laboratory equipment, repayable in monthly instalments of \$1,111 including interest of 5.62%, maturing in October 2010	25,166	36,730
Lease for laboratory equipment, repayable in monthly instalments of \$1,129 including interest of 7.52%, maturing in October 2010	25,080	—
Lease for laboratory equipment, repayable in monthly instalments of \$1,396 including interest of 7.51%, maturing in November 2010	31,988	—
	82,234	36,730
Less: current portion	39,149	11,564
	43,085	25,166

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

10. OBLIGATIONS UNDER CAPITAL LEASES [Cont'd]

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

	\$
2009	43,625
2010	43,625
2011	1,396
	<u>88,646</u>
Less: imputed interest	6,412
	<u>82,234</u>

11. LONG-TERM DEBT

	2008 \$	2007 \$
Loan from Investissement Québec (a)	1,310,255	1,250,634
Debt with Alfa Laval (b)	1,193,651	—
Less: derivative	(59,662)	—
	<u>2,444,244</u>	<u>1,250,634</u>

- a) 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% [4% as at October 31, 2008 and 5% as at October 31, 2007]. Interest for the year ended October 31, 2008 amounting to \$59,621 [\$60,870 in 2007] 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 [HMN]. As of October 31, 2008, 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 HMN project is interrupted or aborted.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

11. LONG-TERM DEBT [Cont'd]

- b) Long-term debt with Alfa Laval, in the amount of \$1,020,181 (US\$837,862) bearing interest at 10%, maturing in January 2015 and collateralized by manufacturing equipment with a carrying amount of \$1.8M at October 31, 2008. In addition to the 10% interest rate, the principal amount of the debt is increased by US\$45,000 each quarter ["Debt Increase"]. As a result, the debt has an effective rate of 29.23%. The debt is repayable in quarterly installments, interest only, from July 2008 until January 2010, interest and Debt Increase, from April 2010 until January 2011, and principal, including Debt Increase, and interest, from April 2011 until January 2015. The Corporation has the option to repay the balance of the debt each quarter without penalty, which option was valued at \$59,662 (US\$49,000) and recorded as a reduction in the debt.

The minimum annual long-term principal repayments, excluding those relating to the IQ loan, are as follows over the next five years:

	\$
2009	—
2010	—
2011	191,283
2012	255,043
2013	255,043

12. 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, 2008 and 2007, Nil preferred shares were issued.

Capital stock transactions

2008

In May 2008, the Corporation amended the terms of the Series B warrants outstanding, issued as part of the private placement concluded in January 2007, such that if Series B warrants are exercised during a period of ten business days from the effective date of the amendment, the Corporation shall issue to the holders, with each common share purchased upon the exercise of Series B warrants, one additional Series C warrant. Each Series C warrant will entitle its holder to acquire one additional common share at a price of \$0.25 until April 18, 2013.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

12. SHARE CAPITAL [Cont'd]

In June 2008, Haemacure raised \$7.8 million through the exercise of broker warrants and amended Series B warrants. A total of 6,905,000 broker warrants were exercised at a price of \$0.10 per unit. Each unit is comprised 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. A total of 35,560,381 Series B warrants were exercised at a price of \$0.20, providing for an equal number of Series C common share purchase warrants at a price of \$0.25, expiring on April 18, 2013.

The resulting 42,465,381 warrants have been valued at \$3.5 million using the Black-Scholes option pricing model. For Series A and B warrants, the pricing model assumed an expected life of 3.5 years, volatility of 83%, risk-free interest of 3.56% and no dividend yield. For Series C warrants, the pricing model assumed an expected life of 5 years, volatility of 77%, risk-free interest of 3.59% and no dividend yield. This amount, less the original value of broker warrants and B warrants exercised of \$2.0 million, was allocated to additional paid-in capital and the balance of \$6.3 million was allocated to common shares.

2007

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 warrant 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, 2008 and 2007

12. 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, with the exception of 150,000 options that have no expiry date.

A summary of the status of the Corporation's fixed-price stock option plan as at October 31, 2008 and 2007 and the changes during the years then ended is shown below:

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding options, at beginning of year	6,671,037	0.64	1,709,356	2.09
Granted	7,765,100	0.13	4,998,481	0.17
Expired	(113,250)	2.09	(36,800)	3.96
Outstanding options, at end of year	14,322,887	0.35	6,671,037	0.64
Exercisable options, at end of year	10,978,887	0.42	4,821,037	0.83

An amount of \$640,865 for the year ended October 31, 2008 was recorded as an expense and was credited to additional paid-in capital for the fair value of stock options granted to employees, officers, directors, consultants and service providers, determined using the Black-Scholes option pricing model, with a weighted average volatility of approximately 71%, a weighted average risk-free interest rate of 3.32%, 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, 2008 was \$0.09.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

12. SHARE CAPITAL [Cont'd]

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.

The following table contains information regarding outstanding fixed-price stock options as at October 31, 2008:

Price range for the year \$	Outstanding options			Exercisable options	
	Number of outstanding options #	Weighted average remaining contractual life Years	Weighted average exercise price \$	Number of outstanding exercisable options #	Weighted average exercise price \$
0.11 to 0.14	7,815,100	5.45	0.13	5,315,100	0.13
0.15 to 0.16	3,300,000	8.08	0.16	2,556,000	0.16
0.21 to 0.29	1,678,481	7.54	0.21	1,578,481	0.21
0.30 to 0.37	273,144	6.08	0.32	273,144	0.32
0.42 to 0.54	136,000	4.60	0.51	136,000	0.51
0.72 to 1.00	270,862	3.15	0.92	270,862	0.92
1.21 to 1.35	121,300	2.79	1.26	121,300	1.26
2.15 to 2.60	434,000	2.05	2.19	434,000	2.19
3.10 to 4.00	108,000	0.84	4.00	108,000	4.00
5.60 to 5.60	36,000	0.05	5.60	36,000	5.60
7.00	150,000	—	7.00	150,000	7.00
0.11 to 7.00	14,322,887	6.03	0.35	10,978,887	0.42

Warrants

A summary of the status of the Corporation's warrants as at October 31, 2008 and 2007 and the changes during the years then ended is shown below:

	2008		2007	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding warrants, at beginning of year	125,000,000	0.25	5,282,500	0.76
Granted – Series A common share purchase warrants	3,452,500	0.30	62,500,000	0.30
Granted – Series B common share purchase warrants	3,452,500	0.20	62,500,000	0.20
Granted – Series C common share purchase warrants	35,560,381	0.25	—	—
Exercised – Series B common shares purchase warrants	(35,560,381)	0.20	—	—
Expired	—	—	(5,282,500)	0.76
Outstanding warrants, at end of year	131,905,000	0.26	125,000,000	0.25

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

12. 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. In June 2008, a total of 6,905,000 broker warrants were exercised at a price of \$0.10 per unit which entitled the holders to acquire 3,452,500 Series A common share purchase warrants and 3,452,500 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. 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.

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 82,500 warrants expire on March 20, 2007. During the year ended October 31, 2007, the 82,500 warrants expired unexercised.

Loss per share

For 2008 and 2007, 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.

13. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Cash equivalents and investments classified as available for sale constitute the sole items affecting Accumulated Other Comprehensive Income. The changes that occurred during the years ended October 31, 2008 and 2007 were as follows:

	2008	2007
	\$	\$
Balance at beginning of year	21,277	—
Changes to unrealized gain (loss) on available for sale investments	(25,454)	21,277
Balance at end of year	(4,177)	21,277

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

14. 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:

	2008 %	2007 %
Statutory federal and provincial recovery	31.1	32.0
Increase (decrease) in taxes recoverable resulting from:		
Non-deductible expenses	(2.2)	(6.0)
Unrecognized tax benefits of operating losses and other available deductions	(16.1)	(22.7)
Foreign tax rate differential	4.1	2.6
Impact of changes to future income tax rates	(16.6)	(5.6)
Other	(0.3)	(0.3)
	—	—

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

	2008 \$	2007 \$
Future income tax assets		
Tax basis of Canadian property, plant and equipment and other assets in excess of carrying value	6,917,000	7,820,000
Tax basis of U.S. property, plant and equipment in excess of carrying value	68,000	69,000
Canadian non-capital losses carried forward	2,616,000	2,121,000
Canadian capital losses carried forward	37,000	42,000
U.S. net operating losses carried forward	19,942,000	13,504,000
Research and development expenditures	1,245,000	1,342,000
Financing fees	188,000	296,000
Intercompany interest	493,000	344,000
Charitable donations	5,000	6,000
Total future income tax assets	31,511,000	25,544,000
Valuation allowance	(31,511,000)	(25,544,000)
Net future income tax assets	—	—
Net future income tax	—	—

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

14. 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	11,000
2012	1,508,000	1,508,000	874,000
2018	—	—	5,217,000
2019	—	—	6,977,000
2020	—	—	10,063,000
2021	—	—	5,188,000
2022	—	—	7,277,000
2023	—	—	5,790,000
2024	—	—	1,450,000
2025	—	—	917,000
2026	1,513,000	1,513,000	1,510,000
2027	1,491,000	1,491,000	1,777,000
2028	2,929,000	2,929,000	5,945,000
	<u>9,713,000</u>	<u>9,712,000</u>	<u>52,996,000</u>

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 \$4,833,000 which have not been deducted for federal income tax purposes and \$4,370,000 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.

The Corporation also has accumulated share issue expenses that have not been deducted for income tax purposes amounting to approximately \$631,000. The benefits of these expenses have not been recorded in the consolidated financial statements.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

15. GOVERNMENT ASSISTANCE

The Corporation has available non-refundable investment tax credits of \$248,000 [2007 – \$108,000] related to research and development expenditures which may be utilized to reduce federal income taxes payable in the future years end expire as follows:

	\$
2015	29,000
2017	71,000
2018	55,000
2019	19,000
2026	5,000
2027	43,500
2028	25,500
	<u>248,000</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.

16. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are presented net of investment tax credits of \$73,519 [2007 – \$32,669].

17. 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:

	\$
2009	694,000
2010	671,000
2011	648,000
2012	660,000
2013	680,000
Thereafter	1,647,000
	<u>5,000,000</u>

[ii] As at October 31, 2008, the Corporation has purchase obligations amounting to approximately \$1.2 million for manufacturing supplies, equipment, external studies and raw material to validate the manufacturing facility and prepare for clinical trials.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

18. STATEMENTS OF CASH FLOWS

Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2008	2007
	\$	\$
Cash on hand and bank balances	706,146	514,624
Government of Canada Treasury Bill	499,354	—
Bankers acceptances	—	3,077,259
	<u>1,205,500</u>	<u>3,591,883</u>

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

	2008	2007
	\$	\$
Accounts receivable – trade	1,002	3,204
Other receivables	(44,059)	32,635
Inventories	(22,507)	7,315
Prepaid expenses	(65,770)	(13,440)
Accounts payable and accrued liabilities	1,223,403	(47,210)
	<u>1,092,069</u>	<u>(17,496)</u>

19. OTHER EXPENSES

The Corporation's decision to proceed with a smaller manufacturing facility has resulted in a review of the equipment previously ordered and the following charges were recorded during the year ended October 31, 2008:

- a) An agreement with Alfa Laval provided for the cancellation of the purchase of certain manufacturing equipment resulting in cancellation fees of \$49,678 (US\$49,031), which were recorded in other expenses.
- b) An order for the purchase of certain manufacturing equipment for which the Corporation has made deposits was cancelled, which resulted in charges of \$313,657 recorded in other expenses. As part of the agreement reached with the supplier, the supplier agreed to refund the Corporation \$87,132 (US\$86,218) which was originally included in other receivables. The supplier informed the Corporation in October that it had filed for bankruptcy protection and the Corporation therefore wrote-off the outstanding receivable of \$80,088 (US\$71,218). Further, the supplier has provided a credit of US\$97,500 to Haemacure that the Corporation may apply against the purchase and delivery of an identical equipment by December 31, 2010. This credit has not been reflected in the accounts.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2008 and 2007

19. OTHER EXPENSES [Cont'd]

Also included in other expenses is an amount of \$9,877 resulting from the write-off of manufacturing rights included in other assets as the related patents have expired.

One of the contractors involved in the construction of the facility has encountered financial difficulties and failed to pay his sub-contractors. To avoid delays in the completion of the facility, the Corporation has made payments of \$278,358 during the year ended October 31, 2008 to various sub-contractors and has recorded the amounts in other expenses as the Corporation is uncertain as to the contractor's ability to repay these funds.

20. 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 nil as at October 31, 2008 [\$3,068 as at October 31, 2007]. During the year, \$7,280 of storage 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 \$40,988 [2007 – \$93,835] at the exchange amount, being the amount agreed upon by the parties, and was charged to general and administrative expenses.

21. 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	
	2008	2007	2008	2007
	\$	\$	\$	\$
Canada	—	—	155,117	111,097
United States	96,571	119,704	7,752,369	2,792,446
	96,571	119,704	7,907,486	2,903,543

22. COMPARATIVE FIGURES

Certain of the 2007 figures have been reclassified in order to conform with the presentation adopted in 2008.