



ON TRACK TO MANUFACTURE SUPERIOR PROPRIETARY FIBRIN SEALANT



HAEMACURE CORPORATION

2004 ANNUAL REPORT

Haemacure Corporation is a Canadian company specialized in the development and commercialization of innovative biological adhesives, biomaterials and surgical devices for the acute surgical wound-care market. It also operates offices in Sarasota, Florida through a wholly-owned subsidiary. The Corporation is traded under the stock symbol HAE on the Toronto Stock Exchange.

Annual General and Special Meeting of Shareholders
 April 26, 2005 at 9:30 a.m.
 Montreal Exchange
 La Tour de la Bourse, 4th floor
 800 Square Victoria
 Montreal, Quebec

Mission

Haemacure aims to develop, manufacture and commercialize innovative products that are beneficial to both patients and operating room professionals, while increasing shareholder value.



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Message to Shareholders

Fiscal 2004 was a transition year for Haemacure, as the Corporation went from an organization with sales of over \$20 million in previous years to a company completing the development of its proprietary products. This transition will allow us to take many steps forward. To better understand the Corporation's evolution, I believe a brief historical review of significant events is appropriate.

In 1999, while Haemacure was selling the fibrin sealant *Hemaseel[®]APR* under license from Baxter Healthcare S.A. ("Baxter"), it entered into an agreement with ZLB Central Laboratory Swiss Red Cross whereby the latter would manufacture and supply us with our proprietary fibrin sealant *Hemaseel[®]HMN* in a form ready for sale. In September 2000, the Swiss Red Cross sold its business unit in charge of our manufacturing agreement to ZLB Bioplasma AG ("ZLB AG"), a subsidiary of CSL Limited of Australia. In 2001, ZLB AG advised us that it will not proceed with the manufacturing of our product since our project did not fit with its development strategy. In 2002, we reached a settlement with ZLB AG providing for substantial compensation to Haemacure for their termination of the agreement originally entered into with the Swiss Red Cross. As a result, Haemacure now enjoys entire control over its technology, including responsibility for regulatory matters and manufacturing. Also, ZLB AG undertook to fund a portion of our efforts to bring our products to market by agreeing to pay Haemacure up to US\$4.5 million upon our meeting certain milestones related to clinical trials and manufacturing, in return for future royalties on sales of *Hemaseel HMN*.

Subsequent to the settlement with ZLB AG, we embarked on a thorough strategic review to determine the most appropriate development path for the Corporation. We concluded that the opportunities identified through this process were not in the best interests of Haemacure and its shareholders, as the companies we approached perceived the continued sale of *Hemaseel APR*, the related regulatory expenses to come and our financial obligations to Baxter under the license agreement as impediments to the conclusion of any beneficial transaction. In addition, the cash flows generated by the sale of *Hemaseel APR* were insufficient to fund both Haemacure's *Hemaseel APR* and *Hemaseel HMN* projects. In October 2003, the Corporation thus decided to stop selling *Hemaseel APR* and to terminate its license agreement with Baxter, with a settlement totaling US\$5.4 million to be paid by Baxter, of which a balance of US\$1 million is due in January 2006.

In early 2004, in order to resume the development of its proprietary fibrin sealant *Hemaseel HMN*, Haemacure underwent a major reorganization, sold its remaining *Hemaseel APR* inventory and raised \$5.2 million by means of a private equity issue.

Finding a Suitable Contract Manufacturer

Following our recent financing, the first step towards completing the development of our products is securing their manufacture, for both clinical trials and commercialization. Finding a suitable contract manufacturer is a complex undertaking that is taking longer than we all wish for. It is also a demanding process, as we have experienced in the past with the Swiss Red Cross and Bio Product Laboratories, and is key to Haemacure's future success. That was our top priority in 2004, and still is today. We have made important progress in this regard.

The various manufacturers we contacted, negotiated with, and those we are still negotiating with, do not all have the same level of interest and expertise in the manufacture of biological or blood-derived products. Some would be required to modify their facilities and procure additional manufacturing equipment to meet our needs, such as a clean room, a filling line or a lyophilisator. They also have different cost structures, resulting in variations in their respective financial proposals. Commercial and liability considerations also vary from one to the other. Many manufacturers expressed genuine and serious interest in our project and we are doing our utmost to conclude an arrangement for the manufacturing of our products as soon as possible.

Hemaseel Technology

In addition to producing a yield four-to-five times higher than Baxter's technology, our technology is also simpler. In effect, our fibrinogen and thrombin extraction process uses a single pool of plasma, or starting material, whereas Baxter's technology requires two different starting materials, resulting in more operations and risks. We therefore believe the technology and manufacturing risks associated with our products are lesser than those associated with Baxter's. Once a manufacturing agreement is reached, we expect it will take about six months to retrofit, install and validate both the equipment and the facility, and another three to six months to manufacture products for clinical trials.

Filling line



Equipment used for thrombin dialysis



Mechanical arm handling plasma bags



Centrifuge separating fibrinogen from thrombin



Hemaseel HMN – A Superior Product

Based on its patented technology, Haemacure is on its way to producing two wholly human plasma-derived products: *Hemaseel HMN*, a fibrin sealant and *Hemaseel Thrombin*, an hemostatic agent that may be used alone or in combination with other biomaterials. These two proprietary products, of which Haemacure owns worldwide rights, represent the next-generation technology for the surgical sealant global market. *Hemaseel HMN* will be superior to *Hemaseel APR* in terms of preparation, ease of use and clinical benefits. It also does not contain bovine components, thus eliminating the immunological risks associated with such ingredients.

Low Scientific Risk

Thus far, we have completed Phase I, Phase II and part of Phase III clinical trials of *Hemaseel HMN*, during which it has been successfully used in surgery on 150 patients and its safety and efficacy were demonstrated. We therefore believe that the scientific risk associated with it is limited.

We anticipate resuming clinical trials about nine months after entering into a manufacturing agreement, and that a Biological License Application specific to each product will be filed with the U.S. and European regulatory authorities toward the end of 2006, with a view to commencing commercialization of our products early in 2008.

HAEMACURE HAS THE TECHNOLOGY, THE MARKET KNOWLEDGE AND THE PERSEVERANCE TO BE A LEADER IN THE SURGICAL SEALANT MARKET, EXPECTED TO REACH NEARLY US\$500 MILLION BY 2007.

Financial Position

On October 31, 2004, cash and cash equivalents and temporary investments totalled \$4.2 million, compared with \$618,759 the prior year. Other receivables included \$1.2 million payable by Baxter in January 2005, which has now been received. In addition to its liquidity, Haemacure expects to have available for its project US\$4.5 million payable by ZLB Bioplasma AG (conditional upon achieving certain milestones) and \$1.1 million payable by Baxter in January 2006. Nevertheless, additional financing will be required to bring our products to market.

On behalf of the Board of Directors and management, I wish to convey my sincere appreciation and gratitude to our shareholders for their support.



Sincerely,

Signed: Marc Paquin

Marc Paquin
President and Chief Executive Officer

Management's Discussion & Analysis

January 28, 2005

The following information should be read in conjunction with our audited consolidated financial statements for the year ended October 31, 2004, and related notes thereto. Our audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to the Corporation, including its Annual Information Form, can be found on SEDAR at www.sedar.com.

To the extent any statements made in this document contain information that is not historical, these statements are essentially forward-looking and are subject to risks and uncertainties. Actual results, levels of activity, performance, or achievements could differ materially from those projected herein and depend on a number of factors, including the successful and timely completion of clinical studies, and the uncertainties related to the regulatory process and the commercialization of products thereafter.

Where we say "we", "us", "our", or the "Corporation" we mean Haemacure Corporation and its subsidiary unless otherwise indicated. All amounts are presented in Canadian dollars unless otherwise indicated.

OVERVIEW

Haemacure Corporation is a Canadian corporation specializing in the development of innovative biological adhesives, biomaterials and surgical devices for the acute surgical wound-care market. Its head office is located in Montreal, Quebec (Canada) and it operates a wholly-owned subsidiary in Sarasota, Florida (USA).

Fiscal 2004 reflects certain events related to and subsequent to the discontinuance of the sale of the fibrin sealant *Hemaseel*[®] *APR* that was announced on October 31, 2003. The impact on financial results of this discontinuance was recorded in the fiscal year ended October 31, 2003. All sales and marketing activities for *Hemaseel APR* and *Gelfoam*[®] were discontinued at the end of November 2003. The Corporation has not discontinued the sale of its fibrin sealant application devices.

As a result of the termination of the *Hemaseel APR* project, Haemacure is considered to be a corporation in development stage since November 1, 2003 and will remain so until significant revenues are generated from the sale of its proprietary fibrin sealant (*Hemaseel HMN*) and thrombin (*Hemaseel Thrombin*) products.

We are now concentrating our resources on completing the development of our *Hemaseel HMN* and *Hemaseel Thrombin* products. Our goal is first to secure a manufacturing source for these products, followed by Phase III clinical trials to support the filing of Biologics License Applications ("BLAs") with regulatory authorities in the United States and Europe. Haemacure is working towards the completion of Phase III trials early in 2006. Successful completion of these trials would lead to filing BLAs towards the end of 2006, with the objective of launching these products on the market in 2008.

In March 2004, we completed a private placement, issuing a total of 10,400,000 units (each unit consisting of one common share and one half of one warrant) for aggregate gross proceeds of \$5.2 million. The net proceeds amounted to \$4.5 million and will be used to purchase certain equipment and to fund clinical trials.

We are currently in negotiations with potential manufacturers for the production of quantities of product for clinical trials and commercialization. Once manufacturing is arranged, we will undertake the completion of Phase III clinical trials.

We have not realized profit from operations since our inception and have exited our *Hemaseel APR* product line. Therefore, as of November 1, 2003, we are in the development stage and will not generate significant revenues or profitable operations in the near future and there can be no assurance that we will either achieve or maintain profitability in the future. As a result, there is significant uncertainty regarding our ability to continue as a going concern. The Corporation will also require additional financing to fund its continuing operations and development and to conduct clinical trials. At October 31, 2004, we had an accumulated deficit of \$88.9 million and liquid assets amounted to \$4.2 million. We expect our operating losses to increase while we pursue clinical trials.

In addition to the net proceeds from the private placement completed in March 2004, we expect to have available for completing the development of our fibrin sealant and thrombin products the US\$4.5 million to be received from ZLB Bioplasma AG ("ZLB"), the US\$1 million received from Baxter Healthcare S.A. ("Baxter") in January 2005 and the US\$1 million to be received from Baxter in January 2006. Payment by ZLB is conditional upon our achieving certain milestones related to the manufacture of *Hemaseel HMN* and the completion of clinical trials. However, our committed cash obligations and expected level of expenses to complete this project exceed the committed sources of funds and our cash and cash equivalents and temporary investment on hand. The Corporation will require additional financing to do so, and there is no assurance that such additional financing will be available on terms acceptable to the Corporation.

SELECTED ANNUAL INFORMATION

The following selected annual information is derived from our audited consolidated financial statements for each of the three most recently completed financial years. Our financial statements are prepared in accordance with Canadian GAAP, and we report in Canadian dollars.

(in thousands of \$, except per share data)	2004	2003	2002
Sales of <i>Hemaseel APR</i>	1,069	19,285	20,106
Sales of devices	421	1,281	976
Commission revenues	-	905	236
Loss before settlements and income taxes	(3,370)	(6,765)	(8,849)
Settlement with a shareholder	-	860	12,710
Settlement with a supplier	-	11,891	-
Settlement with a manufacturer	-	(18,925)	-
Net income (loss)	(3,365)	(13,025)	3,731
Basic and diluted earnings (loss) per share	(0.10)	(0.46)	0.13
Total assets	7,408	12,629	39,387
Total long-term financial liabilities	1,108	1,074	11,392
Cash dividends declared per share ¹	-	-	-

¹ The Corporation has not declared or paid any dividends since incorporation.

The decrease in sales in 2004 from 2003 is related to the discontinuance of the sale of the *Hemaseel APR* product and the termination of the agreement with Pharmacia Corporation for the sale of *Gelfoam*. The improvement in the loss before settlements and income taxes is due to the downsizing of Haemacure's US operations as a result of the termination of the sale of the *Hemaseel APR* product in November 2003.

The net income in 2002 and net loss in 2003 are the result of settlements reached with ZLB, Baxter and Bio Products Laboratory ("BPL"). The details of the settlements are provided in the next section of this document. There were no such settlements in 2004.

The decrease in total assets in 2003 and 2004 is the result of the write-off of the Baxter license and equipment under construction, further to the settlements reached with Baxter and BPL.

The long-term financial liabilities in 2002 include milestone payments payable to Baxter, which were forgiven as part of the settlement reached on October 31, 2003.

RESULTS OF OPERATIONS FOR THE YEAR ENDED OCTOBER 31, 2004 AS COMPARED TO THE YEAR ENDED OCTOBER 31, 2003

Changes in Operations

Our results of operations have changed significantly from last year, as previously explained, and are likely to do so in the future as we complete the development of *Hemaseel HMN* and *Hemaseel Thrombin*. We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future by several factors, including the timing of the payment of the amounts to be received pursuant to the settlement agreement with a shareholder, the progress and timing of expenditures related to the development of our products, and our obtaining regulatory approval for our products. Due to these fluctuations, we believe that the period-to-period comparisons of our operating results are not a good indication of our future performance.

Revenues

For the fiscal year ended October 31, 2004, revenues totalled \$1.5 million compared to \$21.5 million the previous year, as a result of the discontinuance of the sale of the *Hemaseel APR* product in November 2003. Sales of *Hemaseel APR* amounted to \$1.1 million, compared to \$19.3 million the previous year. Sales of devices amounted to \$420,816, compared to \$1.28 million for the previous year. There were no sales commission revenues in 2004, compared to \$905,323 the previous year which resulted mostly from the successful settlement of Haemacure's claim against the maker of *Gelfoam* for commissions earned during prior quarters. Although Haemacure did not discontinue the sale of fibrin sealant application devices, the termination of its sales force in November 2003 resulted in a decrease in device sales.

Gross Margin

The gross margin for 2004 was 55%, compared to 52% the previous year. The increase in margin is due to the high margin carried by the sale of devices throughout the year and to the fact that the book value of certain devices sold during the year had been written down at the end of fiscal 2003, their sale thereby generating a higher margin. This write-down resulted from the discontinuance of the sale of *Hemaseel APR* in November 2003. The decline in the average selling price of the *Hemaseel APR* inventory, sold in the context of a liquidation of inventory in the first quarter of 2004, more than offset the increase in gross margin in the following quarters of 2004. In addition, the 2003 results included commission revenues, which generated a 100% margin. There were no such commission revenues in 2004, as a result of the termination of the agreement with the maker of *Gelfoam*.

Operating Expenses

In 2004, operating expenses totalled \$4.2 million, down 76% from \$17.8 million the previous year.

Selling and marketing expenses decreased to \$576,005, compared to \$9.3 million the previous year. General and administrative expenses decreased to \$2.92 million, compared to \$5.62 million the previous year. Research and development and regulatory expenses decreased to \$428,716, compared to \$540,420 the previous year. The decreases in all categories are due to the major downsizing of Haemacure's US operations in November 2003 as a result of the discontinuance of the sale of the *Hemaseel APR* fibrin sealant.

In 2004, the Corporation reported a net loss on foreign exchange of \$222,242, compared to a net gain on foreign exchange of \$1.76 million in 2003. The 2004 loss is attributable to the continuous rise in the Canadian dollar over the US dollar and principally its impact on assets denominated in US dollars, such as the amount receivable from Baxter. Last year's gain was also attributable to the rise in the Canadian dollar over the US dollar but the impact was felt mostly on liabilities denominated in US dollars, such as future milestone payments payable to Baxter and the US\$2.25 million term loan then outstanding.

The amortization of Property, plant and equipment decreased to \$193,766 in 2004, compared to \$291,297 the previous year. This decrease is mainly the result of Haemacure's downsizing and write-down of Property, plant and equipment. The amortization of Other assets decreased to \$3,486 in 2004, as compared to \$1.5 million in 2003, as a result of the write-off at the end of fiscal 2003 of the Baxter license and of deferred debt issue costs.

Interest and other financial expenses decreased to \$42,743, compared to \$2.3 million the previous year. This decrease is attributable to the full repayment of the US\$2.25 million term loan in October 2003, the full repayment of the line of credit in December 2003, and the reversal in October 2003 of the milestone payments to be made under the license agreement with Baxter, recorded under Other liabilities.

Investment income increased to \$192,599, compared to \$10,556 the previous year. This year's income is made up of \$134,722 in accrued interest on the US\$2 million account receivable from a supplier, which has been accounted for at its present value, and of \$57,877 in interest from the investment of excess funds as a result of the private placement completed in March 2004. There was no such account receivable and excess cash last year.

The gains and expenses resulting from various settlements were recorded in fiscal 2003. There were no such gains and expenses in 2004.

Net Loss

In 2004, Haemacure incurred a net loss of \$3.4 million, or \$0.10 per share, compared to a net loss of \$13.02 million, or \$0.46 per share, the previous year.

The results of 2003 operations were significantly impacted by the settlements reached with ZLB, Baxter and BPL.

SETTLEMENT WITH ZLB

During 2003, Haemacure received from ZLB manufacturing equipment that could be used towards the manufacture of *Hemaseel HMN*. This equipment was later deemed redundant and sold for its estimated value, and a gain of \$860,000 was recorded (see note 11i) to the financial statements). This equipment had been received as per the terms of the settlement agreement entered into with ZLB in March 2002.

SETTLEMENT WITH BAXTER

On October 31, 2003, Haemacure entered into a settlement agreement with Baxter providing for the termination of the *Hemaseel APR* license and supply agreements and the payment by Baxter to Haemacure of \$7.12 million over a period ending in January 2006. As a result of this settlement, the license net book value of \$3.9 million, recorded under Other assets, was written-off and the present value of future milestone payments to be made under the license agreement, recorded under Other liabilities, was reversed, in the amount of \$8.05 million. In 2003, the Corporation recorded a gain of \$11.89 million resulting from this settlement (see note 11ii) to the financial statements).

SETTLEMENT WITH BPL

On October 31, 2003, Haemacure entered into a settlement agreement with BPL providing for the termination of the *Hemaseel APR* manufacturing agreement. Pursuant to this agreement, the Corporation paid \$890,000 to BPL in December 2003 from an amount received from Baxter, and BPL forgave all amounts due and committed to be spent by the Corporation under the manufacturing agreement, including \$1.9 million in accounts payable, in exchange for manufacturing equipment installed at BPL's facilities and certain supplies. In 2003, Haemacure recorded an expense of \$18.9 million resulting from this settlement, of which \$17.8 million represented a Property, plant and equipment write-down (see note 11iii) to the financial statements).

Looking Forward

In 2005 and 2006, we expect our Research and development and regulatory expenses to increase as we arrange for the manufacture of *Hemaseel HMN* and *Hemaseel Thrombin*, complete clinical trials and move these products toward commercialisation. Expenses incurred in 2004 for these products were related to activities associated with the negotiation of a manufacturing agreement for these products. We expect to incur a net loss in the future until such time as commercial sales reach a level needed to sustain our business.

SUMMARY OF QUARTERLY RESULTS

The following unaudited quarterly information is presented in thousands of dollars except for per share amounts:

	Oct. 31, 2004	July 31, 2004	April 30, 2004	Three months ended Jan. 31, 2004	Oct. 31, 2003	July 31, 2003	April 30, 2003	Jan. 31, 2003
Sales ¹	68	90	115	1,217	5,158	5,843	5,126	5,344
Net loss ²	(670)	(974)	(660)	(1,061)	(8,924)	(976)	(991)	(2,134)
Basic and diluted loss per common share	(0.02)	(0.02)	(0.02)	(0.04)	(0.32)	(0.03)	(0.03)	(0.08)

¹ The decrease in sales is attributable to the discontinuance of the sale of *Hemaseel APR* at the end of November 2003.

² In Q2-03, the net loss decreased as a result of cost reduction measures instituted and a transfer of equipment valued at \$859,740 as part of the settlement with a shareholder. In Q3-03, the net loss included an amount of \$831,228 for commissions earned on the sale of *Gelfoam* during past quarters as a result of a settlement reached with the maker of *Gelfoam*. The Q4-03 net loss is due to settlements reached with Baxter and BPL in October 2003. The Q1-04 loss included sales and marketing expenses related to *Hemaseel APR*. The increase in net loss from Q2-04 to Q3-04 is mainly due to foreign exchange fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's liquidity consists of cash and cash equivalents and temporary investment. As at October 31, 2004, the liquidity amounted to \$4.2 million, compared to \$618,759 the previous year. The working capital amounted to \$5.32 million, compared to \$2.66 million the previous year. The variation of our liquidity is explained below, on a consolidated basis, per type of activities.

Operating Activities

In 2004, the cash flow generated from operating activities amounted to \$2.2 million, compared to \$4.6 million the previous year. The decrease of \$2.4 million over 2003 is mainly attributable to the decrease in cash generated by sales and to changes in working capital items resulting from the settlements concluded in 2003.

Financing Activities

In 2004, the net cash flow from financing activities amounted to \$2.3 million. The net proceeds from the issuance of units under a private placement amounted to \$4.5 million, and we have disbursed \$2.2 million for the full repayment of our line of credit. In 2003, there was no cash generating financing activity, and cash flows used in financing activities amounted to \$4.4 million due to the repayment of the bank indebtedness and of the US\$2.25 million term loan.

Investing Activities

Cash flows used in investing activities amounted to \$2.9 million in 2004. An amount of \$1.99 million was used to make a temporary investment and an amount of \$203,434 was mainly used for the purchase of equipment under leasing contracts. The balance was mainly attributable to Changes in accounts payable related to Property, plant and equipment. In 2003, cash flow used in investing activities amounted to \$1.3 million and was mainly related to Changes in accounts payable related to Property, plant and equipment.

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.

The Corporation wishes to maintain adequate cash and cash equivalents to support its planned activities, which include clinical trials, manufacturing and intellectual property protection. As previously mentioned, Haemacure is concentrating its efforts on arranging the manufacture of its fibrin sealant and thrombin products, and is financing these efforts with its current financial resources. The Corporation estimates that it will need additional financing in order to complete the development of its products and bring them to market. The timing of the required financing activities will be determined only once a manufacturing agreement has been executed and the projected costs of completing the project are determined. Our ability to continue as a going concern is dependent upon raising financing through borrowings or equity issues. However, there can be no assurance that we will be able to obtain such financing.

Contractual Obligations

In the normal course of operations, we have entered into several contracts providing for the following payments over the next fiscal years:

(in thousands of \$)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt ¹	1,108	–	–	1,108	–
Capital lease obligations	–	–	–	–	–
Operating leases ²	888	332	515	41	–
Purchase obligations	–	–	–	–	–
Other long-term obligations	–	–	–	–	–
Total contractual obligations	1,996	332	515	1,149	–

¹ The long-term debt is comprised of a \$1.1 million loan from Investissement Québec. The loan and interest thereon will be repayable in instalments equal to 10% of gross sales of the fibrin sealant *Hemaseel HMN*. Since this product is still in development, we considered this debt as repayable in 4 to 5 years.

² The operating leases are comprised of office leases and various office equipment leases.

Capital Resources

We are currently negotiating with potential manufacturers for the manufacture of both our products for clinical trials and commercialization. Once the manufacturing of our products is arranged, we may need to purchase certain equipment to be used for their manufacture. The timing and amounts of such capital expenditures are being determined at this time.

The Corporation will fund its capital expenditure requirements and commitments partly with existing working capital and the US\$4.5 million to be received from ZLB upon achieving certain milestones related to the manufacture of *Hemaseel HMN* and the completion of clinical trials. As explained before, additional financing will be sought to bring the project to completion.

OFF-BALANCE SHEET ARRANGEMENTS

As at October 31, 2004, the Corporation has not entered into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

In 2004 and 2003, the Corporation did not enter into any related party transactions.

FOURTH QUARTER

Statements of loss for the three-month periods ended October 31, 2004 and 2003 are as follows:

(unaudited)	2004 \$	2003 \$
Sales	67,870	5,158,094
Cost of sales	18,741	3,144,293
Gross margin	49,129	2,013,801
Operating expenses	569,856	4,546,346
Loss (gain) on foreign exchange	265,133	(645,690)
Investment income	(54,666)	(2,862)
	780,323	3,897,794
Loss before undernoted item	(731,194)	(1,883,993)
Settlement with a supplier	-	11,890,542
Settlement with a manufacturer	-	(18,925,408)
Loss before income taxes	(731,194)	(8,918,859)
Provision for (recovery of) income taxes	(61,506)	5,132
Net loss for the period	(669,688)	(8,923,991)

Review of Operations

Sales, cost of sales and operating expenses in the fourth quarter of 2004 decreased in all categories compared to 2003 due to the major downsizing of our US operations as a result of the discontinuance of the sale of the *Hemaseel APR* fibrin sealant.

For the quarter ended October 31, 2004, the Corporation had a loss on foreign exchange of \$265,133 compared to a gain of \$645,690 for the same quarter last year. This quarter's loss is attributable to the continuous rise in the Canadian dollar over the US dollar and its impact on assets denominated in US dollars, such as the amount receivable from Baxter. Last year's gain was mainly due to the rise of the Canadian dollar over the US dollar and its impact on liabilities denominated in US dollars, such as future milestone payments payable to Baxter and the US\$2.25 million term loan then outstanding.

Investment income increased to \$54,666 compared to \$2,862 a year ago. This increase is mainly made up of accrued interest on the US\$2 million account receivable from a supplier, which is accounted for at its present value, and interest earned on cash and cash equivalents and temporary investment on hand. There was no such account receivable and excess cash last year.

This quarter's results reflect a recovery for income taxes of \$61,506 pertaining to the federal tax on capital as a result of changes to the federal Income Tax Act which raised the allowable capital deduction to \$50 million from \$10 million in 2003.

For the three-month period ended October 31, 2004, the Corporation's net loss amounted to \$669,688 compared to \$8.9 million in 2003. The fourth quarter of 2003 included a net gain of \$11.89 million and a net loss of \$18.93 million, resulting from the settlements reached with Baxter and BPL respectively. There were no such settlements in the fourth quarter of 2004.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. We have identified the following accounting policies that we believe require application of management's most subjective judgements, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our actual results could differ from these estimates and such differences could be material.

Impairment of Long-Lived Assets

On an ongoing basis, management reviews the carrying value of long-lived assets and considers whether there has been an impairment. When the carrying value of a long-lived asset is less than its net recoverable value as determined on an undiscounted cash flow basis, an impairment loss is recognized. The impairment loss is recognized to the extent that its fair value usually measured on a discounted cash flow basis is below the asset's carrying value. The determination of future cash flows to be generated from long-lived assets requires management to make a number of estimates.

Valuation Allowance for Future Tax Assets

We recorded a valuation allowance on future tax assets primarily related to the difference between financial statement value and tax basis of Property, plant and equipment and Other assets, the carry forward of operating losses and research and development expenses carry forwards. The Corporation has determined that it is more likely than not, at this time, that the related tax benefits will not be realized based on our historical results and estimated future taxable income and tax planning strategies. The implementation of tax planning strategies or the generation of future taxable income could result in the recognition of some portion or all of these carry forwards as soon as we have a history of net income, which could result in a material increase in our results of operations through the recovery of future income taxes.

Stock-Based Compensation

When the Corporation issues stock options to its employees, directors and officers, a fair value is derived for the stock options using the Black-Scholes pricing model. The application of this pricing model requires management to make assumptions regarding several variables, including the expected life of the options, the price volatility of the Corporation's stock over a relevant timeframe, the determination of a relevant risk free interest rate and an assumption regarding the Corporation's dividend policy in the future.

CHANGES IN ACCOUNTING POLICIES

Impairment of Long-Lived Assets

Effective November 1, 2003, the Corporation prospectively adopted the new recommendations of Section 3063 published by the Canadian Institute of Chartered Accountants ("CICA") relating to the impairment of long-lived assets. When the carrying value of long-lived assets exceeds its net recoverable value as determined on an undiscounted cash flow basis, such assets are considered to be impaired. The impairment loss is recognized to the extent by which the carrying amount of the assets exceeds the assets' fair value. The adoption of this recommendation had no impact on the Corporation's consolidated financial statements for the year ended October 31, 2004.

Stock-Based Compensation

During 2003, the CICA amended its standard relating to stock-based compensation, requiring companies to measure at fair value and expense all equity instruments awarded to employees. Effective November 1, 2003, the Corporation adopted the fair value method of accounting for stock-based compensation plans. The Corporation has selected the prospective method of adoption; accordingly, results from prior years have not been restated. Furthermore, for options awarded or modified during the year ended October 31, 2003, the Corporation will continue to present the pro forma net loss information as if the fair value basis had been applied to those awards. Prior to November 1, 2003, no compensation expense was recognized for the Corporation stock option plan when stock or stock options were issued to employees, officers and directors.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Corporation does not use financial derivatives or "other financial instruments".

RISKS AND UNCERTAINTIES

The information set forth in the management's discussion and analysis section of this annual report contains certain "forward-looking statements" which express management's views and expectations regarding future events. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond Haemacure's control and difficult to predict. These risks and uncertainties could cause actual results to differ materially from those expressed or implied in such statements. Among other things, these risks and uncertainties include the following:

Foreign Currency Risk

We operate internationally and a substantial portion of our expense activities is in US dollars. A significant adverse 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.

Reliance on External Financing

We will require additional financing to fund our operations, complete our projects and obtain the required regulatory approvals. Such funding may come from further equity investments or borrowings. No assurance can be given that such funding will be available.

Uncertainties Related to Commercialization and Development

Except for devices, the Corporation's fibrin sealant and thrombin products are in the final stages of development and it has not received marketing approval for these products from any regulatory body. The development and commercialization of new products are highly uncertain, as is the timing associated with these activities. Among other things, potential products that may appear to the Corporation to be promising may not reach the market for any number of reasons, including the possibility that they are found to be ineffective or cause harmful side effects during clinical trials, or that they fail to receive the necessary regulatory approvals, be difficult to manufacture on a commercial scale, be uneconomical, fail to achieve market acceptance or be precluded from commercialization because of proprietary rights held by third parties. No assurance can be made that any of the Corporation's development programs will be successfully completed, that clinical trials will yield the anticipated results, or that such trials will begin or be completed as planned.

Absence of Profitability

Haemacure commenced operations in 1991 and has not realized profit from operations since then, and there can be no assurance that it will attain and maintain profitability in the future. There is currently a growing market for fibrin sealant and thrombin products and we believe that this market will continue to grow. However, the market may not grow as expected by Haemacure and its assumptions may prove incorrect for a variety of reasons, including the failure to obtain the required regulatory approvals, competition from other products and the degree of commercial viability of the Corporation's products.

Product Liability Claims

The development, manufacture and sale of Haemacure's products may expose the Corporation to product liability claims. Although no claims have been filed against Haemacure to date, there can be no assurance that it will not experience losses due to product liability claims in the future. The Corporation currently has general liability insurance. However, there can be no assurance that such coverage will be available to it in the future on reasonable terms, if at all. In addition, there can be no assurance that all of the activities encompassed within Haemacure's business are or will be covered under its policies. Any claims or series of claims against the Corporation, regardless of their merit or eventual outcome, could have a material adverse impact on its business, financial position and operating results.

Competition

Some of the Corporation's potential competitors have greater financial, marketing and other resources than Haemacure. There can be no assurance that the Corporation will be able to compete successfully with potential competitors. Haemacure believes it unlikely that other fibrin sealant and thrombin products will be approved in the United States and Europe for use in the near future. There is no guarantee that any new products from competitors will not have a material adverse impact on the Corporation's sales in the future.

OTHER**Outstanding Share Data**

As at January 28, 2005, the Corporation had 38,800,917 outstanding common shares. On January 28, 2005, there were outstanding options in respect of 1,661,156 common shares, compared to 1,886,623 on October 31, 2004. Since the beginning of fiscal 2005, options have expired in respect of 293,467 common shares and been granted in respect of 68,000 common shares. As at January 28, 2005, the Corporation had 6,578,312 outstanding warrants, which entitle the holders to acquire an equal number of common shares.

Management's Report

The accompanying consolidated financial statements of Haemacure Corporation and all the information in this Annual Report are the responsibility of Management.

The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Haemacure Corporation's policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable costs. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out his responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all its members are outside Directors. The committee meets periodically with Management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the Annual Report, the financial statements and the external auditors' report. The committee reports its findings to the Board for consideration when it approves the financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Signed: Marc Paquin

Marc Paquin
President and Chief Executive Officer

Signed: Lyne Paré, CA

Lyne Paré, CA
Director, Finance and Administration

Auditors' Report

To the Shareholders of **Haemacure Corporation**

We have audited the consolidated balance sheets of **Haemacure Corporation** as at October 31, 2004 and 2003 and the consolidated statements of operations, shareholders' equity, 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 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, 2004 and 2003 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 26, 2004

Signed: Ernst & Young LLP
Chartered Accountants

Consolidated Balance Sheets

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

As at October 31 [in Canadian dollars]

	2004	2003
	\$	\$
ASSETS [note 8]		
Current assets		
Cash and cash equivalents	2,213,997	618,759
Temporary investment [note 4]	1,987,779	—
Accounts receivable – trade	95,710	2,516,199
Other receivables [note 5]	1,429,732	5,952,540
Inventories	45,550	523,687
Prepaid expenses	33,129	30,569
	5,805,897	9,641,754
Property, plant and equipment [note 6]	442,993	565,424
Accounts receivable from a supplier [note 11 [ii]]	1,136,601	2,396,631
Other assets [note 7]	22,079	25,565
	7,407,570	12,629,374
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness [note 8]	—	2,204,529
Accounts payable and accrued liabilities	487,097	4,779,119
Current portion of long-term debt [note 9]	891	2,170
	487,988	6,985,818
Long-term debt [note 9]	1,107,585	1,073,978
	1,595,573	8,059,796
Shareholders' equity	5,811,997	4,569,578
	7,407,570	12,629,374

Commitments and contingencies [notes 9, 11 [i] and 14]
See accompanying notes

On behalf of the Board:

Signed: Pierre Alary

Pierre Alary
Director

Signed: Louis M. Riopel

Louis M. Riopel
Director

Consolidated Statements of Operations

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

Years ended October 31 [in Canadian dollars]	2004	2003
	\$	\$
Sales	1,489,716	21,470,904
Cost of sales	669,326	10,391,908
Gross margin	820,390	11,078,996
EXPENSES (INCOME)		
Selling and marketing	576,005	9,340,248
General and administrative	2,915,811	5,617,112
Research and development	382,387	410,614
Regulatory approvals	46,329	129,806
Loss (gain) on foreign exchange	222,242	(1,757,346)
Amortization of property, plant and equipment	193,766	291,297
Amortization of other assets	3,486	1,529,594
Interest on bank indebtedness [note 8]	9,509	473,309
Interest on other liabilities	—	521,020
Interest on long-term debt [note 9]	34,707	1,123,270
Other financial expenses (income)	(1,473)	175,628
Investment income	(192,599)	(10,556)
	4,190,170	17,843,996
Loss before undernoted items	(3,369,780)	(6,765,000)
Settlement with a shareholder [note 11 [i]]	—	859,740
Settlement with a supplier [note 11 [ii]]	—	11,890,542
Settlement with a manufacturer [note 11 [iii]]	—	(18,925,408)
Loss before income taxes	(3,369,780)	(12,940,126)
Provision for (recovery of) income taxes – current [note 12]	(5,048)	84,421
Net loss	(3,364,732)	(13,024,547)
Loss per common share [note 10]		
Basic and diluted	(0.10)	(0.46)
Weighted average number of outstanding common shares [note 10]		
Basic and diluted	34,822,775	28,400,917

See accompanying notes

Consolidated Statements of Shareholders' Equity

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

Years ended October 31 [in Canadian dollars]	2004		2003	
	Number of shares	Amount \$	Number of shares	Amount \$
Share capital [note 10]				
Common shares				
Balance at beginning of year	28,400,917	87,566,948	28,400,917	87,566,948
Issuance of special warrants	10,400,000	4,700,000	—	—
Balance at end of year	38,800,917	92,266,948	28,400,917	87,566,948
Deficit				
Balance at beginning of year		(84,672,370)		(71,647,823)
Net loss		(3,364,732)		(13,024,547)
Share issue expenses [note 10]		(828,258)		—
Balance at end of year		(88,865,360)		(84,672,370)
Additional paid-in capital [note 10]		2,410,409		1,675,000
Total shareholders' equity		5,811,997		4,569,578

See accompanying notes

Consolidated Statements of Cash Flows

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

Years ended October 31 [in Canadian dollars]

	2004	2003
	\$	\$
OPERATING ACTIVITIES		
Net loss	(3,364,732)	(13,024,547)
Items not affecting cash:		
Amortization of property, plant and equipment	193,766	291,297
Amortization of other assets	3,486	1,529,594
Amortization and write-off of debt issue costs	—	985,481
Accrued interest on long-term debt	34,498	35,169
Accrued interest on accounts receivable from a supplier	(134,722)	—
Accrued interest on other liabilities	—	521,020
Loss on disposal of property, plant and equipment	129,099	125,546
Stock-based compensation expense	70,409	—
Services paid by the issuance of warrants	—	6,000
Settlement with a manufacturer – impairment of property, plant and equipment	—	17,810,790
Settlement with a supplier	—	(6,540,083)
Foreign exchange loss	1,797	47,165
Unrealized foreign exchange loss (gain)	194,037	(1,812,839)
	(2,872,362)	(25,407)
Net change in non-cash working capital balances related to operations [note 16]	5,087,065	4,642,548
Cash flows relating to operating activities	2,214,703	4,617,141
FINANCING ACTIVITIES		
Repayment of bank indebtedness	(2,204,529)	(1,296,816)
Issuance of special warrants	5,200,000	—
Share issue costs	(663,258)	—
Debt issue costs	—	(25,811)
Repayment of long-term debt	(2,170)	(3,107,874)
Cash flows relating to financing activities	2,330,043	(4,430,501)
INVESTING ACTIVITIES		
Acquisition of a temporary investment	(1,987,779)	—
Acquisition of property, plant and equipment	(203,434)	(36,495)
Proceeds from disposal of property, plant and equipment	3,000	—
Change in accounts payable related to property, plant and equipment	(759,498)	(1,306,298)
Cash flows relating to investing activities	(2,947,711)	(1,342,793)
Effect of exchange rate changes on cash and cash equivalents	(1,797)	(47,165)
Net change in cash and cash equivalents	1,595,238	(1,203,318)
Cash and cash equivalents at beginning of year	618,759	1,822,077
Cash and cash equivalents at end of year [note 16]	2,213,997	618,759
Supplemental information		
Interest paid	9,717	575,929
Income taxes paid	82,008	144,377

See accompanying notes

Notes to Consolidated Financial Statements

October 31, 2004 and 2003 [in Canadian dollars]

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 innovative biological adhesives, biomaterials and surgical devices for acute surgical wound care. 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 following the settlements disclosed in note 11, and is focusing on the completion of the development of Hemaseel 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 Hemaseel HMN and Hemaseel Thrombin. The Corporation considers that it is pursuing only one project, which is 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, in the current year. The Corporation's remaining 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 recently exited its Hemaseel APR product line. As of November 1, 2003, 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 and to conduct clinical trials.

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.

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 period. Actual results may differ from the estimates and assumptions used. Because the Corporation has not yet successfully marketed 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. Commission revenue is earned when an exclusive manufacturer ships product directly to the customer, and recognized when the Corporation receives confirmation of the sale by the manufacturer.

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 the lower of amortized cost and 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 turnover and the expiry date of the products.

Notes to Consolidated Financial Statements

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, and are amortized over their estimated useful life using the declining balance method, except for leasehold improvements which are amortized using the straight-line method, at the following rates:

Laboratory equipment	20%
Office equipment	20%
Computer equipment	30%
Leasehold improvements	Lease term

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.

Other assets

Other assets are comprised of manufacturing rights. Manufacturing rights are recorded at cost and amortized using the straight-line method over a period of 12 to 15 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 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 are included in the 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. [See note 3]

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.

Notes to Consolidated Financial Statements

3. CHANGE IN ACCOUNTING POLICIES

Stock-based compensation and other stock-based payments

During 2003, the Canadian Institute of Chartered Accountants ["CICA"] amended their pronouncement relating to stock-based compensation, requiring companies to measure at fair value and expense all equity instruments awarded to employees. Effective November 1, 2003, the Corporation early adopted the fair value method of accounting for stock-based compensation plans. The Corporation has selected the prospective method of adoption; accordingly, results from prior years have not been restated [see note 10]. Furthermore, for options awarded or modified during the year ended October 31, 2003, the Corporation will continue to present pro forma net loss information as if the fair value basis had been applied to those awards. Prior to November 1, 2003, no compensation expense was recognized for the Corporation stock option plan when stock or stock options were issued to employees, officers and directors.

Impairment of long-lived assets

Effective November 1, 2003, the Corporation prospectively adopted the new recommendations of Section 3063 published by the CICA relating to the impairment of long-lived assets. When the carrying value of long-lived assets exceeds its net recoverable value as determined on an undiscounted cash flow basis, such assets are considered to be impaired. The impairment loss is recognized to the extent by which the carrying amount of the assets exceeds the assets' fair value. The adoption of this recommendation had no impact on the Corporation's consolidated financial statements for the year ended October 31, 2004.

Intangible assets

Effective November 1, 2002, the Corporation prospectively adopted the new recommendation published by the Canadian Institute of Chartered Accountants relating to the method of valuation and the presentation and disclosure requirements for intangible assets. The new recommendations require recognized intangible assets to be amortized over their useful life to an enterprise, unless the life is determined to be indefinite. The amortization method and estimate of the useful life of an intangible asset should be reviewed annually. Intangible assets, which are subject to amortization, are tested for impairment by comparing the net carrying amount with the net recoverable amount whereas for intangible assets not subject to amortization, the net carrying amount is compared to the asset's fair value. The impact of the adoption of the new recommendations did not result in any change to the recognized intangible assets of the Corporation because its intangible assets are not considered to have an indefinite life.

4. TEMPORARY INVESTMENT

The following table summarizes information relating to the temporary investment as at October 31, 2004:

	Amortized cost \$	Market value \$	Original maturity
Crown corporation bond	1,988,970	1,987,779	Nov. 1, 2006

This temporary investment bears interest at floating rates. The interest rate amounted to 2.208% as at October 31, 2004.

5. OTHER RECEIVABLES

	2004 \$	2003 \$
Accounts receivable from a supplier [note 11 [ii]]	1,200,714	5,675,892
Commodity taxes and other	229,018	276,648
	1,429,732	5,952,540

Notes to Consolidated Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

	2004		2003	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Laboratory equipment	988,938	819,700	1,292,895	1,016,960
Office equipment	71,299	33,350	295,624	169,518
Computer equipment	321,187	98,104	265,099	152,605
Leasehold improvements	344,488	331,765	344,488	293,599
	1,725,912	1,282,919	2,198,106	1,632,682
Less: accumulated amortization	1,282,919		1,632,682	
Net carrying amount	442,993		565,424	

7. OTHER ASSETS

	2004 \$	2003 \$
Manufacturing rights, at cost	49,346	49,346
Less: accumulated amortization	27,267	23,781
	22,079	25,565

8. BANK INDEBTEDNESS

On November 20, 2001, the Corporation signed a revolving credit facility agreement, which had a term of three years, for an amount equivalent to a maximum of US\$6,000,000 [approximately \$7,300,000] based on eligible accounts receivable and inventory. The facility bore interest at US prime rate plus 2.25% [effective rate as at October 31, 2003: 6.25%] and was collateralized by accounts receivable, inventories, equipment and intangible assets located in the United States. As at October 31, 2003, the Corporation had drawn an amount of \$2,204,529 against this revolving credit facility.

As a result of the settlement agreements disclosed in note 11 [ii] and [iii], the lender agreed to waive the early termination fee, maintain the effective interest rate in effect as at October 31, 2003 and allow the Corporation to liquidate its accounts receivable and inventory in the normal course of business.

The Corporation repaid the balance of the loan on December 15, 2003. As a result, previously deferred debt issue costs of \$127,500 were charged to expense in 2003. This revolving credit facility is no longer available to the Corporation.

Debt covenants

Under the revolving credit facility agreement, the Corporation and its subsidiary were committed to respect certain financial covenants including a limitation on capital expenditures, minimum tangible net worth and minimum earnings before interest, income taxes, depreciation and amortization, as defined in the agreement. The Corporation and its subsidiary were also committed to respect certain negative covenants including limitations on the ability to pay dividends and make certain payments.

As at October 31, 2003, the Corporation was not in compliance with the covenants relating to levels of minimum tangible net worth and earnings before interest, income taxes, depreciation and amortization. The lender agreed to waive those defaults, as the Corporation repaid the credit facility on December 15, 2003.

9. LONG-TERM DEBT

	2004 \$	2003 \$
Loan from Investissement Québec	1,107,585	1,073,087
Other	891	3,061
	1,108,476	1,076,148
Less: current portion	891	2,170
	1,107,585	1,073,978

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% [3% as at October 31, 2004 and 4% as at October 31, 2003]. Interest for the year ended October 31, 2004 amounting to \$34,498 [\$35,169 in 2003] has been capitalized to the loan in accordance with the provisions of the loan agreement. The loan and interest thereon will be repayable in installments equal to 10% of gross sales of products stemming from the sale of internally developed fibrin sealants [Hemaseel HMN]. As of October 31, 2004, 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.

Notes to Consolidated Financial Statements

9. LONG-TERM DEBT (Cont'd)

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

	\$
2005	891

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, 2004 and 2003, nil preferred shares were issued.

2004 transaction

On March 19, 2004, the Corporation issued 10,400,000 special warrants under a private placement. Each special warrant consists of one common share and one-half share purchase warrant. Each full share purchase warrant entitles the holder to acquire one common share of the Corporation at a price of \$0.60 per share during the first year, and at a price of \$0.75 per share during the second year following the share issuance. These warrants expire on March 18, 2006. The aggregate gross proceeds raised from this private placement was \$5,200,000 before issue costs of \$828,258, of which \$663,258 was paid in cash. The full share issue costs were charged to the deficit. The 5,200,000 warrants have been valued at \$500,000 using the Black-Scholes option pricing model, which assumed an expected life of two years, volatility of 55%, risk-free interest rate of 4% and no dividend yield. This amount has been allocated to additional paid-in capital and the balance of \$4,700,000 has been allocated to common shares.

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. A maximum of 2,423,295 common shares may be issued under the 1996 stock option plan.

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. In conjunction with the cessation of commercial activities in the United States, the Board of Directors approved, as of October 31, 2003, the accelerated vesting on all unvested options held by employees who were laid-off. 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, 2004 and 2003 and the changes during the years then ended is shown below:

	2004		2003	
	Options	Weighted average exercise price \$	Options	Weighted average exercise price \$
Outstanding options, at beginning of year	1,735,489	2.59	1,726,356	2.72
Granted	215,144	0.48	88,500	0.70
Expired	(64,010)	1.74	(79,367)	3.25
Outstanding options, at end of year	1,886,623	2.38	1,735,489	2.59
Exercisable options, at end of year	1,846,623	2.42	1,735,489	2.59

Effective November 1, 2003, the Corporation began prospectively recording compensation expense for stock options awards granted to employees, officers and directors.

An amount of \$70,409 for the year ended October 31, 2004 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 4.15%, 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, 2004 was \$0.37.

Notes to Consolidated Financial Statements

10. SHARE CAPITAL [Cont'd]

The fair value of options granted during the year ended October 31, 2003 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: weighted-average risk-free interest rate of 4.56%; dividend yield of nil; weighted-average volatility factor of the expected market price of the Corporation's common shares of 0.663, and weighted-average expected life of the option of 10 years. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense on a straight-line basis over the option's vesting period and has been determined as if the Corporation had accounted for stock options granted after October 31, 2002 under the fair value method. The Corporation's pro forma net loss would have been \$13,068,992 for the year ended October 31, 2003. Basic and diluted loss per share figures would have been unchanged at \$0.46 for the year ended October 31, 2003. The weighted average grant date fair value of stock options granted during the year ended October 31, 2003 was \$0.54.

The following table contains information regarding outstanding fixed-price stock options as at October 31, 2004:

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 \$
0.37 to 1.00	604,506	6.56	0.74	564,506	0.75
1.21 to 1.35	242,100	5.14	1.27	242,100	1.27
2.05 to 2.60	578,700	5.06	2.24	578,700	2.24
3.10 to 4.00	166,917	3.83	3.80	166,917	3.80
4.10 to 5.00	45,000	1.62	4.22	45,000	4.22
5.60 to 6.00	79,400	3.76	5.62	79,400	5.62
6.30 to 7.00	170,000	1.30	6.92	170,000	6.92
0.37 to 7.00	1,886,623	4.97	2.38	1,846,623	2.42

In addition, with respect to the issuance of shares during the year ended October 31, 2001, the Corporation granted the underwriters, an option to purchase 541,667 shares exercisable at \$1.30 per share on or before June 26, 2003. The Corporation calculated the fair value of these options, using the Black-Scholes option pricing model, and recognized \$290,000 as share issue costs charged to deficit and recorded a corresponding amount as additional paid-in capital. During the year ended October 31, 2003, these options expired unexercised.

Warrants

A summary of the status of the Corporation's warrants as at October 31, 2004 and 2003 and the changes during the years then ended is shown below:

	2004		2003	
	Warrants	Weighted average exercise price \$	Warrants	Weighted average exercise price \$
Outstanding warrants, at beginning of year	1,078,312	0.90	1,090,812	0.94
Granted	5,500,000	0.73	37,500	1.25
Expired	—	—	(50,000)	1.95
Outstanding warrants, at end of year	6,578,312	0.76	1,078,312	0.90

On March 19, 2004, the Corporation issued 5,200,000 share purchase warrants in connection with the private placement mentioned above. In addition, the Corporation granted the agents an option to purchase 1,040,000 shares exercisable at \$0.50 per share on or before March 18, 2006. The Corporation calculated the fair value of these options, using the Black-Scholes option pricing model, and recognized \$165,000 as share issue costs charged to deficit and recorded a corresponding amount as additional paid-in capital.

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, 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 was required to issue up to 82,500 warrants subject to performance criteria, each of which entitles the holder to purchase one common share at a price of \$1.25. The 82,500 warrants expire on March 20, 2007. In 2003, 37,500 warrants were issued in respect of the agreement and the Corporation recorded an expense of \$6,000 and recorded a corresponding amount as additional paid-in capital. The Corporation calculated the fair value of these warrants, using the Black-Scholes option pricing model.

Notes to Consolidated Financial Statements

10. SHARE CAPITAL [Cont'd]

During the year ended October 31, 2000, the Corporation entered into an agreement with one of its suppliers for services to be rendered over the next two years. As part of the compensation payable to the supplier, the Corporation was required to issue up to 50,000 warrants subject to performance criteria, each of which entitles the holder to purchase one common share at a price of \$1.95. The 50,000 warrants expired unexercised on April 30, 2003, one year after the termination of the agreement.

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.

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, 2004 and 2003.

	2004 \$	2003 \$
Numerator		
Net loss – numerator for basic and diluted loss per share	(3,364,732)	(13,024,547)
Denominator		
Denominator for basic loss per share		
Weighted-average number of outstanding common shares	34,822,775	28,400,917
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	34,822,775	28,400,917

For 2004 and 2003, the Corporation's diluted loss per share is equivalent to its basic loss per share, since all of the Corporation's potentially issuable securities would have an anti-dilutive effect. These securities are stock options and warrants.

11. SETTLEMENTS

[i] Settlement with a shareholder

On March 1, 2002, the Corporation entered into a settlement agreement with ZLB Bioplasma AG ["Bioplasma"] with regard to the discontinuance of license and supply agreements regarding Hemaseel HMN, the Corporation's proprietary fibrin sealant. Under the terms of termination, Bioplasma will pay the Corporation US\$8,000,000 [\$12,700,000] in three cash payments spread over a one-year period. During the year ended October 31, 2002, the Corporation recorded a revenue of \$12,700,000 of which an amount of \$7.2 million was received in cash and an amount of \$5,500,000 was recorded as other receivable. This amount was received in March 2003. In addition, Bioplasma agreed to transfer to the Corporation specific equipment that could be used towards the manufacturing of Hemaseel HMN. During the year ended October 31, 2003, the equipment was sold for its estimated value and a gain of \$859,740 was recorded.

In addition, the two parties have also entered into a licensing agreement that provides for the transfer of all technology and know-how held by Bioplasma related to Hemaseel HMN to the Corporation. Bioplasma will also provide future cash payments of US\$4,500,000 [\$5,500,000], payable solely upon the Corporation reaching certain milestones towards the development and setting up of a manufacturing facility for Hemaseel HMN. In return, Bioplasma will receive a 3% royalty on all net revenues received by the Corporation on Hemaseel HMN fibrin sealant sales for a ten-year period starting upon commercialization.

[ii] Settlement with a supplier

On October 31, 2003 the Corporation entered into a settlement agreement with a supplier with regard to the termination of the 1997 license and supply agreements regarding Hemaseel APR. Under the terms of termination, the supplier will pay the Corporation US\$5,400,000 [\$7,120,000] over a period ending in January 2006 and the Corporation paid in November 2003 outstanding accounts payable amounting to US\$1,600,000 [\$2,100,000]. An amount of US\$2,400,000 [\$3,150,000] was received in November 2003 and an amount of US\$1,000,000 [\$1,280,000] was received in January 2004. As a result of this settlement, the Corporation wrote-off other assets pertaining to the Hemaseel APR license having a book value of \$3,909,000 and reversed other liabilities related to the forgiven milestone payments payable to the supplier for an amount of \$8,052,000. In addition, the supplier and the Corporation have released each other from all claims under the agreements, including a license termination fee of US\$1,500,000 [\$2,000,000] otherwise payable by the Corporation and the supplier bought certain equipment under construction related to the Hemaseel APR project for US\$675,000 [\$890,000].

Notes to Consolidated Financial Statements

11. SETTLEMENTS [Cont'd]

During the year ended October 31, 2003, the Corporation recorded as income resulting from this settlement an amount of \$11,890,000 as detailed below:

	\$
Cash payments to be received by the Corporation on:	
November, 2003 – US \$2,400,000	3,143,000
January 12, 2004 – US \$1,000,000	1,318,000
Present value of US \$1,000,000 payments to be received on January 12, 2005 and 2006 [calculated using a discount rate of 5.5%]	2,396,000
	6,857,000
Settlement of other liabilities	8,052,000
Sale of equipment under construction	890,000
Less: impairment charge of other assets	(3,909,000)
	11,890,000

As a consequence of the termination of the 1997 license and supply agreements regarding its Hemaseel APR product, the Corporation discharged all its employees related to this business activity and has recorded a provision for severance costs of \$225,000. This provision has been equally expensed in general and administrative expenses, and selling and marketing expenses.

[iii] Settlement with a manufacturer

On October 31, 2003, the Corporation also entered into a settlement agreement with Bio Products Laboratory ["BPL"], terminating a manufacturing agreement entered into in 2000 under which BPL was to manufacture Hemaseel APR at its facility in the United Kingdom. The closing of this settlement took place on December 10, 2003 and is reflected in the financial statements as of October 31, 2003.

Under the terms of the settlement, the Corporation was required to pay US\$675,000 [\$890,000] to BPL, from the amount it received from a supplier [see note 11 [ii]] and BPL forgave all amounts due by the Corporation, including US\$1,400,000 [\$1,900,000] in accounts payable in return for the property, plant and equipment under construction located in United Kingdom having a carrying value of \$19,700,000. Also, BPL and the Corporation released each other from all claims under the agreement and the Corporation transferred to BPL substantially all of the equipment installed at BPL for the Hemaseel APR project and certain supplies. As a result, the Corporation recorded an expense on settlement of \$18,900,000, including a reduction of \$220,000 of other receivables during the year ended October 31, 2003. The Corporation also issued a common share purchase warrant to BPL during the year ended October 31, 2004 [see note 10].

12. INCOME TAXES

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

	2004	2003
	%	%
Statutory federal and provincial recovery	31.4	33.4
Increase (decrease) in taxes recoverable resulting from:		
Non-deductible expenses	1.1	2.0
Non-taxable portion of the settlement income	—	(1.9)
Recognized (unrecognized) tax benefits of operating losses and other available deductions	(35.9)	(41.5)
Foreign tax rate differential	3.3	1.8
Large corporation tax	—	0.6
Financing fees	—	(1.5)
Other	0.2	6.4
	0.1	(0.7)

Notes to Consolidated Financial Statements

12. INCOME TAXES [Cont'd]

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

	2004 \$	2003 \$
Future income tax liabilities		
Carrying value of U.S. property, plant and equipment in excess of tax basis	29,000	77,000
Future income tax assets		
Tax basis of Canadian property, plant and equipment and other assets in excess of carrying value	7,917,000	7,857,000
Canadian non-capital losses carried forward	1,623,000	907,000
Canadian capital losses	30,000	—
U.S. net operating losses carried forward	16,393,000	17,091,000
Research and development expenditures	1,558,000	1,607,000
Financing fees	231,000	246,000
Total future income tax assets	27,752,000	27,708,000
Valuation allowance	27,723,000	27,631,000
Net future income tax assets	29,000	77,000
Net future income tax	—	—

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 with the exception of \$29,000 have not been reflected in the financial statements. These losses, if not utilized, will expire as follows:

	Canadian Federal losses \$	Canadian Provincial losses \$	U.S. Federal losses \$
2006	4,098,000	—	—
2007	1,000	—	—
2011	2,308,000	2,308,000	11,000
2012	—	—	874,000
2018	—	—	5,215,000
2019	—	—	6,975,000
2020	—	—	10,061,000
2021	—	—	5,597,000
2022	—	—	7,388,000
2023	—	—	5,907,000
2024	—	—	1,535,000
	6,407,000	2,308,000	43,563,000

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 for U.S. federal income tax purposes.

The Corporation has accumulated Canadian scientific research and experimental development expenditures of \$5,182,000 which have not been deducted for federal income tax purposes and \$4,624,000 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 \$744,000. The benefits of these expenses have not been recorded in the financial statements.

Notes to Consolidated Financial Statements

13. GOVERNMENT ASSISTANCE

The Corporation has available non-refundable investment tax credits of \$280,000 [2003 – \$440,000] related to research and development expenditures which may be utilized to reduce federal income taxes payable in future years and expire as follows:

	\$
2007	206,000
2008	55,000
2009	19,000
	<u>280,000</u>

The benefits of these non-refundable investment tax credits have not been recognized in the financial statements.

14. COMMITMENTS AND CONTINGENCIES

[i] The Corporation's total commitments under operating leases amount to approximately \$888,000. The minimum payments, before taking into consideration the sub-lease mentioned below, for the next five years are as follows:

	\$
2005	332,500
2006	232,900
2007	159,400
2008	122,600
2009	40,600
	<u>888,000</u>

In 1998, the Corporation sub-leased to a third party part of its premises until the expiry of the head lease, equivalent to its commitment.

Expected sub-lease rentals to be received for the next year are as follows:

	\$
2005	<u>113,000</u>

Rent expense for the year ended October 31, 2004 amounted to \$520,318 [\$627,514 in 2003]. Sub-lease revenue for the year ended October 31, 2004 amounted to \$291,925 [\$288,934 in 2003].

[ii] The Corporation entered into an agreement with a medical device manufacturer on January 23, 2003 whereby it was to purchase a minimum number of units from this manufacturer over the next four quarters. The initial term of the agreement was from January 23, 2003 to December 31, 2005. However the Corporation was only committed to four quarters' worth of purchases and had calculated its commitment to be \$335,000 to be paid in fiscal year 2004.

This agreement was cancelled on April 27, 2004. The Corporation incurred no cost in cancelling this agreement and returned the units in inventory at the time of cancellation to the manufacturer. These units had previously been written down to a carrying amount of nil during the year ended October 31, 2003.

[iii] In the normal course of business, there are pending claims against the Corporation. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. In the opinion of management, final determination of these litigations will not materially affect the Corporation's consolidated financial position or the results of its operations.

15. FINANCIAL INSTRUMENTS

Concentration of credit risk

Cash and cash equivalents are held by Canadian and American financial institutions. For the year ended October 31, 2003, 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, 2004, one customer accounted for 74% of trade accounts receivable [2003 – no customers represented more than 10% of trade accounts receivable], and this amount was collected subsequent to year-end.

As at October 31, 2004 and 2003, accounts receivable from a supplier are receivable from a single supplier [see notes 5 and 11 [ii]].

Notes to Consolidated Financial Statements

15. FINANCIAL INSTRUMENTS [Cont'd]

Fair value of financial instruments

(i) Short-term financial assets and liabilities

The carrying amounts of these assets and liabilities are a reasonable estimate of the fair values because of the short maturity of these instruments. Short-term financial assets comprise cash and cash equivalents, temporary investment, accounts receivable – trade and other receivables. Short-term financial liabilities comprise bank indebtedness and accounts payable.

(ii) Long-term financial assets and liabilities

The fair value of the accounts receivable from a supplier is estimated using discounted cash flow analyses, based on the Corporation's current incremental borrowing rates for similar types of arrangements. As a result, there is no material difference between the carrying value and the fair value of the accounts receivable from a supplier. The fair value of the long-term debt is not readily determinable given its specific nature.

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

The Corporation is exposed to foreign currency translation risk due to cash and cash equivalents, accounts receivable-trade, other receivables, accounts receivable from a supplier, bank indebtedness, accounts payable and accrued liabilities, denominated in US dollars. As at October 31, 2004, financial assets, consisting principally of accounts receivable, denominated in US dollars totaled US\$2,274,069 [US\$8,560,786 as at October 31, 2003] and financial liabilities denominated in US dollars totaled US\$133,805 [US\$4,812,428 as at October 31, 2003]. The Corporation does not enter into arrangements to hedge its foreign currency risk.

16. STATEMENTS OF CASH FLOWS

Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2004	2003
	\$	\$
Cash on hand and bank balances	173,661	618,759
Bankers acceptance and US Treasury bill	2,040,336	—
	2,213,997	618,759

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

	2004	2003
	\$	\$
Accounts receivable – trade	2,420,489	538,043
Other receivables	5,723,523	(281,570)
Inventories	478,137	2,950,191
Prepaid expenses	(2,560)	155,070
Accounts payable and accrued liabilities	(3,532,524)	1,280,814
	5,087,065	4,642,548

17. 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	
	2004	2003	2004	2003
	\$	\$	\$	\$
Canada	—	—	365,958	360,433
United States	1,489,716	21,470,904	77,035	204,991
	1,489,716	21,470,904	442,993	565,424

Board of Directors

Louis M. Riopel¹
Chairman
Chairman, Rio-Dev Inc.

Pierre Alary, CA^{1,2}
Senior Vice President and Chief Financial Officer
Bombardier Inc.

Paul Baehr^{1,2}
President and Chief Executive Officer
IBEX Technologies Inc.

Joseph Galli
President
Pentor Alliance Corporation

Wayne G. Johnson
Chairman and Chief Executive Officer
Bio Ventures Inc.

Marc Paquin
President and Chief Executive Officer
Haemacure Corporation

Neil Wiener
Partner
Heenan Blaikie

¹ Member of the Audit Committee

² Member of the Compensation Committee

Management

Marc Paquin
President and Chief Executive Officer

Christian Hours, Ph.D.
Vice President and Chief Technology Officer

Lyne Paré, CA
Director, Finance and Administration

Gilles Lemieux, B. Com., LL.L.
Secretary

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Transfer Agent and Share Registrar

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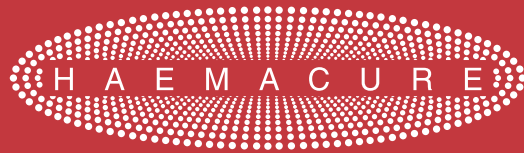
Stock Information

The shares of Haemacure Corporation are listed on the TSX under the ticker symbol HAE. Total number of issued and outstanding shares capital on October 31, 2004 was 38 800 917.

Those wishing to obtain a copy of the Annual Information Form deposited with the Autorité des marchés financiers are invited to write to the corporate head office of Haemacure Corporation at 2001 University St., Suite 430, Montreal, Quebec H3A 2A6 or to fax requests to (514) 282-3358.

Up-to-date information – including quarterly financial news releases and filings – is accessible on the Internet at: www.haemacure.com.

Ce rapport annuel est également disponible en français.



HAEMACURE CORPORATION