

2007
ANNUAL REPORT



Haemacure Corporation **is a specialty biotherapeutics company developing high-value, human therapeutic proteins for commercialization, based on its patented, high-yield fibrinogen and thrombin extraction and purification technology.**

The Company has two next-generation, human plasma-based product candidates: **Hemaseel®HMN**, a human fibrin sealant planned to enter pivotal Phase II/Phase III clinical trials, and **Hemaseel®Thrombin**, an active, absorbable haemostatic agent in preclinical stage. Both product candidates are for use by surgeons during surgical procedures to control bleeding. Fibrin sealant seals wounds, accelerates the wound healing process and reduces potential infections, among other functions.

Follow-on development will focus on, among others, combination with biomaterials and drug delivery in select therapeutic areas.

Haemacure has identified in one of its plasma fractions the presence of albumin, alpha-1 proteinase inhibitor (A1PI), immunoglobulin and plasminogen, as well as of enzymes that may have potential as Orphan Drugs for the treatment of Fabry's, Gaucher's, Hunter's, Hurler's, Morquio's, Pompe's and Schindler's diseases. Haemacure requires further analysis to determine the concentration and quality of these proteins and enzymes, which it seeks to develop in collaboration with pharmaceutical and biotechnology companies.

Annual General and Special Meeting of Shareholders

April 9, 2008 at 4 :00 p.m.

The National Club

303 Bay Street

Toronto, Ontario M5H 2R1

Message to Shareholders

Dear Shareholder,

This Annual Report may take on a special importance to you as fiscal 2007 is the year of a new beginning for Haemacure.

The year truly began, on a very positive and encouraging note, with the closing of a \$12.5 million non-brokered private placement in January 2007, which generated net proceeds of approximately \$11.4 million. This was followed in February by the appointment of the undersigned as Chief Executive Officer of the company and the adoption of the new value creation strategy.

This new strategy encompasses the leveraging of our assets, most particularly our unique and high-yield fractionation technology platform, engaging in business development activities and improving our position with capital markets. We have been very active on all these fronts throughout the year and continue to expend all efforts to produce the desired results.

Biotherapeutics Orientation

Our new value creation strategy brought about our new biotherapeutics orientation and, accordingly, an expanded business model.

In addition to the surgical application of our human plasma-derived product candidates, our business model now covers five additional business segments where our product candidates could be used.

Our new business model led to the identification, in one of our two plasma fractions, of four specialty proteins and seven enzymes that may have potential applications in significant worldwide markets. These findings are preliminary and the full value of these proteins and enzymes cannot be realized without regulatory approval. However, they take on a strategic significance as revenues eventually generated from the commercial exploitation of these proteins and enzymes will contribute directly to the bottom line, as the cost of the plasma will be fully borne by our proprietary fibrin sealant and haemostatic agent once commercialized. We will continue identification work on our plasma fractions and seek partnerships with pharmaceutical and biotechnology companies to fund the development and clinical activities required to bring these proteins and enzymes to market.

The strategy also places emphasis on rapid time to product launch and reduced cash requirements.

Product Candidates

Our lead product candidate is the fibrin sealant *Hemaseel*[®]*HMN*. Fibrin sealant is a biological tissue sealant derived from human plasma and used to arrest bleeding and seal wounds during surgical procedures. Our fibrin sealant also has the mechanical strength to attach tissues together, lasting through the first phase of the body's healing process. Fibrin sealant is also believed to be effective in adhesion prevention, drug delivery and regenerative medicine. Our fibrin sealant's protein components are fibrinogen and thrombin.

Our second product candidate is the haemostatic agent *Hemaseel[®]Thrombin*. This product is also derived from human plasma and is an active, absorbable agent used to arrest bleeding during surgical procedures, but does not have sealing properties. It is a component of our fibrin sealant, consists of a protein, thrombin, and can be used alone and in combination with biomaterials.

Both product candidates are for use by surgeons in the operating room to control bleeding. Our fibrin sealant also seals wounds, accelerates the wound healing process and reduces potential infections, among other functions.

Business Development

We have validated and are pursuing initiatives in five additional business segments beyond the haemostatic space where our product candidates will be used. These initiatives may lead to partnerships with device, surgical, biosurgical, pharmaceutical and biotechnology companies. Each of these segments is large and growing:

- *wound management, using our fibrin sealant with devices such as patches,*
- *regenerative medicine, using our fibrin sealant as a platform for cells to grow bones, cartilage and soft tissues,*
- *combination with biomaterials, using our fibrin sealant as a glue to affix biomaterials within the body during surgical procedures,*
- *drug delivery, using our fibrin sealant as a vehicle to deliver drugs such as drugs to regenerate the spinal cord, and*
- *adhesion prevention, using our fibrin sealant to prevent formation of painful scar tissue that often occurs during the healing process following surgery.*

Clinical Trials

We plan on commencing pivotal Phase II/Phase III clinical trials for our fibrin sealant in the first quarter of 2009. We will conduct the trials under the existing Investigational New Drug application currently open with the United States Food and Drug Administration. We will seek to obtain regulatory approvals for our fibrin sealant, in order to launch the product on the United States and in European markets towards the end of 2010 or the beginning of 2011. This is in line with the objectives we had set for ourselves when we undertook to recapitalize the company.

Our haemostatic agent is in preclinical stage and it is our objective to obtain regulatory approvals for both products at the same time.

Manufacturing

On the manufacturing front, we have designed a two-phase strategy to significantly reduce the cash requirements to have a first patient undergo surgery in the pivotal clinical trials for our fibrin sealant during the first quarter of 2009. The strategy consists of setting-up a small-scale manufacturing facility by mid-2008, where fibrin sealant will be manufactured for clinical trials and commercial launch, and afterwards expanding it into a large-scale facility during the review of our license applications by the regulatory authorities. Construction of the small-scale facility has begun, in Sarasota, Florida and expansion is planned on the same site.

Evaluation of Fibrin Sealant

An important activity that we undertook is the production of small volumes of our fibrin sealant for delivery to potential partners and clients for evaluation or non-human testing. In addition to the biosurgical applications, positive evaluations will contribute to positioning Haemacure as a long-term supplier of fibrin sealant to the drug delivery, regenerative medicine, biomaterial and wound management segments.

Capital Markets

A very important element of our new value creation strategy is our relationship with the capital markets. Our focus is on communicating our message and building credibility by doing what we say we will do. We have made over 200 presentations to industry players, investment bankers, research analysts, existing and prospective private and institutional investors, government authorities, suppliers and potential strategic partners. At the close of my first year as Chief Executive Officer, I am pleased to report that we are now on “right radar screens”. We will continue to build our profile and credibility by executing on our plan in such a way as to grow the value of Haemacure.

Markets Conditions

The market for fibrin sealant and thrombin is approximately US\$650 million worldwide and estimated to grow to \$1.5 billion by 2015. The competitive landscape is unfolding as we anticipated and Haemacure is positioned to become the only independent player in the sector. This opens up tremendous partnering opportunities that could include distribution, co-development and strategic investment by large players into Haemacure.

Action Plan for 2008

We have identified a series of activities and objectives for fiscal 2008 that are required or designed to create value. They are:

- *Adding competencies to our Board of Directors and management,*
- *Developing the regulatory strategy that will leverage the positive clinical experience gained through the safe application of our fibrin sealant to 151 subjects and patients,*
- *Obtaining FDA approval to conduct the pivotal Phase II/Phase III clinical trials for our fibrin sealant,*
- *Commissioning the small-scale manufacturing facility,*
- *Producing fibrin sealant for the clinical trials,*
- *Enrolling clinical sites,*
- *Creating partnerships in the five business segments that we have identified,*
- *Adding to our product portfolio,*
- *Increasing awareness of Haemacure in the financial community and the industry,*
- *Getting financial analyst coverage, and*
- *Exercising the series B warrants issued as part of the January 2007 private placement, thereby raising a maximum of \$12.5 million.*

Market Capitalization

I would like to recognize and sincerely thank our shareholders for their support and commitment during a very difficult investment environment for the biotechnology and healthcare sectors in 2007.

Haemacure was recapitalized in January 2007 at a pre-money valuation of approximately \$2 million. At the close of fiscal year 2007, our market capitalization was approximately \$20 million, with \$7.6 million of cash. While our year-end market capitalization was higher than when we recapitalized the company, I feel that the market has not accurately recognized our true value.

Let's review the facts:

- *Haemacure has an extraction and purification technology that is fully developed and offers yield enhancements of 3 to 10 times over the traditional fractionation technology,*
- *Haemacure has a fully developed and formulated fibrin sealant that we believe performs as well as or better than the fibrin sealants that will be on the market when it will launch its product towards the end of 2010,*
- *The Swiss Red Cross licensed our extraction process in the late 1990's, scaled it up, conducted Phase II clinical trials and built a manufacturing facility dedicated exclusively to our fibrin sealant – this speaks to the quality of our technology,*
- *151 patients and subjects have received our fibrin sealant in clinical trials, without any serious adverse events related to the product being reported – this means that our fibrin sealant is safe, therefore meeting a first key FDA metric. In addition, these earlier trials demonstrated that the product worked very well when compared to the standard of care, the second key FDA metric, and*
- *Yields are 3 to 10 times higher than industry averages. We believe that Haemacure will generate between US\$2,000 and US\$2,500 of revenue per liter of plasma processed, as compared to the industry, that generates from US\$200 to US\$700 per liter of plasma.*

In summary, we believe that our fibrin sealant, and thrombin as a component of our fibrin sealant, is a safe and effective product. Haemacure owns a unique, patented extraction technology, possesses proprietary manufacturing know-how and has a proven product formulation. The biosurgical haemostasis market is large and growing, with high gross margins and high barriers to entry. Our fibrin sealant is believed to have application in five large new markets with unmet needs.

I believe that Haemacure is significantly undervalued and will continue to work towards the company getting the appropriate recognition and commensurate valuation.

Appreciation

I wish to express my sincere thanks to our directors, business partners and suppliers for their continued support, commitment and dedication.

I also wish to recognize and thank our employees for their support and effort as well as their willingness to step out of their comfort zones and be challenged to think and act differently. This has enabled us to move Haemacure forward in a very short period of time with significantly less capital than was originally anticipated.

Last, but not least, I thank you, the shareholders, for your confidence and support. I give you my personal commitment that every member of our team will do everything in its power to make Haemacure a success.

Sincerely,

(signed) Joseph Galli
Joseph Galli
Chairman and Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

December 18, 2007

The following information should be read in conjunction with our audited consolidated financial statements for the year ended October 31, 2007 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 setting-up of the planned manufacturing facility, the successful and timely completion of clinical studies, 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 specialty bio-therapeutics company developing human bio-surgical products and human therapeutic proteins for commercialization. The bio-surgical products consist of a fibrin sealant and an haemostatic agent. Haemacure's product development effort is driven by its proprietary plasma protein extraction technology to develop next-generation products, including surgical haemostats.

Haemacure's lead product candidate, *Hemaseel*[®]*HMN*, is a human-derived fibrin sealant planned to enter pivotal Phase II/Phase III clinical trials in 2009. Haemacure's second product candidate, *Hemaseel*[®]*Thrombin*, is an haemostatic agent now in pre-clinical stage, and consists of human thrombin, a component of its fibrin sealant. Both candidates have applications in the expanding bio-surgical market. Follow-on development will focus on surgical haemostats, combination with biomaterials and drug delivery in select therapeutic areas. Haemacure has recently discovered additional specialty proteins in one of its two plasma fractions and plans to advance these specialty proteins through partnerships with pharmaceutical and biotechnology companies.

Haemacure Corporation is a Canadian corporation, its head office is located in Montreal, Quebec (Canada) and it operates a wholly-owned subsidiary in Sarasota, Florida (USA).

Haemacure is considered to be a corporation in the development stage and will remain so until significant revenues are generated from the sale of its products.

In January 2007, we completed a private placement, issuing a total of 125,000,000 units at a price of \$0.10 per unit, for gross proceeds of \$12.5 million. Each unit consists of one common share, one-half of a Series A common share purchase warrant and one-half of a Series B common share purchase warrant. Each full Series A warrant will entitle its holder to acquire one additional common share for a period of five years from the closing of the placement at a price of \$0.30. Each full series B warrant will entitle its holder to acquire one additional common share for a period of five years from the closing of the placement at a price of \$0.20. The net cash proceeds

amounted to \$11.4 million and is being used primarily to finance part of the development of the lead product candidate, the fibrin sealant *Hemaseel HMN*, including the construction of a manufacturing facility and completion of clinical trials.

Haemacure has adopted a two-phase manufacturing strategy that seeks to have the first patient undergo surgery in the Corporation's pivotal Phase II/Phase III fibrin sealant clinical trials during the first quarter 2009. The strategy entails establishing a 15,000-square foot manufacturing facility by mid-2008, where product will be manufactured for clinical trials and commercial launch, and subsequently expanding the facility for larger scale manufacturing. The facility is to occupy premises currently leased by Haemacure in Florida.

Setting up the small-scale facility requires significantly lower capital expenditures than the Corporation originally planned. Accordingly, Haemacure will finance the first phase of its manufacturing strategy in part with existing working capital and seek financing for the balance, including the purchase of manufacturing equipment. The timeline for the commercial launch of the fibrin sealant from the small-scale facility is anticipated by the end of 2010 or start of 2011. Haemacure estimates that the total cost for the first phase of its strategy, including operations until regulatory approval of its fibrin sealant, will amount to approximately US\$28 million.

The second phase, being the setting up of the large-scale facility and bringing its second product candidate, human thrombin, into clinical trials, will take place only once the required financing is obtained.

Revenue and going concern assumption

We have not realized profit from operations since our inception. 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. At October 31, 2007, we had an accumulated deficit of \$99.9 million and liquid assets amounting to \$7.6 million. We expect our operating losses to increase while progressing with the development of our two product candidates (the "*Hemaseel* project") and the development of therapeutic proteins.

Liquidity

Cash and temporary investments on hand amounted to \$7.6 million as at October 31, 2007. Alfa Laval Tumba AB ("*Alfa Laval*"), of Sweden, agreed to supply and finance the purchase of equipment by Haemacure for an amount of US\$2 million. Funding is also made available by the facility landlord, under the lease, for leasehold improvements to be made by the latter for an estimated value of US\$1.2 million.

Pursuant to an agreement entered into in 2002, CSL Behring AG ("*CSL*") is obligated to pay US\$4.5 million to Haemacure upon Haemacure achieving certain milestones related to its *Hemaseel* project. On August 20, 2007, CSL advised Haemacure of its opinion that it is no longer obligated to pay this sum. Haemacure disputes the position of CSL and will aggressively assert its right to the future payment of this sum. This has no impact on Haemacure's current financial situation as CSL's obligation was not recorded in our financial statements.

Our expected financial obligations to complete the *Hemaseel* project exceed the sources of funds mentioned above. The Corporation will require additional financing to complete this project, develop therapeutic proteins and fund its operations, and there is no assurance that such financing will be available on terms acceptable to the Corporation. Reference should be made to note 1 to the consolidated financial statements.

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)	2007	2006	2005
Sales of devices	120	147	258
Net loss	(3,966)	(3,011)	(1,887)
Basic and diluted loss per share	(0.03)	(0.08)	(0.05)
Total assets	10,939	2,696	5,469
Total long-term financial liabilities	1,339	1,256	1,189
Cash dividends declared per share ⁽¹⁾	—	—	—

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

The continued decrease in legacy device sales results from the termination of Haemacure's sales force in November 2003.

The increase in the net loss in 2007 from 2006 is mainly attributable to stock-based compensation resulting from option grants and increased business development and investor relations activities.

The increase in the net loss in 2006 from 2005 is mainly due to the rent payable under the lease for the manufacturing facility and consulting fees with respect to regulatory matters. In 2005, we also recorded a gain on disposal of property, plant and equipment in the amount of \$523,289.

The increase in total assets from 2006 is mainly the result of the private placement completed in January 2007.

RESULTS OF OPERATIONS FOR THE YEAR ENDED OCTOBER 31, 2007 AS COMPARED TO THE YEAR ENDED OCTOBER 31, 2006

Changes in Operations

Our results of operations have changed significantly in the past and are likely to do so in the future as we complete the development of our product candidates, *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 exigibility and the timing of the payment of the amounts to be received pursuant to the settlement with CSL, 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.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended October 31

	2007	2006
	\$	\$
Sales	119,704	147,134
Cost of sales	66,820	60,771
Gross margin	52,884	86,363
Expenses (income)		
Selling and marketing	—	45,527
General and administrative	3,162,759	2,232,048
Research and development	883,370	717,228
Loss on write-off of property, plant and equipment	70,574	18,127
Loss on foreign exchange	35,984	43,595
Amortization of property, plant and equipment	54,483	58,523
Amortization of other assets	3,903	3,486
Interest on obligation under capital leases	2,400	2,995
Interest on long-term debt	60,870	48,507
Other financial expenses	64,281	10
Investment income	(320,072)	(72,202)
	4,018,552	3,097,844
Net loss	(3,965,668)	(3,011,481)

Revenues

For the fiscal year ended October 31, 2007, revenues totalled \$119,704, as compared to \$147,134 the previous year. Revenues for the year consisted exclusively of devices sales. Although Haemacure did not discontinue the sale of fibrin sealant application devices, the termination of its sales force in November 2003 resulted in a continued decrease in device sales.

Gross margin

The gross margin for 2007 was 44%, compared to 59% the previous year. The decrease in margin is mainly attributable to lower sales of the delivery device generating the highest margin.

Operating expenses

In 2007, operating expenses totalled \$4.0 million, up from \$3.1 million the previous year.

General and administrative expenses increased to \$3.2 million, as compared to \$2.2 million the previous year. This year's increase is mainly attributable to stock-based compensation resulting from option grants and increased business development and investor relations activities.

Research and development expenses, net of investment tax credits, totalled \$883,370, as compared to \$717,228 the previous year. The increase is mainly due to rent payments, which commenced in January 2006, under the lease for our manufacturing facility where we will produce our clinical trial material, consulting fees incurred with respect to regulatory matters, laboratory supplies and consulting expenses for the production of small volumes of fibrin sealant in our Montreal laboratory and external laboratory expenses for the analysis of a plasma fraction. Research and development tax credits received amounted to \$32,669 for the year with no corresponding amount for the previous year.

The loss on disposal of property, plant and equipment of \$70,574 in 2007 and \$18,127 in 2006 is mainly the result of the write-off of office and computer equipment.

In 2007, the Corporation reported a net loss on foreign exchange of \$35,984, as compared to a net loss on foreign exchange of \$43,595 in 2006. These losses are both attributable to the continuous rise in the Canadian dollar over the US dollar and principally its impact on assets denominated in US dollars.

The amortization of property, plant and equipment amounted to \$54,483 in 2007, as compared to \$58,523 the previous year. This decrease is mainly the result of the write-off of office and computer equipment.

Other financial expenses in 2007 mainly include interest paid to Alfa Laval in relation to the purchase of equipment.

Investment income increased to \$320,072 in 2007, as compared to \$72,202 in 2006. The increase is mainly due to interest income on significantly larger cash balances on hand.

Net loss

In 2007, Haemacure incurred a net loss of \$4.0 million, or \$0.03 per share, as compared to a net loss of \$3.0 million, or \$0.08 per share, the previous year.

Looking forward

In the next three years, we expect our operating expenses to increase as we arrange for the manufacture of our lead product candidate, the fibrin sealant *Hemaseel HMN*, complete pivotal clinical trials and move this product toward commercialisation. Expenses incurred in 2007 for this product were mainly associated with the set up of our manufacturing facility. Most facility-related costs, including manufacturing equipment, consulting expenses and labour costs, were capitalized as construction-in-progress with property, plant and equipment. Similar costs will be capitalized in fiscal 2008 until commissioning of the facility. We expect to incur net losses in the future until such time as commercial sales reach a level needed to sustain the business.

SUMMARY OF QUARTERLY RESULTS

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

	Oct. 31, 2007	July 31, 2007	April 30, 2007	Jan. 31, 2007	Oct. 31, 2006	July 31, 2006	April 30, 2006	Jan. 31, 2006
Sales	31	32	25	32	31	31	37	48
Net loss	(994)	(857)	(1,302)	(813)	(694)	(724)	(741)	(852)
Basic and diluted loss per common share	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's liquidity consists of cash and cash equivalents and temporary investment. As at October 31, 2007, the liquidity amounted to \$7.6 million, as compared to \$519,300 the previous year. The working capital amounted to \$7.4 million, as compared to \$262,940 the previous year. The variation of our liquidity, on a consolidated basis, is explained below:

Operating activities

In 2007, cash flows used for operating activities amounted to \$3.0 million, as compared to \$1.4 million the previous year. The increase over 2006 is mainly attributable to changes in working capital items which amounted to (\$17,496) in 2007, as compared to \$1.4 million in 2006, mainly the result of the collection of US\$1 million in January 2006.

Financing activities

In 2007, cash flows generated by financing activities amounted to \$11.4 million, as compared to \$10,337 used in financing activities for 2006. In 2007, the net cash proceeds from the private placement amounted to \$11.4 million.

Investing activities

In 2007, cash flows used for investing activities amounted to \$4.9 million, as compared to \$723,048 generated by investing activities in 2006. In 2007, \$4.0 million was used to purchase a government guaranteed temporary investment and proceeds of \$441,000 were generated on maturity of the temporary investment held as at October 31, 2006. In 2006, \$1.5 million was provided by the sale of a portion of the temporary investment, required to fund operations. In 2007, \$1.3 million was used to acquire property, plant and equipment and as deferred charges mainly related to our *Hemaseel* project, as compared to \$862,451 in 2006. In 2007, an amount of \$12,500 was used for the development of a new website which was accounted for in other assets. The balance in 2007 and 2006 was attributable 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 desires to maintain adequate cash and cash equivalents to support its planned activities, which include clinical trials, manufacturing, intellectual property protection and investor relations. Haemacure will finance the development and manufacture of its fibrin sealant and thrombin products in part with its current financial resources and plans on financing the development of therapeutic proteins through partnerships or alliances with pharmaceutical or biotechnology companies. The Corporation will need additional financing in order to complete the development of its products and bring them to market. Our ability to continue as a going concern is dependent upon raising additional financing. 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:

	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
(thousands of \$)					
Long-term debt ⁽¹⁾	1,250	—	—	1,250	—
Capital lease obligations	37	12	25	—	—
Operating leases ⁽²⁾	4,310	503	968	1,013	1,826
Purchase obligations ⁽³⁾	1,480	415	592	473	—
Total contractual obligations	7,077	930	1,585	2,736	1,826

(1) The long-term debt includes a \$1.25 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 and manufacturing facility leases and various office equipment leases.

(3) The purchase obligations relate to manufacturing equipment.

Capital resources

Alfa Laval agreed to finance the purchase of equipment by Haemacure for an amount of US\$2,0 million, including bio-processing equipment. Haemacure is currently seeking financing for the purchase of other manufacturing and laboratory equipment required to complete the small-scale facility.

The Corporation will fund its capital expenditure requirements and commitments partly with existing working capital. As explained before, additional financing will be required to bring the *Hemaseel* project to completion and finance operations.

OFF-BALANCE SHEET ARRANGEMENTS

As at October 31, 2007, the Corporation has not entered into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Amounts were paid on behalf of a company controlled by a director of the Corporation for the storage and packaging of a product owned by this company. The account receivable amounted to \$3,068 as at October 31, 2007 (\$26,254 as at October 31, 2006) as \$32,786 was repaid during the year and \$9,600 of charges were incurred (\$9,800 in 2006).

During the year ended October 31, 2007, one director provided consulting services to the Corporation. The total cash consideration paid by the Corporation during the year for such services totalled \$93,835, as compared to \$159,320 in 2006.

FOURTH QUARTER

Statements of loss for the three-month periods ended October 31, 2007 and 2006 are as follows:

(unaudited)	2007 \$	2006 \$
Sales	31,167	30,745
Cost of sales	18,180	11,797
Gross margin	12,987	18,948
Expenses (income)		
Selling and marketing	—	4,359
General and administrative	630,760	473,532
Research and development	353,797	190,197
Loss on write-off of property, plant and equipment	70,574	18,127
Loss on foreign exchange	9,854	2,646
Amortization of property, plant and equipment	16,367	14,517
Amortization of other assets	1,288	872
Interest on obligation under capital leases	543	695
Interest on long-term debt	15,629	14,869
Other financial expenses	6	10
Investment income	(92,370)	(6,780)
	1,006,448	713,044
Net loss for the period	(993,461)	(694,096)

Review of Operations

The increase in the cost of sales is mainly the result of an increase in sales of the delivery device generating the lowest margin.

Operating expenses for the fourth quarter totalled \$1.0 million, up from \$713,044 for the same quarter last year.

General and administrative expenses amounted to \$630,760, as compared to \$473,532 for the same quarter last year. The increase is mainly the result of consulting expenses, non cash stock-based compensation resulting from option grants, and increased business development and investor relations activities.

Research and development expenses totalled \$353,797, as compared to \$190,197 for the same quarter last year. The increase is mainly related to laboratory supplies required to commence producing small volumes of our fibrin sealant in our laboratory in Montreal to respond to requests from potential partners for their evaluation of our product in various applications, the hiring of personnel, consulting expenses and to an increased rent expense for the manufacturing facility resulting from leasehold improvements done by the landlord.

The loss on disposal of property, plant and equipment of \$70,574 in 2007 and \$18,127 in 2006 is mainly the result of the write-off of office and computer equipment.

Investment income increased to \$92,370, as compared to \$6,780 a year ago. This increase is the result of interest income on significantly larger cash balances on hand.

The consolidated net loss for the fourth quarter was \$993,461, or \$0.01 per share, as compared to a net loss of \$694,096, or \$0.02 per share, for the same quarter last year.

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 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 directors, officers, employees and service providers, 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

Effective for the commencement of our 2007 fiscal year, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive income, CICA Handbook Section 3855, Financial Instruments, Recognition and Measurement and CICA Handbook Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with GAAP.

Under the new standards, all financial instruments are classified into one of the following five categories: Held for trading, Held-to-maturity, Loans and receivables, Available-for-sale or Other. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair market value with the exception of Loans and receivables, Held-to-maturity investments and Other financial assets and liabilities, which will be measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses, excluding impairments, included in other comprehensive income until the asset is removed from the consolidated balance sheet.

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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

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 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

The Corporation's fibrin sealant is in the final stage of development and the thrombin is in pre-clinical stage. The Corporation 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. 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.

Intellectual Property

Haemacure places great importance on the protection of its intellectual property and has a portfolio of patents that it intends to enforce. However, unauthorized parties may infringe on the Corporation's patents or obtain information that is proprietary, and there can be no assurance that the Corporation will be able to successfully defend its existing patents in the case of infringement. If we are unable to protect our intellectual property rights, our competitors may develop and market products with similar features that may reduce demand for our products and the effective commercialisation of our products may be inhibited.

Dependence on Key Personnel

Haemacure depends on certain members of its management and scientific staff and the loss of services of one or more of said persons could adversely affect the Corporation. While it has been able to attract and retain skilled and experienced personnel in the past, no assurance can be given that it will be able to do so in the future.

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 that other fibrin sealant and thrombin products may be approved in the United States for use before it files Biological License Applications for its products. 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.

Ability to Manage Future Growth

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

OTHER

Disclosure Controls and Procedures

Disclosure controls and procedures have the general objective of seeking to ensure that information to be disclosed by the Corporation in its reports, regulatory statements, filings and other communications is recorded, processed, summarized and reported on a timely basis. Disclosure controls and procedures also include controls to ensure compliance with Canadian disclosure requirements beyond the Corporation's public reporting to provide accurate and complete information to security holders.

The Corporation has designed disclosure controls and procedures, and has evaluated their effectiveness. Based on the evaluation of the Corporation's disclosure controls and procedures, the Corporation's management has concluded that they are sufficiently effective as of October 31, 2007 to provide reasonable assurance that material information relating to the Corporation is made known to management and disclosed in accordance with applicable securities regulations.

Internal Controls over Financial Reporting

The Chief Executive Officer and Director of Finance and Administration, together with other members of management, have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements as of October 31, 2007. They have not identified any changes to the Corporation's internal control over financial reporting which would materially affect, or is reasonably likely to materially affect the Corporation's internal control over financial reporting.

We believe that the detailed monitoring of operations and transactions by the Chief Executive Officer and the Director of Finance and Administration compensates for the existing minimal segregation of duties, given the limited number of employees of the Corporation.

Outstanding share data

As at December 18, 2007, the Corporation had outstanding 163,800,917 common shares, 6,671,037 common share options, 125,000,000 common share purchase warrants and 11,909,000 broker warrants.

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 fulfils 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) Joseph Galli

Joseph Galli
Chairmand of the Board and
and Chief Executive Officer

(signed) Lyne Paré

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, 2007 and 2006 and the consolidated statements of operations, shareholders' equity, comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

Montréal, Canada
November 23, 2007

(signed) Ernst + Young llp
Chartered Accountants

Haemacure Corporation

Incorporated under the *Canada Business Corporations Act*

CONSOLIDATED BALANCE SHEETS

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

As at October 31

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

Commitments and contingencies *[notes 9 and 15]*

See accompanying notes

On behalf of the Board:

(signed) Pierre Alary (signed) Joseph Galli

Pierre Alary
Director

Joseph Galli
Chairman of the Board

Haemacure Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS

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

Years ended October 31

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

See accompanying notes

Haemacure Corporation

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

Years ended October 31

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

See accompanying notes

Haemacure Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

Years ended October 31

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

See accompanying notes

Haemacure Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Years ended October 31

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

See accompanying notes

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

1. NATURE OF BUSINESS AND GOING CONCERN ASSUMPTION

Nature of business

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

Going concern assumption

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

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Use of estimates

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

Revenue recognition

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

Cash equivalents

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

Temporary investment

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

Inventories

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property, plant and equipment

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

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

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

Deferred charge

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

Government assistance and investment tax credits

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

Income taxes

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Other assets

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

Research and development

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

Translation of foreign currencies

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

Basic and diluted loss

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

Stock-based compensation and other stock-based payments

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Impairment of long-lived assets

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

Share Issue Costs

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

Recent Accounting Pronouncements

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

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

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

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

Under the new standards, all financial instruments are classified into one of the following five categories: Held for trading, Held-to-maturity, Loans and receivables, Available-for-sale or Other. All financial instruments, including derivatives, are included on the consolidated balance sheet and are measured at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial assets and liabilities, which will be measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses, excluding impairments, included in other comprehensive income until the asset is removed from the consolidated balance sheet.

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

3. CHANGES IN ACCOUNTING POLICIES [Cont'd]

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

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

4. TEMPORARY INVESTMENT

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

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

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

5. OTHER RECEIVABLES

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

6. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

7. OTHER ASSETS

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

8. OBLIGATION UNDER CAPITAL LEASES

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

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

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

9. LONG-TERM DEBT

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL

Authorized

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

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

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

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL [Cont'd]

Options

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

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

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

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL [Cont'd]

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

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

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

Warrants

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL [Cont'd]

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

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

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

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SHARE CAPITAL [Cont'd]

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

Loss per share

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

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

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

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

12. INCOME TAXES

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

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

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

12. INCOME TAXES [Cont'd]

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

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

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

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

12. INCOME TAXES [Cont'd]

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

13. GOVERNMENT ASSISTANCE

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

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

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

14. RESEARCH AND DEVELOPMENT EXPENSES

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

15. COMMITMENTS AND CONTINGENCIES

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

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

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

16. FINANCIAL INSTRUMENTS

Concentration of credit risk

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

Fair value of financial instruments

[i] Short-term financial assets and liabilities

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

16. FINANCIAL INSTRUMENTS [Cont'd]

[ii] Long-term financial liabilities

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

Interest rate risk

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

Foreign currency risk

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

17. STATEMENTS OF CASH FLOWS

Cash and cash equivalents

Cash and cash equivalents consist of the following:

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

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

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

Haemacure Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

18. RELATED PARTY TRANSACTION

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

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

19. SEGMENT DISCLOSURES

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

Geographic information

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

20. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Joseph Galli³
Chairman and Chief Executive Officer
Haemacure Corporation

Joseph A. Akers^{1,3}
Retired Executive

Pierre Alary, CA^{1,2,3}
Senior Vice-President and
Chief Financial Officer
Bombardier Inc.

Paul Baehr^{1,2}
Chairman and Chief Executive Officer
Ibex Technologies inc.

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

Marc Paquin
President
Haemacure Corporation

Neil Wiener
Partner
Heenan Blaikie

¹ Member of the Audit Committee

² Member of the Compensation Committee

³ Member of the Finance Committee

MANAGEMENT

Joseph Galli
Chairman and Chief Executive Officer

Marc Paquin
President

Christian Hours, Ph.D.
Vice-President, Quality and Technical Affairs

Lyne Paré, CA
Director, Finance and Administration

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

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LEGAL COUNSEL

Heenan Blaikie
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TRANSFER AGENT AND SHARE REGISTRAR

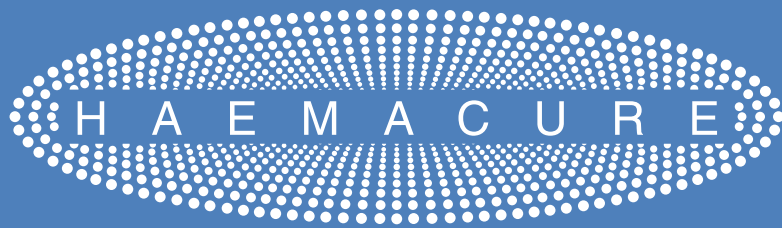
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Montréal, Québec H3A 3S8

STOCK INFORMATION

The shares of Haemacure Corporation are listed on the TSX under the ticker HAE. There was a total of 163,800,917 issued and outstanding common shares on October 31, 2007. Those wishing to obtain a copy of the Annual Information Form deposited with the Autorité des marchés financiers du Québec are invited to write to the corporate head office of Haemacure Corporation at 215 Redfern Avenue, Suite 100, Montréal (Québec) H3Z 3L5, to fax requests to (514) 282-3358 or by e-mail at glemieux@haemacure.ca. Up-to-date information, including quarterly news releases and filings, is accessible on the Internet at: www.haemacure.com.

Ce rapport annuel est également disponible en français.





www.haemacure.com