



**QUARTERLY REPORT**

**Periods ended December 31, 2007**

**Dear Shareholders,**

Highlighting this quarter was the recognition we received for our successful partnership with the Ecole Polytechnique de Montréal. We were awarded the 2007 Innovation Award in the "Partnership" category by the Association de la Recherche Industrielle du Québec (ADRIQ). This partnership has given us considerable access to world-class research which has already translated into numerous approved patents and several products within our development pipeline.

Furthermore, we continued to make solid progress with our two lead products, BST-CarGel<sup>®</sup> and BST-DermOn<sup>™</sup>, in their respective pivotal trials.

**BST-CarGel<sup>®</sup>**

BST-CarGel<sup>®</sup>, for the repair of articular cartilage damage, is our most promising therapeutic medical device. Cartilage damage affects over one million patients each year in the United States, resulting in chronic pain, loss of joint function and diminished quality of life. Traditional surgical procedures to address such damage often result in scar tissue, recurring symptoms and total joint replacement surgery. BST-CarGel<sup>®</sup> is a minimally invasive, cost-effective, off-the-shelf surgical alternative that may dramatically improve cartilage repair over traditional methods.

During this quarter, we further accelerated the enrolment into our BST-CarGel<sup>®</sup> pivotal trial with the addition of 4 new clinical sites that are now actively enrolling. Our dedication to maintaining the highest level of scientific design and validity for this trial is reflected in the strict patient selection criteria. Nonetheless, we have already enrolled 50 percent of the needed patients, and with an anticipated ramp-up in the following quarters we are still committed to finishing enrolment for this significant trial in 2008. As planned, 6 months follow-up data from a 20 patient subset was collected and will be analyzed for submission to the U.S. FDA. These data will also bolster ongoing business development discussions for licensing of BST-CarGel<sup>®</sup>.

**BST-DermOn<sup>™</sup>**

We are also on track to complete our Canadian pivotal trial for BST-DermOn<sup>™</sup> by mid-2009, and patient recruitment is well underway. Our strategy for accelerating enrolment and reaching our goal of recruiting 130 patients has been implemented through the addition of new sites, using both hospitals and private clinics across Canada.

In an effort to expand the potential market for BST-DermOn<sup>™</sup>, we have initiated an open clinical study to explore additional wound healing indications, such as venous leg ulcers and pressure ulcers. We expect to complete this exploratory study by the second half of 2008.

On the corporate front, we are currently pursuing strategies that will strengthen our financial position during our advancement towards commercialization of BST-CarGel and BST-DermOn. We are committed to successfully developing these products and I look forward to reporting our progress to you. On behalf of the Board of Directors, I would like to thank all of our employees and shareholders for your ongoing support.

Sincerely,

Claude LeDuc  
President and Chief Executive Officer

February 12, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This analysis, dated February 12, 2008, should be read together with our interim consolidated financial statements and notes thereto for the periods ended December 31, 2007, which have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). For discussion regarding contractual obligations and commercial commitments, critical accounting policies, recent accounting pronouncement, and risks and uncertainties, refer to the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended March 31, 2007. Except where specifically indicated, all dollar amounts stated in this analysis are in Canadian dollars.

This analysis contains forward-looking statements and information which are subject to material risks and uncertainties. Such statements are not historical facts and are based on the current expectations of management. You are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances, or events to differ materially from those projected in the forward-looking information. These risks include, but are not limited to, the results of our clinical trials, the regulatory approval process, competition, securing and maintaining corporate alliances, acceptance of our products, the availability of government and insurance reimbursements for our products, the strength of intellectual property, our financing capability, our reliance on subcontractors and our key personnel, and other risks and uncertainties detailed in "Risks and Uncertainties" section of the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended March 31, 2007.

Readers should not place undue reliance on the forward-looking information, given that (i) our actual results could differ materially from a conclusion, forecast or projection in the forward-looking information, and (ii) certain material factors or assumptions, which were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information, could prove to be inaccurate. Additional information about (i) the material factors that could cause actual results to differ materially from the conclusion, forecast or projection in the forward-looking information, and (ii) the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information, is contained in the documents filed from time to time with the Canadian securities commissions which are available at [www.sedar.com](http://www.sedar.com).

Any statements that are contained in this analysis that are not statements of historical facts may be deemed to be forward-looking statements made pursuant to the Ontario Securities Act and the Private Securities Litigation Reformation Act of 1995. Without limiting the foregoing, the words "believe", "anticipates", "plans", "estimates", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking statements.

All forward-looking statements attributable to us are expressly qualified in their entirety by the above cautionary statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **DESCRIPTION OF BUSINESS**

BioSyntech, Inc ("the Company") is a company that develops advanced biotherapeutic thermogels specifically designed for tissue repair and delivery of therapeutic agents. The Company is developing a first line of products for cartilage repair, chronic wound healing and plantar pain relief. Two lead products have reached clinical trial stage. Other tissue repair products are being developed for applications such as bone reconstruction and intervertebral disc treatment. The Company is also engaged in the development of advanced injectable biomaterials for the delivery of cells, genes and biotherapeutic agents. The Company also develops instrumentation products. The Company has had limited revenues to date generated almost entirely by sales of instrumentation products and purified chitosan, called *Ultrasan*.

## SUMMARY OF OPERATING RESULTS

### REVENUES

During the three-month period ended December 31, 2007, the Company had revenues of \$21,193 compared to revenues of \$151,896 for the three-month period ended December 31, 2006. During the nine-month period ended December 31, 2007, the Company had revenues of \$125,357 compared to revenues of \$166,095 for the nine-month period ended December 31, 2006. The decrease in revenues is mainly due to the lack of sale of instrumentation products during the last quarter.

### RESEARCH AND DEVELOPMENT

Research and development expenses were \$1,568,786 for the three-month period ended December 31, 2007 compared to \$1,403,768 for the three-month period ended December 31, 2006, representing an increase of \$165,018. These expenses are mainly represented by remuneration and consumables of \$885,869 (\$749,257 in 2006), by research contracts of \$634,873 (\$597,755 in 2006) and by grant of stock options of \$20,777 (\$7,379 in 2006). Research and development expenses were \$4,404,126 for the nine-month period ended December 31, 2007 compared to \$3,358,966 for the nine-month period ended December 31, 2006, representing an increase of \$1,045,160. These expenses are mainly represented by remuneration and consumables of \$2,508,031 (\$2,059,958 in 2006) and by research contracts of \$1,674,117 (\$1,207,286 in 2006) and stock-based compensation of \$161,287 (\$21,275 in 2006). The increases were primarily attributable to the increase in expenses incurred for BST-CarGel® and BST-DermOn™ multi-center clinical trials, the hiring of new employees related to clinical development activities and by an increase in compensation expenses related to options granted to consultants and employees. The Company anticipates that the research and development expenses will further increase as its lead products will evolve in more advanced clinical development stages. However, as a result of the risks and uncertainties, we are unable to estimate the specific timing and future costs of our research and development programs.

### INVESTMENT TAX CREDITS

The Company claimed investment tax credits on all eligible research and development expenses. The amount recognized for the three-month period ended December 31, 2007 was \$272,582 compared to \$204,000 for the three-month period ended December 31, 2006, representing an increase of \$68,582. The amount recognized for the nine-month period ended December 31, 2007 was \$637,582 compared to \$492,000 for the nine-month period ended December 31, 2006, representing an increase of \$145,582. The change recorded in investment tax credits is directly attributable to the level of eligible research and development expenses.

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$917,521 for the three-month period ended December 31, 2007 compared to \$993,328 for the three-month period ended December 31, 2006, representing a decrease of \$75,807. These expenses are mainly represented by remuneration and office supplies of \$541,078 (\$415,162 in 2006), by professional fees of \$155,433 (\$282,015 in 2006), by marketing and investor relations expenses of \$144,975 (\$117,730 in 2006) and by grant of stock options of \$15,136 (\$64,785 in 2006). The decrease is mainly due to lower professional fees and a decrease in compensation expenses related to options which more than offset the increase due to the hiring of new employees. General and administrative expenses were \$2,766,658 for the nine-month period ended December 31, 2007 compared to \$2,717,987 for the nine-month period ended December 31, 2006, representing an increase of \$48,671. These expenses are mainly represented by remuneration and office supplies of \$1,597,878 (\$1,023,923 in 2006), by professional fees of \$388,897 (\$747,716 in 2006), by marketing and investor relations expenses of \$452,781 (\$391,628 in 2006) and by stock-based compensation of \$150,510 (\$313,781 in 2006). The increase is mainly due to the hiring of new employees partly offset by lower professional fees and by a decrease in compensation expenses related to options granted to consultants and employees.

#### DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation expense was \$93,652 for the three-month period ended December 31, 2007 compared to \$94,159 for the three-month period ended December 31, 2006, representing a decrease of \$507. Depreciation expense was \$286,414 for the nine-month period ended December 31, 2007 compared to \$273,671 for the nine-month period ended December 31, 2006, representing an increase of \$12,743.

#### AMORTIZATION OF PATENTS AND TRADEMARKS

Amortization expense was \$12,873 for the three-month period ended December 31, 2007 compared to \$11,100 for the three-month period ended December 31, 2006, representing an increase of \$1,773. Amortization expense was \$37,146 for the nine-month period ended December 31, 2007 compared to \$31,399 for the nine-month period ended December 31, 2006, representing an increase of \$5,747.

#### AMORTIZATION OF DEBT ISSUE COSTS

Amortization expense was \$17,628 for the three-month period ended December 31, 2007 compared to an amortization expense of \$9,874 for the three-month period ended December 31, 2006, representing an increase of \$7,754. Amortization expense was \$55,108 for the nine-month period ended December 31, 2007 compared to an amortization expense of \$29,513 for the nine-month period ended December 31, 2006, representing an increase of \$25,595. The increase is due to the adoption of the new accounting policies relating to financial instruments.

#### INTEREST INCOME AND INTEREST EXPENSE

Interest income for the three-month period ended December 31, 2007 was \$75,288 compared to \$162,013 for the three-month period ended December 31, 2006, representing a decrease of \$86,725. Interest income for the nine-month period ended December 31, 2007 was \$279,309 compared to \$525,410 for the nine-month period ended December 31, 2006, representing a decrease of \$246,101. The decrease of the interest income is mainly due to the decrease in the average cash position compared to the same periods last year.

Interest expense was \$90,851 for the three-month period ended December 31, 2007 compared to \$146,328 for the three-month period ended December 31, 2006, representing a decrease of \$55,477. Interest expense was \$287,987 for the nine-month period ended December 31, 2007 compared to \$381,972 for the nine-month period ended December 31, 2006, representing a decrease of \$93,985. The decrease is mainly due to the repayment in March 2007 of an amount out of \$500,000 on the BDC loan and lower debt level on the Investissement Quebec loan.

#### GAIN ON FOREIGN EXCHANGE

The Company maintains US funds to cover certain expenses payable in that currency. Gain on foreign exchange was \$437 for the three-month period ended December 31, 2007 compared to a loss of \$3,726 for the three-month period ended December 31, 2006, representing a change of \$4,163. Gain on foreign exchange was \$8,538 for the nine-month period ended December 31, 2007 compared to a loss of \$5,824 for the nine-month period ended December 31, 2006, representing a change of \$14,362.

#### LOSS

The loss for the three-month period ended December 31, 2007 amounted to \$2,338,932 (\$0.02 per share), compared to \$2,178,495 (\$0.02 per share) for the three-month period ended December 31, 2006. The loss for the nine-month period ended December 31, 2007 amounted to \$6,821,392 (\$0.07 per share), compared to \$5,640,712 (\$0.06 per share) for the nine-month period ended December 31, 2006. Limited sales and significant expenses are still being incurred in the development of the Company's products.

## QUARTERLY FINANCIAL INFORMATION (unaudited)

	Quarters ended			
	December 31, 2007 (CA\$)	September 30, 2007 (CA\$)	June 30, 2007 (CA\$)	March 31, 2007 (CA\$)
Revenues	21,193	94,368	9,796	77,380
Loss	(2,338,932)	(2,243,669)	(2,238,791)	(2,472,841)
Basic and diluted loss per share	(0.02)	(0.02)	(0.02)	(0.03)

  

	Quarters ended			
	December 31, 2006 (CA\$)	September 30, 2006 (CA\$)	June 30, 2006 (CA\$)	March 31, 2006 (CA\$)
Revenues	151,896	3,393	10,806	18,161
Loss	(2,178,495)	(2,034,109)	(1,428,108)	(1,934,912)
Basic and diluted loss per share	(0.02)	(0.02)	(0.02)	(0.05)

Variations from quarter to quarter in the amount of loss mainly reflect increased research and development efforts and the Company's organizational structure to achieve its business plan.

## LIQUIDITY AND CAPITAL RESOURCES

The Company has limited operating history and has not made significant sales of its products. Therefore, revenues are difficult to predict. As of December 31, 2007, the Company had cash and cash equivalents and short-term investments in the amount of \$5,421,299 compared to \$11,925,979 at March 31, 2007. This decrease reflects the funds used for operating and investing activities.

Additions to property, plant and equipment for the three-month period ended December 31, 2007 amounted to \$20,327, compared to \$38,133 for the three-month period ended December 31, 2006. Additions to property and equipment for the nine-month period ended December 31, 2007 amounted to \$40,155, compared to \$117,542 for the nine-month period ended December 31, 2006. The additions are related to laboratory and computer equipments. Additions to patent costs for the three-month period ended December 31, 2007 amounted to \$24,236, compared to \$25,411 for the three-month period ended December 31, 2006. Additions to patent costs for the nine-month period ended December 31, 2007 amounted to \$65,189, compared to \$62,514 for the nine-month period ended December 31, 2006.

Proceeds from the issue of share capital for the nine-month period ended December 31, 2007 amounted to nil compared to \$10,999,800 for the nine-month period ended December 31, 2006 and were related to the second and third closing of a private placement. These proceeds were and will be used to fund the development of our technology platform, the clinical trials of our three leading products and our general working capital.

As of February 12, 2008, the number of common shares issued and outstanding was 95,487,015, while outstanding options granted under the stock option plan amounted to 7,392,500 and options granted to the agent in connection with a private placement totaled 2,417,820. In addition, 25,600,000 warrants were outstanding. The Company was therefore committed to issue upon exercise an aggregate of 36,619,230 additional common shares with respect to options, warrants and other rights outstanding as of that date.

Since inception, the Company has devoted its resources principally to funding research and development programs. As at December 31, 2007, the Company has incurred a cumulative deficit since inception of \$50,832,688, of which research and development expenditures totaled \$27,565,580 before research tax credits of \$4,061,393. The Company expects to incur substantial additional expenses over the next several years as part of its research and development activities to pursue the regulatory approval process of its products. The Company expects that these expenses will result in additional losses, given that it does not expect to have significant revenues from the sale of products in the near future.

The Company has funded its operations primarily through private and public offerings of common shares as well as tax credits and grants. To pursue its clinical trials on BST-CarGel® and BST-DermOn™ as well as advancing other preclinical candidates, the Company will need additional financing to fund operations with proceeds from equity, revenues from collaborative research agreements, licenses, product development and co-marketing agreements, research tax credits and grants. The Company's ability to continue as going concern is dependent upon additional financing.

## **CHANGES IN ACCOUNTING POLICIES**

Effective April 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* 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 or 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 investments, Loans and receivables, Available-for-sale financial assets or Other financial liabilities. All financial instruments, including derivatives are included on the balance sheet and are measured at fair value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

As a result of the adoption of these standards, the Company has classified its cash and cash equivalents as held-for-trading, which are measured at fair value and its short-term investments as "Available-for-sale", which are also measured at fair value. The Company has also classified its accounts receivable and other receivables as "Loans and receivables", and its accounts payable and accrued liabilities and long-term debt as "Other financial liabilities", all of which are measured at amortized cost.

Transaction costs are comprised primarily of professional fees and other costs directly attributable to the issuance of the respective financial assets and liabilities. Transaction costs are capitalized to the cost of financial assets and liabilities classified as other than held for trading. As a result of this new policy, such costs previously reported as deferred financing costs have been reclassified against long-term debt and an adjustment of \$45,539 to the opening deficit was recorded to reflect the utilization of the effective interest method instead of the straight-line method previously applied.

These new standards have to be applied without restatement of prior period amounts.

## **CONTROLS AND PROCEDURES**

The purpose of internal controls over financial reporting is to provide reasonable assurance of the reliability of the Company's financial reporting and of preparation of its financial statements in accordance with Canadian GAAP. The President and Chief Executive Officer and the Chief Financial Officer have assessed whether the Company made any change to its internal controls, during the quarter ended December 31, 2007, that has had or is liable to have a material effect. No such change was found.

## **ADDITIONAL INFORMATION ABOUT BIOSYNTECH, INC.**

Additional informational relating to BioSyntech, Inc. is available on SEDAR's website at [www.sedar.com](http://www.sedar.com).

Interim Consolidated Financial Statements of

**BioSyntech, Inc.**

(a development stage company)

Periods ended December 31, 2007 and 2006

**BioSyntech, Inc.**

A development stage company

**INTERIM CONSOLIDATED BALANCE SHEETS**

	December 31, 2007 (CA\$) <i>(unaudited)</i>	March 31, 2007 (CA\$) <i>(audited)</i>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,921,299	4,040,229
Short-term investments	2,500,000	7,885,750
Interest receivable	30,360	9,210
Accounts receivable	91,478	127,430
Inventory	35,459	14,409
Investment tax credits	558,000	711,000
Prepaid expenses	199,742	239,853
	<b>6,336,338</b>	13,027,881
Property, plant and equipment	2,207,205	2,461,597
Other assets	621,462	946,529
	<b>9,165,005</b>	16,436,007
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,223,465	1,315,844
Deferred revenues	103,967	36,513
Current portion of long-term debt	572,475	577,692
Current portion of obligations under capital leases	1,715	12,774
	<b>1,901,622</b>	1,942,823
Long-term debt	2,622,651	3,297,318
	<b>4,524,273</b>	5,240,141
<b>Shareholders' equity</b>		
Share capital <i>(note 4)</i>	49,880,635	49,880,635
Contributed surplus <i>(note 4)</i>	5,592,785	5,280,988
Deficit accumulated during the development stage	(50,832,688)	(43,965,757)
Accumulated other comprehensive loss <i>(note 7)</i>	—	—
	<b>4,640,732</b>	11,195,866
Basis of presentation and going concern assumption <i>(note 2)</i>		
	<b>9,165,005</b>	16,436,007

*See accompanying notes to the unaudited consolidated financial statements*

**BioSyntech, Inc.**

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF  
OPERATIONS AND DEFICIT**

For the three-month periods ended December 31, 2007 and 2006

	<b>December 31, 2007 (CA\$) (unaudited)</b>	December 31, 2006 (CA\$) (unaudited)
<b>Revenues</b>		
Sales and services	21,193	133,046
Research contracts	—	18,850
	<b>21,193</b>	<b>151,896</b>
<b>Expenses</b>		
Cost of sales and services	7,121	42,071
Research and development	1,568,786	1,403,768
Investment tax credits	(272,582)	(204,000)
General and administrative	917,521	993,328
Government grants	—	(7,950)
Interest on long-term debt and obligations under capital leases	90,851	146,328
Depreciation of property, plant and equipment	93,652	94,159
Amortization of patents and trademarks	12,873	11,100
Amortization of debt issue costs	17,628	9,874
Interest revenue	(75,288)	(162,013)
(Gain) loss on foreign exchange	(437)	3,726
	<b>2,360,125</b>	<b>2,330,391</b>
<b>Loss for the period</b>	<b>(2,338,932)</b>	<b>(2,178,495)</b>
Deficit accumulated during the development stage, beginning of period	<b>(48,493,756)</b>	<b>(39,314,421)</b>
<b>Deficit accumulated during the development stage, end of period</b>	<b>(50,832,688)</b>	<b>(41,492,916)</b>
Weighted average number of common shares outstanding	<b>95,487,015</b>	95,407,650
Basic and diluted loss per share (note 4)	<b>(0.02)</b>	(0.02)

*See accompanying notes to the unaudited consolidated financial statements*

**BioSyntech, Inc.**

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE LOSS**

For the three-month periods ended December 31, 2007 and 2006

	<b>December 31, 2007 (CA\$) (<i>unaudited</i>)</b>	December 31, 2006 (CA\$) ( <i>unaudited</i> )
<b>Net loss for the period</b>	<b>(2,338,932)</b>	(2,178,495)
<b>Other comprehensive income</b>		
Unrealized gain on available-for-sale short-term investments ( <i>note 7</i> )	—	—
<b>Comprehensive loss for the period</b>	<b>(2,338,932)</b>	(2,178,495)

*See accompanying notes to the unaudited consolidated financial statements*

**BioSyntech, Inc.**

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF  
OPERATIONS AND DEFICIT**

For the nine-month periods ended December 31, 2007 and 2006

	<b>December 31, 2007 (CA\$) (unaudited)</b>	December 31, 2006 (CA\$) (unaudited)
<b>Revenues</b>		
Sales and services	92,107	147,245
Research contracts	33,250	18,850
	<b>125,357</b>	<b>166,095</b>
<b>Expenses</b>		
Cost of sales and services	44,739	47,835
Research and development	4,404,126	3,358,966
Investment tax credits	(637,582)	(492,000)
General and administrative	2,766,658	2,717,987
Government grants	(10,000)	(22,950)
Interest on long-term debt and obligations under capital leases	287,987	381,972
Depreciation of property, plant and equipment	286,414	273,671
Amortization of patents and trademarks	37,146	31,399
Amortization of debt issue costs	55,108	29,513
Interest revenue	(279,309)	(525,410)
(Gain) loss on foreign exchange	(8,538)	5,824
	<b>6,946,749</b>	<b>5,806,807</b>
<b>Loss for the period</b>	<b>(6,821,392)</b>	<b>(5,640,712)</b>
Deficit accumulated during the development stage, beginning of period	<b>(43,965,757)</b>	<b>(35,852,204)</b>
Adjustment to reflect change in accounting policy on financial instruments <i>(note 3)</i>	<b>(45,539)</b>	—
<b>Deficit accumulated during the development stage, end of period</b>	<b>(50,832,688)</b>	<b>(41,492,916)</b>
Weighted average number of common shares outstanding	<b>95,487,015</b>	93,887,504
Basic and diluted loss per share <i>(note 4)</i>	<b>(0.07)</b>	(0.06)

*See accompanying notes to the unaudited consolidated financial statements*

**BioSyntech, Inc.**

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE LOSS**

For the nine-month periods ended December 31, 2007 and 2006

	<b>December 31, 2007 (CA\$) (<i>unaudited</i>)</b>	December 31, 2006 (CA\$) ( <i>unaudited</i> )
<b>Net loss for the period</b>	<b>(6,821,392)</b>	(5,640,712)
<b>Other comprehensive income</b>		
Unrealized gain on available-for-sale short-term investments ( <i>note 7</i> )	<b>2,573</b>	—
<b>Comprehensive loss for the period</b>	<b>(6,818,819)</b>	(5,640,712)

*See accompanying notes to the unaudited consolidated financial statements*

**BioSyntech, Inc.**

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the three-month periods ended December 31, 2007 and 2006

	<b>December 31, 2007 (CA\$) (unaudited)</b>	December 31, 2006 (CA\$) (unaudited)
<b>OPERATING ACTIVITIES</b>		
Loss for the period	(2,338,932)	(2,178,495)
Adjustments for:		
Depreciation of property, plant and equipment	93,652	94,159
Amortization of patents and trademarks	12,873	11,100
Amortization of debt issue costs	17,628	9,874
Stock-based compensation	35,913	72,164
Exchange loss (gain)	91	(823)
Change in operating assets and liabilities:		
Interest receivable	3,886	139,370
Accounts receivable	(26,449)	(150,089)
Inventory	(14,519)	26,565
Investment tax credits	518,000	(204,000)
Prepaid expenses	(25,510)	(22,041)
Deferred revenues	71,888	(38,239)
Accounts payable and accrued liabilities	39,956	(52,347)
<b>Cash flows related to operating activities</b>	<b>(1,611,523)</b>	<b>(2,292,802)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(20,327)	(38,133)
Disposal of short-term investments	2,500,000	8,249,904
Deposit, patents and trademarks	(24,236)	(25,411)
<b>Cash flows related to investing activities</b>	<b>2,455,437</b>	<b>8,186,360</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(158,298)	(124,998)
Repayment of obligations under capital leases	(2,494)	(4,826)
<b>Cash flows related to financing activities</b>	<b>(160,792)</b>	<b>(129,824)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(91)</b>	<b>823</b>
<b>Net decrease in cash and cash equivalents</b>	<b>683,031</b>	<b>5,764,557</b>
Cash and cash equivalents, beginning of period	2,238,268	3,068,785
<b>Cash and cash equivalents, end of period</b>	<b>2,921,299</b>	<b>8,833,342</b>
<b>Additional information (note 6)</b>		

See accompanying notes to the unaudited consolidated financial statements

**BioSyntech, Inc.**

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the nine-month periods ended December 31, 2007 and 2006

	<b>December 31, 2007 (CA\$) (unaudited)</b>	December 31, 2006 (CA\$) (unaudited)
<b>OPERATING ACTIVITIES</b>		
Loss for the period	<b>(6,821,392)</b>	(5,640,712)
Adjustments for:		
Depreciation of property, plant and equipment	<b>286,414</b>	273,671
Amortization of patents and trademarks	<b>37,146</b>	31,399
Amortization of debt issue costs	<b>55,108</b>	29,513
Stock-based compensation	<b>311,797</b>	335,056
Exchange loss (gain)	<b>859</b>	(351)
Change in operating assets and liabilities:		
Interest receivable	<b>(21,150)</b>	(75,273)
Accounts receivable	<b>35,952</b>	(276,971)
Inventory	<b>(21,050)</b>	(27,090)
Investment tax credits	<b>153,000</b>	(492,000)
Prepaid expenses	<b>40,111</b>	92,186
Deferred revenues	<b>67,454</b>	38,576
Accounts payable and accrued liabilities	<b>(73,098)</b>	219,707
<b>Cash flows related to operating activities</b>	<b>(5,948,849)</b>	(5,492,289)
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<b>(40,155)</b>	(117,542)
Disposal of short-term investments	<b>5,385,750</b>	249,904
Deposit, patents and trademarks	<b>(67,849)</b>	(62,514)
<b>Cash flows related to investing activities</b>	<b>5,277,746</b>	69,848
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	<b>(419,394)</b>	(374,994)
Repayment of obligations under capital leases	<b>(11,059)</b>	(13,978)
Proceeds from issuance of shares	—	10,999,800
Share issue costs	—	(994,456)
Debt issue costs	<b>(16,515)</b>	—
<b>Cash flows related to financing activities</b>	<b>(446,968)</b>	9,616,372
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(859)</b>	351
<b>Net decrease in cash and cash equivalents</b>	<b>(1,118,930)</b>	4,194,282
Cash and cash equivalents, beginning of period	<b>4,040,229</b>	4,639,060
<b>Cash and cash equivalents, end of period</b>	<b>2,921,299</b>	8,833,342
<b>Additional information (note 6)</b>		

See accompanying notes to the unaudited consolidated financial statements

## **BioSyntech, Inc.**

A development stage company

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

Periods ended December 31, 2007 and 2006  
(in Canadian dollars)

#### **1. ORGANIZATION AND OPERATIONS OF THE COMPANY**

BioSyntech, Inc. (the “Company”) was incorporated on December 14, 1994 under the laws of the State of Nevada. The Company was continued under the Canada Business Corporations Act on March 28, 2006.

The Company, a development stage company, has been engaged primarily in research and development since inception. The Company develops advanced biomaterials specifically designed for tissue repair and delivery of therapeutic agents. The Company is developing a first line of products for cartilage repair, chronic wound healing and plantar pain relief. Two lead products have reached clinical trial stage. Other tissue repair products are being developed for applications such as bone reconstruction and intervertebral disc treatment. The Company is also engaged in the development of advanced injectable biomaterials for the delivery of cells, genes and biotherapeutic agents. The Company also develops instrumentation products. The Company has had limited revenues to date generated almost entirely by sales of instrumentation products and purified chitosan, called Ultrasan. BioSyntech has developed its main products using its technology platform. Substantially all research and development costs since inception, including patent protection costs, are mainly related to this technology platform.

In the course of its business, the Company is exposed to risks related to research and development of its technologies and marketing of related products or services, intellectual property protection, key personnel retention and the securing of financing required to achieve the objectives of its business plan.

#### **2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTION**

These interim consolidated financial statements are unaudited and reflect normal and recurring adjustments which are, in the opinion of the Company, considered necessary for a fair presentation of the interim financial information. These interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) on a going concern basis, which assumes that assets will be realized and liabilities discharged in the normal course of business for the foreseeable future. Accordingly, these consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or on the discharge or classification of liabilities, should the Company be unable to continue its business in the normal course.

The Company has incurred losses each year since its inception and anticipates that losses will continue for the foreseeable future. Furthermore, the Company has not completed the development of any product likely to generate the level of sales necessary to enable the Company to continue its operations without outside financing. The Company’s ability to continue as a going concern is uncertain and mainly depends on its ability to obtain further financing to complete research and development projects and market products, achieve profitable operations and generate positive cash flows from operations, as to which no assurance can be given.

Additional funds will continue to be required for an indefinite period as no estimate can be made as to when the Company will achieve profitability. Management continues to negotiate further financing. The success of these negotiations is contingent on many factors outside the Company’s control and there is substantial uncertainty about the Company’s ability to successfully complete future financings.

## **BioSyntech, Inc.**

A development stage company

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

Periods ended December 31, 2007 and 2006

(in Canadian dollars)

#### **3. CHANGES IN ACCOUNTING POLICIES**

Effective April 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* 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 on when or 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 investments, Loans and receivables, Available-for-sale financial assets or Other financial liabilities. All financial instruments, including derivatives are included on the balance sheet and are measured at fair value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

As a result of the adoption of these standards, the Company has classified its cash and cash equivalents as held-for-trading, which are measured at fair value and its short-term investments as “Available-for-sale”, which are also measured at fair value. The Company has also classified its accounts receivable and other receivables as “Loans and receivables”, and its accounts payable and accrued liabilities and long-term debt as “Other financial liabilities”, all of which are measured at amortized cost.

Transaction costs are comprised primarily of professional fees and other costs directly attributable to the issuance of the respective financial assets and liabilities. Transaction costs are capitalized to the cost of financial assets and liabilities classified as other than held for trading. As a result of this new policy, such costs previously reported as deferred financing costs have been reclassified against long-term debt and an adjustment of \$45,539 to the opening deficit was recorded to reflect the utilization of the effective interest method instead of the straight-line method previously applied.

These new standards have to be applied without restatement of prior period amounts.

#### **4. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

##### **a) Authorized**

An unlimited number of common shares without par value.

**BioSyntech, Inc.**

A development stage company

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

Periods ended December 31, 2007 and 2006

(in Canadian dollars)

**4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)****b) Issued and outstanding**

The issued and outstanding share capital consists of:

	<b>December 31, 2007</b>	March 31, 2007 (audited)
95,487,015 common shares (95,487,015 on March 31, 2007)	\$49,880,635	\$49,880,635

Changes in the issued and outstanding common shares and contributed surplus for the year ended March 31, 2007 and for the nine-month period ended December 31, 2007 were as follows:

	<b>Common shares</b>		<b>Contributed Surplus</b>
	<b>Number</b>	<b>Dollars</b>	<b>Dollars</b>
Balance, March 31, 2006 (audited)	69,217,650	39,901,773	4,534,973
Issued for cash from private placement (i) (ii) (iii)	26,190,000	9,928,862	—
Issued as a result of a financing (iv)	79,365	50,000	—
Stock-based compensation	—	—	480,007
Warrants (ii) (iii) (iv)	—	—	266,008
Balance, March 31, 2007 (audited)	95,487,015	49,880,635	5,280,988
Stock-based compensation	—	—	311,797
Balance, December 31, 2007	95,487,015	49,880,635	5,592,785

- i) On April 13, 2006, the Company completed the second closing of a private placement involving the issuance of 19,055,000 units at a price of \$0.42 per unit for gross proceeds of \$8,003,100, and on May 1<sup>st</sup>, 2006, the Company completed the third and final closing of this private placement involving the issuance of 7,135,000 units at a price of \$0.42 per unit for gross proceeds of \$2,996,700. Each unit consists of one common share of the Company and one half of one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.65 per share prior to March 30, 2009. The warrants are subject to an accelerated expiry, if prior to March 30, 2009, the published closing price of the common shares on the Toronto Stock Exchange is equal to or greater than \$1.30 for any 10 consecutive trading days with a daily volume of 100,000 shares. The proceeds of the offering will be used to fund the clinical trials for the Company's three leading products as well as for general working capital purposes. The share issue costs, excluding the stock options granted to agents amounted to \$879,630.

**BioSyntech, Inc.**

A development stage company

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

Periods ended December 31, 2007 and 2006

(in Canadian dollars)

**4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)****b) Issued and outstanding (cont'd)**

- ii) As part of the second closing of a private placement on April 13, 2006, the Company granted to its agents a non-transferable option to purchase 869,695 units at a price of \$0.42 per unit for a period of two years. The fair value of this option at the grant date was calculated using the Black-Scholes option-pricing model with the following assumptions: expected life of two years, risk-free interest rate of 4.1516%, volatility of 62.41% and no dividend yield. The fair value of the option amounted to \$134,803 and was recorded as share issue costs.
- iii) As part of the third closing of a private placement on May 1<sup>st</sup>, 2006, the Company granted to its agents a non-transferable option to purchase 357,625 units at a price of \$0.42 per unit for a period of two years. The fair value of this option at the grant date was calculated using the Black-Scholes option-pricing model with the following assumptions: expected life of two years, risk-free interest rate of 4.1639%, volatility of 64.19% and no dividend yield. The fair value of the option amounted to \$56,505 and was recorded as share issue costs.
- iv) On March 30, 2007, the Company concluded a loan agreement for \$2,000,000 with BDC in order to reimburse part of the demand loan of \$2,500,000. As a part of this agreement, the Company paid \$50,000 and issued 79,365 common shares at a price of \$0.63 per share to the BDC as payment for the transaction fees charged. As a result, the Company recorded an amount of \$100,000 as debt issue cost. Furthermore, in accordance with the loan agreement, the Company also issued a warrant to purchase 300,000 common shares at an exercise price of \$0.80 per share. This warrant can be exercised at any time prior to March 30, 2012. The fair value of this warrant at the grant date was calculated using the Black-Scholes option-pricing model with the following assumptions: expected life of five years, risk-free interest rate of 4.0191%, volatility of 70.98% and no dividend yield. The Company recorded an amount of \$74,700 as debt issue costs.

**c) Stock option plan**

Changes in outstanding options granted under the Company's Stock Option Plan for the year ended March 31, 2007 and the nine-month period ended December 31, 2007 were as follows:

	<b>Number</b>	<b>Weighted average exercise price</b>
Options outstanding, March 31, 2006 (audited)	4,531,000	\$0.82
Granted	1,415,000	\$0.52
Forfeited	(26,000)	\$0.66
Options outstanding, March 31, 2007 (audited)	5,920,000	\$0.74
Granted	1,862,500	\$0.48
Forfeited	(320,000)	\$0.46
Expired	(100,000)	\$0.62
Options outstanding, December 31, 2007	7,362,500	\$0.64

**BioSyntech, Inc.**

A development stage company

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

Periods ended December 31, 2007 and 2006

(in Canadian dollars)

**4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)****d) Warrants and other options**

Each warrant entitles the holder to purchase one common share. Each other option entitles the holder to purchase one unit which consists of one common share and one half of one warrant. Changes in the issued and outstanding warrants and other options pursuant to different financings were as follows:

<b>Warrants and other options</b>	<b>Warrants Number</b>	<b>Weighted average exercise price</b>	<b>Other options Number</b>	<b>Weighted average exercise price</b>
Outstanding, March 31, 2006 (audited)	12,287,437	\$0.67	1,190,500	\$0.42
Granted	13,395,000	\$0.65	1,227,320	\$0.42
Outstanding, March 31, 2007 (audited)	25,682,437	\$0.66	2,417,820	\$0.42
Expired	(82,437)	\$0.80	—	—
Outstanding, December 31, 2007	25,600,000	\$0.66	2,417,820	\$0.42

Outstanding warrants at December 31, 2007 are as follows:

<b>Number of warrants</b>	<b>Exercise price</b>	<b>Expiry</b>
25,000,000	\$0.65	March 2009
300,000	\$1.25	November 2009
300,000	\$0.80	March 2012
25,600,000		

Outstanding other options at December 31, 2007 are as follows:

<b>Number of other options</b>	<b>Exercise price</b>	<b>Expiry</b>
1,190,500	\$0.42	March 2008
869,695	\$0.42	April 2008
357,625	\$0.42	May 2008
2,417,820		

**BioSyntech, Inc.**

A development stage company

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

Periods ended December 31, 2007 and 2006

(in Canadian dollars)

**4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd)****e) Loss per share**

The diluted loss per share is not presented, because the effect of options, other options and warrants is anti-dilutive. Furthermore, for the three-month period ended December 31, 2007, the exercise of 6,460,500 stock options (4,500,000 in 2006), of 2,417,820 other options (2,417,820 in 2006) and of 25,600,000 warrants (25,382,437 in 2006) is not considered in such calculations as the exercise price of these instruments was higher than the market average price. It is the same for the nine-month period ended December 31, 2007, the exercise of 6,460,500 stock options (4,500,000 in 2006) and 25,600,000 warrants (25,382,437 in 2006) is not considered in such calculations for the same reason.

**5. STOCK-BASED COMPENSATION**

For the nine-month ended December 31, 2007, the Company recorded total stock-based compensation of \$262,114 related to stock options granted to employees and directors after April 2002 (\$335,056 in 2006) and \$49,683 for stock options granted to consultants (nil in 2006). The weighted average fair value per share for each option granted is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions for the periods ended December 31:

	<b>2007</b> <b>(in percentage)</b>	<b>2006</b> <b>(in percentage)</b>
Expected life (in years)	<b>5.00</b>	4.22
Risk-free interest rate	<b>4.30</b>	4.13
Volatility	<b>71.73</b>	65.16
Expected dividend yield	<b>Nil</b>	Nil

Dividend yield was excluded from the calculation, since it is present policy of the Company to retain all earnings to finance operations.

The following table summarizes the weighted average grant-date fair value per share for options granted during the nine-month periods ended December 31, 2007 and 2006:

	<b>Number of options</b>	<b>Weighted average grant-date fair value</b>
December 31, 2007	1,862,500	\$0.30
December 31, 2006	979,000	\$0.21

**BioSyntech, Inc.**

A development stage company

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

Periods ended December 31, 2007 and 2006

(in Canadian dollars)

**6. STATEMENTS OF CASH FLOWS****Non-cash information**

Non-cash financing and investing activities included in accounts payable are as follows:

	<b>December 31, 2007 (CA\$)</b>	March 31, 2007 (CA\$) (audited)
Patents and trademarks	<b>21,192</b>	15,825
Property, plant and equipment	<b>1,081</b>	9,214
Debt issue costs	—	16,515

**7. ACCUMULATED OTHER COMPREHENSIVE LOSS**

	<b>2007 CA\$</b>	2006 CA\$
Balance, March 31	—	—
Impact of adopting the new accounting policy regarding financial instruments – unrealized loss on short-term investments	<b>(2,573)</b>	—
Unrealized gain on available-for-sale short-term investments	<b>2,573</b>	—
<b>Balance, December 31</b>	<b>—</b>	<b>—</b>

**8. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current period.