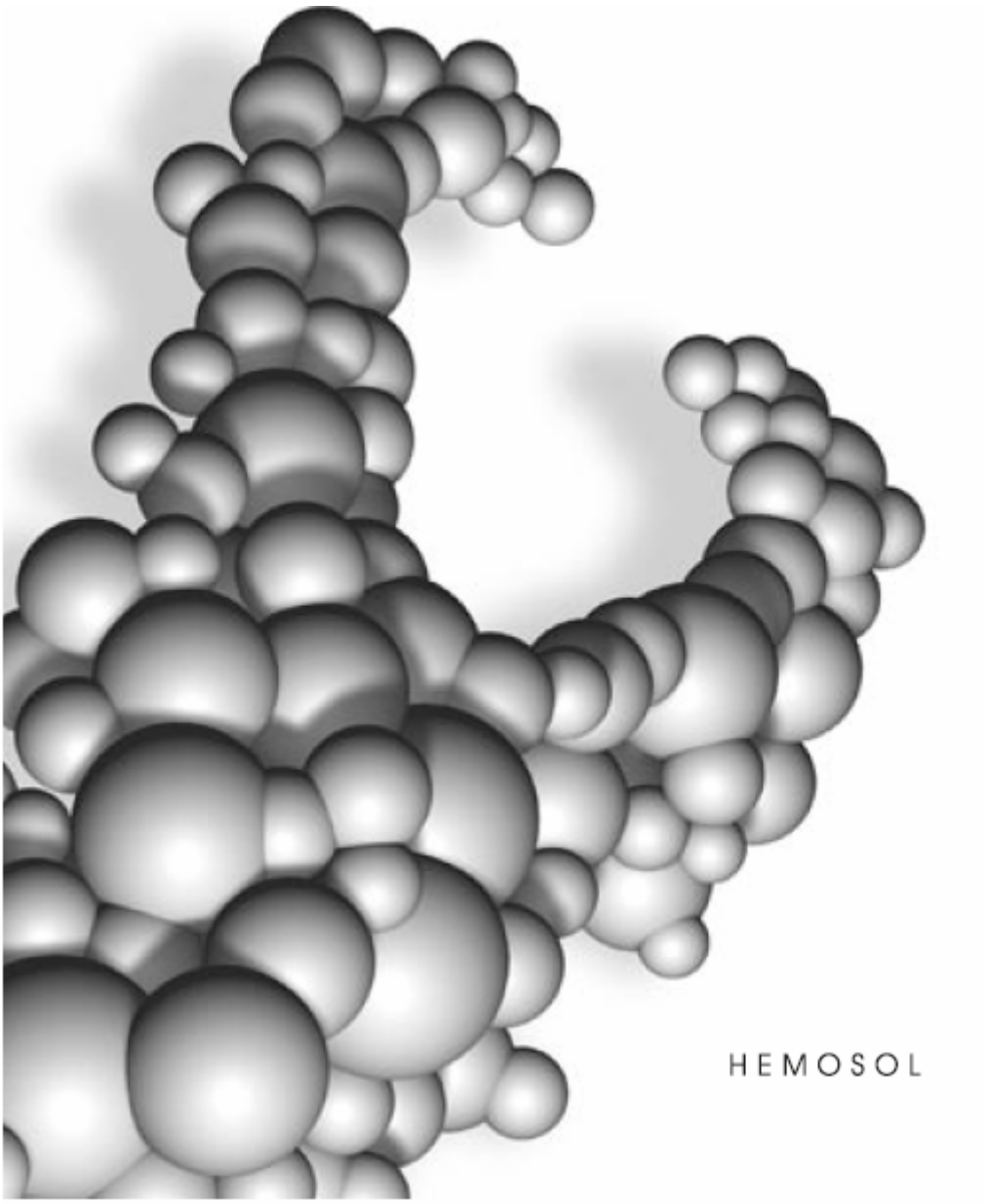
HEMOSOL

LETTER TO SHAREHOLDERS
For the period ended September 30, 2005

Dear Shareholders:

While the third quarter was a period of significant technical and operational success it has been a major disappointment in terms of securing the financial resources the company needs to realize on its significant potential. Operationally:

- We continued to successfully scale-up the Cascade to meet the requirements for clinical trial activity and completed the design of the Cascade's secondary processes which are key to both clinical and commercial activity;

- We established excellent working relationships with potential key customers for Cascade products; and

- We received FDA guidance in two key areas – first, we established the regulatory path for our planned IGIV product that would have put us on track to file an Investigational New Drug application ("IND") for a phase III clinical trial in April, 2006 and second, we obtained clear directions on the development of our second generation hemoglobin-based oxygen carrier that would put us on track for the necessary pre-clinical studies in support of an IND for a phase I clinical trial; and

- We have advanced discussions with several potential partners and investors for the development of our pipeline products, notably our drug delivery technology and a monoclonal antibody-based therapy intended for the treatment of Epo, non-responsive anemia.

In order to preserve our remaining cash and allow us to continue to seek a financing or strategic transaction that would deliver value to our stakeholders, subsequent to quarter-end, we issued layoff notices to approximately two-thirds of our staff. As a result, we also suspended the provision of bio-manufacturing services and reached a mutual agreement with Organon Canada Ltd. to terminate the Supply and Manufacturing Agreement we entered into on September 28, 2004. This termination is effective immediately and without penalty to either party.

Despite significant uncertainty surrounding the Company's immediate future, our belief in the commercial potential of our therapeutic protein initiative and our portfolio of pipeline products is stronger than ever. We have conducted numerous runs of the Cascade technology and the results have consistently exceeded our expectations. Similarly, there have been significant advances in our pipeline which bodes well for the licensing, partnering and independent funding discussions underway. We continue to pursue a number of strategic initiatives and we have also begun discussions with our secured creditors with respect to our financial position and steps that may be available to preserve maximum value.

On a personal note, I want to thank all of our employees who have worked diligently and with limited resources to achieve extraordinary results. Our inability to date to secure adequate financing is in no way a reflection of their efforts nor the potential of our technology. Our state-of-the-art facility and the underlying technology belong as part of Canada's biotechnology future. We will continue to work through the current challenges with the goal of resuming full operations in order to realize the full commercial potential of our people, technology, pipeline and therapeutic protein initiative.

Yours truly,

Lee Hartwell
President and CEO

November 9, 2005

November 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE PERIOD ENDED SEPTEMBER 30, 2005 ("Q3" or the "Third Quarter)

The following information should be read in conjunction with the Company's unaudited Consolidated Financial Statements and Notes included in this Quarterly Report and should also be read in conjunction with the audited Consolidated Financial Statements and Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Hemosol Corp.'s 2004 Annual Report. The Company's external auditors have not reviewed its third quarter interim consolidated financial statements or Management's Discussion and Analysis..

Note: All figures discussed in this section are stated in Canadian dollars except where noted and all references to "Common Shares" refer to the common shares of the Company.

THE COMPANY

Hemosol Corp. ("Hemosol or the Company") is a specialty biopharmaceutical company focused on the discovery, development and manufacture of therapeutic blood proteins. The Company was incorporated on February 24, 2004 under the Business Corporations Act (Ontario) and is the successor to the business of LPBP Inc. (formerly, Hemosol Inc.), which was incorporated on July 11, 1985 under the Business Corporations Act (Ontario). On April 30, 2004, the Company concluded a Plan of Arrangement (the "Arrangement") involving Hemosol Inc. (which was renamed LPBP Inc. after the Arrangement became effective), its security holders and MDS Inc ("MDS"). All of Hemosol's business is conducted through, and all of Hemosol's assets are held by Hemosol LP, a limited partnership. Hemosol is the general partner of Hemosol LP and LPBP Inc. is the limited partner. Hemosol owns approximately 93% interest in Hemosol LP and LPBP Inc. has approximately 7% interest in Hemosol LP.

Hemosol's Common Shares are listed on the Toronto Stock Exchange (the "TSX") under the symbol HML and on the NASDAQ National Market ("NASDAQ") under the symbol HMSL. On June 7, 2005, the Company filed articles of amendment for the consolidation of the Company's Common Shares on the basis of one post-consolidation share for four pre-consolidation shares. All amounts in this quarterly report reflect the post-consolidation Common Shares and post-consolidation Common Share price unless otherwise noted.

RECENT EVENTS

Financing Activities

During the Third Quarter the Company announced that it had entered into an agreement with an agent under which a syndicate sought to market, on a "best efforts" basis, a private placement of units consisting of one common share and one common share purchase warrant. The syndicate was provided with a mandate to raise up to $10 million with an agents' option to raise up to an additional $5 million for a total of up to approximately $15 million. The successful completion of this private placement is necessary given that the Company requires additional capital to continue as a going concern. Both during the third quarter and subsequent to quarter-end, the Company held several discussions with potential investors in connection with its proposed private placement financing but no commitments have been obtained to date. The Company has also held discussions with several parties in connection with potential strategic transactions but no commitments have been obtained to date. No assurance can be given that the Company will be able to complete any such transactions given its current financial resources and the Company is in discussions with its secured creditors with respect to its current financial position and steps that may be available to preserve maximum value.

Cash Conservation

Subsequent to quarter-end on October 28, 2005 the Company served approximately two thirds of its employees with layoff notices. The layoffs were necessary in order for the Company to conserve its remaining cash in order to continue to pursue potential strategic relationships and various financing options. As a result of this significant reduction in the size of the Company's workforce and limited financial resources, the Company has scaled-back activities and extended the timeline for implementation of the Cascade (as defined below). Implementation of the Cascade is wholly dependant on the receipt of additional funding and/or consummation of a strategic transaction. The Company also suspended the provision of bio-manufacturing services to third parties and, accordingly, effective November 8, 2005, the Company and Organon Canada Ltd. mutually agreed to terminate the Manufacturing and Supply Agreement dated September 24, 2005. This termination was implemented without additional cost or penalty to either party.

NASDAQ Listing

On November 3, 2005 the Company received a letter from NASDAQ informing it that it was not in compliance with the minimum bid price of U.S.$1.00 per Common Share during the 30 consecutive business days preceding such date and that it had 180 days, or until May 2, 2006, to regain compliance. A failure to do so, could result in the de-listing of the Company's Common Shares from the NASDAQ.

OVERVIEW

Prior to the layoffs noted above, the Company was in the process of implementing a separation process that uses a novel technology (called affinity chromatography) to recover valuable therapeutic proteins from human plasma. This process is referred to as the "Cascade". As a result of the recent significant reduction in the size of the Company's workforce and limited financial resources, the Company has scaled-back activities and extended the timeline for implementation of the Cascade. Implementation of the Cascade is wholly dependant on the receipt of additional funding and/or consummation of a strategic transaction. The Company also suspended the provision of bio-manufacturing services to third parties

The Company obtained exclusive North American rights for the implementation of the Cascade and commercialization of plasma-based therapeutic protein products derived using the Cascade as part of a strategic alliance with ProMetic Biosciences Inc. ("ProMetic") that was finalized in June 2004. As of March 31, 2005, a pilot or 30-litre scale process of the Cascade was successfully implemented at the Company's state-of-the-art Meadowpine manufacturing facility (the "Meadowpine Facility"). Provided that sufficient funding is obtained, efforts for the balance of 2005 and 2006 will focus on implementation of the Cascade on a clinical scale, following which:

- Investigational New Drug ("IND") applications related to the three initial lead proteins will be prepared for submission to the U.S. Food and Drug Administration ("FDA"), followed by
- Clinical development, trial activity and full commercial scale-up of the Cascade process.

The Company has chosen Immune Globulin Intravenous 10% ("IGIV") as the first protein product to advance through the clinical development and regulatory process in order to seek approval to commence commercial production. IGIV is comprised of naturally occurring antibodies that are normally produced in the human body, however, in some cases patients cannot produce sufficient quantities of these antibodies and are required to receive IGIV infusions every 3 to 4 weeks to avoid infectious diseases. The intended clinical development plan for Hemosol's IGIV protein product will begin with FDA acceptance of an IND, followed by a pivotal trial in patients diagnosed with Primary Immune Deficiency disease. Patients will be dosed for approximately 12 months and results will be compared to historical controls. The Company reviewed these clinical development plans with the FDA in early August 2005. During these discussions the FDA agreed with the Company's basic proposed clinical development plans while offering additional valuable guidance. If clinical development of the Company's IGIV product is completed successfully in line with these discussions the clinical data would support the approval of a Biological License Application for the treatment of patients with Primary Immune Deficiency. Upon successful completion of this regulatory program, a commercial product may be available for launch in 2008. Concurrently with IGIV

the Company also intends to pursue regulatory approval for two other key therapeutic protein products: Alpha 1 Proteinase Inhibitor and von Willebrand Factor/Factor VIII. The Company had expected to file INDs and commence pivotal trials for each of these additional drug candidates in 2006, however given the Company's limited resources, this timeline may not be possible to achieve. As previously stated, the Company has completed pre-commercial pilot scale runs for the extraction of all three protein products at a 30-litre scale and results to date have demonstrated increased production yields of all three protein products. The Company estimates that after final processing these yields will range from 30 - 375% greater than current industry averages depending on the protein.

The Company is undertaking a number of strategic options with respect to generating the necessary capital required to execute its therapeutic protein initiative. These activities include continuing to pursue discussions with strategic and financial partners in addition to raising the requisite funds by way of the capital markets. During the third quarter, the Company's monthly cash used in operating activities was approximately $1.4 million, exclusive of any milestone payments that may come due pursuant to the ProMetic license agreement. Following the layoff of employees and suspension of bio-manufacturing services and scaled back implementation of the Cascade noted above, the monthly burn has been reduced to approximately $0.4 million

In addition to the implementation of the Cascade, the Company maintains a portfolio of early-stage protein-based therapeutics to treat cancer, anemia and certain infectious diseases. The Company is actively pursuing alternative funding and licensing agreements to further advance this portfolio.

Prior to entering into the strategic alliance with ProMetic in June 2004, the Company's principal focus had been on the development of HEMOLINK™ (hemoglobin raffimer) ("HEMOLINK™"), a highly purified, human-derived oxygen therapeutic product (historically termed a "blood-substitute"). HEMOLINK™ was prepared through a series of steps involving hemoglobin purification and chemical modification, reducing the risk of viral contamination compared to a unit of donor red blood cells ("RBC").

There was a significant effort by the Company in 2004 to modify HEMOLINK™ and to investigate its effects in pre-clinical studies. These studies were largely conducted and completed in 2004 in preparation for discussion with the FDA that was subsequently held in March 2005. This meeting helped to clarify further pre-clinical development required for HEMOLINK™ prior to the re-initiation of clinical trials. Based upon a combination of the outcome of this meeting, the nature of the product changes required and the resources and new focus of the Company, Hemosol has elected to pursue HRC 101 as a more cost effective, late pre-clinical product for development in this sector, subject to available resources. HRC 101 is targeted at high volume blood loss indications as may occur during emergency blood loss situations where the life saving quality of the product may be most effectively demonstrated. Hemosol's extensive drug development experience in and understanding of, the field from the technical, regulatory and clinical perspective has been fully captured in the design of this next generation oxygen therapeutic, positioning the Company to compete effectively in this sector.

Data from studies conducted by Hemosol and its collaborators on the Company's second generation hemoglobin based oxygen carrier (commonly known as an "HBOC") HRC 101, were presented at the International Society of Blood Substitutes meeting in Rhode Island in June. These studies have helped to define the required performance criteria in terms of the safety and efficacy for HRC 101 and have lead to the selection of the optimal formulation for further development. In the third quarter of 2005, Hemosol had a meeting with the FDA to review the development plan in support of human clinical trials. As a result of this meeting, the Company obtained clear direction on the necessary pre-clinical studies required to support an IND for a phase I clinical trial. Hemosol is actively seeking partners for clinical and commercial development of HRC 101 in clinical indications where the life saving qualities of this class of product may be best demonstrated and in jurisdictions where blood availability may be limited.

Other developments in the pipeline, while currently being maintained, include the advancement of the hemoglobin-based drug delivery technology and the advancement i of cell therapeutics.

2005 Financing Transactions

On March 30, 2005 the Company entered into agreements related to private placement transactions resulting in gross proceeds to the Company of approximately $13.4 million. These agreements included (i) a securities purchase agreement providing for the issuance to Laurus Master Fund, Ltd. ("Laurus") of a U.S. $5 million convertible note and a warrant to purchase 682,280 Common Shares, and (ii) an agency agreement and subscription agreements relating to the sale of 10,945,746 special warrants by the Company. The closing of the private placement transactions occurred on April 8, 2005. These transactions are described below.

Special Warrant Issue

On March 30, 2005, Hemosol entered into an agency agreement providing for the sale (the "Special Warrant Offering") of 10,945,746 special warrants (the "Special Warrants") through Loewen, Ondaatje, McCutcheon Limited ("LOM") and Life Science Group, Inc. ("LSG" and, together with LOM, the "Agents"), as agents. The Special Warrants were issued on April 8, 2005 at a purchase price of $0.67 each for gross proceeds of $7,334. Each Special Warrant entitled the holder to acquire, at no additional cost, one quarter of a Common Share and one quarter of a Common Share purchase warrant of the Company (a "Warrant"). As a result a total of 2,736,436 Common Shares and 2,736,436 Warrants were issued upon exercise of the Special Warrants. Each Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $4.00 per Common Share at any time prior to April 8, 2010. A prospectus qualifying the distribution of the Common Shares and Warrants underlying the Special Warrants was filed on June 20, 2005. Any Special Warrants that remained unexercised on June 27, 2005 were automatically exercised, without any further action on the holder's part on that date.

As partial compensation for their services, the Agents received broker's warrants entitling each of the Agents to acquire, without additional consideration, that number of compensation options equal to 5% of the number of Special Warrants sold by such Agent pursuant to the Special Warrant Offering. A total of 547,287 broker warrants exercisable into 547,287 compensation options were issued to the Agents. Every four compensation options exercised by the holder thereof entitles the holder to purchase one Common Share and one Warrant at a price of $2.68 at any time prior to April 8, 2010. In addition, LSG acted on behalf of Hemosol in the solicitation of the Laurus Placement (as defined below) and in partial consideration for such services received Warrants to purchase an additional 18,116 Common Shares.

Laurus Placement

On March 30, 2005, the Company entered into a securities purchase agreement (the " Securities Purchase Agreement") with Laurus, pursuant to which Hemosol issued to Laurus on April 8, 2005, on a private placement basis (the "Laurus Placement"), a convertible note (the "Laurus Note") collateralized by a second charge over all of Hemosol's assets, other than its rights to HEMOLINK. The Laurus Note in the principal amount of U.S. $5 million has a term of three years, and is convertible into Common Shares at a conversion price per Common Share (the "Conversion Price") equal to U.S. $2.76, subject to adjustment in accordance with the terms of the Laurus Note. The Laurus Note bears interest at a rate equal to the prime rate plus 2% (subject to adjustments), and principal repayment will not commence until the tenth month of the term. Interest and principal under the Laurus Note may be paid in Common Shares if certain conditions are met and the rate of interest will be decreased in stages if the market price of the Common Shares appreciates to specified levels. The Laurus Note provides that if Hemosol issues any Common Shares or securities convertible into Common Shares to a person other than Laurus at any time prior to the conversion or repayment in full of the principal amount of the Laurus Note (subject to certain exceptions) for a consideration per Common Share that is lower than the Conversion Price, the Conversion Price shall be reduced to such lower consideration.

In addition, pursuant to the Securities Purchase Agreement, Hemosol issued to Laurus a warrant (the "Laurus Warrant") to purchase 682,280 Common Shares exercisable within five years, 366,140 of which have an exercise price of U.S. $3.44 per Common Share and 316,140 of which have an exercise price of U.S. $4.16 per Common Share, and all of which are subject to certain adjustments.

Extension of Loan

On March 30, 2005, Hemosol entered into an amended and restated commitment letter (the "Amended and Restated Commitment Letter") with The Bank of Nova Scotia (the "Bank") pursuant to which the Bank extended the term of the $20 million loan (the "Loan") of Hemosol LP, from May 25, 2005 to May 25, 2007, conditional upon the MDS Guarantee Extension (as defined below). In addition, the Bank extended to the Company a "bulge facility" which is a temporary increase in the size of the credit facility of up to an additional $1 million. A total of $500,000 was drawn down under this bulge facility on April 4, 2005 and then re-paid on April 8, 2005 with a portion of the proceeds from the financing transactions. A fee of $100,000 was paid to the Bank in consideration of the extension of the Loan.

Extension of MDS Guarantee

On March 30, 2005, Hemosol also entered into a memorandum of understanding with MDS (the "MDS Memorandum") pursuant to which MDS agreed to extend the term of its guarantee of the Loan from June 20, 2005 to June 20, 2007 (the "MDS Guarantee Extension") in consideration for the issuance of a warrant to acquire 687,500 Common Shares, the granting of certain additional covenants by Hemosol and the entering into of a registration and sale participation rights agreement (the "Registration Agreement"). The Registration Agreement provides that if Hemosol raises net proceeds from any financing through the issuance of securities which generates in excess of U.S. $35 million where:

- Such financing is by way of a public offering which includes the filing of a prospectus (a "Prospectus Offering"), Hemosol will grant to MDS the right to qualify the Common Shares and/or warrants held by MDS ("MDS Held Securities") under the same prospectus; and
- in the event of a private placement (a "Private Placement") of securities of Hemosol, MDS will have the right to sell a portion of the MDS Held Securities to the purchasers of such Private Placement; provided that in each case the aggregate price of the MDS Held Securities required to be qualified for sale or to be sold by MDS, as applicable, will not exceed 20% of the aggregate price of the securities being offered under such Prospectus Offering or Private Placement. In addition, where the managing underwriter or lead agent selected for any Prospectus Offering or Private Placement determines in good faith that marketing factors require a limitation on the number of the securities to be qualified or issued, Hemosol may exclude from the prospectus or Private Placement, as applicable, the number of MDS Held Securities which, when combined with the number of Hemosol securities, would exceed such limitation.

In connection with the MDS Memorandum, on April 8, 2005, Hemosol entered into a subscription agreement with MDS governing the issuance by Hemosol to MDS of a warrant to purchase 687,500 Common Shares (the "MDS Warrant"). The MDS Warrant, which was issued to MDS on April 8, 2005, has an exercise price of $3.36 per Common Share (subject to adjustments in accordance with its terms) and a term of five years from the date of issue. One half of the MDS Warrant vested immediately upon issuance thereof and the remaining one half will vest in equal portions on the 20th day of each calendar month, commencing on June 20, 2005 and ending on May 20, 2007 or such earlier date as the MDS Guarantee Extension is terminated, at which time the MDS Warrant will fully vest.

ProMetic Issuance

On March 30, 2005 and April 6, 2005, Hemosol and ProMetic entered into amendments (the "ProMetic License Amendments") to the license agreement between Hemosol and ProMetic dated June 1, 2004. Pursuant to these amendments, the $4 million milestone payment, which was due to ProMetic as a result of

the successful implementation of the Cascade process at the 30-litre pilot scale, has been replaced with a cash payment of $1.1 million and the issuance to ProMetic of 872,093 Common Shares.

Strategic Alliance with ProMetic

During the first quarter, the Company achieved its first milestone under the license agreement with ProMetic relating to the attainment of the 30-litre pilot-scale production with the Cascade at targeted yields. In accordance with the license agreement, on achievement of this milestone, Hemosol was to have made a cash milestone payment of $4 million to ProMetic. In accordance with the ProMetic License Amendments the Company settled the $4 million milestone payment with a cash payment of $1.1 million and the issuance to ProMetic of 872,093 Common Shares, reducing the total payment under all remaining milestone payments to $10 million. The Company will require further capital to allow it to make the remaining milestone payments.

As part of the strategic alliance with ProMetic, ProMetic is the exclusive supplier of affinity absorbents, or ligands, referred to herein as "resins", which are necessary for the isolation and purification of proteins from plasma using the Cascade, and ProMetic has agreed to supply such resins on commercially reasonable terms and in quantities sufficient to meet all requirements.

Bio-Manufacturing

Prior to the layoff of employees and conservation of cash resources noted above, Hemosol was actively pursuing opportunities to generate revenues over the short to mid-term by using its new sterile vial filling suite to provide bio-manufacturing services to companies in the biotechnology sector. Hemosol believes that there is demand for these services and subject to receipt of additional funding, the Company intends to continue to pursue these opportunities.

Organon

On September 28, 2004, the Company announced that it had entered into a manufacturing and supply agreement (the "Supply Agreement") with Organon Canada Ltd. ("Organon). As a result of the suspension of bio-manufacturing activity, effective November 8, 2005 the Company and Organon mutually agreed to terminate the Supply Agreement. This termination was implemented without additional cost or penalty to either party.

NASDAQ Listing

On June 21, 2004 the Company received a letter from NASDAQ informing it that it was not in compliance with the minimum bid price of U.S.$1.00 per Common Share during the 30 consecutive business days preceding such date and that it had 180 days, or until December 20, 2004, to regain compliance. On December 21, 2004, the Company received a letter from NASDAQ informing it that, although the Company had not regained compliance with the minimum bid price requirement, since it met NASDAQ's initial inclusion criteria, it would be provided with an additional 180 days, or until June 16, 2005, to regain compliance. On June 7, 2005, the Company filed articles of amendment for the consolidation of its Common Shares on the basis of one post-consolidation Common Share for every four pre-consolidation Common Shares and since June 10, 2005 the Common Shares have been trading on a post-consolidation basis. On June 24, 2005, the Company was informed by NASDAQ that it had regained compliance with the minimum bid price requirement. On November 3, 2005 the Company received a letter from NASDAQ informing it that it was not in compliance with the minimum bid price of $U.S. 1.00 per Common share during the 30 consecutive business days preceding such date and that it had 180 days, or until May 2, 2006, to regain compliance.

Share Consolidation

On June 7, 2005, the Company filed articles of amendment for the consolidation of the Company's Common Shares on the basis of one post-consolidation share for four pre-consolidation shares. This consolidation was undertaken to bring the Company into compliance with the minimum bid requirement of NASDAQ and retain its NASAQ listing. The Common Shares started trading on a consolidated basis on the TSX and NASDAQ on June 10, 2005. All amounts in this quarterly report reflect the post consolidated

Common Shares and post consolidation Common Share prices unless otherwise noted.

RESULTS OF OPERATIONS

FOR THE PERIOD ENDED SEPTEMBER 30, 2005

Net Loss

For the quarter ended September 30, 2005 the Company had a net loss of $6.1 million or $0.35 per share, compared with a net loss for the quarter ended September 30, 2004 of $3.6 million or $0.25 per share.

Included in this quarter's results were spending related to the Supply Agreement with Organon, amortization of non-cash deferred charges of $0.2 million related to financing costs and additional depreciation of $1.0 million as a result of the Company starting to amortize the technical equipment it deemed available for use in the first quarter of 2005. These costs were partially offset by the recording of minority interest of $0.5 million, as a result from the 7% partnership interest held by LPBP Inc. in Hemosol LP and $0.4 million of revenue related to the Supply Agreement with Organon. The net loss for the quarter ended September 30, 2004 included non-cash stock based compensation expenses of $1.4 million offset by the reversal of a future tax liability of $2.0 million related to the April 2004 Plan of Arrangement primarily as a result of accumulated tax losses.,

Revenue

Our revenue was derived from the sale of the Hepalean product related to the Supply Agreement with Organon of $0.2 million , Organon's portion of performance qualification costs of $0.1 million and a sale of purified Hemoglobin of $0.1 million.

Operating Expenses

The Company's operating expenses consist of research and development expenses, manufacturing start-up and overhead expenses, administration, marketing and business development, and support services expenses.

Research and development expenses are comprised of scientific and process development expenses, and regulatory and clinical expenses. Scientific and process development expenses include expenses incurred in connection with basic and applied research, including all pre-clinical trial activity, the optimizing of the manufacturing process and the costs of producing materials for clinical trials as well as manufacturing start-up and validation costs for our commercial fill-finish operations. Regulatory and clinical expenses are comprised of costs associated with the Company's ongoing and planned clinical trials and its current and planned regulatory development.

Administration expenses are comprised of executive management and administrative costs, including all costs related to being a public registrant in the U.S. and Canada, as well as directors and officers insurance and human resource development costs.

Marketing and business development costs are comprised of business development costs associated with contract manufacturing and pipeline partnering activities.

Support services include the cost of information technology, security, materials management, and purchasing.

Total operating expenses increased from $5.6 million for the quarter ended September 30, 2004 to $5.7 million for the quarter ended September 30, 2005 an increase of $0.1 million, bringing operating expenses for the nine months ended September 30, 2005 to $18.0 million compared with $13.6 million for the same period in the prior year. This increase for the nine month period results from the recording of an additional

$3.1 million in depreciation for the technical equipment that is now deemed available for use, for increased bio-manufacturing initiatives, specifically related to the Supply Agreement with Organon, and increased activity in support of the issuance of the Establishment License by Health Canada which occurred on June 30, 2005.

Scientific and Process Development Expenses

Scientific and process development expenses increased from $3.3 million for the quarter ended September 30 2004, to $4.1 million for the quarter ended September 30, 2005, an increase of $0.8 million. This brought scientific and process development expenses for the nine months ended September 30, 2005 to $13.7 million compared to $7.9 million for the same period in the prior year. This increase was mainly due to increased activity related to the Company's bio-manufacturing initiatives, specifically related to the Supply Agreement with Organon and costs related to the requisite validation and licensing of the Meadowpine Facility by Health Canada. Included in this amount is additional depreciation of approximately $3.1 million for the technical equipment that is now deemed available for use.

Regulatory and Clinical Expenses

Regulatory and clinical expenses decreased from $0.4 million for the quarter ended September 30, 2004 to $0.2 million for the quarter ended September 30, 2005, a decrease of $0.2 million. This brought regulatory and clinical expense for the nine months ended September 30, 2005 to $0.8 million compared with $1.0 million for the same period in the prior year. These costs represent routine baseline regulatory and clinical support activities.

Administration Expenses

Administration expenses decreased from $1.4 million for the quarter ended September 30, 2004 to $1.2 million for the quarter ended September 30, 2005, a decrease of $0.2 million. This brought administration expenses for the nine months ended September 30, 2005 to $2.6 million compared to $3.6 million for the same period in the prior year. This decrease was due primarily to lower stock-based compensation expense of $1.0 million in the current period.

Marketing and Business Development Expenses

Marketing and business development expenses decreased slightly for the quarter ended September 30, 2005, a decrease of $0.04 million. This brought marketing and business development expenses for the nine months ended September 30, 2005 to $0.7 million compared with $0.6 million for the same period in the prior year. This increase primarily resulted from increased activity for business development costs associated with the bio-manufacturing initiative and partnering activities related to the drug development pipeline.

Amortization of Deferred Charges

Amortization of deferred charges for the quarter ended September 30, 2005, was $0.2 million, which represents charges related to a portion of the warrants issued to MDS, a related party, in relation to the $20 million credit facility for its guarantee of the Loan as well as charges related to the convertible debt issued on April 8, 2005. This brought amortization of deferred charges for the nine months ended September 30, 2005 to $0.8 million compared with $1.8 million for the same period in the prior year. The financing costs in the prior year of $1.8 million related to the plan of arrangement with MDS under which the Company, through a re-organization of the Company's business and certain MDS diagnostic assets, exchanged a significant portion of its existing accumulated future tax assets for a $16.0 million cash infusion.

Interest and Accretion Expense

Net interest expense increased from $0.2 million for the quarter ended September 30, 2004 to $0.6 million for the quarter ended September 30, 2005, an increase of $0.4 million. This brought net interest expense for the nine months ended September 30, 2005 to $1.5 million which includes an accretion expense of $0.4 million, compared with $0.7 million for the same period in the prior year with no accretion expense. This increase was a result of interest being paid and accreted on the convertible debt.

Each month, the Company is required to recognize accretion interest on the carrying value of the Note such that the carrying value of the Note on March 30, 2008 will equal the amount of its final principal payment of U.S.$2.7 million due on that date. To date the Company has recognized $0.4 million in accreted interest expense.

Net gain on Arrangement

The Net gain for the period ended June 30, 2004 is related to the Arrangement. The net gain on this transaction amounted to $6.8 million and is comprised of cash received of $16.0 million and the fair value of the 0.5% interest in LPBP Inc. amounting to $0.3 million less the 7% minority interest in Hemosol LP owned by LPBP Inc. of $6.2 million, future tax liabilities that arose because of the transaction amounting to $3.7 million and the transaction costs of $2.1 million.

Minority Interest

The Minority Interest results from the 7% partnership interest held by LPBP Inc. in Hemosol LP.

CASH FLOW

Operating Activities

The cash used by operating activities increased from $3.4 million for the quarter ended September 30, 2004 to $3.9 million for the quarter ended September 30, 2005, an increase of $0.5 million. This brought cash used by operating activities for the nine months ended September 30, 2005 to $13.9 million compared with $11.6 million for the same period in the prior year. This increase in cash used by operating activities related to the Company's bio-manufacturing initiatives, specifically related to the Supply Agreement with Organon, costs related to the requisite validation and licensing of the Meadowpine Facility by Health Canada and the timing of payment of outstanding payables.

Investing Activities

The cash used in investing activities for the nine months ended September 30, 2005 was a result of the Company achieving the first milestone relating to the attainment of the 30-litre-pilot scale production with the Cascade at targeted yields. In accordance with the license agreement, on achievement of this milestone, Hemosol was to make a cash payment of $4.0 million to ProMetic. As noted above in the section "2005 Financing Transactions" Hemosol and ProMetic amended the license agreement, and Hemosol settled the $4.0 million milestone payment with the payment of $1.1 million in cash and the issuance to ProMetic of 872,093 Common Shares.

The cash provided by investing activities for the nine months ended September 30, 2004 was a result of completing the Arrangement, for which the Company received $15.0 million ($12.9 million net of transaction expenses) from LPBP Inc. The cash used in investing activities related to the payment of $1.5 million to ProMetic upon signing a definitive license agreement.

Financing Activities

For the quarter ended September 30, 2005 the escrowed funds of $1.0 million related to the Arrangement were released on August 15, 2005.

For the nine months ended September 30, 2005 the Company received gross proceeds of $7.3 million (net $6.1 million) associated with the issuance of Common Shares under the private placement agreement. In addition the Company also received U.S.$5 million for the issuance of the convertible debt.

Deferred Charges

Deferred charges for the nine months ended September 2005 related to costs associated with the extension of the MDS Guarantee and the issuance of a U.S.$5 million convertible note (see 2005 Financing Transactions above).

Quarterly Financial Data

(Thousands of dollars)

	2005			2004				2003
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	9/30	6/30	3/31	12/31	9/30	6/30	3/31	12/31
Revenue	372	-	-	-	-	-	-	-
Loss from operations	5,697	6,610	5,704	5,019	5,603	4,518	3,463	10,411
Net loss (income) for the period	6,081	6,918	5,855	4,486	3,596	(2,929)	4,995	10,947
Net loss (income) for the period per common share	0.35	0.39	0.40	0.32	0.24	(0.21)	0.36	0.88

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2005 the Company had $0.8 million of cash and cash-equivalents.

On March 30, 2005 the Company entered into agreements related to private placement transactions resulting in gross proceeds to the Company of approximately $13.4 million. These agreements included (i) a securities purchase agreement providing for the issuance to Laurus of a U.S.$5 million convertible note and a warrant to purchase 682,280 Common Shares, and (ii) an agency agreement and subscription agreements relating to the sale of 2,736,436 special warrants of the Company. The closing of the private placement transactions occurred on April 8, 2005. These transactions are described in the 2005 Financing Transactions above. The proceeds from this transaction allowed the Company to meet its short term cash flow requirements to the fourth quarter of 2005.

Hemosol has held several discussions with potential investors in connection with its proposed private placement financing but no commitments have been obtained to date. Hemosol has also held discussions with several parties in connection with potential strategic transactions but no commitments have been obtained to date. No assurance can be given that Hemosol will be able to complete any such transactions given its current financial resources. On October 28, 2005, Hemosol served approximately two thirds of its employees with layoff notices. The layoffs are necessary in order for the Company to conserve its remaining cash and to continue to pursue potential strategic relationships and various financing options. However, the successful conclusion of additional financing cannot be predicted at this time which casts substantial doubt on the Company's ability to continue as a going concern.

Hemosol has not been profitable since inception and at September 30, 2005, the Company had an accumulated deficit of $285.1 million.

The Company’s ability to continue as a going concern is dependent upon its ability to secure additional financing in order to be able to continue its development activities and successfully bring its products to market, either on its own or with partners.

CAPITAL EXPENDITURES

In 2004, the Company spent $1.4 million in capital expenditures related to bio-manufacturing activities, of which $1.2 million related to the installation of vial filling equipment and related structural modifications, in anticipation of building its bio-manufacturing services.

For the 2005 fiscal year, the Company invested approximately $0.5 million in capital expenditures related to bio-manufacturing activities.

COMMITMENTS

Long-Term Debt

On October 25, 2002, the Company entered into a credit facility agreement with the Bank in the amount of $20 million. This facility is guaranteed by MDS (the "Guarantee"), a shareholder with greater than 10% shareholding in the Company and is collateralized by a fixed and floating charge over all of the assets of the Company. Under the Guarantee, MDS is subrogated and takes an assignment of the rights and remedies of the Bank under the facility. Borrowings under the facility bear interest at a rate of prime plus 1% per annum, or a bankers' acceptance fee of 2% per annum, with interest payable monthly.

As part of a special meeting of the shareholders that was held on January 22, 2004, the Company was authorized to issue an additional 1,000,000 warrants to MDS. The issuance of the warrants had the effect of extending the expiry date of the facility from October 1, 2004 to May 25, 2005. As part of the Arrangement the 1,000,000 warrants were reduced to 500,000 warrants and issued on August 25, 2004. All of these warrants are now vested.

On April 8, 2005, the Company completed a private placement and a series of related transactions, which included the extension of the Loan and Guarantee to May 25, 2007 and June 20, 2007 respectively. As consideration for the extension, the Company issued 687,500 common share purchase warrants to MDS. For full details, please refer to "2005 Financing Transactions" above.

ProMetic

The Company has agreed to pay ProMetic milestone payments with a maximum aggregate value of approximately $14.0 million. These payments are due and payable by Hemosol to ProMetic upon the achievement of four separate predetermined technical and regulatory milestones.

During the third quarter, the Company achieved the first milestone relating to the attainment of the 30-litre pilot-scale production with the Cascade at targeted yields. In accordance with the license agreement, on achievement of this milestone, Hemosol was to make a cash payment of $4 million to ProMetic. As noted above in the section "2005 Financing Transactions" Hemosol and ProMetic amended the license agreement, and Hemosol settled the $4 million milestone payment with the payment of $1.1 million in cash and the issuance to ProMetic of 872,093 Common Shares.

In addition to the milestone payments, Hemosol will pay ProMetic royalty fees of 8% of net sales of products isolated using the Cascade to resellers and a royalty of 5% of net sales of products isolated using the Cascade to end users, both on a worldwide basis.

OUTSTANDING SHARE DATA

On April 8, 2005, the Company completed a series of transactions including a private placement of securities. For full details, please refer to "2005 Financing Transactions" above. As a result, at September 30, 2005 the Company had 17,907,357 Common Shares outstanding and 8,262,661 outstanding warrants and options and 1,811,594 convertible options.

OUTLOOK

The Company expects to incur further losses from operations until it is able generate commercial revenue from therapeutic proteins derived from the Cascade, currently estimated to commence in 2008.

Subsequent to quarter-end on October 28, 2005 the Company served approximately two thirds of its employees with layoff notices. The layoffs were necessary in order for the Company to conserve its remaining cash in order to continue to pursue potential strategic relationships and various financing options. As a result of this significant reduction in the size of the Company's workforce and limited financial resources, the Company has scaled-back activities and extended the timeline for implementation

of the Cascade. Implementation of the Cascade is wholly dependant on the receipt of additional funding and/or consummation of a strategic transaction. The Company also suspended the provision of bio-manufacturing services to third parties

The Company has also held discussions with several parties in connection with potential strategic and financial transactions but no commitments have been obtained to date. No assurance can be given that the Company will be able to complete any such transactions given its current financial resources and there is substantial doubt that the Company will continue as a going concern. The Company is in discussions with its secured creditors with respect to its current financial position.

The Company continues to pursue a number of strategic and financial opportunities with respect to the commercialization of its pipeline of oxygen therapeutics and drug delivery products.

FORWARD LOOKING STATEMENTS

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, including the difficulty of predicting regulatory approvals, acceptance and demand for new pharmaceutical products, the impact of competitive products and pricing, new product development and launch, reliance on key strategic alliances, availability of raw materials, the regulatory environment, fluctuations in operating results and in other risks. Many risks and uncertainties are inherent in the pharmaceutical industry; others are more specific to the Company. Many of the significant risks related to the Company are described in the Company's 2004 annual report.

Hemosol Corp. [A development stage company][Incorporated under the laws of Ontario]

CONSOLIDATED STATEMENTS OF BALANCE SHEETS

(unaudited and not reviewed by the Company's external auditors.)

See Note 2 - Going Concern Uncertainty

(in thousands of dollars)	**September 30 2005 $**	December 31 2004 $
ASSETS		
Current		
Cash and cash equivalents	**815**	4,230
Cash held in escrow *[note 7]*	-	1,000
Prepaids and other assets	**499**	366
Inventory	**1,817**	1,329
Total current assets	**3,131**	6,925
Property, plant and equipment, net *[note 3]*	**78,986**	83,104
Patents and trademarks, net	**1,081**	1,164
License technology, net *[note 4]*	**8,607**	5,022
Deferred charges, net *[note 5]*	**1,211**	177
Total other assets	**89,885**	89,467
	93,016	96,392
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**2,850**	2,538
Short-term portion of convertible note *[note 8c]*	**350**	-
Short-term debt *[note 8d]*	-	20,000
Total current liabilities	**3,200**	22,538
Long-term debt *[note 8d]*	**20,000**	-
Convertible note *[note 8c]*	**3,862**	-
Minority interest	**3,734**	5,163
Total long term liabilities	**27,596**	5,163
Total liabilities	**30,796**	27,701
Shareholders' equity		
Common shares *[notes 4 and 8a,b]*	**320,294**	311,711
Equity portion related to convertible note *[note 8c]*	**1,453**	-
Warrants and options *[notes 6 and 8a,b,c]*	**16,427**	14,080
Contributed surplus	**9,125**	9,125
Deficit	**(285,079)**	(266,225)
Total shareholders' equity	**62,220**	68,691
	93,016	96,392

See accompanying notes

On behalf of the Board:

Edward E. McCormack
Chairman

Lee Hartwell
Director and Chief Executive Officer

Hemosol Corp. [A development stage company][Incorporated under the laws of Ontario]

CONSOLIDATED STATEMENTS OF LOSS

(unaudited and not reviewed by the Company's external auditors.)

See Note 2 - Going Concern Uncertainty

(in thousands of dollars except per share data)	Three months ended September 30		Nine months ended September 30	
	2005 $	2004 $	**2005 $**	2004 $
REVENUE				
Product sales	**372**	-	**372**	-
EXPENSES				
Cost of goods sold	**216**	-	**216**	-
Research and development				
Scientific and process *[note 3]*	**4,083**	3,298	**13,652**	7,855
Regulatory and clinical	**234**	354	**809**	1,007
Administration	**1,183**	1,446	**2,640**	3,614
Marketing and business development	**240**	284	**690**	597
Support services	**141**	224	**466**	485
Foreign currency translation (gain) loss	**(28)**	(3)	**(90)**	6
Loss from operations	**5,697**	5,603	**18,011**	13,564
Amortization of deferred charges *[note 5]*	**225**	115	**818**	1,823
Interest income	**(5)**	(44)	**(65)**	(128)
Interest expense	**394**	242	**1,084**	746
Net gain on Arrangement	**-**	-	**-**	(6,838)
Accretion in carrying value of convertible note *[note 8c]*	**211**	-	**385**	-
Loss before minority interest and income taxes	**6,522**	5,916	**20,233**	9,167
Minority interest	**(461)**	(424)	**(1,429)**	(680)
Provision for (recovery of) income taxes				
Current	**20**	50	**50**	150
Future	**-**	(1,946)	**-**	(2,975)
Net loss for the period	**6,081**	3,596	**18,854**	5,662
Basic and diluted loss per share	**0.35**	0.25	**1.14**	0.40
Weighted average number of common shares outstanding [000's]	**17,590**	14,286	**16,604**	14,123

See accompanying notes

CONSOLIDATED STATEMENTS OF DEFICIT

(unaudited)

(in thousands of dollars)	Three months ended September 30		Nine months ended September 30	
	2005 $	2004 $	**2005 $**	2004 $
Deficit, beginning of period	**278,998**	258,143	**266,225**	253,177
Net loss for the period	**6,081**	3,596	**18,854**	5,662
Distribution	**-**	-	**-**	2,900
Deficit, end of period	**285,079**	261,739	**285,079**	261,739

See accompanying notes

Hemosol Corp. [A development stage company][Incorporated under the laws of Ontario]

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and not reviewed by the Company's external auditors.)

See Note 2 - Going Concern Uncertainty

[in thousands of dollars]	Three months ended September 30		Nine months ended September 30	
	2005 $	2004 $	**2005 $**	2004 $
OPERATING ACTIVITIES				
Net loss for the period	**(6,081)**	(3,596)	**(18,854)**	(5,662)
Add (deduct) items not involving cash				
Amortization of property, plant and equipment	**1,457**	536	**4,581**	1,646
Amortization of license technology	**165**	100	**415**	187
Amortization of patents and trademarks	**27**	28	**83**	98
Amortization of deferred charges	**225**	115	**818**	1,823
Stock-based compensation	**120**	1,411	**304**	2,464
Accretion in carrying value of convertible note *[note 8d]*	**211**	-	**385**	-
Future income taxes	**-**	(1,946)	**-**	(2,975)
Minority interest	**(461)**	(424)	**(1,429)**	(680)
Net gain on arrangement	**-**	-	**-**	(6,838)
Foreign currency translation (gain) loss	**-**	3	**-**	(6)
	(4,337)	(3,773)	**(13,697)**	(9,943)
Net change in non-cash working capital balances related to operations	**348**	369	**(311)**	(1,630)
Cash used in operating activities	**(3,989)**	(3,404)	**(14,008)**	(11,573)
INVESTING ACTIVITIES				
Patents and trademark costs	**-**	-	**-**	(4)
Purchase of property, plant and equipment	**(8)**	(169)	**(463)**	(424)
Purchase of license technology	**-**	-	**(1,070)**	(1,502)
Proceeds from Arrangement, net of transaction cost	**-**	-	**-**	12,898
Purchase of short term investments	**-**	6,965	**-**	-
Cash provided by (used in) investing activities	**(8)**	6,796	**(1,533)**	10,968
FINANCING ACTIVITIES				
Proceeds on issuance of common shares, warrants and options *[note 8b]*	**-**	-	**6,118**	180
Issuance of convertible debentures *[note 8c]*	**-**	-	**5,633**	-
Increase in deferred charges	**-**	-	**(625)**	-
Proceeds from bulge facility *[note 8d]*	**-**	-	**500**	-
Payment of bulge facility *[note 8d]*	**-**	-	**(500)**	-
Cash released from escrow	**1,000**	-	**1,000**	448
Cash provided by financing activities	**1,000**	-	**12,126**	628
Effect of exchange rates on cash and cash equivalents	**-**	(3)	**-**	6
Net increase (decrease) in cash and cash equivalents during the period	**(2,997)**	3,389	**(3,415)**	29
Cash and cash equivalents, beginning of period	**3,812**	4,765	**4,230**	8,125
Cash and cash equivalents, end of period	**815**	8,154	**815**	8,154

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in thousands, except per share amounts and as noted)

For the three and nine month periods ended September 30, 2005
(unaudited and not reviewed by the Company's external auditors)

1. BASIS OF PRESENTATION

Hemosol Corp. [the "Company" or "Hemosol"] was incorporated on February 24, 2004 under the Business Corporations Act (Ontario) and is the successor to Hemosol Inc. [subsequently renamed LPBP Inc.], which was incorporated on July 11, 1985. The accompanying unaudited consolidated financial statements of the Company have been prepared on a continuity of interest basis from Hemosol Inc.

The Company is a biopharmaceutical company focused on the development and manufacture of biologics, particularly blood-related proteins. The Company is currently in the process of implementing a novel cascade purification process to recover valuable proteins from human plasma, referred to as the "Cascade". The Company was granted exclusive North American rights for the implementation of the Cascade and commercialization of plasma-based therapeutic protein products derived using the Cascade as part of a strategic alliance with ProMetic Biosciences Inc. ["ProMetic"]. The Company intends to leverage its Meadowpine manufacturing facility to produce plasma-based therapeutic protein products using the Cascade.

In addition to the implementation of the Cascade, the Company is continuing to develop a portfolio of protein-based therapeutics to treat certain infectious diseases, cancers and anemia. To date, the Company has not earned significant revenues and is considered to be an enterprise in the development stage.

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to interim financial reporting and do not include all of the disclosures required for annual financial statements. Thus, these unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2004. These interim statements follow the same accounting policies and methods as the annual financial statements. These unaudited interim consolidated financial statements have not been reviewed by our external auditors.

2. GOING CONCERN UNCERTAINTY

These unaudited interim consolidated financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future.

The Company is in its development stage and has incurred cumulative net losses since inception, including a net loss of $12,854 for the nine month period ended September 30, 2005, and an accumulated deficit of $285,079 as at September 30, 2005. As a result, the Company's ability to continue as a going concern is in substantial doubt and is dependent upon its ability to secure additional financing in order to be able to continue its development activities and successfully bring its products to market, either on its own or with partners.

The Company has held several discussions with potential investors in connection with its proposed private placement financing but no commitments have been obtained to date. The Company has also held discussions with several parties in connection with potential strategic transactions but no commitments have been obtained to date. No assurance can be given that the Company will be able to complete any such transactions given its current financial resources.

On October 28, 2005, the Company served approximately two thirds of its employees with layoff notices. The layoffs are necessary in order for the Company to conserve its remaining cash and to continue to pursue potential strategic relationships and various financing options. The Company is in discussions with its secured creditors with respect to its current financial position.

On March 30, 2005, the Company entered into agreements related to a private placement financing for gross proceeds of approximately $13,400. The private placement included a securities purchase agreement providing for the issuance of a convertible note in the amount of U.S. $5,000 and a subscription agreement providing for the issuance of 2,736,436 special warrants of the Company for gross proceeds of $7,334. The net proceeds from these two financing transactions allowed the Company to continue with its process of implementing the Cascade process into the fourth quarter of 2005. In conjunction with the completion of the private placement, the Company also extended the term of the MDS guarantee on the $20,000 credit facility to June 20, 2007, and the bank extended the expiry date of the $20,000 credit facility to May 25, 2007.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

3. PROPERTY, PLANT AND EQUIPMENT

During the first quarter, the Company determined that $63,275 of previously unamortized technical equipment was available for use and commenced amortizing this equipment over its estimated useful life of 15 years. The total amortization expense for the nine month period was $4,581 of which $3,191 related to the amortization of technical equipment initially available for use in the first quarter, which has been recorded as Scientific and Process expenses.

4. LICENSE TECHNOLOGY

During the first quarter, the Company achieved a milestone under the license agreement with ProMetic relating to the attainment of the 30-litre scale production with the Cascade at targeted yields. In accordance with the license agreement on achievement of this milestone, a cash license payment of $4,000 was due to ProMetic. Hemosol and ProMetic amended the license agreement, subject to the closing of the private placement and satisfied the $4,000 license fee by the payment of $1,070 in cash and the issuance to ProMetic of 872,093 Common Shares recorded at $3.36 per share for total consideration of $2,930.

5. DEFERRED CHARGES

Deferred charges consist of the following:

	Sept. 30, 2005 $	Dec. 31, 2004 $
Deferred debt issue costs-$20 million credit facility	9,675	8,185
Deferred debt issue cost- U.S. $5 million convertible note	362	--
Less accumulated amortization	8,826	8,008
	1,211	177

Deferred debt issue costs represent costs related to the establishment of the Company's $20,000 credit facility in 2002 and the April 8, 2005 issuance of U.S. $5,000 convertible note. The non-cash portion of these costs related to warrants issued for the $20,000 credit facility amounted to $807 for the nine month period ended September 30, 2005. The deferred debt issue cost related to the U.S. $5,000 convertible note is being amortized over the remaining life of 3 years. Amortization of deferred debt issue costs for the three and nine month period ended June 30, 2005 was $225 and $818 respectively.

6. EMPLOYEE STOCK OPTIONS

Compensation expense for employee stock options granted or modified on or after January 1, 2003 is accounted for using the fair value method and amounted to $120 for the three month period ended September 30, 2005 (2004 -$1,411) and $304 for the nine month period ended September 30, 2005 (2004 - $2,464). During the quarter no options were granted and 10,625 options with an exercise price of $2.12 were granted for the nine month period ended September 30, 2005 (for the nine month period ended September 30, 2004 - 3,565,612 options were granted or modified).

The Company does not recognize compensation expense for stock options granted to employees prior to January 1, 2003. The table below presents pro forma net loss and basic and diluted loss per common share as if stock options granted to employees had been determined based on the fair value method. The table includes all stock options granted by the Company prior to January 1, 2003.

All amounts in thousands of Canadian dollars, except share data	Three Month Period Ended Sept. 30, 2005 $	Three Month Period Ended Sept. 30, 2004 $	Nine Month Period Ended Sept. 30, 2005 $	Nine Month Period Ended Sept. 30, 2004 $
Net (income) loss as reported	6,,081	3,596	18,854	5,662
Pro forma stock-based compensation costs	115	184	345	368
Pro forma net (income) loss	6,196	3,780	19,199	6,030
Pro forma basic and diluted (income) loss per common share	0.35	0.26	1.16	0.43

The Black-Scholes option pricing model, used by the Company to calculate option values, as well as other accepted option valuation models, were developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values.

7. CASH HELD IN ESCROW

On April 30, 2004, Hemosol received cash proceeds of $16 million on the closing of the Arrangement from LPBP Inc., of which $1 million has been held in escrow to satisfy pre-closing contingent liabilities, if any, which arise within the one-year period following April 30, 2004. These funds were released from escrow on August 15, 2005.

8. SIGNIFICANT FINANCING TRANSACTIONS

The changes in common shares and warrants and options are as follows:

	Common shares #	**Common shares** $	**Warrants and options** #	**Warrants and options** $	**Total** $
Balance December 31, 2004	**14,298,828**	**311,711**	**4,035,671**	**14,079**	**325,790**
Stock-based compensation expense *(note 6)*	-	-	-	304	304
Issuance of employee options *(note 6)*	-	-	10,625	-	-
Issuance of common shares *(note 8b)*	2,736,436	5,653	-	-	5,653
Issuance to acquire license technology *(note 4)*	872,093	2,930	-	-	2,930
Issuance of warrants *(note 8b)*	-	-	2,736,436	-	-
Issuance of compensation options *(note 8b)*	-	-	547,287	465	465
Issuance of warrants *(note 8c)*	-	-	682,280	715	715
Issuance of broker warrants *(note 8c)*	-	-	18,116	-	-
Issuance of common share purchase warrants to MDS *(note 8d)*			687,500	864	864
Balance June 30, 2005	17,907,357	320,294	8,717,915	16,427	336,721

a) ***Share Consolidation***

On June 7, 2005, the Company filed articles of amendment for the consolidation of the Company's

Common Shares on the basis of one post-consolidation share for four pre-consolidation shares. This consolidation was undertaken to bring the Company into compliance with the minimum bid requirement of NASDAQ and retain its NASDAQ listing. The Common Shares started trading on a consolidated basis on the TSX and NASDAQ on June 10, 2005. All amounts in this quarterly report reflect the post consolidated Common Shares and post consolidation Common Share prices unless otherwise noted.

(b) ***Private Placement Transactions***

On March 30, 2005 the Company entered into agreements related to private placement transactions resulting in gross proceeds to the Company of approximately $13.4 million. These agreements included (i) a securities purchase agreement providing for the issuance to Laurus Master Fund, Ltd. ("Laurus") of a U.S.$5 million convertible note and a warrant to purchase 682,280 common shares, and (ii) an agency agreement and subscription agreements relating to the sale of 10,945,746 special warrants of the Company. The closing of the private placement transactions occurred on April 8, 2005. These transactions are described below.

Special Warrant Offering

On March 30, 2005, the Company entered into an agency agreement providing for the sale (the "Special Warrant Offering") of 10,945,746 special warrants (the "Special Warrants") through Loewen, Ondaatje, McCutcheon Limited ("LOM") and Life Science Group, Inc. ("LSG" and, together with LOM, the "Agents"), as agents. The Special Warrants were issued on April 8, 2005 at a purchase price of $0.67each for gross proceeds of $7,334. Each Special Warrant entitled the holder to acquire, at no additional cost, one quarter of a Common Share and one quarter of a Common Share purchase warrant of the Company (a "Warrant"). As a result a total of 2,736,436 Common Shares and 2,736,436 Warrants were issued upon exercise of the Special Warrants. Each Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $4.00 per Common Share at any time prior to April 8, 2010. A prospectus qualifying the distribution of the Common Shares and the Warrants underlying the Special Warrants was filed in Ontario on June 20, 2005. Any Special Warrants that remained unexercised on June 27, 2005 were automatically exercised, without any further action on the holders' part on that date.

As partial compensation for their services, the Agents received broker warrants entitling each of the Agents to acquire, without additional consideration, that number of compensation options equal to 5% of the number of Special Warrants sold by such Agent pursuant to the Special Warrant Offering. A total of 547, 287 broker warrants exercisable into 547,287 compensation options were issued to the Agents. Every four compensation options exercised by the holder thereof entitles the holder to purchase one Common Share and one Warrant at a price of $2.68 at any time prior to April 8, 2010. In addition, LSG acted on behalf of Hemosol in the solicitation of the Laurus Placement (as defined below) and in partial consideration for such services received Warrants to purchase an additional 18,116 Common Shares.

The Company has allocated the net proceeds received from this transaction to the various equity accounts based on their relative fair value calculated using the Black-Scholes option pricing model. Of the $6,118 net proceeds, $5,653 was allocated to common shares and $465 was allocated to warrants and options.

(c) ***The Laurus Securities Purchase Agreement***

On March 30, 2005, the Company entered into a securities purchase agreement with Laurus, pursuant to which the Company issued to Laurus, on a private placement basis, a convertible note (the "Note") in the principal amount of U.S.$5 million. Under this agreement for so long as 25% of the principal amount of the Note is outstanding, the Company is subject to certain covenants including restrictions on the issuance or redemption of certain types of redeemable or convertible securities, the incurrence of any indebtedness subject to certain allowances for normal course operations, and the payment of dividends without the prior written consent of Laurus.

Convertible Note

The Note issued to Laurus has a principal amount of U.S.$5 million and is collateralized by a second charge over all of the Company's assets, other than its rights to HEMOLINK. The Note has a term of three years and is convertible into common shares at a conversion price per common share equal to U.S.$2.76, subject to certain adjustments. The Note bears interest at a rate equal to the U.S. prime rate plus 2%, payable monthly. If the average five-day trading price of the common shares on the Toronto Stock Exchange ("TSX") exceeds the conversion price by 25%, the interest rate will be reduced by 2% for each incremental 25% increase in the trading price. Principal repayment of the Note will not commence until the tenth month of the term, and principal thereafter will be payable in monthly installments of U.S.$83, with the balance of U.S.$2,750 due on March 30, 2008 (the "Maturity Date"). Principal and, subject to certain conditions, interest under the Note may be paid in common shares at the Company's option, provided that (i) the average five-day trading price of the common shares on the TSX is at least 110% of the conversion price, and (ii) the amount of such conversion does not exceed 25% of the aggregate trading volume of the common shares for the twenty-two days preceding the applicable repayment date.

The amounts outstanding under the Note may be converted into common shares at the conversion price:

- at any time at the option of Laurus, provided that Laurus will not be entitled to convert an amount that would result in Laurus holding more than 9.99% of the outstanding common shares, unless an event of default has occurred or Laurus has given the Company at least 75 days notice and provided that the beneficial ownership of Laurus will not at any time exceed 19.99% of the Common Shares; and

- at the Company's option if at any time the average trading price of the common shares on the TSX exceeds the conversion price by at least 50%, and provided that the amount of such conversion does not exceed 20% of the aggregate dollar trading volume of the common shares for the twenty-two day period immediately preceding the date of the conversion.

The Note may be prepaid by the Company (i) at the option of Laurus if a third party acquires the Company's securities and gains control or direction over more than 20% of the Company's outstanding voting or equity securities, or (ii) at the Company's option. In the event of such prepayment, the principal amount due and payable to Laurus will be increased by (i) 25%, if made within the first twelve months of the term, (ii) 15%, if made during the period between the 12th and the 24th month of the term, and (iii) 10%, if made after the 24th month of the term (excluding the Maturity Date).

The Note provides that if the Company issues any common shares or securities convertible into common shares to a person other than Laurus at any time prior to the conversion or repayment in full of the principal amount of the Note (subject to certain exceptions) for a price per common share that is lower than the conversion price, the conversion price shall be reduced to such lower price.

Security Documents

The Company's obligations under the Note are guaranteed by Hemosol LP under a guarantee in favor of Laurus. The Company's obligations under the Note and Hemosol LP's obligations under the Laurus guarantee are collateralized under a master security agreement pursuant to which Laurus was granted second ranking security over all of their respective assets, other than the rights to HEMOLINK. In addition, the Company has granted a mortgage to Laurus on its Meadowpine manufacturing facility. The security interests of Laurus under the master security agreement and the mortgage rank second to the security interests of the Bank of Nova Scotia in connection with our outstanding $20 million credit facility.

Laurus Warrants

Pursuant to the Laurus securities purchase agreement, the Company issued to Laurus warrants to purchase 682,280 common shares exercisable at any time prior to April 8, 2010, 366,140 of which have an exercise

price of U.S.$3.44 per common share and 316,141 of which have an exercise price of U.S.$4.16 per common share, and all of which are subject to certain adjustments. LSG acted on our behalf in connection with the private placement to Laurus and in partial consideration for such services received 18,116 broker warrants entitling LSG to acquire, for no additional consideration, 18,116 warrants to purchase common shares at a price of $4.00 per share at any time prior to April 8, 2010.

Accounting Treatment

The Company issued the Note and the Laurus Warrants for net proceeds of $5,633. The Note contains both a liability and an equity element, represented by the conversion option, and therefore under Canadian generally accepted accounting principles these two elements must be split and classified separately as debt and equity. The Company has allocated the total proceeds received among the debt and equity elements of the Note and the Laurus Warrants based on their relative fair values. The fair value of the debt element was based on the discounted cash flows of the Note using an estimated cost of borrowing of 21% plus U.S. prime to represent an estimate of what the Company may borrow collateralized debt without a conversion option or warrant. The fair values of the equity element and the Laurus Warrants were determined using the Black-Scholes option pricing model. The resulting allocation based on relative fair values attributed $3,826 to the debt instrument, $1,453 to equity portion of convertible debt representing the fair value of the conversion option and $715 to the Laurus Warrants. Financing fees totaling $516 were allocated pro-rata between deferred financing charges of $362 for the debt portion and $154 for the equity portion of the Note. Included in financing fees was the fair value of the Laurus broker warrants of $22 determined using the Black-Scholes option pricing model. The deferred financing charges will be amortized on a straight line basis over the three year life of the Note.

The following assumptions were used in the Black-Scholes option pricing model to determine the fair values of the equity element of the Note, the Laurus Warrant and the Laurus broker warrant:

Expected option life (years)	3 – 5
Volatility	0.63
Risk-free interest rate	3.3% – 3.5%
Dividend yield	--

Each month, the Company is required to recognize accretion interest on the carrying value of the Note such that the carrying value of the Note on March 30, 2008 will equal the amount of its final principal payment of U.S.$2,750 due on that date. To date the Company has recognized $385 in accreted interest expense.

(d) *Extension of the Credit Facility*

On March 30, 2005, the Company entered into an amended and restated commitment letter with the Bank of Nova Scotia (the "Bank") pursuant to which the Bank extended the termination date of Hemosol LP's $20 million term loan ("Loan") from May 25, 2005 to May 25, 2007. This extension was conditional on the simultaneous extension of the guarantee of the Bank credit facility by MDS. In addition, the Bank extended to the Company a "bulge facility" or temporary increase in the size of the credit facility of up to an additional $1,000. A total of $500 was drawn down on April 4, 2005 under this bulge facility and then re-paid on April 8, 2005 with a portion of the proceeds from the financing transactions. A fee of $100 was paid to the Bank in consideration of the extension of the Loan.

Extension of MDS Guarantee

On March 30, 2005, the Company also entered into a memorandum of understanding ("MOU") with MDS pursuant to which MDS extended the term of its guarantee of the credit facility from June 20, 2005 to June 20, 2007 in consideration for the issuance of warrants to acquire 687,500 Hemosol common shares, the entering into of a registration and sale participation rights agreement and the granting of certain additional covenants by the Company.

In connection with the MOU, on April 8, 2005, the Company entered into a subscription agreement with MDS governing the issuance of the MDS warrants to acquire 687,500 common shares at an exercise price of $3.36 per common share (subject to certain adjustments) for a term of five years from the date of issue. One half of the MDS warrants vested immediately and the remaining warrants vest equally over 24 months on the 20th day of each calendar month, commencing on June 20, 2005 and ending on May 20, 2007 or such earlier date as the MDS guarantee is terminated, at which time any unvested portion of the MDS warrant will fully vest. The fair value of each warrant of $1.36 was determined using the Black-Scholes option pricing model with the following assumptions: expected life 5 years; volatility 0.63; risk-free interest rate 3.5%; and expected dividend yield 0%. As of September 30, 2005, 401,042 MDS warrants to purchase Common Shares vested resulting in deferred financing costs of $596.

Under the MDS subscription agreement, the Company also made certain covenants in favor of MDS that are in addition to any covenants made as part of the original terms of the MDS guarantee:

- where any financing or financings completed by the Company (or any of the Company's subsidiaries) generate proceeds that exceed U.S. $35 million in the aggregate, the Company covenants to use 50% of every dollar of net proceeds in excess of the U.S. $35 million threshold to reduce the amount outstanding under the credit facility;
- not to sell, transfer or dispose of any assets, business or operations unless all proceeds from such sale, transfer or disposition are used to reduce the amount outstanding under the credit facility; and
- other covenants with respect to reporting obligations, access to the Company's facilities, maintaining insurance policies, intellectual property, maintaining the Company's properties and compliance with laws.

Pursuant to the MOU, on April 8, 2005, MDS and the Company also entered into a registration and sale participation rights agreement. This agreement provides that if the Company raises net proceeds from any financing through the issuance of securities which generates in excess of U.S.$35 million where:

- such financing is by way of a public offering which includes the filing of a prospectus, Hemosol will grant to MDS the right to qualify the Common Shares and/or warrants of Hemosol held by MDS ("MDS Held Securities") under the same prospectus; and
- in the event of a private placement of securities of Hemosol, MDS will have the right to sell a portion of the MDS Held Securities to the purchasers of such private placement;

provided that in each case the aggregate price of the MDS Held Securities required to be qualified for sale or to be sold by MDS, as applicable, will not exceed 20% of the aggregate price of the securities being offered under such public prospectus offering or private placement. In addition, where the man aging underwriter or lead agent selected for any public prospectus offering or private placement determines in good faith that marketing factors require a limitation on the number of the securities to be qualified or issued, Hemosol may exclude from the prospectus or private placement, as applicable, the number of MDS Held Securities which, when combined with the number of Hemosol securities, would exceed such limitation.

9. SUBSEQUENT EVENTS

Subsequent to quarter-end on October 28, 2005 the Company served approximately two thirds of its employees with layoff notices. The layoffs were necessary in order for the Company to conserve its remaining cash in order to continue to pursue potential strategic relationships and various financing options. As a result of this significant reduction in the size of the Company's workforce and limited financial resources, the Company has scaled-back activities and extended the timeline for implementation of the Cascade Implementation of the Cascade is wholly dependant on the receipt of additional funding and/or consummation of a strategic transaction. The Company also suspended the provision of bio-manufacturing services to third parties and, accordingly, effective November 8, 2005, the Company and Organon Canada Ltd. mutually agreed to terminate the Manufacturing and Supply Agreement dated September 24, 2005. This termination was implemented without additional cost or penalty to either party.

Prior to the layoff notice, noted above the Company pursued opportunities to generate revenues over the short term by using its new sterile vial filing suite to provide bio-manufacturing services to companies in the biotechnology sector. Subsequent to quarter end the Company generated approximately $0.4 million in revenues from these bio-manufacturing services.

NASDAQ Listing

On November 3, 2005 the Company received a letter from NASDAQ informing it that it was not in compliance with the minimum bid price of U.S.$1.00 per Common Share during the 30 consecutive business days preceding such date and that it had 180 days, or until May 2, 2006, to regain compliance. A failure to do so, could result in the de-listing of the Company's Common Shares from the NASDAQ.

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STOCK LISTING

Toronto Stock Exchange Symbol HML
Nasdaq National Market Symbol HMSL

TRANSFER AGENT

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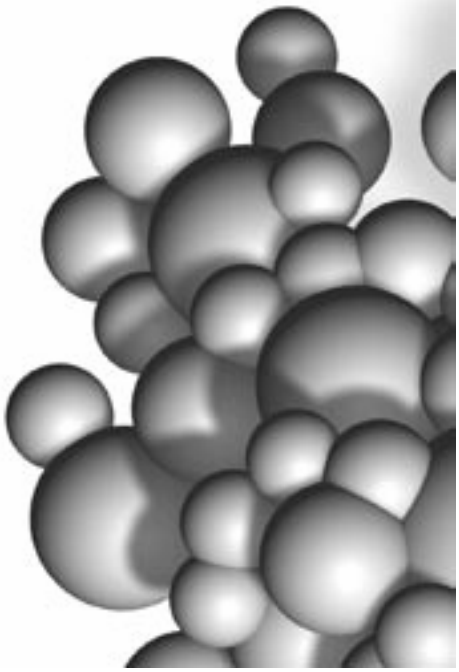
Third Quarter 2005



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