

Victhom Human Bionics Inc.

**Interim Consolidated Financial
Statements
September 30, 2004 and 2003**

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Victhom Human Bionics Inc. Consolidated Statement of Operations

periods ended September 30
(unaudited)

	<u>2004</u> (3 months) \$	<u>2003</u> (3 months) \$	<u>2004</u> (9 months) \$	<u>2003</u> (9 months) \$
Revenue		913,110	914,377	1,821,634
Expenses				
Research and development expenses, net	1,371,340	601,976	3,415,261	1,716,453
Administrative and Business development expenses	842,052	380,875	2,529,653	1,188,101
Financial expenses	144,798	16	213,279	24,232
	2,358,190	982,867	6,158,193	2,928,786
Net loss	2,358,190	69,757	5,243,816	1,107,152
Weighted average number of common shares outstanding	48,350,373	32,301,461	42,074,328	30,484,313
Net loss per share				
Basic	0.049	0.002	0.125	0.036
Diluted	0.049	0.002	0.125	0.036

The accompanying notes are an integral part of the interim consolidated financial statements.

Victhom Human Bionics Inc.
Consolidated Statements of Contributed Surplus and Deficit

periods ended September 30

(unaudited)

	<u>2004</u> <u>(3 months)</u> \$	<u>2003</u> <u>(3 months)</u> \$	<u>2004</u> <u>(9 months)</u> \$	<u>2003</u> <u>(9 months)</u> \$
CONTRIBUTED SURPLUS				
Balance, beginning of period	2,107,535		800,000	
Warrants issued in private placement (Note 12)			1,102,500	
Warrants issued related to business acquisition (Note 4 and 12)	117,570		117,570	
Stock-based compensation (Note 15)	24,094		229,129	
Balance, end of period	<u>2,249,199</u>		<u>2,249,199</u>	
DEFICIT				
Balance, beginning of period	(9,234,169)	(3,299,646)	(6,348,543)	(2,262,251)
Net loss	(2,358,190)	(69,757)	(5,243,816)	(1,107,152)
Balance, end of period	<u>(11,592,359)</u>	<u>(3,369,403)</u>	<u>(11,592,359)</u>	<u>(3,369,403)</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

Victhom Human Bionics Inc.

Consolidated Statement of Cash Flows

periods ended September 30
(unaudited)

	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	(3 months)	(3 months)	(9 months)	(9 months)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(2,358,190)	(69,757)	(5,243,816)	(1,107,152)
Non-cash items				
Stock-based compensation (Note 15)			280,000	
Interest on convertible debenture (Note 11)	34,466		34,466	
Amortization of property, plant and equipment	125,204	51,797	307,839	131,874
Amortization of investment tax credits	(2,138)	(2,733)	(6,413)	(8,243)
Changes in working capital items	507,222	(594,857)	(1,217,443)	(1,155,724)
Cash flows from operating activities	<u>(1,693,436)</u>	<u>(615,550)</u>	<u>(5,845,367)</u>	<u>(2,139,245)</u>
INVESTING ACTIVITIES				
Property, plant and equipment	(220,762)	(244,807)	(1,184,356)	(436,484)
Other long-term assets	(49,597)	(76,146)	(260,230)	(92,727)
Business acquisition (Note 4)	166,534		166,534	
Cash flows from investing activities	<u>(103,825)</u>	<u>(320,953)</u>	<u>(1,278,052)</u>	<u>(529,211)</u>
FINANCING ACTIVITIES				
Note payable		(250,722)		(90,722)
Deposit for share subscription		(250,000)		
Long-term debt		21,242	97,463	55,029
Repayment of long-term debt	(67,476)	(14,387)	(203,438)	(36,686)
Repayment of convertible debenture				(200,000)
Issue of shares	1,135,830	2,377,268	12,434,213	5,021,699
Cash flows from financing activities	<u>1,068,354</u>	<u>1,883,401</u>	<u>12,328,238</u>	<u>4,749,320</u>
Net increase (decrease) in cash and cash equivalents	(728,907)	946,898	5,204,819	2,080,864
Cash and cash equivalents, beginning of period	7,983,197	1,164,500	2,049,472	30,534
Cash and cash equivalents, end of period	<u>7,254,291</u>	<u>2,111,398</u>	<u>7,254,291</u>	<u>2,111,398</u>

Cash flows from non-monetary investing and financing activities are detailed as follow:

Issue of shares related to:		
Commercial license agreement		1,000,000
Contributed surplus related to warrants issued		1,220,070
Contributed surplus related to stock options exercised	(28,659)	(103,624)
Capital leases related to property, plant and equipment acquisitions		(18,840)

The accompanying notes are an integral part of the interim consolidated financial statements.

Victhom Human Bionics Inc. Consolidated Balance Sheets

	(Unaudited) September 30, 2004 \$	(Audited) December 31, 2003 \$
ASSETS		
Current assets		
Cash and cash equivalents	7,254,291	2,049,472
Temporary investment (Note 8)	1,000,000	
Accounts receivable (Note 7)	3,147,109	1,240,718
Inventories	334,858	
Prepaid expenses	136,093	9,919
	<u>11,872,351</u>	<u>3,300,109</u>
Investments, at cost (Note 8)	47,035	1,047,035
Property, plant and equipment (Note 9)	2,213,801	1,391,330
Equipment intended to be sold	105,109	
Other long-term assets (Note 10)	8,578,773	184,874
	<u>22,817,069</u>	<u>5,923,348</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,838,785	1,162,443
Deferred revenue	455,733	
Instalments on long-term debt	1,265,819	267,478
	<u>3,560,337</u>	<u>1,429,921</u>
Deferred investment tax credits	38,483	44,896
Long-term debt	255,211	1,332,680
Liability component of convertible debenture (Note 11)	934,038	899,572
	<u>4,788,069</u>	<u>3,707,069</u>
SHAREHOLDERS' EQUITY		
Equity component of convertible debenture (Note 11)	110,000	110,000
Capital stock (Note 12)	27,262,159	7,654,822
Contributed surplus	2,249,199	800,000
Deficit	(11,592,359)	(6,348,543)
	<u>18,029,000</u>	<u>2,216,279</u>
	<u>22,817,069</u>	<u>5,923,348</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

On behalf of the Board,

/s/ Benoit Côte
President and Chief Executive
Officer

/s/ Nitin Kaushal
Director

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, incorporated under the Canada Business Corporations Act, operates a laboratory that conducts human bionics research for the design and development of prosthetic products, neuro-electronic devices, biomaterials and entirely biocompatible active materials, to improve the quality of life of people suffering from physical dysfunctions.

The Company is considered to be in the start-up stage and will continue to be a start-up until it earns substantial revenues. The Company expects to incur additional capital expenditures to complete the development and marketing of its products. Its ability to generate future revenues and cash flows from its operating activities depends on several factors, including its ability to secure additional financing and to have its products accepted on the market.

2 - CONSOLIDATED FINANCIAL STATEMENTS PRESENTATION

The accompanying unaudited consolidated financial statements are in accordance with Canadian generally accepted accounting principles for interim consolidated financial statements and do not include all the information required in complete consolidated financial statements. As necessary, the consolidated financial statements include amounts based on informed estimates and management's best judgement. The results of operations for the interim period presented are not necessarily representative of expected results for the year.

These consolidated financial statements have been prepared on the basis of currently available estimates and information. The unallocated portion for the acquisition price is shown under other long-term assets. External consultants will determine the fair value of Neurostream's other long-term assets in the near future. The Company considers that the unallocated amount will be allocated, without excluding other items, among patents, data bases and goodwill. We expect to finalize the purchase price allocation by the end of our fiscal year, i.e. December 31, 2004.

3 - MODIFICATION TO THE ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements included the accounts of the Company and its wholly owned subsidiary company. All significant intercompany balances and transactions have been eliminated on consolidation.

Inventories

Inventories are valued at the lower of average cost and net realizable value for work-in-process and finished goods, and lower of average cost and current replacement cost for raw materials. The cost of the inventories includes material, labor and manufacturing overhead. The inventory cost is determined using the first-in first-out method.

Equipment intended to be sold

The Company adopted, as required since May 1, 2003, new recommendations of section 3475 of the Canadian Institute of Chartered Accountant (CICA) Handbook «Disposal of long-lived assets and discontinued operations». According to these recommendations, a long-lived asset to be disposed of by sale is measured at the lower of its carrying amount or its fair value and should not be depreciated while it is still classified as an asset to be disposed of by sale. An asset held for sale and the related liability to it should be presented separately in the balance sheet.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

3 - MODIFICATION TO THE ACCOUNTING POLICIES (Continued)

Other long-term assets

Patents, composed of costs relating to obtaining such patents, are recorded at cost and are amortized on a straight-line basis over three years beginning in the year when the developed products are marketed.

Commercial license agreements are recorded at acquisition cost and are amortized on a straight-line basis over five years beginning in the year when the developed products are marketed.

Revenue recognition

The Company adopted the recommendations of Canadian Institute of Chartered Accountants Handbook for section 3400 revenue. No major changes has been recognized since the adoption of those recommendations.

The research and development service contracts are recognized when the services are delivered and accepted by the client.

4 - BUSINESS ACQUISITION

On July 26, 2004, the Company acquired Vancouver-based Neurostream Technologies Inc. This transaction was carried out through the issuance of 4,539,241 Victhom treasury common shares at a price of \$1.58 per share for a total value of \$7.172 million. In addition, Victhom issued 107,933 stock options and 370 886 warrants in exchange for the stock options and warrants held by Neurostream's optionees and warrant holders. The Company has identified estimated transaction costs of \$758,211 bringing the total transaction value to \$8,100,534. This transaction has been recorded using the purchasing method.

Acquisition price:

Issuance of common shares of Victhom	\$ 7,172,000
Issuance of warrants of Victhom (1)	117,570
Issuance of stock-options of Victhom (2)	52,753
Estimated transaction costs	758,211
	<u>\$ 8,100,534</u>

The agreement between Victhom and Neurostream includes a purchase price adjustment clause which expires on January 26, 2006. It is not possible at this time for the Company to estimate whether there will be a purchase price adjustment and, if so, the amount thereof.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

4 - BUSINESS ACQUISITION (Continued)

The acquisition price is allocated as follows:

	Net carrying amount	Adjustments	Net value acquired
	\$	\$	\$
Net assets acquired			
Cash and cash equivalents	924,745		924,745
Accounts receivable	340,410		340,410
Prepaid expenses	32,795		32,795
Property, plant and equipment	74,111	(41,888)	32,223
Accounts payable and long-term debt	(395,114)	31,806	(363,308)
Other long-term assets (Note 10)		7,133,669	7,133,669
			<u>8,100,534</u>

- (1) The Fair value of each of the warrants granted was estimated on the grant date using the Black-Scholes option pricing model on the basis of the following weighted average data: expected volatility of 60%, risk free interest rate of 3.2%, no expected dividends and expected life of 18 months.
- (2) The Fair value of each of the stock-options granted was estimated on the grant date using the Black-Scholes option pricing model on the basis of the following weighted average data: expected volatility of 60%, risk free interest rate of 2.6% and 3.2%, no expected dividends and expected life of 3 and 36 months.

5 - INFORMATION INCLUDED IN THE STATEMENT OF OPERATIONS

	September 30, 2004	September 30, 2003
	\$	\$
Interest on investments	(104,575)	(20,030)
Research and development expenses	4,172,685	2,428,459
Research and development tax credits	(975,085)	(708,099)
Amortization of investment tax credits	(6,413)	(8,243)
Amortization of property, plant and equipment	307,839	131,874
Interest on long-term debt and convertible debenture	259,474	12,900
Exchange loss	36,130	
Stock-based compensation (Note 15)	280,000	

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

6 - INCOME TAXES

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. The future income tax assets and liabilities result from differences between the carrying amount and the tax basis of the following:

	September 30, 2004	December 31, 2003
	<u>\$</u>	<u>\$</u>
Future income tax assets		
Non-capital losses	1,469,000	819,000
Research and development expenses	<u>2,183,000</u>	<u>1,337,000</u>
	3,652,000	2,156,000
Future income tax liabilities		
Property, plant and equipment	228,000	343,000
Other assets	<u>417,000</u>	<u> </u>
	645,000	343,000
	3,007,000	1,813,000
Valuation allowance	<u>(3,007,000)</u>	<u>(1,813,000)</u>
Net future income taxes	<u> </u>	<u> </u>

The future income tax asset resulting from loss carry-forwards is not recorded in the financial statements. These losses and deductible temporary differences, which are available to reduce income taxes in future years, aggregate \$4,750,000 for federal tax purposes and \$4,700,000 for provincial tax purposes and are detailed as follows:

	Federal	Provincial
	<u>\$</u>	<u>\$</u>
Amount of losses for tax purposes carried forward until 2014	4,750,000	4,700,000
Eligible research and development expenses to be deferred over an undetermined period	<u>6,556,000</u>	<u>8,230,000</u>
	<u>11,306,000</u>	<u>12,930,000</u>

In addition, the Company has investment tax credits amounting to approximately \$104,000, which are available until 2012 and \$782,000 until 2013.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

7 - ACCOUNTS RECEIVABLE

	September 30, 2004	December 31, 2003
	<u>\$</u>	<u>\$</u>
Investment tax credits receivable (1)	2,282,164	973,870
Sales taxes receivable	130,500	192,622
R&D services receivable	499,271	
Notes receivable from employees related to share subscription (2)	84,650	
Advance on bonus to companies related to directors, without interest	63,500	
Advance to a company related to a former director, bearing interest at 10% annually	30,000	30,000
Others	57,024	44,226
	<u>3,147,109</u>	<u>1,240,718</u>

(1) The investment tax credits receivable recorded by the Company, for the period ended September 30, 2004 and December 31, 2003, must be examined and approved by the tax authorities. Accordingly, the amounts granted may differ from the amounts recorded.

(2) The notes receivable bearing interest at prime rate plus 1% from September 30, 2004, maturing in December 2004.

8 - INVESTMENTS, at cost

	September 30, 2004	December 31, 2003
	<u>\$</u>	<u>\$</u>
Term deposit, bearing interest at 2.5% annually, maturing in June 2005, allocated to the long-term debt security	1,000,000	1,000,000
Note receivable from a company related to a former director, bearing interest at 10% annually, without repayment terms	47,035	47,035
	<u>1,047,035</u>	<u>1,047,035</u>
Investments maturing within one year	(1,000,000)	
	<u>47,035</u>	<u>1,047,035</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

9 - PROPERTY, PLANT AND EQUIPMENT

	September 30, 2004		
	Cost \$	Accumulated amortization \$	Net \$
Computer equipment	753,521	158,982	594,539
Furniture and equipment	1,123,160	352,442	770,718
Leasehold improvements	757,735	75,982	681,753
Assets under capital lease			
Computer equipment	165,963	80,213	85,750
Furniture and equipment	107,310	26,270	81,040
	<u>2,907,690</u>	<u>693,889</u>	<u>2,213,801</u>
	December 31, 2003		
	Cost \$	Accumulated amortization \$	Net \$
Computer equipment	383,423	48,541	334,882
Furniture and equipment	846,822	239,061	607,761
Leasehold improvements	292,703	27,526	265,177
Assets under capital lease			
Computer equipment	153,570	58,321	95,249
Furniture and equipment	100,862	12,601	88,261
	<u>1,777,380</u>	<u>386,050</u>	<u>1,391,330</u>

10 - OTHER LONG-TERM ASSETS

	September 30, 2004	December 31, 2003
	\$	\$
Patents	274,078	184,874
Commercial License agreement	1,171,026	
Business acquisition costs unallocated (Note 2 and 4)	7,133,669	
	<u>8,578,773</u>	<u>184,874</u>

Victiom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

11 - CONVERTIBLE DEBENTURE

The following table illustrates variations in the two interim periods:

	Liability component	Equity component
	\$	\$
Balance as at December 31, 2002	843,321	255,048
Instalment on debentures	(166,506)	
Debentures converted into common shares	(676,815)	(255,048)
Balance as at September 30, 2003	-----	-----
Issue of a convertible debenture Global (GMPC) Holdings Inc. (a)	890,000	110,000
Increase in expected interest on debenture	9,572	
Balance as at December 31, 2003	899,572	110,000
Increase in expected interest on debenture	34,466	
Balance as at September 30, 2004	934,038	110,000

- (a) Debenture issued to Global (GMPC) Holdings Inc. having a par value of \$1,000,000 secured by the investment tax credits, bearing interest at the rate of 12% (effective rate of 20%) as of December 19, 2003, maturing on December 17, 2005.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

12 - CAPITAL STOCK

Authorized

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

Issued and Fully Paid

The following table indicates changes in the Company's capital stock during the periods:

	<u>Number</u>	<u>Amount</u>
		\$
Balance as at December 31, 2002	4,814,400	1,478,528
Conversion of convertible debentures, less expenses	913,600	897,397
Adjustment to reflect the reverse takeover	18,045,333	347,611
Shares issued following an initial public offering, less expenses	8,777,779	4,289,590
Stock options exercised	2,222	1,178
Warrants exercised	<u>85,000</u>	<u>68,000</u>
Balance as at September 30, 2003	<u>32,638,334</u>	<u>7,082,304</u>
Stock options exercised	232,222	39,478
Warrants exercised	353,800	283,041
Subscribed shares to be issued	<u>277,778</u>	<u>250,000</u>
Balance as at December 31, 2003	<u>33,502,134</u>	<u>7,654,822</u>
Issuance of shares, less expenses	13,082,940	16,999,929
Stock options exercised	386,948	326,448
Warrants exercised	<u>2,851,200</u>	<u>2,280,960</u>
Balance as at September 30, 2004	<u>49,823,222</u>	<u>27,262,159</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

12 - CAPITAL STOCK (Continued)

Warrants

The fair value of each warrant granted was estimated at the grant date using the Black-Scholes option pricing model, based on the following weighted average data: expected volatility of 60%, risk-free interest rate of 2.25% to 4.16%, and no expected dividends and expected life of 3 to 36 months.

Outstanding warrants at the end of the periods as well as cost variances are summarized in the table below:

	Number	Weighted average exercise price
		2004
		\$
Outstanding, as at December 31, 2002		
Granted	5,107,778	0.95
Exercised	(85,000)	0.80
Outstanding, as at September 30, 2003	<u>5,022,778</u>	0.94
Exercised	(353,800)	0.80
Outstanding, as at December 31, 2003	<u>4,668,978</u>	0.96
Granted	4,563,609	1.86
Exercised	(2,851,200)	0.80
Cancelled	(168,889)	1.25
Outstanding, as at September 30, 2004	<u>6,212,498</u>	<u>1.69</u>

13 - RELATED PARTY TRANSACTIONS

The Company carried out the following related party transactions:

	September 30, 2004	September 30, 2003
	\$	\$
Expenses		
Professional fees paid under agreements concluded with entities controlled by a former director	<u>51,400</u>	<u>135,000</u>

These transactions were accounted for at the exchange amount, which is the consideration established and agreed upon by the parties.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

14 - COMMITMENTS

The Company has entered into a lease, expiring on September 30, 2009, which calls for payment of \$880,440 for the rental of premises. Minimum payments during the current period and the next years amount to \$44,022 in 2004 and \$176,088 in 2005, 2006, 2007 and 2008, and \$132,066 in 2009.

The Company has entered into agreements with different entities to participate in the following projects:

	<u>Agreements</u>	Entered into September 30, 2004	Entered into December 31, 2003
	\$	\$	\$
«Corporation de l'École Polytechnique de Montréal»			
Research and development of a neuroelectrical measuring system for an anthropomorphic limb, ending in August 2005	949,000	681,000	480,000
RFIC techniques for efficient power transfer dedicated to electronic implants, ending in October 2006	60,000	20,000	
«Université de Sherbrooke»			
Treatment and analysis of signals from the multisensor to measure the human body mobility, ending in May 2006	44,200	8,836	
	<u>1,053,200</u>	<u>709,836</u>	<u>480,000</u>

Minimum payments under these agreements during the next years amount to \$67,000 in 2004, \$238,682 in 2005 and \$37,682 in 2006.

By virtue of the commercial license agreement signed on May 11, 2004, the Company will pay, beginning January 2005, annual royalties on implant net sales. Minimum royalties of \$25,000 will be paid if no sales occur during a fiscal year. In addition, based on attainable performance objectives, the Company will pay \$125,000 in June 2007 and October 2008, and \$250,000 in November 2009. This agreement will expire, on a per country basis, on the date patents expire or by mutual agreement between the parties in accordance with the terms applicable.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As at September 30, 2004 and December 31, 2003

(unaudited)

15 - STOCK-BASED COMPENSATION

The Company has established a stock-option plan whereby the Board of Directors may grant stock options to directors, executive officers, key employees and consultants providing services to the Company. The Board of Directors determines, at its discretion, the vesting terms, if applicable, the expiry date of options and the number of options to be granted. The Company's stock-option plan as at September 30, 2004 and the changes during the periods are summarized in the following table:

	Number	Weighted average exercise price
		2004
		\$
Outstanding, as at December 31, 2002		
Awarded	3,496,506	0.47
Exercised	(2,222)	0.53
Cancelled	(270,000)	0.53
Outstanding, as at September 30, 2003	3,224,284	0.47
Awarded	290,000	1.39
Exercised	(232,222)	0.17
Cancelled	(15,556)	0.53
Outstanding, as at December 31, 2003	3,266,506	0.63
Awarded	1,090,433	1.63
Exercised	(386,948)	0.58
Cancelled	(198,232)	1.03
Outstanding, as at September 30, 2004	3,771,759	0.90
Exercisable, at the end of the current period	1,947,596	0.72

16 - COMPARATIVE FIGURES

Some comparative figures have been reclassified to conform with the presentation adopted in the current period.