

Victhom Human Bionics Inc.

**Consolidated Interim
Financial Statements
March 31, 2006 and 2005**

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Victhom Human Bionics Inc.

Consolidated Statements of Operations

Three-month periods ended on March 31

(unaudited)

	<u>2006</u>	<u>2005</u>
	\$	\$
Revenues	<u>521,516</u>	<u>423,180</u>
Expenses		
Cost of revenues	-	416,202
Research and development	2,034,493	1,661,652
Tax credits and grants	(280,818)	(356,015)
General and administrative	1,070,643	776,844
Financial	454,765	65,071
	<u>3,279,083</u>	<u>2,563,755</u>
Net loss	<u>2,757,567</u>	<u>2,140,575</u>
Weighted average number of common shares outstanding	<u>50,386,369</u>	<u>49,931,444</u>
Basic and diluted net loss per share	<u>0.055</u>	<u>0.043</u>

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

Victhom Human Bionics Inc.

Consolidated Statements of Contributed Surplus and Deficit

Three-month periods ended on March 31

(unaudited)

	<u>2006</u>	<u>2005</u>
	\$	\$
CONTRIBUTED SURPLUS		
Balance, beginning of period	6,981,595	2,254,780
Warrants issued in private placement	-	3,269,621
Warrants issued related to deferred financing costs	-	293,425
Amount related to instalments on convertible debenture (Note 6)	-	54,993
Stock-based compensation (Note 8)	<u>293,036</u>	<u>209,163</u>
Balance, end of period	<u><u>7,274,631</u></u>	<u><u>6,081,982</u></u>
DEFICIT		
Balance, beginning of period	(21,712,171)	(13,502,488)
Net loss	<u>(2,757,567)</u>	<u>(2,140,575)</u>
Balance, end of period	<u><u>(24,469,738)</u></u>	<u><u>(15,643,063)</u></u>

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

Victhom Human Bionics Inc.

Consolidated Statements of Cash Flows

Three-month periods ended on March 31

(unaudited)

	2006	2005
	\$	\$
OPERATING ACTIVITIES		
Net loss	(2,757,567)	(2,140,575)
Non-cash items		
Stock-based compensation (Note 8)	293,036	209,163
Interest on convertible debentures	501,414	30,950
Amortization of property, plant and equipment	159,821	113,666
Amortization of deferred financing costs	81,604	11,807
Amortization of deferred investment tax credits	(1,494)	(1,897)
Changes in working capital items	116,831	(71,839)
Cash flows from operating activities	<u>(1,606,355)</u>	<u>(1,848,725)</u>
INVESTING ACTIVITIES		
Investments	1,974,182	1,547,000
Property, plant and equipment	(141,540)	(190,373)
Intangible assets	(87,062)	(113,434)
Cash flows from investing activities	<u>1,745,580</u>	<u>1,243,193</u>
FINANCING ACTIVITIES		
Demand loan	820,000	960,000
Repayment of long-term debt	(11,302)	(1,066,278)
Deferred financing costs	-	(1,191,050)
Issue of convertible debentures	-	18,354,000
Repayment of convertible debentures	-	(500,000)
Cash flows from financing activities	<u>808,698</u>	<u>16,556,672</u>
Net increase in cash and cash equivalents	947,923	15,951,140
Cash and cash equivalents, beginning of period	<u>744,104</u>	<u>2,840,071</u>
Cash and cash equivalents, end of period	<u><u>1,692,027</u></u>	<u><u>18,791,211</u></u>

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

Issue of shares on conversion of convertible debenture	-	132,683
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The accompanying notes are an integral part of the consolidated interim financial statements.

Victhom Human Bionics Inc.

Consolidated Balance Sheets

as of March 31, 2006 and December 31, 2005

	(Unaudited) March 31, 2006 \$	December 31, 2005 \$
ASSETS		
Current assets		
Cash and cash equivalents	1,692,027	744,104
Short-term investments (Note 3)	11,651,499	13,625,681
Accounts receivable (Note 4)	1,565,004	1,677,693
Inventories	374,618	371,514
Prepaid expenses	121,377	162,436
	<u>15,404,524</u>	<u>16,581,428</u>
Notes receivable	10,815	10,815
Property, plant and equipment	2,805,374	2,823,655
Intangible assets	9,018,290	8,931,228
Deferred financing costs	1,271,676	1,353,280
	<u>28,510,679</u>	<u>29,700,406</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,167,003	1,200,817
Demand loan, secured by investment tax credits receivable, prime rate plus 1.5% (7.00%), payable in one instalment on maturity in November 2006 (Note 5)	820,000	-
Instalments on long-term debt	32,488	35,499
Instalments on liability component of convertible debentures (Note 6)	321,195	-
	<u>2,340,686</u>	<u>1,236,316</u>
Deferred investment tax credits	27,283	28,777
Long-term debt	36,018	44,309
Liability component of convertible debentures (Note 6)	14,250,090	14,069,871
	<u>16,654,077</u>	<u>15,379,273</u>
SHAREHOLDERS' EQUITY		
Equity component of convertible debentures (Note 6)	1,551,780	1,551,780
Capital stock (Note 7)	27,499,929	27,499,929
Contributed surplus	7,274,631	6,981,595
Deficit	(24,469,738)	(21,712,171)
	<u>11,856,602</u>	<u>14,321,133</u>
	<u>28,510,679</u>	<u>29,700,406</u>

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

On behalf of the Board,

/s/ Daniel Johnson
Chairman

/s/ Nitin Kaushal
Director

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of March 31, 2006 and December 31, 2005

(unaudited)

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, incorporated under the Canada Business Corporations Act, conducts human bionics research for the design and development of prosthetic products, neuroelectronic 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 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 have its products accepted by the regulatory agencies and the market.

2 - FINANCIAL STATEMENTS PRESENTATION

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. The financial information was prepared in accordance with the same accounting policies and methods as the Audited Annual Consolidated Financial Statements for the year ended on December 31, 2005, but do not include all the information required in complete consolidated financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto in the Company's 2005 Annual Report. The results of operations for the interim periods presented do not necessarily reflect results for the full year.

3 - SHORT-TERM INVESTMENTS

	March 31, 2006	December 31, 2005
	<u>\$</u>	<u>\$</u>
Bonds, bearing interest at 3.34% (2.21% to 3.19% in 2005) annually, maturing at different dates until November 2006	11,640,684	13,614,866
Notes receivable maturing within one year	10,815	10,815
	<u>11,651,499</u>	<u>13,625,681</u>

4 - ACCOUNTS RECEIVABLE

	March 31, 2006	December 31, 2005
	<u>\$</u>	<u>\$</u>
Investment tax credits receivable	1,451,167	1,166,075
Sales taxes receivable	99,503	168,529
Trade accounts receivable	1,080	337,865
Others	13,254	5,224
	<u>1,565,004</u>	<u>1,677,693</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of March 31, 2006 and December 31, 2005

(unaudited)

5 - CREDIT FACILITIES

The Company has credit facilities totaling \$1,625,000 with a Canadian bank. The credit facilities are composed of a loan for \$1,125,000, secured by investment tax credits receivable, bearing interest at prime rate plus 1.5% (7.00%) and an option to put its accounts receivable in factoring for a total amount of \$500,000. The loan is also secured by a first call of \$1,125,000 on the universality of the Company's property. The credit facilities are available until April 2006. Pursuant to the terms and conditions of these credit facilities, the Company is subject to certain debt covenants with regards to maintaining financial ratios. As of March 31, 2006, all debt covenants are respected.

6 - CONVERTIBLE DEBENTURES

The following table illustrates variations in the periods:

	Liability component	Equity component
	\$	\$
Balance as of December 31, 2004	919,482	104,500
Instalment on convertible debenture	(500,000)	(54,993)
Convertible debenture converted into common shares	(118,931)	(13,752)
Issue of convertible debentures	13,532,599	1,551,780
Imputed interest	30,950	-
Balance as of March 31, 2005	<u>13,864,100</u>	<u>1,587,535</u>
Instalment on convertible debenture	(325,000)	(35,755)
Imputed interest	530,771	-
Balance as of December 31, 2005	<u>14,069,871</u>	<u>1,551,780</u>
Imputed interest	501,414	-
	14,571,285	1,551,780
Instalments due within one year	<u>321,195</u>	<u>-</u>
Balance as of March 31, 2006	<u>14,250,090</u>	<u>1,551,780</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of March 31, 2006 and December 31, 2005

(unaudited)

7 - 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 over the periods:

	Number of shares	Amount \$
Balance as of December 31, 2004	49,851,444	27,132,078
Shares issued related to conversion of convertible debenture	100,000	132,683
Balance as of March 31, 2005	49,951,444	27,264,761
Stock options exercised	434,925	235,168
Balance as of December 31, 2005	50,386,369	27,499,929
Balance as of March 31, 2006	50,386,369	27,499,929

Warrants

As part of its financing operations, the Company issued warrants to investors entitling them with the right to purchase shares at a predetermined price. Each warrant issued can be used to purchase one common share of the Company.

At the time of issue, the fair value of the warrants issued, as part of the financing, is recognized as a decrease in capital stock when issuance of shares or is reported as deferred financing costs when issuance of debts. The consideration is recognized as contributed surplus in the balance sheet.

No warrants were issued during the first three months of 2006. For the same period in 2005, the fair value of each warrant granted is estimated at the grant date using the Black-Scholes option pricing model, based on the following weighted average assumptions: expected volatility of 60%, risk-free interest rate of 3.85%, no expected dividends and expected life of 4.8 years. The weighted average fair value of the warrants granted during the period in 2005 is \$0.47.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of March 31, 2006 and December 31, 2005

(unaudited)

7 - CAPITAL STOCK (Continued)

Outstanding warrants at the end of the periods as well as the changes during the periods are summarized in the table below:

	Number	Weighted average exercise price
		\$
Outstanding, as of December 31, 2004	5,952,498	1.74
Granted	7,613,511	1.58
Canceled	(1,388,889)	1.35
Outstanding, as of March 31, 2005	<u>12,177,120</u>	<u>1.69</u>
Canceled	(4,192,723)	1.85
Outstanding, as of December 31, 2005	<u>7,984,397</u>	<u>1.60</u>
Canceled	(370,886)	2.00
Outstanding, as of March 31, 2006	<u>7,613,511</u>	<u>1.58</u>

As of March 31, 2006, the following warrants were outstanding:

Range of exercise prices	Number of warrants	Weighted average remaining contractual live (in years)	Weighted average exercise price
			\$
\$1.35 to \$1.47	543,822	1.00	1.35
\$1.48 to \$1.60	7,069,689	4.00	1.60
<u>\$1.35 to \$1.60</u>	<u>7,613,511</u>	<u>3.79</u>	<u>1.58</u>

8 - 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 exercise price of stock options is the market value of the Company's common shares at the market close on the date they are granted.

The fair value of the stock options granted is estimated at the grant date using the Black-Scholes option pricing model, based on the following weighted average assumptions: expected volatility of 60%, risk-free interest rate of 4.12% (4.35% in 2005), no expected dividends and expected life of 4 years (6 in 2005). The weighted average fair value of the stock options granted during the periods is \$0.60 (\$0.69 in 2005).

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of March 31, 2006 and December 31, 2005
(unaudited)

8 - STOCK-BASED COMPENSATION (Continued)

The Company's stock option plan at the end of the periods as well as the changes during the periods are summarized in the table below:

	Number	Weighted average exercise price \$
Outstanding, as of December 31, 2004	3,904,678	0.93
Granted	945,000	1.15
Canceled	(29,162)	0.92
Outstanding, as of March 31, 2005	4,820,516	0.97
Granted	113,500	1.17
Exercised	(434,925)	0.38
Canceled	(252,449)	1.40
Outstanding, as of December 31, 2005	4,246,642	1.01
Granted	250,000	1.20
Canceled	(10,835)	1.41
Outstanding, as of March 31, 2006	4,485,807	1.02
Exercisable, as of March 31, 2006	4,044,765	0.98
(3,603,854 at \$0.93 on December 31, 2005)		

As of March 31, 2006, the Company recorded \$293,036 (\$209,163 in 2005) as stock-based compensation.

As of March 31, 2006, the following stock options were outstanding:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual live (in years)	Weighted average exercise price \$
\$0.15 to \$0.30	160,000	1.04	0.15
\$0.47 to \$0.71	1,476,667	1.79	0.53
\$0.72 to \$1.09	218,200	2.10	0.89
\$1.10 to \$1.65	2,630,940	5.94	1.36
\$0.15 to \$1.65	4,485,807	4.21	1.02

As of March 31, 2006, the following stock options were exercisable:

Range of exercise prices	Number of exercisable options	Weighted average exercise price \$
\$0.15 to \$0.30	160,000	0.15
\$0.47 to \$0.71	1,476,667	0.53
\$0.72 to \$1.09	213,200	0.89
\$1.10 to \$1.65	2,194,898	1.34
\$0.15 to \$1.65	4,044,765	0.98

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of March 31, 2006 and December 31, 2005

(unaudited)

8 - STOCK-BASED COMPENSATION (Continued)

The vesting period occurs over 36 months, with no more than a third of options vesting over 12 months, with the exception of the Chief Executive Officer, whose rights vest at a rate of 25% upon signing and the balance over three years at a rate of one third per year, and the Chief Financial Officer, whose rights vest at a rate of 20% upon signing and the balance over three years at a rate of 30%, 25%, 25% respectively per year.

9 - FINANCIAL INSTRUMENTS

As of March 31, 2006, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of US\$ 86,017 (US\$ 781,884 in 2005), accounts receivable in the amount of US\$ 925 (US\$ 180,915 in 2005) and accounts payable in the amount of US\$ 22,606 (US\$ 36,105 in 2005).

10 - SECTORIAL INFORMATION

Revenues are derived from a European medical device company and represent 100% of the trade accounts receivable in 2006, the same as in 2005.

All property, plant and equipment are located in Canada.

11 - COMPARATIVE FIGURES

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