

Victhom Human Bionics Inc.

**Consolidated Interim
Financial Statements
June 30, 2006 and 2005**

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Victhom Human Bionics Inc.

Consolidated Statements of Operations

Periods ended on June 30

(unaudited)

	<u>2006</u> <u>(3 months)</u> \$	<u>2005</u> <u>(3 months)</u> \$	<u>2006</u> <u>(6 months)</u> \$	<u>2005</u> <u>(6 months)</u> \$
Revenues	767,895	759,321	1,289,411	1,182,501
Expenses				
Cost of revenues	-	222,245	-	638,448
Research and development	2,101,227	1,663,549	4,135,719	3,325,201
Tax credits and grants	(277,730)	(147,908)	(558,548)	(503,923)
General and administrative	906,059	1,038,493	1,976,702	1,815,338
Financial	548,176	532,673	1,002,942	597,744
	3,277,732	3,309,053	6,556,815	5,872,808
Net loss	2,509,837	2,549,732	5,267,404	4,690,306
Weighted average number of common shares outstanding	50,409,314	50,177,280	50,397,905	50,055,041
Basic and diluted net loss per share	0.050	0.051	0.105	0.094

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

Victhom Human Bionics Inc.

Consolidated Statements of Contributed Surplus and Deficit

Periods ended on June 30

(unaudited)

	<u>2006</u> <u>(3 months)</u> \$	<u>2005</u> <u>(3 months)</u> \$	<u>2006</u> <u>(6 months)</u> \$	<u>2005</u> <u>(6 months)</u> \$
CONTRIBUTED SURPLUS				
Balance, beginning of period	7,274,631	6,081,981	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 related to: (Note 9)				
Stock options vested	115,499	190,010	408,535	399,172
Stock options exercised	<u>(12,576)</u>	<u>(60,168)</u>	<u>(12,576)</u>	<u>(60,168)</u>
Balance, end of period	<u>7,377,554</u>	<u>6,211,823</u>	<u>7,377,554</u>	<u>6,211,823</u>
DEFICIT				
Balance, beginning of period	(24,469,738)	(15,643,062)	(21,712,171)	(13,502,488)
Net loss	<u>(2,509,837)</u>	<u>(2,549,732)</u>	<u>(5,267,404)</u>	<u>(4,690,306)</u>
Balance, end of period	<u>(26,979,575)</u>	<u>(18,192,794)</u>	<u>(26,979,575)</u>	<u>(18,192,794)</u>

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

Victhom Human Bionics Inc.

Consolidated Statements of Cash Flows

Periods ended on June 30

(unaudited)

	2006	2005	2006	2005
	(3 months)	(3 months)	(6 months)	(6 months)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(2,509,837)	(2,549,732)	(5,267,404)	(4,690,306)
Non-cash items				
Stock-based compensation (Note 9)	115,499	190,010	408,535	399,172
Interest on convertible debentures	525,132	132,800	1,026,546	163,750
Amortization of property, plant and equipment	167,036	131,045	326,857	244,712
Amortization of deferred financing costs	81,605	82,081	163,209	93,888
Amortization of deferred investment tax credits	(1,494)	(1,879)	(2,988)	(3,776)
Changes in working capital items	46,494	(214,814)	163,325	(286,653)
Cash flows from operating activities	<u>(1,575,565)</u>	<u>(2,230,489)</u>	<u>(3,181,920)</u>	<u>(4,079,213)</u>
INVESTING ACTIVITIES				
Investments	1,203,573	(13,002,449)	3,177,755	(11,455,449)
Property, plant and equipment	(336,479)	(364,513)	(478,019)	(554,887)
Intangible assets	(67,914)	(75,224)	(154,976)	(188,658)
Cash flows from investing activities	<u>799,180</u>	<u>(13,442,186)</u>	<u>2,544,760</u>	<u>(12,198,994)</u>
FINANCING ACTIVITIES				
Demand loan	-	-	820,000	960,000
Repayment of long-term debt	(8,397)	(65,994)	(19,699)	(1,132,272)
Deferred financing costs	-	(125,690)	-	(1,316,740)
Issue of convertible debentures	-	-	-	18,354,000
Repayment of convertible debentures	-	-	-	(500,000)
Issue of shares and warrants	25,440	150,290	25,440	150,290
Cash flows from financing activities	<u>17,043</u>	<u>(41,394)</u>	<u>825,741</u>	<u>16,515,278</u>
Net increase (decrease) in cash and cash equivalents	(759,342)	(15,714,069)	188,581	237,071
Cash and cash equivalents, beginning of period	<u>1,692,027</u>	<u>18,791,211</u>	<u>744,104</u>	<u>2,840,071</u>
Cash and cash equivalents, end of period	<u><u>932,685</u></u>	<u><u>3,077,142</u></u>	<u><u>932,685</u></u>	<u><u>3,077,142</u></u>

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

Victhom Human Bionics Inc.

Consolidated Balance Sheets

as of June 30, 2006 and December 31, 2005

	(Unaudited) June 30, 2006 \$	December 31, 2005 \$
ASSETS		
Current assets		
Cash and cash equivalents	932,685	744,104
Short-term investments (Note 3)	10,453,333	13,625,681
Accounts receivable (Note 4)	1,885,983	1,677,693
Inventories	374,370	371,514
Prepaid expenses	153,629	162,436
	<u>13,800,000</u>	<u>16,581,428</u>
Notes receivable	5,408	10,815
Property, plant and equipment	2,974,817	2,823,655
Intangible assets	9,086,204	8,931,228
Deferred financing costs	1,190,071	1,353,280
	<u>27,056,500</u>	<u>29,700,406</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,566,481	1,200,817
Demand loan, secured by investment tax credits receivable, prime rate plus 1.5% (7.50%), payable in one instalment on maturity in November 2006 (Note 5)	820,000	-
Instalments on long-term debt	32,042	35,499
	<u>2,418,523</u>	<u>1,236,317</u>
Deferred investment tax credits	25,789	28,777
Long-term debt	28,067	44,309
Liability component of convertible debentures (Note 6)	14,450,453	14,069,871
	<u>16,922,832</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)	28,183,909	27,499,929
Contributed surplus	7,377,554	6,981,595
Deficit	(26,979,575)	(21,712,171)
	<u>10,133,668</u>	<u>14,321,133</u>
	<u>27,056,500</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 June 30, 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

	June 30, 2006	December 31, 2005
	\$	\$
Bonds, bearing interest at 3.67% (2.21% to 3.19% in 2005) annually, maturing at different dates until November 2006	10,442,518	13,614,866
Notes receivable maturing within one year	10,815	10,815
	<u>10,453,333</u>	<u>13,625,681</u>

4 - ACCOUNTS RECEIVABLE

	June 30, 2006	December 31, 2005
	\$	\$
Investment tax credits receivable	1,728,897	1,166,075
Sales taxes receivable	138,129	168,529
Trade accounts receivable	1,393	337,865
Others	17,564	5,224
	<u>1,885,983</u>	<u>1,677,693</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of June 30, 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% (7.50%) 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 June 30, 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	163,750	-
Balance as of June 30, 2005	<u>13,996,900</u>	<u>1,587,535</u>
Instalment on convertible debenture	(325,000)	(35,755)
Imputed interest	397,971	-
Balance as of December 31, 2005	<u>14,069,871</u>	<u>1,551,780</u>
Imputed interest	380,582	-
Balance as of June 30, 2006	<u>14,450,453</u>	<u>1,551,780</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of June 30, 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
Stock options exercised	412,425	210,458
Balance as of June 30, 2005	<u>50,363,869</u>	<u>27,475,219</u>
Stock options exercised	22,500	24,710
Balance as of December 31, 2005	<u>50,386,369</u>	<u>27,499,929</u>
Shares issued related to interest due on convertible debenture	964,125	645,964
Stock options exercised	48,000	38,016
Balance as of June 30, 2006	<u>51,398,494</u>	<u>28,183,909</u>

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 six 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 June 30, 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 June 30, 2005	12,177,120	1.69
Canceled	(4,192,723)	1.85
Outstanding, as of December 31, 2005	7,984,397	1.60
Canceled	(370,886)	2.00
Outstanding, as of June 30, 2006	7,613,511	1.58

As of June 30, 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	0.75	1.35
\$1.48 to \$1.60	7,069,689	3.75	1.60
<u>\$1.35 to \$1.60</u>	<u>7,613,511</u>	<u>3.54</u>	<u>1.58</u>

8 - RELATED PARTY TRANSACTIONS

The Company carried out the following related party transactions:

	June 30, 2006	June 30, 2005
	\$	\$
Expenses		
Professional fees paid under agreements concluded with entities controlled by directors	<u>70,353</u>	<u>20,823</u>

As of June 30, 2006, an amount of \$12,727 (\$0 in 2005) was due to the related party entities.

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

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of June 30, 2006 and December 31, 2005

(unaudited)

9 - 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 4.17% (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 \$0.51 (\$0.69 in 2005).

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
Exercised	(412,425)	0.36
Canceled	(140,805)	1.37
Outstanding, as of June 30, 2005	4,296,448	1.02
Granted	113,500	1.17
Exercised	(22,500)	0.73
Canceled	(140,806)	1.35
Outstanding, as of December 31, 2005	4,246,642	1.01
Granted	600,000	1.03
Exercised	(48,000)	0.53
Canceled	(45,371)	1.37
Outstanding, as of June 30, 2006	4,753,271	1.01
Exercisable, as of June 30, 2006	4,157,414	0.99
(3,603,854 at \$0.93 on December 31, 2005)		

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of June 30, 2006 and December 31, 2005

(unaudited)

9 - STOCK-BASED COMPENSATION (Continued)

As of June 30, 2006, the Company recorded \$408,535 (\$399,172 in 2005) as stock-based compensation.

As of June 30, 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	1.00	0.15
\$0.47 to \$0.71	1,428,667	1.54	0.53
\$0.72 to \$1.09	217,104	1.85	0.89
\$1.10 to \$1.65	2,947,500	5.59	1.31
<u>\$0.15 to \$1.65</u>	<u>4,753,271</u>	<u>4.05</u>	<u>1.01</u>

As of June 30, 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	1,428,667	0.53
\$0.72 to \$1.09	215,298	0.89
\$1.10 to \$1.65	2,353,449	1.33
<u>\$0.15 to \$1.65</u>	<u>4,157,414</u>	<u>0.99</u>

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.

10 - COMMITMENTS

The Company has entered into an agreement for a total amount of \$246,457 with an entity to participate in research and development projects. As of June 30, 2006, minimum payments under this agreement amount to \$103,695 in 2006 and \$81,148 in 2007. An amount of \$61,614 was recorded as an expense during the current period.

The Company has also entered into agreements for a total of \$100,000 with two entities controlled by directors. The minimum payments under these agreements are due in 2006.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of June 30, 2006 and December 31, 2005

(unaudited)

11 - FINANCIAL INSTRUMENTS

As of June 30, 2006, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of US\$ 113,527 (US\$ 813,661 in 2005), accounts receivable in the amount of US\$ 1,200 (US\$ 109,643 in 2005) and accounts payable in the amount of US\$ 109,116 (US\$ 50,880 in 2005).

12 - 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.

13 - COMPARATIVE FIGURES

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