

Victhom Human Bionics Inc.

**Consolidated Financial Statements
December 31, 2006 and 2005**

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Auditors' Report

To the Shareholders of
Victhom Human Bionics Inc.

We have audited the balance sheets of Victhom Human Bionics Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations, contributed surplus, deficits and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial consolidated statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/S/ Raymond Chabot Grant Thornton, LLP

Chartered accountants

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March 9, 2007 (March 16, 2007 for note 18)

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Victhom Human Bionics Inc.
Consolidated Statements of Operations
 Years ended on December 31

	<u>2006</u>	<u>2005</u>
	\$	\$
Revenues	<u>3,199,545</u>	<u>4,206,987</u>
Expenses		
Cost of revenues	443,606	1,606,309
Research and development	8,414,372	6,237,777
Tax credits and grants	(1,166,947)	(1,183,667)
General and administrative	3,521,522	3,976,291
Financial	2,133,158	1,779,960
	<u>13,345,711</u>	<u>12,416,670</u>
Net loss	<u>10,146,166</u>	<u>8,209,683</u>
Weighted average number of common shares outstanding	<u>50,902,311</u>	<u>50,217,425</u>
Basic and diluted net loss per share	<u>0.199</u>	<u>0.163</u>

The accompanying notes are an integral part of the consolidated financial statements and Note 15 provides additional information on the statements of operations.

Victhom Human Bionics Inc.

Consolidated Statements of Contributed Surplus and Deficit

Years ended on December 31

	<u>2006</u>	<u>2005</u>
	\$	\$
CONTRIBUTED SURPLUS		
Balance, beginning of year	6,981,595	2,254,780
Warrants issued in private placement (Note 10)	-	3,269,621
Warrants issued related to deferred financing costs	-	293,425
Amount related to instalments on convertible debenture (Note 10)	-	90,748
Stock-based compensation related to: (Note 13)		
Stock options vested	566,922	1,141,371
Stock options exercised	(12,576)	(68,350)
Balance, end of year	<u>7,535,941</u>	<u>6,981,595</u>
DEFICIT		
Balance, beginning of year	(21,712,171)	(13,502,488)
Net loss	<u>(10,146,166)</u>	<u>(8,209,683)</u>
Balance, end of year	<u>(31,858,337)</u>	<u>(21,712,171)</u>

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

Victhom Human Bionics Inc.
Consolidated Statements of Cash Flows
Years ended on December 31

	2006	2005
	\$	\$
OPERATING ACTIVITIES		
Net loss	(10,146,166)	(8,209,683)
Non-cash items		
Stock-based compensation (Note 13)	566,922	1,141,371
Interest on convertible debentures	2,098,866	561,721
Amortization of property, plant and equipment	704,900	557,997
Amortization of deferred financing costs	325,752	255,893
Changes in working capital items	(940,661)	(354,364)
Cash flows from operating activities	<u>(7,390,387)</u>	<u>(6,047,065)</u>
INVESTING ACTIVITIES		
Investments	13,636,497	(9,557,540)
Property, plant and equipment	(834,448)	(1,211,769)
Intangible assets	(466,852)	(301,606)
Cash flows from investing activities	<u>12,335,197</u>	<u>(11,070,915)</u>
FINANCING ACTIVITIES		
Demand loan	820,000	-
Repayment of long-term debt	(35,499)	(1,366,495)
Deferred financing costs	-	(1,307,310)
Issue of convertible debentures	-	18,354,000
Repayment of convertible debentures	-	(825,000)
Issue of shares	25,440	166,818
Cash flows from financing activities	<u>809,941</u>	<u>15,022,013</u>
Net increase (decrease) in cash and cash equivalents	5,754,750	(2,095,967)
Cash and cash equivalents, beginning of year	<u>744,104</u>	<u>2,840,071</u>
Cash and cash equivalents, end of year	<u><u>6,498,854</u></u>	<u><u>744,104</u></u>
Interest paid during the year	56,010	1,116,706
Cash flows from non-monetary investing and financing activities are detailed as follows:		
Issue of shares on:		
Exercise of stock options	12,576	68,350
Conversion of convertible debenture	-	132,683
Payment of interest due on convertible debentures	1,302,634	-
Convertible debentures:		
Warrants issued related to deferred financing costs	-	293,425
Contributed surplus related to repayment of convertible debentures	-	90,748

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

Victhom Human Bionics Inc.

Consolidated Balance Sheets

as of December 31

	2006	2005
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	6,498,854	744,104
Short-term investments (Note 4)	-	13,625,681
Accounts receivable (Note 5)	2,985,348	1,688,509
Inventories	-	371,514
Prepaid expenses	229,768	162,436
	<u>9,713,970</u>	<u>16,592,243</u>
Property, plant and equipment (Note 6)	2,924,426	2,794,878
Intangible assets (Note 7)	9,398,080	8,931,228
Deferred financing costs on the convertible debentures	1,027,528	1,353,280
	<u>23,064,004</u>	<u>29,671,629</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,263,629	1,200,817
Demand loan (Note 8)	820,000	-
Instalments on long-term debt (Note 9)	29,799	35,499
	<u>2,113,428</u>	<u>1,236,316</u>
Long-term debt (Note 9)	14,510	44,309
Liability component of convertible debentures (Note 10)	14,866,103	14,069,871
	<u>16,994,041</u>	<u>15,350,496</u>
SHAREHOLDERS' EQUITY		
Equity component of convertible debentures (Note 10)	1,551,780	1,551,780
Capital stock (Note 11)	28,840,579	27,499,929
Contributed surplus	7,535,941	6,981,595
Deficit	(31,858,337)	(21,712,171)
	<u>6,069,963</u>	<u>14,321,133</u>
	<u>23,064,004</u>	<u>29,671,629</u>

The accompanying notes are an integral part of the consolidated 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 December 31, 2006 and 2005

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, incorporated under the Canada Business Corporations Act, is a medical device company that specializes in the development and commercialization of bionic devices aimed at improving the quality of life of individuals suffering from certain physical dysfunctions. The Company has two business units. Victhom's Neurobionix business unit develops implantable closed-loop system ("CLS") devices for the measurement (sensing) and the stimulation of peripheral nerves for the restoration of physiological functions, involving neurosensor implants and neurostimulators. Victhom's Biotronix business unit develops biomechatronic product candidates to support or replace peripheral limbs in what is known as orthotics and prosthetics or "O&P" markets.

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 - ACCOUNTING POLICIES

Basis of consolidation

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

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates.

Cash and cash equivalents

The Company's policy is to present short-term investments immediately cashable without penalty or with a term of three months or less from the acquisition date with cash and cash equivalents.

Short-term investments

Short-term investments, other than those considered as cash equivalents, are recorded at the lower of cost and market value.

Inventories

The raw materials are valued at the lower of average cost and current replacement cost.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

as of December 31, 2006 and 2005

2 - ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost, and the assets under capital leases are recorded at cost, which is the present value of the required minimum payment under the lease agreement, less the related executory costs.

Property, plant and equipment are amortized over their estimated useful life according to the following methods and annual rates:

	<u>Methods</u>	<u>Rates</u>
Computer equipment	Diminishing balance	30.0%
Furniture and equipment	Diminishing balance	20.0%
Leasehold improvements	Straight-line	12.5%
Assets under capital leases		
Computer equipment	Diminishing balance	30.0%
Furniture and equipment	Diminishing balance	20.0%

Intangible assets

Patents, commercial license agreements and acquired technology are recorded at cost and will be amortized on a straight-line basis over ten years beginning the year in which the developed products are marketed.

Deferred financing costs

Deferred financing costs relate to the issue of convertible debentures and other credit facilities. They are amortized on a straight-line basis over the same terms as the related convertible debentures and other credit facilities. Should the debentures be converted, or the credit facilities be reimbursed, the unamortized balance of financing costs will be transferred respectively to capital-stock or expenses.

With the application in 2007 of the CICA section 3855 "Financial Instruments - Recognition and Measurement", the transaction costs will be deferred and presented against the amount of debts or convertible debentures issued. If the transaction costs relate to credit facilities, they will be recorded as expenses. The deferred financing costs will be amortized using the effective-rate method over the same terms as the related debts or convertible debentures.

Share issuance costs

The financing costs related to the issuance of common shares are recorded against the amount of the common shares issued.

Revenue recognition

By virtue of a marketing agreement, the Company must attain development objectives for its products based on a pre-determined timetable to the benefit of the third party. Revenues are recognized in the statement of operations when they are received. The agreement does not contemplate any terms of repayment in the event that the product is not marketed.

The revenues from research and development service contracts and/or products are recognized, based on the agreements signed by the parties, when they are delivered and accepted by the client.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

as of December 31, 2006 and 2005

2 - ACCOUNTING POLICIES (Continued)

Foreign currency translation

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rates in effect at transaction dates. Revenues and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of amortization which is translated at the historical rate. Gains and losses are included in the results of the year.

Research and development costs and investment tax credits

Research costs are expensed as they are incurred. Development costs are deferred when they respect the generally accepted criteria to the extent that their recovery can reasonably be regarded as assured. They are amortized over a three- to five-year period.

Research and development tax credits are applied against the related costs in the year during which they are incurred. Investment tax credits for property, plant and equipment are presented as deferred credits and amortized to income on the same basis as the related depreciable property, plant and equipment are depreciated. The costs are incurred, provided that the Company is reasonably certain that the credits will be received. The investment tax credits must be examined and approved by the tax authorities and the amounts granted might differ from the amounts recorded.

Stock option plan

The Company provides a stock option plan, which is described in Note 13. A stock-based compensation expense is recognized with respect to this plan for stock options issued on or after January 10, 2003 for employees. The measurement of compensation cost is based on the outcome of the performance condition and on the forfeitures by individual employees as they occur. Any consideration paid when exercising stock options and any contributed surplus related to these options are credited to capital stock.

Earnings per share

Basic earnings per common share are computed by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares at the later of the beginning of the year or the issuance date. The treasury stock method is used to determine the dilutive effect of stock options and warrants. The "if-converted" method is used to determine the dilutive effect of convertible debentures.

The convertible debentures, the warrants and the stock options were not included in the computations of diluted earnings per share for the years ended on December 31, 2006 and 2005 because the Company reported losses and the inclusion of the securities would be anti-dilutive.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

as of December 31, 2006 and 2005

2 - ACCOUNTING POLICIES (Continued)

Income taxes

The Company uses the tax liability method to account for income taxes. Under this method, future tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company records a valuation allowance for future income tax asset if, based on available information, it is more likely than not that some or all of the future income tax asset will not be realized.

3 - INCOME TAXES

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. This difference is due to the following items:

	2006	2005
	\$	\$
Net loss	<u>(10,146,166)</u>	<u>(8,209,683)</u>
Income taxes calculated using the combined federal and provincial income tax rate in Canada of 32.02% (31.02% in 2005)	(3,249,000)	(2,547,000)
Increase (decrease) in income taxes resulting from the following:		
Unrecognized future income tax assets	2,854,000	2,768,000
Non deductible stock-based compensation	182,000	354,000
Interest on convertible debentures	255,000	174,000
Variation due to income tax rate adjustment	210,000	(484,000)
Research and development tax credit as per financial statements	(116,000)	(104,000)
Amortization of financing expenses	(82,000)	(109,000)
Non deductible expenses and other items	(54,000)	(52,000)
Income taxes	<u>-</u>	<u>-</u>

The future income tax assets and liabilities result from the differences between the carrying amount and the tax basis of the following:

	2006	2005
	\$	\$
Future income tax assets		
Non-capital losses	4,216,000	3,063,000
Research and development expenses	6,526,000	4,503,000
	<u>10,742,000</u>	<u>7,566,000</u>
Future income tax liabilities		
Property, plant and equipment	478,000	460,000
Other assets	413,000	109,000
	<u>891,000</u>	<u>569,000</u>
	9,851,000	6,997,000
Valuation allowance	(9,851,000)	(6,997,000)
Net future income taxes	<u>-</u>	<u>-</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

as of December 31, 2006 and 2005

3 - INCOME TAXES (Continued)

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, are as follows:

	Federal	Provincial
	\$	\$
Amount of losses for tax purposes carried forward:		
2007	56,000	56,000
2008	397,000	401,000
2009	1,185,000	1,184,000
2010	1,383,000	1,014,000
2014	4,480,000	3,593,000
2015	1,940,000	1,940,000
2016	3,125,000	5,065,000
	<u>12,566,000</u>	<u>13,253,000</u>
Eligible research and development expenses to be deferred over an undetermined period	19,375,000	22,644,000
Amount of temporary variances to be deferred over an undetermined period	<u>2,708,000</u>	<u>2,708,000</u>
	<u>34,649,000</u>	<u>38,605,000</u>

In addition, the Company has investment tax credits amounting to approximately \$104,000, which are available until 2012, \$728,000 until 2013, \$952,000 until 2014, \$1,095,000 until 2015 and \$1,200,000 until 2016.

4 - SHORT-TERM INVESTMENTS

	2006	2005
	\$	\$
Bonds, bearing interest at 2.71% annually, maturing in November 2006	-	13,614,866
Notes receivable maturing within one year	-	10,815
	<u>-</u>	<u>13,625,681</u>

5 - ACCOUNTS RECEIVABLE

	2006	2005
	\$	\$
Investment tax credits receivable	2,412,701	1,166,075
Sales taxes receivable	114,100	168,529
Trade accounts receivable	454,745	337,865
Others	3,802	16,040
	<u>2,985,348</u>	<u>1,688,509</u>

Victhom Human Bionics Inc.
Notes to Consolidated Financial Statements
as of December 31, 2006 and 2005

6 - PROPERTY, PLANT AND EQUIPMENT

	2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	1,289,467	662,335	627,132
Furniture and equipment	1,930,355	770,442	1,159,913
Leasehold improvements	1,491,798	441,028	1,050,770
Assets under capital leases			
Computer equipment	165,963	128,187	37,776
Furniture and equipment	107,310	58,475	48,835
	<u>4,984,893</u>	<u>2,060,467</u>	<u>2,924,426</u>
	2005		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	1,162,773	422,389	740,384
Furniture and equipment	1,509,567	529,047	980,520
Leasehold improvements	1,204,832	245,868	958,964
Assets under capital leases			
Computer equipment	165,963	111,997	53,966
Furniture and equipment	107,310	46,266	61,044
	<u>4,150,445</u>	<u>1,355,567</u>	<u>2,794,878</u>

7 - INTANGIBLE ASSETS

	2006	2005
	\$	\$
Patents	1,031,562	585,595
Commercial license agreements	1,216,897	1,196,012
Acquired technology	7,149,621	7,149,621
	<u>9,398,080</u>	<u>8,931,228</u>

8 - CREDIT FACILITIES

In 2005, the Company had credit facilities totalling \$1,625,000 with a Canadian bank. The credit facilities were composed of: i) a loan for \$1,125,000, secured by 2005 investment tax credits receivable and secured by a first call of \$1,125,000 on the universality of the Company's property, bearing interest at prime rate plus 1.5% (7.5% in 2006 and 6.5% in 2005), maturing with the receipt of the related investment tax credit receivable; and ii) an accounts receivable factoring facility for a total amount of \$500,000. Since April 2006, only the loan is still available as credit facility. Pursuant to the terms and conditions of this credit facility, the Company is subject to certain debt covenants with regards to maintaining financial ratios. As of December 31, 2006, all debt covenants are respected.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

as of December 31, 2006 and 2005

9 - LONG-TERM DEBT

	<u>2006</u>	<u>2005</u>
	\$	\$
Obligations under capital leases, bearing interest at a weighted average rate of 12.84% (12.96% in 2005), payable in monthly instalments, maturing at different dates until April 2009	44,309	79,808
Instalments due within one year	<u>29,799</u>	<u>35,499</u>
	<u>14,510</u>	<u>44,309</u>

The instalments on long-term debt for the next years are as follows:

	<u>Obligations under capital leases</u>
	\$
2007	33,620
2008	14,717
2009	<u>616</u>
Total minimum lease payments	48,953
Amount included in minimum lease payments	
Interest expense	<u>4,644</u>
	<u>44,309</u>

10 - CONVERTIBLE DEBENTURES

The following table illustrates variations in the years:

	<u>Liability component</u>	<u>Equity component</u>
	\$	\$
Balance as of December 31, 2004 (a)	919,482	104,500
Reimbursement on convertible debenture	(825,000)	(90,748)
Convertible debenture converted into common shares	(118,931)	(13,752)
Issue of convertible debentures (b)	13,532,599	1,551,780
Imputed interest	1,661,400	-
Payment of interest	<u>(1,099,679)</u>	<u>-</u>
Balance as of December 31, 2005	----- 14,069,871	----- 1,551,780
Imputed interest	2,098,866	-
Payment of interest	<u>(1,302,634)</u>	<u>-</u>
Balance as of December 31, 2006	<u>14,866,103</u>	<u>1,551,780</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

as of December 31, 2006 and 2005

10 - CONVERTIBLE DEBENTURES (Continued)

- (a) Debenture issued to Global (GMPC) Holdings Inc. having a par value of \$1,000,000 secured by the investment tax credits receivable, bearing interest at the rate of 12% (effective rate of 18.7%) as of December 19, 2003, matured on December 17, 2005.
- (b) Debentures issued having a par value of \$18,354,000, unsecured, bearing interest at the rate of 7% (effective rate of 14.3%) as of March 22, 2005, maturing on March 22, 2010. The liability and the equity components represent \$15,084,379. The remaining amount of \$3,269,621 is the fair value of the warrants granted, recorded as contributed surplus. As part of this financing, the Company paid \$1,590,411 in financing costs which were recorded as deferred financing costs. The debentures are convertible into common share of the Company at the option of the holders, in whole or in part at any time and from time to time. The conversion price in effect on any conversion date shall be equal to \$1.35.

The liability component of the convertible debentures is the discounted value, at the date of issue, of the cash payments of interest and principal due under the terms of the convertible debentures, discounted at the rate of interest that would apply to a debt security without a conversion option, with similar maturity and risk. The equity component represents the value attributed to the difference between the amount issued and the liability component.

11 - 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 years:

	Number of shares	Amount \$
Balance as of December 31, 2004	49,851,444	27,132,078
Shares issued on conversion of convertible debenture	100,000	132,683
Stock options exercised	434,925	235,168
Balance as of December 31, 2005	50,386,369	27,499,929
Shares issued related to interest due on convertible debentures	2,158,071	1,302,634
Stock options exercised	48,000	38,016
Balance as of December 31, 2006	52,592,440	28,840,579

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

as of December 31, 2006 and 2005

11 - CAPITAL STOCK (Continued)

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 upon issuance of shares or is reported as deferred financing costs upon issuance of debt. The consideration is recognized as contributed surplus in the balance sheet.

No warrants were issued during the year 2006. For the same period in 2005, 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 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 in 2005 is \$0.47.

Outstanding warrants at the end of the years as well as the changes during the years 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
Expired	(5,581,612)	1.73
Outstanding, as of December 31, 2005	7,984,397	1.60
Expired	(370,886)	2.00
Outstanding, as of December 31, 2006	7,613,511	1.58

As of December 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	0.25	1.35
\$1.48 to \$1.60	7,069,689	3.25	1.60
<u>\$1.35 to \$1.60</u>	<u>7,613,511</u>	<u>3.04</u>	<u>1.58</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

as of December 31, 2006 and 2005

12 - RELATED PARTY TRANSACTIONS

The Company carried out the following related party transactions:

	<u>2006</u>	<u>2005</u>
	\$	\$
Expenses		
Professional fees paid under agreements entered into entities controlled by directors	<u>102,839</u>	<u>33,892</u>

As of December 31, 2006, there was no amount (\$11,801 in 2005) 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.

13 - 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 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 4.11% (4.31% in 2005), no expected dividends and expected life of 4 years (5.8 in 2005). The weighted average fair value of the stock options granted during the year is \$0.47 (\$0.68 in 2005).

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

	Number	Weighted average exercise price \$
Outstanding, as of December 31, 2004	3,904,678	0.93
Granted	1,058,500	1.15
Exercised	(434,925)	0.38
Forfeited	(244,311)	1.36
Canceled	(37,300)	1.30
Outstanding, as of December 31, 2005	<u>4,246,642</u>	<u>1.01</u>
Granted	765,000	0.95
Exercised	(48,000)	0.53
Forfeited	(387,913)	1.30
Outstanding, as of December 31, 2006	<u>4,575,729</u>	<u>0.98</u>
Exercisable, at year end of 2006 (3,603,854 at \$0.93 in 2005)	<u>4,106,406</u>	<u>0.98</u>

As of December 31, 2006, the Company recorded \$566,922 (\$1,141,371 in 2005) as stock-based compensation.

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13 - STOCK-BASED COMPENSATION (Continued)

As of December 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	0.50	0.15
\$0.47 to \$0.71	1,589,667	1.08	0.54
\$0.72 to \$1.09	558,200	3.08	0.90
\$1.10 to \$1.65	2,267,862	3.38	1.36
<u>\$0.15 to \$1.65</u>	<u>4,575,729</u>	<u>2.44</u>	<u>0.98</u>

As of December 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	1,471,698	0.53
\$0.72 to \$1.09	347,263	0.90
\$1.10 to \$1.65	2,127,445	1.37
<u>\$0.15 to \$1.65</u>	<u>4,106,406</u>	<u>0.98</u>

The vesting period may be as follows: a) over 36 months, with no more than a third of options vesting over 12 months, b) 25% of options upon signing and the balance over three years at a rate of one third per year, or c) 20% of options upon signing and the balance over three years at a rate of 30%, 25%, 25% respectively per year.

14 - COMMITMENTS

The Company has entered into a lease agreement, expiring on September 30, 2009, which calls for the payment of \$690,187 for the rental of premises. The lease has a two-year renewal option. Minimum payments during the next years amount to \$250,970 in 2007 and 2008, and \$188,247 in 2009.

During 2006, the Company has entered into agreements for a total amount of \$427,658 with different entities to participate in research and development projects. As of December 31, 2006, minimum payments under these agreements amount to \$184,274 in 2007 and \$49,135 in 2008. An amount of \$189,018 was recorded as an expense in 2006.

By virtue of a commercial license agreement signed on May 11, 2004, the Company has begun to pay annual royalties on implant net sales since January 2005. Minimum royalties are \$25,000 per year. In addition, based on reachable 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 applicable terms.

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15 - INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENT OF OPERATIONS

	2006	2005
	\$	\$
Government grants	4,461	(19,987)
Interest on investments	(390,799)	(382,976)
Research and development tax credits	(1,171,409)	(1,163,680)
Amortization of property, plant and equipment	704,900	557,997
Amortization of deferred financing costs	325,752	255,893
Interest on long-term debt and convertible debentures	2,154,876	1,760,988
Exchange rate loss	7,266	99,307
Stock-based compensation	566,922	1,141,371
Other financial expenses	36,063	46,748

16 - FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximates the carrying amount since they will mature shortly.

The fair value of long-term debt and the convertible debentures are determined by discounting contractual cash flows at the market interest rate on the balance sheet date for similar loans. The fair value of the long-term debt and the convertible debentures approximate the carrying amount.

The Company is exposed to currency risk due to its sales denominated in U.S. dollars.

As of December 31, 2006, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of US\$ 542,839 (US\$ 337,360 in 2005), accounts receivable in the amount of US\$ 389,736 (US\$ 290,512 in 2005) and accounts payable in the amount of US\$ 85,642 (US\$ 138,863 in 2005).

17 - SEGMENT INFORMATION

All the 2006 revenues are derived from a European medical device company. In 2005, the revenues were derived from a European and a U.S.-based medical device company and each represents respectively 50% of the revenues. One of these customers accounts for 99% of the trade accounts receivable in 2005.

All property, plant and equipment are located in Canada.

18 - SUBSEQUENT EVENTS

On March 16, 2007, the Company completed a public offering by way of short form prospectus of 35,323,156 units at a price of \$0.35 per unit for a total gross proceeds of \$12,363,105. Each unit consists of one common share of Victhom and one half of one common share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one common share at a price of \$0.45 over a three-year period from closing. Victhom intends to use the net proceeds of the offering for the completion of its ongoing clinical trials on the Neurostep in order to register the product with the European and American health authorities and for the completion of its development activities to adapt the Neurostep CLS Neuromodulator to target high potential new indications that could include, among others, sleep apnea, obesity and chronic pain.

19 - COMPARATIVE FIGURES

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