

**Consolidated Interim  
Financial Statements  
March 31, 2007 and 2006**

Consolidated Financial Statements	
Consolidated Statements of Operations	2
Consolidated Statements of Contributed Surplus and Deficit	3
Consolidated Statements of Cash Flows	4
Consolidated Balance Sheets	5
Notes to Consolidated Financial Statements	6 to 11

# Victhom Human Bionics Inc.

## Consolidated Statements of Operations

Three-month periods ended on March 31  
(unaudited)

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>Revenues</b>	<u>560 235</u>	<u>521 516</u>
<b>Expenses</b>		
Research and development	1 984 179	2 034 493
Tax credits and grants	(311 355)	(280 818)
General and administrative	634 343	1 070 643
Financial	507 376	454 765
	<u>2 814 543</u>	<u>3 279 083</u>
<b>Net loss</b>	<u>2 254 308</u>	<u>2 757 567</u>
Weighted average number of common shares outstanding	<u>58 485 485</u>	<u>50 386 369</u>
Basic and diluted net loss per share	<u>0,039</u>	<u>0,055</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>2007</u>	<u>2006</u>
	\$	\$
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	7 535 941	6 981 595
Warrants issued in public offering	2 358 361	-
Stock-based compensation related to: (Note 7)		
Stock options vested	60 066	293 036
Stock options exercised	<u>(1 747)</u>	<u>-</u>
Balance, end of period	<u><u>9 952 621</u></u>	<u><u>7 274 631</u></u>
<b>DEFICIT</b>		
Balance, beginning of period	(31 858 337)	(21 712 171)
Restatement in prior period related to new Section 3855 Financial Instruments (Note 2)	<u>128 294</u>	<u>-</u>
Restated balance, beginning of period	(31 730 043)	(21 712 171)
Net loss	<u>(2 254 308)</u>	<u>(2 757 567)</u>
Balance, end of period	<u><u>(33 984 351)</u></u>	<u><u>(24 469 738)</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)

	2007	2006
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(2 254 308)	(2 757 567)
Non-cash items		
Stock-based compensation (Note 7)	60 066	293 036
Interest on convertible debentures	586 971	501 414
Amortization of property, plant and equipment	166 106	158 327
Amortization of deferred financing costs	-	81 604
Amortization of intangible assets	18 150	-
Changes in working capital items	1 374 454	116 831
Cash flows from operating activities	<u>(48 561)</u>	<u>(1 606 355)</u>
<b>INVESTING ACTIVITIES</b>		
Investments	-	1 974 182
Property, plant and equipment	(54 165)	(141 540)
Intangible assets	(59 489)	(87 062)
Cash flows from investing activities	<u>(113 654)</u>	<u>1 745 580</u>
<b>FINANCING ACTIVITIES</b>		
Demand loan	(820 000)	820 000
Repayment of long-term debt	(8 455)	(11 302)
Issue of shares and warrants	11 524 769	-
Cash flows from financing activities	<u>10 696 314</u>	<u>808 698</u>
<b>Net increase in cash and cash equivalents</b>	<b>10 534 099</b>	<b>947 923</b>
Cash and cash equivalents, beginning of period	<u>6 498 854</u>	<u>744 104</u>
Cash and cash equivalents, end of period	<u><u>17 032 953</u></u>	<u><u>1 692 027</u></u>
Interest paid during the period	10 771	4 220
Cash flows from non-monetary investing and financing activities are detailed as follows:		
Issue of shares on:		
Exercise of stock options	1 747	-

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

# Victhom Human Bionics Inc.

## Consolidated Balance Sheets

as of March 31, 2007 and December 31, 2006  
(unaudited)

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	17 032 953	6 498 854
Accounts receivable (Note 3)	1 614 454	2 985 348
Prepaid expenses	161 338	229 768
	<u>18 808 745</u>	<u>9 713 970</u>
Property, plant and equipment	2 812 485	2 924 426
Intangible assets	9 439 419	9 398 080
	<u>31 060 649</u>	<u>22 036 476</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	1 198 759	1 263 629
Demand loan (Note 4)	-	820 000
Instalments on long-term debt	26 806	29 799
Instalments on liability component of convertible debentures (Note 5)	321 195	-
	<u>1 546 760</u>	<u>2 113 428</u>
Long-term debt	9 048	14 510
Liability component of convertible debentures (Note 5)	13 976 057	13 838 575
	<u>15 531 865</u>	<u>15 966 513</u>
<b>SHAREHOLDERS' EQUITY</b>		
Equity component of convertible debentures (Note 5)	1 551 780	1 551 780
Capital stock (Note 6)	38 008 734	28 840 579
Contributed surplus	9 952 621	7 535 941
Deficit	(33 984 351)	(31 858 337)
	<u>15 528 784</u>	<u>6 069 963</u>
	<u>31 060 649</u>	<u>22 036 476</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, 2007 and December 31, 2006

(unaudited)

### **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 the orthotics and prosthetics or "O&P" market.

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 STATEMENT PRESENTATION**

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. Except for the application of the new Section on financial instruments - recognition and measurement, 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, 2006, 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 MD&A as of December 31, 2006. The results of operations for the interim periods presented do not necessarily reflect results for the full year.

#### **Financial Instruments - Recognition and Measurement**

Effective January 1, 2007, the Company adopted the requirements of the new CICA Section 3855 relating to the recognition and measurement of financial instruments. This section is effective for fiscal years beginning on or after October 1, 2006. It stipulates standards governing when and in what amount a financial instruments is to be recorded on the balance sheet as well as standards for reporting gains and losses in financial instruments.

#### **Transition**

The recognition, derecognition and measurement methods used as well as the conventions followed to prepare the consolidated financial statements of periods prior to January 1, 2007, were unchanged and, therefore, those financial statements will not be restated.

The items recognized as an adjustment to the opening balances of retained earnings total \$128,294. The Company has changed its amortization method of deferred financing costs from a straight-line basis over 5 years to the effective-rate method as required by Section 3855.

# Victhom Human Bionics Inc.

## Notes to Consolidated Financial Statements

as of March 31, 2007 and December 31, 2006

### 3 - ACCOUNTS RECEIVABLE

	2007	2006
	\$	\$
Investment tax credits receivable	1 523 450	2 412 701
Sales taxes receivable	90 544	114 100
Trade accounts receivable	-	454 745
Others	460	3 802
	<u>1 614 454</u>	<u>2 985 348</u>

### 4 - DEMAND LOAN

During the period, the demand loan was reimbursed with the receipt of the 2005 related investment tax credits receivable.

### 5 - CONVERTIBLE DEBENTURES

The following table illustrates variations in the periods:

	Liability component	Equity component
	\$	\$
Balance as of December 31, 2005 (a)	14 069 871	1 551 780
Imputed interest	501 414	-
Balance as of March 31, 2006	<u>14 571 285</u>	<u>1 551 780</u>
Imputed interest	1 597 452	-
Payment of interest	<u>(1 302 634)</u>	-
Balance as of December 31, 2006	<u>14 866 103</u>	<u>1 551 780</u>
Restatement in prior period related to Section on Financial Instruments (Note 2)	(1 027 528)	-
Presentation of deferred financing costs against the convertible debentures (Note 2)	(128 294)	-
Imputed interest	586 971	-
	14 297 252	1 551 780
Instalments due within one year	321 195	-
<b>Balance as of March 31, 2007</b>	<u><b>13 976 057</b></u>	<u><b>1 551 780</b></u>

- (a) Debentures issued having a par value of \$18,354,000, unsecured, bearing interest at the rate of 7% (effective rate of 17.12%) 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 against the debenture amortized at the effective rate. The debentures are convertible into common shares 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.

# Victhom Human Bionics Inc.

## Notes to Consolidated Financial Statements

as of March 31, 2007 and December 31, 2006

### 6 - 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, 2005	50 386 369	27 499 929
Balance as of March 31, 2006	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
Shares issued related to public offering less expenses	35 323 156	9 162 875
Stock options exercised	6 667	5 280
<b>Balance as of March 31, 2007</b>	<b>87 922 263</b>	<b>38 008 734</b>

#### 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. In 2007, 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 3.91%, no expected dividends and expected life of 3 years. The weighted average exercised price of the warrants granted in 2007 is \$0.45.

**Victhom Human Bionics Inc.**  
**Notes to Consolidated Financial Statements**  
as of March 31, 2007 and December 31, 2006

**6 - 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, 2005	7 984 397	1,60
Expired	(370 886)	2,00
Outstanding, as of March 31, 2006	7 613 511	1,58
Outstanding, as of December 31, 2006	7 613 511	1,58
Granted	18 895 253	0,45
Expired	(543 822)	1,35
<b>Outstanding, as of March 31, 2007</b>	<b>25 964 942</b>	<b>0,76</b>

As of March 31, 2007, the following warrants were outstanding:

Range of exercise prices	Number of outstanding warrants	Weighted average remaining contractual life (in years)	Weighted average exercise price
			\$
\$0.45 to \$0.61	18 895 253	2,96	0,45
\$1,17 to \$1.60	7 069 689	3,00	1,60
\$0.45 to \$1.60	25 964 942	2,97	0,76

# Victhom Human Bionics Inc.

## Notes to Consolidated Financial Statements

as of March 31, 2007 and December 31, 2006

### 7 - 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.

No stock options were granted during the first three months of 2007. In 2006, 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%, no expected dividends and expected life of 4 years. The weighted average fair value of the stock options granted during 2006 is \$0.47.

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, 2005	4 246 642	1,01
Granted	250 000	1,20
Forfeited	(10 835)	1,41
Outstanding, as of March 31, 2006	4 485 807	1,02
Granted	515 000	0,82
Exercised	(48 000)	0,53
Forfeited	(377 078)	1,30
Outstanding, as of December 31, 2006	4 575 729	0,98
Exercised	(6 667)	0,53
Forfeited	(327 186)	0,97
<b>Outstanding, as of March 31, 2007</b>	<b>4 241 876</b>	<b>0,98</b>
Exercisable, as of March 31, 2007	(4,044,765 at \$0.98 in 2006)	0,99

As of March 31, 2007, the Company recorded \$60,066 (\$293,036 in 2006) as stock-based compensation.

# Victhom Human Bionics Inc.

## Notes to Consolidated Financial Statements

as of March 31, 2007 and December 31, 2006

### 7 - STOCK-BASED COMPENSATION (Continued)

As of March 31, 2007, the following stock options were outstanding:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (in years)	Weighted average exercise price \$
\$0.15 to \$0.30	160 000	0,25	0,15
\$0.47 to \$0.71	1 433 000	0,93	0,54
\$0.72 to \$1.09	548 200	2,88	0,90
\$1.10 to \$1.65	2 100 676	3,37	1,36
<u>\$0.15 to \$1.65</u>	<u>4 241 876</u>	<u>3,36</u>	<u>0,98</u>

As of March 31, 2007, 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	1 326 593	0,53
\$0.72 to \$1.09	359 138	0,89
\$1.10 to \$1.65	2 038 539	1,37
<u>\$0.15 to \$1.65</u>	<u>3 884 270</u>	<u>0,99</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.

### 8 - FINANCIAL INSTRUMENTS

As of March 31, 2007, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of US\$ 236,947 (US\$ 86,017 in 2006), accounts receivable in the amount of US\$ 0 (US\$ 925 in 2006) and accounts payable in the amount of US\$ 80,480 (US\$ 22,606 in 2006).

### 9 - COMPARATIVE FIGURES

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