

Victhom Human Bionics Inc.

Consolidated Interim Financial Statements June 30, 2007 and 2006

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Victhom Human Bionics Inc.

Consolidated Statements of Operations

Periods ended on June 30
(unaudited)

	<u>2007</u> (3 months) \$	<u>2006</u> (3 months) \$	<u>2007</u> (6 months) \$	<u>2006</u> (6 months) \$
Revenues	<u>547 854</u>	<u>767 895</u>	<u>1 108 089</u>	<u>1 289 411</u>
Expenses				
Research and development	2 118 042	2 101 227	4 102 220	4 135 719
Tax credits and grants	(192 373)	(277 730)	(503 727)	(558 548)
General and administrative	775 028	906 059	1 409 370	1 976 702
Financial	494 194	548 176	1 001 571	1 002 942
	<u>3 194 891</u>	<u>3 277 732</u>	<u>6 009 434</u>	<u>6 556 815</u>
Net loss	<u>2 647 037</u>	<u>2 509 837</u>	<u>4 901 345</u>	<u>5 267 404</u>
Weighted average number of common shares outstanding	<u>88 061 164</u>	<u>50 409 314</u>	<u>73 355 025</u>	<u>50 397 905</u>
Basic and diluted net loss per share	<u>0.030</u>	<u>0.050</u>	<u>0.067</u>	<u>0.105</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

Periods ended on June 30
(unaudited)

	<u>2007</u> (3 months) \$	<u>2006</u> (3 months) \$	<u>2007</u> (6 months) \$	<u>2006</u> (6 months) \$
CONTRIBUTED SURPLUS				
Balance, beginning of period	9 952 621	7 274 631	7 535 941	6 981 595
Warrants issued in public offering	-	-	2 358 361	-
Stock-based compensation related to: (Note 7)				
Stock options vested	131 777	115 499	191 843	408 535
Stock options exercised	-	(12 576)	(1 747)	(12 576)
Balance, end of period	<u>10 084 398</u>	<u>7 377 554</u>	<u>10 084 398</u>	<u>7 377 554</u>
DEFICIT				
Balance, beginning of period	(33 984 351)	(24 469 738)	(31 858 337)	(21 712 171)
Restatement in prior period related to new Section 3855 Financial Instruments (Note 2)	-	-	128 294	-
Restated balance, beginning of period	(33 984 351)	(24 469 738)	(31 730 043)	(21 712 171)
Net loss	(2 647 037)	(2 509 837)	(4 901 345)	(5 267 404)
Balance, end of period	<u>(36 631 388)</u>	<u>(26 979 575)</u>	<u>(36 631 388)</u>	<u>(26 979 575)</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)

	2007	2006	2007	2006
	(3 months)	(3 months)	(6 months)	(6 months)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(2 647 037)	(2 509 837)	(4 901 345)	(5 267 404)
Non-cash items				
Stock-based compensation (Note 7)	131 777	115 499	191 843	408 535
Interest on convertible debentures	619 006	525 132	1 205 977	1 026 546
Amortization of property, plant and equipment	172 912	167 036	339 018	326 857
Amortization of deferred financing costs	-	81 605	-	163 209
Amortization of deferred investment tax credits	-	(1 494)	-	(2 988)
Amortization of intangible assets	18 150	-	36 300	-
Changes in working capital items	(195 361)	51 901	1 179 093	168 732
Cash flows from operating activities	(1 900 553)	(1 570 158)	(1 949 114)	(3 176 513)
INVESTING ACTIVITIES				
Property, plant and equipment	(38 309)	(336 479)	(92 474)	(478 019)
Intangible assets	(20 498)	(67 914)	(79 987)	(154 976)
Cash flows from investing activities	(58 807)	(404 393)	(172 461)	(632 995)
FINANCING ACTIVITIES				
Demand loan	-	-	(820 000)	820 000
Repayment of long-term debt	(7 787)	(8 397)	(16 242)	(19 699)
Issue of shares and warrants	31 352	25 440	11 556 121	25 440
Cash flows from financing activities	23 565	17 043	10 719 879	825 741
Net increase (decrease) in cash and cash equivalents	(1 935 795)	(1 957 508)	8 598 304	(2 983 767)
Cash and cash equivalents, beginning of period	17 032 953	13 343 526	6 498 854	14 369 785
Cash and cash equivalents, end of period	15 097 158	11 386 018	15 097 158	11 386 018
Interests paid during the period	1 189	-	11 960	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 June 30, 2007 and December 31, 2006
(unaudited)

	(unaudited) June 30, 2007 \$	December 31, 2006 \$
ASSETS		
Current assets		
Cash and cash equivalents	15 097 158	6 498 854
Accounts receivable (Note 3)	1 807 628	2 985 348
Prepaid expenses	179 960	229 768
	<u>17 084 746</u>	<u>9 713 970</u>
Property, plant and equipment	2 677 882	2 924 426
Intangible assets	9 441 767	9 398 080
	<u>29 204 395</u>	<u>22 036 476</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1 215 194	1 263 629
Demand loan (Note 4)	-	820 000
Instalments on long-term debt	24 048	29 799
	<u>1 239 242</u>	<u>2 113 428</u>
Long-term debt	4 019	14 510
Liability component of convertible debentures (Note 5)	14 270 299	13 838 575
	<u>15 513 560</u>	<u>15 966 513</u>
SHAREHOLDERS' EQUITY		
Equity component of convertible debentures (Note 5)	1 551 780	1 551 780
Capital stock (Note 6)	38 686 045	28 840 579
Contributed surplus	10 084 398	7 535 941
Deficit	(36 631 388)	(31 858 337)
	<u>13 690 835</u>	<u>6 069 963</u>
	<u>29 204 395</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 June 30, 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 instrument is to be recorded on the balance sheet as well as standards for reporting gains and losses on 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 the deficit is \$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.

3 - ACCOUNTS RECEIVABLE

	June 30, 2007	December 31, 2006
	\$	\$
Investment tax credits receivable	1 715 822	2 412 701
Sales taxes receivable	86 992	114 100
Trade accounts receivable	152	454 745
Others	4 662	3 802
	<u>1 807 628</u>	<u>2 985 348</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of June 30, 2007 and December 31, 2006

4 - DEMAND LOAN

During the first quarter, 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	380 582	-
Balance as of June 30, 2006	14 450 453	1 551 780
Imputed interest	1 718 284	-
Payment of interest	(1 302 634)	-
Balance as of December 31, 2006	14 866 103	1 551 780
Presentation of deferred financing costs against the convertible debentures (Note 2)	(1 027 528)	-
Restatement in prior period related to Section 3855 on Financial Instruments (Note 2)	(128 294)	-
Imputed interest	1 205 977	-
Payment of interest	(645 959)	-
	14 270 299	1 551 780
Instalments due within one year	-	-
Balance as of June 30, 2007	14 270 299	1 551 780

- (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 debentures 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 June 30, 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
Shares issued related to interest due on convertible debentures	964 125	645 964
Stock options exercised	48 000	38 016
Balance as of June 30, 2006	51 398 494	28 183 909
Shares issued related to interest due on convertible debentures	1 193 946	656 670
Balance as of December 31, 2006	52 592 440	28 840 579
Shares issued related to public offering less expenses	37 807 621	9 816 187
Stock options exercised	166 667	29 279
Balance as of June 30, 2007	90 566 728	38 686 045

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 June 30, 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 June 30, 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
Outstanding, as of June 30, 2007	25 964 942	0.76

As of June 30, 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	2.72	0.45
\$1.17 to \$1.60	7 069 689	2.73	1.60
<u>\$0.45 to \$1.60</u>	<u>25 964 942</u>	<u>2.72</u>	<u>0.76</u>

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of June 30, 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.

In 2007, 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 4.19% (4.11% in 2006), no expected dividends and expected life of 6 years (4 years in 2006). The weighted average fair value of the stock options granted during 2007 is \$0.19 (\$0.47 in 2006).

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	600 000	1.03
Exercised	(48 000)	0.53
Forfeited	(45 371)	1.37
Outstanding, as of June 30, 2006	4 753 271	1.01
Granted	165 000	0.63
Forfeited	(342 542)	1.30
Outstanding, as of December 31, 2006	4 575 729	0.98
Granted	1 400 000	0.32
Exercised	(166 667)	0.17
Forfeited	(1 868 701)	1.20
Outstanding, as of June 30, 2007	3 940 361	0.86
Exercisable, as of June 30, 2007	(4,157,414 at \$0.99 in 2006)	2 837 045
		0.95

As of June 30, 2007, the Company recorded \$191,843 (\$408,535 in 2006) as stock-based compensation.

Victhom Human Bionics Inc.

Notes to Consolidated Financial Statements

As of June 30, 2007 and December 31, 2006

7 - STOCK-BASED COMPENSATION (Continued)

As of June 30, 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
			\$
\$0.32 to \$0.48	1 400 000	9.88	0.32
\$0.49 to \$0.73	648 000	1.52	0.56
\$0.74 to \$1.10	420 000	3.40	0.90
\$1.11 to \$1.65	1 472 361	4.23	1.35
<u>\$0.32 to \$1.65</u>	<u>3 940 361</u>	<u>5.70</u>	<u>0.86</u>

As of June 30, 2007, the following stock options were exercisable:

Range of exercise prices	Number of exercisable options	Weighted average exercise price
		\$
\$0.32 to \$0.48	573 438	0.32
\$0.49 to \$0.73	553 156	0.54
\$0.74 to \$1.10	252 812	0.90
\$1.11 to \$1.65	1 457 639	1.35
<u>\$0.32 to \$1.65</u>	<u>2 837 045</u>	<u>0.95</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 June 30, 2007, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of US\$ 567 902 (US\$ 86 017 in 2006), accounts receivable in the amount of US\$ 0 (US\$ 925 in 2006), accounts payable in the amount of US\$ 88 671 (US\$ 22 606 in 2006) and accounts payable in the amount of Euro € 1 070 (€ 0 Euro in 2006).