

**Victhom Human Bionics Inc.**

**Consolidated Interim  
Financial Statements  
September 30, 2007 and 2006**

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# Victhom Human Bionics Inc.

## Consolidated Statements of Operations

Periods ended on September 30  
(unaudited)

	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(3 months)	(3 months)	(9 months)	(9 months)
	\$	\$	\$	\$
<b>Revenues</b>	<u>582 602</u>	756 452	<u>1 690 692</u>	2 045 864
<b>Expenses</b>				
Research and development	2 141 327	2 072 265	6 243 547	6 207 983
Tax credits and grants	(245 527)	(313 877)	(749 255)	(872 425)
General and administrative	484 686	773 403	1 894 057	2 750 105
Financial	491 195	546 095	1 492 767	1 549 039
	<u>2 871 681</u>	3 077 886	<u>8 881 116</u>	9 634 702
<b>Net loss</b>	<u>2 289 079</u>	2 321 434	<u>7 190 424</u>	7 588 838
Weighted average number of common shares outstanding	<u>90 566 728</u>	51 398 494	<u>79 155 306</u>	50 735 100
Basic and diluted net loss per share	<u>0.025</u>	0.045	<u>0.091</u>	0.150

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 September 30

(unaudited)

	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(3 months)	(3 months)	(9 months)	(9 months)
	\$	\$	\$	\$
<b>CONTRIBUTED SURPLUS</b>				
Balance, beginning of period	10 084 398	7 377 554	7 535 941	6 981 595
Warrants issued in public offering	-	-	2 358 361	-
Stock-based compensation related to: (Note 7)				
Stock options vested	31 680	80 440	223 523	488 975
Stock options exercised	-	-	(1 747)	(12 576)
Balance, end of period	<u>10 116 078</u>	<u>7 457 994</u>	<u>10 116 078</u>	<u>7 457 994</u>
<b>DEFICIT</b>				
Balance, beginning of period	(36 631 388)	(26 979 575)	(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	(36 631 388)	(26 979 575)	(31 730 043)	(21 712 171)
Net loss	(2 289 079)	(2 321 434)	(7 190 424)	(7 588 838)
Balance, end of period	<u>(38 920 467)</u>	<u>(29 301 009)</u>	<u>(38 920 467)</u>	<u>(29 301 009)</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 September 30

(unaudited)

	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(3 months)	(3 months)	(9 months)	(9 months)
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss	(2 289 079)	(2 321 435)	(7 190 424)	(7 588 838)
Non-cash items				
Stock-based compensation (Note 7)	31 680	80 440	223 523	488 974
Interest on convertible debentures	624 723	526 564	1 830 700	1 553 110
Amortization of property, plant and equipment	176 151	187 185	515 169	514 042
Amortization of deferred financing costs	-	81 604	-	244 813
Amortization of deferred investment tax credits	-	(1 493)	-	(4 481)
Amortization of intangible assets	18 150	-	54 450	-
Changes in working capital items	(31 674)	(658 147)	1 147 419	(489 415)
Cash flows from operating activities	<u>(1 470 049)</u>	<u>(2 105 282)</u>	<u>(3 419 163)</u>	<u>(5 281 795)</u>
<b>INVESTING ACTIVITIES</b>				
Other assets	(21 320)	-	(21 320)	-
Property, plant and equipment	(39 348)	(273 108)	(131 822)	(751 127)
Intangible assets	(153 101)	(215 088)	(233 088)	(370 064)
Cash flows from investing activities	<u>(213 769)</u>	<u>(488 196)</u>	<u>(386 230)</u>	<u>(1 121 191)</u>
<b>FINANCING ACTIVITIES</b>				
Demand loan	-	-	(820 000)	820 000
Repayment of long-term debt	(9 492)	(7 773)	(25 734)	(27 472)
Issue of shares and warrants	-	-	11 556 121	25 440
Cash flows from financing activities	<u>(9 492)</u>	<u>(7 773)</u>	<u>10 710 387</u>	<u>817 968</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1 693 310)</b>	<b>(2 601 251)</b>	<b>6 904 994</b>	<b>(5 585 018)</b>
Cash and cash equivalents, beginning of period	<u>15 097 158</u>	<u>11 386 018</u>	<u>6 498 854</u>	<u>14 369 785</u>
Cash and cash equivalents, end of period	<u><u>13 403 848</u></u>	<u><u>8 784 767</u></u>	<u><u>13 403 848</u></u>	<u><u>8 784 767</u></u>
Interests paid during the period	715	-	12 675	38 912
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 September 30, 2007 and December 31, 2006

(unaudited)

	(unaudited) September 30, 2007	December 31, 2006
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	13 403 848	6 498 854
Accounts receivable (Note 3)	2 054 862	2 985 348
Prepaid expenses	226 828	229 768
	<u>15 685 538</u>	<u>9 713 970</u>
Other assets		
Property, plant and equipment	21 320	-
Intangible assets	2 541 079	2 924 426
	<u>9 576 718</u>	<u>9 398 080</u>
	<u><u>27 824 655</u></u>	<u><u>22 036 476</u></u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	1 477 622	1 263 629
Demand loan (Note 4)	-	820 000
Instalments on long-term debt	16 658	29 799
Instalments on liability component of convertible debentures (Note 5)	328 333	-
	<u>1 822 613</u>	<u>2 113 428</u>
Long-term debt		
Liability component of convertible debentures (Note 5)	1 917	14 510
	<u>14 566 689</u>	<u>13 838 575</u>
	<u><u>16 391 219</u></u>	<u><u>15 966 513</u></u>
<b>SHAREHOLDERS' EQUITY</b>		
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	10 116 078	7 535 941
Deficit	<u>(38 920 467)</u>	<u>(31 858 337)</u>
	<u>11 433 436</u>	<u>6 069 963</u>
	<u><u>27 824 655</u></u>	<u><u>22 036 476</u></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 September 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

	September 30, 2007	December 31, 2006
	\$	\$
Investment tax credits receivable	1 961 350	2 412 701
Sales taxes receivable	87 759	114 100
Trade accounts receivable	4 329	454 745
Others	1 424	3 802
	<u>2 054 862</u>	<u>2 985 348</u>

# Victhom Human Bionics Inc.

## Notes to Consolidated Financial Statements

As of September 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	578 813	-
Balance as of September 30, 2006	14 648 684	1 551 780
Imputed interest	1 520 053	-
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	1 830 700	-
Payment of interest	(645 959)	-
	14 895 022	1 551 780
Instalments due within one year	328 333	-
<b>Balance as of September 30, 2007</b>	<b>14 566 689</b>	<b>1 551 780</b>

- (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 September 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 September 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
<b>Balance as of September 30, 2007</b>	<b>90 566 728</b>	<b>38 686 045</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 September 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 September 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
<b>Outstanding, as of September 30, 2007</b>	<b>25 964 942</b>	<b>0,76</b>

As of September 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	2,50	0,45
\$1.17 to \$1.60	7 069 689	2,46	0,33
<b>\$0.45 to \$1.60</b>	<b>25 964 942</b>	<b>2,49</b>	<b>0,76</b>

# Victhom Human Bionics Inc.

## Notes to Consolidated Financial Statements

As of September 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	(87 966)	1,37
Outstanding, as of September 30, 2006	4 710 676	1,01
Granted	165 000	0,63
Forfeited	(299 947)	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	(2 142 590)	0,96
<b>Outstanding, as of September 30, 2007</b>	<b>3 666 472</b>	<b>0,77</b>
Exercisable, as of September 30, 2007 (4,252,933 at \$1,00 in 2006)	2 682 410	0,90

For the three-month period ended September 30, 2007, the Company recorded \$31,680 (\$80,440 in 2006) as stock-based compensation. For the nine-month period ended September 30, 2007, the Company recorded \$223,523 (\$488,975 in 2006) as stock-based compensation.

# Victhom Human Bionics Inc.

## Notes to Consolidated Financial Statements

As of September 30, 2007 and December 31, 2006

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

As of September 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	9,62	0,32
\$0.49 to \$0.73	639 250	1,19	0,56
\$0.74 to \$1.10	395 000	3,31	0,91
\$1.11 to \$1.65	1 232 222	4,01	1,36
<u>\$0.32 to \$1.65</u>	<u>3 666 472</u>	<u>5,59</u>	<u>0,77</u>

As of September 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	645 312	0,32
\$0.49 to \$0.73	558 938	0,54
\$0.74 to \$1.10	249 688	0,90
\$1.11 to \$1.65	1 228 472	1,35
<u>\$0.32 to \$1.65</u>	<u>2 682 410</u>	<u>0,90</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 September 30, 2007, the Company has assets and liabilities in foreign currency including cash and cash equivalents in the amount of US\$ 244 394 (US\$ 59 458 in 2006), accounts receivable in the amount of US\$ 2 298 (US\$ 2 292 in 2006) and accounts payable in the amount of US\$ 86 836 (US\$ 67 308 in 2006).